

Foreign fund management companies in China

This survey focuses on the strategic and emerging issues surrounding the expanding activities of foreign fund management companies in China.

August 2011



Table of contents

Foreword.....	1
Executive summary.....	2
Market environment	9
Competition and positioning.....	19
Products and market segments.....	34
Investments	40
Performance	44
Peer review	49
Mainland fund management companies in Hong Kong	54
Appendices	63

Foreword

Welcome to the third PwC¹ survey on foreign fund management companies in China. We are very pleased that 30 foreign fund management companies participated in the survey this year. In addition, we conducted background interviews with three mainland fund management companies which have recently established presence in Hong Kong. The key objectives of the survey are to:

- raise awareness of strategic and emerging issues for foreign fund management companies in China
- establish data on certain industry trends
- understand the thinking of chief executive officers in the China fund management industry
- provoke discussion and debate on the best options for capitalising on trends to enhance and improve performance of foreign fund management companies, and
- provide insights and perspectives on how fund management in China may evolve over the next three years.

When we launched our last survey in April 2009, the Chinese and global equities markets had started to show signs of life from the initial devastation of the global financial crisis. The last survey found a renewed sense of optimism among foreign fund management companies, envisaging a significant pick-up in business in the next three years.

This growing optimism hinged upon the speed of recovery of the Chinese and global economy and relaxation of regulatory control over new product launches. However, the lacklustre performance of equity markets around the globe in the past two years has disappointed many investors and the fund management industry as a whole.

While the US and Europe continue to struggle with their own debt issues, investors are looking to economies such as China in search of growth. China's stellar economic growth and its abundant liquidity have made the country a major force in the new world order that is emerging from the ashes of the crisis.

The state of the global economy, the evolution of regulations and talent retention are some of the challenges which China

fund managers need to overcome in order to stay competitive. This survey clearly shows that the foreign fund management companies are re-considering their strategic priorities.

Growing assets under management (AUM) is undoubtedly uppermost in the minds of most chief executive officers in the China fund industry today, but the regulatory environment remains tough. The industry welcomes the broadening of fund approval channels by China Securities Regulatory Commission (CSRC) although further enhancements are still being demanded.

The recent announcement of the launch of the RMB Qualified Foreign Institutional Investors (RQFII) programme by Vice-Premier, Li Keqiang, and the anticipated opening up of new distribution channels are both very encouraging development for the China funds management industry.

The continuing growth in diversity of product and the introduction of cross-border activity are important recent developments in the internationalisation of the funds industry in China. There is still a long way to go, but it is this huge upside potential in the industry that will draw a significant number of new foreign participants into the marketplace.

Findings of particular interest in the survey include observations on the changes in China's marketplace, the development of the regulatory environment, future opportunities and the results of the peer review.

We trust that fund managers and other readers will find the material useful in this industry-wide survey.

I would like to thank the chief executive officers and senior executives who participated in this survey for their time and efforts in making this publication possible. I would also like to thank Dr Brian Metcalfe for his research and analysis.

We look forward to feedback on this survey and on topics to be included in the future.

To obtain further information, please contact the PwC asset management industry specialist partners. They are listed at the back of this survey.

¹ "PwC" refers to PricewaterhouseCoopers Limited which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Disclaimer: The materials in this issue generally cover developments up to July 2011, unless otherwise indicated.



Robert Grome

Asia Pacific Leader
Asset Management Industry Group

August 2011

Executive summary

Background

This survey focuses on the strategic and emerging issues surrounding foreign fund management companies (FMCs) in China.

The survey attempts to synthesise diverse viewpoints, protect confidentiality and offer insights into this fast-changing investment market.

It is based on interviews with chief executive officers (CEOs) and senior executives of 30 foreign FMCs. In relation to the section on Chinese FMCs in Hong Kong, unstructured background interviews were conducted with three companies. These companies are not incorporated in the survey results.

The survey interviews were approximately one hour in length and were conducted in Beijing, Hong Kong, Shanghai and Shenzhen between April and June 2011.

The participants in alphabetical order were:

- ABC-CA
- AEGON Industrial
- AXA SPDB
- Bank of China (BlackRock)
- Bank of Communications Schroders
- BNY Mellon
- CCB Principal
- China International (J.P. Morgan)
- China Merchants (ING)
- CITIC Prudential
- DBS Changsheng
- Everbright Pramerica
- First State Cinda (Commonwealth Bank)
- Fortune SGAM (Lyxor Asset Management)
- Franklin Templeton Sealand
- GTJA Allianz
- Guotai (Generali)
- Harvest (Deutsche Bank)
- HFT (BNP Paribas)
- HSBC Jintrust
- Huatai-PineBridge
- KBC Goldstate
- Lombarda China
- Lord Abbett China
- Manulife TEDA
- Minsheng Royal
- Morgan Stanley Huaxin
- Penghua (Eurizon)
- UBS SDIC
- Zhonghai (Rothschild)

Overview

This is the third survey of foreign FMCs in China.

The first survey in 2007 found enormous optimism about the future prospects for the industry.

Two years later in the second survey in 2009, a variety of different frustrations had emerged and the benchmark Shanghai composite index (SCI) had plunged from a peak just below 6,000 in October 2007 to a low point of around 1,700 in October 2008 (see page 5).

At the time this report was under preparation in 2011, the SCI has moved horizontally in the 2,700 range.

The findings of this report support the view that the industry has not returned to the heady forecasts of 2007 and, like the index, has tended to drift sideways.

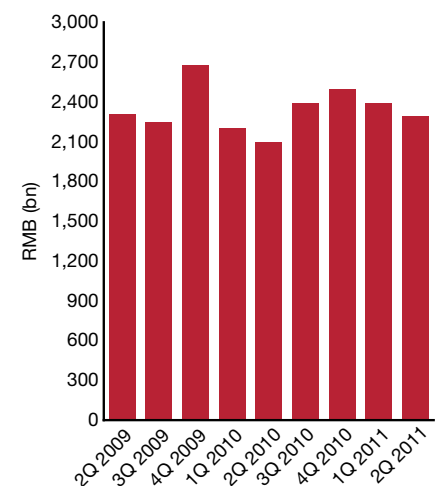
While many of the three-year projections in this report are more cautious than in 2009, there have been some significant new developments that are capturing the imagination of the foreign FMCs.

However, the report also documents key challenges such as competition from domestic companies, distribution, regulation and on-going human resource development.

Industry assets under management fails to grow over last two years

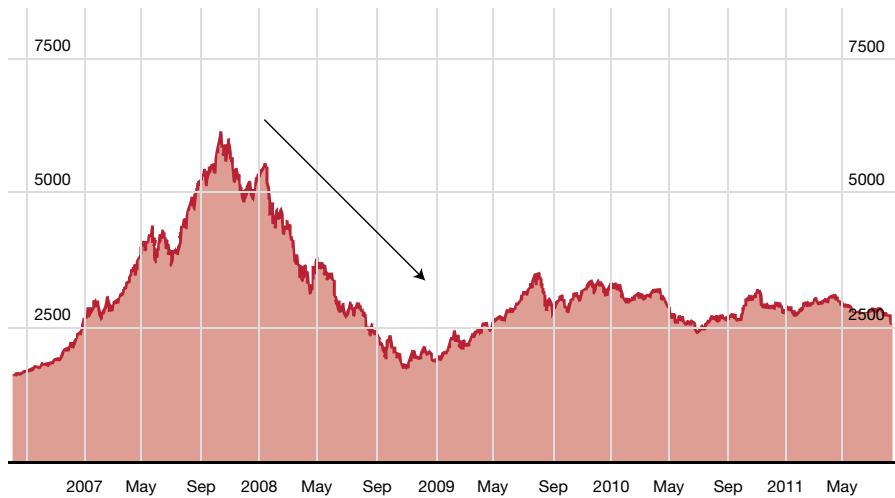
Assets under management (AUM) for the total sector have remained virtually unchanged over the last two years. In the second quarter of 2009 they totaled RMB 2,302bn, and by the end of the first quarter 2011 they were RMB 2,390bn. They reached a high of RMB 2,676bn at the end of the fourth quarter of 2009.

AUM for the Chinese fund management industry (2009 to 2011)



Source: Z-Ben Advisors

Shanghai composite index (2007 to 2011)



Source: Bloomberg

The key findings of the report are as follows.

Regulation continues to drive the marketplace

Regulation continues to be recognised as the key driver of change. Although regulation continues to frame and constrain opportunities, there is hope that the move towards internationalisation of the renminbi, possible changes on shareholding incentives, regulation of private equity managers and opening up of new distribution channels would help level the playing field and provide energy in the sector. The underperforming equity markets have also had an obvious negative impact.

Human resource development

Finding and retaining good personnel was considered the most difficult part for the industry. For the first time, it topped the difficulty list by almost doubling its score from 2009. There has been an exodus of CEOs in foreign FMCs in the last year and fund managers are becoming increasingly difficult to recruit.

Furthermore, once a fund manager demonstrates top performance he or she is difficult to retain and is likely to move to private equity management, where they may be further incentivised by being granted a shareholding.

The top three recruitment needs are investment management, research and sales and marketing.

Pressing issues

The most pressing issue for foreign FMCs is generating AUM growth. This factor jumped from 24th position in 2009 to the top spot in 2011. This critical need is closely allied to the second most pressing issue—expanding the distribution network.

Departures and arrivals

Almost 70% of participants now anticipate departures from the market by foreign FMCs.

However, there is also an expectation that new players will continue to enter the market. Interestingly, although foreign companies currently outnumber domestic companies, the foreign players expect new domestic entrants to outpace new foreign players.

Participants tentatively expect around 45 foreign companies in three years alongside over 50 domestic companies.

Market share to remain static

In 2009, participants believed the foreign companies would gain market share. In this report 19 out of the 28 respondents predict it will remain the same over the next three years.

Brand building

Participants recognise the distribution conundrum they face and accept the need to increase brand recognition. But lifting their fund profile requires a concerted promotional spend.

The total advertising spend for participants amounted to US\$37m or an average of US\$1.7m per company.

Only two companies confirmed that they used TV advertising. Seven of the 22 respondents indicated they were investing in social media. Four companies specifically mentioned Weibo.

However, promotional spending constraints for many of the foreign companies will continue to limit their ability to attract investor attention.

Hong Kong gateway

The key business objective for foreign companies over the next three years is to enter new geographic markets such as Hong Kong.

However, while very attractive to some participants, a Hong Kong subsidiary may result in group conflicts.

Nevertheless, it is clear that as the foreign companies continue to pin their hopes to the emerging opportunities associated with the internationalisation of the renminbi, they believe Hong Kong will be a significant investment portal.

This distribution channel is also tied to the fortunes of both Qualified Foreign Institutional Investor (QFII), mini QFII and Qualified Domestic Institutional Investor (QDII).

Unflinching commitments

Despite difficulties of the marketplace, the level of support by most of the foreign partners remains resolute. Fourteen companies scored either 9 or 10 out of a maximum 10 on the commitment scale.

However at the low end, five companies now record 5 or below. The commitment scores by domestic partners closely match those of the foreign partners. Fourteen companies also scored a 9 or 10 out of 10.

Fee structures

Participants believe that fees paid to retail distributors, notably the big banks, are unfair. Several companies with less well known brands and undistinguished performance are paying fees in the 70% to 75% range to access distribution.

Better known and better performing funds are paying around 50%.

IT effectiveness

Participants continue to believe that fund companies are maintaining adequate IT expenditure. Twenty-two companies project an individual average spend of US\$2.86m or collectively US\$63m in calendar year 2011. They would like to be able to use some of the global outsource providers and believe this might help with costs.

They noted the overwhelming dominance of Hundsun Technologies in the marketplace and welcome the entrance of new players that might increase competition and choice.

Foreign FMCs use systems that have been developed for the domestic market and seldom benefit from foreign partners' systems.

More new funds

Over the two-year period between December 2008 to December 2010, the foreign fund management industry introduced 174 new funds. The 27 respondents in this report said they would introduce 112 new funds in 2011.

FMCs have accelerated the introduction of new funds over the last two years. This has been facilitated by a loosening of the approval process and the ability to introduce two new funds within each of five different channels.

In theory this permits up to ten new funds each year, although most companies have not reached this level. The five channels are QDII, fixed income, active equity, passive equity and innovative.

Most important market segments

The most important segments for the foreign fund companies going forward to 2014 are high net-worth individuals, the insurance sector and beyond the tier-one cities.

Revenue growth

Evidence of the difficult current conditions was provided by projections that one company expected revenue to decline by 10% in 2011 while eight other participants expected zero growth.

More encouraging growth projections were provided by six companies (20% range), four companies (30% range) and one company at 100%. Revenue projections for 2014 were much more buoyant.

Confirming disappointing past performance, 11 companies recorded that profit expectations over the last three years had been less than expected.

Projecting forward three years, 24 companies expect profit levels to be higher than at present.

Latest developments

In June 2011, following the Strategic Economic Dialogue talks between the United States and China, the China Securities Regulatory Commission (CSRC) agreed to open up more sales distribution channels. Both locally incorporated foreign banks (around 40 at present) and individual financial advisers (such as Noah) will be able to apply for sales licences from October 2011.

Under the new proposals fund management employees with at least ten years' experience in the business will be permitted to own shares in FMCs.

Peer ranking summary

A summary of the peer ranking (top three positions) of the foreign joint venture (JV) FMCs is shown in the table below. Peer rankings are based on the opinions of CEOs and senior executives that participated in this survey. Please refer to the Peer Review section on page 49 for full details.

	First	Second	Third
Brand name recognition	Harvest	China International (JPM)	FullGoal
Client focus	China International (JPM)	Harvest	HFT
Distribution network	Harvest	ICBC Credit Suisse	BOCOM Schroders
Innovativeness	UBS SDIC	FullGoal	Harvest
Marketing strategy	Harvest	China International (JPM)	FullGoal
Overall performance	Harvest	FullGoal	Morgan Stanley Huaxin
Product range	Harvest	FullGoal	ICBC Credit Suisse
Service quality	Harvest	China International (JPM)	HSBC Jintrust

Market environment

Number of employees

The 30 foreign FMCs interviewed employ 4,270 people and they expect to expand by 38% to 5,895 people by 2014. In the 2009 survey, the three-year rate of growth to 2012 was predicted to be 49%.

Four companies expect less than 20%, nine companies expect growth of 20% to 29%, four companies of 30% to 39%, four of 40% to 49%, four of 50% to 59%, one of 60%, one of 70% and two above 100%.

In 2009 four companies expected employment growth to exceed 100%.

Number of overseas employees

Twenty-seven companies provided data on non-People's Republic of China (PRC) employees. In 2011 they totalled 90 employees and are expected to increase to 136 employees.

Three companies accounted for 30 employees within the three-year projected addition of 46 employees. Nine companies have zero overseas employees. In 2009, five companies recorded this result.

Growth expectations for AUM

In terms of AUM growth, 27 companies provided projections for 2014. Overall they expect a 60% growth in AUM by 2014. This is much lower than the 101% three-year projection to 2012 by a slightly different mix of participants.

Eleven companies plan to grow AUM by 100% or greater by 2014. This group includes several companies that hope to double or triple AUM by 2014. Sixteen companies fall below 100%. This group is made up of seven companies in the 50% to 70% range.

Only two companies are below 20%.

Industry wide data for the end of December 2010 indicates that foreign FMCs had 47.1% market share with RMB 1,176.1bn AUM. The domestic companies had 52.9% market share with RMB 1,321.1bn.

In comparison to December 2008, they have increased market share by 1.7%. The foreign FMCs' AUM have increased by 33% from RMB 882bn in 2009 to RMB 1,176.1bn in 2010.

The number of funds has increased from 224 to 398 over the two-year period.

In this survey, 27 respondents indicated they will manage 379 funds by the end of 2011 and will expand by 82% to 689 funds by 2014.

Number of retail investors

Twenty-five companies provided estimates of their retail investors. They totalled 34.9m in 2011 and are expected to increase by 59% to 55.4m by 2014. These totals hide some significant growth projections.

For example, four companies each hope to add two million new retail investors over the next three years.

Sixteen companies already have at least one million retail customers.

Number of institutional clients

Twenty-three companies answered this question. Collectively, they had 3,930 institutional clients and expect to more than double institutional clients by 2014. As in 2009, the typical response is to say 30, 40 or 50 institutional clients but some companies also recorded a higher number such as 500 or 600.

Sales distributors

Twenty-seven companies provided details on the number of sales distributors. They had 1,108 sales distributors and envisage this number expanding by 21% to 1,341 by 2014.

As in 2009 the typical response on an individual company basis was 30 to 50 distributors but a few companies recorded around 80 distributors or higher.

Net income

Twenty-three companies provided estimates of their net income in 2011 and 2014. Two companies indicated they would record losses in 2011 and one predicted it would break even.

None predicted losses by 2014.

Nine companies fell in the RMB 100 to RMB 200m range, while the highest projection was RMB 600m.

By 2014 three companies project they will be at the RMB 600m level or higher. A further four companies hope to be at the RMB 200m level.

Six companies will be below RMB 100m with the lowest projection at the RMB 15m mark.

Q What areas would you like to see relaxed in terms of current financial regulation and marketplace restrictions?

In 2009 the regulation that the participants unanimously agreed should be relaxed was new product approvals. Two years later the product approval process has been improved and companies can now apply for simultaneous fund approvals.

Several companies expressed satisfaction with the enhanced approval process however, others believed the approval process should be eliminated entirely.

One participant noted that currently submission for approval for a new fund takes three months. Another participant commented that a fund manager is only permitted to manage three funds and as a result, if a company wants to launch six new funds, they need to recruit two new fund managers. The high demand for new fund managers means that employees spend between two and three years as research analysts before being promoted to fund managers.

A number of participants raised the issue of permitting share ownership by employees. One company noted that the Deputy Chairman of CSRC in a speech in 2010 suggested that employees may be able to hold up to 20% of equity in their respective companies.

Several companies argued that employees should be allowed to purchase securities provided there was full disclosure and no apparent conflict of interest.

They noted that FMCs are losing employees to other parts of the industry where this practice is permitted.

Participants believe that trust companies, insurance companies (who are now permitted to set up their own asset management companies) and the private fund companies all represent significant threats to FMCs. This is because the participants believe these competitors are all able to operate in a more flexible regulatory environment. They would like to see a relaxation of regulations in the areas where they believe they are at a competitive disadvantage.

One large participant indicated that it would like to see changes to the pension market. With reference to China's aging population and making comparisons with the US market they believe the Chinese market would benefit from a "401K" type retirement product.

Other areas that were cited for new or continued relaxation were:

- Segregated accounts
- QDII quotas
- QFII quotas
- Derivative and other hedging tools
- The future listing of FMCs
- Permitting more institutions to sell mutual funds including insurance agents. In May 2011 it was announced that branches of foreign banks would be allowed to distribute mutual funds.

Q What concerns do you have regarding the Chinese fund management market?

The following concerns were expressed by participants:

- Foreign partners have a reduced management role
- Regulatory environment is very tough but there are signs that it might becoming less onerous. More innovative products are being approved
- The domestic FMCs are becoming more successful and expanding
- The supply of talent is very limited. There has been a high turnover of CEOs and senior management
- The distributors are becoming even more powerful. The Big Four banks are squeezing margins
- Following the Global Financial crisis, foreign management companies' status and credibility declined
- Ownership and control are key issues but there seems little change of foreign companies being allowed to gain control in the foreseeable future
- Many foreign FMCs remain small and have been unable to win market share
- Technology and knowledge transfers by the foreign partners have become less important
- There is enormous concern across the industry, the smaller players have no ideas on how to create a brand, grow AUM or improve profitability
- There is evidence of cannibalisation where new funds are taking investment away from existing funds
- How to recruit and then retain star managers is a concern
- Domestic companies tend to be more flexible regarding their interpretation of risk management rules
- One company contended that because of the volatile stock market up to 70% of fund investors are losing money
- There is considerable churning by sales agents
- Distribution is very commission driven

Q What are the major drivers of change in the Chinese fund management industry today? Please rank the top five in order of importance?

