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Foreign Direct Investment by Multinational Companies and by Collective Investment Firms

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Abstract
This study combines several economic scopes: management, strategy, finance and macro-economics. In a first section, it looks at the MNC and CIF importance in cross-border flows. MNC are the major provider for FDI, but the percentage of CIF in the global FDI increased sharply recently. That is why the paper examines the different foreign investment strategies led by MNC (section II) and by CIF (section III). Concerning the CIF, we focalize on private equity firms and hedge funds. The strategies are various and diversified because the motivations are different and the perception of risks are dissimilar. Foreign investments have different nature (direct or portfolio investments) and time horizon (short or long term) if they are realized by MNC or by CIF. This point is very important to consider when we intend to study their impact on a country's economy.

Keywords: Foreign direct investments, Multinational firms, Collective investment firms, strategic motivations.

GENERAL INTRODUCTION

The past decade, cross-border financial asset accumulation has tripled and new developments took place, especially the broadening of the investor base such as private institutional investors from mature markets and official institutions from emerging markets. Global cross-border flows - foreign purchases of equity and debt securities, cross-border lending and deposits, and FDI – amount to $6.4 trillion in 2005 (IMF, 2007).

The results of a survey by the Association of Financial Professionals (www.afponline.org) and IMF-World Bank-IFC Foreign Direct Investment Group (IMF, 2006a) concerning 31 multinational companies (MNCs) based in the Asia-Pacific region, Europe, Latin America, and North America showed that FDI is a part of the economic globalization and structural reforms make the host countries more attractive. In fact, FDI helps to establish a strong market presence where the economic growth is high. MNCs consider the cross-border investment in mature markets as similar in risk as those in home countries, while emerging markets are seen as more risky. The most important factors for FDI investors are low political risk, moderate tax burden and respectable investor protection. Inward FDI flows are determined by growth prospects and are mainly financed by the parent company. Risk is managed thanks to financial instruments.

In a recent study (Hilmi, Ketata and Safa, 2007), we have studied the macroeconomic environment and the strategies conducted by MNCs. In result of this research, we have noticed that the part of FDI led by collective investment firms (CIF) has increased lately. The aim of this paper is to compare FDI investors' different motivations and strategies when they intervene on international markets. After assessing the importance of cross-border flows (section I), we are going to analyze in detail the investment strategies of multinational companies (section II) and of collective investment firms (section III).

I- The comparative importance of cross-border flows

Introduction

Considering FDI, MNCs remain the most important element of the financial globalization. But recently, collective investment firms played an increasing role and became essential actors in the internationalization of capital movements.

1.1. MNCs' place

In order to present the MNCs' place, it is important to study their position in the globalization movement and their powers.

a) MNCs and globalization

During the last decades, MNCs knew a quick development, which was not only the engine of globalization but also one of its numerous consequences. They constitute the main actor of globalization even though their role was neglected in the international exchanges. In fact, the diversification of company internationalization modes gave birth to the globalization movement, which was accelerated by the liberalization of capital movements and the openness of numerous country economies for foreign products. In this context, no matter what the activity of any MNC is, globalization would help transfer new technologies and diffuse know-how. In addition, globalization leads all the countries to be in relation with each other and to have activities outside of their national territories.

According to Delapierre and Milelli (1995), globalization is characterized by the extension of the companies internationalization movement in the industrialized countries. In fact, it is the result of the delocalization movement of MNCs. The globalization is thus showed as a fundamental qualitative evolution for MNCs. It reflects the extension of markets and the evolution of competition to an international scale, which could have significant consequences on the whole activity of a company. In result of this movement, the national firms are facing a context of industry that is getting international. Indeed, all the firms are facing not only the national competition, but also the international one. In addition, the products are more and more conceived to be sold on international markets. In fact, they are fabricated in a country in order to be sold in much larger areas.

