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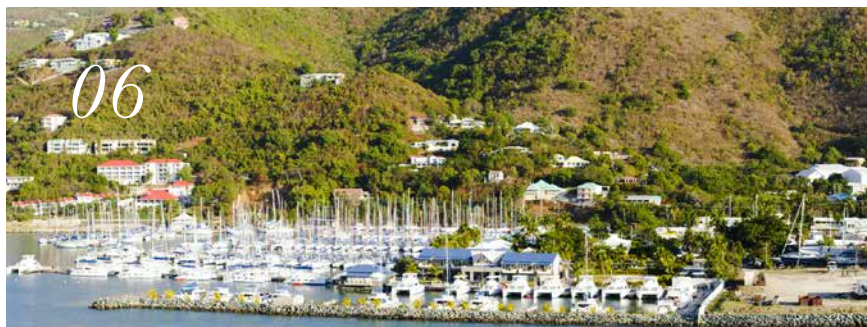
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CONTENTS

Issue 21 – July 2017



06



21



14



18

BANKING

06 The Global Reach of the BVI as an Investment Funds Jurisdiction

FOCUS

11 Focus on Emerging Cities: Best Prospects for Apparel Retailers

INFRASTRUCTURE

14 The Case for Infrastructure Investing in Africa is Compelling

MACROECONOMICS

18 Crazy Like a Fox? Time to Invest in Venezuela

21 Mexico: Economy Gains Traction in Q1

24 Opportunities Amidst Political Turmoil in South Korea's Office Market



POLITICAL RISK

28 Opportunities
Amidst Political
Turmoil in South
Korea's Office
Market

33 Vietnam Climbs
12 Places in
Global Innovation
Index

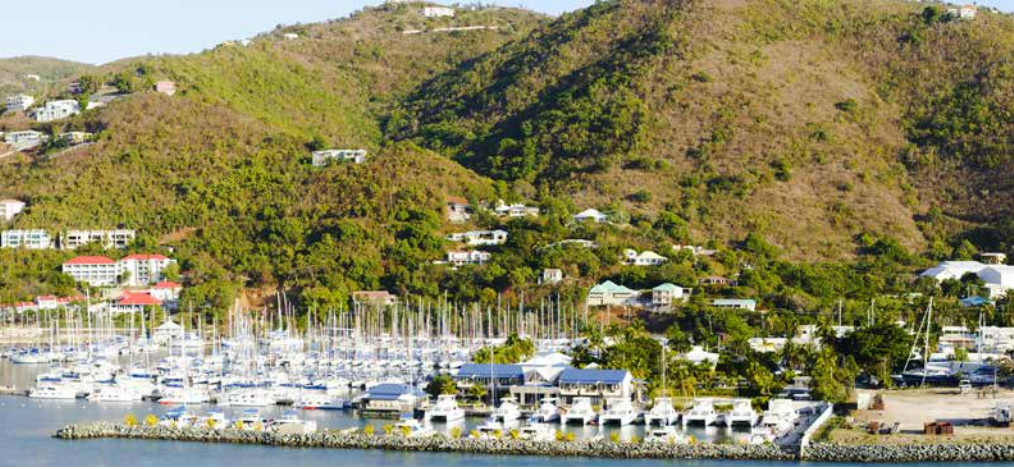
35 Does Trump's
Wall Have a Silver
Lining?

37 Trump's Trade
Policies Send
Mexican
Companies
Scrambling for
New Markets and
Investors

REAL ESTATE

40 The Funding
Chain of Real
Estate

 **Michael Underhill**



The Global Reach of the BVI as an Investment Funds Jurisdiction



The BVI is recognised globally as a leading funds jurisdiction. It has built up this reputation over the course of many successful decades, based upon the essential building blocks of being tax neutral, politically stable and economically secure.

Approximately one quarter of all offshore hedge funds, established worldwide have been or are domiciled in the BVI, making it the second largest jurisdiction for regulated investment funds. This impressive record can be attributed to its highly regarded legal system based on well-established and recognised English common law principles, its sophisticated yet user-friendly legislation and full compliance with all internationally recognised tax reporting and anti-money laundering standards.

The BVI offers five regulated funds products (as discussed further below), which make the BVI a suitable home for everyone from the start-up manager setting up an

ingly the domicile of choice for closed-ended vehicles (i.e. those in the real-estate, private-equity and venture-capital spaces). Because of the flexibility and sophistication of BVI legislation, the BVI is also becoming the home for more niche areas such as crypto-currency funds, hybrid funds and crowd funding platforms.

The incubator fund: aimed squarely at emerging managers, this category of regulated fund benefits from a fast-track launch process, low establishment costs and light-touch, intelligent regulatory obligations. It allows managers a two year incubation or “validity” period (with an extension of up to 12 months available) to establish a track record and test an investment strategy. It is

popular internationally for managers currently operating in the managed account space and wanting to move to the next step of consolidating their investors and developing a track record.

The approved fund: this fund benefits from similar advantages to the incubator fund and is seemingly becoming the most suitable choice for smaller managers and family offices. The primary difference is that this fund does not have a validity period and therefore can be operated without a time restriction so long as the assets under management remain under \$100,000,000 and the fund has no more than 20 investors. The other main difference is that this type of fund requires an administrator, who can be based anywhere in the world. This has generated a significant level of interest amongst the administration community who have seen the opportunity to effectively use this low-cost, flexible fund as a way of bringing smaller clients onto their platform.

The private fund: this long-standing category of regulated fund must either have no more than 50 investors or only make invitations to sub-

incubator fund to an established institutional fund manager with billions under management who may require more of a retail-style platform. In addition, largely as a result of the jurisdiction’s world-class legislation, the BVI is increas-

restricted to having a maximum of 20 investors, each investing no less than \$20,000, and a cap on assets under management of \$20,000,000, thereby being ideal for friends and family investors. It is proving very



scribe for or purchase fund interests on a private basis. Aside from those restrictions, this fund type has no minimum investment amount per investor and no limitation on the total assets under management. This has traditionally made them very popular as master fund vehicles, as the most cost-effective way to establish this type of offshore vehicle as compared with other jurisdictions, and also with managers looking to cater for and maintain a friends and family offering.

The professional fund: this is the BVI's most popular category of regulated fund and will be very familiar to the readers as it has been around for over 20 years. There is no restriction on assets under management, nor number of investors; it is simply limited by the type of investor that may subscribe ("professional investors") and that the minimum initial investment into a professional fund by each investor must not be less than US\$100,000 (or the equivalent in another currency).

The public fund: this is a retail-style product aimed at managers wishing to solicit a large number of investors with no restriction on either the categories of investors it may invite to invest in the fund or the minimum investment per investor. Due to this inherent flexibility, it comes with a higher level of regulatory protection but still enjoys a good level of popularity compared to other similar types of vehicles in other jurisdictions, largely because of the cost and speed to market.

While the majority of investment funds launched in the BVI are established as corporate entities, two other vehicles are proving increasingly popular: the limited partnership and the segregated portfolio company. (A single company limited by shares but offering statutory segregation of assets and liabilities between separate "portfolios" (SPC)

*Approximately
one quarter of
all offshore hedge
funds, established
worldwide have
been or are
domiciled in the
BVI*

The limited partnership: the BVI will very soon be enacting an entirely re-written Partnership Act, ushering-in the most innovative and sophisticated limited partnership legislation globally which recognises the best aspects from other equivalent and very successful statutory acts (from Delaware to New Zealand) which will not only add to

the popularity of the limited partnership as a vehicle for hedge funds but also private equity funds.

The SPC: growth in recent years has been centred on the use of approved fund SPCs which are proving particularly useful for managers operating managed accounts who would like to use a corporate structure for their accounts. Each managed account can be placed into a separate "portfolio" thereby precluding any risk of cross-contamination between different accounts. They have also found niches for family offices acting for multiple individuals or groups of individuals who require different investment strategies, each of which can be operated through a separate "portfolio" and as platforms for start-up funds. Whilst SPCs can currently only be approved, private, professional or public funds, as a result of huge market demand, the BVI will very soon be enacting legislation to extend the use of SPCs for unregulated, closed-ended structures, which will expand their potential use immeasurably.

