Asset Management

Opportunities swing to the east

An extract from AM News June 2009

PricewaterhouseCoopers

Opportunities swing to the east

In spite of substantial fund redemptions, foreign fund managers operating in China remain optimistic about the growth of their businesses.

Robert Grome
PricewaterhouseCoopers (Hong Kong)
+852 2289 1133
robert.grome@hk.pwc.com

The greatest opportunities for growth in asset management are swinging to the east. This is confirmed by PricewaterhouseCoopers' Foreign fund management companies in China 2009 survey, published in April 2009, which revealed a distinct sense of optimism among these companies' senior executives, in spite of substantial recent fund redemptions.

While expecting zero growth in assets under management in 2009, they predict a significant improvement over the next three years. Indeed, the majority of companies surveyed expected expansion in assets exceeding 20% per annum on average over the next three years, with profits expected to increase correspondingly.

So, in spite of the current market malaise, foreign fund managers remain resolutely committed to China. There is no suggestion that the financial crisis would lead to scaling back or the sale of joint venture stakes in Chinese fund management companies. Of the 29 CEOs and senior executives of foreign fund management companies interviewed in Beijing, Shanghai, Shenzhen and Hong Kong in January and February 2009 almost half expressed 'maximum' commitment to the Chinese market.

Yet, the managers also point out that the overall pace of growth will depend on a number of factors that are far from certain.

Growth factors

The first factor influencing the rate of growth is the timing of the end of the equity bear market and the recovery in the Chinese and other international economies. The bear market is believed to have undermined local investor confidence, inflicting some medium-term damage.

A second factor is that foreign fund managers would like the China Securities Regulatory Commission, the local regulator, to relax controls over both the timing and number of new products that can be launched. This is important because the controls inhibit foreign fund managers' opportunity to gain competitive advantage through innovation.

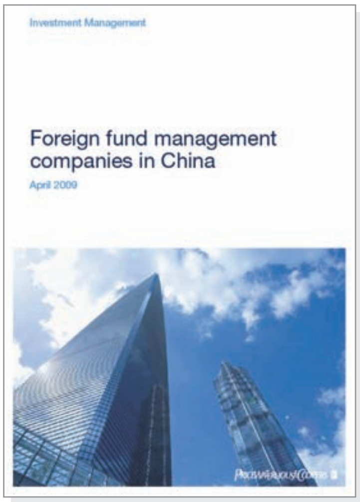
The third key issue is distribution. China's banks are the most important distribution channel for funds, yet as the banks themselves market more proprietary funds so this poses a threat to foreign fund management companies' distribution. The foreign fund managers plan to overcome this through superior investment performance, better client service and stronger brands. The better resourced ones also plan to expand into second tier cities – indeed some have already done so successfully.

In a related fourth point, the fund managers surveyed highlighted competition from domestic competitors as a particular challenge for their businesses.

Future opportunities

Overall, however, China's foreign fund management community remains optimistic. They see a range of future opportunities arising from Qualified Domestic Institutional Investor funds, segregated accounts, capital guaranteed funds, balanced funds, equity funds, private equity funds, real estate funds and new lines of business in investment advisory and pensions.

As for the pace of change, the severity of the financial crisis means that China's authorities are likely to remain cautious about market liberalisation for now.



Global Asset Management contacts

Asset Management News is produced by experts in their particular field to address important issues affecting the Asset Management industry. If you would like to discuss any aspect of this document, please speak to your usual contact at PricewaterhouseCoopers or one of those listed on these pages.

Global Asset Management Leadership Team

Marc Saluzzi
PricewaterhouseCoopers (Luxembourg)
Global Asset Management Leader
+352 49 48 48 2511
marc.saluzzi@lu.pwc.com

Kees Hage
PricewaterhouseCoopers (Luxembourg)
Global Real Estate Leader
+352 49 48 48 2059
kees.hage@lu.pwc.com

Barry Benjamin
PricewaterhouseCoopers (US)
Americas Asset Management Leader
+1 410 783 7623
barry.p.benjamin@us.pwc.com

Pars Purewal
PricewaterhouseCoopers (UK)
UK Asset Management Leader
+44 20 7212 4738
pars.s.purewal@uk.pwc.com

Brendan McMahon
PricewaterhouseCoopers (Channel Islands)
Global Asset Management
Private Equity Leader
+44 1534 838234
brendan.mcmahon@je.pwc.com

Robert Grome
PricewaterhouseCoopers (Hong Kong)
Asia Pacific Asset Management Leader
+852 2289 1133
robert.grome@hk.pwc.com

David Newton
PricewaterhouseCoopers (UK)
Global Asset Management
Tax Leader
+44 20 7804 2069
david.newton@uk.pwc.com

Tony Artabane
PricewaterhouseCoopers (US)
Global Asset Management
Hedge Funds Leader
+1 646 471 7830
anthony.artabane@us.pwc.com

If you would like to receive copies of this newsletter or would like further information about PricewaterhouseCoopers Asset Management publications, please contact Denise Cook at denise.cook@uk.pwc.com

Editor: Rupert Bruce

pwc.com