

# CHINA IN THE NEWS



**Joanna Zhou (周娜)**, now residing in Knoxville TN, immigrated to Indianapolis with her husband from Beijing in 2013, where she worked in Human Resources for a U.S. Fortune 500 company. She enjoys her new life with her husband and kept in touch with her LAAT friends and readers by contributing to this column.

## China's annual growth forecast to be 6.8 percent

Two institutions on Tuesday forecast China's annual GDP growth to be about 6.8 percent this year, lower than the 6.9 percent for the first half, but higher than the annual target of around 6.5 percent. The Chinese Academy of Social Sciences said in a report that growth in Q3 and Q4 will be 6.8 percent and 6.7 percent, as investment, consumption and exports may grow at slightly lower rates. "China's economy will continue its steady performance, and we are confident about the country meeting its annual growth target," the report said. A report released by the State Information Center (SIC) made the same projection about the annual growth, and said that growth in the latter half will be around 6.7 percent.

## 国家信息中心：今年经济增速有望保持在6.8%左右

国家信息中心预测，总体来看，中国经济将呈现出“前高后稳”的态势，全年经济增速有望保持在6.8%左右，完全可以实现全年预期增长目标。下半年美元计价中国出口和进口将分别增长6.6%和7.2%左右，全年将分别增长7.5%和12.5%左右。随着房地产市场调控升级和流动性收紧，房地产销售增速已趋于回落，预计投资将于三季度出现回落。

## 115 Chinese firms on Fortune Global 500 list 2017

Chinese firms filled an unprecedented 115 places on the Fortune Global 500 list for 2017, a 14th-straight-year that the country's firms have increased their presence on the list. The U.S. retail giant Wal-Mart topped the list. China's State Grid and oil giant Sinopec Corp. were second and third, with revenue reaching US\$315 billion and \$268 billion, respectively, in 2016. Ten Chinese firms hit the list for the first time including Anbang Insurance Group, and Internet service giants Alibaba and Tencent. Country Garden was the only real estate developer. Listed Chinese companies were mainly involved in Internet, retail, finance, energy, and property.

## 115家中国企业上榜《财富》世界500强

美国《财富》杂志于北京时间20日晚发布2017年世界500强企业名单，中国上榜企业继续保持增长态势，达到115家，比上年度增加5家，上榜企业数量继续位居世界第二，与美国上榜企业数量的差距也进一步缩小。中国上榜公司数量连续第十四年增长。安邦保险集团、阿里巴巴、腾讯等10家中国公司首次上榜。新上榜公司最多的行业是贸易，有3家。碧桂园是唯一新上榜的房地产企业。从上榜国家看，美国今年有132家公司，日本有51家。排名前五的榜单中，沃尔玛以485.73亿美元的营业收入连续四年高居榜首，第2至4位则被国家电网、中石化、中石油3家中国企业占据，日本的丰田汽车排名第5。值得关注的是，随着阿里巴巴、腾讯上榜，加上去年首次上榜的京东，全球6家互联网服务大公司中国和美国各占一半。美国的三家为亚马逊、谷歌母公司Alphabet以及今年新上榜的社交媒体巨头Facebook。分析人士认为，中国经济正处在改革发展关键期，企业的经营状况是观察中国宏观经济运行的窗口，这就是以营业收入作为排名标准的《财富》世界500强榜单受到广泛关注的重要原因。

## Malaysian bank partners with Alipay to cater to local mobile payment

Malaysia's second largest bank CIMB joined hands with Ant Financial, an affiliate company of Chinese e-commerce giant Alibaba, on Monday to cater to local mobile payment demands. CIMB's electronic payment system subsidiary Touch 'n Go entered into an equity joint venture (JV) with Alipay, CIMB said in a statement. The JV will see Touch 'n Go to be the major shareholder in the venture while Ant Financial as a minority shareholder, according to the statement. CIMB said it is Ant Financial's first investment in Malaysia but did not elaborate on the value of the deal.

# Chao Center Becomes PGC Now Open for Business



PGC leaders believe ties with the university and the Purdue Research Park location are PGC's strongest selling points to fuel its rebirth.

