

## Industry Review & Analysis

There is a lot riding on 2H08 after industry AUM posted a 40% decline during the first six months. Foreign asset managers, however, are redirecting their efforts towards sovereign wealth funds and QFII/QDII.

Industry AUM down 40%  
YTD: Rmb2.09tr

We are in virgin territory here as China's fund management industry recorded its second straight +20% quarterly decline in assets. To a great extent much of what is occurring of late could be seen as giving back a chunk of last year's gains. Perhaps that is of little solace to fund managers, and their clients, but the industry is still up by more than 10% as compared to this time last year.

Better times ahead?  
Maybe, but it depends  
on the equities market

The real question which needs to be asked is if there is more pain to come. Later in the report, Z-Ben Advisors concludes that a bottom is close at hand or - at the least - there is marginal downside risk at this stage. We've placed ourselves in a similar position before and suggested that better times are ahead (only to be in error). So, to hedge our bets we would add here that the direction of industry AUM for the remainder of the year will be almost entirely dependent on where

subsequent presentation, was completed rather quickly. There has been a lull over the past few months as those firms chosen completed fee negotiations, but it is now looking increasingly imminent that CIC will announce its initial funding of mandates and do so any day.

Z-Ben Advisors, at this stage, isn't in a position to know either the winning candidates or the size of the mandates. We did develop earlier in the year an in-depth assessment of CIC's investment needs and concluded that 18 mandates could be awarded with each receiving upwards of USD1.0bn.

Just as CIC attempts to bring to a close its maiden round of outsourcing mandates comes a new call for foreign managers from the country's first de facto sovereign wealth fund (in Z-Ben Advisors' opinion): National Council for Social Security Fund.

### Industry Assets Under Management (RMB Billions)

|                        | 2Q08    | Share  | 1Q08    | Share  | 4Q07    | Share  | 3Q07    | Share  |
|------------------------|---------|--------|---------|--------|---------|--------|---------|--------|
| Total Industry Assets  | 2,086.7 | 100.0% | 2,612.7 | 100.0% | 3,272.2 | 100.0% | 3,111.0 | 100.0% |
| Quarterly $\Delta$     | -20.1%  |        | -20.2%  |        | 5.2%    |        | 72.9%   |        |
| Total Domestic         | 1,190.4 | 57.0%  | 1,553.1 | 59.4%  | 1,951.3 | 59.6%  | 1,840.1 | 59.1%  |
| Total Joint Venture    | 575.3   | 27.6%  | 678.2   | 26.0%  | 838.5   | 25.6%  | 834.4   | 26.8%  |
| Total Foreign Invested | 321.0   | 15.4%  | 381.4   | 14.6%  | 482.4   | 14.7%  | 436.6   | 14.0%  |

SOURCE: Z-BEN ADVISORS

share prices go. Here too there appears to be more upside than downside as the numbers continue to add up and valuations look to be attractive. But then again, these conditions have been in place for some time and still the equities market has been unable to shake of its funk.

CIC close to final funding  
of its first international  
mandates

### SWF Opportunities

The sweltering summer months could very well be a boon to a small and select few foreign managers. Earlier in the year, Z-Ben Advisors noted that the new created sovereign wealth fund - China Investment Corporation (CIC) - had put to tender six RFPs. The entire application process, including both the short listing of candidates and

NCSSF quickly working  
through its own round of  
international RFPs

Taking more than one page from its larger rival's playbook, NCSSF announced tenders for five separate RFPs each of which closely resembles those issued by CIC. Application have not only been submitted, but a short list of candidates has already been selected with presentations made at the end of last month. Competition with its larger rival? Not quite. Z-Ben Advisors suspects that management is simply looking to more quickly put idle assets to work.

### Foreign Access

In light of all that has taken place within the more broadly defined investment management industry, it would be expected that interest

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Foreign firms look to access the market via the two "Qs"

among foreign asset managers would start to abate. Nothing could be farther from the truth. That being said, which point of access should foreign managers go with.

Looking for a lower risk approach would have foreign asset managers consider one of the two "Q" routes. For absolute control, the option of running money through the Qualified Foreign Institutional Investor (QFII) scheme would be optimal. The scheme was recently reopened (good news), but competition for access is rife (bad news).

