

October 2009

Institutional Market Sizing

Accelerating Growth

The Chinese institutional investors listed in this report, with a combined Rmb7.2tr in AUM, are raising their international game: **Z-Ben Advisors forecasts that total institutional offshore investments will climb from the current level of Rmb190bn to more than Rmb308bn in 2010.** This 62% increase will be driven largely by insurers and group finance companies but other investors are making plans to follow suit, the better to diversify their fast-growing portfolios.

Sizing the Key Components: In this report, we offer readers a comprehensive guide to the five most important groups of institutional investors:

Group Finance Companies: These wholly-owned subsidiaries of State-owned enterprises are key middlemen in arranging domestic and foreign investments. They now control more than Rmb1.28tr.

Insurance Companies: The largest and most dynamic institutional investors in China, their total investable assets stood at Rmb3.7tr (up 11% from end-2008) at mid-2009.

Trust Companies: Now a priority target for foreign asset managers looking for long-term partnerships; sector AUM totaling an estimated Rmb1.2bn, up nearly 20% from the previous year.

Enterprise Annuities: Debuting in this year's report, EA schemes are the largest new institutional investors to emerge in China for years and have begun life with what is effectively seed funding of Rmb190bn at end-08.

Public Pension Funds: A perennial interest of foreign asset managers, these funds have grown to a pool of Rmb749bn by end-08.

Leveraging a China Representative Office: In this report, we provide a detailed analytical assessment of the state of the Chinese representative office:

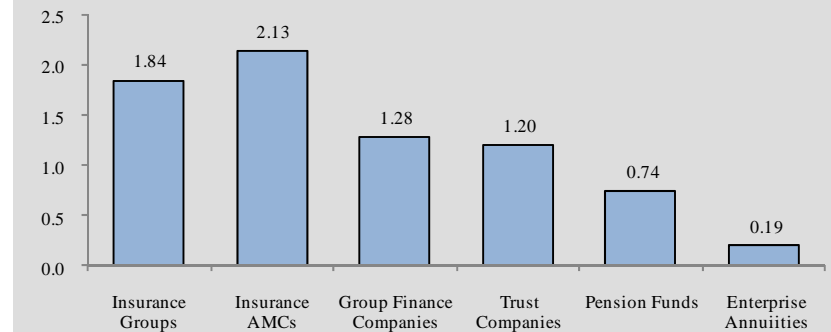
Heightened Competition: An increasing number of global firms are now establishing dedicated asset management representative offices in China.

Strategic Shift: The usage of the rep office is quickly becoming one of the key determinants of success when targeting China's institutional market. We assess the striking differences between successful and average rep office usage.

Changing Roles: Central to rep office success is job design, goal setting and the ultimate hiring of a Chief Representative. We offer a detailed model of how to do it right.

COMPARATIVE INSTITUTIONAL AUM

Rmb trillions



Source: Z-BEN ADVISORS

KEY HIGHLIGHTS

- Analysis of the current AUM and offshore investments of China's largest institutional investors with growth projections for 2010
- Detailed profiles of more than 260 Chinese institutional investors, including contact details and AUM data with expanded profiles and analysis of the 18 most active global investors in China, drawn from all sectors
- Segment-by-segment analysis of institutional offshore investing trends, noting thematic and regulatory changes affecting each type of institution
- Must-read analysis of rep office activity in China, comparing strong and typical rep operations with recommendations for rep office design, purpose and staffing

Section Guide

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- Sizing the Market

A changed methodology and the substitution of Enterprise Annuity schemes for HNWIs finds a total of Rmb7.2tr in investable assets in the hands of China's institutional investors. On a like-for-like basis, that sum represents 40% year-on-year growth in assets with a growing proportion dedicated to overseas investment. 2010 promises similar asset growth and an increasing number of foreign asset management mandates.

The Role of the Rep 11

- A Radical Re-Think is Due

With every passing year, rep office design, usage and staffing are becoming less and less appropriate to China's investment market. Approaches which may have made sense five years ago are being replicated with ever-diminishing returns. We offer a detailed analysis of the gap between current and model rep practice, along with a guide for transforming the rep office into a powerful force for business development in China.

Key Targets 19

- The Bellwethers

The most promising, active and international in outlook of any of the 267 institutions profiled in this report: we highlight the 18 companies every foreign asset manager should speak to in the coming year to gain a direct, personal understanding of conditions on the ground. Expanded financial and contact details are provided, along with near-term expectations for activity and growth.

