

Record Setting Quarter in G2G Agreements – including increasing percentages of grants, interest free loans and existing debt restructuring

Total outbound investment and pledges totalled \$143.7 billion, a 120.7% increase from Q2. This is the highest level we have seen since the prior record in Q2 2015 and came at a time of an increasing trade war between China and the USA.

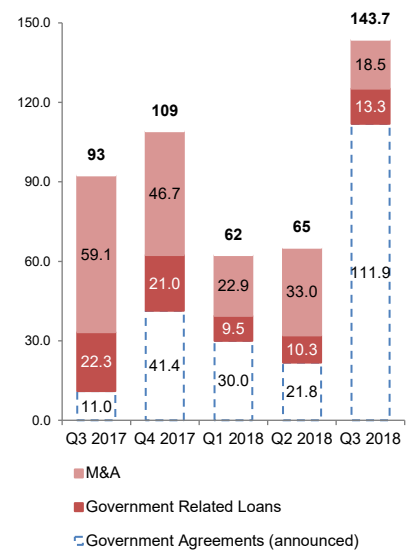
M&A/equity investments declined both in volume (194 to174) by 10.8% and in aggregate amounts from \$33.0 billion to \$18.5 billion (43.9%).

Government Related bank loan volume (across policy banks, AIIB and NDB) fell from 21 to 18 (decrease of 14.3%) while committed aggregate amounts increased from \$10.8 billion to \$13.3 billion (increase of 23.1%).

The elephant in the room this quarter was the 413% increase in G2G pledges to \$111.9 billion – which we have not seen since the launch of this product one decade ago. These pledges followed face-to-face meetings with leaders of over 80 countries as well as leaders of the EU, the IMF and the United Nations. The large increases in Q3 were driven by regional incremental financing packages of \$60 billion to Africa and \$23 billion to the Arab States, both of which are discussed later in this document.

This increased level of contact was driven in part by the BRICS summit, the 16+1 summit, the FOCAC Summit and the Eastern Economic Forum in Russia (we excluded the reportedly \$41.2 billion agreements signed at the EEF).

Table 1: Aggregate Value (USD billion)



M&A Transactions / Equity Investments

↓ 43.9%

As briefly noted above, M&A/equity investments in Q3 declined by 10.8% in volume and 43.9% in aggregate amounts from Q2. The major reason for such a sharp decline in aggregate amounts was due to decline of transactions over \$1 billion value. In Q2, there were 6 such transactions which represented \$21.5 billion value, or 65.2 % of Q2 aggregate value, while in Q3, there were 4 such transactions, for \$6.6 billion, or only 35.7% of aggregate value.

There were also 8 transactions between \$500 million and \$1 billion in value across consumer, industrial, communications, basic materials and financials.

Similar to the trend over the past several quarters, there were 63 announced transactions/investments under \$10 million, or 35.6% of the Q1 total volume.

The average transaction size for transactions with disclosed values (omitting the 4 transactions over \$1 billion) increased to \$84 million, an increase of 17% since Q2 2018, reversing a trend commencing during 2017.

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Industries

The Consumer industry saw over 50 announced transactions, representing 29.3% of total volume (consistent with 30% in Q2). Technology remained 2nd with 19.0%, followed by Financials with 14.9%, Industrials with 12.6% and Communications with 8.6% of Q3 volume.

There were a couple of noticeable changes this quarter, notably Healthcare, a category where we include Pharmaceuticals/Life Sciences and Basic Materials. The former fell from 14% in Q2 to 8% in Q3, while the latter more than doubled from 2.6% to 6.3% in Q3. Basic Materials aggregate values represented 23.3% of Q3 total value, and thus much larger average transaction values.

The largest deal in Q3 was a 25% pre-IPO stake in Global Switch, a UK based big data company, by a consortium of Asian based investors. There were \$1 billion plus Basic Materials acquisitions in Singapore and in Serbia, where China has made considerable progress turning around a loss-making steel company; this is a classic China-CEE turnaround story. The financial one is a small equity stake in a Hong Kong based communications company.

The largest M&A deal below \$1 billion was China Re's. \$865 million of Chaucer, China Re had entered the Lloyds Insurance market in 2011 through a JV with Catlin Group, which was then acquired by XL Group in 2015. China Re was approved to be the first Chinese-owned company to establish a Lloyds syndicate to write open market business.

Geographies

With respect to geographies, once again 91% of all Q3 investments were into Asia, North America and Europe.

Asia led with 68 (39.1%), followed by North America (30%) and Europe (only 21.8%).

Within Asia, there were investments into North Asia – Japan and Korea, the Indian sub-continent – India, Pakistan and Bangladesh, and Southeast Asia – Vietnam, Thailand, Singapore and Malaysia.

In North America, the focus remains on smaller investments into FinTech, Biotech and Medtech. There was also a growing number on investments into Canada – which are no longer entirely focussed on energy/mining.