Direct market access may no longer be as easy as it use to be

The long-term play would be to enter via the Qualified Domestic Institutional Investor (QDII) program and a sub-advisory tie up with a local fund house. The program remains something of a leper and few see any upside in the near term. Foreign asset managers willing to look farther out take a strategic punt on QDII could very well find themselves well placed when (not if) conditions reverse course.

For those firms really looking to dive into the deep end head first there is direct access

through an equity investment in a domestically domiciled fund management company. The opportunity here, however, may not be as plentiful as it use to be.

In the more recent past, the approach taken was for a foreign asset manager to acquire a stake in a local fund house. There have been numerous examples we could highlighted in the past year alone. Today, however, this path may be closing if, as is now being discussed, CSRC is dissuading foreign firms from this approach.

If true, that would then leave open only the greenfield option. Few may be keen on heading down this path considering how heated competition is these day. Time also needs to be taken into consideration. Doing a Greenfield JV with a local securities or trust company is still available to all foreign firms having an interest. From the moment that decision is made it would be wise to hunker down and plan for at least a three year project. And that will just get you a license to operate. More time may be needed before a maiden product approval is granted.

## Analytical Quick Hits

### Shareholder of Soochow to Change

Shanghai Lansheng Group stated its intention to sell a 30% stake in Soochow Asset Management. The position will be auctioned via the Shanghai United Asset and Equity Exchange. Bidding will start at Rmb84m, about Rmb2.8 per share, although the auction will be opened only to qualified domestic institutions.

firm by SAFE. Before this, SAFE had bought small stakes in three Australian banks, Total, and BP.

### Industry AUM Slides

Chinese fund managers saw total AUM drop to Rmb2.09tr, a decline of about 40% in the first half of 2008 while Shanghai Composite Index declined 48% in the same period. The market share title was retained by China AMC (at 9.70%) with Boser and Harvest the next-largest managers.

### 23<sup>rd</sup> QDII Fund House approved

CSRC recently approved AIG Huatai to participate in the QDII program. In total, 23 fund managers have been approved to participate in the scheme 10 of which have already launched a QDII mutual funds including the Hua'an International Balanced Fund.

### Ping An Plans Fund Joint Venture

Ping'an Securities, a subsidiary of Ping'an Insurance Group, applied to establish a fund management company with United Overseas Bank, of Singapore. Ping An will hold a 75% stake in the fund JV while UOB will hold the remaining 25%. If the application is approved, Ping'an will be the first insurance company having indirect exposure to the fund industry.

### SAFE Invests in TPG Fund

The State Administration of Foreign Exchange (SAFE) has agreed to invest more than USD2.5bn in a recently founded private equity fund from TPG Capital. The allocation appears to be the largest commitment to a private equity

## Analytical Quick Hits

### **New QFII Licenses**

The CSRC awarded QFII licenses to Belgian financial services provider KBC Groep NV and Platinum Investment of Australia, taking the number of QFII approved investors to 58.

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### **Competition at Full Goal**

Shareholders of Full Goal Fund Management decided that the time had come to look for new management including for the role of General Manager. The people who ran for this position included Mr. Li Changwei, present Deputy GM of Full Goal, Mr. Dou Yuming, Deputy GM of Harvest, Mr. Qian Hua, Former Deputy GM of GTJA Allianz, and another two senior managers from the securities industry. According to the latest news, Mr. Dou Yuming was finally selected by the recruiting commission.

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### **More Markets for Banks' QDII Products**

CBRC signed agreements with South Korea and Australia to allow QDII products of Chinese commercial banks to invest into these markets. In total, seven international markets including Hong Kong, Japan, Singapore, U.K. and U.S are allowed for QDII Investment.

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### **Fortis to Sell Stake in ABN Amro TEDA**

Last year Fortis bought ABN Amro Holding NV. Now the company is selling its 49% stake in ABN Amro TEDA Fund Management. Fortis has arranged an auction to sell the stake, seeking about USD250m. According to China's regulation, foreign investors are not allowed to own more than one asset management firm, Fortis must sell the stake to maintain its shareholding in Fortis Haitong.

