Analysing the Positioning of International Asset Managers in the Context of the Mutual Recognition of Funds between China and Hong Kong

Supported by

Published: December 2015

Author: Tilman Fechter (tilman.fechter@clearstream.com)

Table of Contents

Table of abbreviations

AMC	Asset Management Company
AIFMD	Alternative Investment Fund Managers Directive
CIS	Collective Investment Scheme
CNH	Chinese offshore Renminbi
CNY	Chinese onshore Renminbi (also known as Yuan)
CSRC	China Securities Regulatory Commission
EFAMA	European Fund and Asset Management Association
ETFs	Exchange Traded Funds
FMC	Fund Management Company
FoF	Fund of Funds
HNWI	High net worth individuals
ISIN	International Securities Identification Number
MiFID	Markets in Financial Instruments Directive
MRF	Mutual Recognition for Funds
PRoC	People's Republic of China
QFII	Qualified Foreign Institutional Investor Scheme
QDLP	Qualified Domestic Limited Partner Scheme
RDR	Retail Distribution Review
RMB	Renminbi (see CNY/CNH)
RQFII	Renminbi Qualified Foreign Institutional Investor
SAFE	China's State Administration of Foreign Exchange
SFC	The Securities and Futures Commission of Hong Kong
SWIFT	Society for Worldwide Interbank Financial Telecommunication
SWOT	Strengths, Weaknesses, Opportunities, Threats analysis
UCITS	Undertakings for the Collective Investment in Transferable Securities

1 Introduction

1.1 Motivation & Hypothesis

The motivation for this study was based on several discussions with industry experts around the world on the Mutual Recognition for Funds (MRF) programme between China and Hong Kong. This study examines the objective of the programme, along with its positioning within the overall landscape of political and financial reforms of the People's Republic of China, including other Asian fund passporting initiatives. The study also analyses the impact of the programme on the Chinese investment fund industry and examines how international asset managers are positioning themselves to react to the upcoming changes and challenges brought about by regulatory shifts such as those presented by MRF.

Up to the present international investment funds cannot be sold to Chinese private and retail investors. The MRF programme, which was officially launched on 1st July 2015, will now allow Hong Kong-domiciled funds to be distributed to private and retail investors in China, and vice versa for China-domiciled funds.

While having the legal framework is a prerequisite for international asset managers based in Hong Kong to directly distribute their investment funds to Chinese private and retail investors, this does not necessarily mean that there is investor demand for such investment products, nor does it imply that local Chinese banks are necessarily willing and ready to sell such products to them. There are many factors which have an impact on the development of domestic Chinese demand for these products, including Chinese investor behaviour, the maturity of the financial markets, the regulatory environment with its restrictions and quotas, the competing products and players within the Chinese financial market and the strategic fit and readiness of international asset managers. This has led me to my working hypothesis for this research study, which I outline below.

The Mutual Recognition for Funds programme will be used by many international asset managers, but they will not be able to attract many Chinese investors within the next five years. Furthermore, international asset managers will not only rely on the MRF programme to sell their international investment funds into China, but will also make use of alternative methods to bring their products to the Chinese market.

This hypothesis is based on the following ingoing observations, which will be researched in detail in this study to determine their truthfulness:

- Many international asset managers are preparing to make use of the MRF programme.

- International asset managers will not be able to attract many Chinese investors, within the next three to five years, for the following reasons:
    - Investor demand and investor behaviour: today Chinese investors do not show a demand for international (Hong Kong-domiciled) investment funds. These products are new to both the market and the investors; it will therefore take some time to educate the market and investors, thus creating demand.
    - Regulation and reform: there are many other financial market reforms that have been put into motion by the Chinese government which need to be considered by international asset managers. Some of these reforms are potentially in competition with MRF. MRF also applies restrictive measures on the type of funds which will be included, thereby limiting the opportunities for international asset managers to bring their product innovations to the market.
    - Competition: international asset managers are competing with a wide range of domestic products offered by the major local state-owned banks and their wealth management divisions.
    - Market challenges: in order to distribute investment funds to Chinese private and retail investors, international asset managers need to rely on the willingness of local Chinese banks, which dominate the fund distribution channel.
    - Readiness of international asset managers: asset managers have not yet decided on their market entry and distribution strategy. This is also due to the fact that the framework was only signed on 1st July 2015.
- Alternative routes into China are already available:
    - Some international asset managers already sell their international investment products via the "Qualified Foreign Institutional Investor Scheme" (QDII) into China or have their own local partner or Joint Venture (JV) Asset Manager in China and they might leverage this route instead of MRF.

MRF is sometimes viewed and discussed as a standalone initiative, ignoring its interconnection with other economic and financial reforms put into motion by the Chinese government. My interest and motivation for this study is to place MRF in the overall landscape of Chinese economic reform, and in doing so to clarify the veracity of the above observations.

1.2 Objective & Scope

The main objective and focus of this study is to find concrete answers and statistical evidence in favour or against the above mentioned observations, and then to use this information in an overall assessment of whether the working hypothesis can be supported.

This document should also serve as an examination of the current status quo of the MRF framework and provide an outlook on the future of market development in China. In this context it may be of use in informing the strategic thinking of those with an interest in their positioning in this market.

This research study is limited to the following groups:

- Hong Kong asset managers who are planning to distribute Hong Kong-domiciled Collective Investment Schemes (CIS) to Chinese investors using the Mutual Recognition for Funds (MRF) programme.
- International asset managers who are already based in Hong Kong or who plan to establish a presence in Hong Kong, and who are planning to distribute Hong Kong-domiciled Collective Investment Schemes (CIS) to Chinese investors using the Mutual Recognition for Funds (MRF) programme.

Other business lines of asset Management, including but not limited to advisory mandates or dedicated portfolio management, are not covered in this research study. Similarly, Chinese asset managers who are distributing their Chinese-domiciled CIS to international investors are not addressed by this study.

1.3 Approach & Structure

As a first step, this study will define the terminology and landscape of the investment fund industry. This information forms the framework of the study and will enable the reader to understand MRF in a wider context of cross-border fund distribution. This first step, laid out in Chapters Two and Three, focuses in particular on:

- The definition of an investment fund
- The international investment fund market
- The Chinese asset management market

Having defined the framework and terminology of the piece, as a second step, this study will gather statistical analysis and empirical evidence to determine the veracity of the hypothesis and observations laid out in Chapter One. The statistical analysis sections of this study form Chapters Four to Six, and can be split into three separate themes.

The first theme seeks to contextualise the MRF programme, and then widen the scope to examine the MRF in the environment in which international asset managers are operating. This includes research on:

- The MRF programme today and in the future
- MRF in the context of the other financial reforms
- Identification of potential conflicting or competing initiatives and reforms

As a second theme, this study evaluates the current status and readiness of international asset managers to distribute in China. It does so by:

- Evaluating investor demand today and in the future
- Assessing the competitive landscape
- Determining the key success factors for international asset managers to sell investment fund products in China
- Performing a strengths, weaknesses, opportunities and threats (SWOT) analysis of international asset managers in order to identify their strategic fit and highlight potential gaps

While the MRF programme provides a legal framework for the distribution of investment funds in China, this does not automatically result in international asset managers being ready to take advantage of the programme.

As a final theme, this study then analyses the strategic positioning of international asset managers towards the MRF programme. This includes how and when they are planning to enter the Chinese market and if they are potentially using multiple market access strategies.

After obtaining concrete results and statistical evidence of the individual categories above, as a third and concluding step, in Chapter Seven, this evidence is used to draw final conclusions on the original hypothesis. This will include the mapping of a) the "key success factors" to the SWOT analysis and b) the findings from the research into investor demand, competitive landscape and regulatory environment in order to derive the current ability and readiness of international asset managers to sell their investment funds to Chinese investors.