In addition to its fund products, the BVI has a sophisticated regulatory regime for licensing funds service providers, such as investment managers, advisers, administrators and custodians. Reflecting the BVI regulator's responsiveness to market demands and its desire to provide innovative solutions, the BVI introduced its Approved Manager Regime.

HARNEYS

About the Author

Harneys is a leading international offshore law firm that has been operating for over 50 years. Through our network of more than 12 offices in the Caribbean, Europe, Asia, and the Americas we provide the world's top law firms, financial institutions and corporations with legal services relating to BVI, Cayman Islands, Cyprus, Bermuda and Anguilla law.

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The Approved Manager Regime is aimed at non-institutional investment managers and advisers and has been extremely successful in enabling the smaller emerging manager to enter the investment funds market, while still being in line with international regulatory standards. The ongoing obligations of the approved manager are more limited than those of a fully licensed investment manager and the approval process is fast and efficient. The approved manager is subject to caps of (i) aggregate assets under management of US\$400million for open ended funds and (ii) aggregate capital commitments of US\$1 billion for closed ended funds. The approved manager is extremely popular and means that the BVI can offer a full package for emerging managers. In addition, this product is attracting managers of Cayman funds given that it out-performs the Cayman equivalent, (the Cayman Islands Securities and Investment Business Law Exempted Manager) both on cost and because it offers the

stamp of a regulated product, which the Cayman alternative does not.

The changes to legislation in combination with the already broad existing product offering will certainly

add to the BVI's enduring appeal as a jurisdiction of choice for the establishment of investment funds.



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Focus on Emerging Cities: Best Prospects for Apparel Retailers

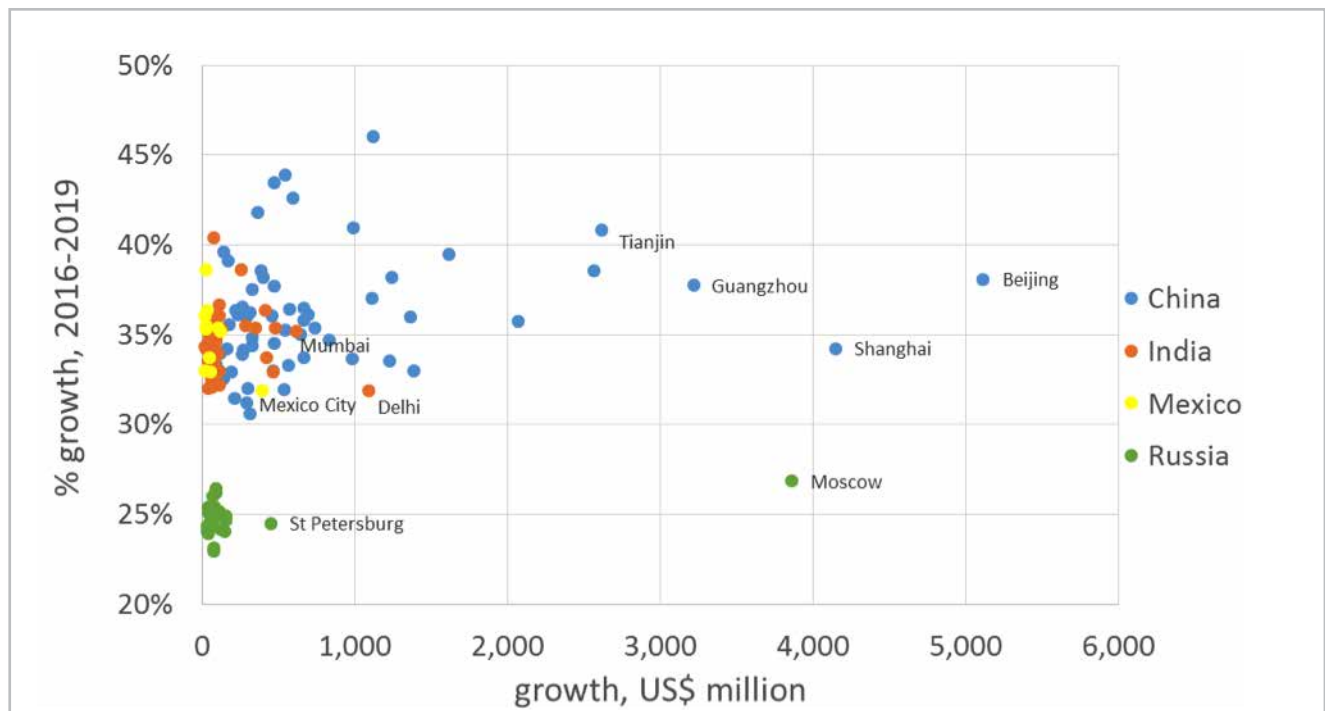
 **Kasparas Adomaitis, Cities Manager**

Global apparel sales are forecast to rise by USD156 billion from 2016 to 2019 (measured in current prices), provided economic growth evolves according to Euromonitor International's baseline scenario. In other

words, in three years only, global sales are forecast to rise eight times the annual turnover of the world's largest apparel corporation, H&M Hennes & Mauritz AB, which generated USD19.8 billion in sales in 2016.

However, global growth is unevenly distributed. Only six countries will account for two-thirds of the forecast global growth, namely China, the US, India, the UK, Russia and Mexico. Furthermore, focusing on cities - i.e. at even more detailed

Country	Apparel retail sales 2016	Apparel retail sales 2019	Cumulative share of total global growth in apparel sales	
China	273,479	333,461	32.0%	Six countries to account for 2/3 of total world growth in apparel retail sales
US	273,674	302,997	47.6%	
India	54,357	73,205	57.7%	
United Kingdom	58,146	64,950	61.3%	
Russia	29,425	34,483	64.0%	
Mexico	13,655	17,823	66.2%	
United Arab Emirates	12,949	15,740	67.7%	
Germany	62,120	64,873	69.2%	
Argentina	9,156	11,739	70.5%	
The Philippines	7,608	10,061	71.8%	



geographic level - may further narrow the list of locations with the best potential for new stores.

Fastest Growing Countries by Forecast Retail Apparel Sales, USD million, at Current Prices and Year-on-Year exchange rates

Source: Euromonitor International
Cities with best potential for apparel sales growth

In China, apparel retail sales are forecast to rise by an impressive USD60 billion over the three years from 2016 to 2019. Focusing on key cities in China may help to capture most of the growth at minimal costs. For example, while China's six megacities with over 10 million people account only for 7.2% of country's population, they are forecast to account for 19% of total growth of consumer expenditure

on clothing and footwear. This implies that a retail strategy focused on consumers in only six cities in China may help to compete for 19% of the expected USD60 billion rise in apparel sales.

India's growth outlook is also very promising. However, India is less urbanised in comparison to China and accessing significant share of the Indian apparel market would require coverage of a larger number of Indian cities. The six most rapidly growing cities in terms of consumer expenditure on clothing and footwear include Mumbai, Bangalore, Chennai, Kolkata, Delhi and Hyderabad. However, all of them combined will account for only 10% of total forecast growth of consumer expenditure in India. To capture one-fifth of the growth of apparel sales (which required being present in six major cities in Chi-

na), investors would need to carry out activities in at least 40 major Indian cities.

Mexico and Russia are two other promising markets for apparel retailers. They rank among the fastest emerging markets for apparel, even if their total market size is forecast to grow by relatively modest terms in comparison to India or China – namely, USD4-5 billion in each country over 2016-2019. Geographically, investment should be even more concentrated in Russia and Mexico in comparison to China or India. Both countries are dominated by their key megacities, Moscow and Mexico City, respectively, which will account for 31% and 15% of total consumer expenditure growth. Growth in Moscow, given the relatively stable forecast of the ruble's exchange rate, should stand on par with major Chinese metro-



politan areas in terms of expected consumer expenditure growth.

