OBEROI CAPITAL PARTNERS

OCP 2016 Outlook and Investment Strategy

Outlook for 2016*

In 2015, for the first time since the financial crisis, investors faced increased market volatility and growing levels of uncertainty. The unprecedented 40% rise of the Swiss franc against the Euro in January, negative yielding Eurozone bonds, collapsing emerging markets led by Brazil and the continued weakness in natural resources kept investors on edge. Central banks globally continued their accommodative monetary policy to counteract the current market turmoil. Despite all these headwinds the IMF forecast for global growth remains at 3.6% for 2016, in line with last year.

- The **US economy** will continue to grow at a 2+% in 2016, driven by strong labour markets and growing domestic demand, while battling the growing trade deficit on the back of the stronger US dollar. Most importantly, OCP expects the Fed to raise interest rates for the first time since 2006 this December.
- Despite the ongoing refugee crisis and continued focus on a potential Grexit, **Europe** is slowly starting to show growth and remains, in OCP's eyes, a great region for direct investments.
- The economic turmoil in **Brazil** continued to worsen in 2015 with GDP expected down 5% year on year, on the back of falling commodity prices, corporate scandal engulfing Petrobas and the potential impeachment of President Dilma Roussef. OCP sees GDP falling further in 2016 suggesting that the recession in the region's largest economy has not yet bottomed.
- In **Asia,** OCP sees slower growth in **China**, coupled with fears that PM Narendra Modi will be unable to push through his economic agenda in **India**, and has led to lower growth projections for 2016 to 6.1%; the region's weakest economic performance since 2001.
- OCP believes **commodity markets** will continue to show weakness, negatively impacting much of Latin America along with Africa and parts of Asia in 2016. The on-going production oversupply, weak Chinese demand, coupled with OPEC's unwillingness to reduce the oil glut will continue to force commodity prices lower despite the 30% fall from the highs of the recent years.
- With corporate growth and earnings globally starting to slow, OCP sees **M&A activity** flourishing with large transactions such as the merger between INBev and SAB Miller no longer an exception, but the rule. M & A activity should pick up across all sectors and market cap segments, continuing to grow strongly over the coming years as low interest rates will buoy cheap deal financing.
- OCP sees limited equity stock market gains over the next 12 months as a boon for P/E and direct investments as money being pulled from global stock markets will be funnelled into private deals with higher return potential.

Alternative Energy Space

Despite the weakness in energy prices, OCP anticipates growth in alternative energy and capital deployment in supporting infrastructure continuing unabated over the next decade to come. More than 10% of global electricity was produced by non-fossil fuel powered sources such as hydro-electric, nuclear, wind, solar, and bio fuels. Large countries like India and China continue to lead the investment process and Middle Eastern funds and governments are more and more looking for joint ventures with experienced power investors in building out sustainable power infrastructure. OCP continues to partner with power and energy funds, whose managers understand and anticipate the ever changing regulatory and technology landscape, while co-operating with local governments to build power plants that not only deliver clean energy but are run with a profit orientated mind-set.

Natural Resources: Metal & Mining

Global commodity prices, in OCP's opinion, will continue to see weakness despite significant price drops on the back of weakening Chinese demand. More importantly, the higher CAPEX expenditures of shutting down mines for iron ore and steel make it difficult to remove supply from the market. Interestingly the continued oversupply has not led to consolidation to benefit from economies of scale. Nevertheless OCP is convinced that the next 12-16 months will provide one of the best entry points into the energy and resource space in the past 10 years, and that is why OCP continues to partner with natural resources funds that provide investors with a strongly diversified portfolio of mining assets to lessen the impact of further falls and benefit sharply from a price recovery.

Non-Cyclical Sector Investments:

- **Healthcare:** OCP continues to see the healthcare sector as one of the cornerstones of investor wealth creation. Rapid innovation, breakthrough cures and an ever-growing symbiosis with modern technology make the healthcare sector impervious to global stock market sentiment. Furthermore, the ability by healthcare providers to set prices for drugs and raise prices at levels far higher than inflation allows for strong operating margins which in turn leads to additional R&D spend. Even though the IPO market has shown weakness especially in the biotech sector, OCP maintains a healthy pipeline of deals in the private and direct investment space across drug-makers, service providers, hospital and medical facilities in the USD20-150mn range.

Education:

Recent research has shown that private investment activity is on the rise across education sectors in the USA with the volume of transactions reaching the highest level in over 3 years.
Deal values rose 29% year over year to US$6.11bn in the first three quarters of 2015. While the US remains the major investor in the education space, China has emerged as both an important host and source of significant investments this year, as have India and Brazil despite the recent economic troubles. Furthermore, interest in Education has also grown exponentially in the ME, with education and teaching facilities as well educational technology being of particular interest. OCP is looking to further capitalise on this growing demand by partnering with education providers looking to expand

their reach into the ME and benefitting from additional investment by sovereign wealth funds in order to lessen the regions dependence on oil revenue and by expanding the bandwidths of understanding and knowledge of the incumbent population who will carry the economic torch for future decades.

Real Estate

London commercial real estate continues to be one of the most attractive markets for real estate investment globally in OCP's eyes. With economic growth in London projected as the strongest of any city world-wide over the next 10 years, the demand for office space, hotel rooms and shopping malls remains unabated. Especially MENA based investors and sovereign wealth funds, looking to diversify their income streams away from oil, are starting to invest and deploy significant sums of money acquiring assets in London that continue to show an enviable yield coupled with capital appreciation. OCP continues to build on its strong relationships in the commercial real estate market by supplying investors with off-market deals, a transparent deal structure as well as the option for single acquisitions or asset management services for the acquired assets that assists in yield optimisation via lease renegotiations and timely refurbishments. A 5% cash yield coupled with 10-15% IRR over a 3-4 year period continue to be achievable in the core and core plus market with equity investments ranging from GBP10-60mn.

*Data current as of date set forth on source; Factual Source: https://www.imf.org/external; source: Oberoi Capital Capitals Limited