As internationalization is related nowadays to most of the industrial activities, managers of MNCs should think about planning international strategies that can benefit from the opportunities offered by their national environment or the country of their localization. They should also think carefully about the choice of their entry mode while delocalizing. Taken this decision seriously would help them plan their future activities and make their implementation easier.

b) MNCs' powers

The major characteristic of MNCs is to extend the political geography and the limits of the state nations known in the world. De Bodinat et al. (1984) claimed that MNCs have three powers: power of arbitrage between subsidiaries, power of controlling the subsidiaries activities, and power of transfer to the subsidiaries.

The arbitrage Power

MNCs operate in more than one territory, so they can arbitrate between countries. This power could concern the capacity extension of their existent factories or the localization of their new factories. It could also concern the origin of their loans or the destination of their investment.

The controlling Power

The controlling power of a parent-MNC on its subsidiary was the center of many analysis (Stopford et Wells, 1974; Savry, 1981 ; De Bodinat et al., 1984 ; Boissy, 1989). Numerous questions could be raised concerning this issue such as the importance of the parent-MNC's influence on its subsidiary, the impact of its control, and the power of a subsidiary facing its parent.

Multinational groups have control on their subsidiaries, but this control is not absolute. In fact, these subsidiaries dispose of some autonomy to manage their activities. In addition, the power of a MNC is generally limited to distribute the roles to its subsidiaries. Many important decisions such as the launching of a new product, the choice of prices or technologies, and the employment level are generally made by subsidiaries.

The transfer Power

Numerous transfer types could occur between a MNC and its subsidiary. In fact, MNCs are considered as transfer agents. De Bodiant et al. (1984) evoked five types of transfer: transfer of cultural norms, transfer of technology, transfer of human being, transfer of products or services, and transfer of capitals.

1.2 The Collective Investment Firms' (CIF) weight

In an environment where countries' fundamentals are improved and sovereign debt is less risky, international issuance of corporate debt and equities increased to meet investors' demand.

a) Private equity firms

Private equity firms are a new and expanding source of investment: $261 billion are raised in 2005 and about half of this amount is used for FDI (OECD, 2006). The investment is concentrated in companies that need venture capital or that are in difficulties, and those uninteresting for large enterprises. This concentration is seen especially in the United States and in the United Kingdom (85% of raised funds), but recently it was seen across the borders for overseas investment (OECD, 2006).

The capital inflow into private equity firms, especially from institutional investors, has expanded the potential transactions. In this context, the availability of debt financing through leveraged loans or other debt instruments allows larger buyouts across a wide range of sectors. These highly leveraged transactions and companies are especially sought by fixed-income investors.

Private equity-financed FDI increased recently, but it is difficult to calculate their real amount because balance of payments data does not separate the different sources of investments. The only available data are the cross-border M&A (mergers and acquisitions) by private equity firms, hedge funds, and some other similar investors. Such investments reached 19% of total cross-border M&A in 2005.

Private equity firms have the majority of shares or the full control and the management of acquired companies and stay longer than other funds. Therefore, these firms are considered as important for FDI. In 2005, the private equity market exploded, especially in Asia, and the European Union (Unctad, 2006). The rise of invested funds is due to low interest rates, high investors' liquidity, and excellent performance of funds. Half of the funds were venture capital. Most of private equity firms invest not only in their home country or region, but also abroad. Even though they often compete with MNCs in acquiring foreign companies, both companies may invest jointly. Private equity firms invest abroad in different industries and sectors. However, when they invest in developing countries, they have preference for manufacturing (food, beverages and tobacco industry) and services (business, including real estate) sectors. Unlike total FDI, the primary sector is not a significant destination (IMF, 2006b).

b) Hedge Funds

Hedge funds continue to manage a growing amount of assets ($1.4 trillion at the end of 2006). This is due to the increasing allocations from institutional investors, which represent 30% of capital managed, while individuals still represent 40% (IMF, 2006d).

Equity-related strategies stay important, but for diversification benefits and risk-adjusted returns, opportunistic (event-driven and macro funds) and multi-oriented strategies and other strategies involving alternative asset classes (structured credit and insurance products, commodities, and private equity) are becoming attractive.

