Cerulli Quantitative Update

Asset Management in China 2012

A Five-Year View, 2012–2016

CERULLI ASSOCIATES
Global Analytics

Overview

As one of the largest and most dynamic asset management markets in the region, China continues to attract much interest from fund managers. This report, in its eighth iteration, examines the asset management opportunities presented by China's retail and institutional segments. It focuses on market sizing, product trends, distribution patterns, and fees and profitability. These are followed by a market overview and in-depth analyses of joint venture firms in China, crossborder asset management opportunities, and the institutional market-place.

Key Reasons to Buy This Report:

- Analyze the size of the marketplace
- Review product trends to help position products in order to be well received by investors
- Examine key factors that make a successful joint venture
- Understand and review crossborder opportunities
- Identify competitors and determine competitive advantages
- Evaluate China's regulatory landscape

Answer These and Other Critical Questions:

1. What is the growth outlook of China's mutual fund market? How has China's mutual fund industry developed over the last few years and how will it evolve in the next three years?
2. How much of China's marketplace is accessible to foreign asset managers?
3. What are the fee levels in both the retail and institutional markets?
4. How will China's asset management industry possibly develop over the next three to five years?
5. What are the key regulatory developments, and what opportunities and challenges do they present to asset managers?
6. Who are the key fund distributors in China, and how have distribution dynamics in this region changed?
7. How are Chinese institutions responding to increasingly complex market conditions, and what factors influence their thinking?
8. How are mainland Chinese managers in Hong Kong faring, and what are their plans?

Research Included with Subscription

A subscription to this report remains active through 11/27/2013 and includes online access to the following related Cerulli research:

- Four years of **Cerulli Quantitative Update: China**
- Cerulli Quantitative Update: Asset Management in China and India 2007
- China and India 2006
- China and India 2005

127 pages, 70 exhibits

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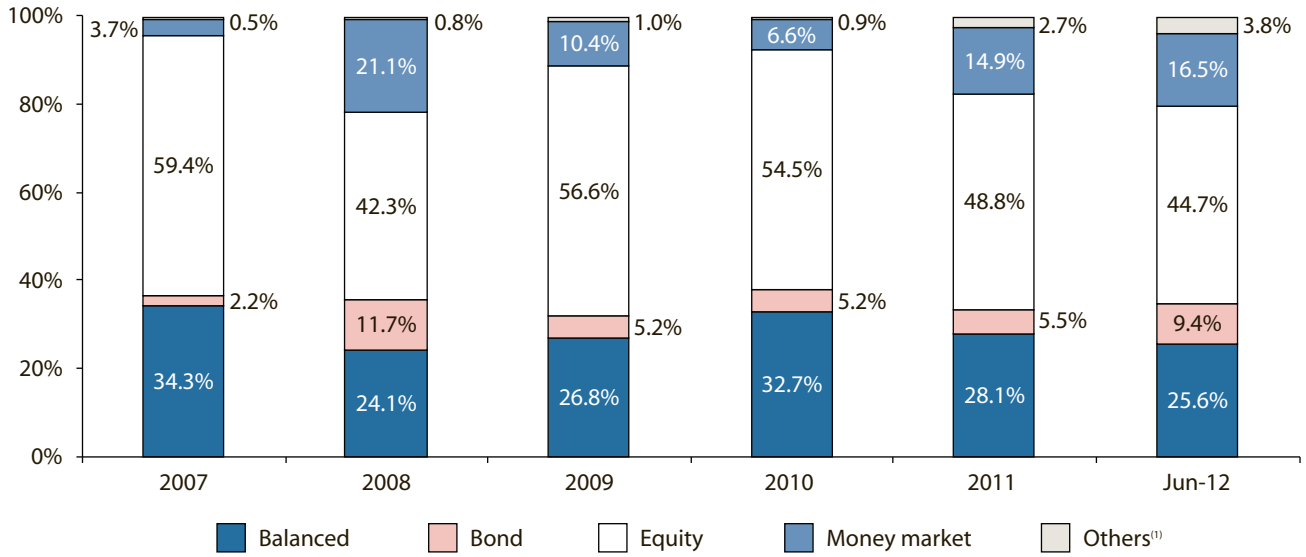
EXHIBIT 4.03

Chinese Open-End Mutual Fund Assets Under Management by Investment Objective, 2007–June 2012

Sources: Morningstar Direct, Jin Rong Jie website, Wind Financial Database, Cerulli Associates

Analyst Note: (1) Others includes guaranteed funds and QDII FoFs.



- **Equity funds' share of retail AUM has been declining since 2009**. It went below the 50% mark in 2011 to 48.8% and declined further to 44.7% in June 2012. This is a significant development because China's fund market has been an equity-centric market since the beginning. However, poor performance of Chinese equities has scared away investors, who have shifted to safer asset classes such as bonds and money market funds, which saw a combined marketshare of 25.9% in June 2012.

