GLOBAL SAGE

Leaders in Executive Search

China Asset Management Update

The Door Opens for Foreign Managers

June 11, 2020

A Message from our Team

"危中有机，我中有你"

"There is an opportunity that lies in every crisis...we're in it together"

– Chinese Proverb

Despite being overshadowed by the COVID-19 pandemic, April 1st marked the most significant milestone in the liberalization of China's financial markets in 20 years. China has finally removed the ownership limits for foreign financial services firms. The move lowers a significant barrier for foreign asset managers to participate in the domestic Chinese markets.

In this year's China Asset Management update, our team interviews two prominent market players to discuss the impact of this regulatory change and to provide insights into the competitive landscape in China. We also provide updated facts and figures about the asset management industry in China.

As a global executive search firm founded and headquartered in Hong Kong, we are acutely aware that Hong Kong is facing a critical juncture in its history, one in which the city's future as a key financial hub is being debated. Amidst the numerous head-spinning events in recent months, we find one development to be very significant. Ashley Alder, the highly respected CEO of the Securities & Futures Commission of Hong Kong, announced his intention to renew his three-year term, reversing his earlier plan to retire. Global Sage was retained by the Hong Kong government to prepare for Mr. Adler's possible replacement. From our unique vantage point, having an experienced leader like Mr. Adler at the helm for another three years is a very positive development. It underscores that safeguarding investor interests and maintaining the integrity of Hong Kong's financial markets will remain top priorities.

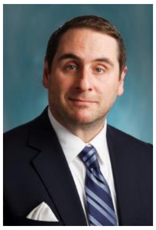
At Global Sage, we are passionate about providing exceptional talent to the global asset management industry. We encourage you to get to know our team and to learn about our capabilities around the world.

Sincerely,

The Global Sage Leadership Team, Global Asset Management

Louisa Wong
Executive Chairperson, China/Asia

Simon Barzilay
Managing Director, London



Douglas J. Brown
Partner, New York

Interview with James Sun, former CEO of Harvest Global Investments

CEO's Perspective:

Policy Changes Overlooked Amid Pandemic

What are the key aspects of the new regulations in China and what should foreign asset managers be aware of?

Fundamental regulatory changes affecting global asset managers' ability to operate in China were put in place this April. Under the new regulations, offshore asset managers are allowed to establish fully-owned fund management companies onshore enabling fundraising from China's massive retail investor base as well as certain institutions. This key regulatory change was enacted a year ahead of schedule and has been well-received by global firms. So far, we have seen managers including Fidelity, BlackRock and Neuberger Berman submit applications to set up these retail units. To put this market liberalization in context, it is important to understand that Chinese policymakers are determined to increase market efficiency. Stronger foreign participation will play a critical role here. That's why China has been "opening-up" across all the major domestic financial sectors; these new regulations also apply to banks, insurance companies, securities brokers and pension managers.

"Chinese policymakers are determined to increase market efficiency. Stronger foreign participation will play a critical role here."

Are domestic managers preparing for international competition?

The competitive landscape is certainly poised to change. China's asset management industry has undergone exponential growth since its birth about 20 years ago. It's still very young. Nevertheless, local firms have built solid foundations, brand names, substantial assets under management and infrastructure, which can be used to compete effectively with international players on China's soil. The domestic firms also have proven investment track records with sound knowledge of domestic investor demand. The incumbent players can expect strong challenges from newcomers. However, it will take a considerable amount of time before international players can go head-to-head with Chinese asset managers.

What advantages do foreign asset managers have in the China market? Are there any clear opportunities for them?

Over the long history of investment management in the U.S. and Europe, each company has developed its unique investment style and approach. Many of these are relevant to the China market. Chinese

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companies have track records in investing in the domestic market, but in terms of diversity of investment styles, they are still in the early stage of formation.

Another area of strength for global firms is their understanding of the connectivity between asset management and wealth management, which will allow them to bring their full capabilities to serve clients in different segments of the market.

I think there are two particularly interesting areas of opportunity for offshore managers. The first lies in the trillion-dollar retirement segment. China is moving to form the nation's defined contribution system and IRA schemes that cater to individual retirement. Notably in the U.S., AUM of the asset management industry grew tremendously after the creation of 401k plans and IRAs. International players who have accumulated experience in running retirement assets through economic cycles will find themselves ahead of the game compared with local firms.

Another opportunity for international players is to use technology to bypass established distribution channels in China. The link between asset management content and wealth management distribution for individual investors is now becoming digital. All the major global asset managers are recreating that link, bypassing the traditional banking/brokerage distribution channels. They are going direct to wealth management through digital means. This trend first emerged in the U.S., but I think China's infrastructure and technology innovation will take it further. China has a massive digital world with high mobile device penetration. Industry experts have said that Chinese investors under the age of 30 will not buy a mutual fund if they cannot buy it on a cellphone.

