ALTERNATIVE Emerging Investor

PROMISING ASIA PACIFIC REITs

EUROPE'S MIGRANT CRISIS

WEATHERING THE STORM

CHINA'S ECONOMIC SLOWDOWN

RISING RISKS OF A GLOBAL RECESSION

Guilty by association...when we look at emerging markets as a whole it become very difficult to see the realities present by grouping them as such; we are generalizing the vast differences of globally diverse nations. The picture for this heterogenous group has not been a pretty one, of late, however there are, as always, opportunities to be found.

Top of my list and of many investors is the recently invigorated Argentina. In the short time, newly elected President Mauricio Macri, has begun putting this embattled nation on the path to investability. Dropping decade long currency controls and resolving issues with bond holdouts, investors are eager to see what is on the horizon for this paradoxical nation. Contrarily the former darling of Latin America, Brazil, has never, in recent history, seen darker days. Plagued by corruption, civil unrest, capital flights, and environmental issues, investors are keeping their distance from the LatAm giant, though with a watchful eye on potential distressed assets.

Vietnam continues to impress as a new manufacturing destination as Chinese market slows and prices increase. The newly open Myanmar is promising but still too nascent to present any scalable opportunities.

Interesting as ever, emerging and frontier markets continue to produce cheers and tears from investors, the world around.

ALTERNATIVE Emerging Investor

Contact: info@aeinvestor.com | (202) 905-0378

CONTENTS

Issue 16 – April 2016

Contents

UNRESERVED JUDGMENT: INDIA'S CENTRAL BANK PROJECTS STRONG GROWTH AND CONTAINED INFLATION

✍ **Benjamin Cole (Real Assets Adviser)**

For the Reserve Bank of India and its governor, Dr. Raghuram Rajan, the national and global challenges of monetary policy are hardly textbook, yet so far the Mumbai monetary authorities are winning high marks from the real estate community and others for deftly playing the economic hands as dealt.

For central bankers, it is unusual times. Rajan and the RBI, rather than facing the "old normal" of major central banks trying to crank down inflation, are witnessing such monetary authorities as the Bank of Japan and the European Central Bank fighting deflation or "zero bound"—that monetary twilight-zone where interest rates hit zero and national bankers cannot budge them lower.

Meanwhile, behind a scrim, the People's Bank of China has been visibly cutting rates and bank reserve requirements and periodically letting the yuan sink, upending financial markets in the process. Only the US Federal Reserve has bucked the trend, raising the federal funds rate target one-quarter point late in 2015.

In negotiating global gyrations and Indian domestic needs, RBI Governor Rajan has proved surprisingly flexible, at least for a University of Chicago scholar who extolled the virtues of tight money and stable prices upon accepting RBI's highest position in September 2013. Then, Rajan challenged India and Western economies to reduce structural impediments—taxes, regulations, untrained workforces—to boost output and not to seek easy-money solutions. It was the standard, resolute central banker fare.

But a little more than a year after taking office, it was Rajan who aggressively ushered in four cuts in the RBI benchmark repo interest rate, with a cumulative 125-basis-point punch, all in 2015. And Rajan may not be finished yet or so suggests a January Reuters poll of economists, which found they are anticipating yet another cut in the 6.75% repo rate soon as a means to help lower the cost of credit in the broader economy—at least in theory—even if India's inflation runs a smidge above official RBI targets.

Perhaps the polled economists have good reason for their estimation of Rajan, and he will, in fact, cut rates again: In what would be heresy in Washington, DC, Rajan and the RBI recently announced they can tolerate 6% inflation and yet open the money spigots wider. "In India, the Reserve Bank assessed that the inflation target for January 2016 at 6% was within reach," the RBI reported December 1, 2015. "Accordingly, it front-loaded its policy action in response to weak domestic and global demand that were holding back investment, while noting that structural reforms and productivity improvements would continue to provide the main impetus for sustainable growth."

The "front-loaded" action to which the RBI refers is the two 50-basis-point cuts in its benchmark rate in 2015, rather than smaller 25-basis-point nudges—a forward-leaning program that won praise from many quarters. "The best policy decision that came from the RBI's stable was the front-loading, or larger-than-expected 50-basis-point interest rate cuts twice during the year in an effort to boost growth in a timely manner," says Anuj Puri, chairman and country head at JLL India.

And in what would be unusual advocacy for the US Federal Reserve, the RBI even prodded banks to pass on the rate cuts to borrowers. "Banks have pared rates by about 75 basis points in response to [the] RBI's 125 basis points in rate cuts [in 2015]," reported Bloomberg December 1, 2015, noting the RBI's discomfort with not enough pass-through of lower rates.

Along those lines, this past December the RBI reported it would examine several programs, including "linking small savings interest rates to market interest rates" that would "further help transmission of policy rates into lending rates."

Obviously, the RBI is pushing for lower interest rates for Indian businesses in 2016, and that includes real estate investors and developers. Rajan has room other central bankers lack.

As a central banker, in 2015 Rajan took advantage of a fortuitous and largely inherited aspect of his regime: He actually can cut rates to obtain stimulus. In Europe and Japan, rates have bottomed, though negative rates are being tried on the continent. But when Rajan took his post in 2013, the RBI repo rate was 7.50%. To be sure, Rajan inched the rate up to 8.00% in January 2014, though the Indian inflation rate already had begun sinking from double digits.

"...the potential for further depreciation of the yuan is said by some to be fomenting a capital flight from the world's second-largest economy. Hot money is fickle and is looking for higher yields or safer pastures."

But then later in 2014 and in 2015, it became obvious India's inflation rate had cracked, and it started heading down toward mid-single digits, where it is today. For Rajan, it meant, unlike the central bankers of the developed world, he had room to cut rates. And he did, and more quickly than anticipated.

For Rajan and India, the RBI's aggressive-growth monetary policy in 2015—in combination with the general pro-business national government of Prime Minister Narendra Modi, who took his post in May 2014—appears to have worked: The RBI anticipates a very respectable "7.4% annual increase in real GDP for 2015 and 2016, with a mild downside bias."

Notably, if India achieves Rajan's GDP outlook in 2016—and the International Monetary Fund essentially concurs with the projection—it likely will dislodge long-time champion China in the real-GDP growth race. The Sino giant is forecasting 2016 GDP growth of slightly less than 7.0%, with the IMF projecting lower growth of 6.3% for China this year.

Rajan: good and lucky too?

As seen by the seemingly chronic rumble out of China, monetary authorities sometimes provoke unsettling global ramifications when implementing policies. As the PBOC eyes stimulus, the potential for further depreciation of the yuan is said by some to be fomenting a capital flight from the world's second-largest economy. Hot money is fickle and is looking for higher yields or safer pastures. By some accounts, China and the PBOC can only keep capital at home by pushing up rates, but that would suffocate real domestic growth.

But what about Rajan and the RBI? Are they not also practicing a more expansionist monetary policy, with the same potential outcomes?

If one does not live by the sword, then death by the scimitar is less likely. Luckily for Rajan, the RBI and India, the nation has sidestepped the hot-money issue by never really attracting much to begin with, says S. Sriniwasan, CEO of Kotak Realty Fund. "Most of the capital that has come into the Indian real estate sector in the last three years has been long money from sovereigns, pensions and so forth," Sriniwasan explains. "The hot money, the hedge funds, have not made any significant investments at all."

In addition, Prime Minister Modi and India altered an international regulatory framework in ways that give Rajan and the RBI room to maneuver, Sriniwasan says. Indian capital regulations "have also eased entry and exit restrictions for such investors, and that policy action is extremely friendly to long-term investors," he adds. That is, thanks to rule changes by the Modi government, investors do not fear being trapped in India and are finding lower regulatory barriers to entry and so are willing to invest for the longer term. Moreover, international investors in general find Modi's pro-business approach appealing.

The present-day attractiveness of India to foreign capital means Rajan's RBI still has room to cut rates, contends Aashish Kalra, managing director of Duranta Holdings and chairman of Cambridge Technology Enterprises. "Modi has relaxed FDI regulations across sectors such as defense, oil refineries, telecom, power exchanges and stock exchanges, among others," Kalra says. "Foreign direct investment inflows in India have soared by 31% to USD $62.6 billion from USD $47.6 billion in the preceding 15 months."

"Execution risk in development projects is still high—risk premium has not changed—and real estate capital markets are growing slowly and have limited liquidity onshore,"

Thanks in part to Prime Minister Modi, India and Rajan's RBI do not have to worry about hot money or capital leaving India. Indeed, for now, it appears money wants in.

But suppose an even tighter Fed?

Even if the US Federal Reserve should persist in rate hikes, many India observers are sanguine, a big change in attitude from a few years back, when there were fears of a "QE taper tantrum" after the Fed began slowing its quantitative-easing program.

Today, the sentiment is the RBI does not have to answer the US central bank rate hikes. "So far, there isn't any market indication that suggests the RBI must raise rates to balance Fed hikes," Puri notes. "On the contrary, India continues to witness a negative wholesale price inflation, and that may give a little more room for rate correction in 2016."

In regard to Indian wholesale prices, Rajan has luck on his side, as well, certainly concerning global commodity markets. India imports 75% of the crude oil it consumes, and oil plays into the price of many other goods and services. But the price of crude has fallen from an all-time peak of USD $145 a barrel in 2008 to less than USD $30 in early 2016—with expectations of further declines, given a glut of global supply. Of course, nearly across the board commodities are in a historic and global swoon, helping India—an economy more closely tied to agriculture, commodities and manufacturing than services-oriented developed nations—avoid inflationary pressures. According to IMF statistics, a general index of commodity prices fell 30.7% in 2015.

Even if the Fed hikes rates in 2016, Kalra says India's interest rates are still far above those of the United States—or other developed nations. Capital usually seeks higher, not lower yields. "The large interest-rate spread of 5.5%, the differential in the two countries' interest rates between India and the US on 10-year government bonds is overpriced," Kalra notes. "More significantly, it is unlikely the Fed will be able to continue to raise policy rates given anemic growth in the US, plus it is an election year."

Given soft oil prices, lackluster growth and the sluggish stock market of early 2016, the Fed may indeed seek a seasonal hibernation.

Bad Loans

Despite the winning marks Governor Rajan and the RBI receive from India's real estate sector, problems are emerging in India's financial house, in the form of bad loans. In January, Rajan met with bank representatives to discuss USD $100 billion of "stressed" or bad loans in India, a burden said to be holding back new loans, thus hampering economic growth.

India's real estate denizens are quick to point out that, unlike Western nations, the problem with bad loans in India is not in the property sector. "Property lending is not the problem area for Indian banks," Sriniwasan says. "It is lending to industry—in particular, lending to sectors connected to infrastructure, such as roads, power, steel and so forth. Those are the pain points."

Previous RBI administrations, and the current RBI, are to be praised for limiting Indian bank exposure to "speculative land acquisitions" and the "irrational" real estate lending that has characterized some other economies, Sriniwasan asserts.

The RBI, somewhat distinct from the US Federal Reserve, is also a supervisory agency of the Indian banking system and a case-by-case financial firefighter. Again, Rajan's RBI is getting kudos for managing the job in a practical way. "Time and again, the RBI has injected liquidity into the Indian banking system whenever banks have struggled to cope with higher nonperforming assets or meet government's loan-waiver requests," Puri observes.

Rajan and the RBI also have expanded bank powers to correct sour loans as needed, says Sriniwasan, who notes banks can now "take control of delinquent borrowers through the strategic debt restructuring route, conversion of debt to equity and effective change of managements." That banks will shed bad assets into packages that could be acquired by vulture-fund types is another possible outcome, Sriniwasan offers.

In any event, as a result of the RBI's policies and liquidity injections, and the general good fortune in not facing capital flight, India's banking system is regarded as sound and able to finance real estate and other sectors going forward.

Still, property investors should remain cautious while investing in India, states Ravi Hansoty, senior vice president and head of Asia Pacific with Equity International.

"Execution risk in development projects is still high—risk premium has not changed—and real estate capital markets are growing slowly and have limited liquidity onshore," he adds.

Closing a Chapter

Perhaps not surprisingly, in general the business and real estate community regard Rajan's tenure at the RBI favorably, both in terms of monetary policy and in his supervisory capacities. "In a weak global economic environment, the RBI has done a remarkable job," says Sriniwasan, probably speaking for many. "Dr. Rajan is probably the best thing that has happened to India in the current environment."

