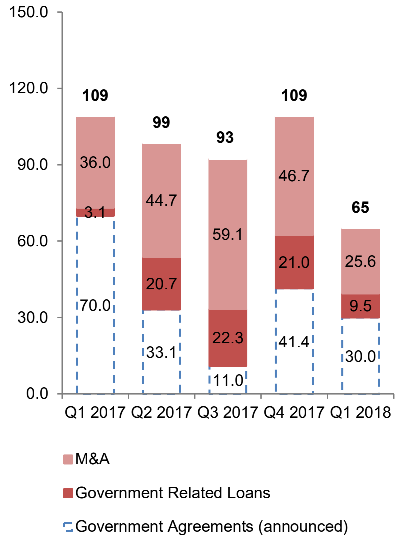
I. Overview

Table 1: Aggregate Value (USD billion)



Q1 2018 Chinese outbound investments across all 3 components we track totalled $65.1 billion, a decline of 40.8% from Q4 2017 aggregate amounts of $110.4 billion. There were declines across each of the three components of various levels.

In M&A/equity investments of announced transactions, volumes fell from 194 in Q4 2017 to 157 in Q1 2018, a decline of 19.1%. Volumes were reasonably consistent each month, but well below volumes in November and December 2017. Aggregate amounts fell from $46.7 billion to only $25.6 billion, a decline of 44.5%. This marked the lowest level since Q2 2015 and well below the prior 4 quarter averages.

Unlike the previous two quarters of 15 announced transactions over $1 billion, this past quarter saw only 3 such transactions, led by the $9.1 billion investment by Geely into Daimler.

Relative to industries, Consumer led in aggregate amounts with $13+ billion, representing slightly over 50% of Q1 aggregate amounts. In addition to the Geely investment there were a number of both large and mid-sized consumer transactions this quarter across geographies (discussed within this document). Consumer was followed by Financials and Industrials each with just over 10% and Communications with nearly 7%.

Relative to geographies, North America and Asia were virtually equal – with 36% and 35% respectively in aggregate volume this quarter.

Government related loans in Q1 showed 9 committed policy bank loans, flat from Q4, 2 AIIB commitments, down from 3 in Q4 and 1 NDB commitment, down from 3 in Q4. Thus total volume of such loans decreased from 15 to 12, or 20%. Aggregate commitments of $9.46 billion represented a 57.6% decline over Q4 2017.

Five of the 9 committed policy bank facilities were for African based countries, two for Eastern Europe, one for Asia and one for Europe. The NDB loan was for India as was one of the AIIB facilities. The other AIIB commitment was for Bangladesh.

We believe that the big story in Q1 Government related loans is how three of the largest commitments by policy banks and one by the AIIB differed from the past. CDB's $1.6 billion commitment to Standard Chartered is specifically targeted to facilitate Standard Chartered's interest in supporting the BRI with senior credit. CEXIM also committed to launching two funds, one for $3 billion in Asia and one for $1 billion in Eastern Europe, both designed for co-investment and potentially with infrastructure components. Similarly, one of the AIIB committed facilities was to an Indian infrastructure fund.

There were specific G2G agreements signed with 6 countries, down from 12 countries in Q4 2017. This marks a decline of 58.3%. Aggregate amounts (when disclosed) were just under $30 billion, down from our adjusted Q4 2017 total (due to US adjustments we made) of $41.4 billion, a decline of 27.5%.

The leading G2G agreements this quarter were with France and the UK, both of which represented amounts over $13 billion.

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M&A Transactions / Equity Investments

↓ 44.5%

As noted above, announced M&A/equity volumes fell by 19.5% while aggregate amounts declined by 44.5%- both strong declines. This was in part due to the paucity of transactions over $1 billion. Other than the Geely/Daimler investment, the only other transactions near $1 billion are the announced JV between GSR Capital and Zorlu (Turkey), the acquisition of Imagina Media in Spain and the acquisition of 99 taxis (a competitor of Uber and Didi) in Brazil.

Similar to the trend in Q4, there were 44 announced transactions/investments under $10 million, or 28% of the Q1 total volume.

The average transaction size (omitting the 4 transactions over $1 billion) declined to $78 million, a decline of 33.3% since Q4 2017, which was flat from Q3 2017 averages.

Industry

Q1 M&A/equity investments continued to show a balance across a number of industries. Relative to volume, Consumer led with 43 transactions/investments (27%), followed by Technology with 19%, Healthcare 13%, Financials with 12% and Industrials with slightly over 10%. There were also a number of transactions announced in Communications, and Basic Materials.