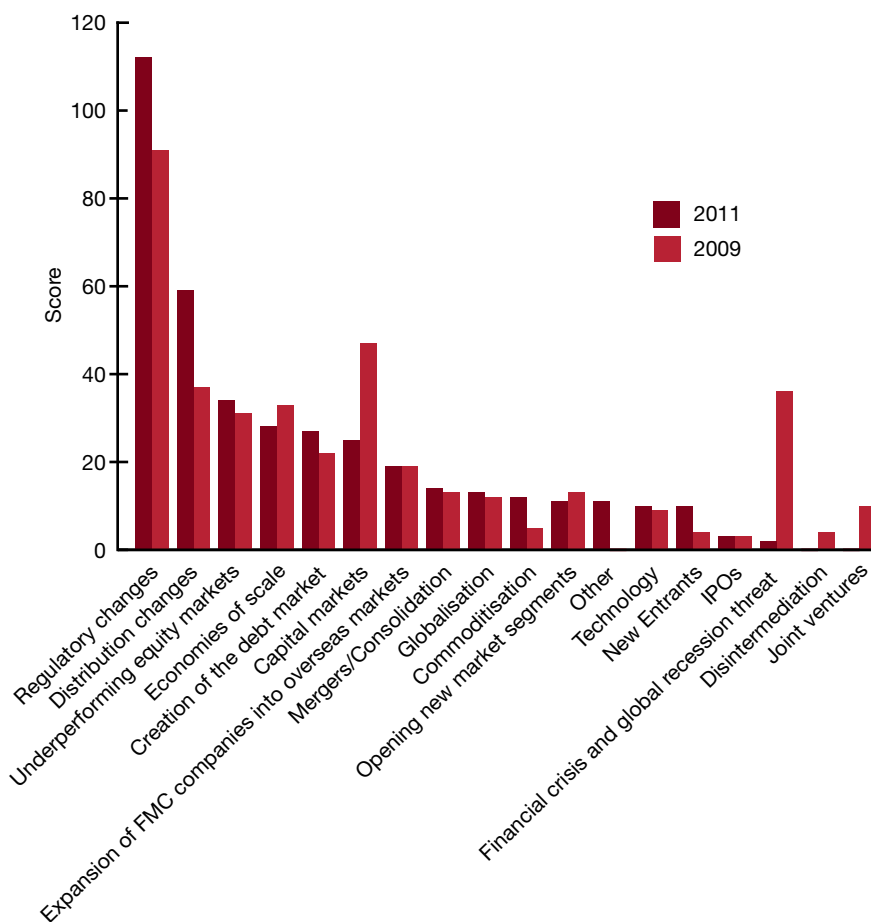
The most important driver of change in both 2009 and 2011 was the pace of regulatory changes. The score increased significantly in 2011.

Distribution changes moved up one place from third position in 2009 to second position in 2011.

In third position in 2011 was underperforming equity markets.

Capital markets dropped from second to sixth position in 2011. The global financial crisis which was in fourth position in 2009 dropped to 16th position in 2011.

Some of the important factors surrounding regulatory changes included internationalisation of the renminbi, shareholding incentives for employees and the pending regulation of private equity managers.



Based on responses from 26 companies in both 2011 and 2009

Q What does your company find to be the most/least difficult aspects of the Chinese fund management industry?

The three most difficult aspects of the Chinese fund management industry from the foreign FMCs' perspective were:

- finding and retaining good personnel
- competition from domestic FMCs
- innovative product/service offerings

Finding and retaining good personnel became the most difficult aspect of doing business for FMCs. The score almost doubled from 2009. This reflects the difficulty companies are experiencing in retaining high performing fund managers and at that

same time, recruiting skilled and qualified fund managers given the proliferation of new funds.

Brand name recognition has also become much more troublesome for the companies as the market is dominated by a number of high profile companies who in turn overshadow the remaining fifty or more smaller, less recognisable domestic and foreign FMCs.

The scores illustrate how the foreign FMCs interviewed see their primary competitors as domestic companies (second position) and not foreign JV companies (sixth position).



Based on responses from 28 companies in 2011, 24 companies in 2009 and 18 companies in 2007

Increase in number of products 2008 to 2010

FMC	Foreign shareholder	2010	2008	Funds in 2 years
ABC-CA	Credit Agricole Asset Management	7	2	5
AEGON-Industrial	AEGON	9	5	4
AXA SPDB	AXA Investment Managers	5	2	3
BOCOM Schroders	Schroder Investment Management	13	8	5
BNY Mellon Western	BNY Mellon Asset Management	1	0	1
BOC	BlackRock Investment Management	11	6	5
CCB Principal	Principal Financial	13	7	6
Changsheng	DBS Asset Management	15	11	4
China International	JP Morgan Asset Management	13	9	4
China Merchants	ING Investment Management	16	10	6
CITIC-Prudential	Prudential plc	10	4	6
Everbright Pramerica	Pramerica Investment	9	5	4
First State Cinda	First State Investment Management	5	2	3
Fortune SGAM	Lyxor Asset Management	15	11	4
Franklin Templeton Sealand	Franklin Templeton Investments	8	5	3
Full Goal	Bank of Montreal	20	14	6
Golden Eagle	BEA Union Investment	6	0	6
GTJA Allianz	Allianz Global Investors	12	6	6
Guotai	Generali Group	18	0	18
Harvest	Deutsche Bank Group	23	16	7
HFT	BNPP IP BE Holding (Formerly Fortis)	15	9	6
HSBC Jintrust	HSBC Investments	9	5	4
Huatai-PineBridge	PineBridge Investments.	10	5	5
ICBC Credit Suisse	Credit Suisse First Boston	15	9	6
INVESCO Great Wall	INVESCO Asia, Limited	11	10	1
KBC-Goldstate	KBC Asset Management	6	2	4
Lombarda China	Unione di Banche Italiane – UBI Banca	7	2	5
Lord Abbett China	Lord Abbett	5	2	3
Manulife TEDA	Manulife (Formerly ABN AMRO)	14	10	4
Minsheng Royal	Royal Bank of Canada	5	0	5
Morgan Stanley Huaxin	Morgan Stanley	7	3	4
Penghua	Eurizon Capital SGR	20	12	8
Ping An UOB	UOB Asset Management	0	0	0
Rongtong	Nikko Asset Management	12	10	2
SYWG BNP Paribas	BNP Paribas Asset Management**	10	7	3
UBS SDIC	UBS Asset Management	14	10	4
Zhonghai	Edmond De Rothschild Banque	9	5	4
	Total funds	398	224	174
	Average per company	10.8	6.4	4.7
Additional companies	American Century Investments*			
	AVIVA Investors*			
	Bank of Nova Scotia*			
	F&C Asset Management*			
	Fubon Securities*			
	Korea Investment & Securities*			
	Mirae Asset Financial Group*			
	National Australia Bank*			
	President Securities*			

** BNP Paribas share sold to Mitsubishi UFJ

Based on data reported by Z-Ben Advisors

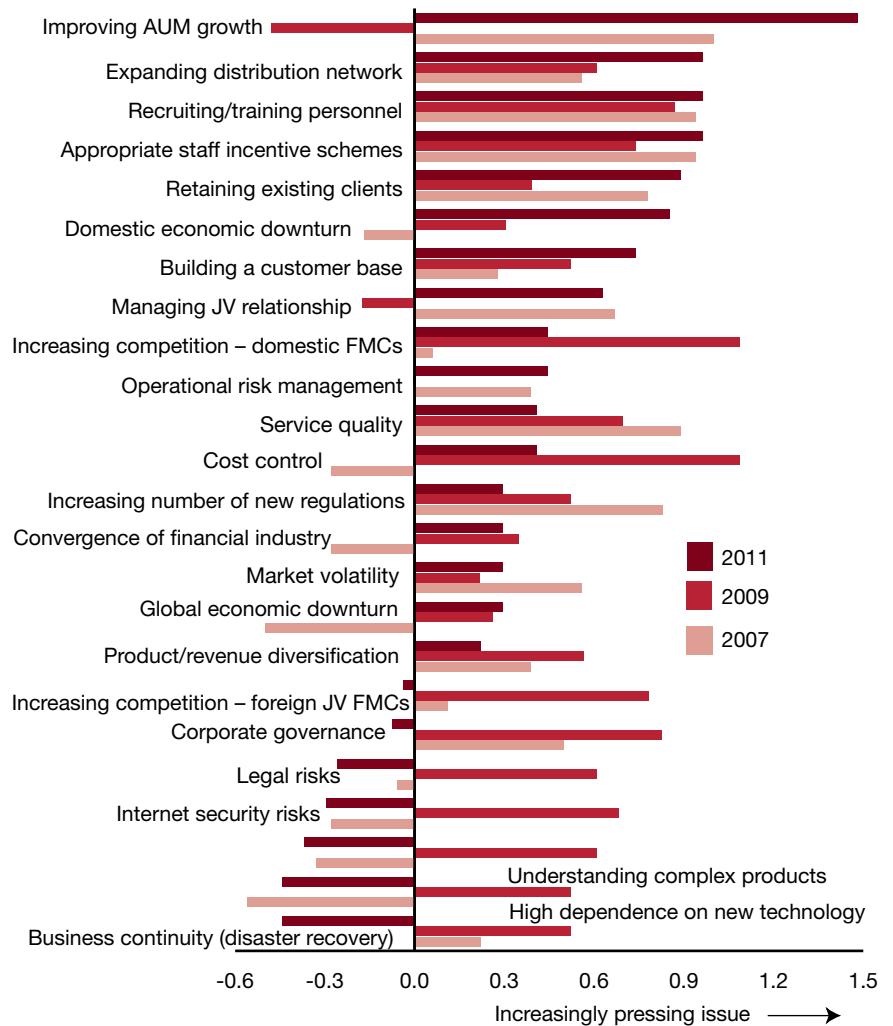
Q What are the most pressing issues you face? Can you rate them 1 to 5?

The most pressing issue in 2011 was the need to improve growth in AUM. It jumped from 24th position.

In second position was expanding the distribution network. This factor moved from ninth position in 2009 and reflects the critical need for many FMCs to access wider distribution channels.

Recruiting and training personnel and staff incentive schemes in third and fourth positions emphasises the human resource management challenges facing the industry.

Reinforcing a point made in relation to the difficulty of doing business, the foreign FMCs placed increasing competition from domestic companies in ninth position, well ahead of increasing competition from other foreign companies in 18th position.

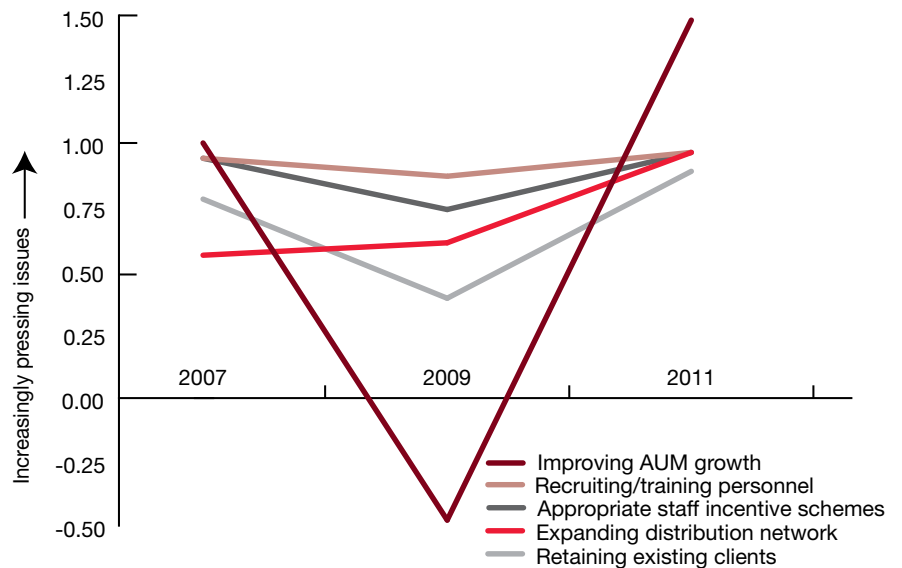


Based on responses from 27 companies in 2011, 23 companies in 2009 and 18 companies in 2007

Changes in the most pressing issues since 2007

Five factors plotted over the three PwC surveys portray how personnel issues have remained at the top of the priority list since 2007 while expanding distribution has steadily increased in importance.

Retaining existing clients dipped in 2009 but increased dramatically in 2011. The most apparent reversal related to the need for growth in AUM. The value jumped from -0.5 to +1.5 between the 2009 report and 2011.

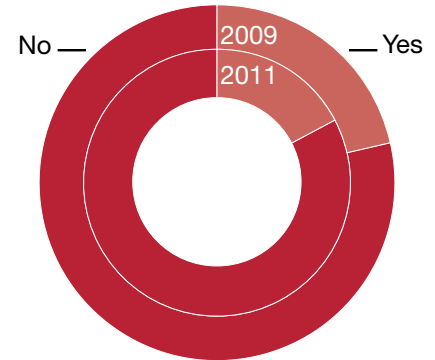


Competition and positioning

Q Is China over supplied in terms of foreign FMCs?

FMCs continue to believe that the fund management marketplace is not over supplied.

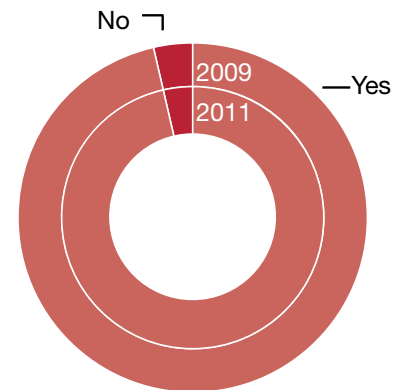
In 2007 83% said there was no over supply, in 2009 it was 79% and this year it has returned to 83%.



Based on responses from 29 companies in 2011 and 28 companies in 2010

Q Will others continue to enter the market?

As a result participants anticipate that new FMCs will continue to enter the market.

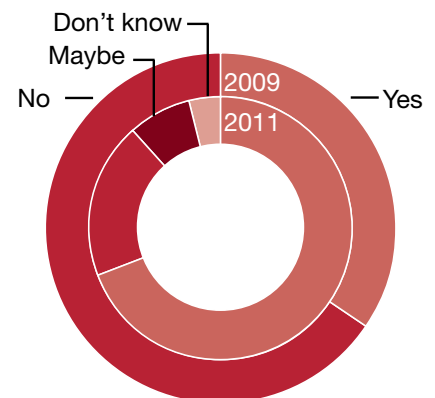


Based on responses from 29 companies in 2011 and 28 companies in 2009

Q Might some leave the market?

In a significant increase from 2009 when nine of the 26 respondents indicated that foreign FMCs would leave in 2011, 18 of the 26 respondents now anticipate departures.

Participants also referred to several new JVs that have received CSRC approval but have been very slow to get up and running.



Based on responses from 26 companies in both 2011 and 2009

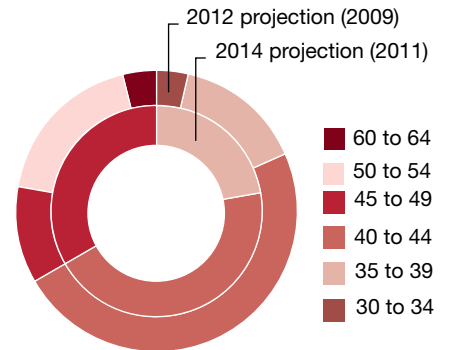
Q By 2014 how many foreign FMCs will operate locally?

At present there are around 66 FMCs made up of 28 domestic fund managers and 38 foreign fund managers.

The majority of participants responded that there will be 35 to 45 foreign FMCs by 2014.

Nine companies believe there will be between 45 and 49 companies.

In other words, most participants expect somewhere between five and ten new foreign entrants over the next three years.

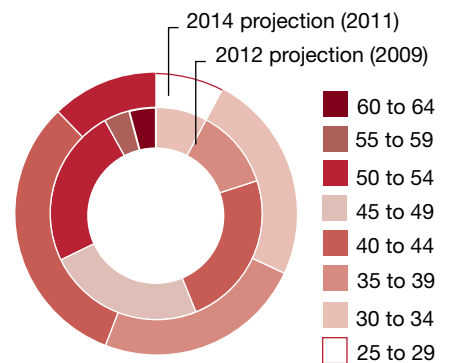


Based on responses from 27 companies in both 2011 and 2009

Q By 2014 how many domestic FMCs will there be?

On the domestic side, the number of companies is expected to grow at a faster pace.

While the participants expect no more than 50 foreign companies by 2014, on the domestic side a third of respondents believe the total number of domestic companies will climb above 50.

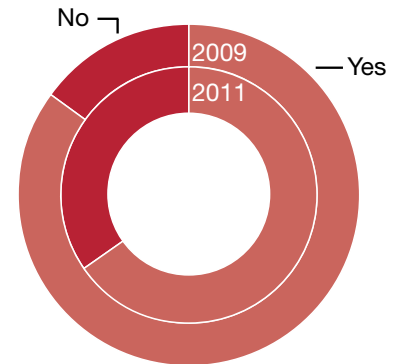


Based on responses from 25 companies in both 2011 and 2009

Q Will there be mergers between domestic FMCs?

In 2009, 85% of respondents believed there would be mergers between domestic fund managers.

In 2011, a smaller number 17 of the 26 respondents believed there would be mergers.



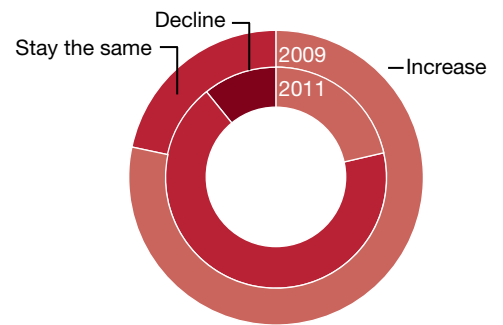
Based on responses from 26 companies in 2011 and 27 companies in 2009

Q Will the aggregate market share of the foreign FMCs in China (vs domestic FMCs) increase, stay the same or decline?

Participants displayed much less optimistic views on market share in 2011. In 2009, 22 respondents believed that market share of the foreign companies would grow over the next three years.

In 2011, only six companies believed it would expand, 19 companies said it would remain the same and three companies believed it would decline.

This suggests that the foreign companies are finding it difficult to gain traction in the market at this time, and continue to feel the pressure of the large domestic companies and the tight constraints of the bank dominated distribution channel.

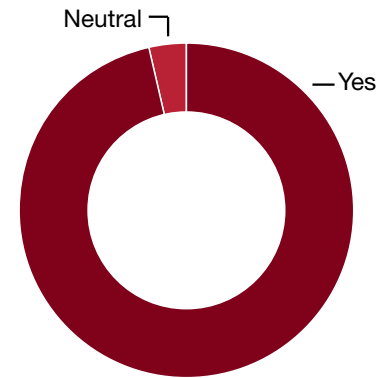


Based on responses from 28 companies in both 2011 and 2009

Q Would you welcome the entrance of global outsource providers?

Foreign companies continue to strongly support the entrance of global outsource providers. At present the big global firms are not permitted to service FMCs.

Many of the participants suggested that their presence would help reduce costs, particularly for smaller foreign companies that are unable to benefit from the economies of scale of the larger domestic and foreign companies.



Based on responses from 28 companies in both 2011 and 2009

Q Can you indicate your level of advertising expenditure in 2011 in US\$?

Twenty-two companies provided details of their advertising expenditure. The total spend in 2011 is estimated to be US\$37.2m or an average of US\$1.7m per company.

The projected advertising expenditure ranged from US\$100,000 to US\$7m. Eight companies spend in the US\$1m to US\$1.5m range and eight companies spend less than US\$1m. One company provided additional insight by suggesting it spent RMB 1m for each product.

Only two companies recorded activity related to TV advertising which was generally considered to be too expensive for the participants. Several companies are advertising on mobile phones in an attempt to build brand awareness.

Seven of the 22 respondents indicated that they were using social media. Four companies specifically mentioned the use of Weibo. Sina Weibo is a micro-blogging site similar to a hybrid of Twitter and Facebook.

Micro-blogging sites are being increasingly used to dispense wealth management information.

In June 2011, a Chinese magazine publisher, Hung Huang, used Sina Weibo, on which she has 2.7m followers, to strongly criticise a European Private Wealth Management company (www.wealthbriefing.co.uk, 8 June 2011).

One participant elaborated on its advertising budget by revealing that it spends 40% on radio, 40% on print, 10% on social media and 10% on mobile phones.

