Asset & Wealth Management Market Intelligence Digest
China
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Key takeaways

Growth in public funds

- China’s public fund market is growing rapidly and new products are being made accessible to retail investors.
- Non-core AUM – that is AUM from segregated accounts and FMC subsidiaries – exceeds that of core AUM. Regulators are taking increased interest in FMC subsidiaries.
- Money Market Funds (MMFs) are the largest fund class by AUM, something not seen in other major asset management centres across Asia Pacific (APAC) and globally. Recent regulatory changes may reduce this dominance.

Explosion in private funds

- Asset Management Association of China (AMAC) first started to regulate Private Fund Managers (PFMs) in 2013 and promised to reduce their numbers. After an initial cull of around 33% of PFMs, their numbers have surged.
- Foreign asset managers who established Investment Management Wholly Foreign Owned Enterprises (WFOEs) have started to receive AMAC authorisation to launch funds. This represents the first opportunity for foreign asset managers to undertake domestic capital raising and investment.

Need to address pension reform

- China’s pension system remains fragmented and fairly closed off to foreign asset managers. The aging of China’s population and underfunding of state pension pots means this needs to be addressed quickly.
- Steps have been taken to consolidate control under the national body, the National Council for the Social Security Fund (NCSSF).
- Additional steps could be taken by opening up the private pension market – comprising OAs and EAs – to more domestic and international players.

Development of cross-border programmes

- New cross-border programmes continue to emerge and existing ones continue expanding their quota and investment options.
- Foreign investors now have several access points to Chinese securities and can develop a global, multi-pronged strategy to insulate themselves from restrictions across individual programmes.
- Increasing focus may now shift to outbound programmes and allowing Chinese HNWIs to make overseas investments.
China’s mutual fund market

- China’s overall retail fund management landscape can be split between private and public funds. Private funds (PFMs) are the remit of HNWIs and institutional investors while public funds (mutual funds) are popular among the mass-retail investor segment.

- China’s fund market contrasts with those of developed economies as retail investors hold more AUM than institutional investors – though the later is growing their presence. As a result of this and other factors within China’s capital markets and banking system, MMF funds account for over 50% of mutual fund AUM, again a direct contrast with other Asian fund centres where they usually amount to 5% or less of AUM.

- There are currently over 110 licensed asset managers in China. FMCs comprise the largest share of this with over 100 licensed firms split between Chinese- Foreign J.V.s and purely domestic operations. Securities companies and insurance companies make up the remainder. Most FMCs, whether a purely local operation or a J.V., are bank-backed.

- The distribution landscape has changed dramatically in the past few years. Banks used to dominate until the emergence of mobile platforms which enabled direct-selling to consumers – the rise of the YuE’bao MMF is largely attributed to this.

- Launching new products is the best way to grow market share as Chinese retail investors prefer to buy new funds rather than units in existing ones.

- Regulators are taking steps designed to curb the AUM domination of MMFs despite their popularity with investors.
Institutional investors

1 Pension funds

- China’s pension space is currently fragmented and split across provincial – represented by the various Public Pension Funds (“PPF”) – and national schemes – namely the National Social Security Fund (“NSSF”) – which are supplemented by voluntary defined contribution schemes for private sector workers – represented in their Enterprise Annuity (“EA”) schemes – and mandatory defined contribution schemes for state employees – represented in their Occupational Annuity (“OA”) schemes.

- Pension insurance companies also sell private investment products which many individual investors, mostly mass retail, purchase as a combined savings and investment product. Some pension insurance companies market these to employers as group plans as well as individuals.

2 Insurance companies

- Chinese insurers occupy a fairly pampered positions within the institutional investor landscape and across China’s financial markets in general – specifically regarding their 15% overseas investment allocation plus whatever QDII quota they are allocated by SAFE.

- Larger insurers operate multiple insurance entities under their corporate umbrella. The Insurance company A for example has Life, Health, Property and Casualty, and Annuity operations along with two holding companies. It also has an investment arm with a bank, securities company, and a stake in an FMC J.V.

3 Sovereign wealth funds

- China has two recognised SWFs, CIC – encompassing its subsidiaries CIC International, Central Huijin, and CIC Capital – and SAFE.

- CIC International was established with a mandate to invest and manage overseas assets, CIC Capital was incorporated with a mandate to specialise in making direct investments and enhance investment on long-term assets, and Central Huijin makes equity investments in key state-owned financial institutions in China.

- SAFE is responsible for managing China’s foreign exchange reserves along with drafting rules and regulations governing foreign exchange market activities.
Distribution trends

China Mutual Fund Sales Channels, 2008-2016

- The decline in Chinese banks' distribution prowess, and their replacement by direct sales, is largely due to the investment by FMCs into mobile and direct selling platforms.

- Tianhong led the way with their YuE’Bao fund – linking the accounts of millions of AliPay users so they could invest their unused balance into the MMF where they received higher returns than if the funds were in a bank account and still enabling them to easily liquidate their holding to fund Alibaba purchases when needed.

- Third-party sales offices have only recently gained authorisation in China which accounts for their low market share. They have the potential to add a unique element to the distribution landscape and seize larger market share though the industry can be plagued by reputational risk.

- Securities firms are more concerned with developing and selling their own products so while they do distribute mutual funds they are unlikely to focus on this. Accordingly, their market share is likely to remain constant.
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Armin Choksey
Partner, Asian Investment Fund Centre and Asia Pacific Market Research Centre Leader
PwC Singapore
T: + 65 6236 4648
armin.p.choksey@sg.pwc.com