Group Finance Companies 29

- The Gatekeepers

Group finance companies, on paper, are dedicated subsidiaries charged with managing group treasuries. In reality, they are becoming gatekeepers of their groups' investable assets, arranging the management of assets by outside service providers. As increasing proportions of group assets come under their control, they are becoming the key corporate investment middlemen, particularly for offshore asset management.

Section Guide

Insurance Companies 38

- The Investment Delegators

The largest and most international investment prospects in this report, insurance companies - and particularly their captive asset management companies - should be key targets for every foreign asset manager. With investable assets growing at double-digit rates every year, insurers are among the most vocal investors in China about their need to increase overseas investments in the near term.

Enterprise Annuities 45

- The Privateers

The next generation of offshore investors, Enterprise Annuity schemes are one of the largest and fastest-growing pools of investment capital in China. Approaching them will require not only patience but an understanding of the complex gatekeeping systems erected to ensure responsible investment. These clients will be the next battleground where foreign asset managers compete for Chinese assets.

Trust Companies 53

- The Product Packagers

The field has been pared to just 54 surviving firms who are only now beginning to realize the full potential of their ultra-flexible investment platforms. Overseas asset allocation is now possible for trust companies but the know-how to do so is often lacking. Foreign asset managers and service providers may be well placed to fill the void and can do so not only as advisor but, in many cases, as owners.

Public Pension Funds 60

- The Benchwarmers

In most international markets and regions, pension funds are commonly viewed as a priority near term institutional target for asset managers and service providers. Not in China. With only a few exceptions, provincial and municipal pension groups simply don't have the assets to invest. Time and resources spent developing relationships should be allocated elsewhere for the foreseeable future.

SAMPLE PAGE FROM REPORT

Introduction: Sizing the Market

For our second *Institutional Market Sizing Report*, Z-Ben Advisors has refined the methodology used to deliver an accurate estimate of the size and direction of the Chinese institutional marketplace. Given more detailed accounts from leading insurers, more product information from trust companies and preliminary information from Enterprise Annuity schemes, we have been able to produce a more fine-grained and consistent set of figures for many institutional sectors. We also decided to exclude from our analysis the local high net worth market, in response to client requests.

The outcome of our efforts is a description of an institutional market with assets totaling an estimated Rmb7.2tr. At present, with insurance groups, insurance asset management companies and group finance companies all able to invest 15% of their total AUM offshore without seeking additional approvals, and trust companies beginning to test the offshore waters, that means more than Rmb800bn of institutional funds are already available to be invested overseas. Comparing like for like, and correcting for most of the double-counting of assets that plagued insurers' accounts in prior years, Rmb7.2tr represents growth of more than 40% from the totals reported last year. That startling growth figure is not an artefact of our new methodology: in

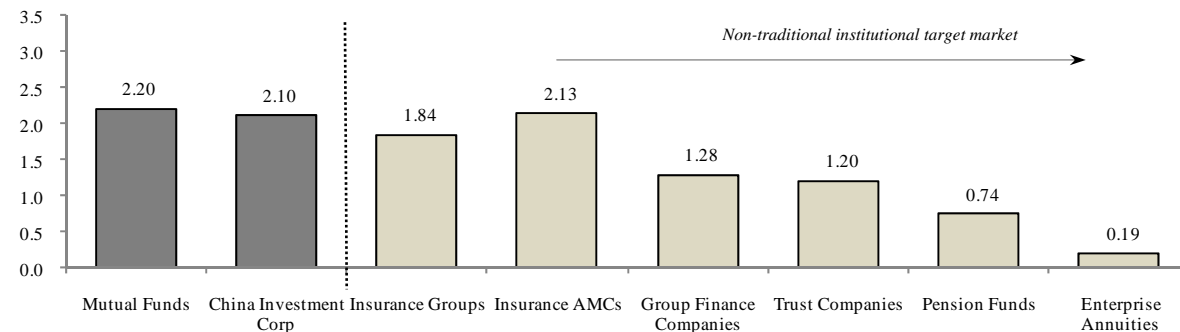
part, it is due to the rebound in domestic markets but it is at least as much due to strong growth in product sales (insurers and trust companies) and asset injections (group finance companies and public pension funds).