Growth in Consumer Expenditure in Cities of Fastest Growing Emerging Markets, at Current Prices and Year-on-Year exchange rates: 2016-2019

Source: Euromonitor International
Note: Consumer Expenditure on Clothing and Footwear is based on National Accounts data, which is compiled by national statistics offices. This is in contrast to total country retail sales forecast, where sales trends are based on trade interviews with retail operators and their sales reports.

The global apparel sales growth forecast is impressive. However, two-thirds of the total growth will take place in only six countries around the world, including four emerging markets. Even within the

fastest-growing countries, retail investment strategies might differ substantially. In relatively urbanised China, six megacities may concentrate most of the potential growth. In India, growth is likely

to be much more dispersed. Finally, some emerging countries, such as Mexico and Russia, are heavily dominated by their flagship cities, which suggests yet another approach to how to focus investments.



EUROMONITOR INTERNATIONAL

About the Author

Euromonitor International is the leading provider of global strategic intelligence on consumer markets, with offices in London, Chicago, Singapore, Shanghai, Vilnius, Dubai, Santiago de Chile, Cape Town, Tokyo, Bangalore and Sao Paulo and in-country analysts worldwide. For more than 30 years, Euromonitor has published internationally respected market research reports, business reference books and online information systems, providing strategic business intelligence for the world's leading FMCG multinationals.

Big Game Hunting: The case for infrastructure investing in Africa is compelling

Investor interest in infrastructure has grown considerably over the past 20 years. As an asset class, it offers the potential for predictable long-term cash flow returns, strong counterparties and controlled risk. But, as interest in this asset class has grown, so has the competition for deals, creating pressure on yields.



For investors, the natural next step is to look for exposure to emerging market infrastructure as a way to capture similar risk profiles with an enhanced yield. Certainly, there is a critical need for infrastructure in emerging markets — the International Finance Corp. estimates that emerging markets need twice the investment in infrastructure than what is currently available.

However, the attractive elements of infrastructure as an asset class, including stability, contracted revenues and expenses, and controllable risks, do not always map well in emerging markets. Currency risk, government instability, volatility and poor credit ratings all threaten the core attractiveness of infrastructure in emerging markets. Does the premium justify the risk? Or does it change emerging market infrastructure into a different asset class altogether?

We believe emerging market infrastructure can be a valuable, uncorrelated piece of an investor's portfolio. However, to see any benefit, investors should not view emerging market infrastructure as "infrastructure with premium return," but as a hybrid strategy that also offers exposure to the potential premium return of an emerging market, with a strong link to underlying GDP growth.

This approach requires a more private equity style of investment

strategy with a broader definition of infrastructure, and thinking of emerging markets infrastructure as emerging market private equity with controllable risk.

This strategy allows investors to not only address risk, which is commonly the main focus for managers in developed market infrastructure investing, but to also seek an appropriate return to compensate for the inevitable emerging market risks.

The Case For African Infrastructure

One way to achieve investment strategy is by including traditional industrial investments under the infrastructure label in Africa, a continent whose greatest need is not just for traditional infrastructure, but for industrial infrastructure as well, such as basic industry, petrochemicals and logistics. These are the building blocks of development and industrialization, which are key to countries transforming from agricultural to middle-income countries. Successful investing in emerging markets usually has strong development implications, and nowhere is that more evident than in helping Africa to industrialize.

These investment opportunities in Africa are often overlooked. Africa

is not highly leveraged with private debt financing, and it is not overly exposed to global financial market conditions. Liquidity is also available, as development banks continue to drive investment flows into industrial infrastructure, and EXIM financing is available for greenfield projects.

The drop in commodity prices has diminished government budgets across the continent, but it also has exacerbated the funding gap and created a "buyer's market." For example, oil producers are focused on monetizing gas assets, which requires local investment and projects, opening up interesting investment plays in brownfield industrial projects. It also has forced governments to move away from building and controlling infrastructure to paying for infrastructure services on an ongoing basis.

Industrial projects can offer an upside that is missing from more traditional infrastructure investments. Once built, a portfolio of industrial plants and projects offers a long-term cash flow yield profile similar to infrastructure projects, albeit with a more cyclical exposure. This can be structured to allow for hard currency cash flows through export markets, but also premium pricing through domestic sales with lower transport costs and better domestic access. Industrial investments can have an element of monopoly protection, as with infrastructure. This is occasionally from the pure size

of an investment, but also can be a result of contracted access to raw materials, such as gas, metals and so forth. Finally, the return on these projects is not completely dependent on government performance, in comparison to developed market investment where the backstop of government credit is a key driver.

With weaker government credit ratings, it is key that all our eggs are not in one basket, and that commodity pricing offers higher returns for the political risks taken. The contractually fixed returns from a traditional infrastructure project in emerging markets leaves limited upside, and retains much of the downside from domestic and regional government risk.

Controlling Risks

The case for allocating to African industrial investments is compelling, but managing the risks is critical to realizing higher returns. Infrastructure investing in emerging markets cannot be the same as the passive, contract-based strategy in developed markets.

It is key that projects are analyzed on a case-by-case basis, because each one has unique complexities and issues, both tangible and intangible. Partners, regulation, the product market, technology and key input-supply contracts all need to be understood in the local context. As the risks can change throughout

the life of a project, they need to be actively managed, versus the more passive management of developed market infrastructure.

It is also key to work with an experienced manager, great local partners and strong industrial partners to assemble the necessary expertise to identify the right projects, and to understand the changing risks and needs of a project. The manager must be able to work across that lifecycle, and to understand the different risks related to project development, construction, commissioning and, ultimately, operations and exit.

A manager's internal knowledge is critical to achieving this, but also its ability to mobilize partners is

essential, as well. Local partners must meet developed market environmental, social and governance (ESG) standards, have on-the-ground knowledge and a solid network of local business partners to overcome high barriers to entry.

Finding the right industrial partners is equally important. Standard & Poor's estimates that more than 20 percent of the infrastructure projects it has rated which "failed" did so due to construction and technology issues. Having the right industrial partner, who has global experience, best practices, and the ability to mobilize and manage projects is critical to addressing this controllable risk in markets that come with higher political risks and other risks.

REALASSETS

ADVISER

About the Author

Collins Roth is managing director of MPC Capital.

Real Assets Adviser is the first publication dedicated to providing actionable information on the real assets class and facilitating important business connections for registered investment advisers (RIAs), wealth managers, family offices and independent broker/dealers. Coverage includes real estate, infrastructure, energy, commodities/precious metals, agriculture and timberland. To learn more, visit www.realassetsadviser.com.

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Crazy Like a Fox? Time to Invest in Venezuela

One intrepid PE firm sees value where many others see danger

There are countries that pose danger for investors. And then there are countries that pose danger for investors—as in kidnapping, assault and murder.

As in Venezuela. A year ago, Barclays and Bank of America canceled investor trips to Caracas, citing the very real threat to life and limb. BofA explained in an email to clients that “the perceived safety risks have increased significantly beyond what we are willing to tolerate.”

Conditions have worsened markedly since then. Violent protests are now a near-daily occurrence. Over 30 people died in clashes with police in April alone. And the economic numbers are also frightening. Inflation is running at 1,600%. The economy shrank by 10% in 2016 and the IMF predicts that by the end of this year it will be 23% smaller than it was in 2013.

It’s hard to imagine Barclays or BofA rescheduling their Venezuela junkets anytime soon. But there are a few intrepid investors planning a foray into the mar-



ket. One is Victor Hugo Rodriguez, managing partner at VenAlternatives Asset Management, based in New York. VenAlternatives is devoted to private capital deals in Venezuela, an investment thesis that, these days, takes some serious bolivars.

But the greater the risk, the greater the reward. As the VenAlternatives website notes, Venezuela has “upside unparalleled in the Western Hemisphere.”

