China’s CIC Gearing Up Investment in Overseas Assets

Sovereign-wealth fund to step up spending in infrastructure and property assets in the U.S., Europe

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BOAO, China—China’s massive sovereign-wealth fund is stepping up direct investments in long-term global assets, with a particular focus on the U.S. in a vote of confidence in the recovery in the world’s largest economy.

Ding Xuedong, chairman of China Investment Corp., which has about $220 billion in overseas assets, said in an interview with The Wall Street Journal on Friday that he sees diverging economic growth in coming years, with a resurgent U.S. leading the way. “The U.S. is recovering faster than many have expected, which would make it the No. 1 engine of growth for the global economy,” he said on the sidelines of the Boao Forum, an annual gathering of world political and business leaders in the southern Chinese island of Hainan.

But Mr. Ding sees less strength in the developing nations of Brazil, Russia and South Africa. He also criticized the economic revival program of Japanese Prime Minister Shinzo Abe for not tackling structural issues, saying, “so-called Abenomics is a kind of lazy politics in my view.”

In addition, Mr. Ding said CIC wants to take a more direct role in managing its overseas assets as its foreign holdings rise. The fund recently formed a new unit—called CIC Capital—to more directly oversee its investments in assets such as infrastructure and farms and improve financial gains. “We’ve drawn lessons from our international peers and formed CIC Capital to boost in-house investment and management capability on long-term assets," he said.

CIC, formed in 2007 as a way for China to diversify its massive foreign-exchange holdings, is closely watched both as a major source of capital for projects as well as a glimpse into China's perspective on the world economic outlook. In previous years the fund had focused on natural resources, particularly in developing countries.

Looking ahead, Mr. Ding said CIC will step up spending in infrastructure and real estate, especially in developed countries such as the U.S. and those in Europe, as these assets could throw off steady cash flows amid a slowly rebounding global economy. At the same time, given the recent plunge in international commodities prices, Mr. Ding indicated that CIC will continue to pare its foreign energy holdings while looking to snap up some assets on the cheap.

"The question is how long it would take for energy prices to recover this time," said Mr. Ding. "The key for us is to time the market right."

The fund is ratcheting up its direct-investment efforts as its foreign holdings have jumped 16.6% every year since 2009. At the same time, it has been diversifying foreign investments away from stocks and bonds and into assets including infrastructure and property to fit its long-term investment horizon. CIC executives have said the goal is to have a roughly even split between financial products traded in public markets, such as stocks and bonds, and long-term investments in the fund's global portfolio. As of the end of 2013, the most recent data available, equities and fixed-income holdings represented 57.4% of CIC's global assets, followed by 28.2% in long-term assets.

The Chinese government created CIC in September 2007 to enhance returns on the country's foreign-exchange reserves—currently at $3.8 trillion, the world's largest. They had been largely parked in low-yielding

U.S. Treasury debt. Today, with more than $650 billion in total assets, CIC is the fifth-largest country fund in the world.

In the interview, the 55-year-old CIC chairman, who had worked at the State Council, China's cabinet, and the Finance Ministry before taking over the fund's reins two years ago, also painted a global economy that is on an increasingly divergent path. While the U.S. looks more positive, he said, Europe is still digging itself out of an economic funk.

Japan, meanwhile, "has relied too much on monetary easing but hasn't carried out the structural reforms" needed to pull the economy out of stagnation, he said.

Among the developing economies, Mr. Ding said he expects "good performance" from countries including India, Nigeria and Mexico but "relatively poor" showing from Brazil, Russia and South Africa.

Meanwhile, Mr. Ding said he is confident that China will reach its annual growth target, set at about 7% for this year, pointing to the efforts by the Chinese leadership to remake the economy so it depends more on consumption and private entrepreneurship. In addition, he said, Beijing's moves to increase fiscal spending and loosen monetary policy could also help spur economic activity.

"China will be the No. 2 engine of growth for the global economy this year" after the U.S., he said.

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