We have segmented each individual category and graphically illustrated each at the bottom of the page along with comparables for the onshore mutual fund market and China Investment Corporation. While our methodology and target groups have changed, just as the Chinese institutional market itself has changed, our analytical conclusions are almost identical to those we presented last year. Double-digit annual growth in investable assets is normal for Chinese institutional investors. Overseas investment remains one of the fastest-growing areas of their portfolios and is expected to accelerate now that QDII segregated account platforms are better defined and better serviced.

Foreign asset managers can all too rarely articulate plans that specifically target China's institutional market. Z-Ben Advisors is well aware of the obstacles that stand in their way. Most of the institutions listed herein have not yet developed model portfolios for overseas investment and few have reached the stage where such investments are made through a formal mandate process. Life in China remains ad

Total institutional AUM now exceeds Rmb 7.2tr

Comparative Institutional AUM
Rmb trillions



Source: Z-BEN ADVISORS

SAMPLE PAGE FROM REPORT

The Role of the Rep: A Radical Re-Think is Due

The Current State of Representation

What should an institution in receipt of this report do to make best use of the information it contains? For a start, Z-Ben Advisors would strongly advise that every dimension of this report be applied in terms of how it affects the Chief Representative (“rep” hereafter). The rep office, in our view, has already become one of the key competitive battlefields for Chinese institutional investment and that battle is only going to become more intense over the next five years. A rep office must be recognized as being a strategic advantage in the war for Chinese assets. Z-Ben Advisors would, however, contend that the presence of a rep office is only stage one of the campaign: the real fight is how to exploit that advantage better than competitors. Before we begin that discussion, a word to those foreign asset managers without a representative platform in China: you’re not out of the game yet. Take the heartfelt and research-grounded advice contained in this report and use it to build a state-of-the-art job description and relationship network for the rep you will one day (soon, we hope) hire. Doing so will leapfrog you ahead of 80% of your in-China competitors, many of whom are persevering with outdated or poorly-designed rep strategies.

One key question is worth answering before addressing the current state of the rep office in China: what can the rep actually do? Legal advice frequently conflicts with rep practices observed on the ground. Help from regulatory guidance notes is minimal. The result: many firms end up under-using or wrongly using their reps simply because of this confusion. According to every version of rep office regulation – the original Ministry of Finance law, and the variations issued by CIRC and PBoC – a rep may “engage in non-operational activities such as consultancy, making contacts and market investigations, etc.” Other activities, such as performing liaison, promotional and co-ordination functions for the head office and helping to obtain visas and completing related applications for expatriate employees, appear also to have been approved informally by regulators and regu-

larly appear on lawyers’ lists of permissible activities. Clearly disallowed by the same regulations are rendering services for any persons or institutions other than the head office, issuing bills or invoices to customers, and warehousing or managing inventory for trade purchases.

In between the permitted and restricted activities, as is readily overlooked, lies the bulk of the interesting work a rep might do in China. And here, legal advice typically becomes much less clear. In researching this report, Z-Ben Advisors reviewed the general advice about Chinese rep offices offered to clients by eight global law firms. Each firm was careful to note that, while the use of the rep as a negotiator remains commonplace in China, no law specifically permitted that activity and that the language of the “restricted activities” sections of the law could be interpreted as disallowing it. In other words, no lawyer appears likely to offer the opinion that reps can legally negotiate with Chinese clients. This uncertainty, we feel certain, has led to a typical construction of the rep’s role that restricts many reps from achieving their full potential value to their employers, as we will shortly demonstrate. For now, we ask readers to hold one thought in mind: predicating the rep’s role on a specific interpretation of the law is probably unwise. And, to achieve maximum value from a Chinese rep office, the rep should operate as far away from fine-grained negotiations and pricing discussions as possible. We say this not for legal reasons but because, in Z-Ben Advisors’ view, such employment is a poor strategic use of the rep’s finite time and resources, as we’ll show.

Currently there fewer than 30 pure-play asset managers with rep offices in China. As the exhibit on the following page shows, that’s a remarkably small slice of the total number of financial sector rep offices whose employers can also boast some form of asset management capability. Most asset management rep offices are also relatively recent arrivals, compared with the broader mass of financial services firms: the median age of an asset management rep office is roughly 29 months, compared to 8.5 years for those members of the financial

Rep office usage becoming more important than rep office presence

What can a rep actually do in China?