"Another opportunity for international players is to use technology to bypass established distribution channels in China."

For global managers who want to access China, how will they decide between an acquisition, a joint venture or establishing a wholly-owned entity?

This decision will be driven by how global players seek to approach the Chinese market. There are three major paths:

First is the "In China for China" strategy in which a manager establishes operations and capabilities in the domestic market to serve the Chinese investor. This approach requires playing the long game, as it will take time to build core capabilities, track record and brand name from scratch.

Second, global firms can build core onshore investment capabilities to serve their international clientele. This may be a promising approach, as there is a significant under-allocation to China in global asset allocation given the size of the Chinese economy. It is a relatively medium-term strategy as it will take time for global managers to firm up their China-investing capability.

The third strategy is to meet the demand from domestic investors for global investment products. There

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Is an equal under-allocation among Chinese institutional, retail and private banking investors to international investments. It is probably the most short-term China play. However, asset managers will have to navigate intense competition and capital control measures.

Global firms have the option to focus on one of these major paths, or to choose several of them which will provide optionality over the longer term. This decision will drive how they structure their business. A joint venture can give immediately-available distribution edge through a Chinese partner. Alternatively, a wholly-owned entity may make sense for large players who are committed to play the long game in this huge and growing market. Acquisitions can shorten the lead time for license approval without the challenge of assembling a local team.

How will the effects of the pandemic and rising tensions between China and the United States impact this decision?

No doubt the pandemic is reshaping the global economy. Political and trade tensions are further complicating the dynamics. Investors and asset managers are seeking clarity. But companies committed to China as a market that's "too big to ignore" are likely to cut through the noise and forge on with their plans to enter the market.

"The 'de-coupling' of the two superpowers in the trade and technology arena may serve as a catalyst for China to further open its capital markets to foreign companies."

But there is a reason for foreign asset managers to be optimistic. The "de-coupling" of the two superpowers in the trade and technology arena may serve as a catalyst for China to further open its capital markets to foreign companies. China is seeking to ensure a stronger connectivity between its capital markets and the rest of the world. Also, by welcoming the participation of U.S. and European asset and wealth managers in its domestic financial ecosystem, China is seeking to improve market efficiency. These represent strategic moves to mitigate the impact of the disconnect in the trade and technology space. This critical decision by China should give international asset managers the confidence to look beyond the current tensions.

James Sun is the former Chief Executive Officer of Harvest Global Investments Limited (HGI), the overseas arm of Harvest Fund Management, a top fund manager in China with over $150 billion in assets under management. James served as the Hong Kong-based CEO of HGI and its subsidiaries based in the U.S. and U.K., as well as Harvest's alternative investment platform. Prior to HGI, James had an 18-year career with Charles Schwab, the largest publicly traded investment services firm in the US; rising from investment specialist to Managing Director; responsible for the firm's business in Asia. He also served as senior VP at HSBC Private Bank in Hong Kong. James sits on several influential boards, including the China Asset Management Association in Hong Kong, advises Government agencies, counsels major think tanks and has carved out a reputation in the global investment sphere as the go-to China specialist.

Facts and Figures about Asset Management in China

Prominent People Moves in China Asset Management in 2019 - 2020

Name	New Firm	New Title	Location	Prior Firm	Prior Title
Charles Lin	CLSA	Vice Chairman	Hong Kong	Vanguard	CEO, Asia
Neil Harvey	ADM Capital	Executive Chairman, APAC Private Credit	Hong Kong	Credit Suisse Asset Management	CEO, HK/Chairman, Greater China
Tony Tang	BlackRock	CEO, China	Shanghai	GF Securities	CEO, Hong Kong
Gina Huang	Natixis, IM	MD & Head of China	Beijing	JP Morgan China	Head of China Govt. Relations
Helen Zhu	Nan Fung Trinity	Managing Director	Hong Kong	BlackRock	MD, Head of China Equities
Sun Hao	PGIM	MD & Head of Institutional for China	Shanghai	Legg Mason	General Manager, Shanghai Operations
James Zhang Jun	Fullerton	Head of China	Shanghai	China International Fund Management	Executive Vice President

Compensation Analysis

Base salaries among WFOEs generally increased by only 5-10% last year. Chief Legal and Compliance Officers for WFOEs are hired locally and in high demand hence their salary increase was higher at 10-15%. For domestic managers performance bonus accounts for a larger proportion of the total compensation. Base salary in general increased 5-10%.

