

Z-BEN | *ADVISORS*

Building a China fund business
Competitive forces on the rise

September
2017

Executive summary: **Opportunity and rising competition**

China is open and global asset managers are moving at unprecedented speed

What began as a set of trial programs is now the industry norm. In just over a year the total number of global managers licensed to operate locally in China has risen to 33; more firms are set to arrive, with at least 50 projected by end-2018.

- ***The focus today is on successful execution***

It is now a race to see who can move along the learning curve the quickest. Speed will be dependent on whether those tasked regionally to execute have committed capital (USD5m-USD10m) and the full support of headquarters.

- ***Early success will be achieved through smart staffing choices***

In an industry already operating with shortages of qualified professionals, filling key roles will act as the largest barrier to successful execution. The first global managers to address this issue will gain a competitive advantage.

- ***Full commitment to the end objective: Entry into retail mutual funds***

Access to China's retail fund market remains the goal. Advantages have been identified for the early movers, while late adopters could be faced with delays in retail fund access to the year 2022 or beyond.

Executive summary: **Ambitions defined by market sizing**

China is the only market that can move the AUM needle

The current opportunity is the USD400bn private fund market. The real opportunity, however, is the USD1,500bn retail mutual fund market which is projected to grow at a five year CAGR of 15% and reach USD3,000bn by 2022.

- ***Global managers do operate with competitive advantages***

The market is highly balkanized with 30,000+ local players. And yet, in this crowded space, global managers have real advantages. To actually gain AUM and market share will require a narrow and client-centric focus.

- ***Onshore China is a far larger opportunity than outbound (QDLP, QDII)***

Most global managers are setting up in China solely to target investors' outbound demand. While understandable, it may be short-sighted; the onshore market is larger, faster growing and operates with better economics.

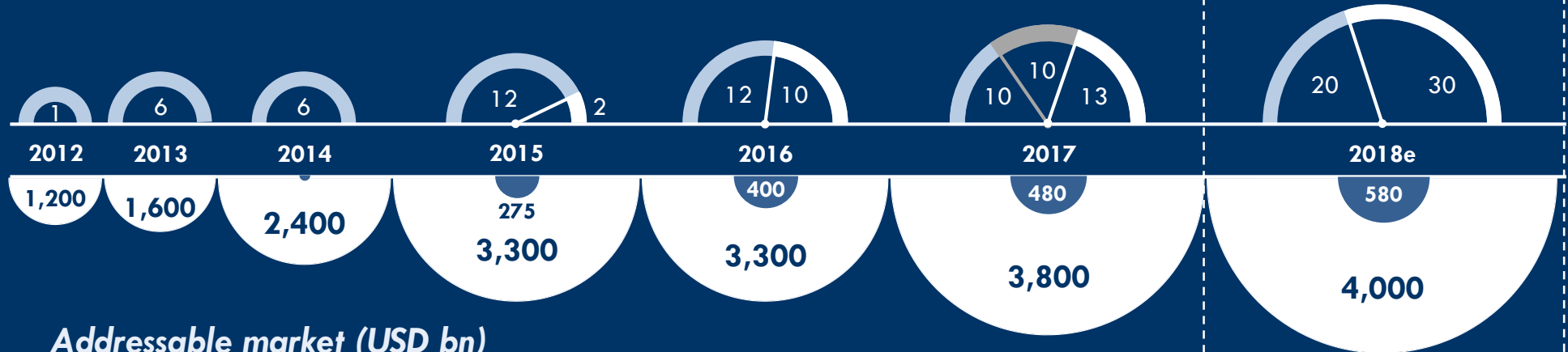
- ***The drivers of future AUM growth in China are significant***

Chinese investors have proven open to investing with third-party managers. Disintermediation has driven AUM growth in the past. Pension reform and other long-term saving schemes will (conservatively) double retail AUM by 2022.

Executive summary: Private fund industry highlights

Global managers operating an investment business in China

- Outbound investment
- Onshore investment
- Strategically uncommitted



Addressable market (USD bn)

- Chinese HNWI assets
- Private fund industry AUM

There remains uncertainty about whether both the onshore and outbound businesses can be run under one entity – this makes platform choice and structure all the more important.