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### **Central Huijin Appoints Chairman**

China Central Huijin Investment Corp, the subsidiary of China Investment Corporation, finished the board reshuffle and Mr. Lou Jiwei, chairman of CIC, was elected as chairman. He also serves as chairman of CIC. The new board includes vice chairman Mr. Li Jiange, former vice president of the State Council's Development Research Center; Mr. Xie Ping, general manager of Central Huijin; Mr. Wu Xiaoling, former PBoC vice president; and Mr. Jin

Liانشu, formerly of Ministry of Finance.

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### **Local Houses Enter into Hong Kong**

Southern and E-Fund have successively obtained approval to set up branches in Hong Kong. Southern will establish a joint venture with Hong Kong financial company Oriental Patron, becoming the first Chinese fund company to expand overseas. The JV will be named China Southern Oriental Patron Asset Management Co Ltd. Southern will hold a 70% stake and Oriental Patron will hold a 30% stake. E-Fund will set up a wholly-owned subsidiary in Hong Kong. China AMC and Yinhua are expected to set up wholly-owned subsidiaries also.

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### **Orient's Shareholders Changed**

Two of Orient Fund Management's shareholders changed. Zhonghui Guohua Industry (Group) Co., Ltd and Hebei State-Owned Assets Holding & Operation Co., Ltd each acquired 18% stakes from Sichuan Southern New Hope Industry Co., Ltd and Hebei Baoshuo Co., Ltd respectively. The other two shareholders remain the same, which are Northeast Securities with 46% stake and Shanghai Municipal Raw Water Co., Ltd with 18%.

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### **Promotional Campaign for DEDT**

Since fund sales are under pressure, many fund firms are launching promotional campaigns for DEDT. Some firms are decreasing the minimum amount of DEDT to 100 Yuan. Some firms are giving big discounts on front end load by DEDT. Firms like Harvest and China International now offer 60% discounts, which is the biggest discount in the current market.

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### **Stake Transference of GTJA Allianz**

Guotai Jun'an Securities transferred a 16% stake in GTJA Allianz Fund Management to Allianz Group. After the transfer, Guotai Jun'an Securities holds a 51% stake and Allianz Group 49%. And Mr. Xu Xiaosong, Former Deputy General Manager of Southern, replaced Mr. Hsien Chaing to be the General Manager.

## INDUSTRY AUM & MARKET SHARE

JUNE 30, 2008: ESTIMATES

### DOMESTIC FUND MANAGERS

|                      | AUM            |               |      |
|----------------------|----------------|---------------|------|
|                      | RMB Bill       | Share         | RANK |
| Baoying              | 12.0           | 0.58%         | 39   |
| Bosera               | 132.1          | 6.33%         | 2    |
| Changxin             | 21.6           | 1.04%         | 31   |
| China AMC            | 202.4          | 9.70%         | 1    |
| China Nature         | 5.2            | 0.25%         | 49   |
| China Post & Capital | 37.6           | 1.80%         | 21   |
| China Universal      | 45.5           | 2.18%         | 17   |
| CITIC                | 10.2           | 0.49%         | 40   |
| Dacheng              | 78.0           | 3.74%         | 7    |
| E-Fund               | 110.1          | 5.28%         | 5    |
| First Trust          | 14.3           | 0.68%         | 36   |
| Galaxy               | 12.7           | 0.61%         | 37   |
| Golden Eagle         | 2.0            | 0.10%         | 57   |
| Great Wall           | 38.3           | 1.84%         | 20   |
| Guangfa              | 82.5           | 3.95%         | 6    |
| Guotai               | 32.3           | 1.55%         | 25   |
| Hua'an               | 72.0           | 3.45%         | 8    |
| Huafu                | 5.1            | 0.24%         | 50   |
| Huashang             | 7.8            | 0.38%         | 46   |
| Lion                 | 42.5           | 2.04%         | 19   |
| New Century          | 1.3            | 0.06%         | 59   |
| Orient               | 8.1            | 0.39%         | 43   |
| Soochow              | 8.7            | 0.42%         | 42   |
| Southern             | 117.6          | 5.64%         | 4    |
| Tianhong             | 4.5            | 0.22%         | 53   |
| Wanjia               | 9.8            | 0.47%         | 41   |
| Yimin                | 8.1            | 0.39%         | 45   |
| Yinhua               | 49.0           | 2.35%         | 13   |
| Zhonghai             | 19.0           | 0.91%         | 34   |
| <b>TOTAL</b>         | <b>1,190.4</b> | <b>57.05%</b> |      |

