Farazad Investments:

A Solid Reputation that Inspires Confidence

By Mr. Korosh Farazad, Chairman Farazad Investments Inc.

Farazad Investments Inc. (FII) is putting confidence back into lending practices. The company receives several hundred proposals each year and maintains a stringent selection procedure. The secret is in solid underwriting and keeping the best internationally-acclaimed talent on the payroll. This approach has its benefits: FII currently operates across five continents with offices in the United States, Europe, Middle East, Asia Pacific and Australia. FII's business plan for the short-term future is centred on keeping moderate levels of growth. The company seeks to further facilitate and develop its current structure of regional offices and is in the process of opening a registered office in London, UK, later this year.

FII is not in the market to become the biggest player or to set high targets for annual deal flow. Rather, Farazad Investments aims to identify quality clients and engage in long term relationships. The company offers an all-round range of services. Our experienced team works directly with project owners to gain a thorough understanding of their vision in order to further expand the capability of that vision within realistic parameters.

FII's award-winning structure ensures clients are not at risk of default once the loan term expires. This healthy approach has provided the company with the confidence required to endorse over $2.1bn in projects worldwide.

FII has gained an in-depth knowledge of key sectors, such as energy and real estate development. This has enabled the company to concentrate all its resources in these areas and not diversify into the fields unknown. As a result, lenders now have full confidence in FII's project endorsements. As a consequence lenders spent considerably less man hours to underwriting.

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REGULATIONS

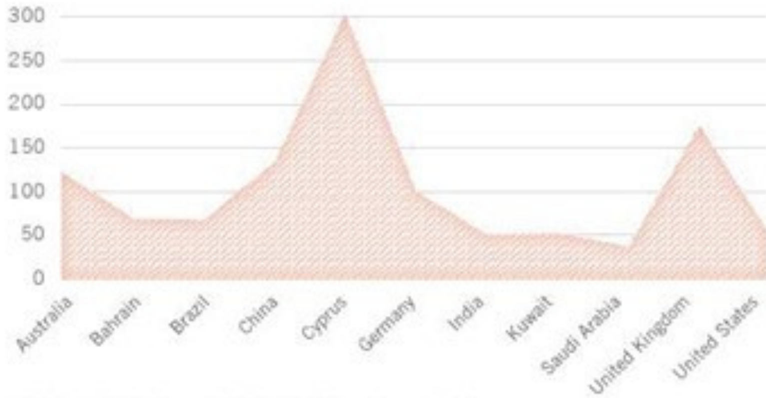
Proper regulation is critical to regaining lost confidence in banking and lending. Most importantly, governments worldwide no longer wish to carry the burden of failure and apply public funds to redress miscarriages of financial institutions. Through detailed due diligence and KYC (Know Your Customer) checks, FII is now able to disclose all hidden facts that may fundamentally affect the outcome of any given transaction.

FII's comprehensive due diligence procedures on each and every selected proposal enables the company to identify compliant clients and pursue the most suited capital structure. Thus, FII bridges the understanding between the lenders and borrowers. The language of banking has changed profoundly and it is quite a challenge for many to fully grasp the subtleties of the new dialect of transparency.

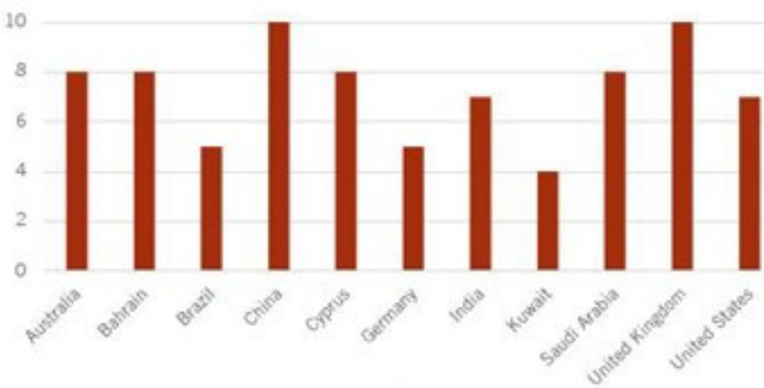
Since the crisis, regulatory entities have clamped down and imposed strict codes of conduct on the banking system. The past banking culture came into question and a severely damaged system was unearthed. Institutional lenders are now restricted in the disbursement of credit. This fallout from the 2008 financial meltdown has, however, paved the way for private lenders who are able to provide funding via structured financing schemes. This entails significantly less red tape and also allows for solid lender protection. Private investors now enjoy the first charge on assets in case of default and are offered additional securities that minimise the possibility of default on loans extended to borrowers.