Benjamin Cole is a freelance writer based near Korat, Thailand.

If there is a fly in the ointment, it is that Rajan's RBI term is an appointed one, up in September, and RBI governors usually serve but once. Moreover, Rajan is nearly a global celebrity in economics and policy-making circles, and he is on leave from the University of Chicago. After a successful career in international monetary agencies, in academia and at the RBI, there is as of now no promise Rajan will continue in Mumbai at the close of his three-year term. Perhaps idly, the Indian press has speculated tension exists between Rajan and Prime Minister Modi, though both parties have downplayed such tales.

Be that as it may, it is the consensus Rajan, the RBI and Modi have combined to push India forward, even as other nations in the developed and emerging world struggle to find footing. Whether Rajan stays on board is a story for another chapter.

Healthy Opportunities in the Emerging Markets

✍ **Ainslie Chandler (Privcap)**

A growing middle class and increasing rates of lifestyle-related diseases make emerging markets a prime target for PE health care investments.

The health care sector in the world's emerging markets is ripe for private equity investment. The rapid growth of middle-class markets such as China, India and in Brazil, combined with increasing levels of lifestyle-related diseases like diabetes and hypertension, means demand for quality health care, and the capacity to pay for it has never been stronger.

The Data

In the report Healthcare in the Emerging Markets: A Compelling Private Equity Opportunity, private equity firm Siguler Guff estimates that in Brazil, Russia, India and China (the BRIC countries) the health care delivery, services, devices, diagnostics, pharmaceuticals and life sciences markets are worth a combined USD $850 billion, a figure that is growing at an annual rate of 9.1%, far exceeding GDP growth in these countries. If the basket of countries is expanded to include other global emerging markets, the figure is closer to USD $1.3 trillion, growing at a rate of 6.8%.

Given the relatively underdeveloped nature of the health care systems in BRIC markets, there is strong potential for growth in the coming 10 to 20 years, Siguler Guff predicts in the report. And there are few sector-specific funds targeting the opportunity. While there are more than 300 healthcare-focused fund managers in the United States, only 10 to 15 of them are focused on the emerging markets. Most of the existing private equity investments in emerging markets have been made by sector-agnostic funds, which generally target an 8 to 10% health care allocation, according to the Siguler Guff report.

The Opportunities

One of the report's authors, Praneet Singh, a managing director in Siguler Guff's New York office and a senior member of the firm's emerging markets investment team, told Privcap the firm has deployed about USD $2 billion in the emerging markets. The emerging markets health care sector is well suited for private equity investment, he says, given the size of the companies involved and their need for the kind of expertise that PE firms can offer.

According to the Siguler Guff report, "Healthcare in the emerging markets…is driven by a localized practicing doctor model. These [markets] offer attractive opportunities for consolidation at discounted valuations. Interestingly, operating margins across most of the industry subsectors are surprisingly high, making them appealing when compared to similar businesses in the developed markets."

Singh says the sector is highly fragmented, with about 50 subsectors under the health care banner. Of these, each has its own unique opportunities and challenges. Furthermore, each country has a particular set of needs and opportunities within the health care space.

For example, in India, where the health care system is consumer-focused and based on walk-in clinics, the pharmaceutical and diagnostics subsectors are offering good growth and profit margins.

Another of the report's authors, Siguler Guff investment associate Shaun Khubchandani, told Privcap that in Brazil, where insurance levels are higher and the market is more structured than in other emerging markets, there are opportunities in the asset-light health care retail distribution chains. However, there are fewer opportunities in health care delivery and hospitals because of the country's regulatory system.

Quadria's Emerging Market Strategy

Singapore-headquartered Quadria Capital is one of the few fund managers trying to take advantage of the investment opportunity in emerging markets.

The firm has a USD $350 million fund, which held its first close in October 2013, targeting health care in India and Southeast Asian countries and focusing on four specific areas: health care delivery, life sciences, health care services and retail.

Quadria managing partner Amit Varma says these diverse countries, which have a combined population of around 2.4 billion, have some similar attributes, including no universal health care and low insurance levels.

"The reason we chose this geography: In spite of the fact it's a diverse arena, in these different countries the problems in health care are remarkably similar," Varma says. For this reason, Quadria does not target China, a market he says has different attributes, including a high concentration of publicly owned hospitals.

In most parts of the countries Quadria targets, the risk of dying of acute infections has fallen markedly. However, lifestyle-related diseases like obesity, hypertension and diabetes are becoming commonplace. And as more people in the region enter the middle class and have more disposable income, they are likely to expect better health care and to be prepared to spend more to get it. Quadria deploys USD $50 million to USD $100 million in each deal, investing in growth equity and debt.

In the first quarter of 2015, Quadria is set to invest USD $40 million in an Indian hospital chain that is expected to expand from two hospitals to eight in the coming few years.

Varma says the firm liked that particular opportunity because the existing management had already done a good job of expanding the chain but had not spent much on its back-end processes, so there was scope to improve things like purchase efficiency.

"...many of the fund managers targeting emerging market health care investments are new to the game, with little or no experience managing such a vehicle, Singh says they may also find it hard to enhance their investments."

The opportunity was also appealing because the company is based in India's east, a mineral-rich area that is experiencing strong GDP growth and has had relatively little health care investment, compared to the country's northwest region.

Investment Risks

Investing in a new market is never without barriers. Or risk. One simple barrier to investing in these emerging markets is the lack of managers operating in the space and the lack of expertise among those who are.

While some sector-agnostic funds are putting money into these markets, Singh says that they may not have the operational expertise to add value to these particular investments.

Since many of the fund managers targeting emerging market health care investments are new to the game, with little or no experience managing such a vehicle, Singh says they may also find it hard to enhance their investments. "Our belief is that sector expertise makes a difference," he says.

The International Finance Corporation's Guide for Investors in Private Health Care Markets identifies a lack of market information, a high level of fragmentation, a lack of transparency, ethical concerns surrounding practitioners, government policy and a lack of human resources as among the barriers facing investors in the sector.

Khubchandani says investors need to be mindful of investment duration when investing in emerging markets health care. Projects like greenfield hospitals have a high level of construction risk, so it's more effective to target brownfield developments.

However, Varma says demand for health care in Quadria's target countries is so strong that he is not concerned about "micro" risks such as regulation. Regulators have become "far more conducive to investment" in recent years, he adds. In terms of macro risk, Varma says sectors like health care and education tended to be shielded from the worst effects of major economic events.

Privcap/
Context for Private Capital Investment

About the Author

Privcap is a digital media company that produces thought-leadership content for the global private capital market, as well as offers digital communications services to market participants. Investment managers and service providers can sponsor programs to reach our engaged audience. Each month, more than 10,000 industry professionals visit our sites. We also host conferences featuring the brightest minds in private capital.

Russian Ruble Stabilizes on the Heels of Rally in Oil Prices

✍ **Ricardo Aceves (FocusEconomics)**

The Russian ruble began to stabilize in February after an episode of strong volatility in mid-January. The currency took a dramatic fall to an all-time low of 82.4 RUB per USD on January 21 then began a gradual stabilization in the following days. Toward the end of February, the ruble gained some of the ground lost and closed the month at 75.1 RUB per USD.

The gains registered in the exchange rate in February were driven by a response to speculation that an agreement would materialize between Russia and Saudi Arabia—along with other oil-producing nations—to cap oil production in order to stop oversupply and shore up falling oil prices. On February 16, the oil ministers of Qatar, Russia, Saudi Arabia and Venezuela held talks in Doha to agree to halt oil production at the levels recorded in January. The speed of the deal took markets and investors by surprise, and they were skeptical about whether the provisional agreement would gain wider acceptance. Oil prices responded positively to the nascent accord and began to rise from the lows observed in January, yet the agreement has failed to prop up prices significantly. After dropping to an over-a-decade low of below USD $28.0 per barrel in late January, oil prices have rallied about 35%, and, at the time of writing, they continue to rise.

While the deal between Russia and Saudi Arabia has not been officially agreed and there are still significant hurdles to overcome—convincing Iran will not be an easy task—it has been enough to see some investors reverse their pessimistic bets against the oil price. Meanwhile, adding to the nascent euphoria, on March 2, Venezuelan Oil Minister Eulogio del Pino stated that more than 15 countries were preparing to attend a meeting to discuss possible output freezes. In addition, the press has reported that other members of OPEC are in talks to meet with other producers in Russia on March 20 in order to take part in the negotiations to cap production. In a recent conference in Abuja, Nigerian Minister of State for Petroleum Resources Emmanuel Ibe Kachikwu underlined that there will be a dramatic price movement when the meeting takes place.

Cooperation between OPEC and Russia to halt production could prevent the current supply glut from expanding. Still, significant uncertainty persists. Analysts are skeptical about freezing oil output at January's levels, as many believe it will do little to reduce the supply surplus, especially if Iran and Iraq are reluctant to join the deal. Iran, which intends to increase its exports following the end of international sanctions that

took place earlier this year, has repeatedly said that the country would not give up its share of the market.

The Consensus view of the analysts we polled is that oil prices bottomed out in the first quarter of this year and forecasters expect a gradual, albeit slow, recovery in prices in the following months (see the most recent FocusEconomics Consensus Forecast Commodities report). However, the risk of persistent low oil prices is high, and this will further cloud the outlook for the Russian economy. As the Central Bank stated in its latest meeting, if oil prices remain low for a prolonged period of time, the economy will have to undergo a heavy adjustment to the new conditions.

FocusEconomics Consensus Forecast panelists expect that the Russian ruble will stabilize in the coming months, helped by a tight monetary policy and a gradual recovery in oil prices. Analysts see the ruble ending this year at RUB 70.8 per USD, and the panel projects an exchange rate of RUB 67.4 per USD at the end of 2017.

FOCUSECONOMICS

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 price forecasts 33 key commodities. The company provides reliable and timely information to help companies make the right business decisions. FocusEconomics' extensive global network of economists, coupled with its position as an industry leader, are indications of the company's solid reputation as a reliable source for business intelligence among the world's major financial institutions, multinational companies and government agencies. www.focus-economics.com

agrimoney investmentforum

**14TH - 15TH JUNE 2016,
MILLENNIUM GLOUCESTER,
LONDON, UK**

20% OFF FOR EMIA MEMBERS
– REGISTER TODAY

Covering agri investment trends, strategies and opportunities in developed and emerging markets, the Agrimoney Investment Forum 2016 will focus on how to raise capital, deploy funding, minimise risk and maximise returns.

- Agri Investment Trends & Strategy
- Risk Management & Diversification
- Emerging Markets Analysis
- Agri Business Investment Strategy
- Farmland Investment Opportunities & Strategy
- The Innovation Centre

EMIA
EMERGING MARKET INVESTORS ASSOCIATION

Register today and get 20% off

Contact joanne.oakes@agrimoney.com for further information

www.agrimoneyinvestmentforum.com

Economic Analysis: Rising Risks Of A Global Recession

Growth to be Weak in 2016

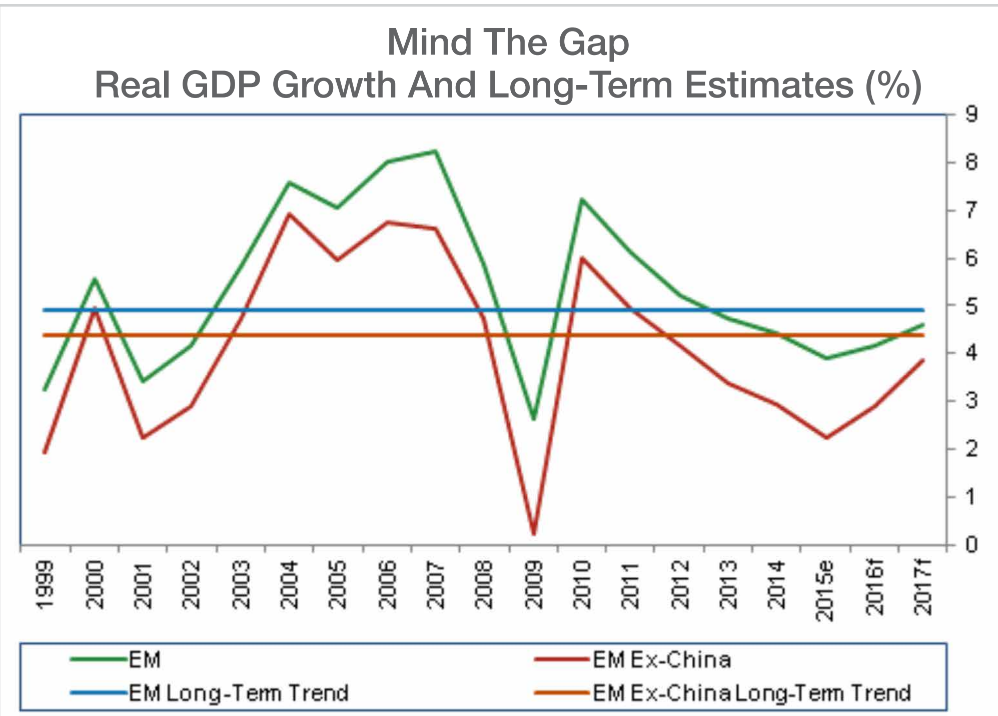
A global recession in 2016 is a clear and rising risk. Although our real GDP growth forecasts do not differ greatly from consensus for most countries, we are largely more negative on growth on the whole and estimate a higher probability of a global recession scenario this year than consensus.

