



THE FUTURE OF ASSET MANAGEMENT IN CHINA



FLEISHMANHILLARD



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Executive Summary

Welcome to the fourth edition of **The Future of Asset Management in China** *whitepaper*.

Despite continuous market volatility in 2021 and Q1 2022, mainland China continues to be a vital growth market for many overseas asset managers, attracting more foreign players. The launch of the first-ever onshore retail fund by an overseas player in 2021 marked a significant breakthrough in the liberalization of the mainland's asset management industry, while the introduction of a private pension scheme in April 2022 will create a new battleground for overseas players in the future.

The Qualified Domestic Limited Partnership (QDLP) programme and the Investment Management Wholly Foreign-owned Enterprises (IM WFOE) private fund market (PFM) remain the major avenues for overseas asset managers to tap into the market. At the same time, new Sino-foreign wealth management joint ventures (JVs) are attracting the interest of local high-net-worth investors, with these tie-ups fast becoming a trend.

Mainland China's commitment to reaching net zero carbon emissions by 2060 is already having an impact on the private sector, and asset managers are increasingly required by regulators and investors to demonstrate their commitment in the environmental, social and governance (ESG) space. Growing concerns about disclosure, data sources and standardization will push asset managers to spare no efforts in making sure ESG is on the top of the agenda in the boardroom.

Alongside this year's report, we have also published our first edition of The Future of Asset Management Asia, which covers the Hong Kong SAR, Singapore and South Korea. I hope you enjoy the report and use our unique insights and findings to guide you in market entry and expansion communications in the ever-evolving mainland China market and Asia region.

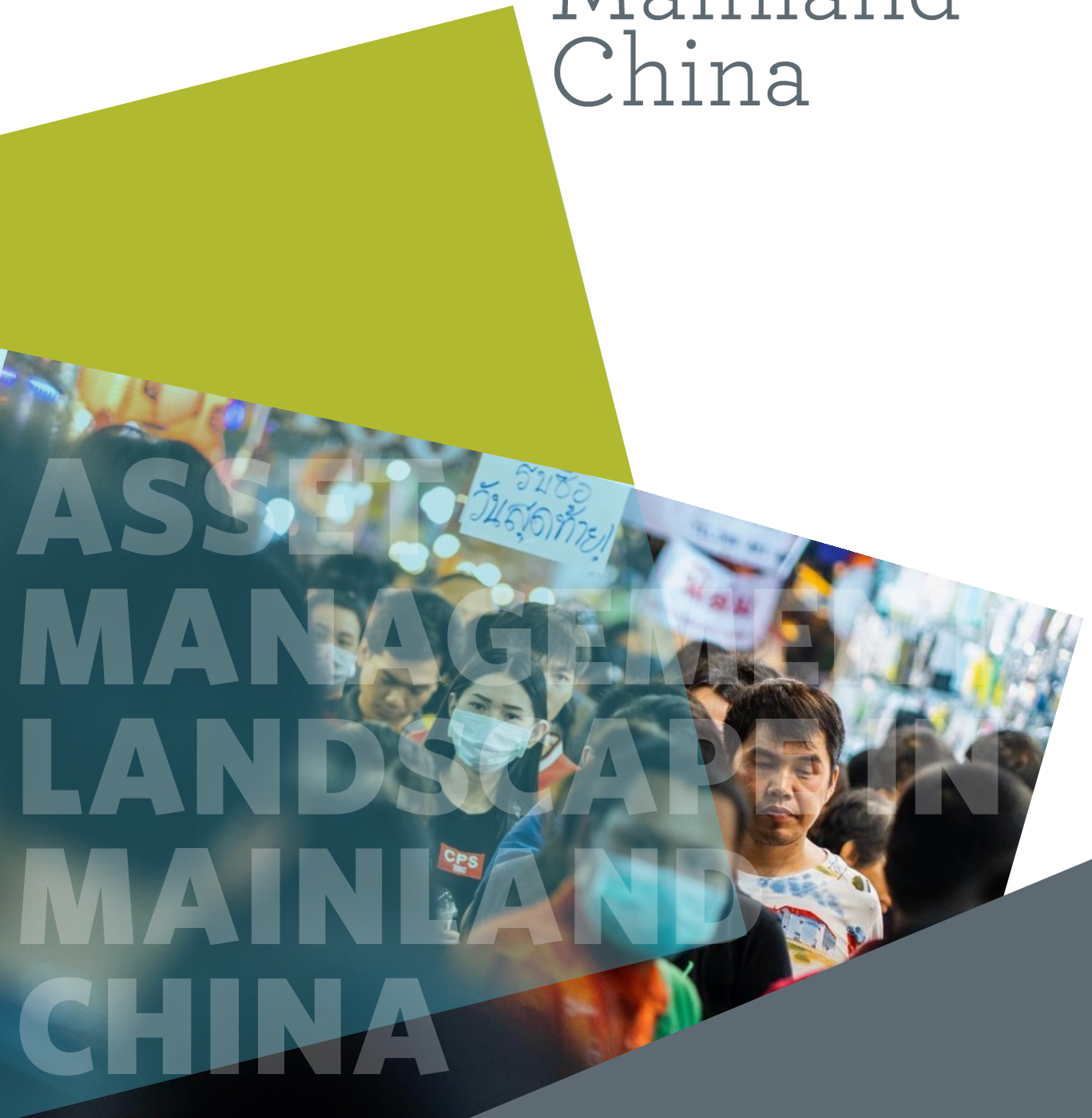
So what will it take for overseas asset managers to up their game in mainland China?