Position	Base Salary (USD thousand) (Min - Max)		Bonus (month) (Min - Max)		Total Salary (USD thousand) (Min - Max)	
	Domestic Firm	WFOE Asset Mgr	Domestic Firm	WFOE Asset Mgr	Domestic Firm	WFOE Asset Mgr
General Manager	140 – 200	200 – 400	3 – 36	3 – 12	175 – 920	250 – 800
Chief Legal Officer	80 – 130	200 – 450	3 – 6	3 – 6	100 – 195	250 – 675
Head of Compliance	70 – 100	100 – 200	1 – 2	1 – 3	76 – 117	108 – 250
Portfolio Manager	100 – 230	180 – 320	6 – 24	3 – 12	150 – 690	225 – 640
Research Analyst	45 – 200	80 – 230	6 – 12	3 – 6	68 – 400	100 – 345
Sales/Marketing	35 – 140	40 – 170	12 – 48	6 – 12	70 – 560	60 – 340

This compensation analysis is intended for reference purpose only. All compensation information is gathered from primary and secondary sources we believe to be dependable. Global Sage does not guarantee the accuracy or completeness of this compensation analysis, and nothing in this table may be construed as a representation of such a guarantee. The accuracy of the information is also subject to changes in market conditions.

Interview with Bonn Liu, Partner, Head of Asset Management ASPAC, KPMG

Additional Rules Could Add Opportunities … and Competition for Foreign Managers

What has been the reaction to China's new rules regarding foreign ownership?

The new regulations are a key indicator of China's decision to open the market. The Chinese policy makers welcome foreign participation and view it as part of the evolution of the sector. They believe it will help Chinese capital markets to mature. Following the passage of the new rule, we have started to get quite a lot of inquiries from two groups. The first group already has some presence in China and has been waiting for a further opening of the market. The second group is players who have been sitting on the sidelines and see recent developments as a potential opportunity to enter the market.

While the headline has attracted a lot of attention, I always tell our global clients that they need to have realistic expectations about the speed of the process and expected returns. Regulators in China tend to be quite cautious. Global firms must demonstrate that they have the right people and processes in place. Sometimes it requires a lot of education. Although your firm may be international and well-known, regulators in China are not familiar with you. You still must win them over. I tell our global clients to be prepared for the long haul. But clearly, the bigger picture is that China is welcoming foreign participation, opening the market and the eventual rewards can be significant .

In addition to rules affecting foreign ownership, have there been any other regulatory developments of importance to foreign asset managers recently?

"Chinese banks have been asked to create their own independent wealth management subsidiaries which will result in the creation of many more players in the market."

There are several. The first are new asset management regulations relating to bank wealth management plans. Chinese banks have been asked to create their own independent wealth management subsidiaries which will result in the creation of many more players in the market. Already, more than 20 banks have created such subsidiaries or announced their plan to do so.

What was the impetus for this new rule?

In recent years, Chinese banks have developed numerous investment products for individuals. There have been concerns that some of these products may put potential risks on the banking system. There are

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particular concerns with those that have implicit guarantees built in. Therefore, the new asset management regulations require banks in China to set up separate wealth management subsidiaries if they want to carry on in this business. For new entrants into China's wealth management market, there could be over twenty new players, representing an influx of formidable new competitors.

What other recent developments have there been?

There have been several announcements regarding opening the financial markets of the Greater Bay Area (GBA), which is an economic zone consisting of Guangdong Province in Southern China, Macau and Hong Kong. One measure under active consideration is the creation of a Wealth Management Connect between Hong Kong and Southern China. This would allow Hong Kong-based managers to sell products into Southern China. Guangdong Province has a population of 70 million and represents a vast new market for Hong Kong players.

What are the challenges that new foreign asset managers in China will face?

To be successful in China going forward, you must really define where you want to compete. Domestic players are quite formidable now. They are much more sophisticated than when the first joint ventures were set up. They understand the market and, more importantly, they know clients. Competing head-to-head with them is going to be tough. Global players entering China need to find their niche – what is the expertise that they can offer and how can they build a reputation for themselves?

"…the creation of a Wealth Management Connect between Hong Kong and Southern China…would allow Hong Kong-based managers to sell products into Southern China."

Some of the very big firms may be able to go head-to-head with large domestic managers if they are in it for the long haul. Others may want to offer expertise in areas which are less established by Chinese managers. For example, Man Group and Winton have entered China as specialists in managed futures, a strategy that is underdeveloped in China now. Others might want to find an untapped niche on the wealth management side, or in the pension or in other investment styles or asset classes. Keep in mind, China's capital markets are developing. There is an aspiration for bigger and wider capital markets. Bonds and other asset classes like REITs may become more prevalent. This opens opportunities for players outside of China who already have a specialty in these asset classes and management styles.

