China Outbound and Inbound Investments Q1 2021

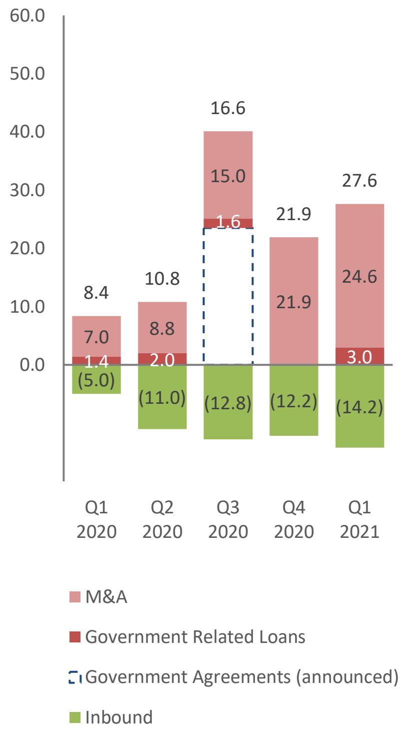
Continued Increases in both Outbound and Inbound FDI/VC led by Asian Logistics

Q1 2021 announced Chinese outbound M&A/equity investments saw aggregate amounts increase to $24.6 billion (the 3rd consecutive quarterly rise), which was an increase of 12.3% from $21.9 billion in Q4 2020. Aggregate amounts were influenced by the 6 largest transactions totalling $13.0 billion and 7 others above $500 million totalling $4.7 billion. It is important to note that full year 2019 announced aggregate amounts were only $60 billion while for full year 2020, aggregate amounts were only $50 billion. Q1 2021 aggregate amounts thus represented circa 50% of full year 2020 announced amounts.

Q1 announced China inbound investments/pledges were $14.2 billion, up 16.4% from $12.2 billion Q4 2020 and also above Q3 2020 levels. These investments were a mixture of controlling inbound acquisitions, minority stakes, JVs and new plants/operations. This quarter – and likely Q2 – was led by investments in the logistics sector, and included outright acquisitions, minority investments and private stakes pre-IPOs. Large inbound real estate transactions were the 2nd most active sector.

There was one policy bank loan by CEXIM to a Turkish SOE bank for $400 million and a $1.5 billion 3 year currency swap from PBOC to Sri Lanka – consistent with the low volumes/amounts over the past several quarters. AIIB agreed COVID loans to Philippines, Bangladesh and Sri Lanka; non-COVID loans to India (Kerala and Assam), Maldives, Bangladesh and Indonesia. NDB committed both COVID and non-COVID facilities to Russia and PRC this quarter.

Table 1: Aggregate Value (USD billion)



Key Highlights

- Volume spiked upwards to 202 investments, a level we have not seen for a few years, across previously announced sectors of healthcare, technology, renewable energy, logistics and financials linked to technology/blockchain. Investments with disclosed values of $10 million or less represented 36.5% of all announced investments but 41% of all investments with disclosed values, so the focus remains on smaller investments, many below the FDI threshold.
- Q1 saw 13 announced M&A deals/investments over $500 million (up from 7 in Q4), including 6 over $1 billion. Collectively, these 13 represented over 70% of Q1 announced aggregate amounts. In keeping with Dual Circulation, all of these appear to be strategic, either from a geographic or product line perspective as we describe later in the document.
- An interesting quarter in which we saw three tiers of sector focus emerge; growth capital for international healthcare which would also have use in China and fintech/crypto/bitcoin across geographies, a 2nd tier of consumer/e-commerce and technology and a 3rd tier of manufacturing, transportation/ports/shipping, renewables and logistics. Collectively, these 8 sectors represented 93.6% of all Chinese Q1 outbound M&A/equity investment volume. Unlike the initial years of the BRI, there were no investments into utilities, one small (less than $25 million) into chemicals/basic materials and one into construction – again reinforcing our view that BRI 1.0 is virtually built – with the focus now on BRI 2.0 (digital) and BRI 3.0 (Health Silk Road).
- Geographically, Asia returned as the regional leader with 40.3% of Q1 total M&A/equity investment volume. Hong Kong was the clear leader in volume, and as seen above, also