Long-term Plans: No matter what business models overseas asset managers adopt in mainland China, the most important factors are their long-term commitment and how they communicate this to mainland investors. Having a narrative and communications strategy tailored for mainland China is critical for overseas asset managers to build meaningful relationships with their audiences.

Pension Awareness-building: The nascent private pension market presents a huge opportunity for overseas asset managers. But much work will need to be done to demonstrate that they have diversified investment capabilities and expertise and to show how they can help mainland investors to safeguard their financial wellbeing in retirement.

ESG Commitment: Overseas asset managers need to double down on their efforts in responsible investment, especially in decarbonization and net zero emissions. ESG should no longer be simply a disclosure practice; it should be used as a differentiator to help overseas asset managers cut through the noise in mainland China.

Asset Management Landscape in Mainland China





Mainland China

MULTI-PRONGED STRATEGIES FOR OVERSEAS ASSET MANAGERS TO PENETRATE THE MARKET

Mainland China's asset management industry continued to record robust growth in 2021, which was up 11% by year-end¹. The industry's accelerated expansion in 2021 was mainly driven by the growth of publicly offered funds, wealth management products and private equity funds.

Onshore Retail Funds by Global Asset Managers

In a breakthrough for opening up the asset management industry in mainland China, one global asset manager received approval to launch two onshore retail funds. Despite the mixed performance of these two funds in Q1 2022, the move signified a major liberalization of the capital market for overseas players targeting one of the world's largest asset management markets. The competition between global and local players will continue to intensify.

IM WFOE Private Fund Market

In early June 2022, 36 investment management IM WFOEs had obtained licenses to distribute private funds in China². These IM WFOE private fund managers are capitalizing on their international expertise and experience to diversify their investment strategies from traditional equity strategies to multi-asset, fixed income and macro strategies. That said, the number of funds available remains limited: the most active IM WFOE has launched only 17 products so far since inception, with the next most active bringing six to the market.

QDLP Picking up the Momentum

The QDLP initiative, which allows foreign asset managers to raise funds in mainland China to invest overseas, has made steady progress over the past few years. Nine cities have established pilot QDLP programs and more than US\$50 billion worth of quotas has been allotted via local governments since the scheme launched in 2013³. In May 2022, two newly formed local units of overseas financial institutions received Chinese regulatory approval to raise funds for investing overseas. One of these has become the first wholly foreign-owned retail fund manager to get a QDLP license.

Wealth Management Joint Ventures

Since the regulations around overseas asset managers forming Sino-foreign wealth management JVs were relaxed in 2019, four similar majority-owned wealth tie-ups have been established in mainland China. Facing a squeeze in fees, asset managers in developed markets are chasing growth and have been looking to expand in client-facing wealth segments.

¹Source: A report issued jointly by Boston Consulting Group and Everbright Bank

²Source: Simuwang

³Source: The Asset Management Association of China

Pension Market on the Rise

A major part of mainland China's plans to foster a culture of long-term investing in the country's asset management industry is the development of a strong private pension sector.

In April 2022, mainland China's State Council outlined plans for a new pilot private pension scheme that allows employees to invest in public funds and wealth products. Individuals can open new private pension accounts at commercial banks or other financial institutions and may contribute up to RMB 12,000 (approx. US\$1,800) per year to the personal pension scheme.

China's private pension fund market is still relatively small compared with the national social security system and the multiple corporate-led pension schemes that make up the first two pillars of its pension regime. However, it is expected that the new system will attract many global participants, despite uncertainty about how global asset managers will be able to participate. Firms that already have retail fund management company licenses or wealth management JVs will likely be given a head start. One Sino-foreign wealth management JV was invited to participate in the pilot in February 2022, subsequently rolling out its first onshore pension product.

Mixed Results for Cross-border Scheme

While mainland China has established fund passport schemes with the Hong Kong SAR, it appears that most Hong Kong fund companies still find it difficult to really benefit from cross-border fund sales with the mainland.

The Mainland-Hong Kong Mutual Recognition of Funds scheme, introduced in 2015, and the newly launched Greater Bay Area Wealth Management Connect provide a unique platform for overseas asset managers to penetrate the mainland market. That said, complicated restrictions and the hefty resources required have made many asset managers rethink their commitments in this space, a new survey by the Hong Kong Investment Funds Association found.

What's Next for Mainland China's Asset Management Industry?

Mainland China's asset management industry has become an important driving force for global players. With the continuing liberalization of China's capital markets, more foreign institutions will look for growth opportunities in the Chinese market, whether through IM WFOE private funds, QDLP, onshore retail funds or wealth management JVs.

The ongoing participation of overseas players will continue to encourage healthy competition and usher in best practices in the mainland's asset management industry, benefiting domestic investors with diversified and unique investment products.

Survey Findings and Takeaways





Summary

TRUE Global Intelligence, the in-house research practice of FleishmanHillard, conducted an online survey of 110 investors in mainland China between April 27 and May 5, 2022.

Now in its fourth year, the survey explores what mainland Chinese investors think about different investment products and themes. We also asked them about their experiences with overseas asset managers, their access to financial information and advice, and their use of digital platforms.