There were 7 announced in Australia this quarter. Unlike the past several years, these were focussed on technology, healthcare and consumer, not mining/basic materials, as has been the case historically.

There were 5 investments into the Middle East. Mostly into Israel but also into Jordan and Iran. The Israel investments were focussed in Technology while Jordan was Basic Materials, Iran in Energy. There was also one Technology investment into Nigeria.

Government Related Loan Agreements



↑ 23.3%

Q3 Government related loans, across all 3 components, saw volumes fall slightly from 21 in Q2 to 18 in Q3 (decline of 14.3%) while aggregate amounts increased from \$10.8 billion in Q2 to \$13.3 billion in Q3 (an increase of 23.3%).

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Volume of signed policy bank loans stayed flat this quarter at 12 but aggregate amounts increased from \$8.8 billion to \$11.5 billion, an increase of 30.8%. Leading recipients of policy bank loans in Q3 included Venezuela, South Africa and Russia.

NDB loans fell from 3 to 2 this quarter, with aggregate amounts falling from \$1.6 billion to only \$600 million, with a key one to South Africa.

AIIB loan volume increased from 3 to 4 but the aggregate committed amounts increased from \$940 million to \$1.2 billion, or 27.7%. What is new is the average transaction/hold size of \$300 million. Recipients this quarter included India (the largest), Egypt, Indonesia and Turkey.

Government Agreements

↑ 413.3%

G2G Agreements

This was an incredibly active quarter, during which we estimate that President Xi and Premier Li met with leaders of over 80 countries (there are only 195 in the United Nations) centred around the BRICS Summit, the FOCAC Summit in Beijing, the Eastern Economic Forum in Vladivostok and the 16+1 summit in Bulgaria. In addition, there were meetings with leaders of the EU, the IMF and the United Nations, partners in Sustainable Development.

There were \$28.9 billion of announced signed G2G agreements (with disclosed values) with South Africa, Venezuela, Egypt, Kazakhstan, and Rwanda. It is worth noting that the Rwanda agreement was signed on the same day of Modi's visit to Rwanda.

There were also agreements (without disclosed values) in Senegal, UAE, Spain, Guyana, Suriname, Samoa, Malta, Mongolia, Monaco, El Salvador, Brazil, Nuie and Bahrain.

The biggest European G2G was with Germany, which involved Germany committing to invest over \$15 billion into China, as China resets *its inbound FDI*.

There were two large regional G2G pledges this quarter; \$60 billion of incremental financing to Africa and \$23 billion of incremental financing to the Arab States. President Xi pledged \$60 billion of incremental financing to Africa during the opening day of the FOCAC Summit. However, unlike his 2015 \$60 billion African pledge, this one included differing features designed to address the "debt trap" arguments arising from prior deals. As such, this new financing package included \$20 billion in credit lines, \$15 billion in grants, interest free loans and concessional loans (over the next three years), \$10 billion for financing development and \$5 billion for boosting imports. The remaining \$10 billion represent incentives for Chinese companies to invest in Africa with a focus on agriculture, infrastructure, trade and healthcare.

President Xi also stated that pending debts of some African countries would be converted to interest free by the end of 2018.

The \$23 billion incremental funding package to the Arab States included \$20 billion in new loans, \$3 billion in special loans to the financial sector as well as \$91 million in humanitarian aid to 4 countries in the region. President Xi said that China sees the Arab States as part of a "logistics network connecting Central Asia with East Africa and the Indian Ocean with the Mediterranean".

Due to the very large G2G amounts/pledges in Q3 we delayed the release of this report until after the G20 meetings in Argentina.