### JV FUND MANAGERS

|                                    | AUM          |               |      |
|------------------------------------|--------------|---------------|------|
|                                    | RMB Bill     | Share         | RANK |
| ABC-CA <sup>4</sup>                | -            | -             | N/A  |
| ABN Amro TEDA                      | 21.1         | 1.01%         | 32   |
| AIG-Huatai                         | 19.6         | 0.94%         | 33   |
| AXA-SPD Bank                       | 1.4          | 0.07%         | 58   |
| BoComm-Schroders                   | 44.5         | 2.13%         | 18   |
| BOC <sup>1</sup>                   | 23.1         | 1.11%         | 30   |
| CCB Principal                      | 31.6         | 1.51%         | 26   |
| China International <sup>1</sup>   | 69.7         | 3.34%         | 9    |
| China Merchants <sup>1</sup>       | 35.8         | 1.72%         | 22   |
| CITIC-Prudential                   | 8.1          | 0.39%         | 44   |
| Everbright Pramerica               | 33.7         | 1.62%         | 24   |
| First State Cinda                  | 7.8          | 0.37%         | 47   |
| Fortis Haitong                     | 35.4         | 1.70%         | 23   |
| Fortune SGAM                       | 54.3         | 2.60%         | 11   |
| Franklin Templeton Sealand         | 17.5         | 0.84%         | 35   |
| GTJA Allianz                       | 6.8          | 0.33%         | 52   |
| HSBC Jintrust                      | 5.8          | 0.28%         | 48   |
| ICBC Credit Suisse                 | 49.2         | 2.36%         | 12   |
| INVESCO Great Wall                 | 57.2         | 2.74%         | 10   |
| KBC-Goldstate                      | 4.0          | 0.19%         | 54   |
| Morgan Stanley Huaxin <sup>3</sup> | 3.0          | 0.15%         | 55   |
| Lombarda China                     | 4.8          | 0.23%         | 51   |
| Lord Abbett China                  | 2.1          | 0.10%         | 56   |
| SYWG BNP Paribas                   | 12.6         | 0.60%         | 38   |
| UBS SDIC                           | 26.3         | 1.26%         | 28   |
| <b>TOTAL</b>                       | <b>575.3</b> | <b>27.57%</b> |      |

### FOREIGN INVESTED MANAGERS <sup>2</sup>

|                  | AUM          |               |      |
|------------------|--------------|---------------|------|
|                  | RMB Bill     | Share         | RANK |
| AEGON-Industrial | 31.3         | 1.50%         | 27   |
| Changsheng       | 25.0         | 1.20%         | 29   |
| Full Goal        | 48.9         | 2.35%         | 14   |
| Harvest          | 120.9        | 5.79%         | 3    |
| Penghua          | 47.2         | 2.26%         | 16   |
| Rongtong         | 47.6         | 2.28%         | 15   |
| <b>TOTAL</b>     | <b>321.0</b> | <b>15.38%</b> |      |