ANALYTICAL FINDINGS

A detailed guide to operating a China money management business

A Competitive Update

Building a China business: The basics

Platform and market sizing highlights

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The gatekeepers of market access

Regulatory licensing and approvals required from three organizations

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Why operating on the ground in China is an imperative

Drivers for building consensus in support of a strategic expansion into China

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China can move the AUM needle

Market comparables of addressable assets and growth rates

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A competitive comparison, 2016 vs. 2017

Rapid adoption by global managers to build investment capabilities locally in China

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A new pivot: Committing more to the China business

Comparative investment and capital commitment to China by global managers

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Making a strategic platform choice

Capability assessments for both onshore and outbound investment platforms

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Current affairs in outbound access QDLP, QDII, QDII2

An assessment of current and prospective growth/access opportunities

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Vast differences in addressable assets

Comparative addressable assets, onshore private funds versus outbound

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China's private fund industry: Competitive profiling

An assessment of current and prospective growth/access opportunities

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ANALYTICAL FINDINGS (cont.)

A detailed guide to operating a China money management business

Operating in an opaque environment
Identifying key obstacles to executing in China

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Strategic differences in execution (UBS vs. Man Investments)

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The direct benefit of strategic planning (Fidelity)

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The diversification of optionality (Neuberger Berman)

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Issues in execution

Mapping private fund marketing and distribution

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URGENT: Prioritizing local staff sourcing and hiring

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Managing a P&L: Sources of revenue

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Building a USD30m business in China

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Time to retail fund access: A roadmap

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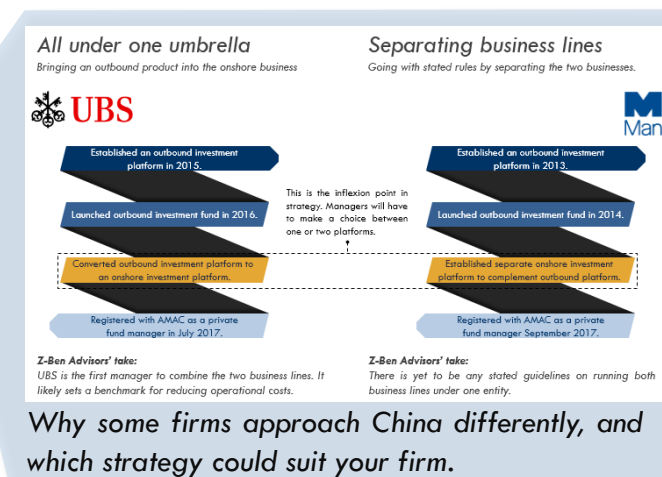
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Profiles of current global managers operating in China

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Membership: AMAC International Cooperation Partnership board

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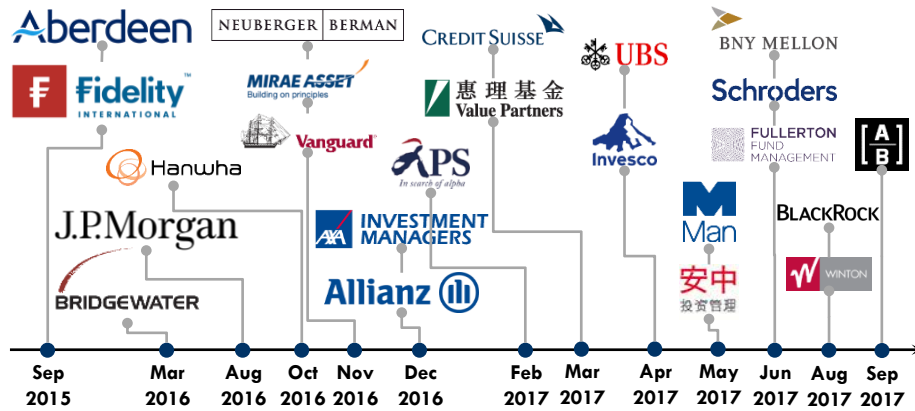


Company	Legal representative	Established	Invested capital	AMAC registration	Office location	Funded capital
Hanwha Asset Management	Young-jin Choi (蔡东成)	Oct 2016	USD10m	N/A	Kuangsh International Tower, Tianjin	USD10m
J.P.Morgan JP Morgan	Debra Wang (王德芬)	Aug 2016	RMB33m (USD4.9m)	N/A	FC, 8 Century Avenue, Lujiazui, Shanghai	N/A
Invesco Invesco	Chang Fang Bao (裴品芳)	Apr 2017	USD2m	N/A	Hong Sang Tower, 1000 Lujiazui Ring Road, Lujiazui, Shanghai	USD2m
Man Investments	Yi Fei Li (李菲菲)	Sep 2013	USD2m	N/A	Bund Center, 222 Yan An East Road, Huangpu District, Shanghai	USD2m