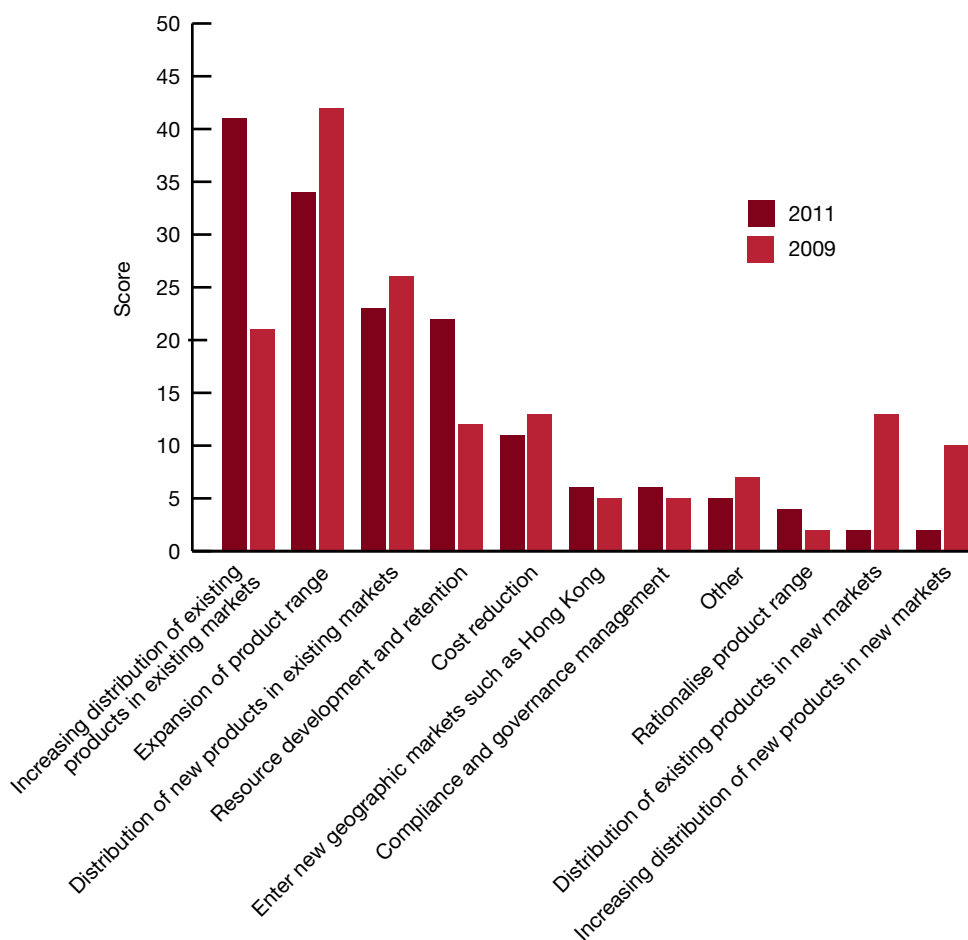
Q Please indicate from the list below the top three key objectives for your business

The top objective for foreign companies in 2009 was expansion of their product range. At that time, the launching of new funds was very restricted and, as noted earlier, this has been relaxed.

As a result, the critical business objective in 2011 is the increased distribution of existing products in existing distribution channels.

New product development continues to be critically important and the related factor of distribution of new products into existing markets is placed in third position.

Human resource development and cost reduction are also very important objectives.

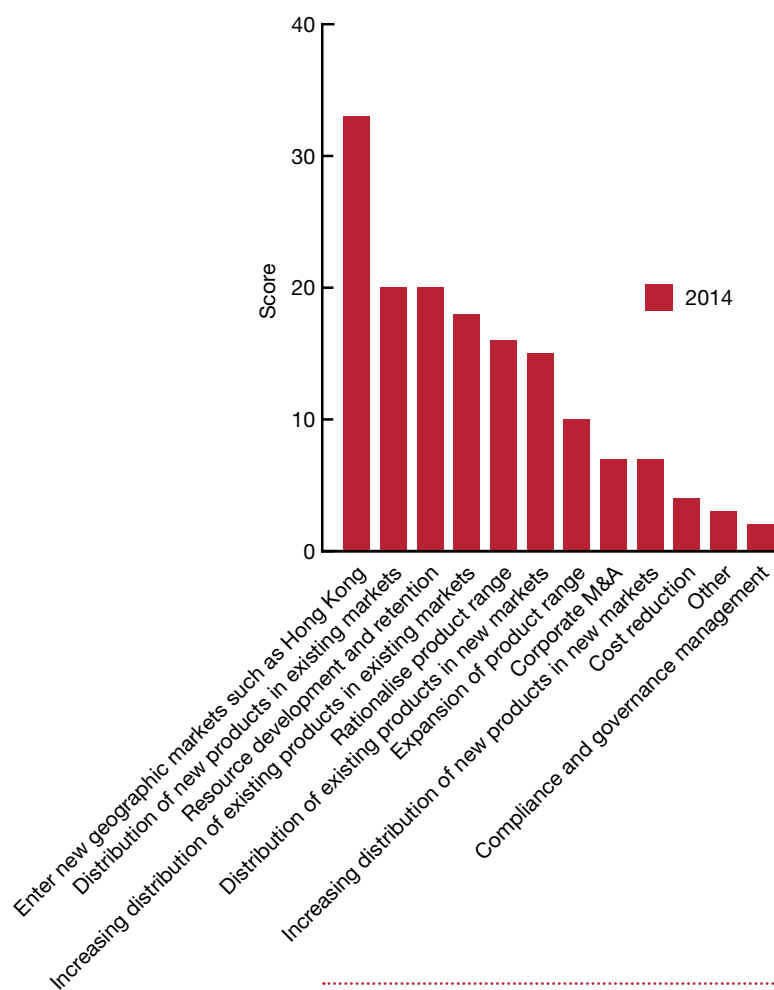


Based on responses from 26 companies in both 2011 and 2009

Q Please indicate from the list below the top three key objectives for your business in 2014

By 2014 the most important objective was identified as entering new geographic markets such as Hong Kong. This suggests that the foreign companies, while focusing on distribution and product expansion in China as the current priority, hope to consider new geographic markets going forward.

A range of other factors will also continue to be important, new product development, human resource development, M&A and cost reduction.



Based on responses from 26 companies in 2014

Q Is human resource management a major concern to foreign FMCs?

Human resource management remains close to the top of foreign companies' current concerns. When asked to score the magnitude of the HR issue on a scale of 1 to 10 where 10 represents maximum concern, 18 companies scores it 8 or higher.

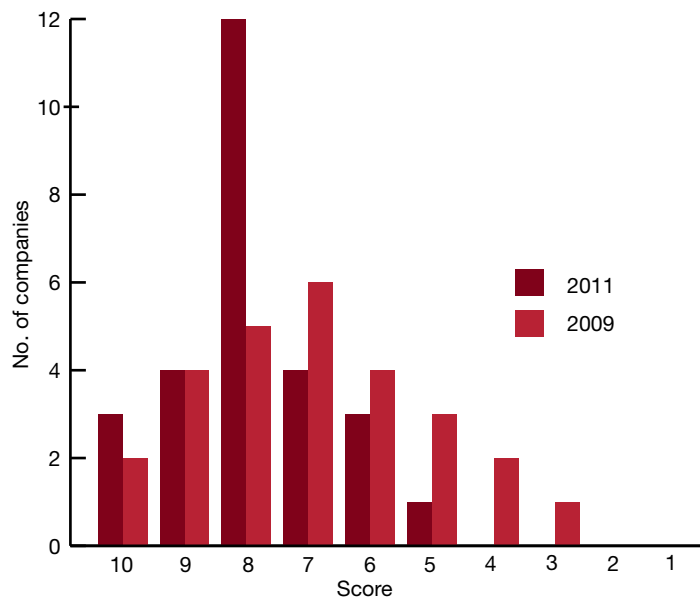
This compares to 11 companies with 8 or higher in 2009. This confirms that HR has become a major concern.

It is manifested at several levels within the foreign companies. For example, there have been widespread departures at the CEO level in the foreign companies. According to the CSRC's website, from 1 January 2009 to 1 March 2011, 18 new CEOs' qualifications have been approved by CSRC.

Fund managers are also in flux. Top performing managers are often tempted to leave their companies and sometimes find position in private equity fund managements where they can increase earnings.

It may be possible to stem this haemorrhaging of fund management talent if the CSRC permits equity ownership in FMCs.

Participants suggested that the skill shortages across the sector were becoming increasingly difficult with the expansion in product offerings and diversification.



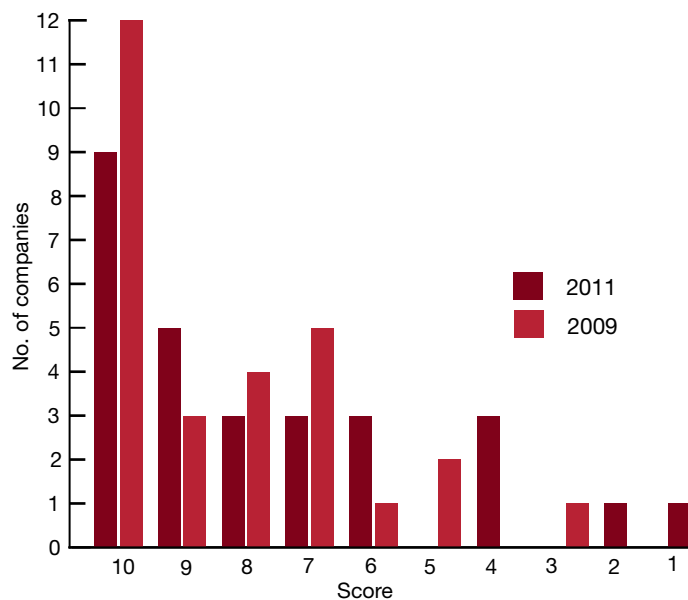
Based on responses from 27 companies in 2011

Q How would you characterise the commitment of your foreign JV partner to the Chinese market in comparison to other markets around the world on a scale of 1 to 10?

The commitment levels of foreign JV partners remains very strong despite the difficulties of the fund management industry.

In 2009, 12 companies awarded the maximum score of 10 out of 10, where 1 represents no commitment and 10 is an extremely aggressive commitment to the market. In 2011 this dropped to nine companies but the 9 out of 10 number increased from three to five companies.

There has been a change at the lower end of the scale. In 2009, only three companies scored 5 or below, by 2011 five companies were in this group with one participant awarding a commitment of 1 out of 10 and another 2 out of 10.

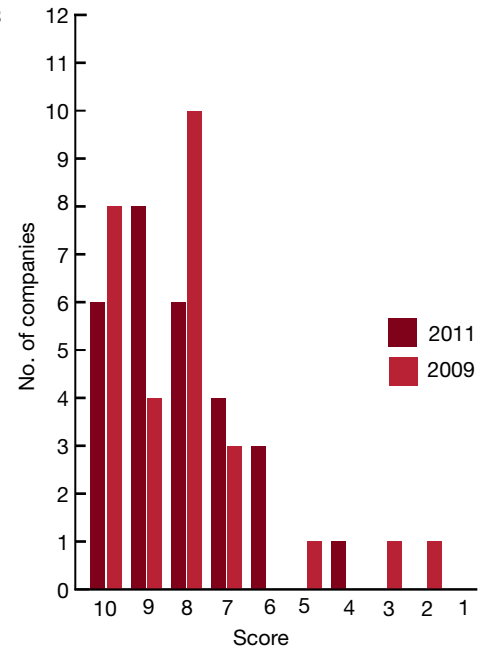


Based on responses from 28 companies in 2011 and 2009

Q How would you characterise the commitment of your domestic partner(s) to the JV?

The support from domestic JV partners remains very similar to 2009. The number of companies scoring 9 or 10 increased from 12 to 14 companies. In 2009, 25 companies scored seven or higher and in 2011, 24 companies fell into this group.

At the lower end of the scale only one company scored 5 or below in 2011 while three companies awarded three low scores in 2009.

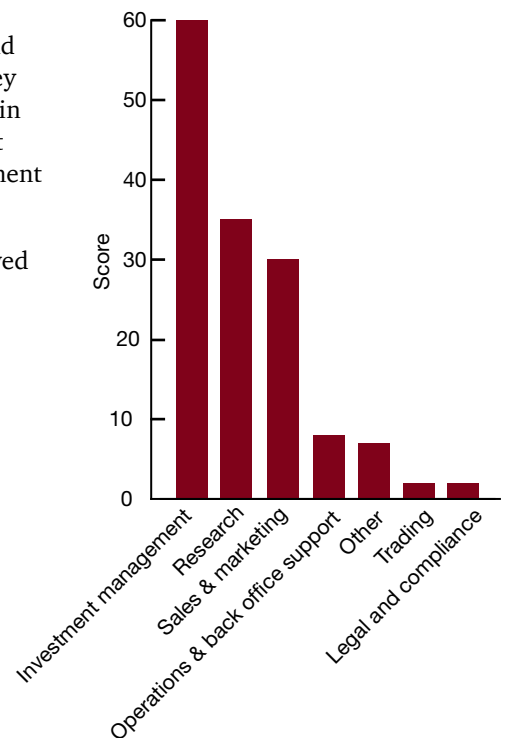


Based on responses from 28 companies in 2011 and 2009

Q In terms of 2011 recruitment needs, using the following list, can you rank the top three areas by function?

The rapid growth in new product offerings and the need for more fund managers is recognised in the survey findings. The top recruitment need in 2011 is for investment management professionals. Investment management also came in first place in 2009.

In second place was research followed by sales and marketing. At a much lower level were operations, other, trading, and legal and compliance.



Based on responses from 24 companies in 2011

Q Can you comment on the industry's fee structures?

In general the participants believed that the fee structure in the retail sector was grossly unfair and weighted too heavily towards the banks.

The percentage of the overall management fee awarded to the banks in their distributive role could range towards the 70% or 75% level.

Some of the better known and better performing funds pay a fee of around 50% to the banks.

One large foreign fund management company said that they pay their front load fee to the distributors together with a 50% trailer charge.

Less transparent costs include training fees and product promotion fees. A smaller foreign fund management company noted that training fees are continuing to increase.

In contrast the participants contended that the fees paid by institutional investors are considered fair.

Q Can you quantify your JV FMC's IT development spending for calendar 2011 in the Chinese market (this includes hardware, software and changes to legacy systems)?

Twenty-two participants provided data on their annual IT expenditure. Collectively, they plan to spend US\$63m in 2011, an average of US\$2.86m per fund management company.

There was a wide variation across individual companies.

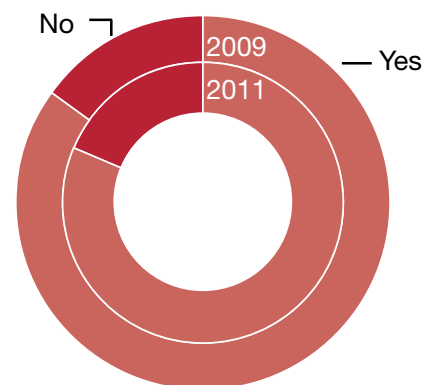
Two companies said they planned to spend less than US\$500,000 while the largest spend was by a bank-related FMC at US\$15m.

Several companies highlighted very expensive maintenance costs.

Q Are FMCs maintaining/improving their IT effectiveness and efficiency?

As in 2009, the overwhelming majority of participants believe that their on-going IT expenditure means that they are continuing to maintain and improve their level of effectiveness.

Five companies disagreed. They argued that they had quite basic systems and that several of the badly performing companies were "dragging their feet".



Based on responses from 27 companies in 2011 and 20 companies in 2009

Q Will the local operation primarily implement JV's foreign partner's systems?

Twenty-five companies stated that they use local "Made in China" IT systems to run their businesses.

The two companies that had foreign content in their systems were confined to specific parts of their operations. One indicated that their trading system was of foreign origin while another suggested their QDII system was international.

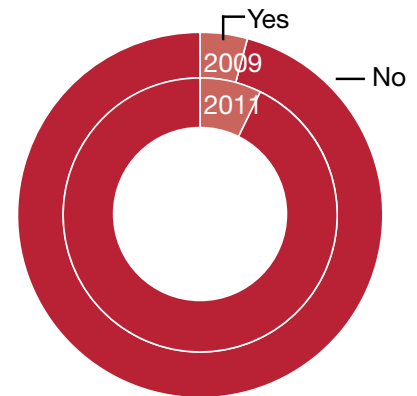
Some companies also suggested that parts of their risk management systems were adaptations of international applications.

The participants noted that Hundsun Technologies was extremely dominant in funds management software. One participant claimed it controlled over 90% of the market.

There are other small competitors in the marketplace. One such example is Kingstar which was acquired by US-based SunGard in 2006.

Sungard Kingstar has a portfolio of products associated with exchange management, securities trading, gold trading, brokerage management, data warehousing and campus smartcards.

At the time of the acquisition, media reports suggested that the Kingstar acquisition provided a gateway into the financial services sector in China. It also helped position SunGard to benefit from the Kingstar's clients that wanted to expand outside China.



Based on responses from 27 companies in 2011 and 23 companies in 2009

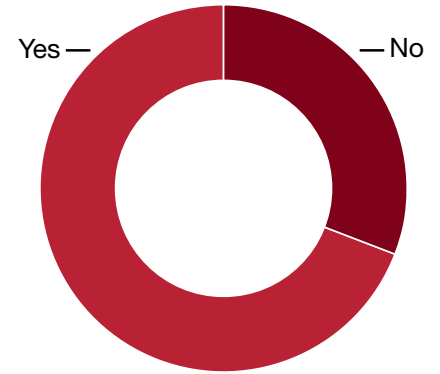
Q Will your business model change over the next three years?

What will be the drivers of that change?

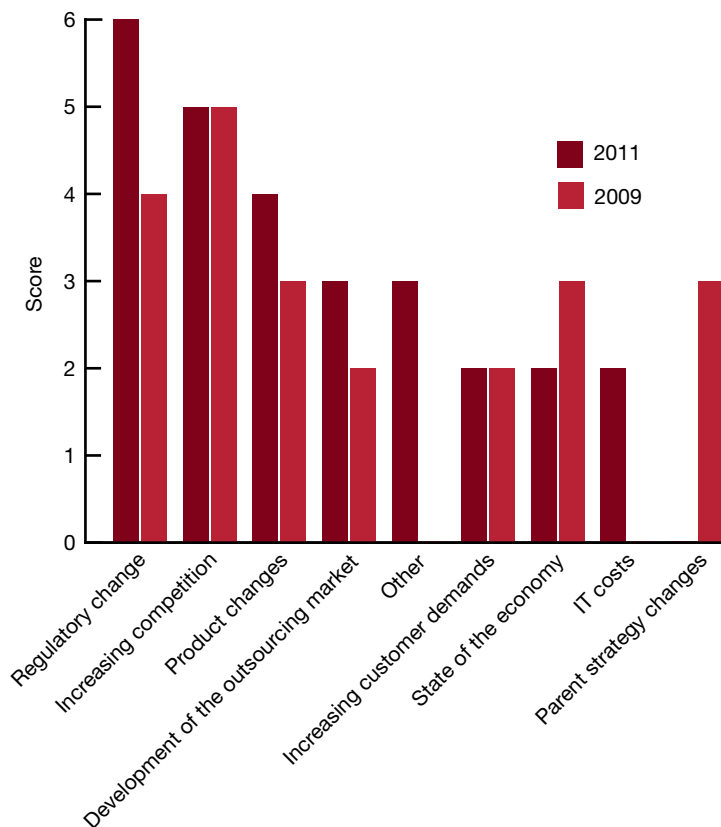
Two-thirds of participants anticipate that their business models will change over the next three years.

This is similar to responses in both 2007 and 2009.

The need to change models will be caused by new regulations, increasing competition and new products.



Based on responses from 29 companies in 2011



Based on responses from 9 companies in 2011 and 10 companies in 2009

Key regulatory changes in the fund management sector

FMCs adjust to rising costs

15 March 2011

One year after CSRC implemented measures to eliminate one-time incentive payments to fund distributors, fund managers are struggling with rising distribution costs. Previously, many fund managers paid, often undisclosed, one-time incentive fees to the branches of bank distributors on top of trail fees to bank headquarters to support product distribution. Last year, CSRC sought to increase the transparency of this process with the “Regulation Concerning Open-Ended Fund Distribution Fees” intended to effectively eliminate one-time incentive fees and require fund managers to disclose distribution fees to investors. However, instead of eliminating these fees, fund managers now pay similar amounts in the form of money to support marketing. Moreover, bank headquarters have responded to the regulations by increasing trail fees paid by fund managers, reportedly as much as 70% of management fees in some cases. As a result, many fund managers have seen the cost of distribution rise over 30% and been forced to pay almost 1-2 years of management fees for newly launched funds to bank distributors.

Such a rise in costs has been especially difficult for small/mid-tier fund managers. Many of these fund managers are already facing increased competition in product launches and lack the brand and marketing power to pass on rising costs. With rising distribution costs likely to continue, small/mid-tier firms will need to be more selective in selecting products to launch and improve branding in order to compete with larger competitors in a better position to weather the storm.

Source: Z-Ben Advisors

CSRC widens fund approval channels

14 January 2011

On January 14, CSRC announced that passive equity funds will now have their own separate channel in the approval process – previously, active and passive equity products were included in the same category. Following the announcement the approval channel now covers six different product classes: QDII, fixed income, active equity, passive equity, innovative, and multi-client segregated accounts. As a result, firms can now apply to launch up to six products (up from five) at once, but no more than one from each product category.

Therefore the main significance of the move by CSRC – other than showing a commitment to streamlining the product approval process – is that firms will now be allowed to simultaneously apply to launch both active and passive equity funds

Source: Z-Ben Advisors

Products and market segments

Q In 2011 how many funds do you plan to launch?