To begin with, even our base case for global economic activity in 2016 is lackluster. We project 2.8% real GDP growth (on a USD-weighted basis), which we have just revised down from 3.0% previously. This would mark the fifth consecutive year of sub-3.0% growth, and given that we forecast long-term global growth of between 3.3 and 3.5%, output has been well below potential for a very long period. Large parts of the global economy are in recession or coming close to it, including major emerging markets Brazil and Russia, and we could even argue that emerging markets entered recession in 2015, depending on one's definition of recession. While a real GDP contraction in 2016 is very unlikely on a global level, this does not preclude recession. The traditional definition of recession on a national level tends to be two consecutive quarters of real GDP contraction, but this has only happened once on a global level in the past 30 years (in the global financial crisis, when global GDP fell by 1.6% in 2009), and we would argue that there have been episodes that could be qualitatively described as recessionary where growth was weak but positive. We define a global recession as below 2.0% real GDP growth at USD-weighted exchange rates, which since 1990 has occurred in 1991 and 1993; 2001 and 2002; and 2008 and 2009. Each of those years can reasonably be described as "recessionary" for the global economy, even though real GDP growth averaged 1.1% in those years. There are also some other common characteristics that define global recessions, such as asset price corrections and trade weakness, which we identify below as "potential signs of recession."

With emerging markets representing a larger share of the global economy with each passing year, arguably the threshold for the growth level that defines a global recession keeps rising because EMs grow more quickly on aggregate than developed markets and rarely if ever contract (in 2009, EM GDP grew by 2.7%, with EM ex-China rising by 0.2%). That being said, in 2015–'16, emerging markets will post their worst two-year real GDP growth average since 2001–'02, and in 2016, developed market growth will decelerate for the first time since 2012 (the height of the eurozone crisis). And if we exclude China, whose headline real GDP growth figures we consider to be dubious, emerging markets will grow just 2.6% on average in 2015–'16, well below potential of 4.5% and worse than the 3.7% posted in the global financial crisis between 2008–'10.

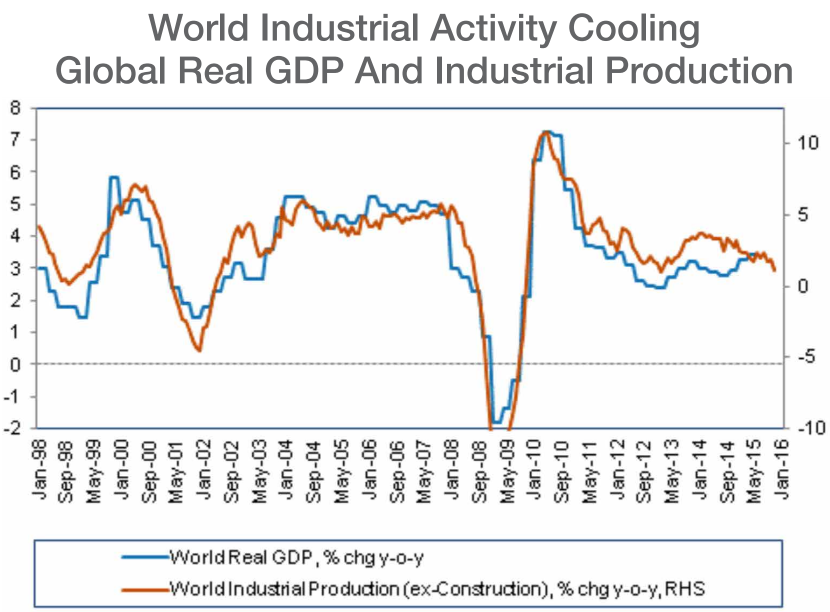
Potential Signs Of Recession

With such a weak growth outlook already part of our baseline scenario, we are watching several indicators that that could portend a global recession:



Weighted by USD nominal GDP. Source: BMI

Global trade and output indices are not quite flashing red just yet but look weak. Industrial production is slowing but still growing on a year-on-year basis, and trade has flattened out and has started to contract. Some key bellwether countries including Taiwan, Singapore, Japan and South Korea have all seen flat-to-contracting industrial output in recent months. We note that neither indicator



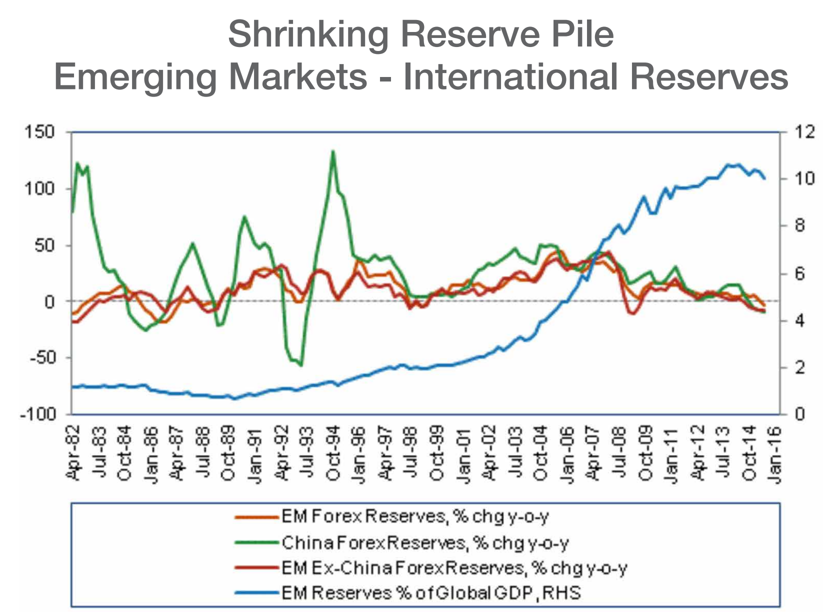
Note: IMF quarterly GDP figures are purchasing power parity based, so figure does not align with BMI's annual real GDP figures, which are based on USD GDP. Source: IMF, CPB, BMI

contracted in some episodes that could have been considered recessionary, particularly for emerging markets, such as 1997–'98. With momentum slowing in both trade and industry, contraction may not be far off.

Financial and liquidity conditions are deteriorating. Emerging markets' international reserves are falling alongside capital flight, weakness in commodity prices, and faltering world trade. With China aggressively selling off its holdings, the decline in overall EM FX reserves has hit an unprecedented pace in absolute terms in the past 12 months. It is also a significant reversal of the trend for EM countries, which saw domestic monetary expansion alongside reserve purchases, which means that all else being equal, reserve sales are tightening domestic financial conditions.

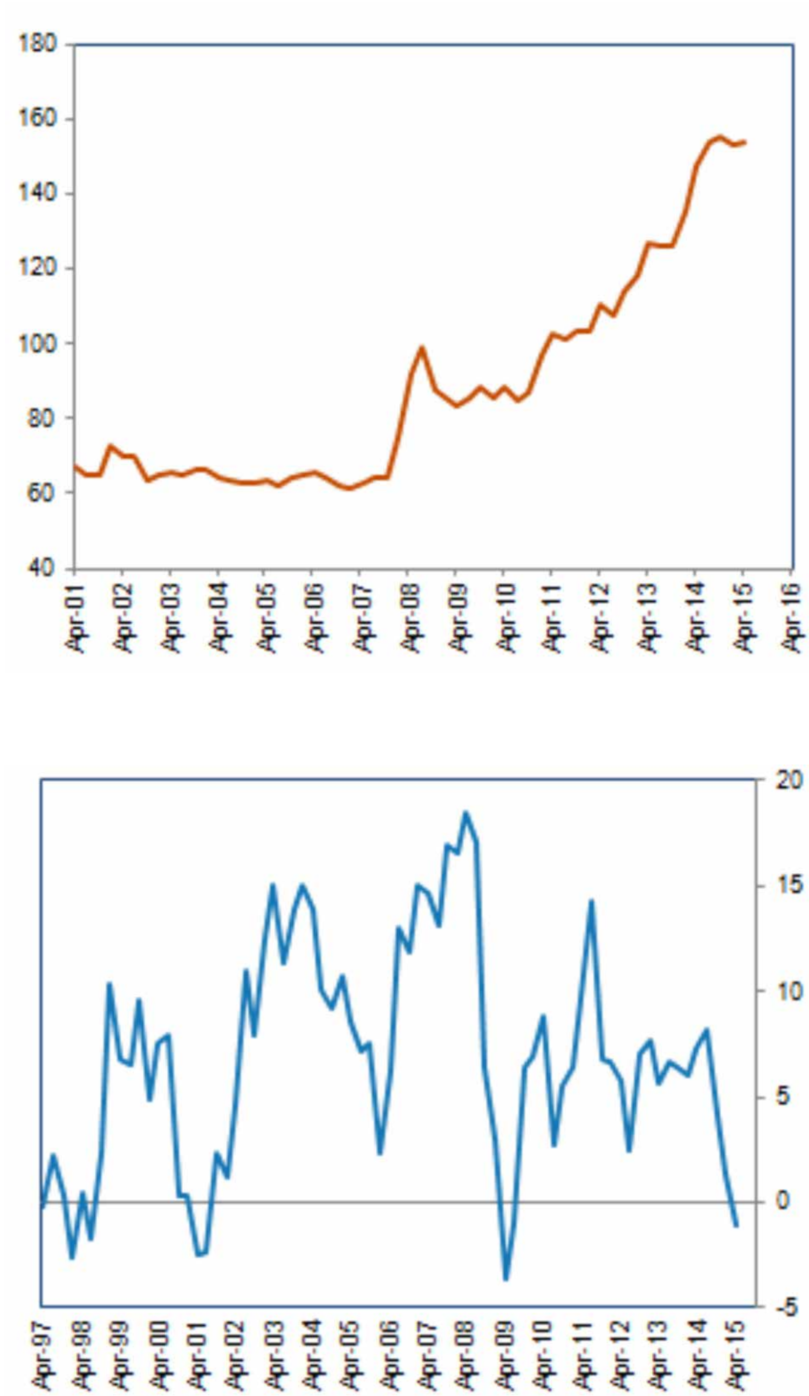
The credit cycle has begun to turn in emerging markets following a massive leverage binge over the past decade, according to our commercial banking industry forecasts. Meanwhile, credit growth in the US and Europe is only showing "green shoots" rather than strong expansion and could be knocked off course in the event of a global shock. Overall, global growth in private sector credit has begun to contract (as of Q215), which is what we saw in the crises of 1997–'98, 2000–'01 and 2008–'09.

