

I. Overview

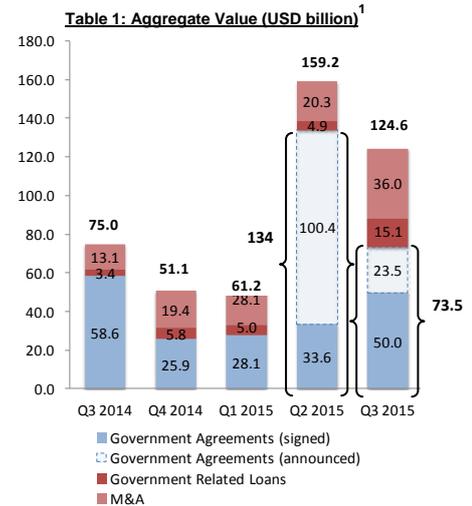
In a quarter dominated by news of volatility in Chinese stock markets and slowing GDP growth, Chinese outbound investment remained strong across all three components we track. While down from Q2 levels, aggregate Q3 outbound investment/pledges totalled USD 124.6 billion.

The strongest performance by a single component in Q3 was M&A/equity investments, which saw both record volumes and aggregate amounts since we began publishing in 2007. The USD 36 billion in Q3 aggregate value was up 81% from the prior 6 quarter average of USD 20 billion, while the volume of 170 announced transactions was up 65% from the prior 6 quarter average of 103.

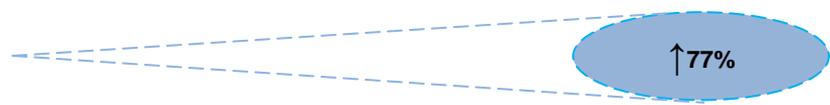
The leading component again in Q3 was Government Agreements with pledged amounts of USD 73.5 billion, down 45% from Q2 pledged amounts. However, unlike Q2's pledged to signed contracts ratio of 20.3%, in Q3 this ratio leapt to 68.0%, driven by hard asset purchases of US aircraft, contracts to build two reactors in Iran and specific loans as part of a much larger agreement with Kazakhstan.

There were 19 Government Related Loans, representing USD 17.2 billion value. As in Q2, 90% of these loans were to countries part of OBOR: the only exceptions were to Venezuela and a credit facility to a UK domiciled company to finance Chinese shipbuilding. Where data was available, two loans had coupons in the 2.0-3.0% range, while two had 7.0%.

Outside of the Policy Banks, we would like to continue our updates on China's other OBOR related funds, AIIB, the Silk Road Fund (SRF) and the newly formed Silk Road Gold Fund. In Q3 AIIB remained active in recruiting staff and developing lending policy. Management's prior experience in ADB and the World Bank will likely influence its thinking on structure and competitive advantages. SRF agreed to acquire a 9.9% equity stake in the Yamal LNG project from controlling shareholder Novatek (Russia) (SRFs initial investment was in Pakistan in Q2).



M&A / Equity Transactions



As noted above, Q3 announced outbound M&A aggregate value was USD 36.0 billion, an increase of 77.2% from the USD 20.3 billion in Q2 even though volume was flat (170 transactions in Q3 versus 167 in Q2). There were 8 transactions in excess of USD 1 billion, totalling USD 21.6 billion (versus 5 transactions with an aggregate value of USD 11.5 billion in Q2). Collectively, these 8 deals represented 60% of Q3 aggregate value.

For the above reasons, average deal size (excluding 50 investments below USD 10 million with disclosed transaction value) rose from USD 201 million to USD 358 million in this

¹ Table 1 information for Q2 relative to commitment has been updated to include Pakistan and Russia signed investments. It is worth noting that in this edition, for the 2nd time, we split Government agreements into announced and signed components (hence now 25.1%)

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quarter (€ 181 million and € 322 million respectively¹). Without considering the largest transaction of the quarter, average deal size stood at USD 285 million (€ 256 million).

Aggregate Value

Financials led aggregate value with USD 17.2 billion representing 48% of the aggregate value. This sector recorded the largest deal of the quarter – the acquisition of an Ireland-based aircraft leasing company from Bohai Leasing Co. for USD 7.6 billion². Among Financials, Real Estate saw 2 transactions in excess of USD 1 billion, continuing the trend for the past several quarters. Following Financials in aggregate value were Technology (19%) and Consumer (13%). Collectively, these 3 sectors accounted for 80% of Q3 aggregate amounts.

