

ASSESSING RISK IN MULTINATIONAL INVESTMENT STRATEGIES

2024 Public-
Private Analytic
Exchange
Program



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ACRONYMS

AEP	Analyst Exchange Program
CFIUS	Committee on Foreign Investment in the United States
EO	Executive Order
GP	General Partners
IC	Intelligence Community
LP	Limited Partners
M&A	Mergers and Acquisitions
MLP	Master Limited Partnerships
SPAC	Special Purpose Acquisition Companies
SPV	Special Purpose Vehicles
USG	United States Government
US	United States

ASSESSING RISK IN MULTINATIONAL INVESTMENT STRATEGIES SYNOPSIS

The team's research started by consulting with leading economic security analysts who focus on screening foreign investments for national security risks. We developed questions for each guest speaker that focused on improving Intelligence Community (IC) knowledge, tradecraft, and capabilities in assessing national security risks from foreign investments in the United States (US). In our interviews with these analysts, we identified two common themes:

1. **A desire to better understand how financial markets work.** This sector can be a complex ecosystem for IC analysts who may not possess the background or experience. This sector is also an increasingly important aspect of strategic competition between the United States and China.
2. **The need for training** to understand the complexities of the financial sector, specifically the deal making process; current training on the role financial actors play in that process is often ad hoc and can be improved.

To address this challenge, the team initiated development of a course to help train IC analysts and other relevant staff in fundamental concepts, ideas, and frameworks related to the structure and functioning of financial markets with a focus on investment strategies and a guide to the M&A dealmaking process. This evolved to also include an outline of a training program and instruction on US regulations and ongoing developments in the economic security space. The final product would primarily benefit IC components but also contribute to improved and mutually beneficial private sector engagement when assessing risks that can arise from multinational investment strategies. Public and private sector engagement on these issues continue to be one of the most important paths to greater and sustained success in protecting US national security in almost all aspects of strategic competition.

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TEAM INTRODUCTIONS

The team consists of private and public sector analysts with a variety of breadth and depth of expertise. Due to position sensitivities, some team members chose to withhold their identities and workplaces from the public. The following are the team members and organizations represented.

TEAM MEMBERS

Emma Diltz, ITA International

Stefania Fieramosca, Citibank

CQ Huynh, Enlightened Initiative

Tim O'Keefe, TD Bank

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Chief Investment Officer, Private Investment Fund

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CHAMPION

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ACKNOWLEDGEMENTS

The team would like to thank the professionals and subject matters experts who consulted on the project. This product would not have been as complete without them.

OVERVIEW OF DELIVERABLE

For its 2024 deliverable, the team began developing a course in fundamental concepts related to financial markets and the dealmaking process towards a targeted audience that would include IC analysts and other related staff who focus on identifying national security risks from multinational investment strategies. The team designed a draft syllabus for an interested sponsor or USG host to leverage and further develop into formal training in this area. The team will provide the draft syllabus to the Analyst Exchange Program (AEP) separately so interested USG partners can explore whether the material offers a productive starting point that they can adjust and scale based on funding and resource availability. The draft syllabus is meant to offer content and guidance to a course instructor or training program coordinators to be delivered through in-person training, online instruction, or Web-based tutorials. It would also likely benefit from the incorporation of classified information for audiences with the requisite security clearances.

The content was developed by senior investment professionals on the team with decades of financial markets experience (M&A deals, private equity/ venture capital). Relevant content in key chapters was vetted with subject matter experts at leading law firms and leading investment banks.

SYLLABUS STRUCTURE

In designing the draft syllabus, the team started by developing a consistent outline structure applicable to each part of the curriculum. This allowed each team member to focus on their assigned topic knowing the format would mirror other sections. As a result, each chapter in the syllabus contains the following information and material that can be used to develop a training course of varying levels of depth or interaction between students and instructors:

- Chapter Overview – a brief description of the topic for each syllabus chapter
- Learning Outcomes – the intended goal for the key takeaways for each chapter, to include key concepts, ideas, tools, or notable examples.
- Chapter Content/Chapter Content Outline – a detailed outline of the content for each chapter. These outlines are written in a question/answer format as to better guide the instruction and provide latitude for course delivery (i.e., web-based training, online tutorial).
- Proposed Assignments – ideas for potential classwork to deepen understanding of the presented material and strengthen the instruction through group discussion or assignments.

- Evaluation and testing – ideas for student evaluation rubric for performance that would be adjusted based on how the training is delivered and any other requirements
- Reading List – each syllabus chapter includes a list of pertinent reading material, specifically five core readings and three supplemental.

Of special note, the research process unveiled a need for an actionable Reading List. Developing an effective course takes time, and the team made every effort to construct outlines and provide instructions for interested analysts to supplement formal training while the course is developed. The Reading Lists include notable USG reports, regulations, Executive Orders (EOs), academic research, and additional reading materials that are primarily free and easily accessible to interested students.