Asset prices have further to correct, which is a classic recession phenomenon. We also think equities have further to fall, with valuations still looking rich and earnings remaining under pressure (see Key Market Views Amid Global Recession Concerns, January 28, 2016). Significant asset price falls often signal weakness in the underlying global economy. Emerging market



Source: IMF, Macrobond, BMI

**Credit Cycle Turning Over
Emerging Market Credit-to-GDP (%) (LHS)
and Global Credit To Private Sector % chg
y-o-y (RHS)**



RHS chart derived from USD totals. Source: BiS, BMI

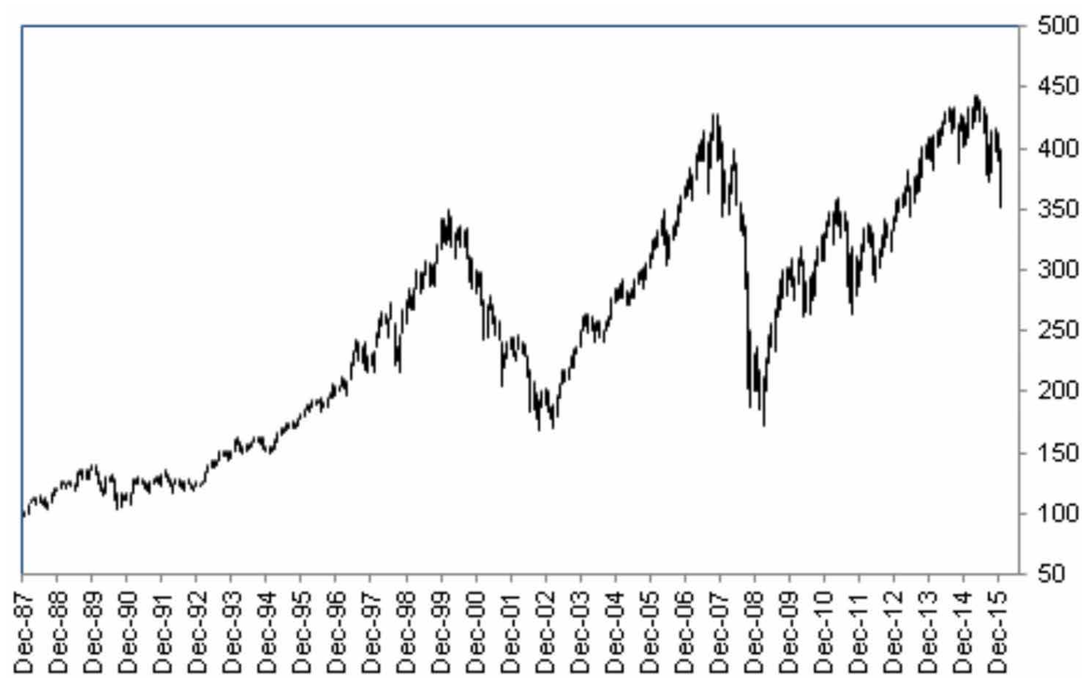
equities have been falling for the past few years, while developed market stocks may just have begun their descent. The corporate bond market also looks vulnerable, both in the high-yield and investment grade spaces. Earnings are rolling over, and even once-untouchable market leaders are feeling the brunt of a weakening global environment (anecdotal evidence is mounting: Apple CEO Tim Cook noted on January 26 that his company is seeing “extreme conditions unlike anything we’ve experienced before just about everywhere we look”).

US monetary conditions may have already tightened more than is widely appreciated. While the focus on global monetary tightening has revolved around the US Federal Reserve’s decision to hike by 25bps in December 2015, the Wu-Xia Shadow Federal Funds Rate has shot up over the past 12 months at the fastest rate since the early 1990s (reflecting not simply the token December rate hike but also the tapering of quantitative easing). Each time that this rate has increased by more than 1.5pp in 12 months, it has marked an inflection point in bank lending in the US and in the world as a whole. This is likely to play out again at a time when global economic activity already appears to be decelerating.

The drop in commodity prices has been stressful for exporters but could prove to be a benefit to the global economy as a whole over time, particularly as the oil price

collapse represents a multi-trillion dollar redistribution from producers to consumers. Commodity producers look especially vulnerable given that we do not expect a significant rebound in the broad commodity complex (see China And Commodity Risks: Australia, Chile, Brazil, Peru Stand Out, January 28, 2016)—and this extends to both emerging markets as well as key developed markets that are

Ripe For Correction
MSCI All-Country World Equity Index

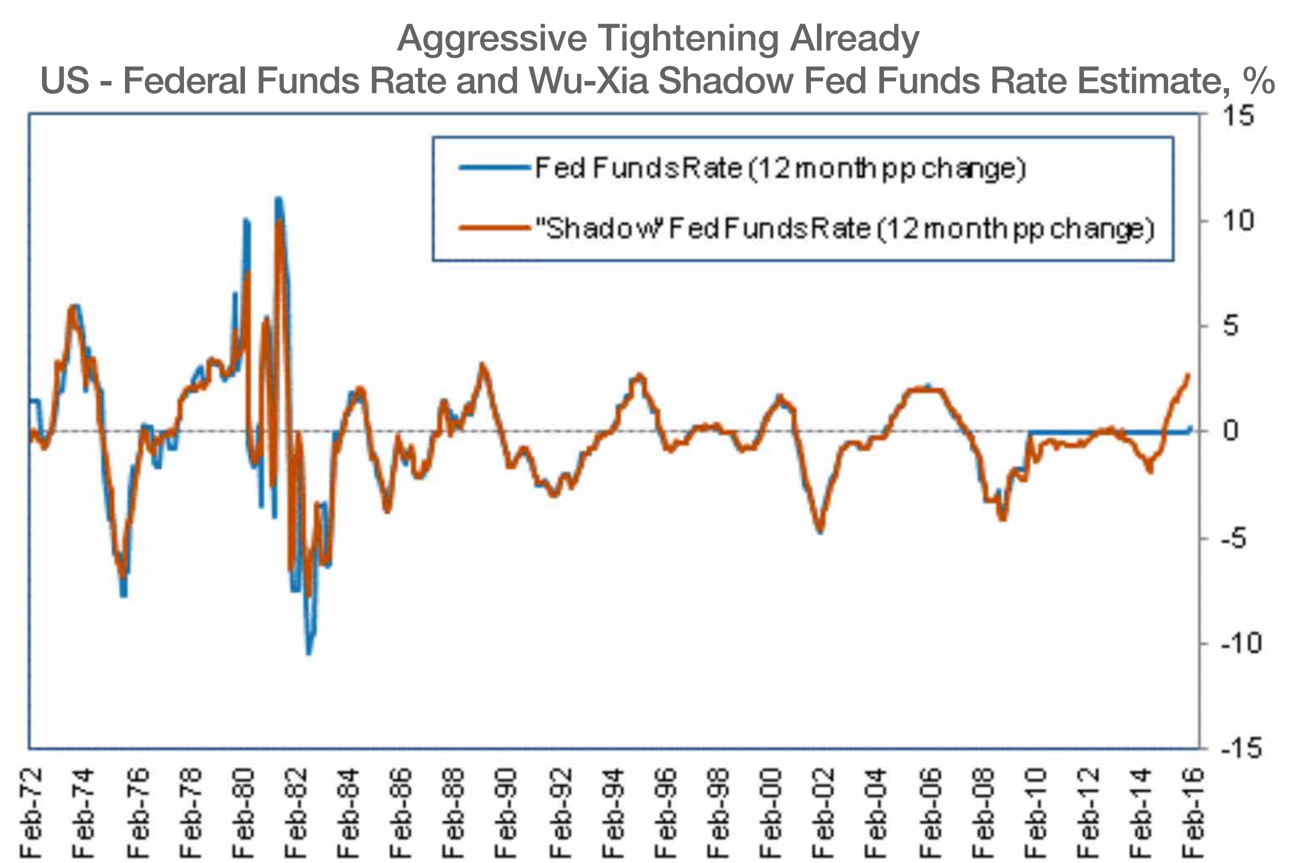


Source: Bloomberg, BMI

near to, or have just experienced, recession (including Canada, New Zealand and Australia). And historically, large falls in oil prices have preceded expansions, not contractions, in global activity. Against expectations, though, the vaunted "oil dividend" for the global economy has yet to really materialize in the underlying data, with stresses in the energy sector and a decline in the circulation of oil exporters' petrodollars offsetting improved consumer confidence and higher disposable income in consuming countries. Because oil's drop is a supply-led decline in our view (rather than a collapse in demand), it should be a positive factor. But the speed of the descent is fomenting chaos in financial markets, generating massive policy uncertainty (central banks of oil importing countries are unsure how to deal with the second-round effects, for instance), and hurting one of the few bright areas of global capex of the past few years. It is not so much the long-term impact of low oil prices that worries us—far from it—but rather the potential for the oil shock to create a broader economic and financial shock.

Many Potential Triggers

With conditions looking weak, there are several things that could trigger a broader global recession. The most obvious and arguably highest-impact cause would be a significant further deterioration in Chinese economic activity. Our core scenario entails an increasingly steep downturn over the course of the next two years but a pickup in activity thereafter (see On The Brink: Five Scenarios For Growth, February 3, 2016). In one plausible downside scenario, the Chinese authorities are caught between defending the yuan against increasingly acute depreciatory pressures and providing ample liquidity to an increasingly tight credit market. Efforts to prop up the yuan take their toll on onshore liquidity (in a similar manner to that seen in the



Source: Federal Reserve Bank of Atlanta Wu-Xia Shadow Rate Estimate, BMI offshore market in early January), sending interbank rates soaring and giving rise to an unplanned credit crunch, which triggers a loss in confidence in banks, as well as in highly leveraged corporates. This prompts capital flight and a further tightening of domestic conditions, at a time when growth is already slowing and asset prices are declining. Over time, the sovereign balance sheet expands to absorb bad debts and bail out systemically important companies and local governments—but only selectively. By that point, though, the damage is already done, and economic output (particularly in the case of fixed investment) slows considerably. This scenario begins playing out in mid-2016, with Chinese real GDP growth falling from around 6.0% at present to 2.0 to 3.0% in the second half of 2016 and into 2017, before recovering to 4.0% in 2018.

Transmission to the rest of the world from this would take place via several channels. Emerging market currencies would be squeezed as the yuan weakens and the US dollar strengthens. Commodity prices and global inflation would fall even farther as Chinese demand declines, and uncertainty over the Chinese outlook and its impact on the world economy would dent global fixed investment. Global trade would suffer, taking the heaviest toll on Asian countries that are closely linked to China in the supply chain and on commodity exporters. Also importantly, the global recovery would be slower than the one in 2008–'09, which was boosted by massive policy expansion from China. The fix would not be so simple this time.

A US recession, even a modest one, would not just knock out a major pillar of global growth but would shatter confidence. For the US, the question of "decoupling" from the rest of the global economy, which was a common theory in 2008–'09, has re-emerged. The main theory is that we are in a 1997–'98 style situation in which the US's robust domestic growth can keep the country insulated from a meltdown in emerging markets. We are more circumspect on US domestic strength (see Don't Discount A US Recession In 2016, January 7,

2016) and are below consensus on 2016 growth, at 2.2%, but even if that were not the case, the US looks more vulnerable to global weakness than it did in 1997–'98, from openness to international trade, to corporate profits. We note that there were a lot of US recession calls amid the 1997–'98 Asia/Russia crisis that turned out to be false, though at that point the US GDP was growing above 4.0% with undeniably strong momentum, and that extra cushion versus growth of around 2.0% now is meaningful. One of our core views is that the US dollar tops out in 2016, but if it were to spike higher (for example in the event of a yuan devaluation), it would cause further stresses across the global economy and could tip the US further toward recession.

There are also the "hidden risks" in financial markets that could materialize in the manner of Long-Term Capital Management in 1998 or Lehman Brothers in 2008. This time around, for instance, a major commodity company (either a producer or trader) could collapse, triggering further financial tightening and broader defaults. Indeed, an emerging market corporate debt crisis is one of our "hidden risks" for 2016 (see EM Corporate Debt A Hidden Risk In 2016, December 18, 2015).

About the Author

The world is interconnected and complex. Understanding and simplifying it is difficult. At BMI Research, that challenge is what inspires us. Through 'Total Analysis,' our unique, reflexive approach linking macroeconomic, industry and financial market analysis, BMI Research helps clients gain unparalleled insight across 24 industries and 200 global markets. For more than 30 years, our forecasts, data and analyses have been used by multinationals, governments and financial institutions to guide critical strategic, tactical and investment decisions. Clients include a majority of Global Fortune 500 companies.

Brian Gelsomino | Director | Financial Services

+1 646 368 1522
+1 347 924 2457
Brian.Gelsomino@BMIResearch.com
bmiresearch.com

Medium is the new big in Brazil's infrastructure sector

✍ **Bruna Maia Carrion in Sao Paulo**
Laura Larghi in Munich
Jennifer Zhang in Chongqing
Yurika Masuda in Tokyo
(Mergermarket)

With the downfall of Brazil's major construction firms, several of which are embroiled in corruption probes, medium-size firms are emerging as a fresh option for foreign infrastructure players ready to bet on Brazil, industry sources told this news service.