“Venezuela holds the world’s largest proven oil reserves and once enjoyed the highest standard of living in Latin America,” says Rodriguez, who was born and raised in Venezu-

ela and is currently also CEO at LatAm Alternatives. “But since Hugo Chavez was elected president, in 1999, the country was disconnected from the new Latin America reality. Countries like Brazil, Chile and Mexico saw tremendous growth but Chavez destroyed an economy that was one of the richest in Latin America.”

This destruction, of course, opens opportunity. And that’s what is driving Rodriguez to Venezuela. Almost every asset has significantly depreciated. “And if you can purchase these assets just ahead of the change, you will be in a very good position. Now is the time to get prepared to enter the country.”

Disrepair—and upside—are everywhere. Infrastructure is crumbling, industry is in retreat, the health-care sector is ailing. The formerly high-functioning education system, which has produced the highest literacy rate in Latin America, is going backward.

But it won’t be long, Rodriguez believes, before Venezuela abandons socialism and powers significant returns for investors. The institutional foundation is there, as well as a number of natural and societal advantages: a trade-friendly location, tourist attractions, hydropower resources, high literacy, an entrepreneurial culture, a sophisticated banking system, a modern telecom

grid and a large, and an underserved domestic market. Venezuelan GDP is estimated at over half a trillion dollars, despite years of economic mismanagement.

So it is undoubtedly still a tough sell. In April, authorities seized the General Motors factory and began driving away in new cars.

“Stories like this of course are scaring people,” Rodriguez says. “They are thinking, how are we going to do private equity deals in the country if the government can seize our assets? But let me tell you, the government will change. We are very close to that point and once the situation starts to improve, the prices that are available today won’t be there. We are scouring the country now, identifying the best opportunities. This is a perfect time for investors willing to take the leap.”

The VenAlternatives team has cultivated relationships with opposition leaders and maintains networks in Venezuela. It supports Leopoldo Lopez, a Harvard-educated politician from one of the nation’s prominent families who was jailed during protests in 2014. Rodriguez thinks Lopez could be the next president.

VenAlternatives is currently raising a fund targeted at \$300 million. The firm is appealing to early adopters who are willing to open their books to risk and it is getting interest from family offices and from the Latino community.

“The reality is that the Blackstones and KKR of the world will ultimately enter this market, but it is still too early for them,” Rodriguez says. “They will come in during the next wave and they will purchase our investments.”



Privcap
Context for Private Capital Investment

About the Author

Privcap provides in-depth articles, videos, reports, and events for the private capital markets community. With a loyal audience of over 10,000 unique monthly visitors comprised of fund managers, institutional investors, service providers and portfolio company executives. Privcap has thousands of programs already in our archive at privcap.com and dozens of new videos and articles released each month, we connect you with ideas to better shape your decisions and build value for your company

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Mexico: Economy gains traction in Q1 on strong private consumption and exports growth

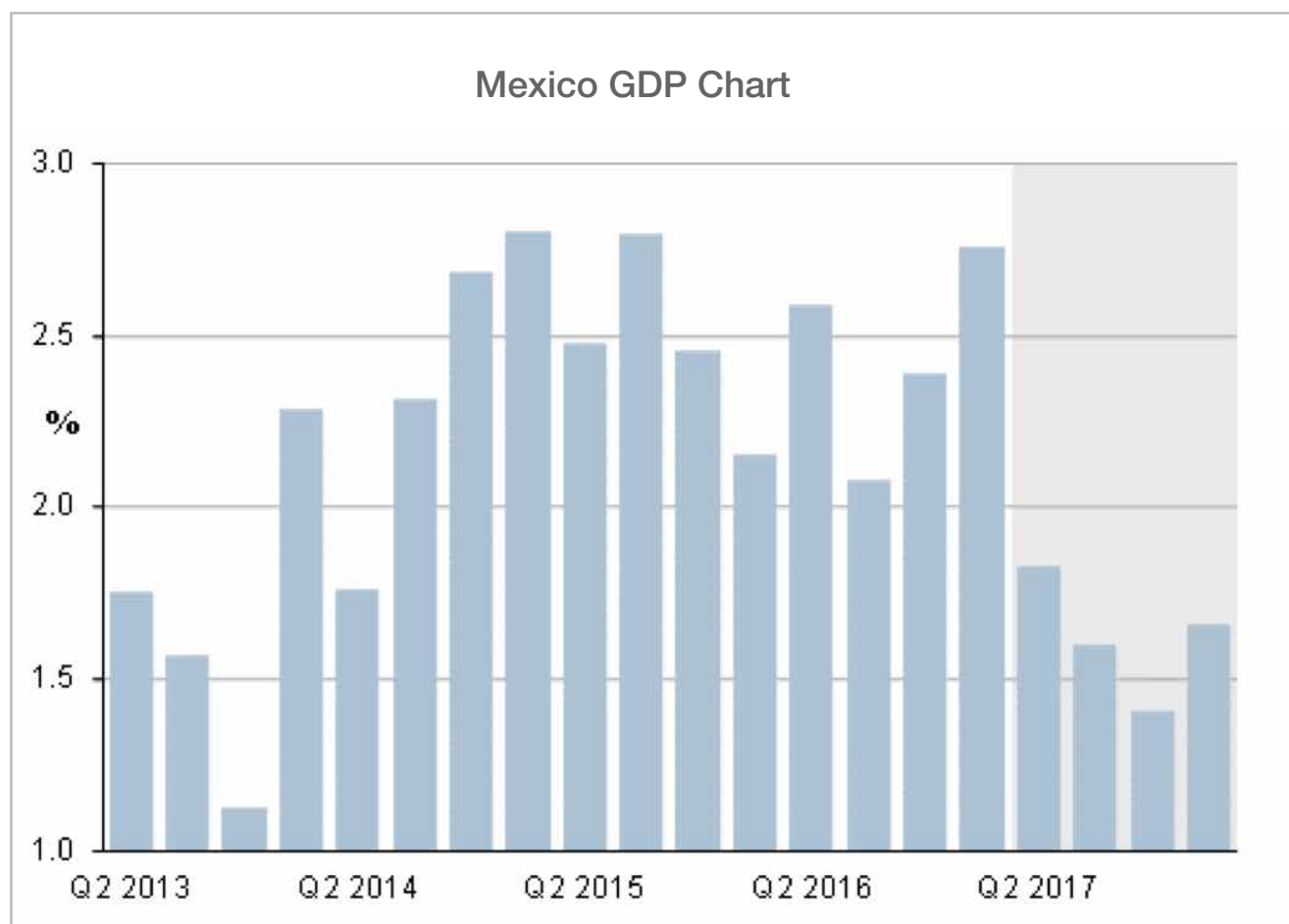
 **David Ampudia, Economist**

Expenditure-based data released by Mexico's National Statistics Institute (INEGI) on 20 June confirmed the economy's strong start to the year. According to INEGI, GDP rose 2.8% from the same quarter

of the previous year in Q1, well above both market expectations of a milder 2.5% expansion and Q4's 2.3% expansion. The report also showed that aggregate supply and demand rose 4.0% year-on-year in Q1 (Q4: +1.9% year-on-year).

The domestic side of the economy saw uneven performance across its components in Q1. Mexican households proved outstandingly resilient to several price shocks and a surge in political uncertainty following Donald Trump's victory in





Note: Year-on-year changes of GDP in %.

Source: Mexico National Statistics Institute (INEGI)

the U.S. presidential election. But-tressed by a tighter labor market and soaring remittances, private consumption growth accelerated from a 2.9% expansion in Q4 to a 3.1% increase in Q1, the best reading since Q2 2013. However, uncertainty regarding U.S. trade and migration policy with its southern neighbor, coupled with important elections in several Mexican states and a tighter fiscal policy, caused fixed investment to stagnate in Q1 following a 1.1% expansion in Q4. Government consumption also decelerated from a 1.6% increase in Q4 to a 0.9% rise.