SAMPLE PAGE FROM REPORT

Key Targets: The Bellwethers

Start with these companies to gain the best possible overview

On the following pages, Z-Ben Advisors has included more detailed listings for 18 of the institutional investors we believe are most worth talking to when forming relationships, seeking partnerships, offering products and attempting to gain a better, first-hand understanding of the needs of Chinese institutional investors. These are not the 18 companies most likely, in our view, to want to do business today with a foreign asset manager, although many already employ such managers and others expect to within the next 12 months. Rather, we offer them as the richest possible resources to mine for an understanding of what (relatively) typical Chinese institutions are seeking from overseas asset managers, how those managers are viewed, and what resources they can expect to be asked to manage.

We add the word relatively for a reason: as a group, these 18 institutions are larger and more international in outlook than the majority of their peers. In some senses, this is a plus, in that these organizations have formal structures and executives in place whose daily task is to communicate and negotiate with foreign asset managers. In others it is a minus: generalizing from the group we elected to present is unlikely to be a profitable pursuit. These organizations' peers are anything from six months to three years behind them in their approach to off-shore markets. On balance, we believe that few asset managers would suffer by making these organizations the starting point for their approach to the Chinese institutional market and, particularly for leading global asset managers, we would recommend that they become the subjects of whatever client or environmental monitoring efforts are made in China.

Our selections come from every section of this report, with the exception of public pensions funds, where there has been no advance towards independent investing ability since our 2008 sizing report. Z-Ben Advisors strongly recommends that foreign asset managers take the time to digest the information supplied in both the key Enterprise Annuity scheme contacts highlighted and in the dedicated section guide. In our view, this is the next significant territory on which over-

Key targets are typically the most international in investment outlook

seas asset managers will compete and, as such, the next opportunity for those not strongly represented in China to start on a (relatively) level playing field. Again, that word relatively. A handful of foreign asset managers have now managed to establish a competitively valuable brand for themselves in China (something which they, and others, have learned is a wholly separate exercise than establishing a brand globally: away scores count for next to nothing in China.)

Z-Ben Advisors has another reason for putting forward this list of key contacts, beyond its use as a starting point for readers of this guide. Every piece of information in the expanded listings was publicly available, with sufficient digging. In our view, the information given in each listings (and much more besides) could be assembled by an experienced rep, given sufficient time to do the job of market research that is, at least theoretically, a core component of the rep's work. Our research into rep activity in China has driven home to us how little time reps are typically given to do that part of their work. As a result, most go into introductory and subsequent meetings with much less knowledge of their target companies than we have been able to present here. The result is not only a wholly-predictable lengthening of the sales pipeline, as the rep must learn on the ground, but also, in our view, a diminution of both the rep's and the asset manager's stature. No client expects to be steered towards useful advice, products or services by a rep who has little idea of the company's history, goals or current status.

Institutional investors in China frequently complain about the amount of time they spend with foreign reps doing basic education. That has become one of the reasons that 25 year olds are so frequently tasked with conducting initial contact meetings. Better armed reps, in our view, stand out from the crowd. Giving reps more time to do their homework can, we are confident, arm them with crib sheets at least as good as those presented here when first contact is made.

SAMPLE PAGE FROM REPORT

Key Targets: Group Finance Companies

Three Gorges Finance Co Ltd

三峡财务有限责任公司

Address and Contact Details

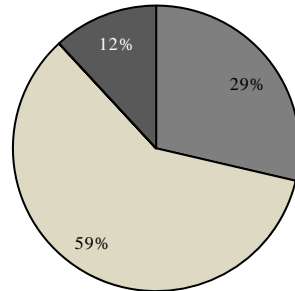
湖北省宜昌市西陵区东山大道80号

80 Dongshan Avenue
Yichang, Hubei
443002

Tel: 717-6762340
Fax: 717-6853684

Website: www.ctgpc.com.cn/finance
Email: N/A

AUM by Investment Type



■ Available for sale ■ Held for trading
■ Hold to maturity ■ Long term investments

Key Contacts and Financial Data

Corp Rep: 李永安 - Li An
GM: 金才玖 - Jin Caijiu

Net Income: Rmb2.63bn
Total Assets: Rmb49.5bn

Key Recent Events

- N/A

Key Partnerships and Licenses

Shareholder 1: China Three Gorges Proj. Corp.
Shareholder 2: China Yangtze Power
No of Other Shareholders: 3

Financial Hldg 1: Minsheng Royal FMC
Financial Hldg 2: Chengdu Commercial Bank

A-Share License: Yes
Financial Equity License: Yes

The Opportunity

- Already one of the most active investors on China's secondary market and has reported making its first overseas investments
- Has invested in Minsheng Royal FMC and is looking for other JV partnerships