Due to the uncertainties surrounding Odebrecht and OAS, doors have opened for the smaller and less tarnished companies to naturally rise as alternative candidates for foreign investment, said Luciana Nazar, partner at the consultancy firm GO Associados. They will have more opportunities to participate in consortiums to build larger and more complex infrastructure projects, which they have had difficulty winning in the past because the big five were so dominant, Nazar explained.

For foreign players that do not yet operate in Brazil, medium-size companies make good targets, as they know how to navigate the country's economic environment, said Marcio Lutterbach, head of infrastructure at PwC Brazil.

Those that already operate in Brazil are less likely to buy local companies, Lutterbach continued, as they are already familiar with the local regulations and bureaucracy and can invest directly in projects of their choosing.

Possible Targets

Among potential target companies cited by sources with knowledge of Brazil's infrastructure sector were the Minas Gerais state-based Construtora Barbosa Mello (CBM), Paranasa and Aterpa; the São Paulo state-based Serveng and Triunfo; Grupo Marquise, from Ceara state; the Bahia state-based AJL; and Seta Engenharia, from the state of Santa Catarina. Most of these companies have an annual turnover of between BRL 400m (USD 100m) and BRL 800m, the sources pointed out.

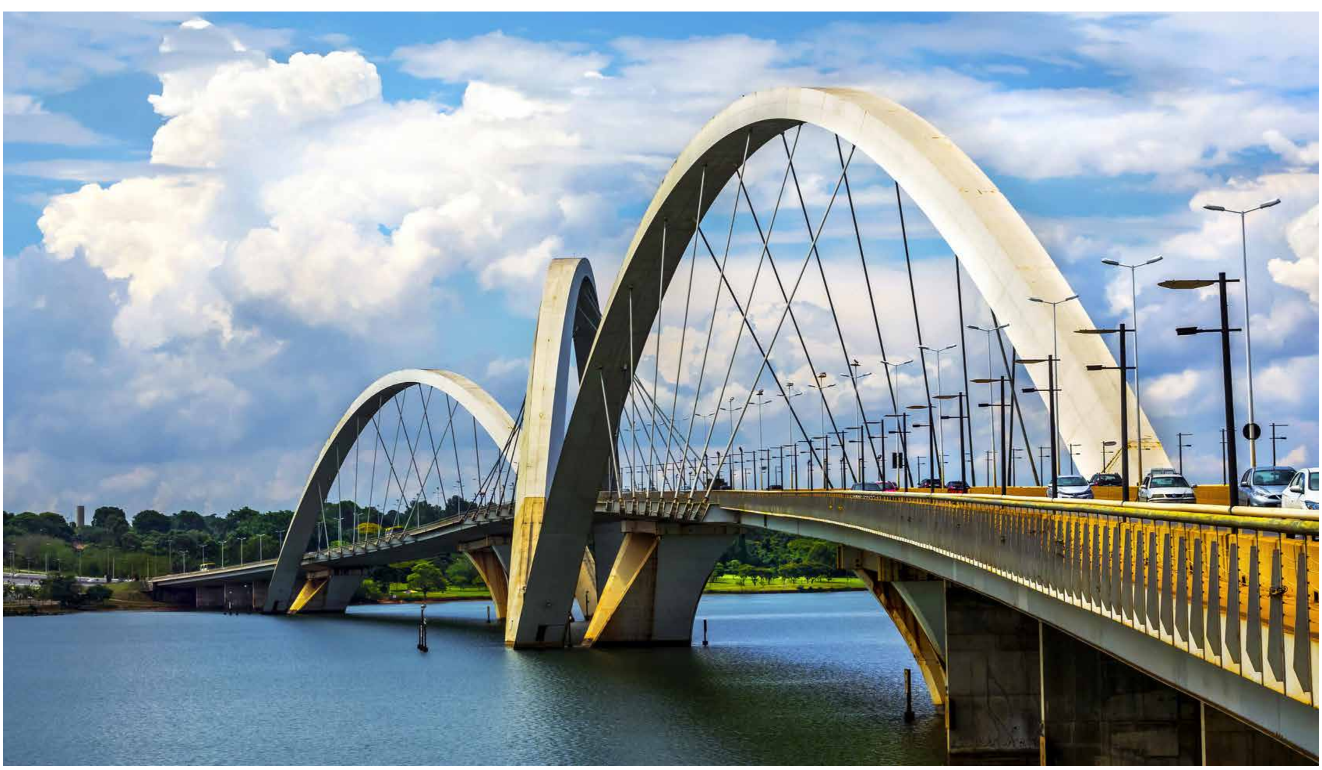
All the companies were contacted by Mergermarket. Paranasa, Marquise, Triunfo, CBM and Seta did not comment, while AJL and Serveng did not respond to requests. Aterpa, however, told this news service in November that it has been receiving approaches from foreign strategic investors since 2009 and even signed a non-disclosure agreement a few years ago with a European player that was interested in buying a stake in the company.

Salazar confirmed that Europe, Japan and China-based companies regularly hold conversations with Brazilian infrastructure companies and that medium-size firms like his have become more attractive since the larger ones were implicated in the corruption probe known as Lava Jato (Car Wash).

Brazilian companies are also reaching out. Pedro Guizzo, partner at the advisory firm Ivix, said he has been noting that these midsize companies are seeking foreign partners in order to access capital and technology. Lutterbach also noted that Brazilian companies are finding it difficult to access funding, as the Brazilian development bank (BNDES) is not pouring as much money into the space as it used to.

Potential Bidders

Chinese companies, for example, want to buy assets that can boost the country's exports to China, like energy, railways and harbors, Lutterbach said. Japanese firms are especially interested in the sanitation space, and companies from Germany, France, Italy and Spain are also analyzing assets in the country, he added.



In December 2015, Italy-based Gruppo Gavio closed a BRL 2.2bn (USD) deal with the Parana state-based CR Almeida, majority shareholder of the highway concessionaire Ecorodovias (BVMF:ECOR3). Lutterbach explained that, in this case, the Italian company was interested in Ecorodovias' assets and was not necessarily aiming to participate in future infrastructure projects. However, it is evidence that foreign players still see Brazil as a viable investment opportunity, he added.

Companies from the United States, however, are typically less interested in Brazil's infrastructure opportunities, Guizzo pointed out. "Large states in the US, like Texas, California and Florida, tend to spend more on infrastructure than Brazil; they'd rather stay there," he pointed out.

European Skeptics

A German banker told Mergermarket that German companies seem to be skeptical about the South American country and have not been "expressing interest" to invest there. Strong regulatory barriers, the German banker added, are one of the deal breakers.

Germany-based Bilfinger (FWB:GBF), which already operates in Brazil, said, through its spokesperson, that its geographic focus is Europe, as stated in its new strategic plan released in October 2015, and the company has not decided what will be the fate of its non-core activities, which include operations in Brazil. The decision, however, will not be taken in the short term, the company added.

Meanwhile, Hochtief (ETR:HOT) sold its unit in Brazil in 2009 to German group Zech International and does not intend to re-enter the country's market in the moment, Hochtief's spokesperson said.

Austria-based Strabag (VIE:STR), which has already participated in small infrastructure projects in Brazil, said the company is currently expanding its operations in Chile and Colombia, and Brazil is not a part of its current strategy.

Asian Perspective

An industry source familiar with the state-owned conglomerate China Merchants Group said the group might be interested in investing in infrastructure sector in Brazil, focusing on companies that can build railways, ports and related facilities. Also, the Chinese government is encouraging its companies to invest in Brazil in order to improve the country's exports logistics, facilitating the commercial relationship between the two nations, the source explained.

The Japan-based conglomerate Marubeni already operates two sanitation facilities in Chile, and there is the possibility that it will target assets related to the sector in Brazil and Peru, Marubeni's spokesperson said, without specifying if the company would directly bid for such projects or if it would be interested in partnering with a local player. According to its website, Marubeni has an agribusiness trading operation in Brazil and since April 2015 has been participating in a joint venture with the Japanese companies Mitsui and MODEC to build and operate floating vessels to serve the oil and gas industry.

MERGERMARKET

About the Author

Mergermarket is the leading provider of forward-looking M&A intelligence and data to M&A professionals and corporates.

www.mergermarket.com

What can the private sector do to improve Europe's migrant crisis?

✍ **James Knight**

Europe remains transfixed by the seemingly endless flow of refugees and economic migrants to its borders. A humanitarian crisis at its southeastern edge has turned into a political drama that has frayed relationships between European member states and shattered the supposedly shared vision of solidarity and decency that underpins European institutions.

The issue has already influenced the outcome of Germany's recent regional elections; it continues to weigh on the UK's internal Brexit debate ahead of its referendum on EU membership in June; and it fuels the rise of far-right parties in Denmark, France and Europe's eastern countries.

Media coverage tends to focus on the appalling plight of refugees fleeing the war in Syria. While more than 350,000 have applied for

asylum in 2015 alone, many more millions are living in camps in Turkey, Lebanon, Jordan and Egypt, in some cases for many years. These countries' often meager resources are stretched far more thinly than Europe's.

In addition to refugees, economic migrants (as they are classified) are not necessarily running from conflict but are motivated to make the dangerous crossing by sea or land into Europe in search of better employment opportunities to support their families. No doubt the freedoms afforded by life in the EU also have their appeal, as they are often leaving behind dysfunctional or autocratic states where human rights are ignored.

When a Problem is a Solution

For all the discomfort that the "I-word" causes among indigenous populations, the irony is that Europe desperately needs motivated and capable young arrivals. Its population is aging and is not being replaced fast enough. As a rule of thumb the wealthier the country the bigger its demographic crisis (with the UK bucking the trend to an extent). Germany and the Nordics require a younger generation to ensure their economies don't go into reverse.

The private sector has known this for some time. The pensions industry understands it all too clearly; meanwhile manufacturing and commerce worry about a lack of skilled employees. Fresh workers are needed to keep European economies motoring and our fast-maturing baby-boomer population from the poor house.

Where has the private sector got involved so far? German banks moved quickly to capture and compete in the new market for unbanked incomers; German industry has soaked up many into its factories. The challenge should be to map the skills of the new influx appropriately and assist them into gainful and integrated employment, rather than cower behind fences.

But there is a greater role to play. Given the humanitarian and political complexities, policymakers in Brussels are hungry for fresh thinking and new ideas. Many officials have been inside their ivory towers for too long and welcome on-the-ground perspectives. And they know that the depleted treasuries of EU member states are not ready for more expenditure on this issue without an underlying plan.

Private sector actors with solutions to the challenges of European migration are therefore pushing at an open door: The sticking point, as ever, remains the bottom line. There is a tendency in Brussels to see the financial industry simply as a cash machine; this will not do. The private sector wants sustainable economic returns. Institutions can help by offering the underwriting clout of EU funds, the EIB and EBRD to protect (to some extent) downside risk for investors and encourage participation in social schemes that, if left to the market alone, would not gain any traction.

New Innovations

My consultancy is one of many looking to join up some thinking on this issue. In conjunction with a small group of NGOs, foundations, government aid experts and financial institutions, we are developing a new type of social impact bond that can be issued in international capital markets to raise money, for instance, to pay for upskilling of young people in the Maghreb region and beyond—or help to provide training and skills to refugees displaced across the Levant.

Creating and issuing a bond, rather than aid or a grant, creates the potential for money to be repaid if certain targets are met, improving the chances of success.

Creating and issuing a bond, rather than aid or a grant, creates the potential for money to be repaid if certain targets are met, improving the chances of success. The backing (not the cash) of major multilaterals helps bring borrowing costs down for participating governments.

We are also discussing with one EU country its potential to position itself as a meeting point of southern European, North African, Middle Eastern and Islamic financing models, in order to transform the way development is paid for.

This kind of holistic thinking can also address the precarious situation in the EU "neighborhood." Until now, Turkey's engagement strategy has been simply to demand money from the EU—about $3 billion USD in fact—to cover the costs of the refugee and migrant populations that have put down roots on its soil.

Social bonds, like those we envisage, could be brought to bear in this respect, along with an important contribution to refugee resilience through targeted, PPP-type interventions in health care, education, IT and transport infrastructure.

Such schemes are not without their challenges. Political risk is high for market participants, and convincing developing country governments that a low-cost, long-term social bond-based system is better than aid can be a tough sell.