(1) Loans include all policy bank/Chinese Govt/PBOC – and amounts in AIIB and NDB by ownership percentage.

was home to two of the six $1 billion+ announced transactions in Q1. Singapore was 2nd in Asia. Korea saw 6 investments; two of the six totalled $2.5 billion. North America saw 27% of Q1 volume; aggregate amounts remained small as virtually all of these investments were below $100 million (save one of $400 million). Most of these investments were below FDI threshold levels, representing growth capital. For historical/comparative purposes, the combined EU/UK volume fell to 21% of total volume. Separately, EU represented 13.3% of volume; UK 7.4%. While the EU volume was small, it was home to Q1's largest deal, the $5.2 billion Philips household goods acquisition by Hillhouse (key shareholder of GREE) and the $608 million renewables acquisition by Three Gorges. The UK saw 15 investments, slightly more than one-half of the EU standalone volume.

- Announced Q1 China inbound investments/pledges were $14.2 billion, up 16.4% from $12.2 billion in Q4 2020 and also above Q3 2020 levels. The majority of this activity involved acquisitions of controlling stakes in new M&A deals and/or acquiring Chinese held stakes in existing JVs, and across a number of industries. Logistics led in aggregate amounts, via outright acquisitions, minority investments and pre-IPO stakes. China mainland inbound real estate transactions represented the 2nd most active sector. Asia led with 39% of inbound value; North America 33% and EU 28%.
- AIIB was involved in 10 total commitments this quarter (down from 13 in Q4), including 3 COVID related loans (down from 5 in Q4), 5 infrastructure loans (same as in Q4) and investments in two funds (down from 3 in Q4). As in Q4 2020, NDB also approved two CEP/COVID loans in Q1, for $1 billion each to Russia and to PRC and 2 non-COVID loans, (down from 5 in Q4), for a total of $833 million, down 67.4% from Q4's total of $2.71 billion.

Chinese Announced Outbound M&A Transactions/Equity Investments

+12.3%

As noted above, announced aggregate amounts in Q1 was driven by the presence of several large investments, which we list below.

Transactions/investments over $1 billion

- Hillhouse Capital acquired Philips Household Appliances, via a global auction, for $5.2 billion (enterprise value). Hillhouse Capital had previously purchased a minority stake in GREE, a major Chinese appliances market leader. The two businesses have complementary geographic business franchises
- SF Holdings, China's largest courier service, announced the $2.3 billion acquisition of a 51.8% stake in Kerry Logitics Network (Hong Kong), creating the "biggest logistics group in Asia"
- Easy Logistics in Hong Kong, raised $1.5 billion from three major Chinese investors including Boyu and Hillhouse
- Yangfeng acquired the remaining 49% of its JV with Adient (USA) for $1.5 billion
- Wiseroad Capital acquired Magnachip Semiconductors (Korea) for $1.4 billion
- Fountainvest Partners acquired CJ Robin Logisitics Supply Chain (Korea) for $1.1 billion

Collectively, these 6 investments represent $13.0 billion of total aggregate value.

In addition, there were another 7 transactions/investments greater than $500 million but less than $1 billion totalling $4,715.5.

There was also the renewal of a semiconductor chip contract with AMSL/Netherlands for $1.2 billion which has been under discussion for a number of years – over-riding USA protestations otherwise – which we did not enclose in the totals.

The combination of all 3 of these components, representing only 13 investments totalled $17.7 billion or 72% of Q1 announced aggregate amounts.

Average transaction/investment size for the 180 transactions/investments with disclosed values was $136.5 million, a 32.2% decrease from $201.2 million in Q4. However, after removing the 6 transactions over $1 billion, Q1 average investment for the remaining investments with disclosed values was $66.5 million – consistent with averages over the past several quarters.