In order to find concrete answers which would support the observations mentioned in Chapter One, it became rapidly apparent that the data needed was not available and that only dedicated empirical research would provide sufficient evidence.

In order to obtain this evidence, the author conducted structured expert interviews with 21 senior decision makers. These decision makers represented a cross section of leading international and Hong Kong-based Asset Managers, Securities Services Firms, Chinese Asset Managers, the International Investment Funds Association and the Hong Kong Investment Funds Association (HKIFA).

A special thanks to all survey participants:

International (Hong Kong) Asset Managers:

- King Lun Au, Chief Executive Officer, Bank of China Asset Management Hong Kong
- Dean Chisholm, Regional Head of Operations for Asia Pacific, Invesco Asset Management Pacific Limited
- Amy Cho, Managing Director, Pictet Asset Management (HK) Ltd
- Lieven Debruyne, Chief Executive Officer, Schroder Investment Management (Hong Kong)
- Peng Fei, Chief Executive Officer & Founding Partner, Winsight Global Asset Management Limited
- Lynda Hall, Managing Director, Fund Services, Asia Pacific, BlackRock
- Shawn Khazzam, Head of Product Development and Management, J.P. Morgan Asset Management Asia Pacific
- Charles Lin, Head of Greater China, Vanguard HK
- Nathan Lin, Chief Executive Officer, GF International Investment Management Limited
- Richard Tang, Chief Executive Officer, ICBC Credit Suisse Asset Management (International) Company Limited
- Jelle Vervroon, Chief Executive Officer, HFT Investment Management (HK) Limited

- Eleanor Wan, Chief Executive Officer, BEA Union Investment Management Limited
- Sherry Wong, Director, Head of Product Development Asia & Australia, Legg Mason Asset Management Singapore Pte. Limited
- Shelley Yang, Managing Director, China Universal Asset Management (Hong Kong) Company Limited
- Xiaofeng Zhong, Chief Executive Officer North Asia, Amundi Hong Kong Limited
- Soraya Hashimzai, Head of Legal – Product Development & Management/Conducting Officer, Aberdeen Global Services S.A.

Chinese Asset Managers

- Carissa Xu, Chairman of the Board, Hengjiu Wealth Management

Securities Services/Custodians

- Lawrence Au, Head of Asia Pacific, BNP Paribas Securities Services
- Andrew Gordon, Managing Director Asia, RBC Investor & Treasury Services

Asset Management Industry Associations

- Claude Kremer, Board of Directors of the International Investment Funds Association
- Bruno Lee, Former Chairman, Hong Kong Investment Funds Association

2 Asset Management

In the financial industry, asset management is used to describe institutions and individuals who manage assets on behalf of someone else (EFAMA, 2015). An Asset Management Company (AMC) is a company that invests its clients' pooled cash into securities (equities, bonds, funds and other securities) and other assets (commodities, real estate, etc.) that match the declared financial objectives of the AMC. AMCs provide investors with more diversification and investing options than they would have by individually investing themselves (EFAMA, 2011). AMCs offer a wide range of advisory mandates and dedicated portfolio management services alongside fund management. A fund manager takes the decisions on where to invest the investors' money and also represents the company that provides these services (Alfi, 2011). A fund management company often operates and manages several investment funds. Investors can be private investors or institutional investors. Private and retail investors are defined as natural persons. Institutional investors include corporates, pension funds, insurance companies, banks and other investment funds.

In this research study the focus is put on international AMCs collecting money from investors to invest into Collective Investment Schemes (CIS). The author has decided to use the term asset management throughout this document when referring to the management of CIS, as most interview partners and interested readers would be used to discussing specific service offerings of an AMC. In the survey outline it was made clear to the interview partners that the scope was limited to fund management and more specifically the management of CIS and the ambition to sell the Hong Kong domiciled CIS to Chinese investors in the People Republic of China (PRoC).

When referring to international AMCs throughout this text, all Hong Kong based asset managers, but also all international asset managers who plan or have the ambition to establish an AMC registered in Hong Kong are included. A Chinese asset management company, referred to in this text, is to be understood as an AMC operating domestically in China. The author notes that these could also be seen as international asset managers when setting up a Hong Kong based AMC which distributes internationally.

2.1 Investment Funds

An investment fund is an investment vehicle that pools the money collected from many individual investors and invests it according to defined investment guidelines in specific assets and markets (Alfi, 2011). There are several definitions for investment funds. In some countries the term mutual funds is more commonly used (SEC, 2005). Investment funds are classified according to their investment policy and strategy. If the majority of the underlying assets of an investment fund are invested in the equity market, these investment funds are called equity funds. Others fund types include bond funds, money market funds, balanced/mixed funds or fund of funds (FoF). According to the EFAMA statistics (efama, 2015), the most common type of funds worldwide invest in equity assets (40%) followed by bonds (22%) and money market instruments (13%). Balanced/mixed funds, where the underlying investments are composed of various asset classes (i.e. a mix of bonds and equities) account for 12% of worldwide funds. The remaining 13% are "unclassified funds".

A FoF (Alfi, 2012) is an investment strategy which involves holding a portfolio of other underlying investment funds rather than investing directly in equities, bonds or other securities. An ETF is a passive investment fund which tracks an index; ETFs are traded on the stock exchange (ETF-Fonds, 2015).

Other fund types are Hedge Funds and Alternative Funds. In the Mutual Recognition for Funds (MRF) programme between China and Hong Kong Alternative and Hedge Funds are not considered.

Definitions of other fund classifications by legal structure, liquidity or underlying asset, such as Master/Feeder Funds, closed end, open ended funds, real estate funds, private equity funds, unit investment trusts, long/short term investment funds and so on are not described further here.

2.2 International Investment Fund Markets

Worldwide investment funds show a continuous growth trend. The total fund assets have increased by over €9 trillion to €37.8 trillion within the last year (Q1/2014 to Q1/2015) (EFAMA, 2015). The United States of America represents 49.2%[1] of the global fund market. Europe represents 32.5%, with Luxembourg being the biggest European market, representing 9.3% of the global market. Luxembourg is followed in Europe by Ireland, France and the United Kingdom. Other major fund markets outside of the US and Europe include Australia, Brazil, Canada, Japan, China, Republic of Korea, South Africa and India. China represents 2.0% of the worldwide fund market.

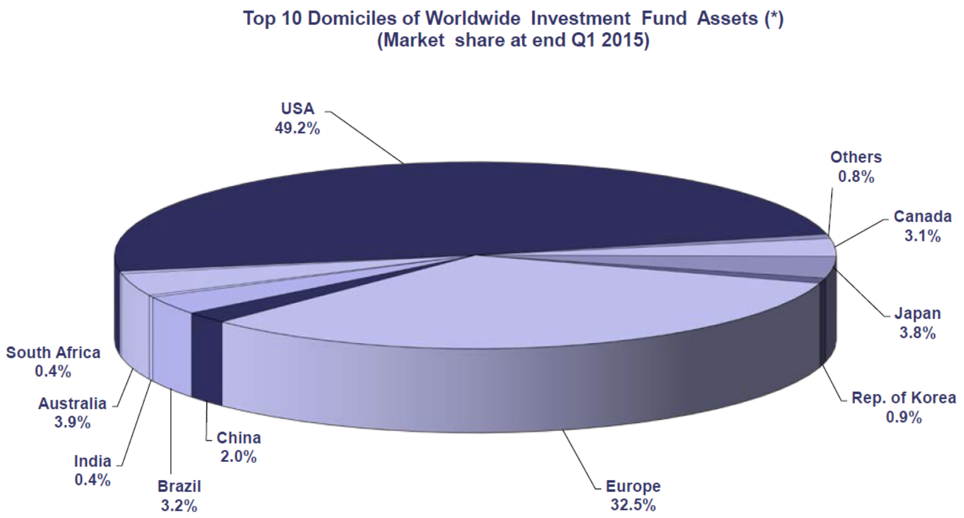

Figure 1: Worldwide Investment Fund Assets at the end of Q1/2015. (efama, 2015).