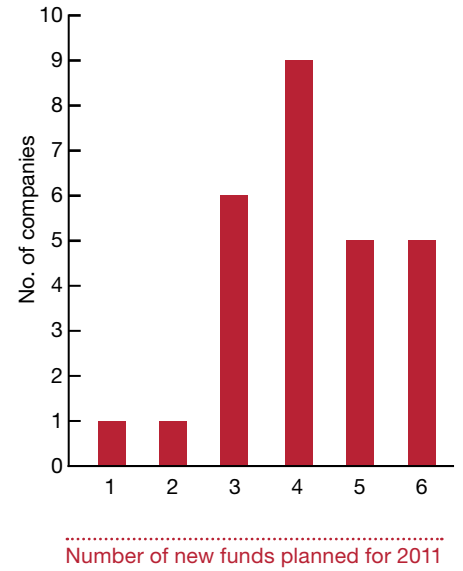
From December 2008 to December 2010, the 37 foreign FMCs that were active at the end of the period introduced 174 new funds.

The average number of new funds introduced in the two-year span was just over four funds per company. (This allows for the increase as a result of the de novo investment by Generali in Guotai.)

By December 2010 the 37 foreign FMCs had 398 funds or approximately 11 funds per company.

The number of funds introduced by individual foreign companies ranged from just one new fund to eight new funds.

The projections by the 27 respondents in this report suggest that they will introduce 112 new funds this year.



Q How successful has your FMC been in penetrating the following Chinese markets?

Participants were asked to score their level of success in seven different market segments on a scale ranging from 1 to 5, where 1 was “very unsuccessful” and 5 was “very successful”. Twenty-eight participants answered this question.

Since 3 is perceived as neutral to suggest a degree of measurable success, participants needed to score above three. In the radar diagrams shown on the following pages, a seven sided frame based on the value of three has been drawn.

If the line pierces the frame (i.e. it moves outside the frame) their success has been achieved in that respective market.

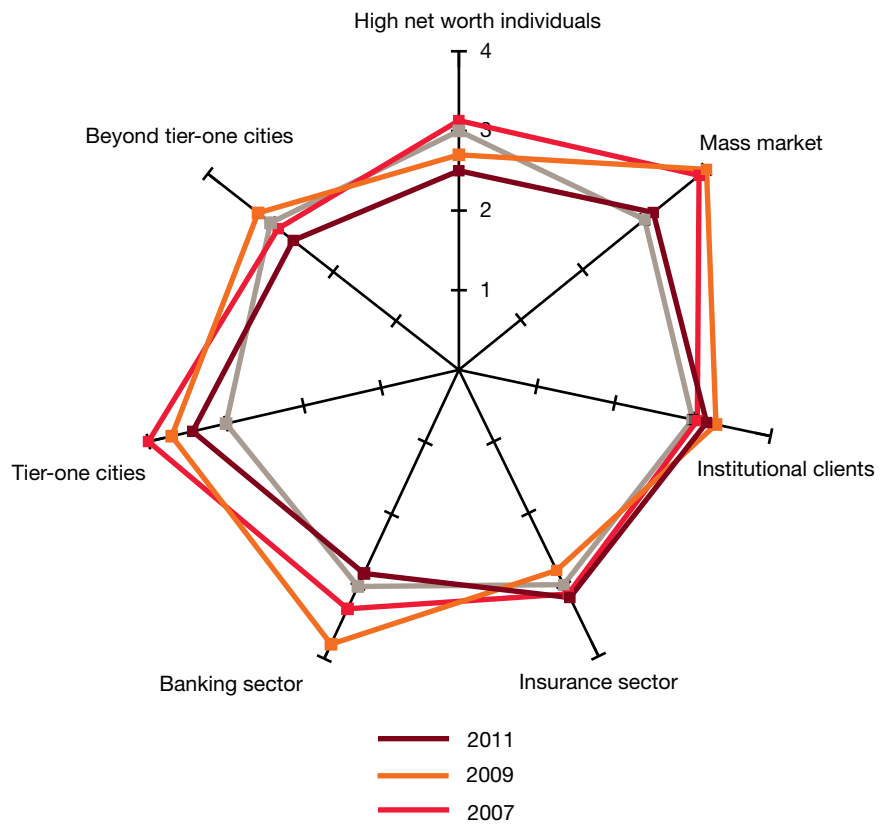
The close alignment of lines in segments such as institutional clients and the insurance sector suggests little change across the 2007, 2009 and 2011 surveys.

The score decreased in the banking mass market, high-net-worth individuals, tier-one and beyond tier-one cities in 2011 when compared to both 2007 and 2009.

Success in the insurance sector has marginally improved since 2007 and 2009 but is still just over 3 on the scale.

Definition of tier-one and tier-two cities

There is often disagreement on the definition of both tier-one and tier-two cities. Some definitions of tier-one cities include Beijing, Shanghai, Tianjin and Chongqing, while others include Beijing, Shanghai, Guangzhou and Shenzhen. Tier-two cities are also hard to define. Knight Frank in a 2007 definition suggested tier-two cities should have a population of at least three million and a minimum GDP equivalent of US\$2,000 per capita. By this definition there were about 60 Chinese cities that qualified as second tier in 2007. (Source: New York Times, April 5, 2007). Examples of situations that make city definitions difficult include Chongqing which has 4.1m people living in the central city but when surrounding areas are included, it expands to more than 31m.



Based on responses from 28 companies in 2011

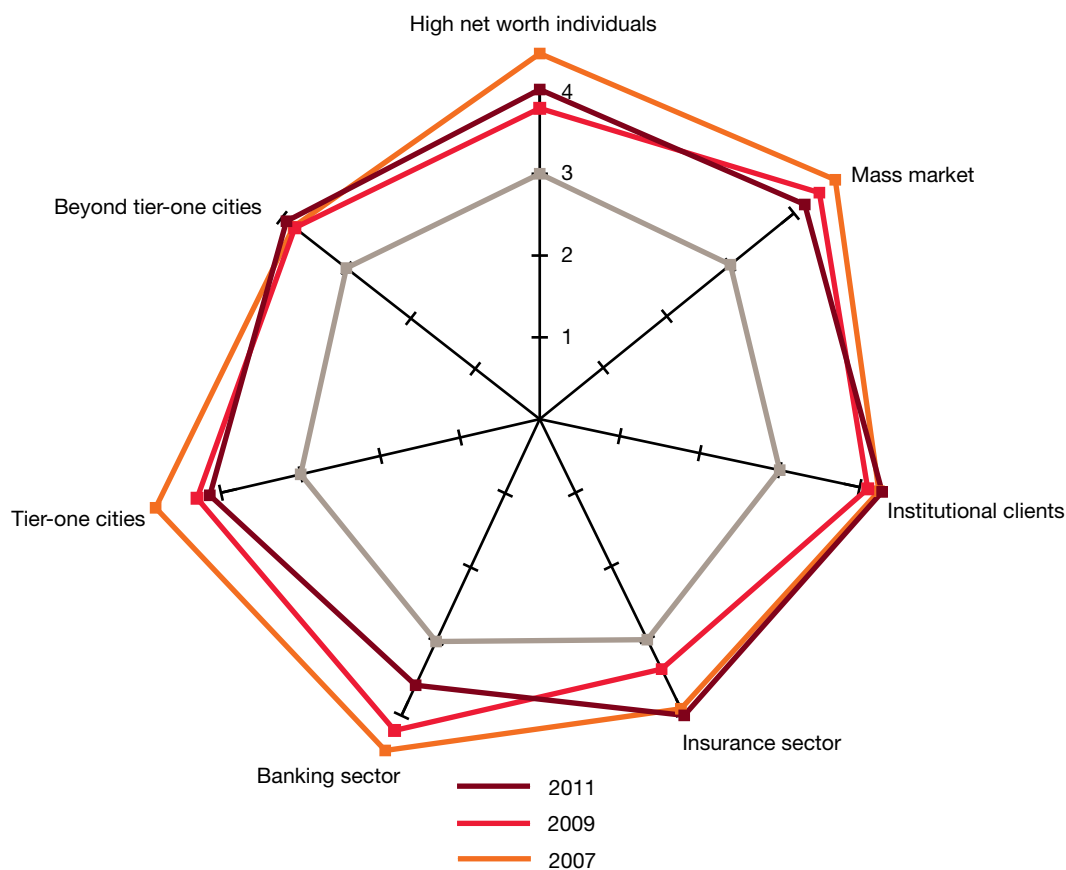
Q On a scale of 1-5 please score the following areas in terms of competitive importance for your FMC in the next three years.

In a related question, the participants scored the same seven marks in terms of their future importance over the next three years to their company.

Looking ahead to 2014 the participants attributed higher importance scores to high-net-worth individuals, the insurance sector and beyond tier-one cities than in either 2007 or 2009.

Market segments that they considered less important than in 2007 and 2009 based on their three-year importance score were the banking sector (3.59 in 2011 versus 4.47 in 2007), tier-one cities and the mass market.

These scores suggest that going forward the foreign FMCs will focus on the institutional and insurance sectors, high net-worth individuals and beyond tier-one cities.



Based on responses from 29 companies in 2011

Q Below is a list of strategic options that your JV FMC may choose to increase its presence in the Chinese market. Can you score on a scale of 1 to 10 the attractiveness of each option?

Foreign management companies continue to believe that the best way to expand in China is through organic growth.

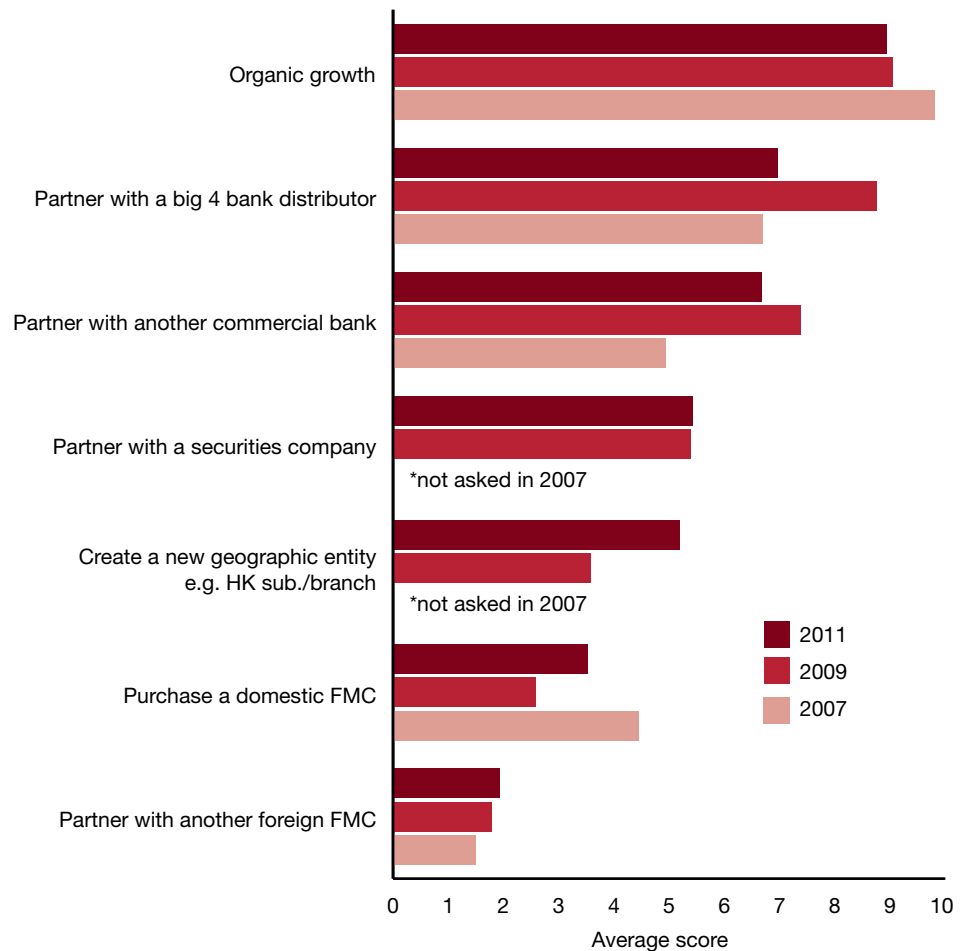
They also recognise the importance of partnering with the big banks and other commercial banks. The recently granted approval for foreign banks to distribute will add another banking channel.

The 2011 PwC Report *Foreign Banks in China*, noted that the top six foreign banks, HSBC, Bank of East Asia, Standard Chartered Bank, Hang Seng Bank, Citibank and DBS Bank plan to operate 545 branches and sub-branches by 2014.

In the April 2011 survey, the 40 foreign bank participants indicated they would collectively operate 783 branches by 2014.

Lower scores were reported for partnering with securities companies and creating a new geographic entity.

As noted elsewhere in this report, the opening of a Hong Kong subsidiary is appealing to a number of foreign FMCs.



Based on responses from 29 companies in 2011, 24 companies in 2009 and 16 companies in 2007

Q On a scale of 1 to 5, where 5 represents greatest importance, in the case of a JV how important are the following concerns in China for the foreign JV partner?

The participants were asked to score the importance of a number of components in their JV relationship with domestic partners.

Results from this question are remarkably similar to those recorded in the previous 2007 and 2009 surveys.

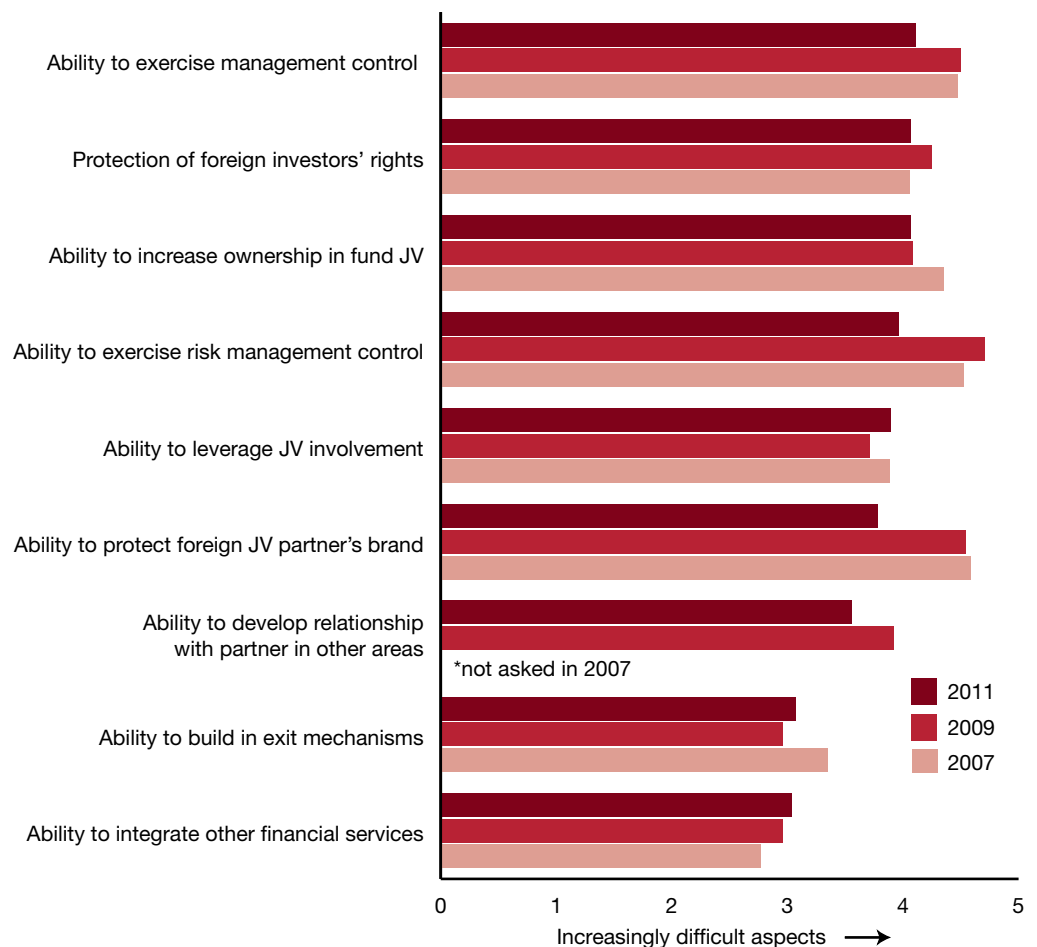
In the following areas, score averages were above or close to 4 out of 5 suggesting they are all critically important:

- ability to exercise management control
- protection of foreign investors' rights

- ability to increase ownership in the fund JV, and
- ability to increase risk management.

The ability to protect the foreign partners brand although viewed as important (3.78 out of 5 in 2011) dropped from second position in 2009 to sixth position in 2011.

Despite the earlier comments in this report that participants think they will be permitted to increase ownership in the JVs, they continue to award high scores (4.07 out of 5 in 2011).



Based on responses from 27 companies in 2011, 24 companies in 2009 and 17 companies in 2007

Investments

Q What is the approximate percentage split of your AUM asset class in 2011?

The table on p.42 indicates a breakdown by asset class for 25 companies in 2011 and a forecasted breakdown for 2014. To disguise the identity of the individual FMCs they are referred to by number.

Seventeen companies have 50% or more of their investments in equities. The next most important asset class is balanced funds where 12 companies have between 10% and 20% of assets. Fixed income is the third most important category.

Seven companies recorded exchange-traded funds (ETFs) and other index funds.

Q What is the approximate percentage split of your AUM asset class in three years?

By 2014, 15 companies will have 50% or more of their investments in equities.

Twelve companies will also have 10% to 20% in balanced funds.

Twelve FMCs predict they will have overseas assets.

While the overseas percentage is relatively small for most participants, three companies indicated it could reach 20% or higher.

Please refer to table on p.42.

2011

Number of FMCs	Equity	Balance funds	Fixed income	Money market/cash	ETFs & Index funds	Private equity	Hedge funds	Overseas assets	Other	Real estate	Total
FMC 1	85			1		5					100
FMC 2	40	10	9	50							100
FMC 3	75	5	5	5	10						100
FMC 4	30	30	17.5	17.5	5						100
FMC 5	30	20	5	25				20			100
FMC 6	30	20	35	10	4			1			100
FMC 7	30	10	5	5					50		100
FMC 8	80	13	5	2							100
FMC 9	75	10	15								100
FMC 10	80	15	5								100
FMC 11	95		2	1				2			100
FMC 12	60	35	5								100
FMC 13	60		30	10							100
FMC 14	30	30	7	3	20		5	5			100
FMC 15	60	10	10	10	10						100
FMC 16	75	10	3	2	10						100
FMC 17	60	15	15	5	2.5			2.5			100
FMC 18	70	20						10			100
FMC 19	50	40	5	5							100
FMC 20	70	15	15								100
FMC 21	41	52	5	2							100
FMC 22	50		25	25							100
FMC 23	42.5	42.5	15								100
FMC 24	50	30	20								100
FMC 25	67	3	30								100

2014

Number of FMCs	Equity	Balance funds	Fixed income	Money market/cash	ETFs & Index funds	Private equity	Hedge funds	Overseas assets	Other	Real estate	Total
FMC 1	75		3	2		15		5			100
FMC 2	60	10		30							100
FMC 3	50	5	30	5	10						100
FMC 4	15	15	25	25	20						100
FMC 5	30	10	15	20				25			100
FMC 6	30	15	35	10	5			5			100
FMC 7	30	10	7	3					50		100
FMC 8	70	5	20	5							100
FMC 9	65	15	15	5							100
FMC 10	70	15	5					10			100
FMC 11	90		5					5			100
FMC 12	25	25	15	15					20		100
FMC 13	50		40	5				2	3		100
FMC 14	17	17	29		20		8	8		1	100
FMC 15	50	5	15	15	15						100
FMC 16	53	5	5	2	25		5	5			100
FMC 17	50	15	15	5	10			5			100
FMC 18	50	20						30			100
FMC 19	40	40	20								100
FMC 20	55	15	20	5					5		100
FMC 21	60	20	15	2				3			100
FMC 22	60		20	20							100
FMC 23	32.5	32.5	15					20			100
FMC 24	40	30	30								100
FMC 25	45	5	50								100

Q Can you breakdown your current employees by function?

Twenty-four companies provided a breakdown of employment across eight different functions.

As in 2009 the two most people-intensive functions are sales and marketing, operations and back office support.

In the case of sales and marketing, only one of the 24 companies has less than 20% in this category.

Fourteen companies have between 30% and 50%. Seventeen companies have at least 20% in operations and back office support.

Of the 24 respondents, 16 have 10% or below in investment management.

Typically companies have between 10% to 15% in research and around 5% in trading.