Mainland Chinese respondents to the survey have traded or invested in at least one of the following:

Equities Funds	86%
Fixed Income Funds	73%
ETFs	44%
Alternatives	9%
Balanced Funds	35%
PE Funds	20%

Survey highlights

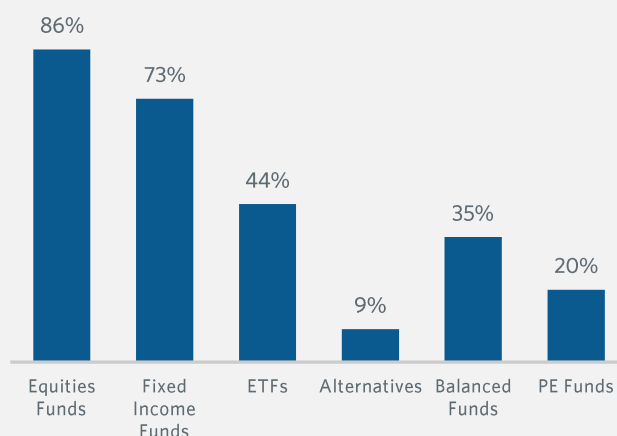
- Mainland Chinese investors have an increasing appetite for the investment products they are most familiar with: 80% plan to invest in equities in the coming 12 months, up by 22 percentage points over last year. They are less interested in ETFs (down by 10 percentage points), alternatives (down by 21 percentage points) and REITs (down by 27 percentage points).
- An interest in innovation drives investors in mainland China: AI funds (63%) and metaverse-themed products (49%) look set to be popular in the coming year, while the biotech (74%) and internet (63%) sectors are attracting interest.
- Mainland Chinese investors have a strong interest in ESG-related sectors.
- 100% of mainland Chinese investors ranked performance as key when choosing an asset manager, with asset manager credibility almost as important.
- Mainland Chinese investors get information on funds and investment products through multiple channels, including fund house websites (65%), financial media (64%), and robo-advisors (54%).
- With WeChat and Weibo as their main social media channels, investors are active and data-driven, using asset managers' social media channels to access corporate and product information and data on D&I and CSR.
- Mainland Chinese investors are active on all channels for fund patronage, led by online platforms (72%) and robo-advisors (49%).
- These investors are tech-savvy and report positive fund purchase experiences through digital platforms, with an average 89% satisfaction rate.
- Mainland Chinese investors are risk-averse, with more than half moving investments to lower risk options as a result of the Ukraine-Russia conflict, compared to 12% seeking high-yield opportunities.

Survey Results

EXPERIENCE AND OUTLOOK

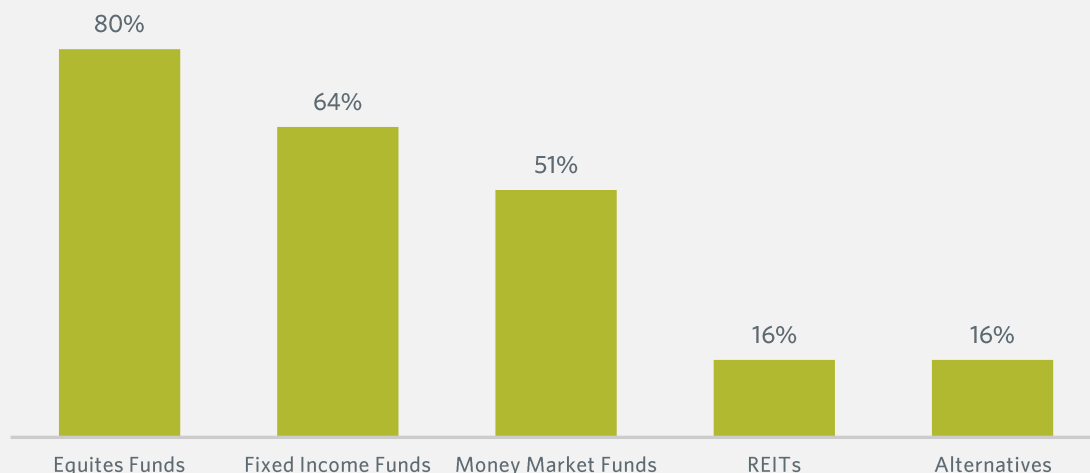
Mainland Chinese investors have experience in trading and investing in equities funds (86%) and fixed income products (73%). Exchange-traded funds (ETFs) are also popular in mainland China, with 44% of investors having an ETF in their portfolio. Mainland Chinese investors are currently less interested in less liquid investments, such as alternatives and private equity (PE) funds. In contrast, more than a third have invested in balanced funds to reduce the volatility of their investment portfolio.

What types of financial products have you traded or invested in?



Looking ahead to the next 12 months, investors in mainland China have increased their appetite for equities, with 80% planning to invest in these funds, up by 22 percentage points over last year. Fixed income funds (64%) and money market funds (51%) are also gaining ground, up by 12 percentage points and 7 percentage points respectively. In contrast, mainland Chinese investors are less interested in ETFs (down by 10 percentage points) and alternatives (down by 21 percentage points), alongside real estate investment trusts (REITs) and PE funds.

In the next 12 months, what kind of investment products are you interested in?

