

Asian Investment Monitor June 2018

Overview

North Korea & the US

June 2018 saw historic talks between the US President, Donald Trump, and North Korea's Supreme Leader, Kim Jong-un. This was the first meeting between the two leaders of their respective countries. While President Trump has fulfilled another campaign promise by meeting with Kim Jong-un, the outcome of the meeting is unclear with only a carefully crafted (and vague) agreement released to the public. The agreement commits North Korea to work towards the complete denuclearisation of the Korean Peninsula, yet does not mention how this will be achieved. President Trump may have managed to bring North Korea to the negotiating table, although time will tell if his efforts have been successful.

China & Europe

As a result of Europe's mad cow disease crisis almost 20 years ago, China effectively banned all beef imports from the continent. This is set to change with France and the UK pushing for access to China's beef market after the lifting of an embargo on fresh produce. China is the world's second-largest beef importer with the market valued at USD3.3 Billion. With US imports facing tariffs due to the ongoing trade war, China is looking for alternative sources to feed its domestic population. As a consequence, France and the UK are now stepping up as key exporters once local corporations have secured the relevant trade permits. China currently sees Europe as a viable alternative for trade and is looking to build stronger relationships with European Union members.

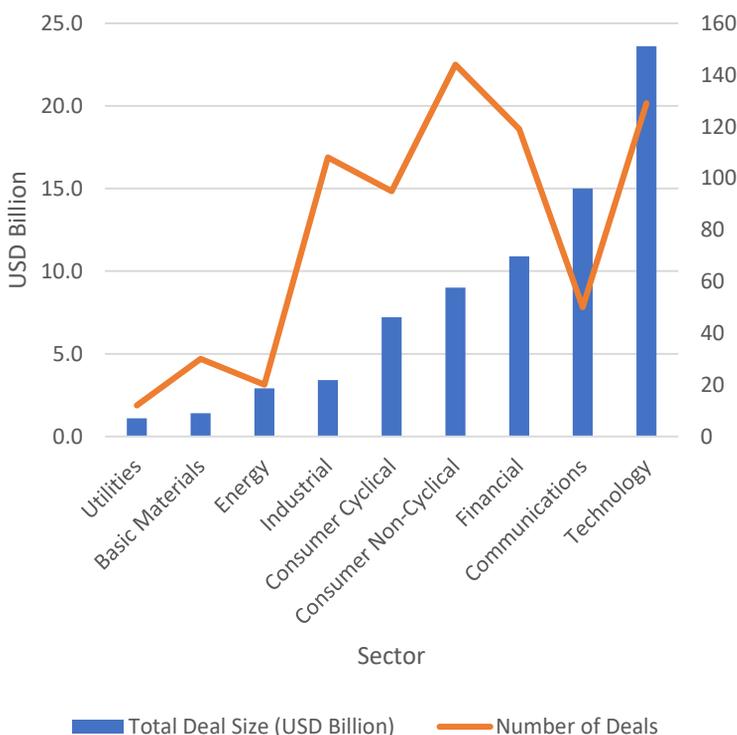
Deal Activity

There were 708 M&A/PE transactions (Source: Bloomberg) completed in June with a total deal value of USD70.8 Billion originating from the region compared to May which saw the closing of 673 transactions with a value of USD58.1 Billion.

Notable transactions completed in May include:

- Alibaba Group Holding Ltd acquiring a 10.0% stake in ZTO Express Cayman Inc, a Chinese logistics company, for USD1.4 Billion.
- Recruit Holdings Co Ltd acquiring 100.0% of Glassdoor Inc, an online jobs and careers community, for USD1.2 Billion.
- A consortium led by Bain Capital Private Equity LP acquiring Toshiba Memory Corp for USD18.0 Billion.

Total Deal Size and Volume by Sector

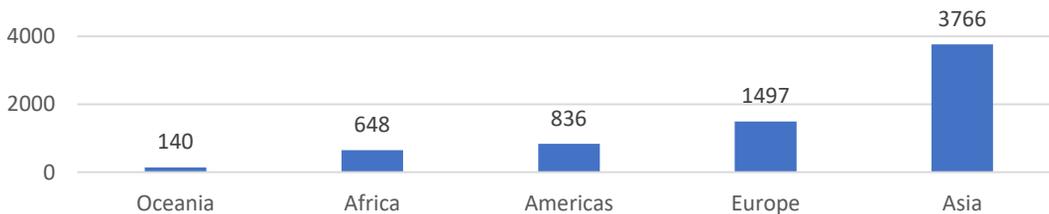


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Focus Industry: Education

The Education sector is of great interest to Asian parents who aspire to provide a better education to their children than that received by their generation. As the region has benefited from economic growth and the rise of the middle class, the number of international schools in Asia has increased dramatically. International schools offer a diverse education alongside top sporting facilities which may not be prevalent in local education systems. In China, we have seen the upper middle class becoming more aware of education systems in other parts of the world with British A-levels and the International Baccalaureate carrying a certain prestige over the Gaokao, China's National Higher Education Examination. There is also a cultural aspect associated with attending international schools as parents crave well known brand names including Harrow, Dulwich, Malvern and Wellington; all top-rated British schools with a presence in Asia.

Number International Schools by Region (ISC, 2014)



We have also seen an increasing appetite for investment with private equity houses adopting different strategies in the Education sector; growing a franchise, buying in one country and building there and leveraging global assets to expand etc. Government regulation on the other hand, has affected investment in various countries across the region. For instance in Indonesia, foreign ownership is restricted and for-profit models are only authorised in the informal education sector. This seems counterproductive as Indonesia could benefit from private investment in new institutions particularly in smaller cities and rural regions. That being said, private equity activity continues in Education across the region with Bain Capital acquiring Rise Education in 2013, a provider of English language programs for children in China, and the Canada Pension Plan Investment Board alongside Baring Private Equity Asia privatising Nord Anglia Education, a leading premium schools operation in 2017.

Investment Manager Commentary

- The summit between Donald Trump and Kim Jong-un may have been hailed as a success by the US Government, however it seems to be unravelling with reports indicating that North Korea has increased the production of enriched uranium. We previously mentioned that Kim Jong-un should not be trusted and it looks like he is proving us correct for now. With President Trump having made a significant concession in suspending joint military exercises with South Korea, it now looks like Kim Jong-un has not kept to their loose 'agreement'. The world will be watching closely to see how the US Administration responds.
- There is currently a Global Education Financing Gap of between USD22.0 Billion and USD33.0 Billion in low-income countries. This will facilitate further opportunities for the private sector. We have also noticed that in China the government is actively encouraging private capital investment in the Education sector.