[1] By domiciliation of the investment fund

2.3 Investment Fund Distribution

Fund Distribution is the process of selling investment funds to investors. Investment funds are complex financial products, necessitating investor's education, especially retail investors before allowing them to invest. This is supported by many regulations around the world which stipulate exactly which adequacy checks needs to be performed before selling these products to investors. In Europe for example, MiFID[2] lays out these obligations.

Domestic fund distribution

Domestic investment fund markets are defined as markets where domestic investors are investing primarily into domestic investment fund products (globalcustody, 2015), (Investhub, 2014) offered by domestic asset management companies. The US market is the biggest domestic fund market (efama, 2015). The vast majority of investors into US-domiciled funds come from within the US; hence why the market is described as a "domestic to domestic" market. This is also witnessed for example by the fact that while there are over 7,700 investment funds registered for distribution in the US (US fund distribution, 2014), only four are offshore funds[3] (PWC-Global Fund Distribution, 2015). US-domiciled funds are moreover often restricted to US investors resident in the US (americansabroad, 2014). To put this in perspective, Chile has over 1,400 offshore funds registered for domestic distribution (PWC-Global Fund Distribution, 2015). The other bigger domestic fund markets outside of the US are Europe, Australia, Brazil, Canada, the Republic of China, India and South Africa. In summary, domestic fund distribution is the distribution of investment funds in the country where the investment fund is domiciled.

International cross border fund distribution

International cross-border fund distribution is to be understood as a fund manufactured in an "offshore" jurisdiction (IMF, 2000) for international distribution, for instance a Luxembourg-domiciled fund which is distributed by Distributor Banks around the world to their international investors. Luxembourg is the biggest international cross-border investment fund centre of the world, with more than 55,000 cross-border funds registered in over 50 countries across Europe (over 48,000), Asia Pacific (over 4,000), Middle East (over 800), the Americas (over 1,350) and Africa (over 200). Luxembourg funds account for 67% of the domicile share of authorisations for cross border distribution. Luxembourg is followed in

---

[2] MiFID is the Markets in Financial Instruments Directive (Commission, 2015)

[3] "Offshore finance is, at its simplest, the provision of financial services by banks and other agents to non-residents" (IMF, 2000)

this respect by Ireland with 20% market share and around 16,900 registered funds around the world (PWC-Global Fund Distribution, 2015).

Third party / Open architecture fund distribution

AMCs are not necessarily selling their investment funds directly to end investors; they may instead make use of intermediaries. According to the PWC report "UCITS Fund Distribution 2012," in most countries banks represent more than 40% of the fund distribution. (PWC Distribution Report, 2012). 20 years ago most banks in Europe only sold investment funds from their own group AMC. In other words, UBS sold UBS funds in their branch network and HSBC sold HSBC funds in their branch network. In some countries and segments this is still the case, for example in the domestic saving banks sector in Germany, where DEKA and Union funds are exclusively distributed by the Sparkasse or Volksbank respectively.

At the same time, most other banks have gradually opened up to "third party fund distribution" or "open architecture", which is described as the practice of banks or other financial institutions selling investment funds from other AMCs through their banking network or platforms (financial-dictionary, 2015).

2.4 Investment Fund Passporting

Fund passporting in general means that AMCs after registering their investment funds in one jurisdiction can distribute these funds in the other member jurisdictions that are part of this passport programme. The world's biggest fund passport programme is the European UCITS regulation.

UCITS

UCITS (Undertakings for the Collective Investment in Transferable Securities) are open ended investment funds which are registered and approved in one member state of the European Union and that can be sold in all other member states (ESMA, 2009). UCITS goes back to its original Directive 85/611/EEC, which was adopted in 1985 (European, 2008). The UCITS brand is built on investor protection, creating trust by offering a reliable legal and regulatory environment and framework. Additionally UCITS includes a clear taxation regime. In Asia, UCITS funds are widely recognised in Singapore with more than 2,000 registered funds, Hong Kong with over 1,000 registered funds, and also significant numbers in Macau, Korea, Taiwan and Japan (PWC Distribution Report, 2012). UCITS funds cannot currently be sold to investors in the People's Republic of China.

Asia Region Funds Passport (ARFP)

The Asia Region Funds Passport (ARFP) is an APEC (Asia-Pacific Economic Cooperation) Finance Ministers' initiative. On 11th September 2015, Finance Ministers from Australia, Japan, Korea, New Zealand, the Philippines and Thailand signed a Statement of Understanding (APEC, 2015) to start even before the commencement of the passport, which was originally foreseen to be implemented in 2016. The AFRP aims to increase the capital mobility between the member states and to support this mobility with the "creation of a regulatory arrangement for cross-border offer of CIS in participating economies" (Minister, 2014). The goal is to encourage greater competition between Fund Management Companies across jurisdictions, which will lead to lower cost and greater choice for investors.

ASEAN

The ASEAN (Association of Southeast Asian Nations) fund passport is based on the ASEAN Economic Community Blueprint, which was signed at the 13th ASEAN Summit in Singapore in November 2007. The goal was to establish an ASEAN single market, with a free flow of goods, services, investments and a freer flow of capital (The ACMF, 2014). One of the initiatives under the "Implementation Plan" signed in 2008 was to develop a mutual recognition framework to facilitate cross-border fund distribution of CIS among the member states of ASEAN, known as "ASEAN CIS" (The ACMF, 2014). On 1st October 2013 Singapore, Malaysia and Thailand signed a Memorandum of Understanding on this topic. The ASEAN CIS Framework allows funds which are registered in one country to be made available to a member state country investor in an efficient and streamlined manner, provided that a certain set of criteria are fulfilled.

2.5 Mutual Recognition for Funds (MRF)

The MRF is a programme which allows Hong Kong and Chinese asset managers to distribute their funds in the jurisdiction of the other. Mutual Recognition for Funds is a regulatory initiative driven by the Chinese Securities Regulatory Commission (CSRC) and the Hong Kong Securities and Futures Commission (SFC). In a joint announcement on 22nd May 2015, these two regulatory bodies officially announced their intention to embark on a China – Hong Kong Mutual Recognition for Funds initiative to further improve the financial cooperation and to enhance the development between mainland China and Hong Kong's capital markets. On the same day the CSRC and SFC signed a Memorandum of Regulatory Cooperation (SFC, 2015) and set 1st July 2015 as implementation date.

The Mutual Recognition for Funds programme allows Chinese and Hong Kong investment funds, meeting a set of eligibility criteria, to be authorised and approved in a streamlined procedure. In the initial stage, only "simple" products like equity funds, bond funds, mixed funds, unlisted index funds and physical index-tracking ETFs are included in the programme (Choi, 2015). Upon successful implementation of this initial stage it will then be considered whether to expand the types of eligible funds to offer a greater diversity of investment products thus providing even more diversification to investors in both countries (Lam, 2014). Asset Management Companies need to be registered and licensed by either the CSRC or SFC, respectively (Choi, 2015). The objective of the MRF programme is to "deepen the exchange and cooperation of the Mainland and Hong Kong asset management industries, broaden cross-border investment channels, and enhance the competitiveness of the Mainland and Hong Kong fund markets" (SFC, 2015). MRF needs to be understood as one element of the goals set by Hong Kong in the National 12th Five Year Plan, matching the intention of China to gradually open up its markets and the efforts of the Chinese government to internationalise the Renminbi (Lam, 2014). As most of the cross-border initiatives put in motion by the Chinese government, MRF also has an investment quota, which is set at RMB 300bn for each side (Guo, 2015).