While Technology ranked #2 in volume, it represented only 5.3% of aggregate amounts—due to small transaction/investment sizes.

Once again, Consumer led in aggregate amounts with $13+ billion, representing slightly over 50% of Q1 aggregate amounts. It was followed by Financials and Industrials each with just over 10% and Communications with nearly 7%.

The largest deal of the quarter was the $9 billion investment by Geely minority investment in Daimler. A second automotive deal was GSR Capital's investment into National Electric Vehicle. The Bally deal and the 99 taxis deals were also sizable consumer transactions this quarter. There were numerous mid sized consumer deals across regions, including European fashion (Lanvin and Wolford) and furniture deals in Australia, Vietnam and Europe.

The largest Communications deal was the acquisition of Imagina Media in Spain for $1.2 billion; the largest energy deal was the acquisition of Farasis Energy for nearly $800 million, while the largest healthcare transaction was the $554 million deal to acquire Life-Space Group in Australia.

Geographies

Relative to volume, North America and Asia were nearly equal – with 36% and 35% respectively this quarter. Europe fell to 19% of aggregate volume (although as noted above it led on aggregate amounts). It is interesting to note that 10% of volume occurred outside these markets with 8 deals in Australia, 7 in Latin America and 4 in Israel. In addition to the healthcare deal noted above, China Merchants was also involved in the purchase of another important Australian port this past quarter.

In addition to the Swedish deal noted above, a Chinese party acquired one of Estonia's best managed companies this past quarter. As can be seen in our Q1 feature, Estonia is likely to become an important link in the Polar Silk Road.

The 7 LatAm transactions/investments this quarter marks the highest volume levels we have seen in years. While Q4 2017 had 2 deals over $1 billion in LatAm, activity was limited to Brazil and Chile. This quarter deals were done in Uruguay, Mexico, Peru, Argentina and Chile (wines). We expect additional investments into LatAm as the China-LAC partnership continues to develop.

Government Related Loan Agreements

↓ 57.6%

In Q1, there were 9 committed policy bank loans, flat from Q4, 2 AIIB commitments, down from 3 in Q4 and 1 NDB commitment, down from 3 in Q4. Thus total volume of such loans decreased from 15 to 12, or 20%. Aggregate commitments of $9.46 billion represented a 57.6% decline over Q4 2017.

Five of the 9 committed policy bank facilities were for African based countries, two for Eastern Europe, one for Asia and one for Europe. The NDB loan was for India as was one of the AIIB facilities. The other AIIB commitment was for Bangladesh.

While amounts are small, there is a backlog of over $55 billion of policy bank loans under discussion and over $15 billion of Chinese Government loans under discussion.

The big story in Q1 was how three of the largest commitments by policy banks/AIIB were not standard in nature. CDB's $1.6 billion commitment to Standard Chartered is specifically targeted to facilitate Standard Chartered's interest in supporting the BRI with senior credit. CEXIM also committed to launching two funds, one for $3 billion in Asia and one for $1 billion in Eastern Europe, both designed for co-investment and potentially with infrastructure components. We believe that such moves represent "priming the pump" for the $4 trillion of infrastructure/equity investment required to support China's large, lower return policy loans needed to build sufficient energy and infrastructure for countries to later attract higher returns in real estate, manufacturing, consumer, tourism, etc.

Similarly, one of the AIIB committed facilities was to an Indian infrastructure fund. AIIB also announced a partnership this quarter with the Islamic Development Bank to co-finance projects in Africa. Five African countries, including Egypt, Ethiopia, Madagascar, South Africa and Sudan are already approved members of AIIB. This partnership represents yet another move by AIIB management to build a truly multi-lateral institution.

Government Agreements

↓ 27.5%

G2G Agreements

Q1 saw meetings involving President Xi, Premier Li and Foreign Minister Wang Yi meeting with a total of 15 countries. Many of the countries met by Wang Yi were attending the Second Ministerial meeting of the Forum of China and the community of Latin American and Caribbean states.

There were specific G2G agreements signed with 6 countries ,down from 12 countries in Q4 2017. This marks a decline of 58.3%. Aggregate amounts (when disclosed) were just under $30 billion, down from our adjusted Q4 2017 total (due to US adjustments we made) of $41.4 billion, a decline of 27.5%.