2014

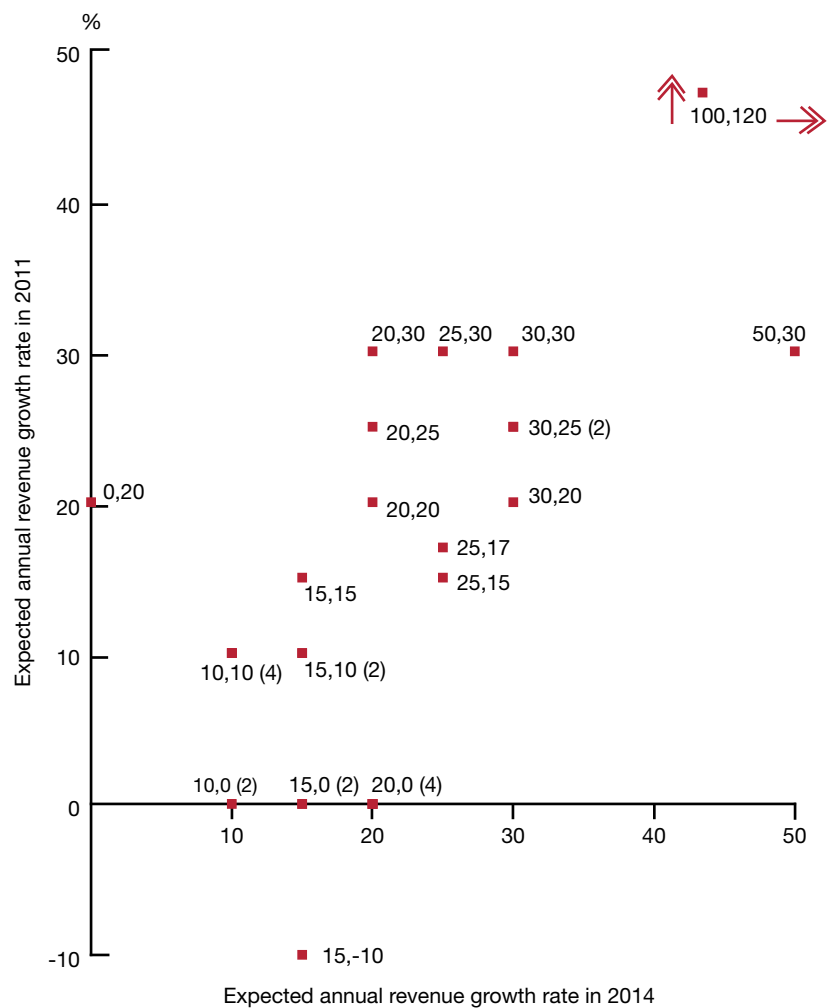
Number of FMCs	Trading (%)	Research (%)	Investment management (%)	General management (%)	Legal and compliance (%)	Sales & marketing (%)	Operations & back office support (%)	Other (%)	Total
FMC 1	5	25	10	10	4	20	26		100%
FMC 2	5	15	15	5	7	35	18		100%
FMC 3	5	15	10	5	5	25	25	10	100%
FMC 4	5	10	20	5	5	20	35		100%
FMC 5	9	9	9	2.5	2.5	42	26		100%
FMC 6	8	18	7	5	5	30	27		100%
FMC 7		33				40	27		100%
FMC 8	11	11	12	5	3	33	25		100%
FMC 9	4	12	15	5	5	28	20	11	100%
FMC 10	5	25	4	8	5	25	25	3	100%
FMC 11	3	14	25	4	3	35	16		100%
FMC 12	3	12	8	3	5	30	30	9	100%
FMC 13	3	20	10	6	4	35	22		100%
FMC 14	5	9	7	19	5	28	28		100%
FMC 15		20		30	10	40			100%
FMC 16	6	12	6	5	6	50	15		100%
FMC 17	4	24	8	10	6	26	22		100%
FMC 18	4	30	10	6	7	13	25	5	100%
FMC 19	5	5	10	5	5	30	30	10	100%
FMC 20	5	20	10	10	5	25	15	10	100%
FMC 21	5	15	7	7	5	30	10	21	100%
FMC 22	4	12	12	2	4	33	29	2	100%
FMC 23	6	13	13	6	3	28	22	9	100%
FMC 24	3	20	10	5	4	40	18		100%

Performance

Q What is your business' estimated annual revenue growth in 2011 and over the next three years?

Twenty-nine companies provided data on their projected revenue for 2011 and 2014. One company predicted a drop of 10% while eight companies predicted zero growth. On the positive side nine companies predicted up to 20%, six in the 20% range, four at 30% and one at 100%.

By 2014 growth is expected to pick up. Twenty-eight companies made predictions for 2014. Twelve companies projected between 10% and 15%, ten chose 20% to 25%, four 30%, one 50% and one at 120%.



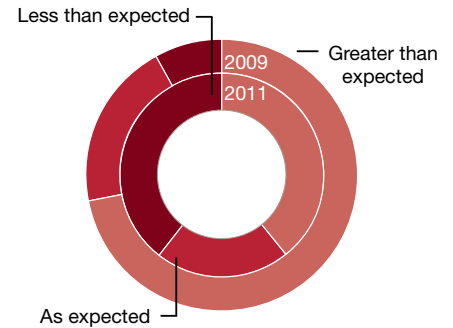
Based on responses from 29 companies

Q Over the last three years in the market, are your FMC's profit expectations, greater than expected, as expected, or less than expected?

In 2011 participants' responses revealed that 11 companies thought their profits had been greater than expected, six thought as expected and 11 companies recorded less than expected.

This is a less encouraging response than in 2009 when 18 said greater than expected, five said as expected and only two said less than expected.

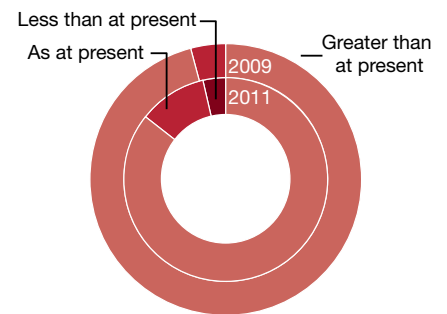
The increase from two companies to eleven suggests past profitability has disappointed 40% of the participants.



Based on responses from 28 companies in 2011 and 25 companies in 2009

Q Over the next three years in the market, are your FMC's profit expectations, greater than as at present, as at present, less than at present?

Looking forward to 2014, 24 companies anticipated profits above current levels, three as at present and one company said less than at present.



Based on responses from 28 companies in 2011 and 25 companies in 2009

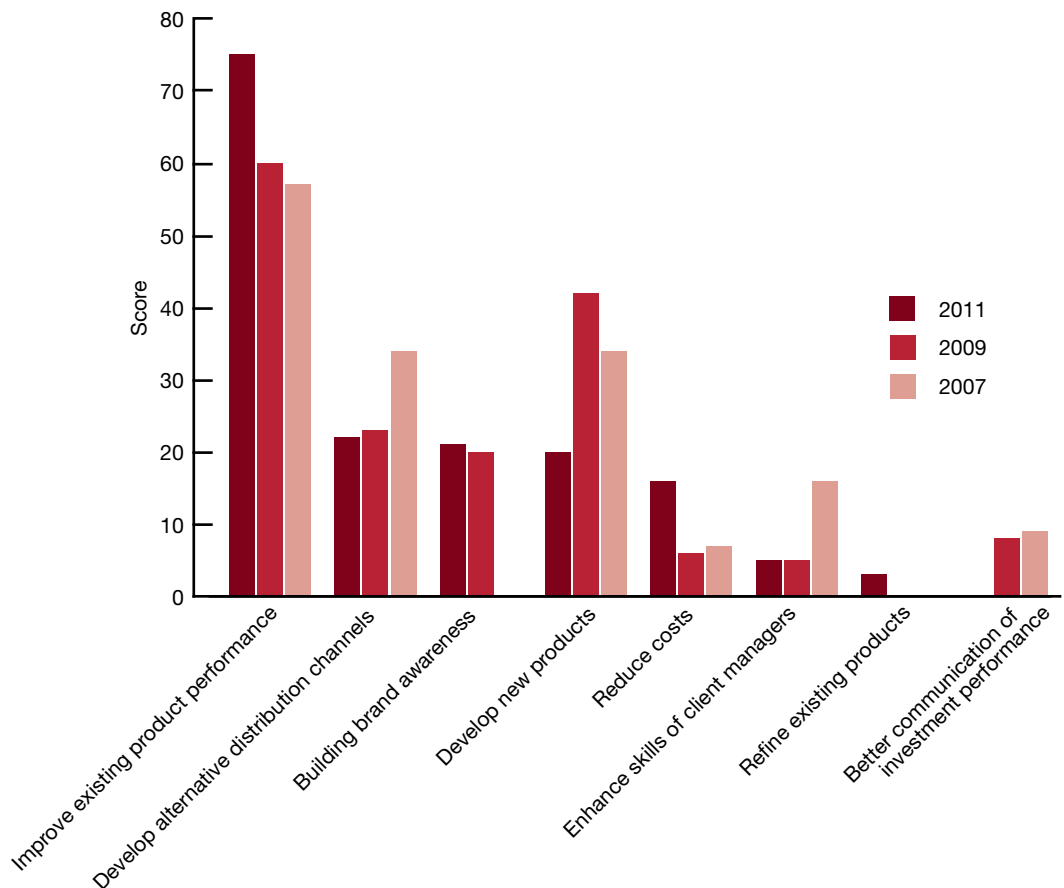
Rank the top three factors from the following list that will be used by your JV FMC to increase its profitability over the next three years.

In response to how they planned to increase profitability over the next three years, the dominant response was to improve product performance. This answer recorded a higher score than in both 2009 and 2007.

In 2009, the second method identified was to develop more products but this was replaced in 2011 by the need to find alternative distribution channels.

Brand building is also very important to some of the foreign FMCs in their attempt to approach consumers through alternative channels.

Reducing costs was positioned in fifth place.

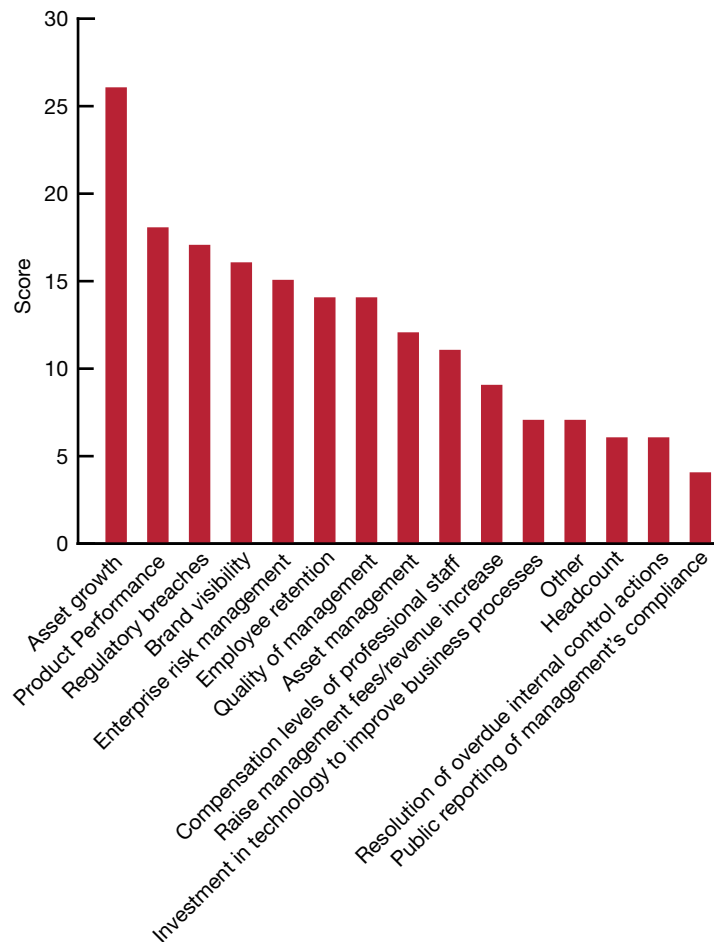


Based on responses from 27 companies in 2011, 24 companies in 2009 and 17 companies in 2007 both 2009 and 2007 figures have been prorated

Q Which of the following management issue measures do you use to evaluate the performance of your fund management business?

Asset growth continues to be the key indicator for measuring performance. It towers above a succession of other measures which include:

- product performance
- regulatory breaches
- brand visibility
- risk management, and
- employee retention.



Based on responses from 27 companies in 2011

Peer review

Q Can you name the top three foreign FMCs in terms of success (performance, presence, momentum) across a variety of different markets?

A simple scoring method awarded 3 points to first place, 2 points to second and 1 point to third place. This allowed the foreign FMCs to be ranked based on a total score.

Foreign FMCs were asked not to record an opinion unless they were active in that segment and were comfortable in providing an accurate ranking in terms of success (performance, presence and momentum) as opposed to mere size.

They were not permitted to rank their own institution. Often foreign FMCs would choose just to indicate first or second places.

The “Change” column indicates whether the ranking has moved up, down or remains unchanged from that recorded in the 2009 survey.

Brand name recognition

	First	Second	Third	Score	Change
Harvest	22	2	1	71	↗
China International (JPM)	3	9	2	29	↘
FullGoal		4	5	13	↗
HFT	2	2	3	13	↗
ICBC Credit-Suisse		2	2	6	↘
Bank of Communications – Schroders		2	1	5	→
Guotai		1	1	3	↗
UBS-SDIC			1	1	↗
Fortune SGAM			1	1	↘
INVESCO Great Wall			1	1	↘

Based on 27 foreign FMCs

Client focus

	First	Second	Third	Score	Change
China International (JPM)	6	3	2	26	→
Harvest	7	2		25	→
HFT		1	4	6	↗
FullGoal		2		4	↗
Morgan Stanley Huaxin	1			3	↗
UBS-SDIC	1			3	↗
CITIC-Prudential	1			3	↗
GTJA Allianz		1		2	↗
Nikko Rongtong		1		2	↗
China Merchants (ING)			1	1	↘

Based on 16 foreign FMCs

Distribution network

	First	Second	Third	Score	Change
Harvest	12	3	2	44	↗
ICBC Credit-Suisse	9	6	1	40	↘
Bank of Communications – Schroders	2	3	2	14	↘
CCB-Principal		3	3	9	→
FullGoal		1	2	4	↗
ABC-CA		1	2	4	↗
Nikko Rongtong	1		1	4	↗
Morgan Stanley Huaxin	1			3	↗
Changsheng DBS		1	1	3	↗
HFT		1		2	↘
Guotai		1		2	↗
Penghua Eurizon		1		2	↗
China Merchants (ING)			2	2	↗
GTJA Allianz		1		2	↗
China International (JPM)			1	1	↘
CITIC-Prudential			1	1	↗

Based on 21 foreign FMCs

Innovativeness

	First	Second	Third	Score	Change
UBS-SDIC	11	1		35	→
FullGoal	3	5	1	20	↗
Harvest	5	1	2	19	↘
China International (JPM)	1	2		7	↘
ICBC Credit-Suisse	2		1	7	→
Changsheng DBS		2		4	↗
HFT		1	1	3	↗
GTJA Allianz	1			3	↘
Huatai-PineBridge		1	1	3	↗
AEGON Industrial		1		2	↗
Nikko Rongtong		1		2	↗
Guotai			1	1	↗
Morgan Stanley Huaxin			1	1	↗
Penghua Eurizon			1	1	↗
SYWG BNP Paribas			1	1	↗

Based on 23 foreign FMCs

Marketing strategy

	First	Second	Third	Score	Change
Harvest	9	4	1	36	↗
China International (JPM)	5	4	2	25	↘
FullGoal	1	3	2	11	↗
HFT	1	1	2	7	↗
Morgan Stanley Huaxin	2			6	↗
CITIC-Prudential	1	1		5	↗
Nikko Rongtong	1		1	4	↗
Penghua Eurizon	1			3	↗
HSBC Jintrust		1		2	↘
ICBC Credit-Suisse			2	2	↘
UBS-SDIC		1		2	→
Bank of Communications – Schroders			1	1	↘
Fortune SGAM			1	1	↘
Franklin Templeton Sealand			1	1	↗
Nikko Rongtong			1	1	↗

Based on 21 foreign FMCs

Overall performance

	First	Second	Third	Score	Change
Harvest	11	4	2	43	↗
FullGoal	4	3	2	20	↗
Morgan Stanley Huaxin	4		1	13	↗
HFT		3	1	7	↗
China International (JPM)		2	2	6	↘
CITIC-Prudential	2			6	↗
AEGON-Industrial		2	1	5	↗
Bank of Communications – Schroders	1		1	4	↘
ICBC Credit-Suisse		1	1	3	↘
Fortune SGAM		1	1	3	↗
Changsheng DBS		1		2	↗
Guotai			1	1	↗

Based on 22 foreign FMCs

Product range

	First	Second	Third	Score	Change
Harvest	22	2		67	➔
FullGoal	1	9	4	25	↗
ICBC Credit-Suisse	1	3		9	➔
HFT		2	2	6	↗
Changsheng DBS	1	1	1	6	↗
Bank of Communications – Schroders		1	2	4	↘
Penghua Eurizon		1	1	3	↗
China International (JPM)		1		2	↘
Guotai			2	2	↗
UBS-SDIC		1		2	↗
ICBC Credit-Suisse			1	1	↘

Based on 25 foreign FMCs

Service quality

	First	Second	Third	Score	Change
Harvest	10	5		40	↗
China International (JPM)	4	4	2	22	↘
HSBC Jintrust	1	1		5	↗
FullGoal		1	3	5	↗
ICBC Credit-Suisse	1	1		5	↘
HFT		2		4	↗
Morgan Stanley Huaxin	1			3	↗
Nikko Rongtong		1		2	↗
UBS-SDIC			1	1	↗
Penghua Eurizon			1	1	↗
Bank of Communications – Schroders			1	1	↘

Based on 17 foreign FMCs

Mainland fund management companies in Hong Kong

List of Mainland FMCs present in Hong Kong

As at the end of July 2011, 14 Mainland securities companies, six Mainland futures companies, ten mainland FMCs and six insurance companies have set up licenced corporations registered with the Securities and Futures Commission in Hong Kong. The Mainland FMCs are:

- Bosera
- China AMC
- China International (J.P. Morgan)
- China Universal
- CSOP
- Da Cheng
- E Fund
- Harvest
- HFT
- HuaAn

Companies interviewed

Three companies provided insight into the setting up and future plans for their Hong Kong subsidiaries.

They were:

- Harvest Global Investments (JV company with Deutsche Bank)
- HFT Investment Management (a JV between BNP Paribas and Haitong Securities, the BNPP holding was formerly owned by Fortis), and
- China AMC (domestic company)

China and Hong Kong

The fourth round of liberalisation measures between China and Hong Kong (Closer Economic Partnership Arrangement, CEPA IV) allowed qualified mainland FMCs to set up subsidiaries in Hong Kong.

Hong Kong Securities and Futures Commission's report *Fund Management Activities Survey 2010* published in July 2011 stated that the Mainland expressed explicit support for Hong Kong as an offshore renminbi centre and an asset management centre. This policy was originally stated in the Mainland's 12th Five Year Plan.

Mainland FMCs in Hong Kong

In interviews with several participants who have Hong Kong subsidiaries, they mentioned the benefits of a Hong Kong location.

For example they suggested that in Hong Kong they were regulated by offshore regulations and therefore, there was no limit on the new funds they could develop, they were free to introduce hedge funds and they were free of the distribution dominance of the big banks.

Challenges faced by Mainland firms

On the other hand setting up outside China brought with it special challenges. The Mainland FMCs have entered into the Hong Kong market for less than three years and are yet to be well known to the investors in Hong Kong. Unlike other international players such as Schroders, Fidelity and Blackrock, Mainland FMCs have yet to build a track record outside of China. As a result, they are facing difficulties in raising funds in Hong Kong for their offshore funds set up outside China.

In particular, they are encountering challenges in securing distribution channels and building a brand locally. It is worth noting that some Mainland FMCs partnered with internationally and locally established players when launching their new funds (e.g. China Select Fund launched by China AMC and Citi).

One potential advantage is to have a co-branding effect to get recognition locally. It seems that it is imperative for these new players to establish a recognisable brand in order to avoid being “lost in the crowd” in Hong Kong.

A special internal challenge for some Mainland JV FMCs opening in Hong Kong is how they might overlap with their foreign shareholder. If that shareholder already has a significant presence in Hong Kong then some internal territorial conflict might emerge.

QFII (Qualified Foreign Institutional Investor)

QFII was introduced in 2003 and permitted foreign fund managers to invest in Chinese shares and bonds using funds raised overseas.

As the QFII list in the appendix indicates, 97 players had been granted QFII quotas totalling more than US\$19.7bn at the end of 2010.