Geographically, Europe ranked #1 accounting for almost 50% of aggregate value. It is the 4th time Europe led in the past 7 quarters. North America followed with 28% while Asia dropped from 32% to 18% of aggregate value. Collectively, these 3 Regions represented 95% of Q3 aggregate value.

Volume

Technology, Consumer and Financials led also in terms of volume, accounting for almost 70% of total volume. Technology ranked 1st with 45 transactions (26%), followed by Consumer (24%) and Financials (18%).

North America led again in volume with 67 announced transactions/investments (39% of volume), followed by Asia with 50 (29%). Similar to the last several quarters, North America volume was driven by investments in Technology (accounting for more than 40% of US volume).

Government Related Loan Agreements



↓12%

In Q3, there were 19 Government Related Loan Agreements (down from 21 in Q2), representing USD 17.2 billion (down 12.5% from USD 19.6 billion in Q2). Similar to Q2, 17 of the 19 Government Related Loan Agreements were in countries along OBOR (90% volume correlation)³. The only exceptions were a USD 5.0 billion loan to Venezuela, which had the effect of lowering the Chinese average cost of bpd on prior contracts and a USD 690 million credit guarantee with a UK based investment company to provide funding for 10 container ships to be built for Jinhai Heavy Industry.

Six loans were to African countries, totalling USD 3.5 billion. Most of these loans were to projects in countries which had signed much larger Government Agreements previously. Four loans, totalling USD 2.025 billion were to Kazakhstan as part of the much larger USD 23 billion Government Agreement signed in early September. There were three loans to Asian countries totalling USD 2.0 billion, one loan of USD 576 million to Pakistan,

¹ Average exchange rate for the period July – September 2015

² Enterprise Value as communicated by Avolon Board; even though USD 400 million debt was less than 5 years maturity

³ While actual amounts were USD 17.2 billion, we only include USD 15.1 billion on Table 1 since USD 2.0 billion of these loans are included in Government Agreements

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representing the first signed loan since its Q2 USD 46 billion pledge, one small loan to Belarus and a USD 1.884 billion trade finance transaction with VTB. The quarter closed with a USD 1.25 billion loan by CDB to Turkcell, Turkey's largest mobile phone operator.

Where data was disclosed, three of the loans had interest rates in the 2.0%-3.0% range; however, there were also two loans with 7.0% interest rates this quarter.

Government Agreements



↓45%

While Q3 did see a decline in total amounts pledged to USD 73.5 billion, from USD 134 billion in Q2 (down 45%), there were still major agreements with disclosed values with 5 major countries.

The largest agreement, representing 52% of total value was with the USA. There were 4 specific transactions within this agreement, 2 involving the purchase of aircraft from Boeing (with amounts calculated from list prices) and 2 with Microsoft (no amounts disclosed).

There were also important agreements signed with OBOR countries, Kazakhstan, Iran, Pakistan and Tajikistan.

Finally, it is worth noting that China delivered on USD 4.5 billion of its Q2 pledge to Pakistan through the sale of 8 submarines in the largest defense deal China has ever agreed with a single country.

II. Quarterly Feature: Selected Countries Investments into Kenya and Ethiopia (2013 – 2015)

In light of considerable press criticism this past quarter, we wanted to set out some hard facts related to Chinese investment relative to its peers in selected African countries – post President Xi. We feel that this analysis is timely in that it continues our efforts to track China's pledge versus actual funding ratio, occurred in a quarter when President Obama himself visited Kenya and addresses criticism by some pundits that the historical investment flows from China into Africa have slowed considerably over the recent past.

We feel that the results of this analysis on Table 2 speak for themselves. China led in all categories when compared to its global peers; the USA and Japan. If these results, measured on aggregate amounts (10-1 on a combined basis), occurred in a Champions League match, it would be described as a drubbing.

We recognise that this analysis is limited in scope (we have only compared results in two African countries and only over the past 2.5 years) but we believe that the facts within it still send a message to those who continue to question China's outbound investment commitment levels and delivery on pledges.