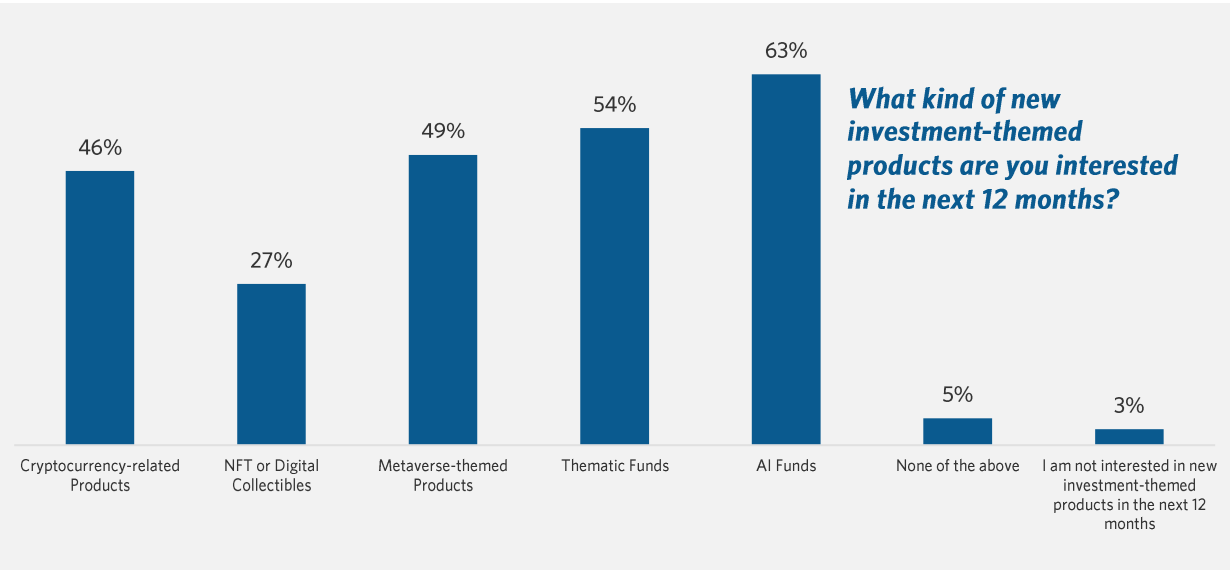


UPCOMING INVESTMENT THEMES AND REGIONS



Our survey found that mainland Chinese investors are particularly open to all types of new investments. They showed the strongest interest in artificial intelligence (AI)-related funds and thematic funds, partially driven by the technology advancement of mainland technology heavyweights.

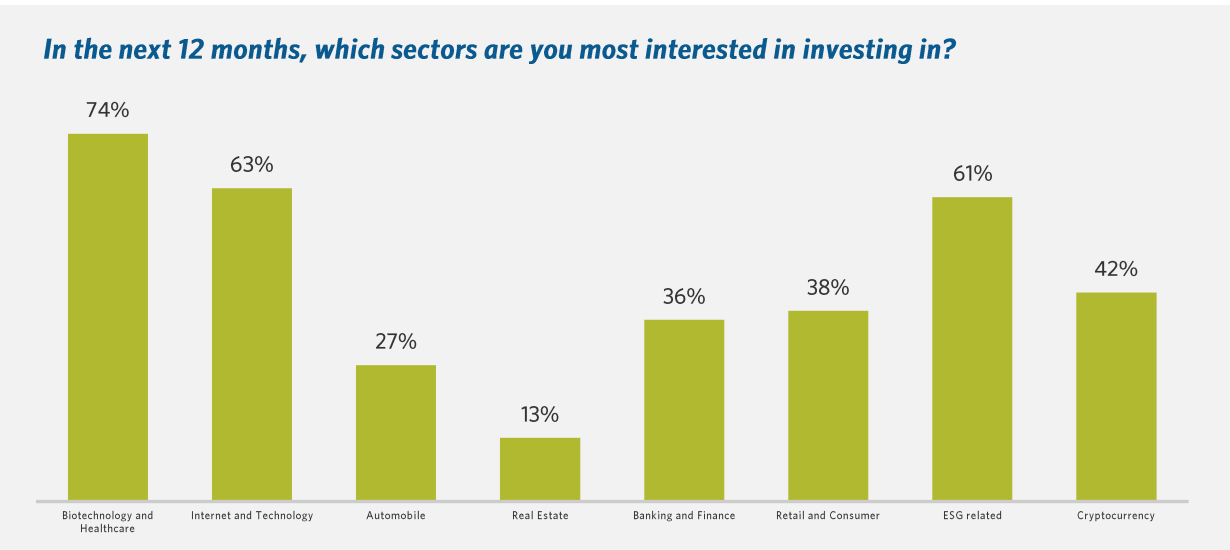
Almost half (49%) of mainland Chinese investors also expressed interest in metaverse-themed products. A similar proportion (46%) are considering cryptocurrency-related products, on par with investors across the region, despite their weaker performance in the six months prior to the survey. Mainland Chinese investors do not show much appetite to invest in non-fungible tokens (NFT).



Innovation was also a factor in terms of sectors that look to garner the most investment in the coming year. Growth-focused themes dominate investor sentiment: biotechnology and healthcare (74%) and internet and technology (63%) drew strong interest from mainland Chinese investors.

Interestingly, Chinese investors are very strong on sectors related to ESG improvements: 61% believe the ESG sector will be important in the next 12 months, up from 55% last year.

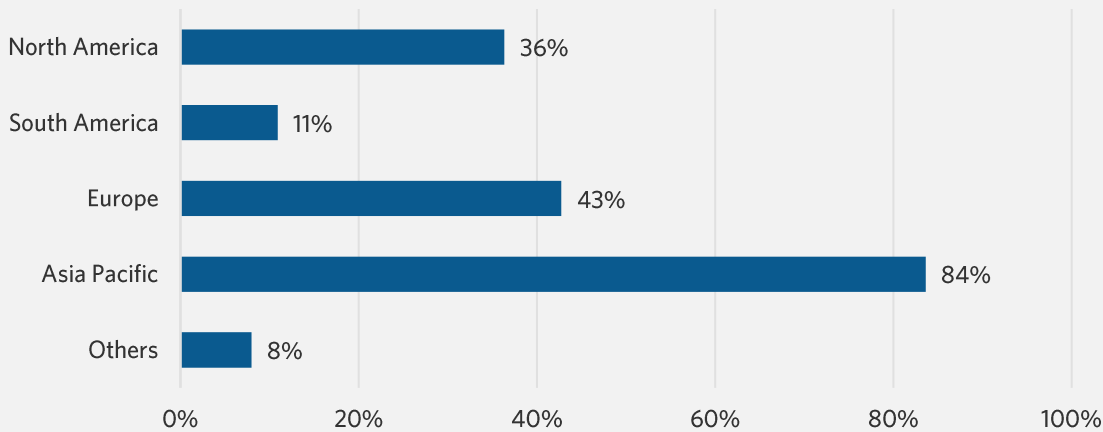
In contrast, banking and finance fell from the top spot in China in 2021, dropping 34 percentage points, while real estate continued its downward trajectory, dropping 30 percentage points.