SELECTING CURRICULUM AND IDENTIFYING TOPICS

The team initially focused most of its efforts on the chapter content of the draft syllabus and how to properly organize the learning material. As a result, the team organized the draft syllabus into three distinct learning cohorts. Although the focus of the syllabus is training in financial markets and understanding foreign investment practices, the team agreed:

COHORT 1 should provide an overview of the regulatory environment to present the statutes, EOs, and areas of responsibilities for those within the government taking the course. Through interviews, the team confirmed that training already exists in a variety of agencies that provides a foundation for the way the USG should perform its role in this space, but this context is beneficial training and should be included as introductory material.

COHORT 2 includes the core educational material for the draft syllabus and the area of the project that requires the greatest attention. The content delivered by this cohort is designed to prepare government analysts to better understand key terminology, definitions, and scenarios when encountering such verbiage in financial-centric research. This cohort leverages the expertise of the private sector members of the team and serves as a deeper dive into the investment banking sector, key actors in financial markets, and the deal making process. Within Cohort 2, the team developed a learning process that starts with understanding key individuals, and then focuses on financial methodologies, practices, and activity, with a special emphasis on M&A dealmaking and the components and structures involved in those activities.

COHORT 3 specifically allows the students to combine their bolstered knowledge of the US regulatory processes from Cohort 1, such as the Committee on Foreign Investment in the United States (CFIUS), with newly learned concepts in multinational investment strategies from Cohort 2, and apply it to current or emerging topics, trends, and developments in the

increasingly expanding economic security domain. The team believes this aspect of the course is most actionable for the sponsoring agency to adapt to suit their needs in order to reflect evolving demand and needs. For instance, in the short time during the research project, notable topics in this area ranging from foreign acquisition of US farmland and foreign ownership of social media platforms or critical infrastructure often made headline news. The team hopes course participants would be even better equipped to have fruitful discussions on those topics based on the time spent learning the material from earlier instructional material.

THE DRAFT SYLLABUS – TABLE OF CONTENTS

The following list of chapters, organized into three cohorts, are included in the draft syllabus. Each chapter listed below includes the corresponding “Chapter Overview” from the draft syllabus. This information is included for informational purposes only. Please contact AEP for further instructions on obtaining the draft syllabus for formal training purposes.

COURSE TITLE: UNDERSTANDING FOREIGN INVESTMENT AND FINANCIAL MARKETS FOR NATIONAL SECURITY

COHORT 1: OVERVIEW OF ECONOMIC SECURITY REGULATORY ENVIRONMENT

CHAPTER 1: CFIUS

This chapter provides specifics on the role of CFIUS and its recent expansion, specifically the passage of the Foreign Investment Risk Review and Modernization Act of 2018.

CHAPTER 2: THE EXPANDING ECONOMIC SECURITY REGULATORY DOMAIN

Focused on the areas involving multinational investment activity not necessarily under CFIUS’ purview, this chapter provides an overview of additional USG authorities, to include Team Telecom and a growing number of initiatives, such as EOs aimed at protecting US supply chains, that demonstrate how economic security regulation continues to grow and evolve.

COHORT 2: DEALMAKING (THE ROLES OF KEY PLAYERS AND METHODOLOGIES)

CHAPTER 3: MAP OF FINANCIAL ACTORS AND THEIR ROLES

This chapter provides a detailed perspective on the key actors and institutions at the corporate level, as well as within financial markets that are fundamental to strategic deal making. This overview details the ecosystem of deal participants and protagonists, their roles, incentives and responsibilities in the deal making process. Though primarily focused

on roles of the private sector, the chapter does not negate the important role of public sector regulators, overseers, and authorities in offshore jurisdiction.

CHAPTER 4: TAXONOMY OF DEALS

This chapter provides a detailed description of the most common types of deals negotiated in the past twenty years, while highlighting why particular deal structures are preferred over others. The content emphasizes deal making procedures which are typically endemic to industries with national security importance (e.g. emerging technology, aerospace, critical minerals) - as such negotiations typically incur certain deal structures. For this reason, this chapter focuses on traditional M&A, the difference between initial public offerings (IPOs) and privatization, buyouts, corporate restructuring, and deals related to venture capital.

CHAPTER 5: ANATOMY OF A DEAL

Building upon the groundwork laid in previous chapters, this chapter details the activities of protagonists throughout the initiations, negotiations, validations and completion of deals - as well as the contextual time constraints which are inherent to each stage. It further explores the M&A process, and provides keen insider perspectives to the deal room, to include the motivations behind both the buyer and the seller, as well as highlighting processes which occur behind the scenes, such as the due diligence process.

CHAPTER 6: TAXONOMY OF CORPORATE ENTITIES (PART 1)

This chapter provides a detailed overview of the types of exchange-listed and privately held business entities most likely to be encountered in the analysis of M&A activities, to include, but not limited to, Special Purpose Vehicles (SPVs), Special Purpose Acquisition Companies (SPACs), Master Limited Partnerships (MLPs), General Partners (GPs), and Limited Partners (LPs). It also provides the primary rationale for their use such as: risk sharing, securitization, asset transfer, tax avoidance, joint ventures, investments, and privacy, and is designed to assist analysis from separating illicit activity - such as obscuring the ultimate beneficiaries of an M&A deal - from the normal resolution of M&A processes.