A West Lafayette contract drug manufacturing company is relaunching itself, and says it's now poised to serve its sweet spot in the market: helping early-stage drug discovery companies prepare pharmaceuticals for clinical trials and commercialization. Originally established as the Chao Center to provide hands-on experience for Purdue University pharmaceutical students and contract manufacturing for the drug industry, it weathered a rough patch around 2009. The organization has now rebranded itself as the Purdue GMP Center (PGC) and plans to capitalize on a hot contract drug manufacturing market.

"There's a vast amount of money and resources being devoted to pharmaceutical development in the U.S. — much of it early-stage development," says PGC Chief Executive Officer Michael Chao. "These small companies often have a difficult time getting the attention of large contract manufacturers. We're a small operation and pride ourselves on the flexibility, willingness and desire to work with these development-stage companies to get their products into clinical trials or the market."

A \$5 million gift from alumni Allen Chao and his wife, Lee-Hwa Chao (Michael's parents), established the Chao Center in 2004 at the Purdue Research Park of West Lafayette. The center operated under the Purdue Research Foundation (PRF) and grew to about 30 employees. However, after the recession and other shifts in its operation, it was whittled down in 2010 to

The capital injected by both parties will go towards the creation of a world-class online and offline payments provider, delivering superior mobile wallet solutions and other related financial services, it said.

## 马来西亚支付行业或“厮杀”主角是阿里与腾讯

如同肯德基和麦当劳一般，只要有支付宝的地方，微信支付必会进入。就在阿里巴巴在马来西亚设立中国以外的首个物流中心之后，微信支付亦加快进入马来西亚的步伐。近日，腾讯已经在申请马来西亚的支付牌照，希望通过微信支付在当地提供支付服务。如果顺利获批，马来西亚用户可以把银行账户直接绑定到微信支付中，在购买商品和服务时可以直接使用林吉特（马来西亚货币）进行支付。对中国企业而言，东南亚未来有无限的机会，但市场有待开拓。作为中国企业的巨头，阿里与腾讯比起一般的企业更有洞察力，因此，双方在东南亚地区的较量已经开始打响。

## Hot weather to hit Longjing tea (Dragon-Well) harvest in east China

The continuous heat waves hitting Hangzhou city, a major production region of China's Longjing tea, will reduce tea output next year, local authorities said Monday. Hot weather started to hit the city in eastern China's Zhejiang Province about 12 days ago, with daily temperatures reaching between 38 and 41 degrees Celsius, and is expected to linger until the end of July, the city's meteorological department said. "The tea output and quality will decline as a result of the hot and dry summer days," said Weng Jianguo, who has 0.3 hectares of tea farm in Longjing Village in Hangzhou. The annual output of Longjing tea is forecast to reduce by as much as 10 percent next year, said the city's Longjing tea management office. Longjing tea, also known as West Lake Dragon Well tea, is a variety of green tea from Hangzhou. It has topped the list of the ten most famous teas in China and is characterized by its green color, delicate aroma, mellow taste and beautiful shape. Hangzhou has about 1,400 hectares of Longjing tea farm, with annual output of about 550,000 kilograms last year.

## 杭州“高烧”不退 龙井茶晒到焦黄或致减产

25日，是浙江省正式进入高温天气的第14天。当日杭州气温从早上6点开始持续走高，最高气温达到41.2℃，再次攀上41℃“大关”。在杭州西湖区龙井村，漫山遍野的茶树被覆盖上黑色的防晒网。顶着烈日安装防晒网的农茶表示，当前正是茶树长新芽的时期，龙井村早在一周前就开始搭建遮阳棚，并不时地为茶树浇水降温。但即便采取了应急措施，很多茶叶也已经被烈日烤得焦黄卷曲。中国农业科学院茶叶研究所相关人员表示，年龄小、根系不深的茶树，在长时间缺乏雨水的情况下很容易受伤，而在烈日下被烤焦的部分到来年或将减产。

## China's Mobike enters Italy's Florence

A new kind of bicycles designed by China's leading smart bike-sharing company Mobike have entered Italian city of Florence, the company announced Tuesday. The silver-orange smart bicycles had been placed in strategic locations across city of Florence to help alleviate automobile traffic and sustainably enhance mobility. During the initial trial operation phase, several hundred Mobikes will be launched in selected high-demand areas with a promotional rate of 30 Euro cents per 30 minutes. Starting from August, formal services will be provided to all residents in Florence as well as Milan, with a plan to launch around 4,000 bikes in each of the two cities, according to Mobike.