Given global volatility and ongoing uncertainty, it is no surprise that mainland Chinese investors show a marked preference for investing in their home region: Asia Pacific.

In the next 12 months, which region(s) are you most interested in investing in?



*Percentages only include responses “Very Important” and “Somewhat Important” per category

**THOUGHTS
ON GLOBAL ASSET
MANAGERS**



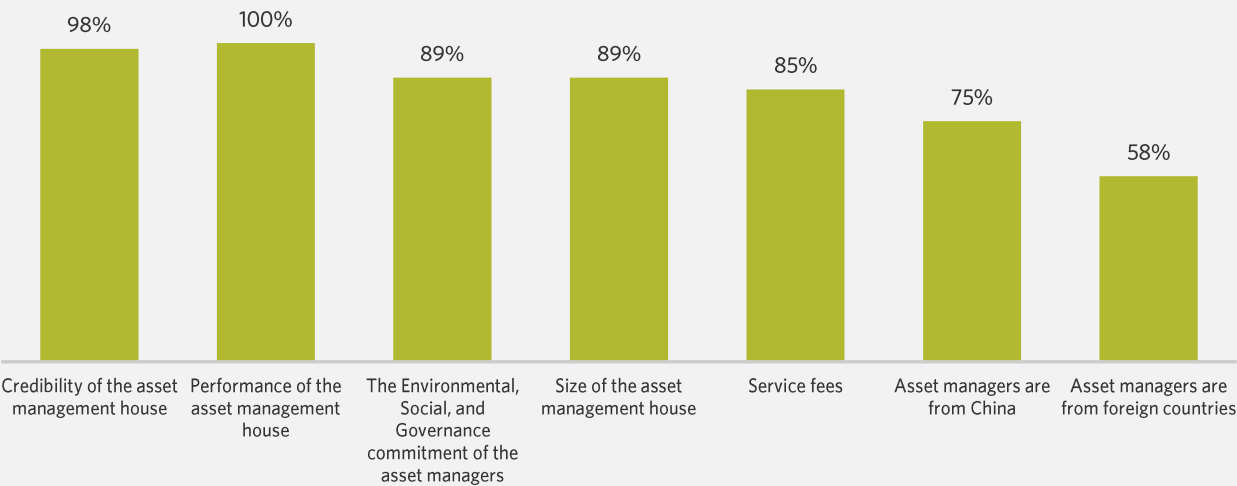
With 100% of mainland Chinese investors ranking performance as somewhat or very important when choosing an asset manager in 2022, the need to secure returns in a volatile market is really at the fore. This marks the first time that a single criterion has been named by all respondents. Even so, asset manager credibility also remains important, as has been the case over the previous three years.

While the ESG commitment of asset managers, the size of the asset management house, and service fees have all dropped in importance since

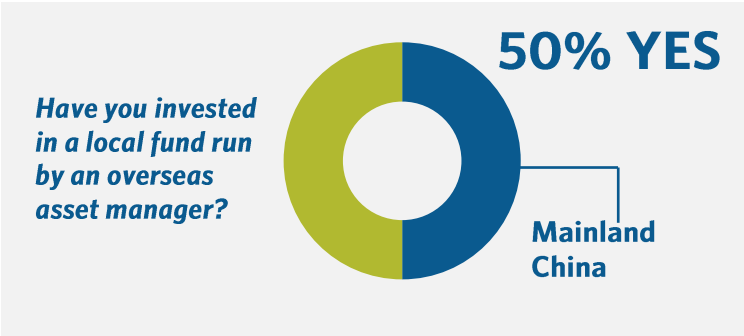
last year, they are still mentioned by at least 85% of mainland Chinese investors.

In contrast, investors generally are less interested in the domicile of the asset manager than in other factors, indicating a more level playing field. This continues to be a trend we have noted since launching The Future of Asset Management in China in 2019: investors’ preference for a Chinese asset manager is down by 18 percentage points in the 2022 survey, while the preference for a foreign asset manager is down by 23 percentage points.

How important are each of the following when choosing an asset manager?



Breaking this down further, this year's survey asked investors about their experience in investing in local funds run by overseas asset managers: half of investors in mainland China had done so.



As to why this should be the case, mainland Chinese investors cited better performance (62%) and their trust in global brands (51%) alongside the good track record of overseas asset managers (45%). This underscores the importance of transparent communications for foreign fund managers building their brands in mainland China.

Interestingly, recommendations from friends and family are less important than these factors, but more important than advice from independent advisers. The uniqueness of the investment strategies that overseas asset management houses bring to the market was mentioned by only 35% of investors.

Why did you choose a foreign asset manager over a purely local player?