Industries

This was an interesting quarter in which we saw three tiers of industrial focus; growth capital for international healthcare which would have use in China and fintech/crypto across geographies, a 2nd tier of consumer/e-commerce and technology and a 3rd tier of manufacturing, transportation, ports/shipping, renewables and logistics. Collectively, these 8 sectors represented 93.6% of all Chinese Q1 outbound M&A/equity investment volume.

The Financial sector ranked 1st in volume of announced Q1 investments with 22.2% of quarterly volume. While there were a couple of significant financial/real estate investments in various geographies, including some in the $500-$1 billion range, most financial investments involved providing growth capital as minority stakes in fintech, insurtech, bitcoin and crypto currency organisations in USA, Asia, EU and the UK. Volume accelerated in this sector as the quarter evolved.

The reverse was true in Pharma/healthcare/life sciences. While this sector still captured 20% of quarterly volume, it actually led over the first two months – until the bitcoin/crypto spike took hold as the quarter played out. There were no major acquisitions or investments greater than $250 million. As seen in prior quarters, virtually all of the other investments were below $25 million – as China's focus has become providing growth capital via minority stakes and/JVs/drug discovery throughout the world.

The Consumer sector saw 17% of total volume, the 4th straight quarterly decline. Despite the lighter volume, this sector had the largest deal, the $5.2 billion Philips Household Appliances deal, which represented 21% of the entire quarter's amounts. Games and e-commerce continue to be the main focus led by growth capital investments by VC firms and Tencent. On average, deal sizes remained small to mid-size, with virtually no investments over $100 million. Activity remained focussed both in Asia, in Europe and the UK.

Tech was the 4th most active sector with 14% of total volume, a substantial increase from the recent past. There were VC/growth capital investments into software, semiconductors, cloud computing and a significant increase in blockchain.

Transportation, which includes both ports and shipping, also showed an increase in activity this quarter. There were investments in a Saudi Arabia port, a Hong Kong port, an acquisition in Belgium shipping, two minority investments by China Merchants in Indonesia and VC investments in Germany and the UK.

Renewables/energy continued to increase with circa 5% of volume. There were a handful of investments into solar, some into clean energy/clean tech, and green energy. One of Q1's largest deals was the $608 million acquisition of offshore wind by Three Gorges.

Logistics saw less than 4% of volume, but saw 4 Asia transactions totalling circa $5 billion.

Unlike the initial years of the BRI, there were no investments into utilities, one small (less than $25 million) into chemicals/basic materials and one into construction. Again reinforcing our view that BRI 1.0 is virtually built – with the focus now on BRI 2.0 (digital) and BRI 3.0 (Health Silk Road).

Geographies

Asia returned as the geographic leader with 40.3% of Q1 total M&A/equity investment volume. Hong Kong was the clear leader in volume, and as seen above, also was home to two of the six $1 billion+ transactions in Q1. Singapore was 2nd in volume. Korea saw 6 investments but two of the six totalled $2.5 billion. Japan also saw 6 investments this quarter. Other Asian countries receiving investment included Malaysia, Taiwan and Indonesia and Laos. India, after blocking all Chinese capital for the past 18 months, appeared to have permitted a couple of small investments in Q1.

North America was 2nd with 27% of Q1 volume. While volume remained significant, aggregate amounts remained small as virtually all of these investments were below $100 million (save one over $400 million). Most of these investments were below FDI threshold levels, representing growth capital, frequently in healthcare/drug discovery, usually with some link back to China. There was also an investment into Puerto Rico, which we count as a quasi USA state. Chinese participation in North American led VC led tech syndicates across fintech, medtech, ecommerce and edtech was also a focus. As the quarter progressed, investments into crypto accelerated. Canada saw an increasing number of investments, again small in size (nothing over $40 million reported), across tech – including fintech, healthtech, computing, consumer/games and blockchain.