European and Asian investors represent a growing percentage of the asset under hedge funds management, but offshore centers remain the funds' principal providers. The advisors are mainly located in the United States and United Kingdom. However, Asian locations seem attractive because of their certainty and stability, regulatory and infrastructure environment, and tax incentives (OECD, 2006).

Hedge funds are considered as important actors on international financial markets and key elements for capital market dynamics because of their active trading style. In fact, they are dominant on fixed-income and credit markets. In addition, they promote financial innovation since they are involved in risk transfer markets with global cross-market strategies linking different geographic and product markets (ECB, 2006).

The trend of institutionalization of hedge funds and the movement of convergence with other investment funds has pursued. So, Hedge funds have sponsored private equity funds. They have also looked for a stable capital structure and that was demonstrated in their strategies. Few funds have pursued initial public offering.

Important banks have in-house hedge funds or follow hedge funds similar strategies (BIS, 2006). Collective investment schemes, like mutual funds, use hedge funds investment techniques, as short-selling. In addition, banks and traditional fund managers offer hedge-fund-like products. Associated to funds of funds development, this implies a “retailization” of hedge fund investment.

Conclusion

Cross-border diversification is illustrated by the growing institutional globalization. MNCs are still the major actors for FDI but collective investment firms’ role is increasing sharply.

II- MNC’s FDI Strategies

Introduction

In order to enter a foreign country, a MNC disposes of a large choice of strategies. Choosing between these different entry-modes is a crucial decision for MNCs since it can dangerously engage their future and lead to different kinds of risk. Therefore, this decision needs to be taken seriously and deserves to be planned largely in advance.

2.1. MNCs’ entry modes

The simple choice that was presented in the sixties for MNCs leading them basically to choose between “buy” or “build” has been enriched with new intermediary entry modes, which has made this decision more challenging. These new modes, authorized by the law, are the result of the imagination of the companies that were looking for the best way of entering new markets and enlarging their activities. Consequently, three entry modes are found, nowadays, in most of multinational firms’ literature. The wholly owned mode, the joint venture mode, and the contractual mode are the most common entry modes (Ketata, 2006). The level of control and the resource commitment of the MNC depend on the entry mode chosen (Siripaisalippa and Hoshino, 2000).

a) The first strategy: wholly-owned mode

By choosing the wholly owned mode, the MNC will benefit of controlling the entire subsidiary even though it will need to enter the foreign market by itself for producing, researching, and making decisions concerning its own products. This entry mode could take two forms: the Greenfield and the acquisition modes. In the Greenfield mode, the MNC creates its subsidiary at 100% while the acquisition mode leads to the disappearance of one company in order to give birth to a new one with a decision-making centre. The acquisition of an existent firm doesn’t totally delete the identities and the cultures of the companies assembled, which make the post-acquisition management more complex. The experience showed that the success of such entry mode depends on the way the company is managed after its acquisition.

b) The second strategy: the international joint venture

The joint venture was largely defined in the management literature. Generally all the definitions agree on the idea that the joint venture is a stable agreement on building a new common and autonomic entity from the companies that created it, but that is not necessarily considered a separate entity. This new company is based on the contribution of the partners (financial contribution, knowledge, technical production …), the profit and the eventual risks share. The international joint venture is created in a foreign country that the multinational is looking to enter (Garette and Dussauge, 1995) and constituted by partners from different countries.

The MNCs that choose international joint venture as an entry mode will have an association with a local company that has the knowledge and the local experience, which will allow them to realize a considerable gain of time, to share the investment, and to naturalize the subsidiary since its creation. In addition, this entry mode is generally encouraged by the local authorities (Boissy, 1989). On the other hand, the joint venture entry mode leads to supplementary costs and a loss of autonomy in terms of global decisions (Reynolds, 1984). Furthermore, the risk of failure for this type of implementation is extremely high (Perks and Sanderson, 2001). This risk is mostly due to such entry mode management. In fact, the presence of at least two partners sharing the control of the company can make the situation more complicated and lead to tension and conflict.

c) The third strategy: the contractual mode

When a MNC chooses this contractual mode, it enters the foreign country in a non direct way. In fact, this entry mode takes place through a foreign company that is dependant on the local company and that does the commercialization and the research for certain products in its place. The contractual mode could take different forms. According license and subcontracting are the most common contractual modes. Mucchielli, (1998) claimed that by according license, a company gives the right to a foreign company to fabricate its product with the counterpart of paying royalties. The company that is selling its license can improve its profits and its competitiveness, while the company that is buying the license perceives most of the commercial, exploitation, and politic risks.