HEDGE FUNDS MORPH INTO FAMILY OFFICES

There is a trend that sees traditional hedge funds changing their identity to family offices. This change is driven by a number of factors, including the fact that family offices need



Graph 1: Domestic Credit to Private Sector by % of GDP 2013.
Source: The World Bank - World Development Indicators 2014.



Graph 2: Protecting Investors 2013 – 0 - 10 (Least to Most).
Source: The World Bank - World Development Indicators 2014.

not register as investment advisers with US Securities and Exchange Commission that ensures governmental oversight.

However, this radical change is not for all: Only hedge funds with vast wealth and not dependent on investor money for their survival, can successfully make this crossover. And why stop here? Single family offices have joined resources to form multi-family offices. The family office structure offers far more control than regulated hedge funds do.

Family offices are traditionally private and have the ability to play with money out of the public eye. Other enticements include full operational control and the ability to expand into an array of additional services that offer increased protection of assets, tax efficiency and philanthropy on a broad scale.

A few of the most notable hedge funds that recently have taken this bold step include Steven Cohen's SAC Capital Advisors LP which has become Point72 Asset Management. This firm will manage Mr Cohen's individual multi-billion dollar fortune. Similar transitions were made by George Soros, Carl Icahn and Stanley Druckenmiller. All have converted their hedge funds into family offices.

ALTERNATIVE FUNDING

FII's unrivalled reputation and lender confidence led to the introduction of several prominent Family Offices, that had the ability to evidence their fund capacity and the willingness to invest worldwide.

FII identifies safe haven economies and brings these to the attention of both institutional lenders and private family offices for their investment consideration. In these secure economies the risk of default is minimal due to consistently high consumer demand. A notable and exemplary market is Saudi Arabia. The Saudi government is determined to invest heavily in the development of infrastructure and housing projects. This has resulted in the steady growth of local finance institutions with a notable lending appetite.

FII's unconventional approach to financing gave the company a decisive edge and allowed it to better understand the many challenges posed by the changing economic dynamics of the last few years. This understanding has enabled FII to find a way to secure funding for borrowers via less conventional practises while simultaneously providing investors with maximum security.

Chairman: Korosh Farazad

In 2013 it was reported that many projects experienced great difficulties in securing financing even up to only 50% of the enterprise value. In 2006, the ratio of equity-to-debt was generally 65 to 70% and higher. Under the current market conditions, institutional lenders rarely venture to beyond an equity-to-debt ratio of around 40%. However, through family offices and private equity firms, FII is able to obtain ratios as high as 70%.

FUTURE ECONOMIC IMPACT

Increased regulation will impact on further market reforms and lead to structural change. The introduction of Basel 4 will increase the cost of doing business. Banks are required to fundamentally change their business culture, adapting both their risk profiles and corporate identity. This increased cost of underwriting will, in turn and inevitably, drive up the cost of lending. Banks will also experience increased societal pressure to concentrate efforts on contributing to local economies, thus limiting their international exposure. It is evident that these pressures are relatively low in the markets of the Asia Pacific region when compared to markets in the Americas and Europe.

By the end of 2014, the European Central Bank (ECB) will have become the primary banking watchdog, policing over 120 key banks within the European network. The ECB is currently conducting a comprehensive study of the Euro banking system with a view to adopting policies aimed at increasing consumer confidence. However, there will certainly be draw backs as consumers will in all likelihood have more limited financing alternatives at their disposal once these policies are implemented.

Many banks have reduced their international presence in retail and corporate banking and now show a strong distaste for overseas lending. Regulatory pressures and restrictions are increasing at a brisk pace. This impacts the worldwide economy negatively. It is critical a balance is struck that allows banks plenty of freedom within a controlled environment. If equilibrium is not reached, excessive regulation may well cripple the international economy.

It can be argued that slapping on one regulation after the other will not solve the problems at hand. Banks' corporate policies require drastic attention, to change their behavior and adjust ethical frameworks before we can witness healthy signs of restructuring.

FII predicts that increased regulations in Europe will cause damaging effects to banking worldwide. However, institutions in the Asia Pacific region will increase their international lending presence to fill the void. This will particularly be the case with banks from China and South Korea. As a result, we will see the lending environment as a whole change systematically with more family offices and private lenders coming onto the market. This in turn will not fail to be noticed by the ever watchful regulators.