However, as member State governments struggle to cope with issues that threaten to tear the fabric of Europe apart, what is the cost of not involving the private sector? Smart, responsible use of capital markets can unlock some of the region's most intractable issues, and ultimately imagination and competition in the service of social good will create the kind of long-term employment opportunities that will save lives and keep some of the world's most vulnerable people out of the hands of the people traffickers.

About the Author

James Knight is a Brussels-based senior associate at Etoile Partners, a geopolitical consultancy. Etoile advises government and corporate clients on issues of strategic positioning and communications management. He has 10 years of experience of working in and with emerging market countries. Previously, he was director of Pionero Partners, a LatAm-based risk and advisory firm serving international clients. He has acted as a strategic consultant to the World Bank, the UN and Barclays Bank Plc, following a successful career in journalism, where his investigative and analytical skills were honed at The Sunday Times, Reuters, The Economist, Africa Confidential and BBC Online covering business, investment and conflict. He holds an undergraduate and a Masters degree from Cambridge University.

2016 Market Outlook: Asia Pacific REITs Continue to Hold Promise

✍ **Victor Yeung (Real Assets Adviser)**

Although the US Federal Reserve has started to raise interest rates, the interest rate environment should remain benign in 2016. Given the slowdown in the China economy, we continue to see opportunities in REIT programs. Selected REITs in Singapore and Hong Kong are trading at more substantial discounts to net asset value than warranted by our interest rate outlook. These REITs may offer some alpha opportunities.

The Asia Pacific Economy

In general, 2015 overall GDP growth in Asia was weaker than 2014, declining from 5.3% to 4.9%. Oxford Economics forecasts growth in Asia will pick up in 2016 and 2017 then gradually return to trend growth in 2018 and 2019. Thus, overall GDP growth in Asia is forecast to return to 5.3% in 2016 and increase to 5.5% in 2017, before slowing back down to 5.3% in 2018 and 5.0% in 2019.

Given China's reported 2015 GDP growth was the slowest in several years, we believe it will continue to decelerate. Furthermore, China's future growth, if it is sustainable, will shift to being more consumption- and services-led from manufacturing. Thus, the economy of the wider region will need to retool. A slower China has affected growth elsewhere in Asia Pacific, with most economies having slowed within the past five years. Australia and Indonesia, with strong resource sectors, have seen weaker growth since 2011. By now, however, both economies gradually have rebalanced as witnessed by resilient real estate markets in the retail and residential sectors.

In 2015, growth in Hong Kong and Singapore slowed because their service industries traditionally have served Chinese demand. As China restructures, most Asian countries will need to seek new growth drivers. The Trans-Pacific Partnership represents one such effort. Asia Pacific countries that signed the agreement include Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam. Our view is the TPP is not simply a trade deal but rather a restructuring of the business cultures in these countries. The agreement includes provisions on intellectual properties, governance of government-related entities, labor laws and anti-competitive laws. International agreements typically can provide governments with the incentives and political capital to push through reforms, especially those opposed by vested interests. We believe many of the TPP countries, especially Japan, will utilize the agreement to reform their economic laws. This would provide an additional growth driver to these economies.

In 2015, growth in Hong Kong and Singapore slowed because their service industries traditionally have served Chinese demand.

Other countries, such as Taiwan, recently have indicated their desire to enter the TPP. We believe, as the TPP matures, it will broaden its scope and potentially become a restructuring driver for most countries in the region.

Interest Rates

In December 2015, the US Federal Reserve raised the federal funds target rate for the first time since 2006. Of the major economies in the world, the economic growth strength of the United States and the United Kingdom stand out. Other economies, including those of continental Europe, China and Japan, are slowing down. If global GDP growth is weaker than expected, the Fed probably will slow down the pace of interest rate increases.

Furthermore, inflationary pressures remain benign in the United States, and this reduces the need for the Fed to act quickly. Overall, we expect the Fed to bring short-term rates to 1%, at most, by the end of this year. The REIT markets have more than priced in a rate hike of this magnitude.

Most Asia Pacific countries have their own monetary regimes, and many reduced their interest rates in 2015 (see table, below). Most also have room to lower rates further, should their economies slow even more.

In short, we believe the interest rate environment will remain benign in 2016.

The Real Estate Sector

Hong Kong, Singapore and Taipei all saw downward pressure on rents in 2015. In Singapore and Taipei, real estate asset prices also have come down. Our analyses show the home-price affordability ratio for these three economies has hit a historic high. A slowdown in price growth, or price moderation, can allow household income to catch up, leading to a healthier market in the long run.

The banking systems and overall loan structures of all three economies also are strong, especially compared to the situation in 1997. As such, barring a sharp economic slowdown based on other factors, a slowdown in price growth should not create systematic risks to the entire Asia Pacific economy.

Japan and Australia hold the most medium-term opportunities, as both are at earlier points in their economic cycles than the Mandarin- and Cantonese-speaking economies. Australia faced an economic slowdown in 2011, when investment in the mining sector began to decline; its real estate market, especially on the commercial side, only turned positive in 2013. Similarly, the Japanese economy was weak from 2009 to 2012, and its property market only began improving in late 2012.

Australia is particularly attractive to foreign investors, given that cap rates in many assets are higher than the rest of the region. Prime assets now are trading at a 5.5% cap rate (as of December 2015), which is high compared to the historical average. Secondary assets continued to trade above 7.0% cap rates in 2015, however, drawing significant interest from investors aboard.

The first data centre REIT in Asia Pacific, for example, was listed in 2015 in Singapore. We fully anticipate more IT-related real estate assets will become available in the future.

Sector Thoughts

Pressure on retail properties continues to build in most economies. Web retailing is the most obvious competitor, but many brands are undergoing changes to their business models. While e-commerce will not replace physical retailing completely, in multiple markets, from the United States to Australia, it is capable of dominating most, if not all, growth in an economy's retail spending. The time saved in finding, buying and transporting goods often provides enough incentive to switch to online shopping. Internet-based retailers make substantial investments to create their inbound and outbound logistics systems, so demand for logistics properties usually increases as web retailing grows.

Developments in computing power and engineering are changing how consumers receive and utilize products, from entertainment to business needs. Internet streaming is now the standard way of delivery for movies, music and video games, for example. Some companies also offer advanced modeling and analyses packages by performing the calculations on cloud servers, so business customers do not need to install and maintain powerful servers on their own. The first data centre REIT in Asia Pacific, for example, was listed in 2015 in Singapore. We fully anticipate more IT-related real estate assets will become available in the future.

The office sector, on the other hand, is expected to stay strong in most markets we cover. Non-domestic firms are generating new demand for office space in Hong Kong and Singapore, as companies continue to build their Asia Pacific presence through these markets. Office markets in Melbourne, Sydney and Tokyo also are seeing stable or strengthening demand.

Conclusion

Overall, we believe the Asia Pacific REIT market will be attractive in 2016. As the global economy gravitates toward growth in developed markets, the best opportunities in the real estate and REIT markets may be different from those that prevailed over the past several years, and thoughtful portfolio rebalancing will yield significant benefits. As we often suggest to clients, investors should adopt a barbell investment strategy. For all investors, we recommend keeping a portion of capital in a well-diversified portfolio, such as an Asia Pacific REIT portfolio. For more experienced investors, a focused approach to finding exposure along select and well-thought-out themes also may yield significant benefits. We also recommend investors prevent unnecessary concentrations of risk, especially those generated by nonfinancial factors.

REALASSETS ADVISER

About the Author

Victor Yeung is CIO of Admiral Investment, based in Hong Kong.

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.

WEATHERING THE STORM

FINDING OPPORTUNITIES IN CHINA DURING ITS ECONOMIC SLOWDOWN

This year is set to be a challenging year for investors in China. The country's economic growth slowed to 7.4% in 2015, causing it to miss its full-year economic growth target for the first time since 1998. The Chinese government is likely to further lower its 2016 growth target down to around 6.5%, as actual 2015 gross domestic product (GDP) growth looks set to come in at about 6.8%—still below the target of 7%.

China's lower growth has become a top concern for foreign investors, and the road ahead is filled with uncertainty. However, with the right market intelligence and an informed business strategy, the country's economic downturn might create opportunities for companies that fully understand new market trends and, more importantly, their customer base.

Bright Spots: Provincial GDP Figures

China's socio-economic conditions and market potential vary drastically per region. While the local economies in some first-tier cities have plateaued, China's "Go West and Go Inland" campaign has led to pronounced economic activity in its inland and western regions. Qualified enterprises in the West China region can enjoy a reduced CIT rate of 15% upon approval by the relevant tax office. In the first three quarters of 2015, some of China's inland regions saw local GDP growth of more than 10%, including Chongqing (11%) and Guizhou (10.8%).

In 2015, the Chinese government set up three new free trade zones (FTZs) in Guangdong, Fujian and Tianjin, which has helped boost their GDP growth rates by 7.9%, 9% and 9.4 percent, respectively. The FTZs offer numerous incentives for investment, including tariff exemption and tax breaks to qualified companies and manufacturers. Buyers can also purchase imported goods that are stored in the zones without paying import duties.

In the past, foreign investment in China was largely concentrated in the developed Yangtze River Delta region. Today, the country's fast-growing western regions and new FTZs are ready for investment and particularly suitable for start-up businesses.

RMB Depreciation

The RMB-USD exchange rate depreciated by 4.4% through the course of 2015. This weakness is set to accelerate in Q1 2016, meaning foreign companies with capital measured in foreign currency will be able to acquire more domestic assets with the same amount of capital. Goods made in China will therefore be even cheaper for overseas buyers. Moreover, for companies trading and paying employees mostly through certain foreign currencies, a weakened RMB against the US dollar means lower business costs.

In 2015, the Chinese government set up three new free trade zones (FTZs) in Guangdong, Fujian and Tianjin, which has helped boost their GDP growth rates by 7.9%, 9% and 9.4 percent, respectively.

Conversely, selling to China can be more expensive. To prevent a sudden drop in foreign trade, China's Ministry of Finance slashed tariffs on clothing, footwear and beauty products by 50% in June 2015—good news not only for companies and manufacturers seeking to export to China but also for international players and distributors already operating there.

Retail Sales Boom

Consumption continues to play a key role in driving economic growth in China despite the country's perceived economic trouble, accounting for 60% of GDP in the first half of 2015. China's retail sales increased 11.2% to RMB 2.8 trillion in November, up 0.2% from the previous month and the fastest expansion in 2015. This year's Singles' Day e-commerce event saw sales up 60% from the previous year, totaling RMB 91.2 billion (USD $14.3 billion). The record in 2014 was surpassed within 14 hours of the start of the holiday, with USD $1.4 billion generated in the first eight minutes and USD $5 billion in the first 90.

From January to November 2015, the national online retail sales of goods and services grew by 34.5% year on year to RMB 3.5 billion.

Rising Middle Class

The retail sales boom is partly a result of the government's recent policy to stimulate foreign trade. The central bank cut interest rates five times in 2015 to boost domestic spending. However, the main driving force for China's booming retail industry is the growing spending power of the new upper middle class.

China's upper middle class is getting younger. The expanding urban middle class is increasingly made up of skilled white-collar workers, teenagers and people in their early 20s. This segment, which is poised to be the new mainstream, is generally well educated and much more open to foreign brands. While China's middle class expansion is largely happening in big cities such as Beijing and Shanghai, investors need to note that it will soon become much more evenly spread geographically. It is estimated that, by the year 2022, the upper middle class will account for 54% of urban households and 56% of urban private consumption.

What Can We Offer?

Undoubtedly, foreign investors doing business in China are facing challenges. On the one hand, many foreign manufacturers have been forced to withdraw their investments in China because of rising manufacturing and labor costs. The country's ongoing tax reform and, in places, disappearing tax incentives make it even more difficult for investors to turn a profit.

On the other hand, with the right investment strategy, opportunities can be found in numerous emerging industries, such as education and high-end manufacturing. The explosive growth of China's upper middle class offers numerous opportunities for investors: China is no longer simply the "world's factory," but also one of the most lucrative export and consumer markets for all types of consumer goods. Utilizing market and competitive intelligence to understand who your target customers are is key to a successful business in China and one of the few ways to turn a profit amidst continued market contraction. Emerging Strategy specializes in providing such intelligence and can ensure that your business remains firmly on the road to growth.