The second common contractual mode, international subcontracting, occurs when two fabrication units located in two different countries agreed that one of them will give to the other assembled products to commercialize under its own responsibility (UNCTAD, 1976). By choosing international subcontracting as an entry mode, the MNC can reduce its costs and simplify its production and organizational structure. In addition, the choice of this entry mode encourages innovation since it deals with international technological transfer and allows a proactive commercial policy.

However, international subcontracting should be used with care because of the risks related to it. In fact, in a subcontracting relationship, it is hard to control the quality and the quantity, especially in some industrial sectors where the technology is the main competitive advantage. In addition, the company that is receiving the subcontract doesn’t have any control on the brand name, the prices, the potential customers, and the distribution methods used. This company is exposed to exchange and dependence risks.

2.2. Motivations

Many reasons can lead a MNC to be implemented in a foreign country. These motivations have been largely studied in the previous research (Brouthers, 1995; Pan and Tse, 2000; Ketata, 2006). These studies have related the MNC implementation to different factors, including firm specific factors (Erramili and Rao, 1993; Kim and Hwang, 1992; Kumar and Subramaniam, 1997; Mahdok, 1997), industry and country specific factors (Anderson and Gatignon, 1986; Kogut and Singh, 1988; Tse, Pan and Au, 1997). Brouther

(1995) has related the decision of a MNC implementation to the risk perceived. Others such as De Bodinat et al. (1984) and Stopford and Wells (1974), have related this decision to the multinational goals, to its competences and its resource commitment. In this context, the Ketata's research (2006) that studied the choice of the entry mode by a MNC has found out that this decision depends at least on three factors: the MNC's goals, the risk perceived, and the contextual specificities. This study highlighted that the contextual specificities play a significant role in the determination of this strategic decision.

a) The MNC goals

Many goals could lead a MNC to be implemented in a foreign country. These goals generally selected before the choice of an entry mode constitute indicative goals that need to be adjusted while deciding on the type of implementation. They were classified differently by the authors (De Bodinat et al., 1984; Stopford and Wells, 1974). Based on the previous research, four goals seem to orient the MNCs' entry mode choice: expansion, profitability, opportunity, and control.

b) The risk perceived

In order to make decision in a context characterized by a large uncertainty, a MNC needs to take in consideration the risk perceived. In fact, the risk management has a significant role in many strategic decisions (March and Shapira, 1987; Das and Teng, 1996; Ruefli, Collins and Lacugna, 1999). Many studies about international extensions have showed that the choice of the entry mode could be largely influenced by the risks perceived (Vernon, 1985; Kim and Hwang, 1992; Miller, 1992; Brouthers, 1995; Bell, Barkema and Verbeke, 1997; Contractorand Kundu, 1998; Mayrhofer, 2000). Generally, there is a negative correlation between the risks perceived and the actors' contribution. In fact, if risks increased, the contribution of actors would decrease. In order to make best decisions, managers should consider all the risks perceived. Taking in account just the political risk or the financial risk could lead the managers to make wrong decisions since MNCs are exposed to different types of risk. Vernon (1985), Miller (1992), Brouthers (1995) and Ketata (2006) have evoked the international risk. Inspired from these studies and especially from the Ketata's study, we classify the risk under three categories: The risk related to the environment of the MNC, the risk related to the industrial sector, and the risk related to the firm. The perception of the risk related to the general environment of the MNC is based on the combination of the complexity market risks, the traditional factor risks and the exchange risk. In addition, the risk related to the industrial sector includes the risk due to the industrial concentration, customers' taste, and market supply. Furthermore, the perception of the risk related to the firm is based on the combination of the risks due to the difference of the infrastructure marketing, the lack of experience, and the cultural differences. Thus the total perception of risk is based on the combination of the risk related to the general environment of the MNC, the risk relaed to the industrial sector of the firm, and the risk related to the firm.