3 Chinese Asset Management Market Overview

This chapter will highlight relevant aspects which provide insight and understanding into the overall picture of China's financial and asset management market.

3.1 China's Economic and Financial Reforms

To understand China's economic reforms, the "political will" behind these modernising initiatives needs to be understood. They are in many ways different to the western economic framework of free markets, capitalism and revenue maximisation. Chinese reforms are largely culturally based on principles of better and dignified lives for the Chinese population. (China pursues happiness, not growth, 2011). The protection of the system and social stability are key cornerstones of all of China's political and economic agendas (China's economic outlook , 2014).

Financial Reforms

Financial reforms in China are closely linked to and fully aligned with the political and economic reforms. In the centre of all financial reforms is the political and economic goal of the liberalisation of the Renminbi (RMB). China wants to develop and establish the RMB as global trading, investment and reserve currency (Bradsher, 2015). The fact that RMB is not a fully convertible currency and investments into and out of China are often limited or quota-based renders this development difficult. The focus hereafter is put on the relevant and most recent reforms and initiatives which have an impact on the Chinese Asset Management industry and the capital flows from Chinese investors into foreign investment products.

Renminbi liberalization

Renminbi, the Chinese currency, directly translated means "the people's currency" (Mulvey, 2010). In mainland China, the term RMB is used interchangeably with another description "Yuan", which is the traditional general Chinese term for coin currency. Yuan is the basis of the short terms CNY, referring to the onshore currency, and CNH referring to the offshore (outside China) traded currency. The consequence of China's capital controls are that the CNY and CNH, although representing the same currency, can have different exchange rates as well as different interest rates (Ecrresearch, 2011). The People's Bank of China (PBoC) controls the CNY exchange rate within a certain bandwidth (Aitken, 2014). The CNH on the other hand is regulated by the PBoC and the Hong Kong Monetary Authority (HKMA) jointly. China's ambition is to establish the RMB as international trading, investment and reserve currency (Yao, 2015). In 1993, China announced RMB convertibility for both trading and investments. This intention was re-iterated and confirmed several times since then (Wildau, 2014), recognising that still today it is only partly convertible. China pushes reforms to make the RMB convertible on the capital account. In the words of Wang Yungui[4]: "It is viable for China to steadily achieve capital account convertibility, but controlling risks remains the top priority". It is "the last one kilometre" to go before achieving full RMB convertibility (Yao, 2015).

Some of the recent statistics indicate a growth trend for the RMB as a trading currency. In 2013, 20% of all China trades settled in RMB (Fung, 2014). This is also due to the fact that Intra-Asian trades[5] are growing at a significant pace, rising from 41%[6] in 2000 to 53% in 2013. According to the WTO this number will go up to over 67% by 2020 (Fung, 2014). China also has by far the largest foreign-exchange reserves in the world, amounting to around US$ 3.9 trillion in December 2014, followed by Japan with US$ 1.26 trillion (Picardo, 2015). China would also like to establish the Renminbi as a global reserve currency so that other countries can use the RMB as alternative reserve currency to the US Dollars (Friedman, 2015). All other economic initiatives and reforms efforts of the People's Republic of China are an integral parts of the Renminbi liberalization (Lam, 2014).

Financial reforms can broadly be divided into reforms on:

A: The capital flow and investments from the international markets into China

B: The capital flow and investments from China into the international markets

---

[4] Head of policy and regulations for the State Administration of Foreign Exchange (SAFE)

[5] Trades between Asian countries

[6] Of total Asian trade

A: Reforms on the capital flow and investments from the international markets into China:

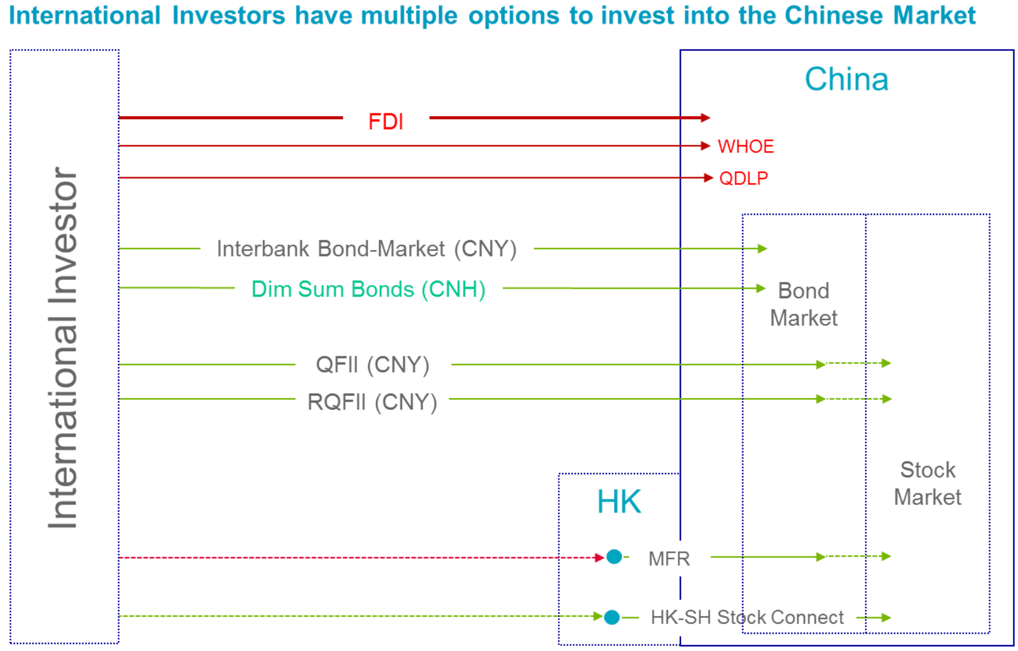

Figure 2: International Investors have multiple options to invest into the Chinese Market

- Foreign Direct Investments (FDI) or Wholly Owned Enterprises, which had been implemented in 1986 (Ku, 2013), were reforms which had been designed to attract foreign investments. Foreign direct investment into China is actually an economic reform rather than a financial reform. As reported by the National Bureau of Statistics of China, FDI into China increased by 8.3% over the first half of 2015 compared to the same period last year. In 2014, the FDI reached its all-time high of US$ 119.6 billion (Trading Economics, 2015).
- In the China Interbank Bond Market, sovereigns, corporations and international banks issue offshore RMB Bonds.
- A Dim Sum bond is a bond denominated in Chinese Yuan issued in Hong Kong (Investopedia, 2015).
- Qualified Foreign Institutional Investors (QFII) allows financial institutions under a strict set of criteria, set by the China Securities Regulatory Commission (CSRC), to invest into the A-Share market, bonds, index futures, warrants, open/closed-end funds and ETFs (FTSE, 2014).
- The "RMB Qualified Foreign Institutional Investors" (RFQII) programme enables approved foreign institutions to directly invest into the Chinese domestic securities market including equities and bonds. RMB Qualified Foreign Institutional Investors need to seek approval and an investment license from the Chinese Regulator, CSRC (CSRC, 2012). In the first wave a RQFII license was only granted to institutions which

were based in Hong Kong and had their principal place of business in Hong Kong. It was limited to securities companies, commercial banks, financial institutions and Hong Kong subsidiaries of Chinese domestic fund management companies. The overall investment coming from all RQFIIs was limited to RMB20 billion, and there was a quota for a maximum of 20% into domestic equity and 80% into fixed income securities. In a second wave in April 2012, the total quota was brought up to RMB70bn, and in July 2012 the first four passive fund managers[7] were approved – issuing RQFII ETFs. In a third wave in November 2012 of the same year the total quota was brought up to RMB 270bn and selected financial institutions based in Taiwan, London, Singapore and Paris received a license. Over the course of 2014 and 2015, South Korea, Germany, Qatar, Canada, Australia, Switzerland, Luxembourg and Chile have also received their own quotas – all between 18bn and 50bn RMB each (CSRC, 2012)[8]. The RQFII programme offers foreign asset managers more investment flexibility compared to QFII. The RQFII programme has a) no minimum investment of US$ 20million b) no need for an approval by SAFE c) no repatriation limits d) and the ability to invest into many more asset classes into China.