Examples of some of the larger participants include UBS, Citigroup, Credit Suisse, BNP Paribas and Goldman Sachs.

Renminbi

On 17 August 2011, Chinese Vice Premier Li Keqiang delivered a speech at the Forum on 12th Five-Year Plan and Mainland-Hong Kong Economic, Trade and Financial Cooperation in Hong Kong, unveiling six series of measures the central government will take to support development of the special administrative region.

Among the six series of measures, the launch of Renminbi Qualified Foreign Institutional Investor (RQFII) programme is considered as one of the key measures to support Hong Kong's intention to build itself into an offshore Renminbi centre.

Under the RQFII programme, a recycle mechanism for Renminbi will be established. Offshore investors in Hong Kong will be allowed to invest in the Chinese mainland securities market under the program and the initial quota will be set at RMB 20bn. Market analysts expect that the RQFII's investments will at first be a mix of 80% bonds and 20% stocks.

Most Hong Kong-based Chinese mainland securities and FMCs are expected to apply for becoming RQFIIs. They will therefore facilitate the inward flow of offshore renminbi back into China through the RQFII programme.

Both domestic FMCs and the foreign FMCs believe there will be significant opportunities as this market expands, especially because of their expertise in investments in the China market.

The Mainland FMCs envisage significant opportunities to tap the growing pool of renminbi deposits in Hong Kong.

For example in June 2011, renminbi deposits in Hong Kong exceeded RMB 500bn – a year earlier they had been less than RMB 100bn.

Mainland FMCs are at a disadvantage in terms of tapping these resources when compared to the larger banks such as HSBC or Citibank.

However on the positive side, Mainland FMCs have large teams on the ground in China and therefore should have a much better understanding of the domestic market. For example, it is estimated that the larger domestic FMCs have 30 to 40 dedicated analysts and fund managers with some having up to 100 personnel in these roles.

New guidelines for QFIIs

In May 2011 the CSRC issued *Guidelines for the Participation In Stock Index Futures Trading by QFIIs*.

Prior to these new guidelines, QFIIs were only allowed to invest in shares, bond and securities investment funds publicly traded on the Shenzhen and Shanghai exchanges.

They can now trade onshore stock index futures (SIFs) on the China Financial Futures Exchange. This initiative emerged from the Sino-US Strategic Economic Dialogue in May 2010.

The new guidelines are, however, accompanied by a series of tight restrictions on the use of SIFs.

Closer Economic Partnership Arrangement between Hong Kong and the Mainland (CEPA)

Aside from the Chinese mainland's WTO liberalisation measures, Hong Kong's securities sector and professionals further benefit from the CEPA agreements signed with the mainland.

Generally, CEPA allows easier access for Hong Kong's securities and futures companies and professionals to the mainland market. In addition, CEPA also encourages, through financial services cooperation between the mainland and Hong Kong, more mainland enterprises to get a listing in Hong Kong.

Under CEPA, Hong Kong professionals (Hong Kong permanent residents who possess a licence issued by the Securities and Futures Commission of Hong Kong) applying

for securities and futures industry qualifications of the mainland are only required to undertake training and pass examination related to mainland laws and regulations. Examination on professional knowledge is not required.

Under Supplement VII to CEPA, it is agreed that ETFs, which portfolios are constituted by Hong Kong listed stocks, will be launched in the mainland at an appropriate time. This is a clear sign that the ETF has already moved beyond the stage of feasibility study to the stage of policy formulation.

Under Supplement VI to CEPA, which came into effect in October 2009, qualified Hong Kong and mainland securities companies which satisfy the

requirements for establishing subsidiaries can set up joint-venture securities investment advisory companies in Guangdong Province, focusing specifically on securities investment advisory services. Hong Kong securities companies can hold up to one-third of total shareholding of the joint ventures.

These CEPA provisions help contribute to a greater use of Hong Kong as a financial platform for mainland securities and futures companies, with the expectations of generating more cross-border business opportunities for Hong Kong and the mainland.

Source: Hong Kong Trade Development Council

SAFE Approves Investment Quotas for Qualified Institutional Investors

April 2011 announcement

A meeting was recently held by the SAFE to review the investment quotas for qualified institutional investors. Total quotas of USD400 million were allocated to four qualified foreign institutional investors (QFIIs), including Aviva Investors Global Services Ltd., Bank Julius Baer & Company Limited, Schroder Investment Management Ltd., and PineBridge Investments LLC, and total quotas of USD1.585 billion were granted to three qualified domestic institutional investors (QDIIs), including Guosen Securities Company Limited,

American International Assurance Company Ltd., and Lion Fund Management Company Limited.

As of April 29, 2011, the SAFE had approved investment quotas of USD20.690 billion to 103 QFIIs and investment quotas of USD72.646 billion to 92 QDIIs. Specifically, during the period from January to April 2011, investment quotas of USD970 million were allocated to 13 QFIIs, and quotas of USD2.985 billion were allocated to 8 QDIIs. Based on the changes and development in China's balance of

payments, the SAFE will continue to examine and approve investment quotas for qualified institutional investors in a prudent and orderly manner.

*Source: State Administration of Foreign Exchange
www.safe.gov.cn, 4 April 2011*

Qualified Foreign Institutional Investors (QFIIs) with investment quotas granted by State Administration of Foreign Exchange (SAFE)

No.	Qualified Foreign Institutional Investor	Quota US\$m
1	UBS	800
2	Nomura Securities Company Limited	350
3	Morgan Stanley & Co. International Limited	400
4	Citigroup Global Markets Limited	550
5	Goldman, Sachs & Co.	300
6	Deutsche Bank Aktiengesellschaft	400
7	Hongkong and Shanghai Banking Corporation Limited	400
8	ING Bank N. V.	400
9	JPMorgan Chase Bank, National Association	150
10	Credit Suisse (HongKong) Limited	500
11	Standard Chartered Bank (Hong Kong) Limited	75
12	Nikko Asset Management Company Limited	450
13	Merrill Lynch International	300
14	Hangseng Bank	100
15	Daiwa Securities Capital Markets Company Limited	50
16	Lehman Brothers International (Europe)	200
17	Bill & Melinda Gates Foundation	300
18	INVESCO Asset Management Limited	250
19	ABN AMRO Bank N.V.	175
20	Société Générale	50
21	Barclays Bank PLC	400
22	Commerzbank AG	75
23	Fortis Bank SA/NV	500
24	BNP Paribas	200
25	Power Corporation of Canada	50
26	Calyon S.A.	75
27	Goldman Sachs Asset Management International	500
28	Martin Currie Investment Management Limited	120
29	Government of Singapore Investment Corporation	300
30	PineBridge Investment LLC	50
31	Temasek Fullerton Alpha Investments Pte Limited	300
32	JF Asset Management Limited	275
33	Dai-ichi Mutual Life Insurance Company	200
34	DBS Bank Limited	100
35	AMP Capital Investor Limited	300
36	Bank of Nova Scotia	150
37	KBC Financial Products UK Limited	100
38	La Compagnie Financiere Edmond de Rothschild Bq	100
39	Yale University	150
40	Morgan Stanley Investment Management Inc.	450
41	Prudential Asset Management (Hong Kong) Limited	300
42	Stanford University	100
43	GE Asset Management Incorporated	350
44	United Overseas Bank Limited	50
45	Schroder Investment Mangement Limited	200
46	HSBC Global Asset Management (Hong Kong) Limited	350
47	Mizuho Securities Company Limited	50
48	UBS Global Asset Management (Singapore) Limited.	200
49	Sumitomo Mitsui Asset Management Company Limited	350
50	Norges Bank	700
51	Pictet Asset Management Limited	100
52	Trustees of Columbia University in New York	100
53	Prudential Asset Management Company Limited	75
54	Robeco Institutional Asset Management B.V.	150
55	State Street Global Advisors Asia Limited	50
56	Platinum Investment Company Limited	150
57	KBC Asset Management N.V.	150
58	Mirae Asset Investment Management Company Limited	250
59	ACE INA International Holdings, Limited	150
60	Caisse de dépôt et placement du Québec	200

Source: SAFE

Qualified Foreign Institutional Investors (QFIIs) with investment quotas granted by SAFE (continued)

No.	Qualified Foreign Institutional Investor	Quota US\$m
61	President and Fellows of Harvard College	200
62	Samsung Asset Management Company Limited	300
63	AllianceBernstein Limited	150
64	Overseas-Chinese Banking Corporation Limited	150
65	First State Investment Management UK Limited	120
66	DAIWA Asset Management Company Limited	200
67	Shell Asset Management Co. B.V.	100
68	T. Rowe Price International, Inc.	110
69	Credit Suisse AG	200
70	UOB Asset Management Limited	50
71	ABU Dhabi Investment Authority	200
72	Allianz Global Investors Luxembourg S.A.	100
73	Capital International, Inc.	100
74	Mitsubishi UFJ Morgan Stanley Securities Company Limited	100
75	Hanwha Investment Trust Management Company Limited	70
76	Emerging Markets Management, L.L.C.	50
77	DWS Investment S.A.	200
78	Korea Development Bank	100
79	Woori Bank Company Limited	50
80	Bank Negara Malaysia	200
81	Lloyd George Management (Hong Kong) Limited	50
82	Templeton Investment Counsel, LLC	200
83	BEA Union Investment Management Limited	100
84	Sumitomo Trust & Banking Company Limited	50
85	Korea Investment Trust Management Company Limited	100
86	Baring Asset Management Limited	200
87	Ashmore Investment Management Limited	200
88	BNY Mellon Asset Management International Limited	150
89	Manulife Asset Management (Hong Kong) Limited	200
90	Nomura Asset Management Company Limited	200
91	Tongyang Asset Management Corp.	100
92	Royal Bank of Canada	100
93	Ivy Investment management Company	100
94	DIAM Company Limited	100
95	OFI Asset Management	150
96	Aberdeen Asset Management Asia Limited	200
97	FIL Investment Management (Hong Kong) Limited	150

Source: SAFE

**Qualified Domestic
Institutional Investors (QDIIs)
with investment quotas
granted by SAFE**

Name	Type of company	US\$m
Hua An Fund Management Company	Fund Management Company	500
China Southern Fund Management Company	Fund Management Company	5,000
China Asset Management Company	Fund Management Company	5,000
Harvest Fund Management Company	Fund Management Company	5,000
China International Fund Management Company	Fund Management Company	5,000
ICBC Credit Suisse Asset Management Company	Fund Management Company	1,000
Fortune SGAM Fund Management Company	Fund Management Company	1,000
HFT Investment Management Company	Fund Management Company	1,000
Yinhua Fund Management Company	Fund Management Company	1,000
BOCOM Schroder Fund Management	Fund Management Company	1,000
E Fund Management Company Limited	Fund Management Company	1,000
China Merchants Fund Management Company Limited	Fund Management Company	500
China Universal Asset Management	Fund Management Company	1,000
Bosera Funds	Fund Management Company	1,000
GF Fund Management Company Limited	Fund Management Company	1,000
Penghua Fund Management Company Limited	Fund Management Company	800
Changsheng Fund Management Company Limited	Fund Management Company	700
Guotai Asset Management Company Limited	Fund Management Company	700
UBS SDIC Fund Management Company Limited	Fund Management Company	700
CCB Principal Asset Management Company Limited	Fund Management Company	700
CITIC-Prudential Fund Management Company Limited	Fund Management Company	500
Lion Fund Management Company Limited	Fund Management Company	500
Everbright Pramerica Fund Management Company Limited	Fund Management Company	500
Fullgoal Fund Management Company Limited	Fund Management Company	800
Dacheng Fund Management Company Limited	Fund Management Company	500
Bank of China Investment Management Company Limited	Fund Management Company	700
MANULIFE TEDA Fund Management Company Limited	Fund Management Company	500
Chang Xin Asset Management Corporation Limited	Fund Management Company	500
Huatai-PineBridge Fund Management Company Limited	Fund Management Company	500
Bank of China Limited	Commercial Bank	1,000
Industrial and Commercial Bank Of China Limited	Commercial Bank	1,500
Bank of East Asia (China) Limited	Commercial Bank	100
Bank of Communications Company Limited	Commercial Bank	500
China Construction Bank Corporation	Commercial Bank	700
HSBC Bank (China) Company Limited	Commercial Bank	700
China Merchants Bank Company Limited	Commercial Bank	500
China Citic Bank	Commercial Bank	200
Hang Seng Bank (China) Company Limited	Commercial Bank	30
Citibank (China) Company Limited	Commercial Bank	500
Industrial Bank	Commercial Bank	500
Standard Chartered Bank (China) Limited	Commercial Bank	700
Minsheng Bank	Commercial Bank	100
China Everbright Bank	Commercial Bank	100
Bank of Beijing	Commercial Bank	50
Bank of China (Hong Kong) Limited	Commercial Bank	30
Credit Suisse Shanghai Branch	Commercial Bank	30
Agricultural Bank of China	Commercial Bank	600
Nanyang Commercial Bank (China) Company Limited	Commercial Bank	30
Deutsche Bank (China) Company Limited	Commercial Bank	30
Shanghai Pudong Development Bank	Commercial Bank	30
Bank of Shanghai	Commercial Bank	30
DBS Bank (China) Limited	Commercial Bank	100
BNP Paribas (China) Limited	Commercial Bank	100
Societe General (China) Limited	Commercial Bank	100
Ping An Insurance (Group) Company Limited	Insurance Company	9,890
China Life Insurance Group Company	Insurance Company	1,500
PICC Property and Casualty Co.	Insurance Company	495
China Life Insurance Company Limited	Insurance Company	2,750
Taikang Life Insurance Company Limited	Insurance Company	1,385
Generali China Life Insurance Company Limited	Insurance Company	15

Source: SAFE

Qualified Domestic Institutional Investors (QDIIs) with investment quotas granted by SAFE (continued)

Name	Type of company	US\$m
People's Insurance Co. (Group) of China	Insurance Company	15
Sino Life Insurance Company Limited	Insurance Company	9
China Reinsurance (Group) Co.	Insurance Company	350
China Pacific Insurance (Group) Co.	Insurance Company	537
China Pacific Life Insurance Company Limited	Insurance Company	400
PICC Health Insurance Company Limited	Insurance Company	15
PICC Life Insurance Company Limited	Insurance Company	14
Anbang Insurance Company Limited	Insurance Company	160
Taiping Life Insurance Company Limited	Insurance Company	570
Sinosafe General Insurance Company Limited	Insurance Company	120
Huatai Insurance Company Limited	Insurance Company	130
Huatai Asset Management Company Limited	Insurance Company	130
American International Assurance Company Limited	Insurance Company	82.2
Bohai Property Insurance Company Limited	Insurance Company	5
AXA-Minmetals Assurance Company Limited	Insurance Company	7.5
Dubon Property & Casualty Insurance Company Limited	Insurance Company	25
Taiping General Insurance Company Limited	Insurance Company	79
Minan Property And Casualty Insurance Company	Insurance Company	25
China Property & Casualty Reinsurance Company.	Insurance Company	192
China International Capital Company Limited	Securities Company	1,000
China Merchants Securities Company Limited	Securities Company	200
Huatai Securities Company Limited	Securities Company	200
Shanghai Guotai Junan Security Assets Management	Securities Company	200
Everbright Securities Company Limited	Securities Company	200
Shanghai Orient Securities Asset Management Company	Securities Company	200
China Credit Trust Company Limited	Trust Company	200
Shanghai International Trust Company Limited	Trust Company	200
Zhonghai Trust Company Limited	Trust Company	200

Source: SAFE

QDII quotas held by foreign FMCs

Name	US\$m
Harvest Fund Management Company	5,000
China International Fund Management Company	5,000
ICBC Credit Suisse Asset Management Company	1,000
Fortune SGAM Fund Management Company	1,000
HFT Investment Management Company	1,000
BOCOM Schroder Fund Management	1,000
Penghua Fund Management Company Limited	800
Fullgoal Fund Management Company Limited	800
Changsheng Fund Management Company Limited	700
Guotai Asset Management Company Limited	700
UBS SDIC Fund Management Company Limited	700
CCB Principal Asset Management Company Limited	700
Bank of China Investment Management Company Limited	700
China Merchants Fund Management Company Limited	500
CITIC-Prudential Fund Management Company Limited	500
Everbright Pramerica Fund Management Company Limited	500
MANULIFE TEDA Fund Management Company Limited	500
Huatai-PineBridge Fund Management Company Limited	500

Source: SAFE

Appendices

Table of contents

Methodology.....	65
Foreign Fund Management Companies 31 December 2010	66
Domestic Fund Management Companies 31 December 2010.....	67
Foreign Fund Management Companies 30 June 2011.....	68
Domestic Fund Management Companies 30 June 2011	69
Overview of Foreign Fund Management Companies 31 December 2010	70
Background on QDII.....	71
Background comments on participants	72
Australian Chamber of Commerce Issues Paper Asset management section, April 2011	78
American Chamber of Commerce White Paper, Securities and Investment Services Section, April 2011	79
Partners in success	83

Previous experience has shown that personal interviews with senior executives using a standard questionnaire offers the best research approach. The questionnaire contained 43 questions and was completed during interviews of approximately one hour. The author conducted all interviews between April and June 2011 in Beijing, Shanghai, Shenzhen and Hong Kong.

Responses have not been attributed to individual foreign FMCs but rather collectively as one group.

At times, individual foreign FMCs declined to answer particular questions or were unable to provide sufficiently accurate data. This is noted where applicable.

The time commitment, cooperation and support by all the foreign FMCs in this survey was outstanding.

About the author

Dr Brian Metcalfe is an associate professor in the Business School at Brock University, Ontario, Canada. He has a doctorate in financial services marketing and has researched for and produced many reports, such as this one, on behalf of PwC firms in 14 different countries including Australia, Canada, China, India, Japan and South Africa.

Previous reports have examined strategic and emerging issues in corporate, investment and private banking, life and property and casualty insurance, insurance broking, and wealth management.

He authored the reports *Foreign Banks in China (June 2011)* and *Foreign Insurance Companies in China (September 2010)*.

He has consulted for a wide range of organisations, including Royal Bank of Canada, Scotiabank, Barclays Bank, Sun Life Insurance Company, Equitable Life of Canada and several major consulting firms.

He has also taught an executive management course entitled “Financial Services Marketing” in the Graduate School of Business at the University of Cape Town.

Foreign Fund Management Companies 31 December 2010

Foreign FMC	AUM RMB bn	Market share	2010 Rank
ABC-CA	14.9	0.60%	40
AEGON-Industrial	44.1	1.80%	23
AXA SPDB	1.9	0.10%	59
Bank of Communications Schroders	49.2	2.00%	16
BOC ¹	39.1	1.60%	29
CCB Principal	48.1	1.90%	18
Changsheng ²	41.2	1.70%	25
China International ¹	59.2	2.40%	11
China Merchants ¹	40.6	1.60%	27
CITIC-Prudential	18.3	0.70%	37
Everbright Pramerica	29.6	1.20%	31
First State Cinda ¹	7.6	0.30%	50
Fortune SG ¹	49	2.00%	17
Franklin Templeton Sealand	19.2	0.80%	36
Full Goal ²	62.2	2.50%	10
Golden Eagle ²	7.1	0.30%	52
GTJA Allianz	17.3	0.70%	38
Guotai ²	47.3	1.90%	19
Harvest ²	160.3	6.40%	2
HFT ¹	46.9	1.90%	21
HSBC Jintrust	11.2	0.50%	45
Huatai-PineBridge	19.5	0.80%	35
ICBC Credit Suisse	57.9	2.30%	12
INVESCO Great Wall	46.4	1.90%	22
KBC-Goldstate	1.3	0.10%	60
Lombarda China	6	0.20%	55
Lord Abbett China	3.9	0.20%	57
Manulife TWA	25.9	1.00%	32
Minsheng Royal	2.6	0.10%	58
Morgan Stanley Huaxin	12.4	0.50%	44
Penghua ²	56	2.20%	14
Rongtong ²	52.7	2.10%	15
SYWG BNP Paribas	12.7	0.50%	42
UBS SDIC	40.3	1.60%	28
Zhonghai ²	23.9	1.00%	33
Total	1,176.10	47.10%	

Source: Z-Ben Advisors

¹ ING Investment Management owns a 33.3% equity interest in China Merchants. JPMorgan Fleming Asset Management owns a 49% equity interest in China International. Blackrock owns a 16.5% equity interest in BOC. Colonial First State Group owns 46% in First State Cinda. BNP IP BE Holdings owns 49% of HFT. Lyxor Asset Management owns 49% of Fortune SG.

² Bank of Montreal bought an equity interest In FullGoal that currently stands at 27,775%. Deutsche Asset Management purchased 30.0% equity interest in Harvest. DBS Asset Management acquired a 33% stake in Changsheng with Nikko Asset Management buying a 40% position in Rongtong. Generalli owns 30% of Guotai. Eurizon Financial Group owns a 49% stake In Penghua. La Compagnie Financiere Edmond De Rothschild Banque owns a 15.385% of Zhonghai. BEA Union Investment owns 11% of Golden Eagle.