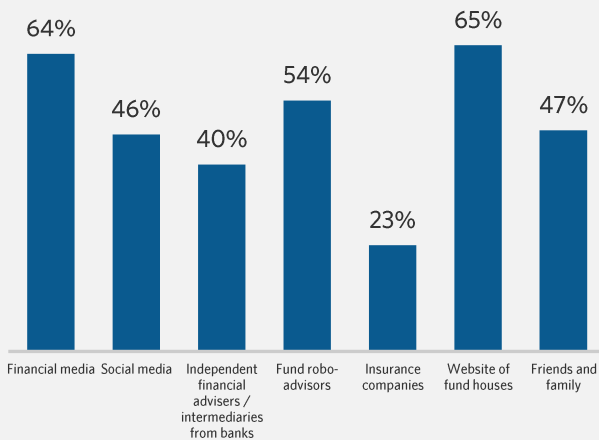


INFORMATION SOURCES

Mainland Chinese investors tend to rely on a wide array of channels. Their top two preferences are to seek information from the websites of fund house (65%) and financial media (64%). Interestingly, there was a 12 percentage points rise this year in those going straight to the source to access information on funds and investment products from the fund houses offering them. This presents an opportunity for overseas fund houses that can provide clear and high-quality financial information tailored to the mainland Chinese market.

Mainland Chinese investors are very open to taking advice from robo-advisors, (2022: 63% vs 2021: 54%). They are also more likely to turn to friends and family and social media than those in other markets.

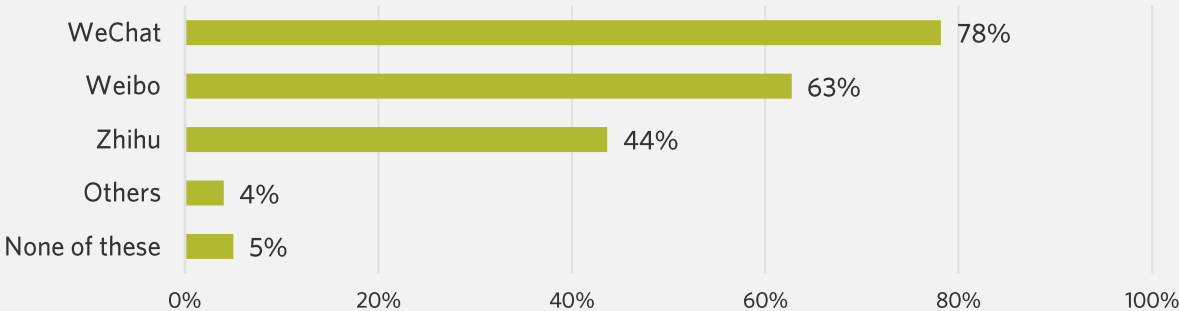
Through which channels do you receive information on funds and investment products?



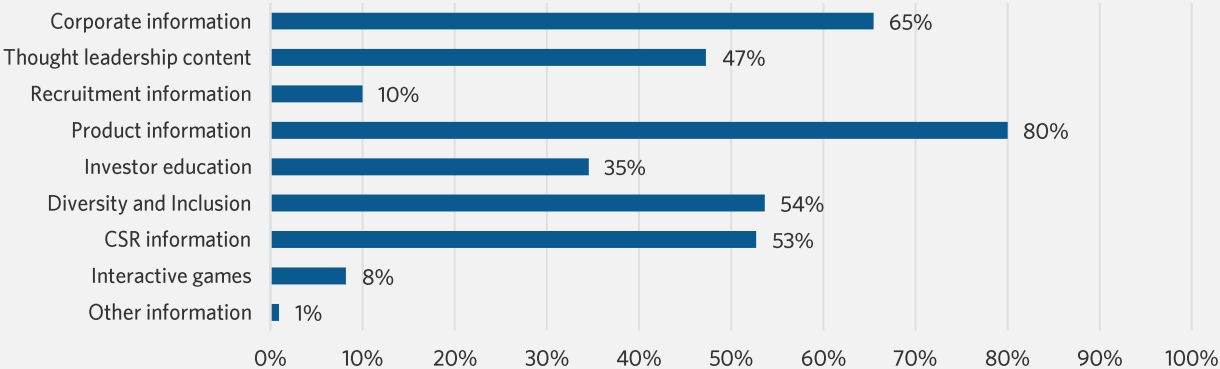
As it has been the case in previous surveys, WeChat is the most important social media channel for asset managers to connect with Chinese investors on the mainland. The survey underscores that asset managers must prioritize the sharing of product and corporate information on their social channels, with investors in mainland China using social media for a wider range of information, including thought leadership and market commentaries.

Interestingly, more than half of mainland investors also use social media to look for information about asset managers’ diversity and inclusion records and corporate social responsibility initiatives.

Through which social media platforms do you access information?



What type of information do you look for on asset managers’ social media channels?

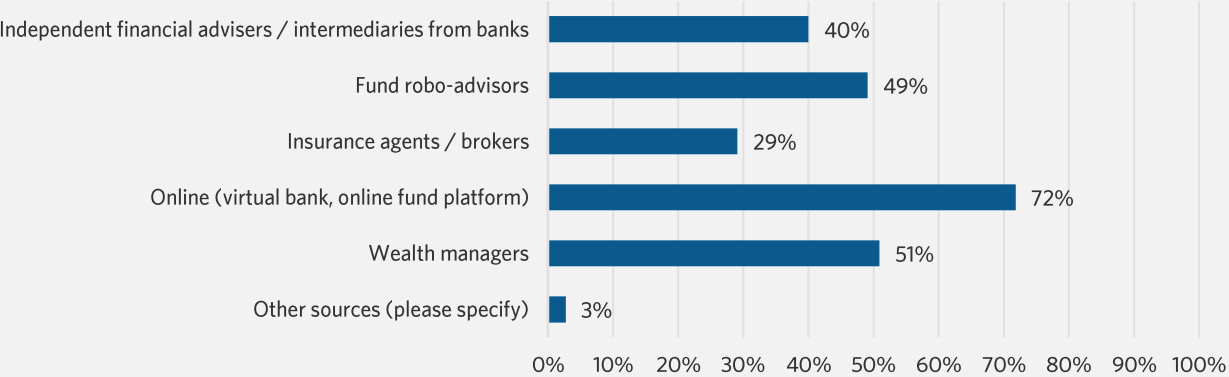


FUND PATRONAGE

In China, virtual banks or online fund platforms are investors’ most popular means of accessing fund products, suggesting the shift to online channels sparked by the pandemic is here to stay. This year, wealth managers, a new category, emerged strong, with around half of respondents using them.