As this research study is focusing on the options for local Chinese investors to invest abroad, a more detailed overview on the outbound capital flow and reforms is provided, as these initiatives can influence or be influenced by other financial reforms aiming at foreign investments. The relevant outbound reforms are highlighted below.

[7] "A collective fund that tracks rather than trying to beat the index by investing in companies in accordance with the constituents of an index" (finance-glossary, 2015)

[8] All information on the RQFII programme highlighted in this paragraph had been quoted directly from the CSRC homepage.

B: Reforms on the capital flow and investments from China into the international markets:

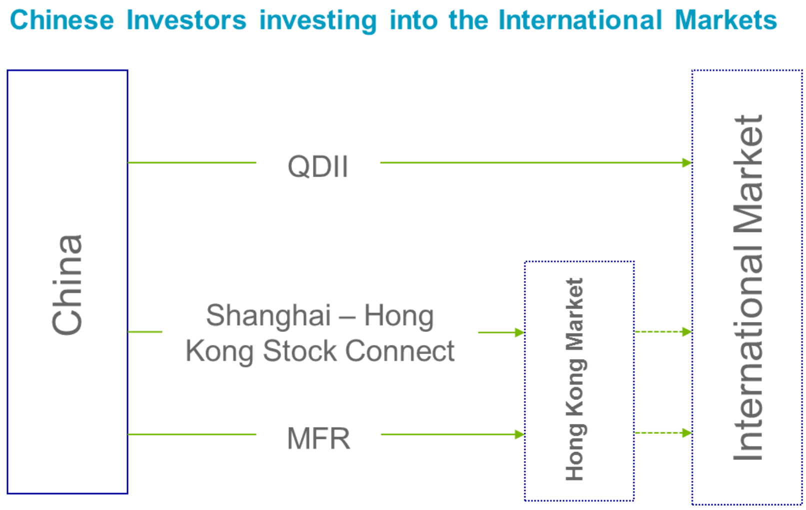

Figure 3: Chinese investors investing into the international markets

QDII

The QDII programme was implemented by the China Securities Regulatory Commission (CSRC) in June 2007 (CSRC, 2013). QDII enable local Chinese financial institutions to invest directly into the international markets. In order to do so, the local financial institution needs to seek approval from the CSRC (CSRC, 2013). After the approval has been granted, a quota will be assigned to the institution by China's State Administration of Foreign Exchange (SAFE). Since inception of the programme QDII struggled to attract investor interest, but during 2015 the quotas are in demand as a quick route into Hong Kong stocks. According to Reuters, several Fund Companies hit their individual quotas in April 2015 and requested them to be extended (Sweeney, 2015).

Shanghai-Hong Kong Stock Connect

The Shanghai-Hong Kong Stock Connect programme allows Chinese investors to invest into stocks listed on the Hong Kong Stock Exchange and Hong Kong investors to invest in Shanghai Stock Exchange-listed instruments. The Shanghai-Hong Kong Stock Connect programme went live on 17th November 2014 (funds global, 2014). The overall trading limit for Hong Kong investors investing into China is set at RMB 300bn per day. The trading limit for Chinese investors into Hong Kong is set at RMB 250bn per day. In other words, compared to QDII and RQFII quotas, which are applicable to the individual institution, the Shanghai-Hong Kong Stock Connect programme is a market quota - it cannot be controlled by an individual institution itself. In practical terms this means that if a group of market participants have already used up the daily quota, other institutions will be unable to place trades.

3.2 The Chinese Asset Management Market

The fund industry in China was launched in the late 1990s. Between 1992 and 1997 the asset management industry had been experiencing fast growth, but it was unregulated and caused social instability as a result of fraudulent activities (The Chinese Financial System, 2013). With the "Provisional Measures on the Supervision of Securities Investment Funds" issued on 14th November 1997, investment funds were officially introduced to domestic investors. Since then investment funds have become one of the leading groups of institutional investors in China (Jingjing Yang, 2014).

In 2002 the CSRC issued a new regulation, which allowed foreign companies to take a stake in domestic Fund Management Companies. Shortly after this, in 2003, the first joint venture Fund Management Company, China Merchants Fund Management Co., Ltd, was established (Mutual Fund Investment Strategies and Preferences , 2014).

The Securities Investment Law has been in force since 2004, which stipulates that only fund management companies can run investment fund vehicles. Most fund management companies in China are controlled or owned by securities companies. Since 2005 commercial banks have also been allowed to set up fund management companies.

The first real inflows into investment funds were registered between 2004 and 2006. This was mainly due to the worldwide equity boom, which came to an end in 2007. The following years of the worldwide financial crisis did not help to build equity confidence in China (Advisors, 2013).

According to the European Fund and Asset Management Association data, China's Asset Management market grew by nearly 50% from US$465bn in 2011 to US$709bn in 2015, outperforming the worldwide evolution, which grew by 21% in the same period (efama, 2015). It should however be recognised that China comes from, in relative terms, a low base with regards to investment fund assets[9]. In November 2013, 89 fund companies (CSRC, 2014) were competing for investor money in China. China's investment fund market is dominated by retail investors; it is estimated that over 220 million mainland Chinese people are invested in local investment fund products (Roundtable Discussion MRF, 2014).

Private funds, the Chinese version of Hedge Funds, have tripled to US$97bn in assets in less than three years (Johnson, 2015). To support the domestic Hedge Fund Industry the "Qualified Domestic Limited Partner scheme" (QDLP) was launched in 2013. This scheme was designed to attract foreign hedge fund managers to set up their presence and hedge

[9] The value of worldwide investment fund assets stood already at US$ 24.7 trillion at the end of 2010.

fund vehicles in mainland China. It gave foreign hedge fund managers the chance to raise money in China and invest it internationally. Also it enables Chinese investors to invest in a new asset class and thereby in offshore and/or restricted instruments. The special economic trade zone of Shenzhen also launched a similar programme in 2014, known as Qualified Domestic Investment Enterprise (QDIE) scheme. The QDIE framework provides investor with an even greater variety of foreign asset classes (Au, 2015).

The total value of investment funds managed by Asset Management Companies active in China was worth 5% of the country's GDP in 2012. To put this in perspective, in the US this ratio stands at 230% (The Chinese Financial System, 2013). It is difficult to compare the various markets and statistics, because many activities that are defined internationally being part of "Asset Management" are performed by Trust Companies in China. Trust Companies also provide funding in the form of credits and thus are a cross-over between asset managers and banks (The Chinese Financial System, 2013). This "shadow banking system," or, according to the definition of the Financial Stability Board, that part of the financial system that extends credit but is outside the regular banking sector (financialstabilityboard, 2013) is growing strongly in China, from 0% expressed as a percentage of GDP in 2003 to 40% of GDP in 2013 (Tri Vi Dang, 2014); thus Chinese Asset Management activities in China might be considered bigger than what has been published in some of the international Asset Management statistics (e.g. Efama.com).