For historical/comparative purposes, the combined EU/UK fell to 21% of total volume. Separately, EU represented 13.3% of volume; UK 7.4%. While the EU volume was small, it was home to Q1's largest deal, the $5.2 billion Philips household goods acquisition by Hillhouse (large GREE shareholder) and a $608 million renewable acquisition by Three Gorges. EU volume remains focussed on Germany, France, Switzerland and Spain. However, there were also investments in the Netherlands, Lichtenstein, Italy and Finland. In CEE, there were investments into Poland and Estonia. All of these were relatively small.

The UK saw 15 investments, slightly more than one-half of the EU standalone volume. Activity remains focussed on healthcare, financial and consumer. As the quarter progressed, activity surrounding crypto currencies and blockchain increased. Both transaction and investment sizes remain quite small, with the largest investment below $200 million while the largest acquisition topped out at $135 million.

- *MENA/Gulf* – saw 12 investments this quarter, led by Israel. There were also investments into Bahrain, Dubai, Saudi Arabia and Cyprus
- *Latin America Caribbean (LAC)* – saw 4 investments with the focus on Mexico
- *Australasia* – saw 4 investments; 3 in Australia and one in New Zealand. Two of the Australian deals were small sized mining deals, while one was VC funding for a high growth healthcare group: the New Zealand deal was the acquisition of a majority stake in a pet foods company
- *Africa* – 2 investments; 1 in DRC (mining) and one in Nigeria (fintech)

Chinese Inbound Announced M&A Transactions/Equity Investments

+16.4%

Q1 announced China inbound investments/pledges were $14.2 billion, up 16.4% from $12.2 billion in Q4 2020. These investments were a mixture of controlling inbound acquisitions, minority stakes, JVs and new plants/operations. This quarter – and likely Q2 – was led by investments in the logistics sector, and included outright acquisitions, minority investments and IPOs. Large inbound real estate transactions were in the 2nd most active sector.

There remained consistent inbound activity in the automotive, healthcare, chemicals, tech and financials sectors, where we saw international companies (USA and EU) acquiring controlling stakes in their prior JVs as well as inbound investment into tech. We set out information by region below.

Asia led with $5.5 billion. Just under $3 billion of this value was in two major Asian into mainland Chinese real estate transactions. There were a number of announced Asian inbound logistics investments totalling circa $1.5 billion as well as a $150+ million investment into a Shenzhen industrial park. We anticipate several more logistics transactions involving Asian investors to be announced in Q2. There were a number of minority Asian investments into mainland Chinese healthcare, with a focus on hospitals. Toyota announced a Chinese JV in hydrogen fuel cells and the Thai-Chinese Electric Vehicle JV announced plans for expansion.

Announced Q1 North America totalled $4.7 billion. Warburg Pincus (combined with Canadian real estate player QuadReal Property Group), Carlyle and Blackstone announced Chinese logistics purchases of nearly $2.5 billion. There were a number of investments into Chinese healthcare/pharma/life sciences totalling over $500 million by both US based PE firms and healthcare organisations. Zuoyebang, China's leading online after school education start-up, raised over $1.6 billion in its Series E+ financing from investors which included an estimated $550 million from USA and Canadian based investors (OTPP – Canada). Bain Capital announced it invested $200 million in Chinese tech start-up Newlink Group.

In financial services:

- CMB Wealth Management (CMBWM) and JP Morgan Asset Management (JPMAM) have started marketing a target date fund. The Zhao Zhi Wu You Target 2035 Fund is the first collaborative product between CMBWM and JPMAM after their expanded strategic partnership, which saw JPMAM take a 10% stake of CNY2.67bn (£300m, $410m, €344m) in the Shenzhen-based wealth manager in March 2021
- PayPal became the first foreign company to own 100% of a payments platform in China as the financial technology company as it acquired the remaining 30% of GoPay it had not previously acquired
- SWIFT, the global system for financial messaging and cross-border payments, announced a JV with PBOC's digital currency research institute and clearing centre

In automotive, in late January, Ford announced that Mustang Mach-E, its first global pioneering SUV built on an all-new, all-electric platform, will be manufactured in China by Changan Ford for local customers. A breakthrough vehicle in Ford's electrification strategy, Mustang Mach-E plans to become available in China later this year.