On a more encouraging note, meagre dynamics in the domestic sector were offset by a robust performance in the external side of the economy. Exports expanded a robust 9.1% in the first quarter of the year, a much faster clip than the 1.8% increase seen in Q4. Mexican exports benefited from a weak currency, robust demand from overseas and upbeat dynamics in the U.S. manufacturing sector. Imports also surged in the first quarter, accelerating from a 0.5% increase in the last quarter of 2016 to a 7.7% rise. As a result, the net contribution of the external sector

to growth was unchanged for a second consecutive quarter at positive 0.5 percentage points.

Although the economy is off to a strong start, our panel expects growth momentum to lose steam in upcoming quarters. Private consumption growth will moderate as a result of sky-high inflation and Banxico's ongoing tightening in financial conditions. Fixed investment, although likely to have bottomed out in Q1, will struggle to make any significant gains due to lingering political uncertainty linked to the renegotiation of

FOCUS ECONOMICS

About the Author

FocusEconomics is a leading provider of economic analysis and forecasts for 127 countries in Asia, Europe, Africa and the Americas, as well as 33 key commodities. The company, founded in 1999, is supported by an extensive global network of analysts from the world's most renowned international investment banks and top national financial institutions. Each month, we survey several hundred carefully selected economic experts from the leading banks, think tanks and consultancies to obtain their projections for the main economic indicators and commodities prices. The forecasts are corroborated and analyzed by our in-house team of economists and complemented with brief commentaries on the latest economic trends. Further information is available at www.focus-economics.com.

NAFTA and still-subdued business sentiment. Exports, on the other hand, are expected to continue contributing strongly to growth on the back of a pick-up in global demand and despite the recovery of the peso against the U.S. dollar.

The Central Bank expects GDP to grow between 1.5% and 2.5% in 2017 and between 1.7% and 2.7% in 2018. According to the latest survey of analysts for the LatinFocus Consensus Forecast, panelists see the economy increasing 1.9% in 2017, which is up 0.1 percentage points from last month's forecast. For 2018, the panel expects growth to pick up to 2.2%.

Innovative Emerging Manager Strategies: EMIA speaks with FIS Group

Providing niche services isn't just any asset manager's cup of tea, but FIS Group doesn't shy away from supplying bespoke solutions and unique funds employing their own unique strategy.

The firm has provided a refreshing and needed change at the right time. Clients who yawn at the restricting and almost puritan savoir faire of traditional firms take to FIS Group like a fish to water. They have the certainty of being in good hands – and this peace of mind has them happily following the firm's lead. "Our biggest and longest clients trust us to go find the alpha wherever it might lie or we would like to go," Adam Choppin, their Lead Analyst for Emerging & Frontier markets, affirms.

Emerging manager strategies is their specialty; and due diligence, allocation, as well as careful manager selection, their modus operandi. Tapping into this niche requires far more than mere expertise, and their clients – ranging from public funds and endowments to foundations and corporations – know this well. The Philadelphia-based asset management and allocation firm is sought out for its customized separate account solutions in global equities that taps the entrepreneurial spirit of investing; carefully combing through the thousands of entrepreneurial firms worldwide and selecting just a handful of managers that –although not yet recognized– ooze potential. FIS Group separates the wheat from the chaff by culling entities such as publicly listed companies, subsidiaries and big banks, while plucking out overlooked majority employee-owned firms including earlier-stage start-ups.



Mr. Choppin is glad to explain the reasoning behind this move. “First, it makes business sense,” he earnestly reveals, “entrepreneurs work harder, they are incentivized and have their head in the game. Secondly, capacity constraints matter in active investing, especially when it comes to emerging and frontier markets. Focusing on this niche of entrepreneurial managers offers better alpha and higher probability to capitalize. And last, but not least, it offers more efficiency.” And that is something that their faithful long-term clients will attest to.

Targeting such a specific niche market does require a hefty amount of legwork, and that’s where due diligence comes into the equation. FIS carefully screens entrepreneurial

firms through its manager review process to ensure they fulfill their selection criteria. The ones that make the cut have proven track records of outperforming both the market and their peers. But it’s not all about track-records, Mr. Choppin warns. “A track-record is not indicative of future performance; a track-record indicates style, but not always skill. It’s important to understand that.” The firm’s keen eye for alpha potential is what allows them to discern which entrepreneurial firms have the ability to achieve greater levels of alpha than their larger counterparts. And this potential, is based on a simple –and at times underrated– factor: knowledge. FIS is attracted to managers who understand not just the efficiencies of their asset class –such as

knowing what will sell next year– but also the idiosyncrasies of a fluctuating market.

FIS Group is one of a kind, that much has been shown. Yet, Mr. Choppin casts a light on this trait by revealing that, whereas the firm does believe in checklists it does not believe in blacklists. “I feel that there’s always an exception to one of those [blacklist] items that breaks the rule. We are willing to talk to anybody who is a majority employee-owned firm.” This broad-minded approach fuels their adventurous spirit: they’re always in search for something different. That special *je ne sais quoi* that will not only maintain their prominent position amongst other asset management firms, but that will

also appeal to the needs of their clients. “We are always looking for something different and/or better,” Choppin shares, “we are invested in all the asset-classes within equities, so it’s not like we’re necessarily looking for new exposure, at any particular time, but we’re always looking something different from how we’re allocated presently. All in all, we’re just looking for a better way to manage money.”

Their flair for innovation translates into an inclination towards trail-blazing. “We like to actively be the first institutional investors with our managers,” Choppin offers. And they certainly have achieved that: they have been the first institutional investor for 25% of their managers, and their aim is to raise that to 50%. Often FIS will seed a new strategy as well, usually based on a carve-out of an existing strategy, such as the long book of a long-short manager or after hiving off a portion of the book they don’t need, such as U.S. equities. A brave and noble goal within a predominantly conservative sector that is under the

constraints of their own job risk factor. “We believe that our job is to have opinions,” he retorts, “when you outsource them to the marketplace, you’re not doing your job.”

Nevertheless, the current climate post-2008 is quite competitive. New rules and guidelines have been enacted that have disincentivized investing in entrepreneurial emerging managers. There is certainly a sense of safety in numbers, so many prefer to go with the flow and invest alongside other people – risking crowded trade and bloated investments. Yet, the more adventurous investors steer clear of this traffic jam, taking the road less traveled by seeking out entrepreneurial and diverse managers, while the run-of-the-mill investors still resort to garden-variety funds. “Much of the business has misaligned incentives,” Mr. Choppin heeds. “The fiduciaries and the asset holders don’t have the same incentives,” he elaborates, “fiduciaries are incentivized not to screw up, not to up-perform. That job risk discourages taking a chance.” The case for many, but not for FIS Group.

Always on a quest for innovation, it comes as no surprise to learn that ambitious goals are included in FIS Group’s plans for the future. “We’re on the precipice of launching some of our own different vehicles that will allow us to take advantage of what entrepreneurial managers can offer even more.” Doing things differently is certainly the underlying factor to their singularity and appeal: a strong conviction and custom-made solutions in the asset management jungle are few and far between. But one needs to look no further than their entrepreneurial manager selection requirements to uncover why. “Our preferences, the things that we see that we really like, are people putting their money where their mouth is, investing into their own business but also into their own strategy. We like people to have the courage of their convictions.” In brief, FIS prefers working with firms who share their own hunger. unique core values.

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Seoul determination:

Opportunities amidst political turmoil in South Korea's office market

 Kyung W Paik and Kang Min Ryu

South Korea has long been considered an important player in the global economy, and its capital, Seoul, is now one of the largest cities in the world. The country has experienced tremendous growth since the armistice of the Korean War in 1953, becoming the 11th largest economy in the world and the third largest in Asia over time, according to the International Monetary Fund.

The Bank of Korea indicates GDP per capita grew from US\$131 in 1966 to US\$27,560 in 2016, an 11.5 percent average annual growth rate over the span of 50 years. Today, Seoul is one of the most dynamic cities in Asia, ranking fourth in the world by GDP after Tokyo, New York City and Los Angeles, according to CBRE Research, and Seoul's office market is the second largest in Asia, behind Tokyo.