## 摩拜单车进入意大利佛罗伦萨/米兰：半小时0.3欧元

7月25日消息，摩拜单车今天宣布进入意大利，首批进驻佛罗伦萨和米兰两个城市。意大利成为摩拜单车在欧洲大陆进驻的第一个国家，也是继新加坡、英国和日本之后的全球第4个海外国家。摩拜单车本周将首先在佛罗伦萨投放数百辆智能共享单车试运营，供用户体验和提供反馈，尝鲜价为每半小时0.3欧元。8月初，摩拜单车将正式在佛罗伦萨和米兰投入运营，每座城市初步计划投放约4000辆。摩拜单车海外拓展副总裁克里斯·马丁（Chris Martin）表示：“在摩拜单车到来后，手机APP智能找车、云端开锁、扫码即走等新奇的产品体验，引起了当地市民的广泛兴趣。我们热切希望把这种智能、环保、方便、实惠的智能共享单车出行方式带给更多欧洲城市。”截至目前，摩拜单车已经在全球5个国家的超过150个城市投放超过600万辆智能共享单车，注册用户量超过1亿，每天提供超过2500万次出行服务。

just a handful of core employees "who are still with us today," says Chao.

The Chao family purchased the center from PRF about one year ago, and is now reinventing it as a standalone business, separate from Purdue. "But we maintain a close working relationship with the university," says Chao.

Chao believes PGC's ties with the university and its Purdue Research Park location are among the strongest selling points to fuel its rebirth. "We've said we're in the process of spinning ourselves out, so to speak, from PRF, now that we're a standalone entity," says Chao. "But being in the park has significant advantages for us; we're able to leverage back office support from PRF, and the park is home to numerous companies in the pharmaceutical space. We feel there will be a time when we're able to assist in their growth."

In addition to continuing its collaboration with Purdue and PRF, PGC is looking to large pharmaceutical companies for contract work. Chao says pharmaceutical giants often don't have the capacity or desire to produce some of their own drugs.

Throughout its varied past, PGC has consistently produced Seromycin, a drug developed by Indianapolis-based Eli Lilly and Company to treat multidrug-resistant tuberculosis. PGC is the only manufacturer in the U.S. that produces the antibiotic.

"PGC prides itself on being a responsible corporate citizen; this is a life-saving pharmaceutical," says Chao. "Thankfully, it's for a very small population in the U.S., but as long as it's needed, we'll continue to manufacture a supply for the market."

Chao says the key to PGC's relaunch is investing in its foundation; the purchase of new lab equipment is growing its infrastructure, and the company is focused on hiring additional personnel. Chao notes PGC prides itself on helping pharmaceutical manufacturers "solve problems."

"We've launched a business development effort to spread the news that PGC is back and ready to help pharmaceutical companies make products and tackle their challenges. We're meeting with companies to understand their needs and assess how we can assist," says Chao. "We believe in our location, the people, and that there's a viable long-term business that can be had here."

# INDY BUSINESS BULLETIN



## Indiana Among 'Top States For Business'

Indiana's ranking on CNBC's "America's Top States For Business 2017" list has improved over last year. The list ranks each state based on metrics in 10 categories, including workforce, cost of doing business and access to capital.

## Whitestown Welcomes \$50M Facility

The chief executive officer of Pennsylvania-based AmerisourceBergen Drug Corp. says the company picked Whitestown for a nearly \$50 million investment, in part, because of the work force it will be able to attract there. The global health care company cut the ribbon Monday morning on the distribution facility, which Steven Collis says could ultimately employ up to 150. He says the Boone County location also gives the company easy access to around 100,000 customers that it delivers prescription drugs to every day.