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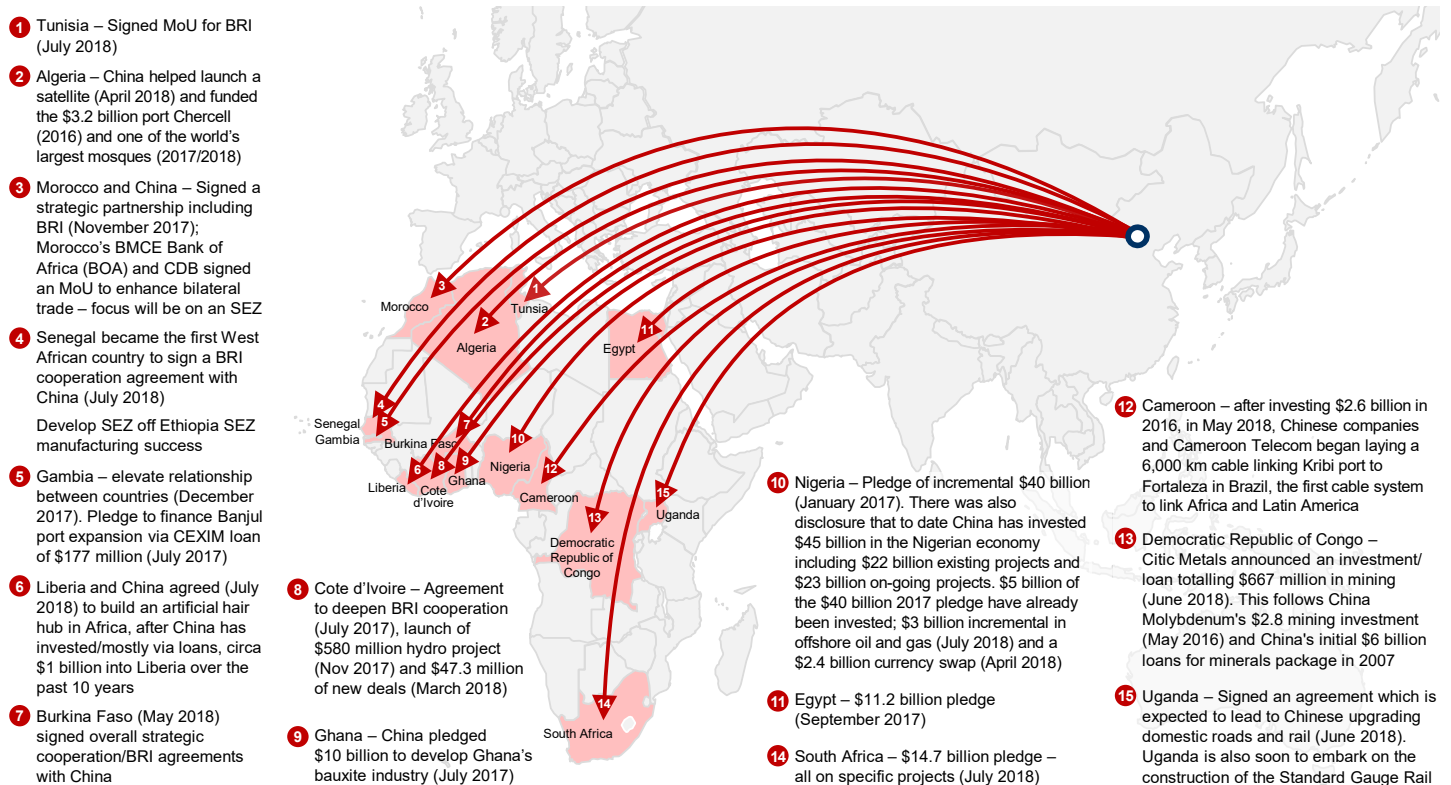
II. Quarterly Feature – The Initial Silk Road Heads West Across Africa

The Forum on China-Africa Cooperation (FOCAC) was held on 3rd and 4th September in Beijing. There have been two summits held to date, the first in Beijing in November 2006 and second in South Africa in December 2015. For the past six years, South Africa has acted as co-chair of the Forum. Leaders from over 50 of Africa's 55 countries attended the Summit. New attendees in this Summit included Burkina Faso, Sao Tome and Principe and the Gambia. All three had severed ties with Taiwan since the 2015 Summit – leaving only the former Swaziland as the only African country still recognising Taiwan.

The agenda was designed to align a number of interests including the BRI Initiative, the United Nations' 2030 Agenda for Sustainable Development, the African Union's Agenda for 2063 and development strategies of individual African countries. We believe that China's key objective in this FOCAC is to elevate the China-Africa Comprehensive Strategic and Cooperative Partnerships with the participating countries to a new level as well as potentially developing a number of project/loan deliverables just as in the outcome of the Belt and Road Forum in May 2017.

By the end of the FOCAC, China had signed 123 cooperation agreements on BRI development with 105 countries in Asia, Africa, Europe, Latin America and in the South Pacific region and 26 such documents with 29 international organisations.

In order to demonstrate how well China plans for these events, and how far in advance, we wanted to show the amount of investment/loans/agreements China has made/pledged to a number of African countries since 1st January 2017.



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East Africa, and its countries along the Nile, represent the BRI's initial Silk Road and is led by countries with key ports (including Kenya and Djibouti). We see that Chinese investment activity in Africa in 2017/2018 as continuing the development of key ports in West African countries, thus assisting in developing trade between these countries and Europe, Latin America/Caribbean and North America.

All of these point to an extension of the initial Silk Road extending west from Uganda across to West Africa, linking to deep water ports which China has been constructing over the past 5 years (see: www.chinainvestmentresearch.org/homepage).

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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 58 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.

During Q3 we have created various presentations for the Pakistan Government; Thomson Reuters; Chinese Government, SASAC; CWS China Center for Contemporary World Studies including:

- Exporting the Chinese Growth Model to BRI Countries
- Developing SEZs – An Egyptian Example
- CPEC Projects Update/Attracting New Equity Capital
- Chinese Investment Links into/with the UK (Q1-Q3 2018)
- China Investments into Chile (2010-2018)
- Chinese Investment into Turkey (2015-2018)
- 21st Century Maritime Silk Road Conference – Xiamen 2016
- Selected OBOR Projects Review (2013-2014)

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