About the Author

Emerging Strategy is the leading provider of customized market intelligence services in China and across global emerging markets. For more information on Emerging Strategy and our services, please contact us at info@emerging-strategy.com.

Own Your Luxury Wine Property on an Award-winning Wine Estate in Argentina!

Nestled in the heart of Argentina's wine country, San Rafael, Mendoza, is one of the last affordable places to purchase ample vineyard real estate. Fortune Magazine named San Rafael one of the "4 best places to retire"!

High Quality Vineyard Estate Lots from $110,000 to a $1 million Private Vineyard Estates
20% Down and 10 Year Financing Options Available
Award Winning Wine · Hotel · Restaurant · Golf · Tennis · Winery · Vineyards

tripadvisor TRAVELLERS' CHOICE 2013

ALGODON
WINES & LUXURY
DEVELOPMENT GROUP

90 R.PARKER 2012 RATINGS 2008 BONARDA ALGODON

91 R.PARKER 2012 RATINGS 2008 MALBEC ALGODON

Own your luxury wine property surrounded by acres of your favorite grape varietal, at a mere fraction of the cost of comparable properties in Napa, Tuscany or Provence. Algodon Wine Estate's undervalued prices won't last! Our Malbec was recently awarded 91 points from Robert Parker, and as the quality and reputation of Algodon's ultra-fine wine collection continues to grow, we believe it may have a direct positive impact in the years ahead on the value of our vineyard estates for sale.

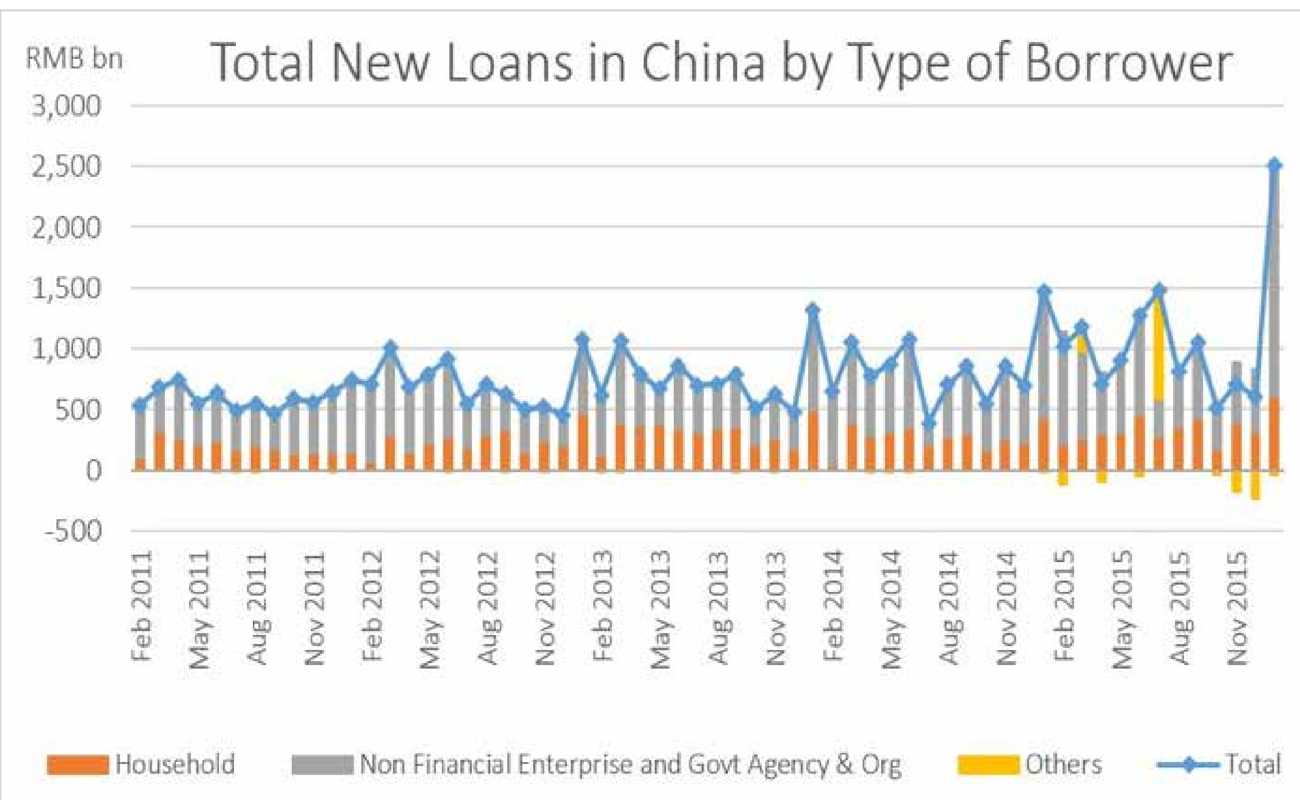
Whether you are thinking about relocating or just investing, now is the time to act!
Mendoza real estate values have risen as much as 25% over the past few years.

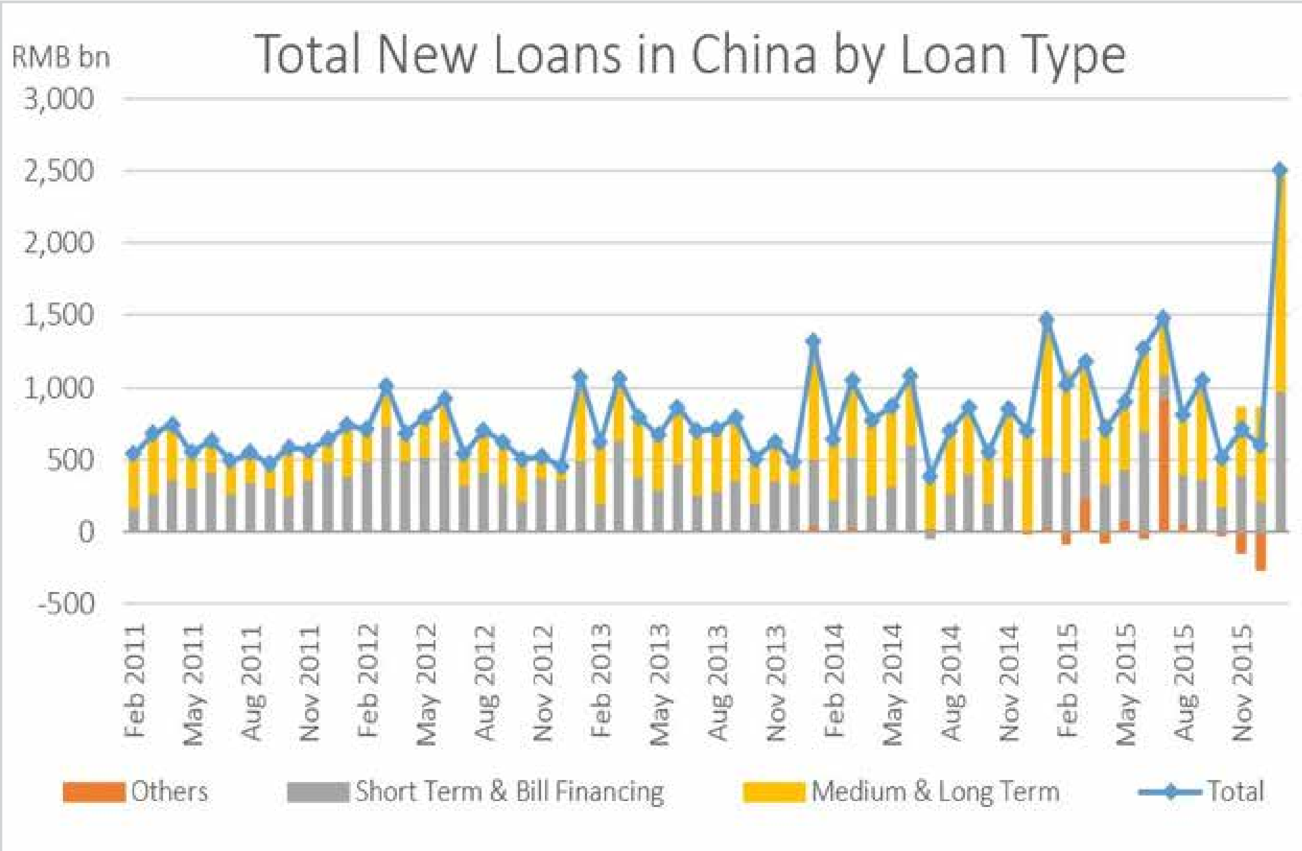
135 Fifth Avenue, 10 Floor, New York, NY 10010, Tel: + 1 (212) 739 7700

www.algodonwineestates.com

New Loans in China

China's total new loans reached a record high level in January 2016, which implies higher financing demand and probably more investment projects from non-financial enterprises and government agencies/organizations during January 2016. Nevertheless, with no obvious growth in investment profits and uncertainties in China's economy, the sustainability of the growth in new loans remains questionable.





Top 10 Industries in Terms of Lending Demand in 2013

Distribution of Total Loans by Industry (in %)	2010	2011	2012	2013
Individual & Overdraft	24.7%	25.6%	26.5%	28.2%
Manufacturing	17.5%	18.2%	18.2%	17.3%
Transport, Storage and Postal Service	0.4%	0.4%	10.2%	9.9%
Wholesale and Retail Trade	10.2%	10.2%	8.8%	9.2%
Real Estate	7.4%	6.8%	6.5%	6.5%
Water Conservancy, Environment & Utility Management	8.9%	7.6%	6.6%	5.9%
Electricity, Gas & Water Production and Supply	7.2%	6.8%	6.2%	5.6%
Leasing and Commercial Service	5.4%	5.1%	5.0%	5.2%
Construction	2.7%	3.1%	3.5%	3.6%
Mining	2.4%	2.6%	2.9%	2.7%
Total Loans	87%	86%	94%	94%

Total New Loans in China, by Loan Type and by Type of Borrower

China's total new loans increased 70.7% y-o-y to RMB 2,510 billion in January 2016.

- Loan type: Medium- and long-term loans accounted for 61.3% of new loans in January 2016, while short-term and billing financing types accounted for 38.0%, compared with 106.9% and 36.6%, respectively, in December 2015.
- Type of borrower: Non-financial enterprises and government agency and organization borrowers accounted for 77.3% of new loans in January 2016, while household borrowers accounted for 24.2%, compared with 85.4% and 53.3%, respectively, in December 2015.

CEIC A Euromoney Institutional Investor Company

About the Author

Founded in 1992 by a team of expert economists and analysts, CEIC Data www.ceicdata.com provides the most expansive and accurate data insights into both emerging and developed economies around the world. A product of Euromoney Institutional Investor, we are now the service of choice for economic and investment research by economists, analysts, investors, corporations and universities around the world.

To learn more about CEIC products, please contact James B. Boyko 212.610.2928 jboyko@ceicdata.com.

ANCIENT GRAIN TO BRING FUTURE GAIN:

A STUDY ON SORGHUM'S GROWTH POTENTIAL IN SUB-SAHARAN AFRICA

✍ **Eric Francucci and Sarah Day Levesque (HighQuest Group)**

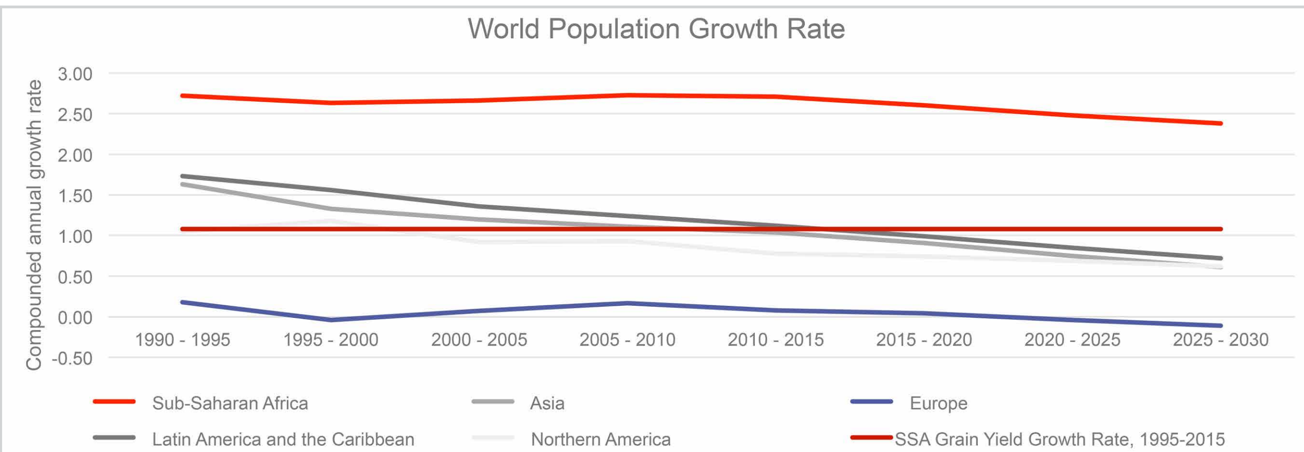
Known as one of the world's "ancient grains," the domestication of sorghum originated in northeastern Africa and can be traced as far back as 8000 B.C. Since then, sorghum has spread throughout the world and is currently cultivated on every continent. Sorghum varietals differ, and it can be grown as a grain, forage or sugar crop. It is the fourth most-produced grain in the world after rice, corn and wheat.