In consumer, Tim Hortons, an iconic Canadian consumer brand, raised a new round of funding for its Chinese venture. The investment was led by Sequoia China with participation from Tencent, its digital partner in China, and Eastern Bell Capital. The round comes two years after Tim Hortons made its foray into China's booming coffee industry and the Luckin Coffee's fiasco. We estimate that this round is another $250-400 million as Tim Horton's plans to more than double its existing franchise in 2021 (200 new stores) and reach 1,500 stores nationwide in the next few years. Bombardier's (Canada) Chinese JV also won a $192 million Chinese rail servicing contract signed in Q1.

Europe (including less than $200 million from the UK) followed with $4.0 billion. There were also several acquisitions of controlling stakes, across a number of industries. The largest inbound investment was Kuehne+Nagel's (Switzerland) agreement to acquire Apex International Corporation, one of Asia's leading freight forwarders, for $1.5 billion. Brenntag (Germany), the global market leader in chemical and ingredients distribution, agreed to acquire the majority of Zhongbai Xingye Food Technology (Beijing), starting with a 67% stake valued (Enterprise Value) of about €90 million. Plastics specialist/car windows Wirthwein

(Germany) decided to buy-out the remaining 50% of its Chinese JV Shenyang Wirthwein Technology to take 100% ownership. New World Services sold a 42% stake in Suez NWS Limited to Suez Group (France) at a consideration of $537 million.

In financial services, both UBS (16%) and Allianz (49%) agreed to increase their percentage ownership in existing Chinese JVs.

In JVs and/or minority stakes, the automotive industry remained very active; Geely and Mercedes-Benz completed a 50/50 JV that will build Smart models in China ($780 million investment each) and Audi formed a Chinese JV with the first majority interest (60%) held by a foreigner, 40% held by FAW. Faurecia, one of the world's leading automotive technology companies, announced both completion of its acquisition from DAS Corporation of 50% of its JV with BAIC as well as establishing a new 50/50 JV, also with BAIC.

The UK formed JVs in aerospace and media, and participated in the 50% capital raise for a China based healthcare fund. LyondellBasell (Netherlands) one of the EU's largest plastics, chemicals and refining companies and Sinopec signed a 50/50 JV which will produce propylene oxide (PO) and styrene monomer (SM) in China's domestic market. In energy, TOTAL and Synergy Group (China) formed a JV in LNG.BASF continues on its path to build a $10 billion 100% owned SMART petrochemicals operation.

EU companies were also active in the Chinese tech sector including Allianz in a significant insurtech investment while BASF Ventures invested into a synthetic biotech company. Concordium (Switzerland) and Geely (80%) signed a JV in which Geely's Genius & Guru, based in Beijing, plans to use Concordium's Blockchain Technology to become a leading Blockchain Technology – and Service Provider in China across industries.

Government Related Loan Agreements (NM)

Policy Bank Commitments/Grant

There was one policy bank loan by CEXIM to a Turkish SOE bank for $400 million and a $1.5 billion 3yr currency swap from PBOC to Sri Lanka. This is consistent with the low volumes and amounts we have now been seeing for a number of quarters (Q3 2020 volume of one loan for $590 million; Q4 of a single grant for $90 million).

The Turkish loan, which contained both a USD tranche and a yuan tranche was designed to meet the financing needs of Turkish companies engaging in China and Turkey trade as was the PBOC currency swap.

Multilateral Banks

AIIB – Macro

AIIB was involved in 10 total commitments this quarter (down from 13 in Q4), including 3 COVID related loans (down from 5 in Q4), 5 infrastructure loans (same as in Q4) and investments in two funds (down from 3 in Q4). Q1 2021 AIIB total new commitments were $2.02 billion, up 15.9% from Q4 2020's $1.76 billion new commitments.