China Petroleum Finance Co Ltd

中油财务有限责任公司

Address and Contact Details

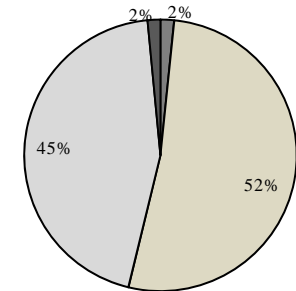
北京市东直门北大街9号

9 North Dongzhimen Avenue
Beijing
100007

Tel: 10-59984538
Fax: 10-62094205

Website: www.cfp.com.cn
Email: N/A

AUM by Investment Type



■ Available for sale ■ Held for trading
■ Hold to maturity ■ Long term investments

Key Contacts and Financial Data

Corp Rep: 贡华章 - Gong Huazhang
GM: 兰云升 - Lan Yunsheng

Net Income: Rmb2.17bn
Total Assets: Rmb319.1bn

Key Recent Events

- N/A

Key Partnerships and Licenses

Shareholder 1: China National Petroleum Co.
Shareholder 2: N/A
No of Other Shareholders: 33

Financial Hldg 1: Generali China Life Insce
Financial Hldg 2: None

A-Share License: Yes
Financial Equity License: Yes

The Opportunity

- Extremely profitable and fast-growing GFC which has yet to make significant investments
- Will be a prize client for top-tier global asset managers, especially those who can help design a global/domestic portfolio structure