China Fund Distribution

As mentioned, the Chinese investment fund market is dominated by retail investors and is highly fragmented. According to Wing Chan, Director of Fund Research at Morningstar, in 2014, 80% of all investment fund sales in China took place through banks (Shaking things up, 2014), while J.P. Morgan estimates this figure to be 70% (Roundtable Discussion MRF, 2014). Moreover, around 50% of all investment fund sales are made via only two banks, ICBC and CCB.

Since the US-China Strategic Forum in 2011 (Bonnie Glaser, 2011), the CSRC allowed foreign banks and third party independent companies to also distribute investment funds (Stockell, 2014). Various direct online channels have also been introduced since then, with the most prominent being Alibaba. Alibaba was originally a combination of an online shop, a marketplace for people to sell their goods and a platform to make online payments (Holliday, 2014). Alibaba received a license to sell investment products to private and retail investors and also received a full banking license in September 2014 (Wildau, 2014). Sharon Yang, Head of Institutional Sales at GF International Investment Management sees e-commerce as a way of giving some control back to asset managers accessing the investors directly instead of leaving these channels to banks (Shaking things up, 2014).

The Hong Kong Fund Market

Hong Kong's Fund Management business is growing year on year, from 16,007bn HK$ in 2013 to 17,682bn HK$ at the end of 2014. At the same time the number of companies registered for Asset Management activities increased by 8.5% to 1031 in 2014. According to the SFC, almost 70% of the capital invested into Hong Kong's Asset Management business comes from non-Hong Kong investors, suggesting that Hong Kong is today already an international asset management market for CIS. However, looking at the details of the Asset Management and Fund Advisory business of the licensed corporations, registered institutions and insurance companies, it is clear that only a small part of the invested capital is going into "SFC-authorised retail funds" or "Private client funds" – together representing 22.6% of total invested capital (SFC, 2015). Institutional funds, pension funds and government funds, together with Mandatory Provident Funds (MPFs) – a form of Hong Kong pension fund (Gov, 2014) represent 47,4% market share by Assets under Management (SFC, 2015).

4 Assessing the Mutual Recognition for Funds (MRF) Programme

Sections four to six examine the results of the empirical study. The assessment and the statistical analysis contained within in the following chapters are based on the outcome of the structured expert interviews. In addition, a number of theoretical principles are included to support the results. The first section of the structured expert interview was designed to provide answers on how the MRF programme between China and Hong Kong is potentially in conflict with other Asian fund passport initiatives or other financial reforms put in motion by the Chinese government.

4.1 MRF and the other Asian fund passport initiatives

Is the MRF programme potentially in conflict with the other Asian fund passport initiatives ASEAN or ARFP?

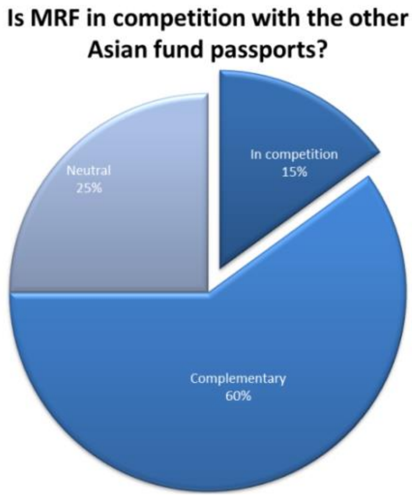

Figure 4: Is MRF in competition with the other Asian fund passports?

15% of the market experts interviewed saw the MRF programme in competition with other Asian fund passports, while 60% saw it complementary and 25% rated it as neutral. In the comments received, several market experts argued that MRF is an "easy and simplified cross-border registration process rather than a real passport". Another expert added that "MRF is a one country - two markets approach. Basically it is a China internal passport for its 2 markets" and thus could not be compared to other passporting systems. This view is also widely supported in international discussions (Zhong, 2013). A fund passport would allow, after having been registered in one country, to be automatically ready for distribution in the other country. Some describe MRF more as a "Visa system," which allows for streamlined, but not automatic access of funds of one country to the other (Roundtable Discussion MRF, 2014). Interestingly, Lawrence Au [10] pointed out that "Mutual Fund Recognition will create momentum in the other regional passport initiatives", suggesting that it is more a catalyst for the region and other passporting systems than being in competition. Despite the fact that 85% of participants rated the MRF programme overall as "neutral" or "complementary", participants did also mention elements of competition in the comments received. According to one expert "China could use Hong Kong as their offshore jurisdiction to sell these funds internationally and thus be in competition with the other regional passport initiatives which all are seeking international investments".

4.2 MRF – An Outlook

Will MRF potentially open up to other fund jurisdictions or passports in the short, medium or long term?

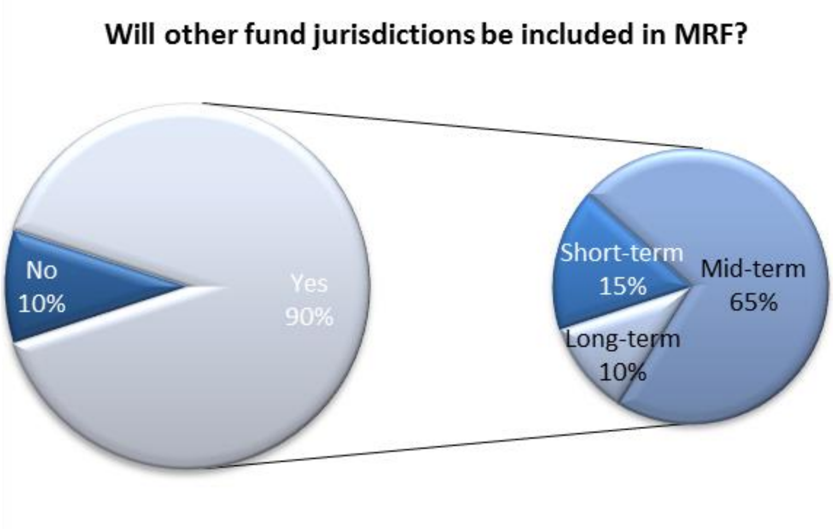

Figure 5: Will other jurisdictions be included in MRF?

Survey results:

90% of the market experts believe that the MRF programme will evolve in the future and will potentially include other jurisdictions or passport regimes. Of these 15% believe that this will take place in the short-term (next three years); 65% in the mid-term (three to five years); 10% in the longer-term (longer than five years). Only 10% believe that MRF will not at some point in the future include other jurisdictions.

[10] Head of Asia Pacific, BNP Paribas Securities Services

Which jurisdictions would be potentially included in MRF?

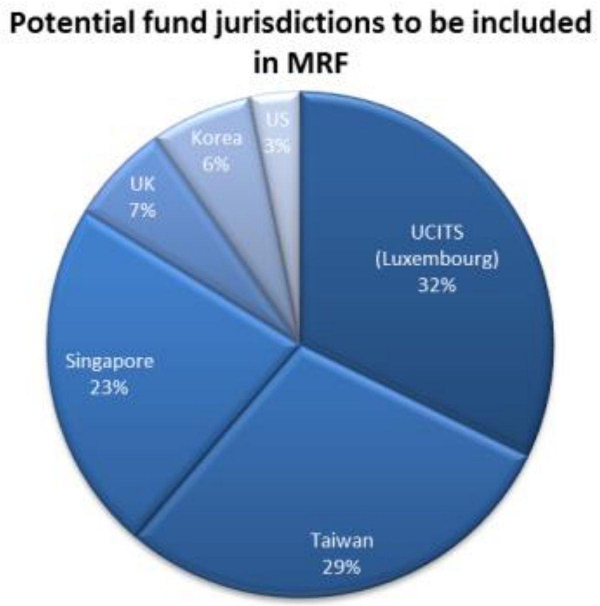

Figure 6: Potential fund jurisdictions to be included in MRF

When analysing the countries which market experts consider being potentially likely to be included, Taiwan, Singapore and Luxembourg UCITS were mentioned by most market experts. Some market experts expect an evolution similar to the QFII and ROFII programmes, which began initially with Hong Kong in 2011, but were extended to another 6 countries since 2013. According to one market expert "new jurisdictions will be added to the MRF programme as a political gift to the host when a political or economic delegation from China visits a country". Young Zhao[11] highlights that international asset managers should consider their strategies, as MRF might expand quickly to other jurisdictions (Shaking things up , 2014). This is a very important finding for international asset managers, because the strategic positioning might fundamentally change if and when the home jurisdiction of the international asset manager is included in the MRF programme in the short or mid- term.