The leading G2G agreements this quarter were with France and the UK, both of which represented amounts over $13 billion. The French agreements were focussed on nuclear energy, aerospace, consumer, finance and agriculture. Meanwhile, the UK agreements were focussed around finance, in particular in funding for life sciences, biotech and fintech.

Despite the sizeable pledges neither President Macron and Prime Minister May signed the MoU on BRI during these meetings.

II. Quarterly Feature – *Launch of Polar Silk Road*

In January, China released its first official Arctic policy white paper, outlining its ambition for a “Polar Silk Road”. Vice Foreign Minister Kong Xuanyou said China would encourage companies to build infrastructure and conduct commercial trial voyages that would “bring opportunities to the Arctic”.

Kong said Beijing considered itself an important stakeholder in the Arctic, a region that mattered to the entire international community.In the white paper, Beijing called for more scientific research and environmental protection for the Arctic Circle, and it also reveals its ambition to tap resources and take part in governance. It suggests exploration of a potential shipping route across the Arctic – which it dubs the “Polar Silk Road” – as well as development of oil, gas, mineral resources and other non-renewable energy sources, fishing and tourism in the region.

The white paper comes amid mounting speculation over China’s ambitions in the Arctic. The world’s second largest economy has been on the hunt to secure enough energy resources to meet its growing demand – and the Arctic has 30% of the world’s undiscovered natural gas and 13% of its undiscovered oil reserves. As rising temperatures result in sea ice melting across the Arctic, there are new opportunities for ships to travel through previously inaccessible, resource-rich areas.

Xi first raised the idea of the “Polar Silk Road” in Moscow in 2017, unveiling a series of plans with Russia in the Arctic that would be incorporated into the ever expanding “Belt and Road Initiative”, such as polar areas, deep ocean, space and cyberspace – had grown along with the expansion of its economy and global influence..

China has stepped up its engagement in the Arctic in recent years and was granted observer status on the Arctic Council in 2013, which gives it input on governance of the region. The council comprises eight member countries bordering the Arctic – Canada, Denmark, Finland, Sweden, Norway, Russia, the United States and Iceland.

Overview of Grisons Peak

Grisons Peak LLP is a London based merchant banking firm specializing in a number of sectors including financial services (including real estate), infrastructure, healthcare and consumer. We provide independent advice on cross border M&A, ECM and high yield issues, both public and private. We also selectively co-invest in equity stakes alongside our clients.

We operate via joint ventures and partnerships throughout Europe, the Middle East, Africa and in North Asia. Since its founding in 2003, the firm has advised on over €25 billion transactions across three continents. In the Advisory area, over the past 55 months, the firm has advised on 24 completed transactions and on 32 binding offers, mostly in emerging markets. In the Advisory area, we focus on transaction execution since virtually all of the firm's clients have done business with Grisons Peak or representatives of the firm previously. We also do not advertise as we are very discreet regarding our Advisory clients (hence only a 1 page website for this business).

In 2008, Grisons Peak founded *China Outbound Investments*, which tracks and analyses Chinese G2G agreements, Chinese Government related loans and M&A/equity investments in a single quarterly report, all of which have been reconciled with original source documents whenever possible. This database also includes bespoke capabilities which measure Chinese Government related loans linked to individual infrastructure/renewable energy projects since 2013. Our research has been cited by many major press including *The Financial Times, FT Confidential, EM Squared, The Wall Street Journal, Bloomberg, China Daily, Xinhua, The South China Morning Post, Australian Financial Review, Euromoney, Thompson Reuters, Global Trade, IFR Asia* and several others. Two of the Financial Times articles have been cover page stories; two on Chinese ports and logistics generated over 100,000 paid downloads.

This database has also been used by major universities for academic research regarding Chinese outbound investment in the UK (Cass Business School), the US (New York University) and presented in the UK House of Commons.

In Q1 2018, we published, via GOSS Research, a longitudinal study on Chinese investment into Cambodia – the first such BRI/China country study. Article entitled "Exporting the Chinese Model to BRI Countries".

Our unique research on BRI has been presented to over 10 Asian universities and used in Executive Seminars at Cambridge University, the University of Edinburgh, as well as in major conferences such as GOSS Research Forum (Hong Kong) and industry conferences such as ILSS Intermodal (Shanghai and Amsterdam) and Clarksons, in the UK.

Grisons Peak LLP is Authorized and Regulated by the Financial Conduct Authority.

For further information on this, please visit: www.chinainvestmentresearch.org.