AIIB – COVID Related

The 3 COVID related loans in Q1 represented a continued quarterly decrease from the 10 COVID related commitments in the Q2 2020 peak, to 7 in Q3 and 5 in Q4 as the world slowly emerges from the depths of the crisis. The two largest COVID loans of $300 million each were to the Philippines (part of a $764 million package) and to Bangladesh. There was also COVID related loan for $180 million to two Sri Lanka domestic lenders.

AIIB – Non-COVID Related

In Q1, AIIB made 5 non-COVID related loan commitments totalling $1.0 billion, a 6.1% decline from Q4 2020 $1.065 non-COVID commitments. These were to:

- India (Kerala) – $150 million; solid waste management; AIIB 35% of total project cost (TPC)
- Maldives – $20 million; solar power project; AIIB provided 18.7% of TPC
- Bangladesh – $260 million; bridge/transportation: AIIB provided 67.8% of TPC
- India (Assam) – $304 million; power: AIIB provided 83% of TPC
- Indonesia (Java) – $310 million; electricity/power: AIIB provided 25.7% of TPC

As shown above, all of these AIIB non-COVID commitments were multilateral.

Funds Investments – AIIB

AIIB invested into two funds in this quarter, totalling $240 million, up from $160 million in Q4 2020. The largest was a $150 million commitment to SQ Growth Markets Infrastructure Fund a closed-end fund with a target size of $2 billion. It is designed to invest in infrastructure projects in Asia and LAC.

Similarly, the Aberdeen Standard Investcorp Infrastructure Partners Fund, in which AIIB committed $90 million, is designed to mobilize private infrastructure investments in the MENA region.

NBD – COVID related

As in Q4 2020, NDB also approved two CEP/COVID loans in Q1, for $1 billion each to Russia and to PRC.

NDB – Non-COVID related

NDB also made 2 non-COVID loans in Q1 2020 down from 5 in Q4, for a total of $833 million, down 67.4% from Q4's total of $2.71 billion.

One of these was for $300 million to MTS, Russia's leading mobile connectivity and digital services provider, for upgrading cellular network and cloud services infrastructure. The other was for NDB's Board approved a loan of $533 million (equivalent to RMB 3.4 billion) to the PRC for Beijing Gas Tianjin Nangang LNG Emergency Reserve Project. (In 2019, AIIB committed $500 million (equivalent to RMB 3.3 billion) to the project).

Overview of Grisons Peak/China Investment Research Ltd

Grisons Peak is a UK based merchant bank focused on Asia which owns and operates an advisory business, a consultancy business (Grisons Peak Services) and a China macro research business.

The advisory business was launched in 2003. During the period 2003-2018, Grisons Peak advised on over $25 billion of completed transactions. Initially, these were focused in the Financial sector. However, as Technology developed into a larger component of Financials, especially in emerging markets, the advisory business focus moved into Technology, which we consider to be an enabler across industries. As OBOR and then the BRI developed, the advisory business was adjusted to follow the BRI geographically.

The Chinese macro research business is based upon a proprietary database, launched during 2008, which tracks all Chinese outbound across M&A, G2G/B2B, Government related loans and public and private outbound equity investments (www.chinainvestmentresearch.org). Beginning in 2018, as China began to focus on inbound FDI, we began also monitoring China inbound.

We bring a forensic discipline to analysing data, with the goal to either reconcile and/or footnote each number back to original sources, which we believe is unique to other data providers.

We also track Chinese outbound investments below $10 million, as they have represented an increasing percentage of Chinese outbound volume since 2017. We believe that this is also unique to other financial data providers. This degree of discipline is loss making in itself – as we also choose to release quarterly data publicly, without cost, as a way of educating those interested in clean data/facts about the BRI.

Our data/research has been quoted by financial press globally and utilized by a number of major universities and think tanks as a basis for academic studies.

Based on over one decade of this data, in 2017 Grisons Peak launched a Consultancy business, which utilizes this data for bespoke studies prepared for selected major corporate and services organizations, academic institutions and governments. We also present this information at major BRI conferences globally. Over the past three years, bespoke Consultancy has become an increasing focus of Grisons Peak with the specialty in BRI.

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