SAMPLE PAGE FROM REPORT

Group Finance Companies

<p>Name 中电投财务有限公司 CHINA POWER INVESTMENT FINANCE CO., LTD.</p> <p>Est 2004-09-29</p> <p>Address 北京市金融大街28号院3号楼6层</p> <p>Address 6/F, Building 3, 28 Jinrong Avenue Beijing 100032</p> <p>Tel 10-66298623 Fax 10-66298605</p> <p>Website www.zdf.com.cn</p> <p>Net Income RMB228.5m Total Assets RMB20.5bn</p> <p>Chairman 孟振平 - Meng Zhenping GM 王详富 - Wang Xiangfu</p>	<p>Name 神华财务有限公司 SHENHUA GROUP FINANCE CO., LTD.</p> <p>Est 2000-11-27</p> <p>Address 北京市安定门西滨河路22号神华大厦</p> <p>Address Shenhua Building 22 West Binhe Road, Andingmen Beijing 100011</p> <p>Tel 10-58133399 Fax N/A</p> <p>Website www.shenhuaingroup.com.cn</p> <p>Net Income RMB265.2m Total Assets RMB19.7bn</p> <p>Chairman 凌文 - Lin Wen GM 梅雪艳 - Mei Xueyan</p>	<p>Name 东风汽车财务有限公司 DONGFENG MOTOR FINANCE CO., LTD.</p> <p>Est 1987-05-07</p> <p>Address 湖北省十堰市经济技术开发区东风大道10号</p> <p>Address 10 Dongfeng Avenue, Economic Technology Development Zone Shiyan, Hubei 430056</p> <p>Tel 27-84283100 Fax 27-84283100</p> <p>Website www.dfm.com.cn</p> <p>Net Income RMB160.8m Total Assets RMB18.4bn</p> <p>Chairman 刘章民 - Liu Zhangmin GM 马华 - Ma Hua</p>	<p>Name 中核财务有限责任公司 CNNC FINANCE CO., LTD.</p> <p>Est 1997-07-21</p> <p>Address 北京市三里河南四巷1号中核集团综合办公楼6-7层</p> <p>Address 6/F-7/F, CNNC Building 1 South Sanlihe No.4 Road Beijing 100045</p> <p>Tel 10-68031766 Fax 10-68037640</p> <p>Website www.cnnfc.com.cn</p> <p>Net Income RMB424.7m Total Assets RMB15.7bn</p> <p>Chairman 孙又奇 - Sun Youqi GM 崔建春 - Cui Jianchun</p>
<p>Name 上海电气集团财务有限责任公司 SHANGHAI ELECTRIC GROUP FINANCE CO., LTD.</p> <p>Est 1995-12-12</p> <p>Address 上海市江宁路212号凯迪克大厦8楼</p> <p>Address 8/F, Catic Building 212 Jiangning Road Shanghai 200041</p> <p>Tel 21-52895555 Fax 21-52895052</p> <p>Website www.chinasec.cn/new_sl/06_03_01.htm</p> <p>Net Income RMB532.1m Total Assets RMB20.2bn</p> <p>Chairman 徐建国 - Xu Jianguo GM 陆红贵 - Lu Honggui</p>	<p>Name 海尔集团财务有限责任公司 HAIER GROUP FINANCE CO., LTD.</p> <p>Est 2002-06-10</p> <p>Address 山东省青岛市海尔工业园</p> <p>Address Hair Industry Zone Qingdao, Shandong 266101</p> <p>Tel 532-88939908 Fax 532-88939827</p> <p>Website www.haier.cn</p> <p>Net Income RMB301.1m Total Assets RMB19.2bn</p> <p>Chairman 武克松 - Wu Kesong GM 李占国 - Li Zhanguo</p>	<p>Name 兵器装备集团财务有限责任公司 CHINA WEAPONS & EQUIPMENT GROUP FINANCE CO., LTD.</p> <p>Est 2005-09-30</p> <p>Address 北京市车道沟10号中国兵器大厦</p> <p>Address China Arsenal Building 10 Chedaogou Road Beijing 100089</p> <p>Tel 10-58830123 Fax N/A</p> <p>Website www.csge.com.cn</p> <p>Net Income RMB113.4m Total Assets RMB17.7bn</p> <p>Chairman 李守武 - Li Shouwu GM 陈明 - Chen Ming</p>	<p>Name 国电财务有限公司 GUODIAN FINANCE CO., LTD.</p> <p>Est 2004-09-27</p> <p>Address 北京市阜成门北大街6-8号</p> <p>Address 6-8 North Fuchengmen Avenue Beijing 100034</p> <p>Tel 10-58682578 Fax N/A</p> <p>Website www.gdfcl.com.cn</p> <p>Net Income RMB156.4m Total Assets RMB15.5bn</p> <p>Chairman 李庆奎 - Li Qingkui GM 邵国勇 - Shao Guoyong</p>
<p>Name 中航工业集团财务有限责任公司 AVIC FINANCE CO., LTD.</p> <p>Est 2007-05-14</p> <p>Address 北京市东三环中路乙10号艾维克大厦18层</p> <p>Address 18/F, Ivic Building B10 East Sanhuanzhong Road Beijing 100022</p> <p>Tel 10-65675006 Fax 10-65675004</p> <p>Website www.avicfinance.com.cn</p> <p>Net Income RMB117.5m Total Assets RMB19.8bn</p> <p>Chairman 顾惠忠 - Gu Huizhong GM 未知 - N/A</p>	<p>Name 鞍钢集团财务有限责任公司 ANGANG GROUP FINANCE CO., LTD.</p> <p>Est 1998-03-17</p> <p>Address 辽宁省鞍山市铁东区和平路8号</p> <p>Address 8 Heping Road Anshan, Liaoning 114031</p> <p>Tel 412-6732058 Fax 412-6732058</p> <p>Website www.ansteelgroup.com/dw/cwgs</p> <p>Net Income RMB277.5m Total Assets RMB18.8bn</p> <p>Chairman 杨宝星 - Yang Baoxing GM 于万源 - Yu Wanyuan</p>	<p>Name 中船财务有限责任公司 CHINA STATE SHIPBUILDING FINANCE CO., LTD.</p> <p>Est 1997-07-08</p> <p>Address 上海市浦东大道1号船舶大厦</p> <p>Address Marine Tower 1 Pudong Avenue Shanghai 200120</p> <p>Tel 21-68860290 Fax N/A</p> <p>Website www.csscnet.cn</p> <p>Net Income RMB165.2m Total Assets RMB17.3bn</p> <p>Chairman 聂成根 - Nie Chenggen GM 傅德祥 - Fu Dexiang</p>	<p>Name 中国华电集团财务有限公司 CHINA HUADIAN FINANCE CO., LTD.</p> <p>Est 2004-01-08</p> <p>Address 北京市宣武门内大街2号中国华电大厦8座10层</p> <p>Address 10/F, Block B, China Huadian Building 2 Xuanwumennei Street Beijing 100031</p> <p>Tel 10-83568000 Fax 10-83568199</p> <p>Website www.hdc.com.cn</p> <p>Net Income RMB233.6m Total Assets RMB15.5bn</p> <p>Chairman 陈飞虎 - Chen Feihu GM 郭怀保 - Guo Huaibao</p>

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