Domestic Fund Management Companies 31 December 2010

Domestic FMC	AUM RMB bn	Market share	2010 Rank
Baoying	9.1	0.4%	49
Bosera	116.2	4.7%	4
Changxin	20.6	0.8%	34
China AMC	224.7	9.0%	1
China Nature	4.2	0.2%	56
China Post & Capital	40.8	1.6%	26
China Universal	56.9	2.3%	13
Dacheng	99.4	4.0%	7
E-Fund	145.3	5.8%	3
First Trust	11.2	0.4%	46
Galaxy	14.6	0.6%	41
Great Well	34.0	1.4%	30
Guangfa	103.6	4.1%	6
Harfor	10.3	0.4%	47
Hua'an	81.7	3.3%	9
Huashang	41.7	1.7%	24
Lion	47.0	1.9%	20
New China	6.3	0.3%	54
Orient	9.1	0.4%	48
Soochow	12.6	0.5%	43
Southern	115.9	4.6%	5
Tianhong	7.5	0.3%	51
Wanjia	16.3	0.7%	39
Yimin	6.5	0.3%	53
Yinhua	85.5	3.4%	8
Total	1,321.2	52.9%	

Source: Z-Ben Advisors

Foreign Fund Management Companies 30 June 2011

Foreign FMC	AUM RMB bn
ABC-CA	15.76
AEGON-Industrial	34.03
AXA SPDB	1.75
Bank of Communications Schroders	45.27
BOC	36.55
BNY Mellon Western	0.80
CCB Principal	42.89
Changsheng ²	39.93
China International ¹	53.95
China Merchants ¹	34.70
CITIC-Prudential	14.14
Everbright Pramerica	28.01
First State Cinda ¹	7.85
Fortune SG ¹	39.08
Franklin Templeton Sealand	17.33
Full Goal ²	64.12
Golden Eagle ²	8.05
GTJA Allianz	16.70
Guotai ²	41.85
Harvest ²	144.62
HFT ¹	38.67
HSBC Jintrust	10.09
Huatai-PineBridge	16.16
ICBC Credit Suisse	55.10
INVESCO Great Wall	45.20
KBC-Goldstate	0.93
Lombarda China	6.53
Lord Abbett China	4.32
Manulife TWA	26.24
Minsheng Royal	2.64
Morgan Stanley Huaxin	11.86
Penghua ²	49.57
Rongtong ²	46.78
SWS MU	12.57
UBS SDIC	37.72
Zhonghai ²	15.47
Total	1,067.21

Source: Z-Ben Advisors

¹ ING Investment Management owns a 33.3% equity interest in China Merchants. JPMorgan Fleming Asset Management owns a 49% equity interest in China International. Blackrock owns a 16.5% equity interest in BOC. Colonial First State Group owns 46% in First State Cinda. BNP IP BE Holdings owns 49% of HFT. Lyxor Asset Management owns 49% of Fortune SG.

² Bank of Montreal bought an equity interest In FullGoal that currently stands at 27.775%. Deutsche Asset Management purchased 30.0% equity interest in Harvest. DBS Asset Management acquired a 33% stake in Changsheng with Nikko Asset Management buying a 40% position in Rongtong. Generali owns 30% of Guotai. Eurizon Financial Group owns a 49% stake In Penghua. La Compagnie Financiere Edmond De Rothschild Banque owns a 15.385% of Zhonghai. BEA Union Investment owns 11% of Golden Eagle.

Domestic Fund Management Companies 30 June 2011

Domestic FMC	AUM RMB bn
Baoying	8.43
Bosera	110.12
Changxin	19.81
China AMC	221.51
China Nature	3.73
China Post & Capital	36.21
China Universal	54.51
Dacheng	86.86
E-Fund	141.96
First Trust	9.64
Galaxy	14.04
Great Well	32.28
Guangfa	102.28
Harfor	8.77
Hua'an	73.92
Huashang	38.07
Lion	51.83
New China	5.90
Orient	9.12
Soochow	13.78
Southern	120.07
Tianhong	6.31
Wanjia	15.57
Yimin	5.65
Yinhua	73.08
Zheshang	1.27
Total	1,264.7

Source: Z-Ben Advisors

Overview of Foreign Fund Management Companies at 31 December, 2010

FMC	Foreign party	Chinese party	Foreign equity	Operation date	Reg capital	City	AUM RMB bn	No. of Products
ABC-CA	Credit Agricole Asset Management	Agriculture Bank of China	33.33%	18-Mar-08	200	Shanghai	14.9	7
AEGON-Industrial	AEGON	Industrial Securities	49.00%	12-Apr-08	150	Shanghai	44.1	9
AXA SPDB	AXA Investment Managers	Shanghai Pudong Dev. Bank	39.00%	15-Aug-07	200	Shanghai	1.9	5
BOCOM Schroders	Schroder Investment Management	Bank of Communications	30.00%	4-Aug-05	200	Shanghai	49.2	13
BNY Mellon Western	BNY Mellon Asset Management	Western Securities	49.00%	20-Jul-10	200	Shanghai	1.1	1
BOC	BlackRock Investment Management	Bank of China	16.50%	12-Aug-04	100	Shanghai	39.1	11
CCB Principal	Principal Financial	China Construction Bank	25.00%	19-Sep-05	200	Beijing	48.1	13
Changsheng	DBS Asset Management	Guoyuan Securities	33.00%	19-Apr-07	100	Beijing	41.2	15
China International	J.P. Morgan Asset Management	Shanghai International Trust	49.00%	12-May-04	250	Shanghai	59.2	13
China Merchants	ING Investment Management	China Merchants Bank	33.30%	27-Dec-02	210	Shenzhen	40.6	16
CITIC-Prudential	Prudential PLC	CITIC Trust	49.00%	30-Sep-05	200	Shanghai	18.3	10
Everbright Pramerica	Pramerica Investment	Everbright Securities	33.00%	22-Apr-04	160	Shanghai	29.6	9
First State Cinda	First State Investment Management	Cinda Asset Management	46.00%	5-Jun-06	100	Shenzhen	7.6	5
Fortune SGAM	Lyxor Asset Management	Fortune Trust	49.00%	3-Jul-03	150	Shanghai	49	15
Franklin Templeton Sealand	Franklin Templeton Investments	Sealand Securities	49.00%	15-Nov-04	220	Shanghai	19.2	8
Full Goal	Bank of Montreal	Haitong Securities	27.78%	28-May-03	180	Shanghai	62.2	20
Golden Eagle	BEA Union Investment	Guangzhou Securities	11.00%	13-Dec-10	100	Guangzhou	7.1	6
GTJA Allianz	Allianz Global Investors	Guotai Jun'an Securities	49.00%	3-Apr-03	150	Shanghai	17.3	12
Guotai	Generali Group	Jianyin Investment	30.00%	21-Jun-10	110	Shanghai	47.3	18
Harvest	Deutsche Bank Group	China Credit Trust	30.00%	17-Jun-05	100	Beijing	160.3	23
HFT	BNPP IP BE Holding	Haitong Securities	49.00%	18-Apr-03	150	Shanghai	46.9	15
HSBC Jintrust	HSBC Investments	Shanxi Trust	49.00%	16-Nov-05	200	Shanghai	11.2	9
Huatai-PineBridge	PineBridge Investments	Huatai Securities	49.00%	18-Nov-04	200	Shanghai	19.5	10
ICBC Credit Suisse	Credit Suisse First Boston	ICBC	25.00%	21-Jun-05	200	Beijing	57.9	15
INVESCO Great Wall	INVESCO Asia, Limited	Great Wall Securities	49.00%	12-Jun-03	130	Shenzhen	46.4	11
KBC-Goldstate	KBC Asset Management	Goldstate Securities	49.00%	28-Nov-06	150	Shanghai	1.3	6
Lombardo China	Unione di Banche Italian	Guodu Securities	49.00%	19-Jul-06	120	Shanghai	6	7
Lord Abbett China	Lord Abbett	Changjiang Securities	49.00%	8-Jun-06	100	Shanghai	3.9	5
Manulife TEDA	Manulife	Northern International Trust	49.00%	9-Mar-10	180	Beijing	25.9	14
Minsheng Royal	Royal Bank of Canada	Minsheng Bank	30.00%	3-Nov-08	200	Shenzhen	2.6	5
Morgan Stanley Huaxin	Morgan Stanley	China Fortune Securities	34.00%	12-Jun-08	100	Shenzhen	12.4	7
Penghua	Eurizon Capital SGR	Guosen Securities	49.00%	22-Jun-07	150	Shenzhen	56	20
Ping An UOB	UOB Asset Management	Ping An Trust	25.00%	7-Jan-11	300	Shenzhen		
Rongtong	Nikko Asset Management	New Times Securities	40.00%	13-Apr-07	125	Shenzhen	52.7	12
SYWG BNP Paribas	BNP Paribas Asset Management	Shenyin Wanguo Securities	33.00%	15-Jan-04	150	Shanghai	12.7	10
UBS SDIC	UBS Asset Management	SDIC Trust	49.00%	10-Jun-05	100	Shenzhen	40.3	14
Zhonghai	Edmond De Rothschild Banque	Zhonghai Trust	15.39%	26-Nov-08	130	Shanghai	23.9	9
	American Century Investments*	Golden Sun Securities			100			
	AVIVA Investors*	Central China Securities	49.00%		200	Shanghai		
	Bank of Nova Scotia*	Bank of Beijing	33.00%		300	Beijing		
	F&C Asset Management*	Huaxia Bank	19.50%		250	Beijing		
	Fubon Securities*	Founder Securities	33.30%		200			
	Korea Investment & Securities*	Yingda Securities						
	Mirae Asset Financial Group*	Huachen Trust	25.00%					
	National Australia Bank*	Huarong Trust						
	President Securities*	Union Trust	49.00%		100	Xiamen		

*JV in preparation

QDII (Qualified Domestic Institutional Investor)

QFII can be viewed as the opposite to QDII. QDII allowed authorised domestic institutional investors to invest outside China in overseas markets.

QDII began in 2004 when some Chinese insurance companies were permitted to invest outside. For example, Ping An Insurance received a QDII quota for US\$8.89bn in December 2004. It was then subsequently opened to banks, FMCs and insurance companies in 2006. For example, HuaAn Fund Management company received a QDII quota for US\$500m in 2006.

Relevant countries

Equity investments by a QDII fund can only be made in a country that has signed a Memorandum of Understanding (MoU) with the CSRC.

Up to September 2010, MoUs had been signed with 47 territories including Hong Kong, UK, US, Singapore, Japan, Australia, Korea, Luxembourg, Germany, Canada and Malaysia.

However to date most QDII investments have been made in Hong Kong, where they include Hong Kong listed mainland companies.

At the end of December 2010 there were 88 QDIIs totalling US\$68.4bn.

The foreign JV FMCs accounted for US\$21.6bn of this total.

Appointment of QDII Custodians

The QDII scheme requires the appointment of onshore and offshore custodians. The onshore custodian must be a local Chinese bank and the onshore custodian then in turn appoints the offshore custodian.

The scale and popularity of QDII suffered as a result of the global financial crisis.

In June 2011 the CSRC released the Measures for the Administration of the Sale of Securities Investment Funds (Revised) which will become effective on 1 October 2011.

The new rules in these measures will open up more sales channels for the fund companies including foreign banks, independent fund companies and third party intermediaries such as online marketers.

Background comments on participants

Joint venture fund management companies	Partners		Background comments†
	Foreign	Chinese	
ABC-CA 100 employees www.abc-ca.com	Amundi Asset Management (33.3%)	Agricultural Bank of China (51.67%) Aluminum Corporation of China (15%)	Established in February, 2008, ABC-CA is a JV with a registered capital of RMB 200m, among Agricultural Bank of China, Amundi Asset Management, and Aluminum Corporation of China. The company is headquartered in Shanghai.
AEGON Industrial 126 employees www.xyfunds.com.cn	AEGON (49%)	Industrial Securities (51%)	Industrial Fund Management Company Limited was founded in September, 2003 with a registered capital of RMB 98m. The company was jointly initiated by Industrial Securities (48.98%), State Development and Investment Corp (25.51%), China Investment and Credit Guaranty Company Limited (15.31%) and Fujian Post Office (10.2%). In 2007, Netherlands-based AEGON Group acquired 49% stake in the company, and the JV's name changed to AEGON-INDUSTRIAL Fund Management Company Limited. The current registered capital is RMB 150m.
AXA SPDB 65 employees www.py-axa.com	39%	Shanghai Pudong Development Bank (51%) Shanghai Dragon Investment Company (10%)	Headquartered in Shanghai, AXA SPDB Investment Managers Company Limited is established in August 2007. It is a JV among Shanghai Pudong Development Bank (51%), French asset management company AXA Investment Managers (39%) and Shanghai Dragon Investment Company (10%). Total registered capital is RMB 200m.
BOC Investment Management 170 employees www.bociim.com	(51%)	Bank of China International (China) (67%)	Bank of China Investment Management Company Limited (BOCIM) is a joint-venture fund management company between Bank of China Company Limited and BlackRock Inc. They hold 83.5% and 16.5% share respectively, with a registered capital of RMB 100m. Formally called BOC International Investment Managers before January 2008, the company was established on June 2004 as a result of the partnership of BOC International (China) Limited (BOCICL), BOC International Holdings (BOCIH) and Merrill Lynch Investment Managers which merged with BlackRock. BOCICL held 67% of the JV while each of BOCIH and BlackRock held 16.5%.
Bank of Communications Schroder 200 employees www.jyfund.com	Schroder (30%)	Bank of Communications (65%) China International Marine Containers (5%)	Bank of Communications Schroder Fund Management Company Limited is a JV established in 2005 with Schrodgers Plc. and headquartered in Shanghai. Bank of Communications owns 65% of the venture, with Schrodgers holding 30% and China International Marine Containers (Group) Company the remainder. Its registered capital is renminbi 200m.

† The background comments were taken from the respective FMCs' websites in July 2011

Joint venture fund management companies	Partners		Background comments†
	Foreign	Chinese	
BNY Mellon 45 employees www.bnyfund.com	BNY Mellon (49%)	Western Securities (51%)	Established in July 2010, BNY Mellon Western Fund Management Company Limited is based in Shanghai with registration capital of RMB 200m. Its shareholders are Western Securities Company Limited and BNY Mellon Corporation.
CCB Principal 160 employees www.ccbfund.cn	Principal Financial Group (25%)	China Construction Bank (65%) China Huadian (10%)	CCB Principal Asset Management Company Limited was opened in September 2005 in Beijing with RMB 200m registered capital. China Construction Bank owns 65% of the company, while US company Principal Financial Group owns 25% and China Huadian Group owns the rest 10%.
Changsheng DBS Fund Management 180 employees www.csfunds.com.cn	DBS Asset Management (33%)	Guoyuan Securities (41%) Anhui Credit Guarantee Group (13%) Anhui Provincial Investment Group (13%)	Changsheng was founded in March 1999 as a domestic fund management company with registered capital of RMB 100m. In April 2007, the company became a foreign JV when Singapore based DBS Asset Management took a 33% stake in November 2008, Changsheng increased its registered capital to RMB 150m.
China International 210 employees www.51fund.com	JPMorgan Fleming Asset Management (UK) (49%)	Shanghai International Trust and Investment (51%)	China International Fund Management Company Limited is a JV between Shanghai International Trust & Investment Company Limited and J.P. Morgan Fleming Asset Management (UK) Limited. It has a registered capital of RMB 150m. The former holds 51% of the shares, while the latter holds 49% of them. The company opened in May 2004.

† The background comments were taken from the respective FMCs' websites in July 2011

Joint venture fund management companies	Partners		Background comments†
	Foreign	Chinese	
China Merchants Fund 181 employees www.cmfcchina.com	ING Asset Management (33.3%)	China Merchants Securities (33.3%) China Merchants Bank (33.4%)	China Merchants Fund Management Company Limited (CMF) was the first JV Fund Management Company approved by the China Securities Regulatory Commission (CSRC). The company was formally launched on 27 December, 2002. CMF was registered in Shenzhen with RMB 210m registered capital.
CITIC Prudential 125 employees www.citicprufunds.com.cn	Prudential (49%)	China International Trust (49%) China-Singapore Suzhou Industrial Park (2%)	Headquartered in Shanghai, CITIC-PRU is jointly established by China International Trust and Investment Corporation and Prudential with 49% stake of each and China-Singapore Suzhou Industrial Park Development Company Limited with a 2% stake. The registered capital is RMB 200m, increased from RMB 100m in December 2008.
Everbright Pramerica 126 employees www.epf.com.cn	Pramerica (45%)	Everbright Securities (55%)	Everbright Pramerica Fund Management Company Limited is a JV between Everbright Securities and Prudential Financial headquartered in Shanghai. The registered capital is RMB 160m. Everbright Securities previously held 67% stake and Prudential Financial held the rest of 33%. In January 2011, Everbright transferred 12% shares to the foreign partner.
First State Cinda 100 employees www.fscinda.com	Colonial First State Group (46%)	China Cinda (54%)	First State Cinda Fund Management Company Limited is a JV between China Cinda Asset Management Corporation (China Cinda) and Colonial First State Group (CFSG), a wholly owned subsidiary of the Commonwealth Bank of Australia. The company has its registered office in Shenzhen with a registered capital of RMB 100m. China Cinda owns 54% stake, while CFSG accounts for the remaining 46%.
Fortune SG 178 employees www.fsfund.com	Lyxor Asset Management 49%	HWABAO Trust Company Limited 51%	Fortune SG Fund Management Company Limited is a JV between HWABAO Trust Company Limited, which is a subsidiary of Baosteel Group, and Lyxor Asset Management, an asset management subsidiary of SG Group in France. The former originally held 67% stake while Lyxor held 33% upon the establishment in March 2003. In June 2007, the registered capital increased to RMB 150m from RMB 100m, and the share percentage changed to HWABAO Trust Company Limited 51% and SG 49%.

† The background comments were taken from the respective FMCs' websites in July 2011

Joint venture fund management companies	Partners		Background comments†
	Foreign	Chinese	
Franklin Templeton Sealand 120 employees www.ftsfund.com	Franklin Templeton (49%)	Sealand Securities (51%)	Established in July 2004, Franklin Templeton Sealand Fund Management Company Limited is a JV between Sealand Securities Company Limited and US company Franklin Templeton International, Inc. They hold 51% and 49% stake respectively. The registered capital was raised from RMB 100m to RMB 150m in January 2007, and again to RMB 220m in December 2007.
GTJA Allianz 100 employees www.gtja-allianz.com	Allianz (49%)	Guotai Junan Securities (51%)	Guotai Junan Allianz fund Management Company Limited is one of the first JV FMCs that acquired the preparatory permit in China. Its local shareholder, Guotai Junan Securities with 51% stake, is one of the largest security companies in China; its foreign shareholder, Allianz AG in Germany owns 49% stake. The current registered capital is RMB 150m.
Guotai Asset Management 210 employees www.gtfund.com	Global Assicurazioni Generali S.p.A (30%)	China Jianyin Investment Limited (60%) China Power Finance (10%)	As one of the first FMCs in China, Guotai AMC was set up on March 5, 1998, with a registered capital of RMB 110m. Formerly a domestic company, Generali acquired 30% stake in June 2010 and turned it into a foreign JV.
Harvest 400 employees www.jsfund.cn	Deutsche Asset Management (30%)	China Credit Trust (40%) Li Xin Investment (30%)	The company was founded in March 1999 as one of the first 10 domestic fund management institutions authorised by the Chinese government as part of its strategy to open up and develop its financial sector. In June 2005, Deutsche Asset Management (DeAM), a subsidiary of Deutsche Bank AG, took a 19.5% stake in Harvest. In August 2007, Harvest was approved to be the first JV to operate QDII business. In March 2008, the shareholding proportion changed. DeAM now holds 30%, the shareholding by China Credit Trust decreased from 48% to 40%, while Lixin Investment now holds 30%, down from 32.5%. Harvest has registered capital of RMB 100m.
HFT Investment Management 186 employees www.hftfund.com	BNP Paribas (49%)	Haitong Securities (51%)	HFT Investment Management Company Limited was established in April 2003. HFT Investment is 51% owned by Haitong Securities. The other 49% is owned by BNP Paribas Investments, which is the result of a lift of the stake from its original 33% to 49% in December 2005. In February 2006, the company increased its registered capital from RMB 100m to RMB 150m. It opened a wholly owned subsidiary in Hong Kong in November 2010 with 60m registered capital.
HSBC Jintrust 120 employees www.hsbcjt.cn	HSBC Global Asset Management (49%)	Shanxi Trust (51%)	HSBC Jintrust Fund Management Company Limited is a JV between HSBC Group Investment Businesses and Shanxi Trust & Investment Corporation Limited (Jintrust). HSBC Group owns 49% stake and the Chinese investor owns 51%. The company opened in November 2005 with RMB 200m registered capital and headquartered in Shanghai.