SOURCE: Company Data, Z-BEN ADVISORS

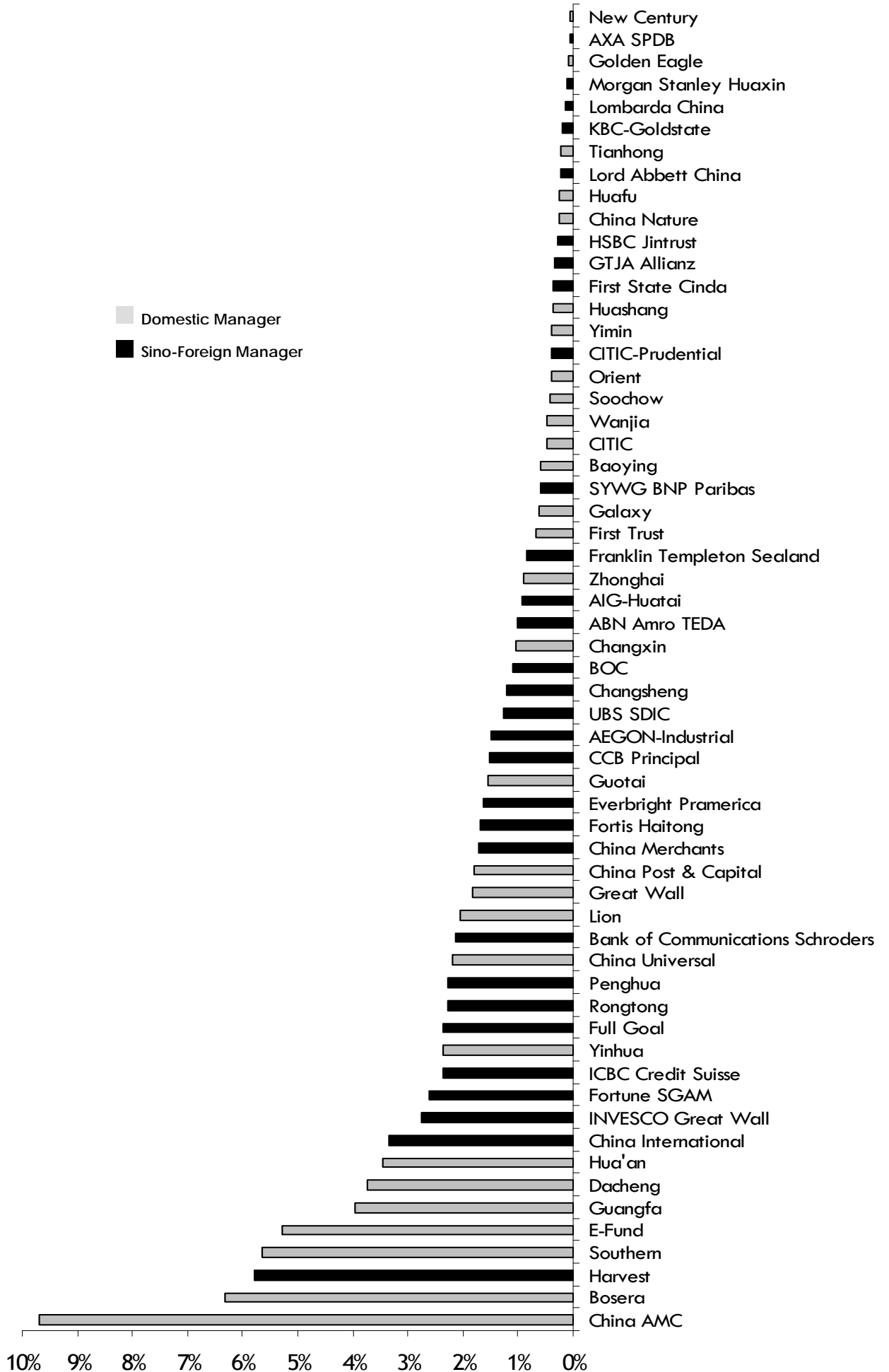
<sup>1</sup> - ING INVESTMENT MANAGEMENT OWNS A 33.3% EQUITY INTEREST IN CHINA MERCHANTS; JP MORGAN FLEMING ASSET MANAGEMENT OWNS A 49% EQUITY INTEREST IN CHINA INTERNATIONAL; MERRILL LYNCH OWNS A 16.5% EQUITY INTEREST IN BOC; COLONIAL FIRST STATE GROUP OWNS 46% IN FIRST STATE CINDA.

<sup>2</sup> - BANK OF MONTREAL BOUGHT AN EQUITY INTEREST IN FULL GOAL THAT CURRENTLY STANDS AT 27.775%; DEUTSCHE ASSET MANAGEMENT PURCHASED 30% EQUITY INTEREST IN HARVEST. DBS ASSET MANAGEMENT ACQUIRED A 33% STAKE IN CHANGSHENG WITH NIKKO ASSET MANAGEMENT BUYING A 40% POSITION IN RONGTONG. EURIZON FINANCIAL GROUP OWNS A 49% STAKE IN PENGHUA

<sup>3</sup> - FORMERLY JUTIAN FUND MANAGEMENT

<sup>4</sup> - FIRM RECENTLY LAUNCHED A MAIDEN PRODUCT BUY HAS NOT YET RELEASED ASSET RAISING RESULTS

INDUSTRY MARKET SHARE: June 30, 2008 (Actual)



SOURCE: Z-BEN ADVISORS