c) Contextual specificities

The contextual specificities were evoked by Ketata's study. According to this author, the contextual specificities constitute the main determinant in the choice of the entry mode. She defined them as the contingent elements related to a particular situation that can lead a MNC to enter a foreign country by choosing a specific strategy. The contextual specificities refer to the emergent strategy evoked by Mintzberg (1994). In fact, for this kind of strategy, what is realized is not exactly what is planned. The important strategies could come from small ideas and could appear when they are completely unexpected. Furthermore, these contextual specificities refer to the company's learning. Indeed, if the company choose an entry mode and find it successful, it will choose the same entry mode for its future implementations. The contextual specificities refer also to the environmental thought school. This school considers the company a passive member that reacts to the environment controlling all its tasks (Mintzberg et *al*., 1999). In short, contextual specificities make reference to the emergence of new personal ideas (trained person, executive, manager..), to the company's learning and to the environmental opportunities offered by the host country.

Conclusion

Most of the literature about MNCs distinguishes between three entry modes: the wholly-owned company, the international joint venture and the contractual entry mode. Each strategy selected could affect differently the future of MNCs. Therefore, many factors need to be considered while deciding on the type of implementation, which include the MNC's goals, the total risk perceived, and the specificities related to the implementation context.

III- The CIF's FDI Strategies

Introduction

Collective investment firms are a growing source of FDI, especially through cross-border acquisitions (UNCTAD, cross-border M&A database). According to their investment strategies, collective investment firms* can be separated between those specialized in privately held investments, like private equity funds, and those that focus on traded instruments (both cash securities and derivatives), like hedge funds. Their alternative investment strategies contributed to the global markets expansion and to the evolution of traded credit products such as credit derivatives, collateralized debt obligations, and the securitization of some illiquid assets.

3.1. Private equity firms

Private equity firms are financial service institutions that raise money mainly from institutional investors, such as banks, pension funds and insurance companies. These institutions are not the only investors in these firms. In fact, commercial corporations, private foundations, and private individuals are also considered as important investors.

Private equity investors (financial sponsors or buy-out firms) invest in private companies with a long term horizon, during 3 to 7 years and resell to realize a return. Investments are often realized through an initial public offering, sale, merger or recapitalization. The private equity firm is often engaged in the operation or the reorganization of acquired firms (Moody's Investors Service, 2006). The target companies are not listed in stock markets and if listed, they are delisted after being acquired. The capital gain is due to value creation and is realized when investors exit.

In 2006, global M&A activity reached $3,6 trillion, a record after the equity market boom in 2000 (IMF, 2006a). Several factors can explain this rise. First, the publicly traded firms refused to invest even if their corporate balance sheets were generally strong. The robust global economic growth associated with low real interest rates and the share of profit in GDP contributed to the increase of M&A, especially LBOs. So did the firms that did not invest in new capacities, in spite of important corporate cash flows and positive corporate saving. Second, some firms seem to have capital structures with a low proportion of debt considering the low interest rates and the quantity of investment funds. If they belong to sectors (utilities, consumer goods, retail) with relatively stable earnings and cash flows, they are attractive for buyouts. Third, some public firms became private to reduce the regulatory burden and the shareholder scrutiny. Fourth, private equity firms received a large amount of capital. The distribution of profits and dividends from earlier deal enable new deals. Asian central banks, institutional investors and wealth managers wanted to diversify their portfolio and desired to invest in alternative asset classes. Middle East wealth funds invested in private equity firms the profits arising from high oil prices (World Bank, 2006).