† The background comments were taken from the respective FMCs' websites in July 2011

Joint venture fund management companies	Partners		Background comments [†]
	Foreign	Chinese	
Huatai PineBridge 135 employees www.huatai-pb.com	PineBridge Investment (49%)	Huatai Securities (49%) Suzhou New District High-Tech Industrial (2%)	Huatai-PineBridge is a joint-venture fund management company, established by Huatai Securities Company Limited, Suzhou New District High-Tech Industrial Company Limited, and AIG Global Investment Corp. on November 18, 2004. Headquartered in Shanghai, the company has branch offices in Beijing and Shenzhen. It has a registered capital of RMB 200m. As AIGGIC rebranded to PineBridge Investment LLC, the company changed its name to Huatai PineBridge in 2010.
KBC Goldstate 50 employees www.jykbc.com	KBC (49%)	Goldstate Securities (51%)	KBC Goldstate Fund Management Company Limited was established by Goldstate Securities Company Limited (GSS) and KBC in November 2006. The company is headquartered in Shanghai with a registered capital of RMB 150m.
Lombarda China 85 employees www.lcfunds.com	UBI Bank (49%)	Guodu Securities (47%) Pingdingshan Coal (4%)	Lombarda China Fund Management Company Limited registered in Shenzhen with a registered capital of RMB 120m, was formally established on 19 July 2006. Italy-based Unione di Banche Italiane S.c.p.A holds a 49% stake, Guodu Securities Company Limited holds 47% and Pingdingshan Coal (Group) Company Limited holds 4%.
Lord Abbett China 72 employees www.lordabbettchina.com	Lord Abbett (49%)	Changjiang Securities (30%) Tsinghua Holding (21%)	Established in August 2006, Lord Abbett China Asset Management Company Limited is headquartered in Shanghai and founded by a US asset management company – Lord Abbett & Co. LLC, Changjiang Securities Company, and Tsinghua Holding Company Limited, which is associated with Tsinghua University. The company has RMB 100m registered capital, 49% is invested by Lord Abbett & Co. LLC, 30% by Changjiang Securities and 21% by Tsinghua Holding.
Manulife TEDA 140 employees www.mfcteda.com	Manulife Asset Management (HK) (49%)	Northern International Trust Company Limited (51%)	Formerly ABN AMRO TEDA Fund Management, the company was established on June 2002. In March 2010, ABN AMRO transferred all its 49% stakes to Manulife Asset Management (Hong Kong) Limited. The company currently has a registered capital of RMB 180m.

[†] The background comments were taken from the respective FMCs' websites in July 2011

Joint venture fund management companies	Partners		Background comments [†]
	Foreign	Chinese	
Minsheng Royal 60 employees www.msjfund.com.cn	Royal Bank of Canada (30%)	China Mingsheng Banking (60%) Three Gorges Finance (10%)	Headquartered in Shenzhen, Minsheng Royal established in November 2008 by China Minsheng Banking Corp, RBC and Three Gorges Finance, with a registered capital of RMB 200m.
Morgan Stanley Huaxin 98 employees www.msfunfunds.com.cn	Morgan Stanley International (34%)	Huaxin Securities (36%) Hantang Securities (15%) Shenzhen Merchants Investment Corp (10%) Shenzhen China Technology Industry Group (5%)	Before June 2008, Morgan Stanley Huaxin Fund Management Company Limited was formerly a domestic company Jutian Fund Management Company Limited Morgan Stanley International Holdings Inc. owns 34% stake in the new JV. The domestic partners include Huaxin Securities (36%) Hantang Securities (15%), Shenzhen Merchants Investment Corp (10%), and Shenzhen China Technology Industry Group (5%). Current registered capital is RMB 160m.
Penghua Fund Management 240 employees www.phfund.com.cn	Eurizon (49%)	Guosen Securities (50%) Shenzhen Brillice Investment Company (1%)	Penghua Fund Management Company Limited was established in December 1998 as a domestic company with the initial registered capital of RMB 80m. In 2001, the registered capital has increased to RMB 150m. In July 2007, Italian company Eurizon Financial Group acquired 49% share from three shareholding companies. As a result of the change, the original shareholder Guosen Securities Company Limited still owns 50% stake and Shenzhen Brillice Investment Company Limited owns 1%.
Zhonghai Fund 123 employees www.zhfund.com	Rothschild (25%)	Zhonghai Trust (41.59%) Guolian Securities (33.41%)	Founded in March 2004 as Guolian Fund Management Company Limited and with a registered capital of RMB 147million, Zhonghai Fund changed to its current name in July 2006 when Zhonghai Trust became the biggest shareholder. In November 2008, French company Rothschild acquired 15.385% of its stake, which made Zhonghai Fund a foreign JV.
UBS SDIC 165 employees www.ubssdic.com	UBS AG (49%)	SDIC (51%)	UBS SDIC Fund Management Company Limited was formerly called Zhongrong Fund Management Company Limited which was established on June 2002. In June 2005, it JV with UBS group. At present, it is jointly owned by UBS AG and SDIC Group which holds 51% and 49% of the stakes respectively. Its current registered capital is RMB 100m.

[†] The background comments were taken from the respective FMCs' websites in July 2011

Australian Chamber of Commerce Issues Paper – Asset management Section April 2011

**Extracted from Australian
Financial Service Business in
China**

2011 Issues Paper

May 2011

Asset Management

12. Revisions to Securities Investment Funds Law

Issue

The 2004 ‘Securities Investment Funds Law’ is not consistent with the more recent regulatory and market developments that have taken place in regard to the marketing of offshore funds into China under the Qualified Domestic Institutional Investor (“QDII”) scheme. Australian fund managers, (which possess an outstanding reputation around the world for their high performing and responsible fund management) currently remain confused on how they should engage with QDIIs in the marketing of their offshore fund products.

Recommendation

Develop a clear set of rules on how foreign fund managers should engage with QDIIs in the marketing of their offshore fund products and allow foreign fund managers to review and comment on the proposed revisions to the Securities Investment Funds Law.

Australian fund managers have much to share with Chinese regulators and market players in respect of their experience in achieving greater industry competitiveness (e.g. among mutual fund companies and private funds). In addition, Australian fund managers and regulators can assist their Chinese counterparts in developing plans and strategies for the continued normalisation and institutionalisation of the investment industry’s regulatory structures.

Benefit

A clearer framework for Australian and other foreign fund management companies now operating in, or together with, China’s investment industry, and a more competitive investment management industry for China. This increased transparency would provide a greater incentive for foreign funds to establish operations in financial centres such as Shanghai and other big Chinese cities. The transference of these best practice management processes and technologies from these foreign funds, in turn will help accelerate the overall development of China’s fund management sector.

**Securities and Investment
Services**

AmChamChina welcomes the tremendous progress made by China in the past year in the securities area. In June 2009, the China Securities Regulatory Commission (CSRC) formally issued opinions on new share issuance, marking the resumption of initial public offerings after a suspension of more than eight months. The advent of Chinext, previously the “Growth Enterprise Board,” in October 2009 has played a positive role in promoting the development of SMEs and improving the depth and structure of China’s capital market. AmCham China also welcomes the resumption of the examination and approval of joint venture securities companies, which was suspended during the comprehensive rectification of securities dealers, and recent movements toward the long-awaited launch of financial derivatives.

In addition, a number of Qualified Foreign Institutional Investor (QFII) applications have been approved. In October 2009, the State Administration of Foreign Exchange (SAFE) also raised the upper limit for single qualified investors applying for QFII investment quotas from US \$800 million (RMB 5.5bn) to US \$1bn (RMB 6.8bn), set a threshold of US \$50 million (RMB 3.4 million) for each application for investment quota, and shortened the lockin period to three months for the investment principal of some funds under the QFII system and to one year for the investment principal of other qualified investors. According to data provided by SAFE, the investment quota granted to 78 QFIIs had reached US \$15.7bn (RMB 107.2bn) by the end of September 2009.

AmCham China commends the Chinese authorities for their approval of additional QFIIs and for the decision to increase the maximum quota for certain single QFII holders from US \$800 million (RMB 5.5bn) to US \$1bn (RMB 6.8bn) and other steps taken to develop further the QFII program. We hope more QFII applications will be approved and that enhancements to the QFII system will continue. We look forward to an increase in the investment of Chinese funds overseas through the Qualified Domestic Institutional Investor (QDII) program. We welcome this trend towards the approval of investments in a greater range of products and markets.

Chinese regulatory agencies continue to seek advice from foreign corporations and private equity (PE) investors to further develop the domestic PE and venture capital markets. Despite the economic downturn, many PE investors remain optimistic about China. However, while PE and venture capital are increasingly important parts of China’s financial sector, there remain serious concerns about the ability of foreign investors to compete in China on a level playing field with their domestic counterparts.

Private Equity

There have been a number of changes to the Chinese regulations in 2009 for the PE sector. There is a movement towards decentralization of the approval process by allowing foreigninvested projects to be approved at the provincial and local levels. However, investors continue to face confusing, and at times contradictory, guidance and regulations from various government ministries and regulators. AmCham China recommends that the central government strengthen the coordination of examination and approval power between ministries/commissions, accelerate the process of examination and approval, and issue guiding opinions while delegating the authority for examination and approval to avoid overlapping supervision among departments at the local level. In addition, AmChamChina recommends that the Chinese government publish all relevant central and noncentral government laws and regulations in one place to help investors understand the broader investment landscape.

RMB Denominated funds

In October 2008, the National Development and Reform Commission (NDRC) set out the basic scope, operation mode and result assessment standard of foreigninvested venture capital enterprises, the first salvo in the development of a market for RMB funds managed by foreign firms. Managers or investors of overseas funds may set up foreigninvested equity investment management enterprises in Shanghai, Beijing, Tianjin and other regions. In June 2009, the government of Pudong, Shanghai passed provisional administrative measures, expressly allowing foreign investors to establish fund management enterprises there. Major provisions include:

- Legal form: A domestic fund management enterprise must be a limited liability company rather than a limited partnership;
- Registered capital: The registered capital shall not be lower than US \$2 million (RMB 13.7 million). Furthermore, 20 percent of the registered capital shall be paid within three months from the day the business license is issued and the balance shall be paid in full within two years;

- Qualifications of shareholders: There should be at least one investor engaged in equity investment or the equity investment management business;
- And qualifications of managers: There should be at least two managers with over two years of experience in the management of equity investment or equity investment management business and over two years of experience in holding senior executive office.

Despite these advances, it appears that RMB denominated funds managed by foreign institutions will still be subject to MOFCOM's foreign investment catalogue, defeating the purpose of raising RMB funds for many foreign investors. Furthermore, the process by which RMBfund investments are approved remains little understood, and unevenly applied across different jurisdictions.

AmCham China urges local authorities to implement the new regulations in an even and transparent manner. AmChamChina welcomes the Chinese government's continued reform efforts towards creating a more conducive environment for the PE sector and encourages MOFCOM, the State Administration for Industry & Commerce, NDRC and other relevant authorities to put forth additional measures that will allow similar structure and flexibility that investors are accustomed to on an international basis.

Recommendations

For PBOC:

- Allow foreign banks to underwrite financing facilities for nonfinancial enterprises and also issue the relevant administrative guidelines as soon as possible.
- Develop a competitive payments market that includes multiple participants, and in particular, encourage the widespread installation and development of card machines and other equipment from competing brands among SMEs to boost consumer spending across China.

For MOFCOM:

- Provide further clarification for investors regarding administrative jurisdiction of the PE market and streamline the approval process while ensuring that foreign investors are able to operate on the same basis as their domestic counterparts.
- Continue to institute a legal and regulatory system that provides equal treatment to domestic and foreign PE investors.
- Implement the same preinvestment regulatory approval process for investment opportunities that have offshore funds coinvesting with RMB funds as a RMB fund investing without an offshore fund coinvestor.
- Introduce additional measures to provide guidance and establish accepted standards for the formation, administration and management of foreign invested partnerships.

For CBRC:

- Relax restrictions on participation in the interest rate swap market by financial institutions and allow more foreign banks to conduct IRS transactions directly with nonfinancial institution customers.
- Issue clear and specific operational measures for RMB credit derivatives as early as possible to promote the development of China's derivatives market.
- Expedite the process of seeking comments on draft versions of regulations on bankcards from industry participants, including global card issuers.
- Allow NBFIs to issue cards and perform settlement operations related to cards as part of the broadening of choice and competition within the market.
- Increase capacity of provincial authorities to implement and enforce relevant SLC regulations uniformly.
- Allow smaller foreign institutions to receive SLC licenses.
- Revisit the implementation guidelines for SLCs and amend them to allow SLCs a clear path to become banking institutions provided that they meet capital adequacy, profitability and internal control targets. Allow foreign sponsored SLCs that meet the statutory requirements to become banks, even those with more than 20 percent foreign shareholding.

For CBRC and MOFCOM:

- Extend the same tax exemptions and benefits to equipment and financial leasing enterprises that purchase and lease equipment for businesses, as if they were both the owners and endusers.
- Eliminate inconsistencies between the dual CBRC and MOFCOM licensing regimes.

For CSRC:

- Clarify application requirements and procedures as soon as possible so that foreigninvested legalperson banks can participate in the distribution of domestic mutual funds.
- Develop a sound credit information center and establish a national collateral registration system.
- Ensure regulations governing credit reporting agencies are in line with international practices and preserve the independence of credit rating agencies. To maintain international consistency, remove mandatory ratings requirements and minimum prudential ratings from relevant financial sector rules
- Continue to increase QFII and QDII quotas over time.

Partners in success

About PwC

PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than 161,000 people in 154 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice. See www.pwc.com for more information.

PwC China, Hong Kong, Singapore and Taiwan work together on a collaborative basis, subject to local applicable laws. Collectively, we have more than 620 partners and a strength of 14,000 people.

Providing organisations with the advice they need, wherever they may be located, our highly qualified, experienced professionals listen to different points of view to help organisations solve their business issues and identify and maximise the opportunities they seek. Our industry specialisation allows us to help co-create solutions with our clients for their sector of interest.

We are located in these cities: Beijing, Hong Kong, Shanghai, Singapore, Taipei, Chongqing, Chungli, Dalian, Guangzhou, Hangzhou, Hsinchu, Kaohsiung, Macau, Nanjing, Ningbo, Qingdao, Shenzhen, Suzhou, Taichung, Tainan, Tianjin, Xiamen and Xi'an.

Financial Services

Financial Services

Mervyn Jacob – Hong Kong

PwC Hong Kong
+852 2289 2700
mervyn.jacob@hk.pwc.com

Raymond Yung – Beijing

PwC China
+86 (10) 6533 2121
raymond.yung@cn.pwc.com

Asset Management

Marie-Anne Kong – Hong Kong

PwC Hong Kong
+852 2289 2707
marie-anne.kong@hk.pwc.com

Keith Lie – Hong Kong

PwC Hong Kong
+852 2289 1848
keith.k.lie@hk.pwc.com

Alex Wong – Shanghai

PwC China
+86 (21) 2323 3171
alex.wong@cn.pwc.com

Banking & Capital Markets

Peter Li – Hong Kong

PwC Hong Kong
+852 2289 2982
peter.pt.li@hk.pwc.com

Jimmy Leung – Shanghai

PwC China
+86 (21) 2323 3355
jimmy.leung@cn.pwc.com

Insurance

Peter Whalley – Hong Kong

PwC Hong Kong
+852 2289 1192
peter.whalley@hk.pwc.com

Tom Ling – Beijing

PwC China
+86 (10) 6533 2381
tom.tm.ling@cn.pwc.com

The on-going transformation of the financial services industry, through the key drivers of technology and capital markets, is dramatic and complex. As legal barriers fall between the various components in the industry, the financial services sector is being shaped by megatrends such as convergence, consolidation and globalisation. Each of these megatrends has a significant impact on the way our clients manage and think about their businesses.

We have the largest specialist financial services practice in mainland China and Hong Kong. Our strategy is to bring significant business advantage to our clients through combining our global multidisciplinary teams, integrated across industry sectors, geographies and functional skills to bring our global best practices and creative problem-solving skills to bear.

PwC is the leading professional services firm serving the global asset management industry. PwC brings a unique combination of integrated services to provide valuable knowledge and experience to meet the assurance, advisory and tax needs of asset managers and their funds products and the service providers to the asset management industry including custodians, fund administrators and prime brokers.

Both in mainland China and Hong Kong, PwC boasts the largest client base and professional staff dedicated to the asset management industry, consisting of a team of over 18 partners and 48 managers dedicated to servicing the asset management industry along with a pool of senior associates and associates. Our professional staff in Hong Kong work closely with PwC's global network of asset management professional, providing access to extensive industry experience and best practices all over the world.

PwC was awarded the “Best Auditor – Funds Advice” and/or “Best Tax Advisor” Awards by AsianInvestor for 3 consecutive years from 2008

Some relevant PwC thought leadership and other publications include:

- FATCA Why Asset Managers should prepare now (Hong Kong) (Aug 2011)
- Real Estate Quarterly – China, Q2 2011 (Aug 2011)
- CBRE: Global view point – HK, London, NY – from recession to recovery (Jul 2011)
- Compare and Contrast: Worldwide Real Estate Investment Trusts (REIT) Regimes (Jul 2011)
- State Street: Reaping the rewards of UCITS pooling (Jul 2011)
- The place for listing Alternative Investment Funds (Jul 2011)
- Asset Management News Supporting the creation of value (Jun 2011)
- Asset Management Publications Flyer (Jun 2011)
- Being Distinctive : Exchange Traded Funds (Jun 2011)
- Infrastructure: From cost to benefit Hedge funds 2.0 (Jun 2011)
- Regulatory Change in Wealth Management (Jun 2011)
- Rethinking Distribution – Creating competitive advantage in a new fund distribution paradigm (Jun 2011)
- Emerging Trends in Real Estate Asia (2011)
- Private equity looking to the future (2011)
- From black box to open book Hedge fund trust and transparency (2010)

Services we offer

Audit and Assurance

- Actuarial services
- Assistance on capital market transactions
- Corporate reporting improvement
- Financial reporting
- Financial statement audit
- IFRS reporting
- Regulatory compliance and reporting

Risk & Controls Solutions

- IT risk & governance
- Internal controls assurance (e.g. SAS 70)
- Global Investment Performance Standard (GIPS) assurance
- ERP controls & project assurance
- Information security
- Data assurance
- C-SOX and s404 advisory
- Internal controls consulting
- XBRL
- Business resilience and risk management
- Fraud risk & controls
- Sustainability & climate change
- Integrated reporting
- Third party assurance
- Internal audit & corporate governance

Crisis Management

- Business recovery services (for services primarily outside the US)
- Dispute analysis & investigations
- Forensics

Finance Consulting

- Finance function visioning, design, implementation & transformation

Human Resources Consulting

- International assignments
- Incentives & rewards
- HR function strategy, design & transformation
- Corporate culture & change management

Operations Consulting

- Shared services & outsourcing
- Strategic procurement
- Revenue growth
- Supply chain management

Risk Consulting

- Design, implementation & transformation of risk, governance & compliance functions & capabilities

Strategy Consulting

- Corporate & business unit strategy
- Portfolio management
- Financial & business economics
- Market entry advice
- Modelling & business planning
- Regulation, competition & merger economics

Tax

- International tax structuring
- Corporate tax compliance
- International assignments
- Mergers & acquisitions
- Transfer pricing
- Tax dispute resolution
- Tax incentive application/planning
- Tax function effectiveness
- Indirect tax planning and compliance

Technology Consulting

- IT transformation
- Enterprise architecture
- Application support
- Data management
- IT sourcing

Transactions

- Accounting valuations
- Advice on fundraising
- Bid support and bid defence services
- Commercial and market due diligence
- Financial due diligence
- Independent expert opinions
- Mergers & acquisitions advisory (buy and sell)
- Post deal services
- Private equity advice
- Project finance
- Privatisation advice
- Tax valuations

www.pwchk.com

This publication has been prepared by PwC for general guidance on matters of interest only, and is not intended to provide specific advice on any matter, nor is it intended to be comprehensive. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC firms do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. If specific advice is required, or if you wish to receive further information on any matters referred to in this publication, please speak with your usual contact at PwC or those listed in this publication.

© 2011 PricewaterhouseCoopers Limited. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers Limited, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity. HK-20110824-2-C1



This is printed on 9lives 55 which is made with an elemental chlorine free process. It has 55% recycled fibre and 45% fibre from well-managed forestry. 9lives 55 is ISO 14001 certified.