In spite of South Korea's history of growth and track record of strong



economic gains, the country often has been in the headlines for less-positive reasons, most recently internal and external political uncertainties. To adequately assess where the South Korean market stands today, it is important for real estate investors to understand the parameters and magnitude of actual risks in the region. In fact, seasoned investors who can see beyond the recent noise should find compelling investment opportunities in South Korea, provided they have the skill set to execute on dynamic business plans.

Political uncertainty in 2016–2017
Although South Korea is accus-

tomed to the geopolitical risks that have surrounded the peninsula for more than six decades, the presidential political scandal and renewed North Korean provocations in 2016 and 2017 have undoubtedly stirred the country more profoundly than most previous events.

The presidential scandal unfolded in October 2016, when news broke that a female confidante of now-former President Park Geun-Hye had used her connections to the president to influence government policy and extort vast sums of money from major South Korean conglomerates. President Park denied any wrongdoing or involvement in the

acts of her friend, which provoked public outcry. In December, the National Assembly of the Republic of Korea voted for the president's impeachment and, on 10 March 2017, the Constitutional Court of Korea unanimously upheld the decision. A new presidential election was held 9 May, and liberal candidate Moon Jae-In was elected president, effective immediately. The Moon presidency should usher in a period of greater political stability and potentially a new approach to North Korea, involving more engagement than was seen under Park.

In addition to the tumultuous domestic political scene, North Korea

repeatedly provoked military tension last year in reaction to South Korea's hard-line policy toward the country. North Korea conducted two nuclear tests and 22 ballistic missile tests between January and October 2016. In retaliation for these tests, South Korea shut down the Kaesong Industrial Complex, which was maintained as an economic cooperative zone between the two Koreas, and agreed with the United States to deploy the THAAD (Terminal High-Altitude Area Defence) missile system to the Korean Peninsula as a defensive measure against the threats of North Korea. As a result of the THAAD installation in close proximity to China, diplomatic tensions between South Korea and China have heightened, and the Chinese government has taken retaliatory actions, including government-sanctioned trade boycotts. These measures have tempered economic growth in South Korea, but the impact has been limited.

Limited effect on the Korean economy

Notwithstanding the aforementioned political friction, the South Korean economy has continued to grow consistently. The Korean Composite Stock Price Index (KOSPI) rose 3.3 percent year-over-year in 2016, and foreign investors' net stock purchases reached US\$9.8 billion, the greatest sum since 2012.

As at 29 May 2017, at a time when tensions between North Korea and the United States were near their highest, the index was up 16 percent year-to-date and had reached historical highs, which can be attributed to investors' confidence in South Korea. The economy has grown at a stable 2.8 percent for

*South Korea
historically has
been, and should
continue to be, an
attractive place for
investors who can see
beyond widespread
misperceptions
about the political
environment in the
country*

two consecutive years, while the unemployment rate is 3.7 percent, remaining at what the Bank of Korea considers a quite healthy level. Foreign-tourist arrivals were expected to decline after mid-2016 because of the nation's increasing tensions with China but, by year's

end, the number of tourists exceeded 17 million, a 30 percent increase over 2015, according to the Korea Tourism Organisation.

So why is South Korea thriving amidst concerns from other countries about a possible war with North Korea? Despite North Korea's posturing, many political experts believe North Korea and its adversaries are unlikely to engage in any military action because the main actors in any military conflict (ie, South Korea, United States, China, Japan and Russia) want the region to remain stable and secure, and they are seeking a "denuclearisation" of North Korea, not necessarily a regime change. Most believe this goal should be achieved through pressure (ie, sanctions) and negotiations, and not by military action. The North Korean regime under Kim Jong-Un may seem malicious, but it is not believed by many observers to be irrational enough to ultimately cross the line, given an outright war may end the regime. Military threats by North Korea are nothing new in the region and are widely considered to be merely a means to gain diplomatic advantages and, thus, the impact on the South Korean economy has been, and is expected to continue to be, limited. Investors who are able to look beyond political noise and focus instead on strong investment opportunities can be rewarded with favourable risk-adjusted returns.

Robust office market

Similar to the broader South Korean economy, the Seoul office market thus far has shown no signs of any negative effect. The vacancy rate for prime-grade offices — which had been increasing since 2010 due to oversupply — has been stabilising from positive absorption since 2015. In the past, demand for Seoul office was traditionally from manufacturers and financial companies, but recently demand has been diversifying to include start-ups, IT companies and the service sector. In addition, landlords of newly-built prime-grade offices are aggressively providing incentives such as rent abatement and tenant improvements, attracting tenants that are upgrading, expanding or consolidating from grade B or grade C offices.

The Seoul office market historically has been among the most established in major Asian cities in terms of market liquidity and investment return. Because of increased investment from both foreign and domestic investors, the Seoul office market reached a record-high transaction volume of US\$8 billion in 2016, of which a staggering 47 percent involved foreign investors, a significant increase over the 25 percent share represented by foreign investors in 2015, according to IGIS Asset Management Co. Historical Seoul office transaction volume and cap rate trends seem to

have suffered no impact from North Korea-related political events. Cap rate spreads against Treasuries are a healthy 210 basis points, higher than in most other Asian cities.

The Seoul office market historically has been among the most established in major Asian cities in terms of market liquidity and investment return.

Investor activity: mismatch between capital and opportunity

Traditionally, South Korea has been a market where the potential for outsized returns arises because of the mismatch between capital preferences and available investment opportunities. Distressed and value-add real estate opportunities are increasing as traditional industries, such as shipbuilding, construction and manufacturing, experience slug-

gish growth, and the government is placing increasing pressure on financial institutions to restructure their balance sheets. Domestic investors, who are conservative by nature and traditionally have invested mainly in stabilised core assets, have not been active in distressed and value-add investment opportunities, whereas foreign investors, who have been more flexible in their investment approach, have taken advantage of this less-competitive space. As shown in the table on page 8, domestic investors primarily invested in stabilised core assets in 2016, while foreign investors mainly invested higher up the risk curve.

Structural and cyclical opportunities

Various structural factors — dominant property ownership by local conglomerates, supply characteristics of the Seoul office market, and the mismatch in the capital markets — should result in a flow of value-add investment opportunities in the future.

Domestic conglomerates and large corporations are still the dominant owners in the Seoul office market, as compared with other major office markets in developed countries. Thus, only about 30 percent of the office inventory larger than 5,000 pyeong (approximately 16,500

square metres) is owned by institutional investors, according to IGIS. Headwinds faced by traditional manufacturing companies and the declining desire by conglomerates to hold real estate on their balance sheets have driven the opportunity for distressed sales by these companies. Such investment opportunities are dominated by foreign investors rather than by domestic institutions, however, which have more stringent investment guidelines and a much more conservative approach toward distressed opportunities.

The lack of quality office space creates an opportunity to deliver new or refurbished product to meet tenants' demands. More than half of the total Seoul office supply is more than 20 years old and rapidly becoming obsolete; investible grade A stock makes up less than 15 percent of total inventory, notes IGIS. Tenants that value quality space and services are migrating to new or refurbished buildings, and a compelling case can be made to renovate grade B offices into grade A stock to take advantage of these leasing-market dynamics. New supply between 2017 and 2020 is expected to be approximately 20 percent higher than the average supply over the past five years, but most of that is expected to be concentrated in the Yeouido Business District, Seoul's financial district. As such, vacancy rates are expected to remain fairly stable in the CBD and Gangnam Business District over the next three to five years, according to IGIS. A compelling opportunity exists for investors to take

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About the Author

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advantage of the market recovery through forward purchases that limit leasing risk.