The recent M&A encounter a new context of risks (Froot and O'Connell, 2003). First, the higher debt levels make the target firms more vulnerable to economic shocks and thus increase the risks of failure and threaten the credit markets. Second, the ratio of debt to equity increased and the share of bad rated bonds (CCC or lower) rose as a percentage of total corporate issuance. Therefore, vulnerable companies have access to capital markets. Third, as leveraged loans are the primary form of debt financing, the banks that have provided bridge finance or have underwritten the provision of the leveraged loans may meet the risks of adverse market developments. Fourth, as investors are demanding for leveraged loans, the power shifts from creditors to borrowers, sometimes resulting in negotiated loan covenants. That is why one of the main reasons why loans are a better financing medium than bonds decreased. Fifth, the due diligence performed by some investors is weaker because private equity firms have a time horizon shorter than the maturity of the loans used to finance the buyouts. Finally, if allocations to private equity firms go on rising, the funds will be chasing fewer promising deals. Actual deals took place in an environment characterized by sustained global growth, low real interest rates, high corporate profitability, and low volatility. If one of these elements happened to change, deals may become less attractive(French and Poterba, 1991).

The private equity firms' drivers, when they decide to invest in a company, are a strong management team, an ability to generate cash, a significant growth potential, an ability to create value, and a clearly defined exit strategy.

The private equity firms' strategies can take three main forms: venture capital, growth or expansion capital and buyout or LBO (EVCA, 2005).

a) Venture Capital

One private equity firms' strategy is to acquire a platform firm and then "add-on" acquisitions of smaller size complementary to the first entity creating a more efficient operational and financial group.

Usually venture capital firms invest in earlier stage growth companies unlike buyout equity groups that prefer more mature businesses and involve larger amount of finance.

b) Growth or Expansion Capital

Another strategy is the use of leverage (debt) in order to increase the return of the invested capital. The firm services the debt with cash generated through operations, which determines the amount of leverage. The cash flow generated is consumed by the debt service and by the strategy consisting in growing the business. For this reason, the cash flow is extremely important for investors. In fact, if operations generate more cash flow, the return on investment will be higher when investors decide to exit out of the business.

With the exit, the investor monetizes the firm’s equity and distributes profits. This profit distribution is called “carried interest” and allows new acquisitions.

c) A leveraged buyout (or LBO, or highly-leveraged transaction (HLT), or "bootstrap" transaction)

A leveraged buyout is a strategy involving the acquisition of another company using a significant amount of borrowed money (bonds or loans) to cover the acquisition costs. Often, the assets of the company being acquired are used as collateral for the loans, in addition to the acquiring company’s assets. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital. In an LBO, there is usually a ratio of 70% debt to 30% equity, although debt can reach 90% to 95% of the target company's total capitalization. The equity component of the purchase price is typically provided by a pool of private equity capital.

In 2006, the private equity buyouts increased massively on financial markets, giving important leverage in targeted companies. In addition, the new LBOs have larger deal and the degree of leverage is rising over high-yield debt. The fact that the funds come more from leveraged loans and less from high-yield bonds altered the risk distribution.

3.2. Hedge funds

The size and the importance of hedge funds have grown the past decade. Late 2006, the assets under their management were estimated at USD 1.426 trillion, which constitutes an increase of more than 700 percent in comparison to 1995 (IMF, 2006a). Hedge funds were small groups of entrepreneurs. Today, they are large financial institutions. In 1990, Hedge funds preferred “macro” strategies. Today they have various strategies, essentially based on Harry Markovitz, Merton Miller and William Sharpe’s theories: Modern portfolio theory and efficient market theory. Their instruments are complex, ranging from stocks, bonds, currencies and commodities to synthetic, and structured products such as contracts for difference (CFD), credit default swaps (CDS), collateralized debt obligations (CDO), collateralized loan obligations (CLO), asset backed securities (ABS), and payment in kind loans (PIK). They also invest in private equity overlapping the limits between the two sectors (Banque de France, 2007).

Hedge funds strategies are extremely variable. Each strategy offers a different level of risk and return. Their main goal is to reduce volatility and risk and to preserve capital, and deliver positive returns under market conditions. There are four main strategy groups:

- Equity hedge funds
- Global asset allocators
- Relative-value managers
- Event-driven managers

a) Equity Hedge funds

The equity managers use leverage and sell short. They aim at producing an attractive positive return, independently of whether the market is going up or down.