Sorghum's strength lies in its unique ability to grow under harsh conditions and its high efficiency in terms of solar and water energy conversion. Often referred to as the "camel of the plant kingdom," sorghum is highly drought-tolerant and can thrive in high-temperature, arid areas where other crops, such as corn and wheat, would wither. Sorghum's root system spreads more extensively than many other crops, allowing it to penetrate the soil to depths of nearly 5 feet and to efficiently pull water from subsurface layers. If sufficient water is not available, the plant will halt its growth and become dormant until more favorable conditions present themselves.

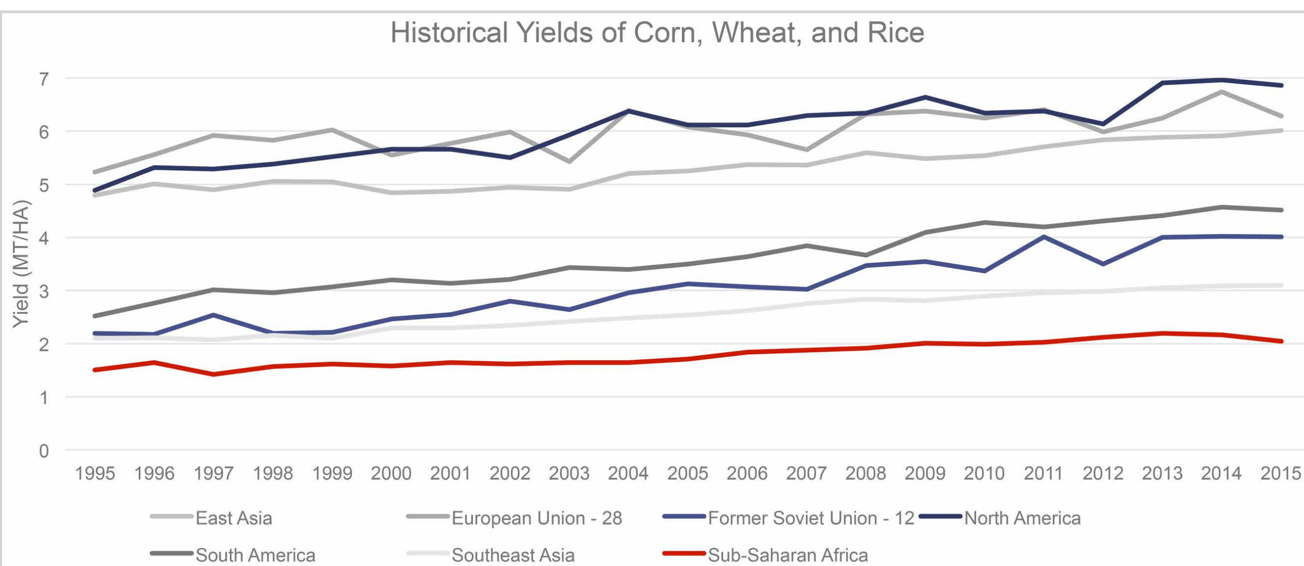
Sorghum is highly versatile and can be grown on 80 percent of the agriculture acres on earth. It grows on a wide range of soils, including saline-alkali infertile soils, and is resistant to waterlogging resulting from sudden rains. Sorghum can be produced more reliably than other cereals when subject to limited fertilizer inputs, a constraint often faced by African farmers. It is precisely the enduring nature of this crop that makes it well suited to be grown in Sub-Saharan Africa (SSA): Its potential to address food scarcity issues and drive future economic development in Africa cannot be overemphasized.

The Challenge in Pictures

Population growth: The SSA region is expected to exceed the rest of the world in terms of population growth in the first half of this century. The region's population growth is also well above the historical yield growth of the top five staple



Source: USDA FAS, United Nations Population Prospects



Source: USDA FAS

grains of the region, implying that, under current conditions, food demand will continue to outpace the region's ability to produce food. Closing the yield gap (the difference between potential and real yields) will prove critical to alleviating this food security challenge.

Grain Yields: In the past 20 years, food availability in SSA has been stunted by crop yields for top grains (including rice, corn and wheat) that are far lower than in other regions. With its ability to grow under harsh conditions, with limited fertilizer use, sorghum has a higher potential than other grain crops to close the so-called yield gap that exists between SSA and other regions.

Sorghum End-Use

Unlike the rest of the world, in SSA sorghum has a long tradition of being used primarily for human consumption. It is often milled into flour and made into flat bread. It is also made into porridge or served as a whole grain, similar to couscous. While most production is consumed directly by the households producing the crop, larger flour mills are beginning to process the crop on a more commercial scale, and due to its numerous applications and lower cost relative to other staple grains, various end-use sectors for sorghum have seen promising growth in recent years.

In other producing regions such as the US and Latin America, sorghum is primarily used for animal feed for dairy and beef cattle, as well as swine and poultry. While this is not currently one of the primary uses in SSA, due to the region's rising meat demand and grain sorghum's ability to serve as a nutritional substitute to corn, its use as an alternative to other feed grains is becoming increasingly important. Meat consumption in SSA in the past 20 years has grown annually at a rate of 6.2%, compared to the 2.2% world average, resulting in a growing domestic market for animal feed. However, lack of reliability in supply in terms of quantity and quality has kept the livestock industry from making major investments in the sector thus far.

Perhaps the fastest-growing application for sorghum in Sub-Saharan Africa is in beer production. Sorghum has traditionally been used on the household level to make fermented beverages, and this "informal market" is estimated to be four times larger than the formal sector. In the past 15 years, multinational brewing companies, such as SABMiller, Heineken and Diageo, have entered the market and introduced products brewed with sorghum with great success. Sorghum beer in SSA is estimated to have grown at an annual rate of 9.5% in the past 10 years. According to Deutsche Bank, SSA will make up about 40% of global profit growth for beer companies over the next decade, amounting to USD $5 billion.

Sorghum brewing has also caused an important economic implication for sorghum farmers, as sorghum now has a fairly stable outlet and can be produced reliably as a cash crop. Large sorghum breweries, such as SABMiller subsidiary Nile Breweries, source their sorghum through means of contract farming with local farmers, offering a fixed price that is slightly higher than market price with no obligation to sell.

Farmers are linked to breweries through seed companies and cereal traders, thus creating a local value chain for sorghum.

Perhaps the fastest-growing application for sorghum in Sub-Saharan Africa is in beer production.

It All Starts From a Seed

Large multinational breweries are not the only companies to have set their sights on sorghum in SSA. Among these players is seed and crop genetics company Chromatin. Chromatin taps into the plant's natural biodiversity to create new sorghum seed products designed to use resources efficiently and grow in marginal land. Due to the large percentage of cropland fitting this description in SSA, the region is a critical market for Chromatin.

"Chromatin has already announced relationships in Africa," said Chromatin CEO Daphne Preuss. "It is an area of intense focus for us."

Chromatin is currently distributing its seed products to more than 12 countries in Africa. The results speak for themselves: Introducing Chromatin seed to the field has allowed farmers to experience an immediate yield increase of three to five times, with some seeing even greater benefit. This "life-changing" effect allows many farmers, who had traditionally relied on sorghum as a subsistence crop, to monetize their excess production, thereby bolstering the local economy, Preuss stated.

Since this monetization would not be possible without an end-use market, Chromatin has also focused efforts on "connecting the dots between end users and growers." The company organizes "field days," bringing stakeholders across the value chain to the field in order to exchange information and create a close-knit community.

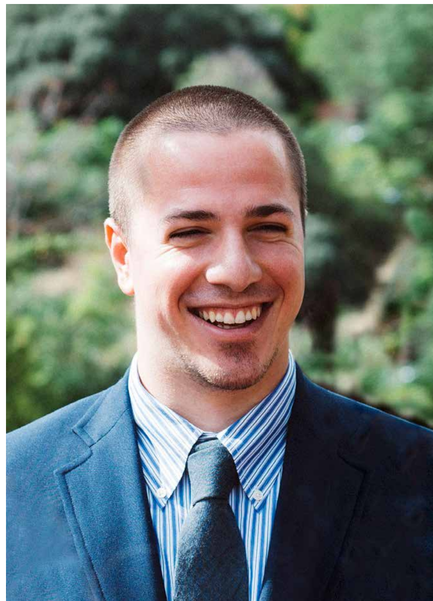
Chromatin's strength lies in its use of local facilities and distribution networks. Doing so while simultaneously creating a solid R&D pipeline allows for optimal results on the field and in the lab. By creating a seed that can be more reliably and efficiently grown, Chromatin has the potential to impact the entire value chain.

Conclusion

With more than 50 countries and 1,000 spoken languages, it is futile to suggest a single solution for sorghum in Sub-Saharan Africa. Inefficiencies exist across the entire value chain—not only in the availability of crop genetics but also in fertilizer, storage, distribution networks, financing for farmers and end-use markets, to name a few. To reach its full impact potential, the sector will need to rely on allocations from the private and public sector.

From crop genetics to end-use growth, the seeds of progress have been planted. Now, it's time to nurture and grow this crucial sector.

[1] Sorghum 101. (2012). Retrieved March 14, 2016, from http://sorghumcheckoff.com/about-sorghum-checkoff/sorghum-101/
[2] Sorghum 101. (2012). Retrieved March 14, 2016, from http://sorghumcheckoff.com/about-sorghum-checkoff/sorghum-101/
[3] Mwadalu, R., & Mwangi, M. (2013). The potential role of sorghum in enhancing food security in semi-arid eastern Kenya: A review. Journal of Applied Biosciences, (71), 5790.
[4] Preuss, D. (2016, February 24). Interview with Daphne Preuss, CEO of Chromatin [Telephone interview].
[5] Lust, T. Sorghum as a Biofuels Feedstock: Strengths, Weaknesses, Opportunities & Threats from an Industry/Farmer's Perspective (Rep.). National Sorghum Producers.
[6] Macauley, H. (2015). Cereal Crops: Rice, Maize, Millet, Sorghum, Wheat (Rep.). Feeding Africa.
[7] Sani, R. M., Haruna, R., & Sirajo, S. (2013). Economics of Sorghum (Sorghum bicolor(L) Moench) Production in Bauchi Local Government Area of Bauchi State, Nigeria (Rep.). Hammamet, Tunisia: 4th International Conference of the African Association of Agricultural Economists.
[8] USDA FAS, PSD Custom Query. Weighted average of 1995-2015 Yield CAGR, using 2015 consumption preferences as weights (38.7% corn, 9.8% millet, 16.9% rice, 16.7% sorghum, 18.0% wheat).



About the Authors

Eric Francucci is an analyst for the consulting business of HighQuest Group, where he routinely researches agribusiness industries with a focus on global trade flows and market entry strategy. Prior to joining HighQuest, Francucci developed his passion for agriculture by working on a honeybee farm in Sardinia, Italy. He received a bachelor's degree in quantitative economics from Tufts University.

Sarah Day Levesque is editor-in-chief of media products for HighQuest Group, where she manages multiple news services and publications for the agricultural sector. Day Levesque holds master's degrees in agricultural and resource economics, and international agricultural development from University of California, Davis.

HighQuest Group, headquartered in Danvers, Mass., is a strategic advisory, conference and media firm serving corporations, financial investors and governments across the global food and agribusiness value chains. www.highquestgroup.com