

# Asian Investment Monitor July 2018

## Overview

### China and the UK

British officials have described their relationship with China as being in a “golden era”. This has proved to be true as Beijing has indicated it is open to discussing a free-trade deal with the UK once it formally exits the European Union next year. China’s willingness to negotiate a free-trade deal has been seen as a relief within Prime Minister May’s government, which has experienced setbacks in its negotiations with the European Union. Trade negotiations will have to be undertaken carefully as the issue of human rights in Hong Kong has caused friction between the two nations previously. The UK must tread a fine line to not criticise the actions of the Chinese government extensively while still upholding the country’s core values over human rights.

### Pakistan

July brought a change of government to Pakistan with Imran Khan, a former international cricketer, winning the 2018 General Election by obtaining 115 seats in the National Assembly. However, an additional 22 seats were required to form a majority government. Mr. Khan must enter negotiations with smaller parties to form a coalition government to become Pakistan’s Prime Minister. Mr. Khan has inherited a country which is close to a financial crisis and may need to request a USD12.0 Billion support package from the IMF. With Pakistan’s foreign reserves at USD9.0 Billion, the country will not have sufficient capital to cover imports in the coming months.

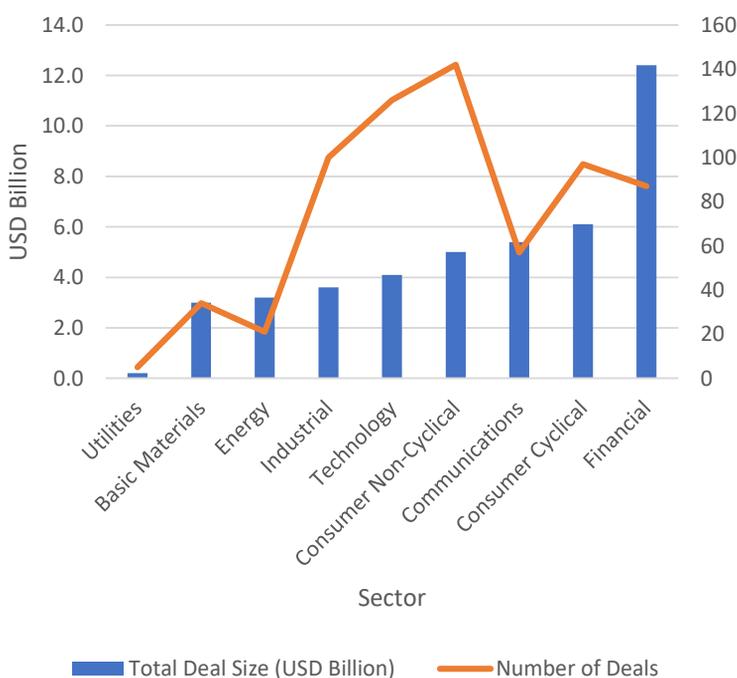
### Deal Activity

666 M&A/PE transactions (Source: Bloomberg) were completed in July with a total deal value of USD41.9 Billion, compared to June which saw the closing of 708 transactions with an aggregate value of USD70.8 Billion originating from Asia.

Notable transactions completed in July included:

- Legend Holdings Corp acquired 89.9% of Banque Internationale for USD1.8 Billion.
- Shanghai Yuyuan Tour acquired 28 subsidiaries from Fosun International Ltd for USD3.6 Billion.
- A consortium led by Alibaba Group Holdings Ltd and Tencent Holdings Ltd acquired an undisclosed minority stake in CMC Inc. for USD1.5 Billion.

Total Deal Size and Volume by Sector



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## Focus Industry: China and Football

China's 13<sup>th</sup> Five Year Plan, introduced in 2016, outlined the outlook for the country's sports industry, detailing that it should comprise of 1.0% of its GDP by 2020, which represents an increase of 0.4% from 2016. President Xi Jinping has been involved in the drive for this growth, particularly with an emphasis on football. Football has become important politically and culturally within China and developing a team which is capable of competing in the World Cup is seen as a priority by the government. Chinese investors have seen political advantages by aligning themselves with football, which has resulted in investment in training facilities and signing international players for the Chinese Super League. As the number of foreign players in the Chinese Super League has increased, the government has attempted to restrict excessive transfer fees on these individuals by introducing a tax of 100% on fees greater than USD7.0MM. It is anticipated that this should deter clubs signing foreign players and divert funds for investment in homegrown talent.



European football clubs such as AC Milan, Inter Milan and Manchester City have all received investment from Chinese individuals who hope that their links to football will help promote their primary businesses to international fans. Investments in European football were previously seen as a way of moving capital out of China. The Chinese government has implemented policies to restrict this outflow, making it difficult for further foreign acquisitions to be completed in the future.

## Investment Manager Commentary

- Beijing's decision to possibly open free-trade negotiations with the UK has seen itself aligned closer with European nations recently in response to tariffs imposed on Chinese goods by the US. China has reversed its protectionist measures allowing foreign nations to invest in the country to offset the effects of a trade war. With China-EU relations improving, it could signal a new long-term relationship to counteract policies introduced by the Trump Administration.
- We have seen a new wave of Chinese entrepreneurs who have invested in European football clubs. The effect of this movement may not be significant enough to change the perception of China, given that similar acquisitions made by Arab and Russian investors did little to improve perceptions of their countries. If Chinese football club owners are able to market their primary businesses to fans successfully, it may bring financial rewards.