- **Bonds' AUM almost doubled from RMB109.1 billion in 2011 to RMB204.3 billion in June 2012**. Much of this increase was **due to the new flavor of the moment—short-term bond funds**—which are discussed in the August 2012 issue of **The Cerulli Edge—Asian Monthly Product Trends**. China Universal's 60 Days Bond Fund, the first and most spectacular fundraiser of the lot, had assets of RMB16.2 billion as of June 2012. A bond fund worth noting is Tianhong Asset Management's Yongli Bond Fund, which saw assets swell to RMB3.4 billion in June 2012 from only RMB121.4 million at the end of 2011. A remarkable feat, considering Tianhong is one of the bottom-tier managers in China.

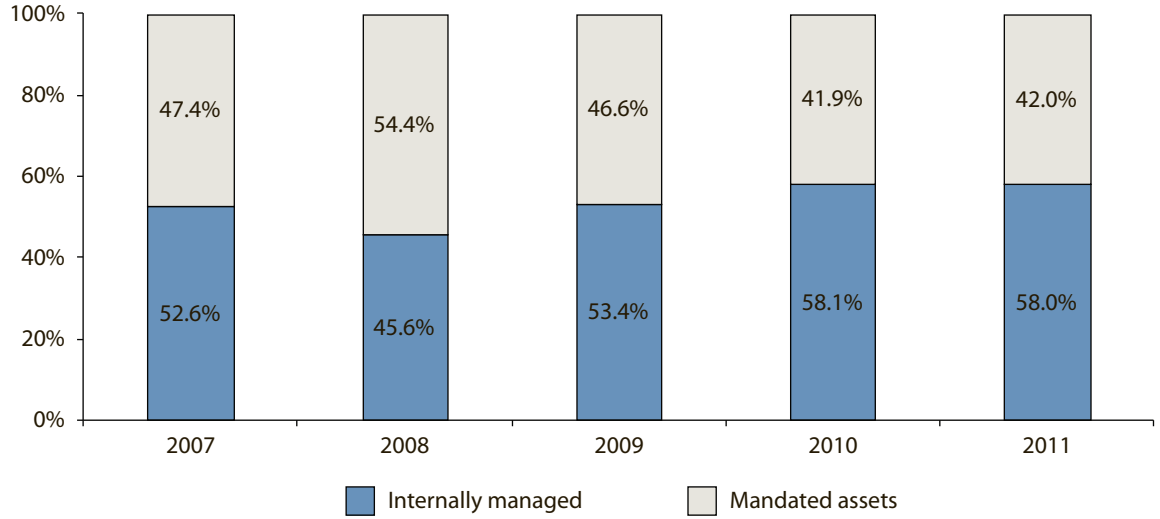
- As predicted, the fad surrounding guaranteed funds was short-lived as returns went into the red in 2011 at -2.14%. There was a flurry of fund launches for guaranteed funds in 2011 causing the "Others" fund category to swell from 2010 to 2011. **In June 2012, all guaranteed funds launched the year before saw AUM shrinking, some by as much as 37.1%** (KBC-Goldstate Principal Guaranteed Mixed). Despite the downfall of guaranteed funds, some managers are still launching them, with eight more of such funds launched in 1H 2012.

Key Implication: Newly launched bond funds are raising more assets than their equity counterparts. Bond products—mostly short-term bonds—raised an average RMB5.58 billion per fund, but equities only got an average of RMB703.4 million. However, it is unlikely that such high fundraising amounts will be seen for the second half of 2012 as investor sentiment toward short-term bonds is waning and new products are raising less and less assets.

EXHIBIT 7.07

Chinese National Social Security Fund Assets by Management Type, 2007–2011

Sources: National Council for Social Security Fund, Cerulli Associates



- After reaching a high of 54.4% in allocation to third-party managers in 2008, mandated assets have dropped to the 40% range in the last two years. Absolute figures, on the other hand, present a brighter picture as the **amount rose in 2011 to RMB364.8 billion, up from RMB359.0 billion in 2010**.

- However, NSSF's struggles with returns (see **Exhibit 7.08**) have put the spotlight on the management fees paid to its third-party managers, which despite the poor performance in 2011, **swelled by 41.5% to RMB1.02 billion from the previous year**. This has triggered a floating management fee trial, launched in July 2012 in order to stimulate investment performance.

Key Implication: Asset managers have long considered NSSF mandates a big prize as the institution goes by a fixed management fee structure of 60 basis points. However, this can soon change if the floating management fee structure is proven successful. Trial has begun with two unnamed fund management companies that will receive negotiable performance bonuses if the portfolio's annual return exceeds 8%, otherwise NSSF will pay basic management fees of 0.55% for equities and 0.2% for bonds.

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