## Lilly Buys Into Promising Autoimmune Therapy

Indianapolis-based Eli Lilly and Co. (NYSE: LLY) has announced a co-development agreement on a potential autoimmune therapy. Lilly says it will initially pay Nektar Therapeutics (NASDAQ: NKTR) \$150 million and the deal could be go as high as \$400 million if development and regulatory milestones are reached.

## Columbus Regional Health Acquires Former Hotel

Columbus Regional Health says it plans to demolish the former Clarion Hotel and Conference Center in the Bartholomew County city and build a new facility. The health system purchased the property from German American Capital Corp. at a foreclosure auction earlier this month.

## Unemployment Holds at Lowest Level Since Mid-'90s

The state's unemployment rate remains at its lowest point in some 20 years. The state says more than 10,000 private sector jobs were added in June, compared to May, maintaining the unemployment level at 3.0 percent.

## Building Permits Rise Again

The Builders Association of Greater Indianapolis says single-family building permits in central Indiana rose 9 percent in June. BAGI President Craig Jensen says "there is unrealized opportunity" available in the new home construction market.

## New Nonstop Service Coming to Indy Airport

New nonstop service to Tampa is coming to Indianapolis International Airport. Frontier Airlines says it will begin nonstop service to Tampa International Airport in November.

# FINANCIALLY SPEAKING

## Beware the rise of the passive indexing "machines"



Mr. Kim is the Chief Operation Officer and Chief Compliance Officer for KIRR, Marbach & Co. LLC, an investment adviser based in Columbus IN. Please visit www.kirmar.com.

The following is an excerpt from KIRR, Marbach & Co.'s second quarter client letter, available at www.kirmar.com

We see parallels between now and the technology stock mania of the late 1990s. You probably have seen references to the strong performance of the "FAAMG" stocks (i.e. Facebook, Amazon, Apple, Microsoft and Google) and their impact on stock market performance. While the FAAMG stocks comprise 13% of the market capitalization of the S&P 500, they were responsible for almost 40% of the S&P 500's year-to-date return through June 7, 2017.

Amazon's market capitalization increased by \$125.1 billion in less than six months, equivalent to the combined value of UPS and Kroger. Clearly, if you didn't own those five stocks, it was almost impossible to keep pace.

Terminator 3: Rise of the Machines was released 14 years ago this month. Machines, in the form of passive index investing, are clearly on the rise and we think are responsible for much of the overvaluation for these large-cap technology stocks.

It is well-known that active managers have underperformed their benchmarks since the financial crisis. Passive index funds offer to match index performance, minus fees (which are much lower than for active management). We certainly understand the elegant simplicity of the index fund sales pitch, which

## Trump Taps McKinney For Federal Ag Post

President Donald Trump says he will nominate Indiana State Department of Agriculture Director Ted McKinney to be Under Secretary for Trade and Foreign Agricultural Affairs. U.S. Secretary of Agriculture Sonny Perdue says McKinney's background will make him an "unapologetic advocate for U.S. products in the world marketplace."

## Songbook Foundation Named GRAMMY Affiliate

The Carmel-based Great American Songbook Foundation at the Center for the Performing Arts has joined locations throughout the world as a cultural affiliate of the GRAMMY Museum, based in Los Angeles. The affiliation will give the nonprofit access to GRAMMY Museum exhibitions, technical support and research programs.

## Notre Dame Continues 'Good Story' of Research Funding

The University of Notre Dame is the most recent college in the state to report an annual record in research funding. The university says it received \$138.1 million in fiscal 2017, capped off by June's all-time monthly high water mark of \$27.6 million. Both Indiana University and Purdue University announced research funding records in 2016.

## Notre Dame to Showcase \$400M Project

The largest construction project in the University of Notre Dame's 175-year history will soon make its public debut. The \$400 million Campus Crossroads project involves major renovations to Notre Dame Stadium and three new facilities built onto the historic venue.