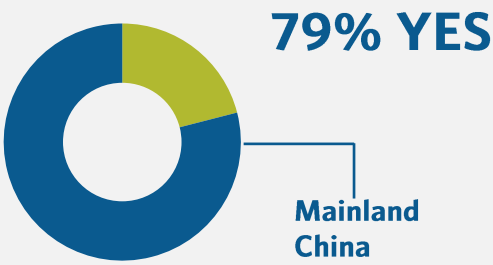
Comparing investors’ patronage methods with our last survey, it is clear that the shift to online sources is gaining momentum (up by 15 percentage points) at the expense of financial advisors (down 34 percentage points) and insurance agents (down by 43 percentage points). Robo-advisors, while down by 8 percentage points, continue to be important for almost half of mainland Chinese investors.

Which of the following sources do you use for fund patronage?

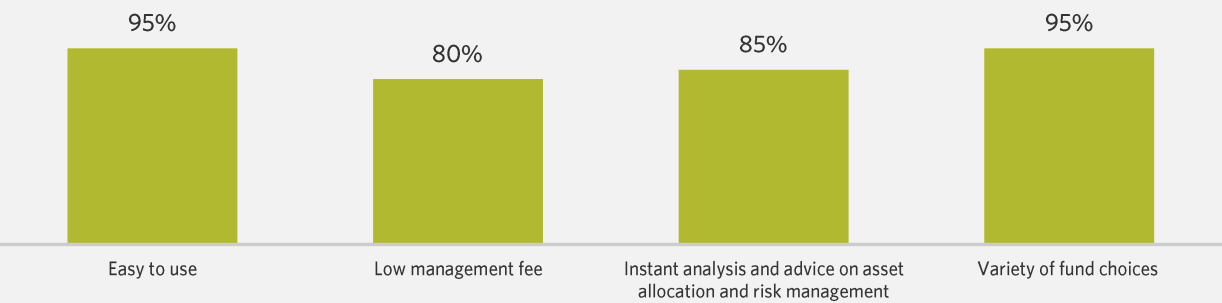


A similar pattern was revealed in investors’ use of digital platforms to purchase mutual funds, with marked enthusiasm from mainland investors. The level of satisfaction among mainland Chinese investors who use digital platforms is high. Investors praise their ease of use and variety of products and the access they offer to timely analysis and lower management fees.

Have you used a digital platform to purchase mutual funds?



What was your experience using a digital platform to purchase funds?



GEOPOLITICS



With the Ukraine-Russia conflict continuing to provoke volatility in world markets, most investors are moving at least some investments into lower risk instruments, with few holding steady or seeking out high-yield opportunities at this time.

How has the ongoing Ukraine-Russia conflict affected your investment outlook and risk appetite in terms of asset allocation?

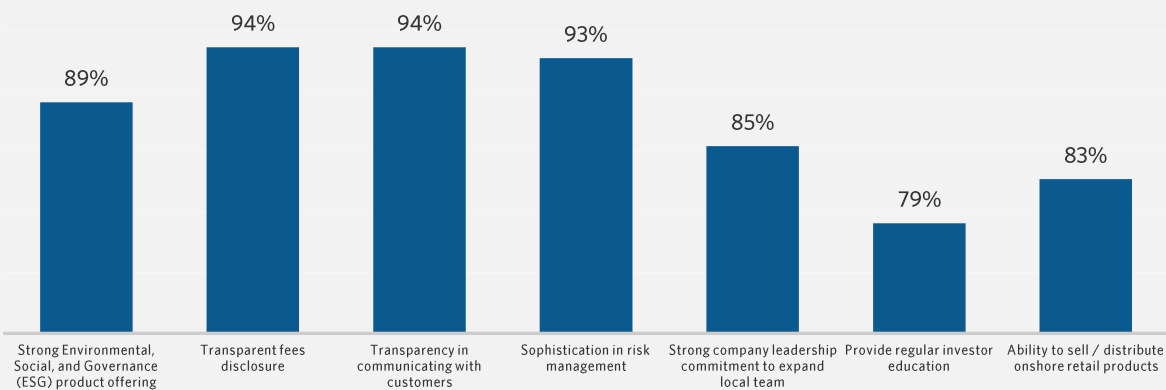


APPEALING TRAITS

In general, mainland Chinese investors hold overseas fund management houses to a high standard. Of most importance is transparency – both in customer communications and with regard to fees – and risk management. Strong ESG product offerings also rate highly. Although on-the-ground capabilities, such as a commitment to expanding local teams and the strength of the firm’s local distribution and investor education offerings, are of lesser importance, they are still significant.

This all suggests that foreign asset managers must be able to communicate in a transparent manner with their mainland Chinese customers, especially around fees and the sophistication of their risk management capabilities and ESG offerings.