Equity Market Neutral Managers will hold a long position on the stocks that they consider to be undervalued and a short position on the stocks that they consider to be overvalued while conserving a dollar-neutral position and/or beta-neutral position.

Several subcategories could be found in this context. One of the subcategories is to have different geographical orientations (national vs global stock). Another subcategory is to be sector specialist. In fact, many managers prefer to invest in a specific sector while many others invest across the full range of industries and sectors.

The value investor looks at the payment he is doing, and the growth investor considers what he is getting. The latter is momentum-driven but he can introduce a contrarian element in his strategy: he buys growth companies when they are depressed. The former has a contrarian view but can introduce a momentum element when he only buys stocks beginning to show signs of improvement.

In fundamental arbitrage, the investment decisions are based on a thorough analysis of the fundamentals of the securities, such as pair trading that are part of their investment universe.

In statistical arbitrage, managers trust quantitative models to select one security rather than another.

The new distinction relates to directional bias:

- Long-biased managers: as they are always more than 50 percent net long, the return or the risk of their investment is determined by market movements.
- Short-biased managers: they are always more than 50 percent net short. Short-only or short sellers look at overvalued stocks to short.
- Opportunistic managers: they can be aggressive (they vary their net exposure to adapt to their evaluation of the market when it is supposed to be undervalued or overvalued) or defensive (they pick stock so that the directional market movements can not have an impact on their returns).

b) Global Asset Allocators

Equity hedge funds are focused on individual stocks (micro investors) while global asset allocators are focused on broad markets and broad themes (macro investors): global stock and bond markets, currency markets, and the physical commodity markets. They invest across multiple sectors and trading instruments. They see the world as a whole, but they know that an event somewhere can provoke a domino effect across global markets. Most of them are Commodity Trading Advisers (CTAs), commonly referred to as Futures Managers, who invest only in future contracts, in forwards and commodity markets rather than individual stocks or bonds. They rely on either technical or fundamental analysis, or combination of both, for their trading decisions.

Two categories:

- Discretionary managers: their judgments are based on fundamental analysis (growth, inflation, trade flows) and technical analysis market-related (price, volume).
- Systematic managers: their judgments are based on technical data.

Global macro funds’ objective is to take advantage of the major macroeconomic trends while reserving the right to intervene in all types of markets (stocks, bonds, forex, raw materials and derivative instruments). They are exposed to the risk of several markets simultaneously. They dilute the risk by investing in other directional funds or focusing on few bets.

The strategies consist in taking long positions, as short selling is not allowed in many countries. Since there is no viable futures market, hedge funds have to use over-the-counter products (equity swaps, warrants) to hedge against market risk.

The strategies are directional: some funds focus on one specific region while others diversify their bets and spread their assets across countries and/or regions. For example, countries which dispose of public securities markets, with a reliable source of data, and a low annual per capita income fall into the emerging market category.

c) Relative-Value Managers

Also called market-neutral funds, they choose securities within a relatively homogeneous universe, balancing long positions against short positions in such a way that the hedged portfolio will be relatively unaffected by the general movement up or down of the entire universe of securities.

Managers try to be beta neutral (beta measures the stock’s volatility relative to the market), dollar neutral (they buy equal dollar amounts of long and short investments), and sector neutral (they balance their longs and shorts in the same sector or industry) in order to eliminate all market (or systematic) risk.

There are several subcategories:

- Long-short equity managers: buy stocks in attractive companies and sell short stocks in unattractive companies. They can be single-sector or multi-sector investors depending on if they focus on one or several sectors of the stock market.
- Bond hedgers: buy attractive bonds and sells short unattractive bonds. There are four kinds of risk producing attractive yield spreads: inflation, credit, prepayment, and liquidity risks.
- Convertible hedgers: specialize in convertible securities and face three principal types of risk: interest rate, credit, and volatility. Convertible arbitrage implies a hybrid asset made up of a bond component and an option component. This strategy consists in taking a long position on a company’s convertible bond and a short position on the stock of the same company.
- Fixed income arbitrage strategies: take advantage of pricing anomalies between two or more sectors in the fixed-income market, or between different securities in the same sector. The classic strategy is to take a long position in the undervalued sector or asset, and simultaneously a short position in the overvalued sector or asset.
- Multistrategy managers: build diversified portfolios.

d) Event-Driven Managers

They have company-specific strategies that are focused on transactions affecting the organizational structure of companies.