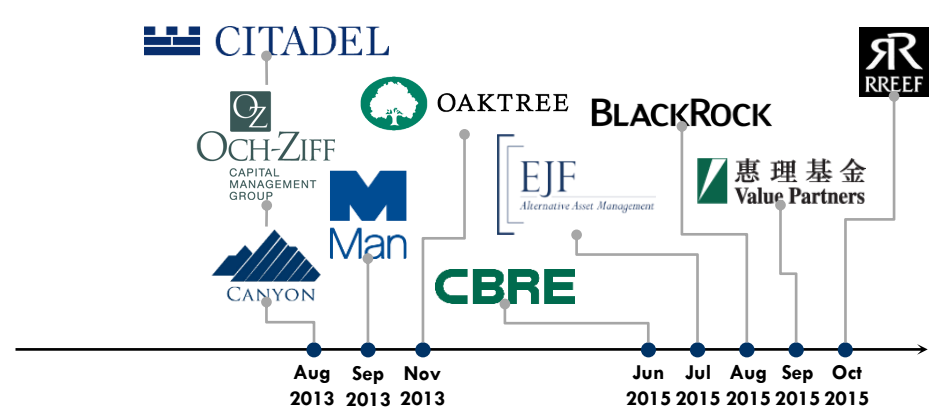
The who, what and where of all global managers with investment businesses in China.

Global managers in China: 2017

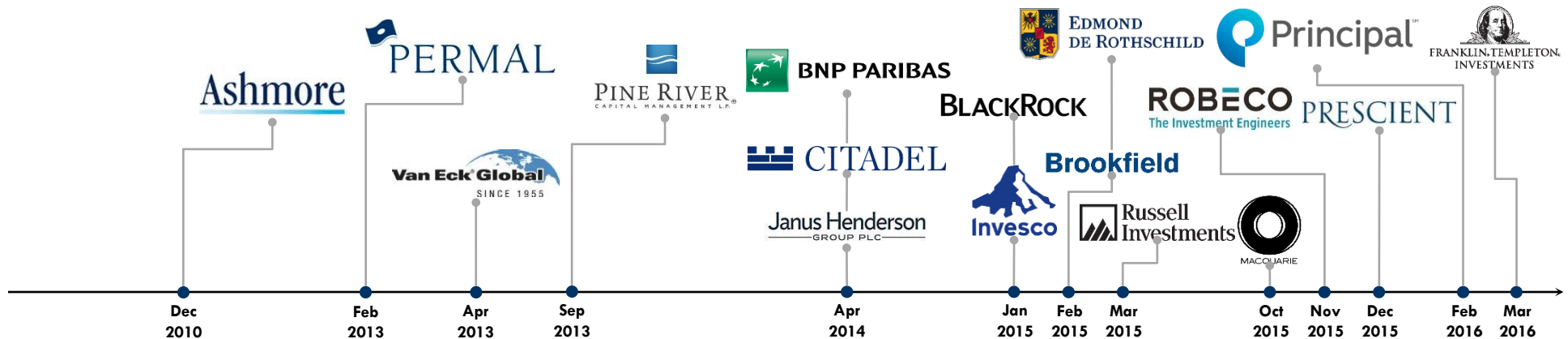
Onshore investment



Outbound investment



Advisory *



* Restrictions now in place. Selective, not exhaustive, list



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Z-Ben Advisors is pleased to introduce the 2017 ***Building a China fund business, Competitive forces on the rise***. The research included will be of value to both global managers currently planning to enter the China market as well as those firms already licensed and established in China.

The research was compiled to meet a clear and rising need within the global asset management community. Another objective was to build the research in such a way that it fully complemented Z-Ben Advisors' 2016 ***Redefining the China option, Targeting Chinese investors***. In last year's report the focus was on "how" to build onshore in China and included a detailed project timeline and implementation plan. It remains a roadmap for navigating the entire process that is just as relevant today as when it was first created.

For more details and to inquire about purchasing either of these reports, please contact Trey Archer at trey@z-ben.com.

PRICE Single report – US\$8,500

PRICE Bundled reports– US\$13,500