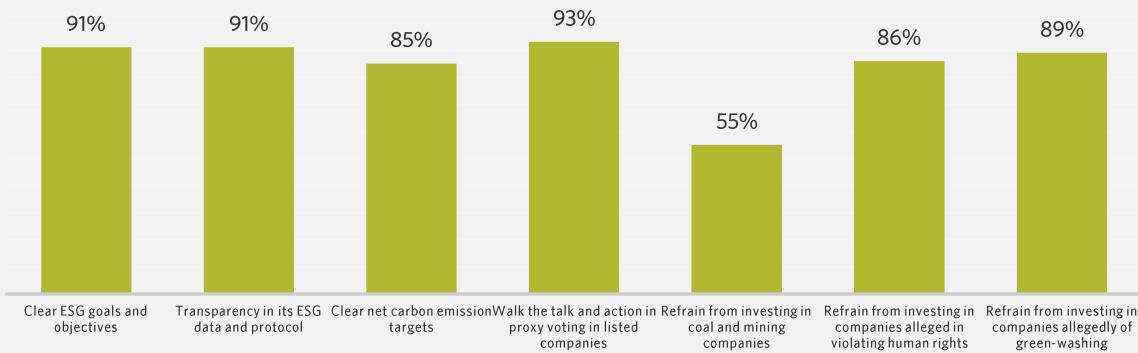
How important is it for overseas fund management houses in your market to have the following traits?



Capital continued to flow into ESG funds in 2021, with mainland China topping the U.S. as the world’s second-largest climate funds market⁴ amid strong government support for the transition to a net-zero economy. Mainland China’s professional investors want to see asset managers “walking the talk” in proxy voting in listed companies, while clarity and transparency about ESG commitments are also important.

In contrast, just over half of mainland investors would require asset managers to refrain from investing in coal and mining, perhaps reflecting a pragmatic approach to ongoing dependence on coal power as mainland China seeks to further develop reliable renewable energy sources for itself and developing nations.

How important are the following ESG commitments from asset managers?



⁴ Source: Morning Star

Key Insights for Asset Managers





Winning Strategies

FOR ASSET MANAGERS IN MAINLAND CHINA

Mainland China has become an important market for overseas asset managers. In recent years, however, the COVID-19 pandemic, ongoing geo-political tensions and an increasing focus on ESG have added to the pressure on overseas asset managers navigating this complex market. So what's next for overseas players now?

Long-Term Game for Overseas Asset Managers

The various business models for overseas asset managers to tap into the mainland's asset management industry are expected to stay. We do not believe that there is a one-size-fits-all approach for overseas asset managers, which must evaluate their unique business priorities, cost impact and international strategies.

What is most important is a commitment to the mainland China market. Overseas asset managers need to elevate their communications strategy to articulate their corporate vision, mission and purpose and reinforce their long-term commitment to serving investors in China. The 'good old days' of wooing investors with a parachute tour by overseas star fund managers are long gone. Despite the pandemic, investors want more regular and meaningful communications, be it through their

relationship manager or via social and digital communications.

Growing use of WeChat and Weibo will continue to present one of the most important communications channels for overseas asset managers to engage with their investors in mainland China. Having a holistic digital strategy to produce tailored content for mainland audiences will help provide a competitive edge.

Retirement Planning Solutions: Education and Awareness-Building

While the private pension market in mainland China is still at a very early stage, it is clearly a huge opportunity that overseas asset managers do not want to miss out on. Drawing on their international expertise, overseas asset managers can play a leading role through education and international best practice, helping mainland investors plan ahead for their retirement.

Overseas asset managers need to demonstrate diversified investment capabilities and an ability to help provide mainland investors with better protection to enhance the quality of retirement life.

Decarbonization and Net Zero Emissions

A commitment to decarbonization and net zero emissions will only become important in communications as firms seek to align with the mainland Chinese government's net zero goals. Overseas asset managers need to double down on their efforts in responsible investment, demonstrating the impact on society and the environment.

The ESG narratives of most asset managers are, by and large, highly homogeneous. Putting ESG at the center of day-to-day operations and proactively communicating these actions will help asset managers to cut through the noise.

Global Expertise and Local Insights

While global asset managers can continue to leverage their international track record to hone their credibility, they will face added pressure to deliver performance in such a volatile market. Those that can truly deliver uncorrelated alpha and diversified beta will win the hearts of performance-oriented mainland Chinese investors in 2022.

Diversification and downside protection are top of the investors' agenda at the moment. Our survey revealed that most investors are geared towards more conservative investment products in the next 12 months. Asset managers will need

to navigate the complex journeys of the mainland's performance-oriented investors. Launching mainland China-focused products and strategies, actively communicating investment views and perspectives, and staying true to corporate values and philosophies will help gain a competitive edge.

Digitalization with Investment Expertise

Investors are more technology-savvy today, and our survey reveals increasing demand from mainland investors who prefer to look online for information and fund patronage. Robo-advisors already have a foothold in mainland China, with more interest and uptake from mainland investors than those in other markets. The key move now for successful asset managers is to harness their investment expertise and pair it with unique technology to enhance operational efficiency and offer more customized investment solutions for customers.

Concluding Thoughts

Mainland China's asset management industry is unique, and every asset manager needs to have its own game plan to navigate the complexity and nuances of this market. Market entry communications and narrative building are critical to turbocharging growth for overseas asset managers in mainland China.

Never Settle

Are you ready? FleishmanHillard is committed to advising all asset managers, financial institutions and professional bodies in supporting their market entry, thought leadership and public affairs campaigns in the mainland China as it continues to liberalize to attract overseas players.

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FleishmanHillard is your go-to-advisory firm in managing your communications and reputation in mainland China.

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Appendix

Sources:

Boston Consulting Group and Everbright Bank: Asset Management Sector Regains Steam to Hit \$20.5 Trillion (April 2022)

Simuwang: <https://www.simuwang.com/> (June 2022)

The Asset Management Association of China: Asset managers Azimut, Hamilton Lane and Pimco eye China expansion, as Beijing accelerates QDLP and QFLP approvals (May 2022)

Morning Star: Earth Day: China tops US as world's second-largest climate funds market as sustainable investing gains traction, Morningstar says (April 2022)