CHAPTER 7: TAXONOMY OF CORPORATE ENTITIES (PART 2)

With the knowledge that offshore structures are able to utilize multiple types of corporate entities, this section introduces the global corporate offshore ecosystem and portrays the advantages, disadvantages and risks presented by key offshore jurisdictions, offshore structures, and the wide array of offshore service providers. The chapter contrasts the legitimate advantages of having an offshore presence (i.e. for business, regulatory, and/or tax purposes) with its potential adversarial leverage (i.e. obscuring ownership, sources of capital and/or interference).

CHAPTER 8: BOARD OF DIRECTORS

This chapter provides an overview of how corporate boards work and how they execute their roles and responsibilities.

CHAPTER 9: UNDERSTANDING THE CEO MINDSET: HOW CEO'S APPROACH DEALS

This chapter offers a primer on for-profit decision-making and the culture of risk taking to help analysts understand the motivation as well as the strategic and financial calculus employed by CEOs and corporate boards in pursuing investment deals.

COHORT 3: EMERGING ISSUES IN MULTINATIONAL INVESTMENT STRATEGIES AND ECONOMIC SECURITY

CHAPTER 10: STATE-ASSOCIATED INVESTMENT VEHICLES

This session will provide insight into state-associated investment vehicles, such as Sovereign Wealth Funds (SWF) and government pension funds with primary focus on their role as critical actors to multinational dealmaking in modern financial markets.

CHAPTER 11: FOREIGN OWNERSHIP AND EMERGING TECHNOLOGY

Critical and emerging technologies are a subset of advanced technologies that are significant to US national security. Technology is central to today's geopolitical competition and to the future of our national security, economy, and democracy. This chapter provides an overview of emerging technology and foreign ownership, the importance of emerging technologies to national security, foreign influence and ownership in other critical sectors, and obstacles faced in foreign ownership when doing business with the United States.

KEY FINDINGS

Deepening financial market literacy among IC analysts and personnel assessing national security risks in foreign investments addresses a current need, and the demand for this training is likely to grow as multinational investments increasingly pose potential national security issues, including in the area of strategic competition between the United States and China.

This curriculum, although focused on the financial aspect of the deal making process, should also be offered in conjunction with training on the current economic security regulatory environment. For example, training focused on increasing familiarity with CFIUS and related investment screening regulations is vital, even for those who do not directly support those processes but are involved in private sector outreach or other forms of engagements where these topics are often discussed.

The training course outlined by the team is not intended as a substitute for an advanced business degree. The draft syllabus chapters on the financial sector were selected through deliberation and consultation among the group based on what would offer the right amount of detail to be effective without overly complicating these topics for IC personnel. As a result, the team relied on the ongoing feedback from interviewees to select topics for the financial portion of the training.

The training program, once fully developed, needs to include some aspect of what is currently listed as Cohort 3 (Emerging Issues in Economic Security) in the syllabus. These topics should provide potential instructors a guide to continue refining the curriculum on evolving national security issues in this space, as well as trends in multinational investment activity. The research process also highlighted that revising relevant training material is critical as adversaries continue to adapt, which could generate vulnerabilities for US national security.

IMPACT TO GOVERNMENT AND PRIVATE SECTOR

Enhanced foreign investment literacy should continue to elevate analytic production and risk evaluation tradecraft pertaining to complex, and often opaque, transaction and investment structures. Evaluating potential national security risks in investment deals is difficult, but the IC also needs a better understanding of the dealmaking process to inform their analysis. For instance, analysts need to recognize why entities leverage offshore corporations for reasons other than evading US national security reporting requirements or oversight. Gaining better insight into these key practices will allow for more advanced discourse and opportunities to refine focus on other potential national security vulnerabilities or threat activity.

If successful, the developed draft syllabus will provide better context, awareness, and education for IC personnel who assess the national security risks of multinational investments. In turn, this enhanced subject matter expertise will also make it easier to communicate with the private sector on risk determinations, and, perhaps most importantly, provide better ongoing and sustainable public and private sector partnerships and dialogue. Several public and private sector partnerships already exist in this space and the team hopes existing platforms, such as those under Intelligence Community Directive 205, which lays out formal IC Analytic Outreach, can be enriched.

FORECASTS

The US economic security landscape, specifically with regards to understanding risks of foreign investments, continues to evolve in its complexity. As these complexities grow, the need to analyze and assess these risks becomes even more critical for protecting US interests. Additionally, the landscape of the investment banking sector and how and why deals come together will remain complex, which can offer opportunities for adversarial activity that could present national security risks.

The United States will continue to refine and expand existing authorities in the area of investment screening and related economic security needs, such as new authorities for outbound investments and protecting US citizens' bulk data. As a result, the demand for better risk assessment capabilities and more productive public-private sector partnerships will only grow. The team believes the draft syllabus developed under the auspices of AEP will help address this demand.

ANALYTIC DELIVERABLE DISSEMINATION PLAN

Office of the Director of National Intelligence (various offices)

National Intelligence University

Department of Treasury (various offices)

Federal Bureau of Investigation (various offices)

Department of Homeland Security (various offices)

Department of Defense (various offices)

Department of Commerce (various offices)

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