Table 2: Selected Countries' Investments into Kenya and Ethiopia (2013 – 2015)

Since Xi's Presidency (2013 – 2015)						
Kenya				Ethiopia		
Population (2014): 42.9 million				Population (2014): 91.0 million		
GDP CAGR 2015-2019: 7.0%				GDP CAGR 2015-2019: 8.0%		
2013						
	China	USA	Japan	China	USA	Japan
Leadership meetings	Kenya President visits Xi (August)	0	0	President Xi (March) ⁽¹⁾	0	0
Volume	nd	0	0	9	0	0
Actual Aggregate amounts (\$m)	5,000 (pledge)	0	0	4,465 (pledge) 3,765 ⁽²⁾ (actual)	0	0
2014						
	China	USA	Japan	China	USA	Japan
Leadership meetings	Premier Li (August)	0	0	Premier Li (May)	0	Prime Minister Abe (January)
Volume	2	0	0	16	0	1
Actual Aggregate amounts (\$m)	4,079 ⁽³⁾	0	0	80 ⁽⁴⁾	0	154
2015						
	China	USA	Japan	China	USA	Japan
Leadership meetings	0	President Obama (July)	Visit of Prime Minister to Abe (March)	0	Secretary of State Kerry (May)	0
Volume	1	1	2	1	1	0
Actual Aggregate amounts (\$m)	900 ⁽⁵⁾	233	313 ⁽⁶⁾	700 (pledge) 1,950 ⁽⁷⁾ (actual)	45	0
Leadership meetings	2	1	1	2	1	1
Total - Volume	3	1	2	26	1	1
Total - Actual Aggregate Amounts	4,979	233	313	5,795	45	154
% Actual vs Pledged	99.6%	nd⁽⁸⁾	nd⁽⁹⁾	112.2%	nd⁽⁸⁾	nd⁽⁹⁾

¹ Meeting was on sidelines of a conference.

² Of which \$320m loan to finance the 80 kilometer Addis-Adama expressway (Q4 2013), \$2,400m to construct 756km Addis Ababa-Djibouti Railway (Q2 2013), \$1,020m to construct 500kv electric transmission lines from Great Ethiopian Renaissance Dam to Addis Ababa (Q2 2013), \$25m as local SME lending (Q1 2013).

³ CCCC - 1st 3 berths at Lamu Port (\$479m - Q3 2014), plus \$3.6bn loan that Export-Import Bank of China (China Exim Bank) signed with Kenya Standard Gauge Railway.

⁴ Refers to the deal involving optical cables.

⁵ ICBC provided \$900m loan to Kenya for building the first coal-fired thermal power station in Kenya (Lamu).

⁶ \$38m of loan to Kenya for universal healthcare facility. \$275m pledged in March 2015, funded in August 2015.

⁷ \$1.4bn Infrastructure loan as part of 2014 pledges plus \$550m for Omo-Kuraz Sugar Project.

⁸ USA delivered \$7bn in 12 months of \$7bn pledged in 2014 for all of Africa (54 countries). There was no disclosure for any individual country.

⁹ In January 2014, Abe pledged \$2bn loans to all of Africa (\$1bn incremental to 2012 pledge).

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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), pharmaceuticals, infrastructure 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. In the area of merchant banking, Grisons Peak has invested in 7 client related investments across Europe, Asia and the Americas. We have exited two of these to date realising gains in both cases.

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 28 months, the firm has advised on 11 completed transactions and on 18 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).

Grisons Peak LLP launched and began publishing our quarterly research product China Outbound Investments in 2008. While other major database services track Chinese outbound M&A/Equity investments, our Chinese research is unique in that we monitor and analyse M&A/Equity in the context of much larger Government Agreements and Government Related Loan Agreements. Our research has been cited by major financial media including the *Financial Times*, *The Wall Street Journal*, *Reuters*, *Business Week*, *FT Confidential*, *Euromoney*, *IFR Asia* and *The Independent*.

We also proudly hold the distinction of having our firm's research cited by two important Chinese Government press; *Xinhua* and *China Daily*, on two unrelated very visible Chinese policy issues. We frequently release prior investment banking analyses over a section titled "Special Studies"; another link between the two businesses. We have also collaborated with New York University in econometric research on Chinese outbound investments into the USA. We see our firm's USP as providing unique research and analytical skills in both of our core businesses.

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