Bonn Liu heads KPMG's Asset Management practice in ASPAC and China and Financial Services practice in Hong Kong. Bonn is actively involved in several regulatory and industry association committees and panels such as the SFC Takeover and Mergers Panel and Product Advisory Committee and the Hong Kong Securities and Investment institute Education and Development Committee.

Facts and Figures about Asset Management in China

Market Share Data

Invesco has become the largest foreign manager in China in 2020. However, the top 6 managers have not changed significantly over the past two years. Separately, the market share of the top 10 domestic managers in China dropped to 43.3% in Q1 2020 from 47.2% in 2018.

Top 10 Foreign Managers For China On-Shore Business

	April 2020	April 2018
Rank	**Firm**	**Firm**
1	Invesco	UBS
2	JP Morgan	Invesco
3	UBS	JP Morgan
4	Schroder	HSBC
5	BlackRock	BlackRock
6	HSBC	Schroders
7	Eastspring	Manulife
8	Fidelity	Deutsche AM
9	Morgan Stanley	Fidelity
10	Winton	Franklin Templeton

Source: Z-Ben Advisors 2020 and 2018 China Rankings

Top 10 Domestic Fund Managers / JVs

	Q1 2020			2018	
2020 Rank	**Firm**	**AUM USD (Bn)**	**Market share**	**AUM USD (Bn)**	**Market share**
1	Tianhong	204	8.8%	188	10.4%
2	E Fund	117	5.0%	90	5.0%
3	Bosera	96.3	4.2%	78	4.3%
4	China AMC	90.6	3.9%	61	3.4%
5	Southern	90.1	3.9%	78	4.3%
6	Guangfa	84.3	3.6%	65	3.6%
7	Harvest	82.6	3.6%	58	3.2%
8	China Universal	81.6	3.5%	66	3.6%
9	CCB Principal	80.1	3.5%	89	4.9%
10	ICBC CS	77.9	3.4%	85	4.7%
Sum of Top 10		*1,005*	*43.3%*	*854*	*47.2%*

Data from KPMG 2020 Q1

Where are WFOEs finding talent?

Foreign managers who have set up Wholly Owned Foreign Entities (WFOEs) in China have tapped three main sources for talent: 1) internal transfers from Hong Kong/Singapore, 2) other WFOEs and 3) domestic managers. The talent pool at domestic managers is very large but has few individuals with international experience. As a result, having a multi-pronged talent sourcing strategy in China is crucial. The data below is derived from Global Sage proprietary research.

	Portfolio Managers	Investment Analysts
Hired from internal transfer	**68%**	**21%**
Hired from another WFOE in China	**28%**	**40%**
Hired from domestic firm in China	**4%**	**39%**

Investment professionals at domestic firms with international backgrounds

15% Portfolio Managers

63% Investment Analysts

Female portfolio managers in China

21% WFOE

27% Domestic Firms

Global Sage in China

Our China Capabilities

Global Sage is an industry leader in helping global alternative and traditional asset managers to hire the best talent in China and Asia. We offer our clients a number of unique capabilities:

First Financial Services Search firm to establish a WFOE in China
In 2005, our Hong Kong-based company successfully completed the process that many of our global clients are undertaking today.

On-Shore and Off-Shore Capabilities Global Sage has offices in Shanghai, Beijing and Hong Kong. Unlike most of our competitors, our firm has both on-shore and off-shore operating licenses.

Cross-Border Search Expertise Our team in China works in unison with our consultants in the U.S., Europe, Singapore and Japan to handle hiring needs of our global clients.

Asia search is in our DNA Global Sage is the only global executive search firm specializing in financial services that was founded in Asia.

Track Record in China (Representative Assignments)

- **China CEO -** major Singaporean asset manager
- **Head of China -** one of the largest French asset managers
- **Chief Operating Officer -** one of the largest U.S. asset management firms
- **Head of Legal China -** one of the world's largest global asset managers
- **Portfolio Manager -** top global asset management firm
- **Portfolio Manager, Equities -** HK based asset manager
- **Investment Manager, Fixed Income -** well-known Chinese asset manager
- **Institutional Sales -** one of the largest US asset managers
- **Client Service Manager -** one of the largest French asset managers

Our Firm

Global Sage is a retained executive search firm specialized in global financial services. The firm was founded in 1998 and is headquartered in Hong Kong and operates from 10 offices globally. We pride ourselves on combining the best of a boutique, high-touch executive search practice with the global presence and research capabilities typical of much larger search firms.

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