The author believes that the MRF programme is an integral part of China's efforts in gradually opening up the capital account and the liberalisation of the Renminbi. The MRF programme will, in the same way as the other reforms, gradually be adjusted and opened up to other countries.

[11] Haitong International Asset Management, Managing Director, Head of Business and Product Development

5 Assessing Investor Demand and the Competitive Environment

5.1 Available Channels & Products

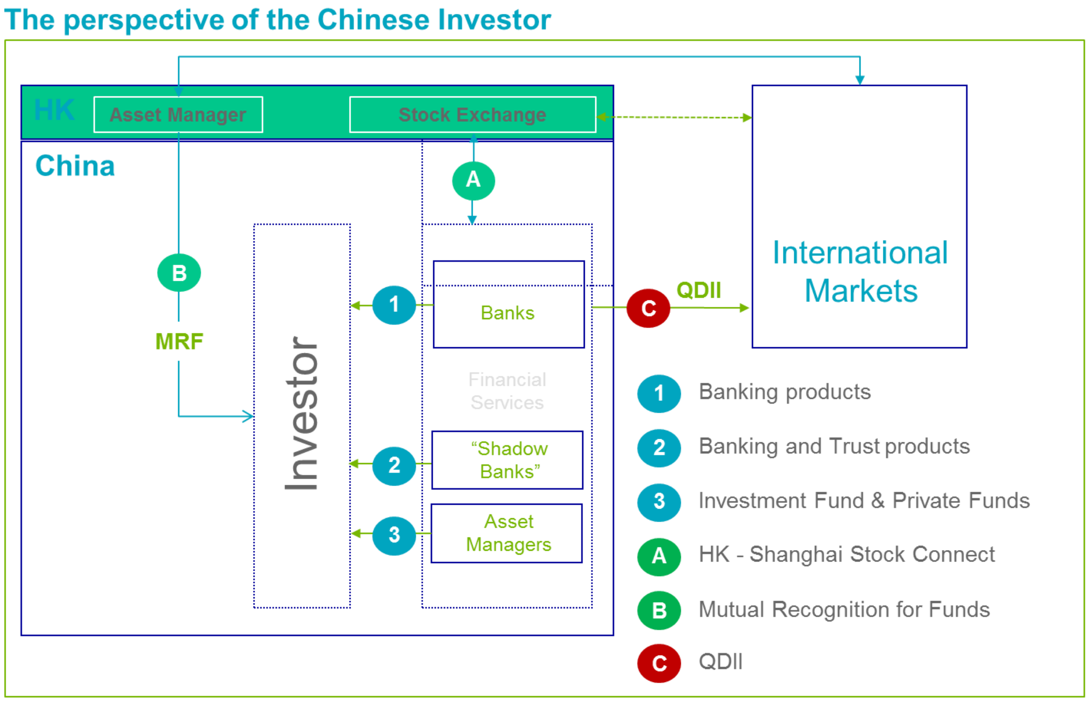

Figure 7: The perspective of the Chinese Investor

Today Chinese private and retail investors have access to the following local products:

1. Local Banking products including Wealth Management products
2. Local Shadow Banking and Trust products
3. Local Asset Management products

The currently implemented financial reforms highlighted in Chapter 3.1 provide direct access for Chinese retail and private investors to selected international products, namely:

A. Stocks listed in on the Hong Kong Stock Exchange, through the newly established Shanghai - Hong Kong Stock Connect programme described in Chapter 3.1

B. Hong Kong-domiciled investment funds through the MRF programme

Indirectly, private and retail investors have access to the international market via the QDII quota of their financial institution (this access is represented by the C in the above diagram). Banks and asset managers can manufacture local investment products, which themselves are invested in the international markets using their QDII quota. These investments could already today find their way into international investment funds.

5.2 Demand for Foreign Investment Fund Products

When looking at the main decision-making criteria to invest or not into an investment fund in general, the track record on investment performance has been posited as the most crucial criterion; often followed by reputation and range of available funds of the Asset Management Company (Capon, 1995).

The author of this current study believes that in reality many more aspects have to be considered when assessing where, when and in which products investors invest. There are also differences between investor needs and the decision-making criteria they employ, and decision-making criteria can be very different depending on the country, culture, education, age and social status of the investor. This research study tried to answer the questions of what demand there is among Chinese investors for foreign investment products and, specifically for foreign investment fund products, and how this demand will evolve in the future.

The best research results to determine the demand of Chinese private and retail investors for international investment fund products would have been achieved by conducting surveys with the various investor segments in mainland China directly. In the context of this study, such an approach was not possible, the reasons being the following:

a) Retail investors are not yet exposed to this asset class (in which investment was not permitted until 1st July 2015 and for which investment options have not been implemented yet); thus they currently have very limited experience and opinions.
b) It was deemed extremely difficult by the author to practically and in the given timeframe to identify and approach a representative number of Chinese mainland investors in the various investor segments (retail/private and institutional).

Faced with these constraints, the author decided to derive the potential demand from Chinese investors by using the same structured expert interview with senior decision makers of international asset managers. The reasoning behind this decision was that most international asset managers have experience and sophisticated tools to determine market and investor demand and have most probably already studied investor behaviour in China in recent years. A continuation of this current study therefore would be to conduct further research directly with Chinese investors once the concept of international investment funds is implemented and once domestic Chinese investors have gathered a reasonable level of knowledge and experience.

Before determining the demand of Chinese investors for international investment funds, it would be useful to first identify their demand for investment fund products in general.

Survey results:

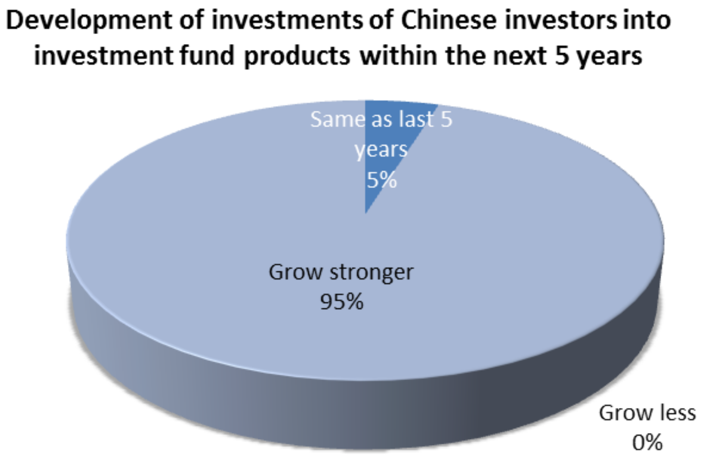

Figure 8: Development of investments of Chinese investors into investment fund products within the next 5 years.