There are two main substrategies:

- Risk arbitrage (or merger arbitrage, or deal arbitrage): a stock-oriented strategy that takes advantage of the special opportunities that arise when companies decide to buy, or merge with, other companies. Their objectives are to increase revenues, reduce expenses, or reduce the number of competitors. Financial transactions dominated in the 1980s and were often hostile. They imply a newly created company willing to acquire a “real company” with a huge amount of borrowed money. Strategic transactions took place in the 1990s and were friendly. The firm acquires or merges with another one for business reasons. As merger and acquisition activities have grown the last few years, managers and analysts have more opportunities between which they can deal and select the right companies. The main risk is that the merger or acquisition fall through. Stock deals create a sort of currency risk and hedging this risk leaves the risk of cancellation unhedged. The profit made from arbitrage on a merger/acquisition operation is an increasing function of the risk being run by the investor and not the result of any market dysfunction.

- Distressed debt investing: takes advantage of the special opportunities that arise when companies in financial distress undergo financial restructuring. The prices of these securities (stocks, bonds, trade or financial claims) fall when the financial distress is anticipated because holders prefer to sell rather than to keep investment in troubled firms, ignoring the company's true value. The strategy consists in capitalizing on the knowledge, flexibility and patience that other creditors (institutional investors or banks, for example) do not have. There are two possible strategies: playing an active role in the company's turnaround, or adopting a passive strategy (buying the company's undervalued securities and wait for their valuation to recover in order to sell them). Activist investors encounter market related risks. Default debt investors are considered as vulture investors, but they are not responsible for the financial distress of the firm. They just participate in its reorganization.

Conclusion

Cross-border investments of private equity firms and hedge funds are often short term and seem to be portfolio investments. However, when they overcome the 10% equity threshold of the acquired firm, they are considered as FDI (Dunning and Dilyard 1999). As recent investments require a long period of management by the funds, they look like FDI. Our future research will focus on the nature of those foreign investments and study their impact on the economy (Fung and Hsieh, 2000, and Hilmi and Safa, 2007). Collective investment funds are playing a growing role in financial markets, increasing market liquidity, and market efficiency. However, their impact is not limited to the financial sphere, it can imply important modifications in the real sphere as well.

GENERAL CONCLUSION

Globalization of financial institutions is a new trend that affects both emerging and mature markets economies. There is no one indicator capable to capture all the aspects of institutional globalization, but the volume of cross-border M&A in the financial sector can be an illustration. M&A activity in the financial system increased sharply since 2000 and financial institutions in developing countries became attractive M&A targets. The internationalization of institutions has several reasons. First, the knowledge and efficiencies in undertaking business and underwriting risk can be transferred from one market to another. Second, the fact of operating in several leads to economies of scale and scope. Third, a cross-border group can better allocate the capital towards higher returns and lower risks.
Multinational companies remain the major FDI provider and the key element for globalization. Nevertheless, the part of collective investment firms in total FDI is increasing. Therefore, it is important to study the different strategies behind the FDI motivations. In fact, these strategies are extremely diversified and their implication for the global economy is a theme that we intend to develop in further research.

** following the classification of the Thomson Financial database on M&As, collective investment funds here refer mainly to private equity and hedge funds that are defined as "investors not elsewhere classified" under investment and commodity firms, dealers and exchanges (i.e. financial service industries excluding credit institutions, savings and loans, mutual savings banks, commercial banks, bank holding companies, investment and commodity firms, dealers and exchanges* *except investors not elsewhere classified – such as securities companies, commodity brokers, dealers and exchanges, investment offices, real estate investment trusts and management investment offices – and insurance firms).*

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