## Indy Among First For New AT&T Tech

AT&T Inc. launching 5G service in parts of Indianapolis, making it the second market for the company's newest high-speed internet service. AT&T Indiana President Bill Soards says the move is another step to creating a wider network that can accommodate autonomous vehicles, the Internet of Things and related technology. At a launch event today in downtown Indianapolis, Mayor Joe Hogsett called wireless technology advancement "a crucial piece of the economic development puzzle."

## Lilly Reaches Settlement on Cialis Patent

Indianapolis-based Eli Lilly and Co. (NYSE: LLY) says it has reached a settlement agreement with generic drug companies regarding the unit dose patent for Cialis. Under the terms of the agreement, Lilly's patent, which had been set to expire in April 2020, will now expire at the earliest in September 2018.

## Big Grant Targets Top Scientists

An effort to attract top scientists to Indiana has received a major boost. Lilly Endowment Inc. has awarded a \$25 million grant to fund the INCITE program, which is a collaboration among players including the Indiana University School of Medicine, the Indiana Biosciences Research Institute and Eli Lilly and Co. (NYSE: LLY) to bring biomedical scientists to enhance research and education at the school and strengthen the state's life sciences sector.

investors have responded to in droves.

According to a research report from Bank of America Merrill Lynch, "The ETF-ization of the S&P 500, Part 1," the percentage of U.S. equity fund assets that are passively managed has nearly doubled since the crisis, from 19% in 2009 to 37% today. In fact, Vanguard (the largest passive index fund manager) owns more than 5% of 491 of the S&P 500 stocks, up from "just" 11% in 2010 (and more than 10% of 80 S&P 500 stocks, up from six).

Passive index investing "machines" mechanically and mindlessly "invest" this torrent of cash pouring in by buying stocks in the same proportion as in the indices they happen to track, with no regard for company fundamentals or stock valuation. Thus, every index fund tracking the S&P 500 will buy enough Amazon every day to make it a 1.9% position (AMZN's current weighting in the S&P 500), regardless of its P/E of 187x earnings for the last twelve months or prospects going forward.

If this constant buying pressure causes AMZN's weighting to rise to 2% of the S&P 500, the index funds just keep buying more.

Our fear is this "virtuous circle" of constant buying leading to higher stock prices leading to more buying will continue—until the music stops at some point for whatever reason. The resulting index fund outflows could cause the virtuous circle to turn vicious as indiscriminate buying turns to indiscriminate selling. Index funds haven't been tested under extreme market stress since they've reached gargantuan size.

Trading liquidity is like air—you take it for granted, until it's not there. With index funds simultaneously selling the same positions, the question becomes—sell to whom?

Passive index investing is a pure form of follow-the-crowd behavior. We can't say if passive index investing is a fad, but the herd mentality of investors has certainly caused it to become a crowded trade. We've seen many fads over the past four decades plus. All have ended badly.

# Indy Airport Among 'World's Best'

Indianapolis International Airport has landed yet another accolade. The airport is ranked among the 10 best domestic airports in Travel + Leisure Magazine's «World Best Awards for 2017.»

The publications readers determined the ranking by rating airports based on services, including access, check-in, security, restaurants, bars, shopping and design. Indianapolis International Airport is ranked second on the list, behind only Portland International Airport in Oregon.

"When travelers are happy, we're happy," said Mario Rodriguez, executive director of the Indianapolis Airport Authority. "Customer feedback is our most important metric, and awards like this affirm what we're doing right and give us some good insights

how to keep growing that customer satisfaction."

Following the Indy airport on the list are Tampa International in Florida, John Wayne Airport in California and Austin-Bergstrom International in Texas. You can connect to the full list by clicking here.

The award follows a number of accolades Indianapolis International Airport has earned over the past year. In March, the airport was named Best Airport in North America by the Airport Service Quality Awards. In December, J.D. Power ranked Indy number one in customer satisfaction among medium-sized airports.

The airport also topped the U.S. domestic airport category for the third consecutive year in Condé Nast Traveler's annual Reader's Choice Survey in October.