The "buy-fix-sell" strategy employed by foreign investors should become even more prevalent because of the difference in investment appetite between domestic and foreign investors. Potential value-add investors can buy at 15 percent to 20 percent discounts, compared with the price of a stabilised core asset. A ready and highly-competitive domestic market for stabilised assets exists, once investors successfully execute their value-add business plans. The key factor underlying a successful value-add investment is to have the network to discover these opportunities and an on-the-ground team to execute the business plan.

The bottom line

South Korea historically has been, and should continue to be, an attractive place for investors who can see beyond widespread misperceptions about the political environment in the country. Well-informed investors can find hidden gems at a time when seeking high risk-adjusted returns in other regions of the globe has become ever more challenging.

Value-add opportunities offer compelling risk-adjusted returns in the market, given the disparity in pricing between transitional and stabilised assets, but strong on-the-ground execution capabilities are critical to success in implementing this strategy.

Vietnam Climbs 12 Places in Global Innovation Index

In the recent Global Innovation Index 2017, Vietnam jumped 12 places to 47th among 127 economies, its highest ranking in the last 10 years. The index aims to capture different factors of innovation by providing a rich database of detailed metrics for 127 economies.

Among the Southeast Asian countries, only Singapore and Malaysia outranked Vietnam. The country's impressive growth is being attributed to its improved business environment and competitiveness. Vietnam also leads the group amongst the 27 lower-middle income economies. Over the last five years, Vietnam has recorded an impressive growth in rankings from 76th place in 2013 to 71st in 2014, 52nd in 2015, 59th in 2016 and 47th in 2017.

Vietnam's strengths

As per the study, Vietnam demonstrated growth in a range of indicators, in the last year. In the Innovation efficiency ratio, which reflects how much output a country is getting for its inputs, Vietnam was featured amongst the top ten. Vietnam also performed well in other indicators such as knowledge and technology outputs, ICT use, creative goods exports, FDI inflows, and gross capital formation. Expenditure on education along with market sophistication, which includes availability of domestic credit to private sector and micro-finance gross loans, were also highlighted as Vietnam's strong points.

The study also focuses on the rising ASEAN economies, especially Indonesia, Philippines, Thailand, and

Vietnam, which they have dubbed as the “New Asian Tigers” for their continued focus and improvement in innovation performance.

Need to focus

The report highlights a number of areas that Vietnam should continue to focus for it to become an innovation-driven economy, such as, developing a more knowledge-intensive workforce, establishing industry clusters, and investing more in R&D to ensure further integration into high-tech value chains. Manufacturing firms mainly from China, Japan, and South Korea have been shifting their manufacturing activities to Vietnam over the years, leading to the development of the regional production and innovation networks to a certain extent, but it has failed to realize its full potential due to lack of skilled workforce and low R&D activities.

Easing tax paying procedures and increasing ICT services exports were also highlighted as areas of focus.

Taking necessary steps

In the last decade, Vietnam has implemented various socio-economic policies to boost innovation. Aware of the significance of innovation in long-term economic development, the government had issued Resolution No. 19-2017/NQ-CP in February 2017, to improve business environment and strengthening national competitiveness under the Ministry of Planning and Investment, Ministry of Science and Technology, and Ministry of Information and Communications.

Going forward, productivity and innovation will eventually be the main drivers of growth. In the long-term, the country needs to shift from the current model of export-oriented, labor-intensive and natural resource-dependent growth to a more diversified and innovation-driven economy. This will require continuous reforms to ensure increase in

production efficiency and increased investments, especially in infrastructure, education, and technology.



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Does Trump's Wall Have a Silver Lining?

As the president slams Mexico, opportunities open up for investors—and for Mexico itself.



President Trump is on a mission to squeeze Mexico. He has threatened to renegotiate NAFTA and slap a 20 percent tariff on Mexican imports. He has brow-beaten American companies into scrapping plans for new Mexican plants.

Not to mention his fondness for that great big wall.

Predictably, all of Trump's Mexico bashing has put a serious dent in investment there. "We did a formal survey of Mexican private equity fund managers and we found that 80 percent of deals in the pipeline are delayed or postponed because of the Trump effect," said Sebastian Miralles, managing partner of Tempest Capital, a private equity investment adviser that focuses on Mexico and Latin America. "These

are deals that were at some stage of due diligence or negotiation and they were put on pause.”

And yet, there is upside south of the border—not only for investors but for Mexico itself. For years, Mexico has relied on its export industries to achieve growth and failed to fully address significant problems such as rampant corruption and a shortage of professional management.

“Now, in the age of Trump, the pressure is on Mexico to do a better job developing our internal markets,” Miralles said. “Our service sector has to grow, our healthcare industry has to grow, our finance industry has to grow. All of these industries have to grow to pick up the slack left by manufacturing and export industries.”

Mexico must also realign. It must cultivate exports to countries other than the U.S. It must improve its tax collection, which would strengthen the ability of companies to seek credit and in turn increase productivity.

“Even with all the bad stuff associated with Trump, my hope is it can have positive outcomes in terms of a more professionalized business environment in Mexico, as well as the broadening and diversifying of our internal and external markets,” Miralles said.

The Trump dump on Mexico also has upside for investors. It’s a great

time to hunt for bargains. Export industries have been hit hard across the board, but not all products will be impacted the same by Trump’s policies. “Not all companies are exporting to the U.S. in equal proportions, but everybody is being affected equally,” Miralles said. “So if you are smart and do your homework, you can find good manufacturing and export deals at very attractive prices right now.”

Other market sectors also show promise, Miralles said. Agricultural companies that target Asian

markets are particularly compelling. And tourism is inviting, given where the peso trades now.

“We’re in a period of disruption with a lot of noise—but, in the end, Mexico comes out of this stronger,” Miralles said. “Mexico was in a comfort zone and Trump has forced Mexico out of its comfort zone, and forced the country to come face to face with reforms that have always been needed but avoided. I’m a big believer that volatility and challenge set the stage for growth.”



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Trump's trade policies send Mexican companies scrambling for new markets and investors

 **Carlos Martinez, Adriana Curiel, and Dong Cao**

- Few options in Latin America
- Wariness of Chinese investors
- Deals with Japan may gain momentum

The possibility that US President Donald Trump might pull the country out of the North American Free Trade Agreement (NAFTA) or impose an import-tax has sent Mexican manufacturers scrambling to find consumers and investors in other markets; the alternatives, however, are limited, according to industry sources.

Although NAFTA renegotiation talks are not expected to begin until

May and the 20% import tax was just an idea “floated” by the Trump administration as a way to help pay for the border wall it is bent on building, Mexican companies have already seen their businesses disrupted.

A principal at a US investment firm that holds dollar-denominated Mexican corporate bonds told this news service that he learned from an executive at a listed Mex-

ican company, with manufacturing operations in the US that several US customers had temporarily suspended product orders following Trump’s trade-policy statements.

The US President, for instance, has repeatedly said he wants to renegotiate or scrap NAFTA, which he has described as “a one-sided deal” that has resulted in the US having a USD 60bn trade deficit with Mexico.

Such public statements halt investments and lower Mexican consumers’ confidence, said Guillermo Rosales, deputy general director at AMDA, a Mexican trade group representing auto dealers.

New horizons

In response to the US moves toward protectionism, Mexican companies have slowly begun to look for new markets. The Business Coordinating Council (CCE), Mexico's most influential business group, has called on local firms to take advantage of the country's 12 free-trade deals with 46 nations and start exporting to Asia, Europe, Latin America, and Oceania.

CCE expects Mexico to attract USD 25bn in foreign direct investment in 2017, almost a quarter less than in 2015. However, it is unlikely that the region will be able to absorb most of the roughly USD 284bn that Mexico exports to the US annually.

Generally speaking, Latin American markets are still not well developed and are immature for investments, said an executive at a Chinese automotive group.

Indeed, South America - the region's biggest market - is still reeling from a

slump in commodity prices, political scandals and economic crises, as reported. Its auto industry, for instance, is losing momentum with countries like Bolivia and Venezuela relying mostly on imported vehicles, said Daniel Ruvalcaba, commercial manager at Gagemak, a Mexican manufacturer of precision equipment that serves the auto industry.

