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Asset managers go global

China's domestic fund management industry is expanding overseas through mergers and organic growth avenues

By **YANG HAN** in Hong Kong
kelly@chinadailyapac.com

As the Chinese government continues to open up the financial sector, it provides avenues for domestic asset managers to further explore opportunities overseas, and to emerge as global companies with international standards and quality.

"The rise of Chinese asset managers offshore is in line with two ongoing trends — global investors' rising interest in China, the world's second largest economy, as well as domestic investors' demand for diverse asset allocation," said Ding Chen, chairperson of the Chinese Asset Management Association of Hong Kong (HKCAMA).

China will account for nearly half of the global industry's net new flows to become the second largest asset management market in the world by 2019 and with assets under management exceeding $17 trillion by 2030, according to a report by business advisory firm Casey Quirk.

The total investable wealth of high net worth and ultra-high net worth individuals in China is estimated to reach 110 trillion yuan ($16 trillion) by 2022, according to consulting firm Oliver Wyman.

Chinese asset managers have a long history of working with onshore companies, and this experience is crucial to foreign investors who find it difficult to understand Chinese companies, said Simon Chiu, managing director of Guotai Junan Assets (Asia).

Guotai Junan Assets (Asia) is the asset management arm of Hong Kong-listed Guotai Junan International, whose major shareholder is the investment bank Guotai Junan Securities. It is also among the top three largest brokerages by assets in the Chinese mainland.

Meanwhile, as more and more Chinese companies are eager to explore foreign markets, asset managers with a domestic background will have the ability to help them to bring onshore corporates overseas, which is "a mutual benefit for both sides", said Chiu.

He said Chinese asset managers should fully exploit this competitive advantage to help investors achieve higher risk-adjusted return, and to expand their business globally.

Since 2006, the China Securities Regulatory Commission has started to allow securities and futures brokers from the Chinese mainland to set up subsidiaries in the Hong Kong Special Administrative Region (HKSAR), which opened a new chapter for industry players to "go out" on a large scale.

Alexious Lee, CLSA's head of China capital access.

Ding Chen, chairperson of the Chinese Asset Management Association of Hong Kong.

Simon Chiu, managing director of Guotai Junan Assets (Asia).

While a Xinhua report showed the net income of China's securities industry stood at 25.5 billion yuan in 2006, the number jumped to 113 billion yuan in 2017, according to data from the Securities Association of China.

Following almost a decade of development in the HKSAR, Chinese asset managers now are not only familiar with the mainland market and regulations, but have also built up professional teams that know how the global financial industry works, said Ding, who is also CEO of CSOP Asset Management, one of the first offshore asset managers to be set up in Hong Kong by a regulated asset management company in the Chinese mainland.

Besides building up brands from scratch, some companies also chose to enter the market through mergers and acquisitions (M&A). For example, Haitong International, a Hong Kong-incorporated company wholly owned by Shanghai-headquartered Haitong Securities, acquired the local Taifook Securities Group in 2010.

Other companies have taken similar steps. China's CITIC Securities acquired CLSA, an international brokerage brand, in 2012 from Credit Agricole. With CLSA's well-established global network, CITIC Securities became one of the first China-based brokerages and investment banking firms with a reach that spanned major global markets in over 20 cities across Asia, Europe, Australia and the United States.

Alexious Lee, CLSA's head of China capital access, said the integration of the two businesses provides the synergy to accelerate CITIC Securities' global expansion, which not only allows it access to international asset managers, but also a timely global take on rapidly changing regulations, economic conditions and the overall business environment.

CITIC Securities' annual report showed the revenue from its overseas business reached 5.6 billion yuan in 2017, the highest among its peers, as reported by *Securities Times*.

While acknowledging the benefits of the M&A route, Ding said it is not the only way for Chinese asset managers to go global: There are various cooperative ways for them to introduce products in different regions jointly with local financial partners.

Chiu at Guotai Junan Assets (Asia) said hiring talent with overseas background is another option for Chinese asset managers to learn best practices and become internationalized. Citing the case of Guotai Junan Assets (Asia), he noted that around 50 percent of its employees have previously worked for global institutions.

"That is the key to longevity. It is not just making money. It is also about corporate governance," he said.

"Five years ago, if you looked at the league table of new issuers, there were probably about five to 10 international houses and one Chinese house. Today, there are more Chinese league managers on the list than foreign players," said Chiu.

"That is how far we have come as Chinese securities houses."

It is "fortunate" for Chinese asset managers to have the opportunity to grow their global business as China opens its capital account and promotes the yuan's internationalization, said Chiu. In addition, he said the China-led Belt and Road Initiative, which encourages Chinese companies to invest abroad, has also offered opportunities for the industry.

For example, in January 2016, Guotai Junan launched a private equity Asia fund with a Belt and Road focus, and in March that year established an asset management office in Singapore. Chiu said the branch aims to take advantage of the Belt and Road Initiative in the Association of Southeast Asian Nations, building partnerships in those countries and creating win-win outcomes.

CLSA recently advised the Shenzhen and Shanghai stock exchanges on a strategic stake acquisition in the Dhaka Stock Exchange in Bangladesh and also helped Sri Lanka with its sovereign bond fundraising.

Lee from CLSA said while financial conglomerates are the main drivers of China's outbound development and are instrumental in the improvement of regional collaboration, the demand for cross-border loans, bond issuance, equity investment and financial advisory services will continue to grow.

The volume of China outbound M&A targeting Belt and Road countries reached a record $47.1 billion in 2017, up 86 percent from the $25.3 billion in 2016, according to data from consulting firm Dealogic.

"Creating a trade-focused, investment-friendly ecosystem within the Belt and Road region is key to China's outbound strategy. M&A is one of many forms of investment which are necessary to tap into strategic sectors and to boost growth," said Lee.

"Once the ecosystem has been created, investment will be two-way and the rapid development of China's market will continue to attract foreign direct investment," he said.

"China's asset managers will play a pivotal role in communicating critical information and bridging cultural differences to help inform investment decisions."

Though tighter rules have been applied to the asset management industry, Lee said Chinese retail investors' appetite for global investment opportunities will increase over time, due to robust growth in both household incomes and savings.

The compound annual growth rate for disposable household income per capita reached 8.2 percent over the past six years, according to a report by consultancy Bain & Company and consumer market research firm Kantar Worldpanel.

"Financial deleveraging and the enforcement of strict WMP (wealth management product) rules are near-term measures to ensure the long-term, healthy development of the industry, and should have a limited impact on the pace of globalization," said Lee.

China's central bank tightened the asset management regulations in April, banning guarantees on investment products' fixed-yield returns and limiting leverage levels to curb potential financial risks. A transitional period was set until the end of 2020 for financial institutions to adjust their business models without causing sharp market vulnerability.

"China's domestic asset management industry is undergoing a period of consolidation after years of rapid expansion," said Lee.

"In the next three years, we expect China's best-in-class asset managers not only to outperform peers but also to take a more significant role in China's outbound investment."

Ding from HKCAMA said that for Chinese asset management companies to become truly globalized requires an integration of various qualities, such as mutual relationships between asset managers and investors, knowledge of China's policies, and the ability to operate under international standards.

To Chiu, being more China-focused will be a key feature that differentiates Chinese asset managers. "We are good at what we do. That is the key, because you can identify your areas of strength," said Chiu, who hopes to see some meaningful results for Guotai Junan Assets (Asia) by 2020.

Ding said: "With expedited steps of China opening up its capital market, we will see a more and more prosperous future for Chinese asset managers, who will play an irreplaceable role in connecting the capital markets of China and the world."