

Learning from Larry Fink

Date: March 25, 2022

Larry Fink, arguably the world's most qualified investor, entrepreneur and CEO all-in-one, published a thoughtful letter to his company's shareholders yesterday, which has provided us a window of his thoughts on potential structural changes in the wake of the Russia-Ukraine war. Most of Mr. Fink's forecast, such as accelerating de-globalization, inflation and clean energy transition, might be well expected, but certainly Mr. Fink has articulated them more eloquently than others. I would invite you to read his letter, <https://www.blackrock.com/corporate/investor-relations/larry-fink-chairmans-letter>

What resonates with us particularly is his point on de-globalization. When CGL set out investing in European industrial properties five years ago, de-globalization is one of the main thesis underpinning our investment strategy. Rising cost in China, widening wealth gap around the world and fervent political populism in the west, all point to a halt, or even reversal of globalization. Through our on-ground research, we had learned first-hand that many companies either voluntarily or involuntarily planned to relocate their production and logistic centers to be near-shore or onshore to their home markets.

However we do not necessarily agree with Mr. Fink, as said in his letter that the beneficiaries of de-globalization are Mexico, Brazil, the U.S. and Southeast Asia. On surface, it is not difficult to argue that Mexico and Brazil should be the winners of de-globalization, but what those two countries are lack of is necessary institutional infrastructures to play a key role of global supply hubs, such as stable political environment, strong legal protections, straightforward tax regulation, less volatile currencies and last not least, abundant skilled workers. Low labor cost and geographic proximity are certainly advantages for any aspiring China-to-be countries, but lack of institutional infrastructures would stop large multi-national companies' serious consideration of significant investments.

We have shared with our investors five years ago that central Europe and Southeast Asia would be top two beneficiaries of de-globalization, and we still believe so today. As a matter of fact, during the last five years we have received a rising number of rental inquiries from Asia to our industrial and logistic properties in central Europe, which helps our properties maintaining occupancy rate as high as 95% across our portfolio today.

Although we believe de-globalization will continue for the foreseeable future, CGL, morally and intellectually, is a firm believer of long term benefits of globalization. As we all know, often does the world move on a zigzag path, but history tells us never should we underestimate the world's wisdom and ability to self-correct itself.....

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