Besides, some South American countries see Trump's tough stance against Mexico as an opportunity to increase their exports to North America. Colombia's Trade Minister, Maria Claudia Lacouture, said the possibility of the US pulling out NAFTA represents a unique opportunity for Colombia to take over the market that Mexico might lose, according to weekly magazine *Semana*.

Colombia, which in 2012 signed a bilateral trade agreement with the US, sends about a third of its exports to the North American country. Mexico, in contrast, sends around 84% of its exports to the US.

Central America, which has enjoyed a healthy economic recovery in recent years, could also become a potential market for Mexican companies; however, the region is "very small and unattractive" for most big businesses, said Luis David, financial advisor at Guatemala-based investment bank *Asesores en Finanzas*.

David also noted that Central America lacks big sector players with enough market share to attract the attention of Mexican investors.

As a result, Mexican companies may have no other option but to look towards Asia. A Chinese investment banker, for instance, said Chinese companies are keen on forming partnerships with Mexico's state-oil company *Petroleos Mexicanos* now that the country has liberated its energy industry.

The banker also noted that Trump's stated plans to make the US energy-independent would probably force *Petroleos Mexicanos*, or *Pemex*, to sell more crude to Chinese buyers. The oil company currently sells only about a quarter of its oil to Asian buyers.

Mexico's auto industry - the fourth biggest in the world in terms of cars exported - has also attracted the attention of Chinese investors. The executive at the Chinese automotive group said his firm is looking to acquire a company that plans to build a factory in Mexico.



The executive, however, cautioned that Mexico's auto industry could lose some of its appeal if it is deprived of its tariff-free access to the US, as a result of Trump scrapping NAFTA. "If Mexico (loses) its advantage regarding NAFTA, who would invest in Mexico?" asked the executive.

Moreover, it is still unclear if Chinese investors would be welcomed in Mexico, where there is still a lot of anti-Chinese sentiment, as reported.

Pedro Gonzalez, the director of operations of Plomaq, a Mexican company that manufactures nuts and bolts for the auto industry, said he believes it would be hard for his business to strike a deal with a Chinese investor, as they are Plomaq's main competitors. And even when Chinese companies invest in Mexico, they generally seek Chinese suppliers instead of local ones, he added.

China, however, is not the only country in Asia that Mexican companies are looking at. On 2 February, ProMexico, the Mexican government agency in charge of promoting foreign investment, announced that an undisclosed number of Japanese companies had agreed to build warehouses in Mexico.

As of last year, there were 957 Japanese companies operating in Mexico, according to ProMexico.

Trump's decision to formally withdraw the US from the 12-nation Pacific trade agreement, or TPP, however, dampens the possibility of Mexico

and Japan increasing their bilateral trade. Both Mexico and Japan were part of TPP.

"The absence of the (US) from this global agreement... has forced Mexico and Japan to rethink their regional economic integration strategy," reads the November/December issue of ProMexico's magazine, which commemorates the nearly 1,000 Japa-

nese companies that have invested in Mexico.

"At this point - adds the magazine - the Mexican government, business sector and society at large should be aware of the need to diversify the country's global economic interests and strengthen ties with all its trading partners."



MERGERMARKET

About the Author

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The Funding Chain of Real Estate

 China Database Team

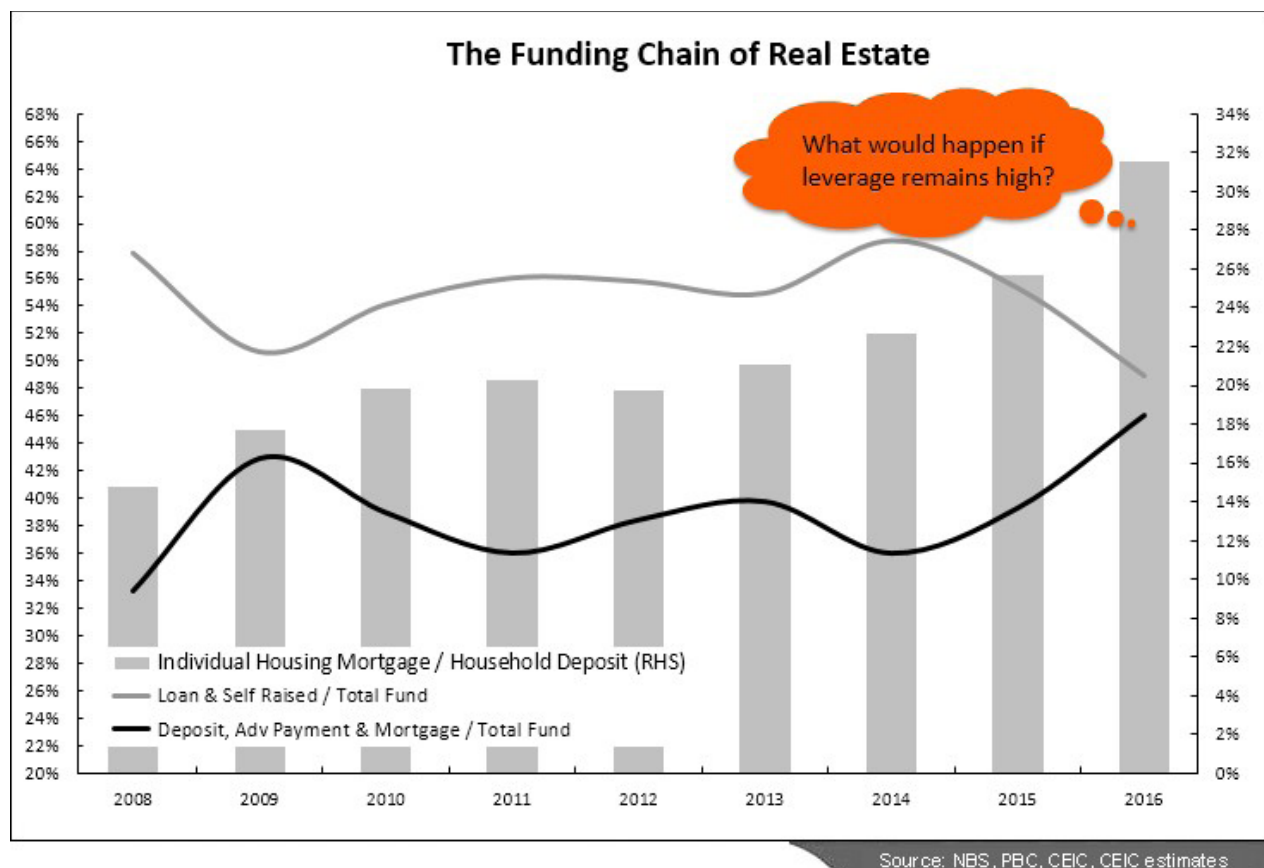
The funding chain of real estate developers has long been a focus of market attention, especially nowadays. Let's take a look at the up to date condition of the funding chain of real estate developers and leverage ratio of residents.

We compare the structures of funding sources of 2015 and 2016:

- Domestic loans and self-raised fund account for more than half of the total funds to real estate developers. The ratio has a vast decline of 6.33 percentage

points from 2015 to 2016;

- There is a rise of 6.73 percentage points in housing purchase deposits, advanced payments and mortgages;
- Meanwhile, the ratio of individual housing mortgages to household deposits has surged beyond



30% and reaching 31.56% as of the end of 2016. Residents' leverage ratio has reached a record high.

These subtle changes of "citizens advance on and institutions retreat" headed by residents reflect that banks have tightened their loans to

real estate developers. The funding chain of the entire real estate sector is driven by residents. The general public is now playing a dominant role in supporting the real estate's source of funds.

Now, the real estate bubble is everyone's concern. Bubbles will eventu-

ally burst if they do exist, yet there is always no consensus on bubbles. In another word, as long as consensus is difficult to reach, bursting of real estate bubbles is expected to occur eventually. What would happen if leverage remains high?



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