95% of the survey participants believe that Chinese investors will invest more into investment fund products in the course of the next five years. According to Peng Fei[12] "over the last five years the Investment fund market went up, but the next five years will be more challenging i.e. the markets could potentially be impacted by panic reactions if things do not turn out the way investors expect. Still, bank deposits are high and the younger generation will have a tendency to move away from cash deposits into active investments going forward and thus more investments into investment funds are to be expected". Eleanor Wan[13], added that "there will be more and more interaction with other markets. The industry as a whole and individual investors will get more and more educated, the learning curve will be rapid and the investors will get more sophisticated rather sooner than later".

5% believe that the same investment pattern as today will be witnessed over the next five years; but no one believes that the overall investment fund market will contract. Market experts interviewed demonstrated a high degree of consensus that the investments from Chinese investors into investment products will increase[14].

The author believes that there is sufficient proof that there is indeed a growing demand from Chinese investors for investment products and that the overall market in which the international asset managers would be competing is perceived as a growth market. Market

[12] CEO & Founding Partner, Winsight Global Asset Management Limited

[13] Chief Executive Officer, BEA Union Investment Management Limited

[14] Note: The expert interviews had been conducted before the market equity downturn in August 2015

experts interviewed see a trend for Chinese investors being increasingly savvy in their investment strategies, and an increased appetite for the expertise and sophisticated portfolio strategies offered by international asset managers. In the words of one market expert "Chinese investors are lacking sophisticated investment advice, thus they are seeking these capabilities from international players and products".

As a follow-on step from establishing the demand for investment fund products in general, as a next step the demand for international investment fund products was investigated and also how this demand will evolve over the course of the next five years .

Survey results:

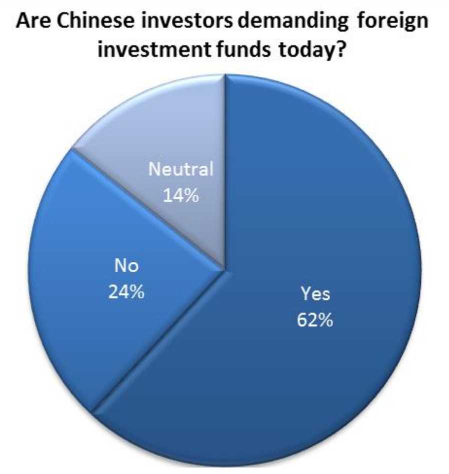

Figure 9: Are Chinese investors demanding international investment funds today?

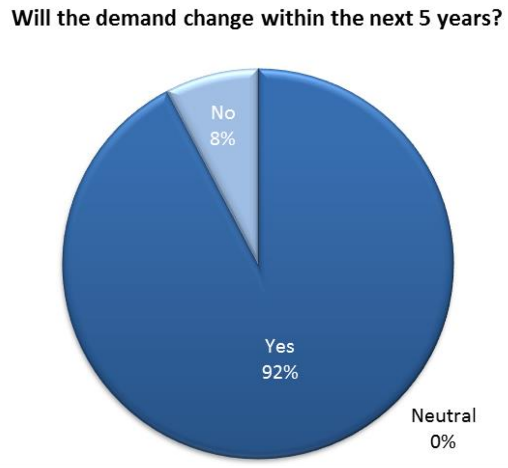

Figure 10: Will the demand change within the next 5 years?

62% of the survey participants believe that Chinese investors are already today demanding international investment funds. 24% believe that international investment funds are not demanded yet and 14% are neutral or undecided. 92% believe that the demand will increase within the next five years.

The main demand is expected to come from a new middle class in China, which is well-educated and which will search for alternative and international investments. As one interviewed market expert puts it, "the growth of wealth in China will be the key driver for more international investment fund investments within the next five years". King Lun Au[15] confirms that "We will see more and more domestic savings investing in international assets". Results indicate that demand is different by investor segment. One interviewed expert explained that "it really depends on the investor segment. HNWI and institutional investors for example are demanding international investment funds; retail investors will have to be educated first and wouldn't necessarily have a demand today".

The market experts who do not see a demand today for international investment funds do however agree that demand will increase within the next five years.

- "The demand for international investment funds will only be witnessed longer term - especially when the pension schemes are getting more and more implemented and investment strategies need to get more sophisticated".
- "There is no demand for investment fund products at the moment, but this will certainly change. The industry and markets will mature and investments into international securities will be required to diversify the portfolios".
- "Chinese investors don't yet see the need and benefit for diversification. It will take time for investors to realize the need for diversification. Maybe it will take more than five years but in 10 years it will definitely be the case".

Again, the question of investor demand needs to be re-qualified with another survey once investors in China have greater direct experience with the product.

The survey also investigated the potential drivers that would cause Chinese investors to invest in international investment funds. The survey highlighted that the performance of the international investment fund is the key decision criterion. The performance aspect is not only rated with the highest score of 8.5 out of 10, but also with the lowest standard deviation of 1. Exposure in offshore assets, exposure in offshore currency and portfolio diversification are rated between 6.2 and 5.8 out of 10 respectively, with a standard deviation of 2.2. If the standard deviation shows a low value for a parameter this means that the participants have a high degree of consensus. High values indicate that there is a divergence of opinion among market experts with regards to the result and that the parameter is therefore seen as controversial.

In summary it can therefore be noted that there is an extremely high degree of consensus amongst the participants, rating performance as the most important aspect to attract Chinese investors investing into international investment fund products. To put it in the words of three market expert: "Chinese investors are used to relatively high absolute

[15] Chief Executive Officer, Bank of China Asset Management Hong Kong

returns on their investments" and Peng Fei[16] adds "Chinese investors have a different perspective on investments. They are focussing only on absolute returns, they will for example pull back their entire investments if the market slows down and they are short term oriented. Asset managers need to come up with a unique risk / return profile of their investment funds in order to successfully attract their investments and ensure they are staying within their investment funds longer term". The above statistical information is complemented by additional qualitative information received during interviews with the market experts on investor education, investor behaviour, investor expectations and investor demand. According to one market expert: "Generally, there is a lack of financial planning methodologies in China, thus investors are often more short term oriented and are more speculative with their investments". 88% of investors stay shorter than two years in an investment product and 30% stay less than one year (Roundtable Discussion MRF, 2014). One market expert maintained that "Chinese investors are not very investment savvy. A big part of the population has neither an idea nor a strategy where to put their money". Another expert added that "Chinese investors don't yet see the need and benefit for diversification. It will take time for investors to realize the need for diversification". Also, "investors have a strong home buyer's behaviour".

Nonetheless, the key finding that can be drawn from the above is that the market experts have a positive outlook on the investment market and the need for foreign investment fund products in the mid to longer term. Market experts believe that the new middle class will quickly become investment-savvy and that "investors are seeking a bigger choice/variety of investment products, thus there will be room for Wealth Management and Investment Fund products". In the words of Andrew Gordon[17]: "As the Chinese financial services market matures and investors look to increasingly diversify their portfolios, Chinese investment funds may well become more of a long term investment vehicle than a short term trading tool". "Today it [China] is a trading market, but it will turn into an investment market" and "China is underdeveloped in financial services -there is a huge potential and room for extensive growth". Taking into account the statistical evidence and the qualitative evidence received from the market experts there is indeed a demand for international investment fund products and thus also a role for international players in providing sophisticated investment advice and products to Chinese investors in the mid and longer-term.

---

[16] Chief Executive Officer & Founding Partner, Winsight Global Asset Management Limited

[17] Managing Director Asia, RBC Investor & Treasury Services

5.3 The Competitive Landscape

Products:

In order to evaluate the competitive landscape for international asset managers entering China via the MRF programme, seven predefined categories of investment avenues were rated by the survey participants on a scale of one to ten of which were most likely to be competitive to the MRF programme. The categories were derived from desk-based research and expert discussions on potential competing products specifically for China and in generel for investment fund products.

The results of their answers are graphed below:

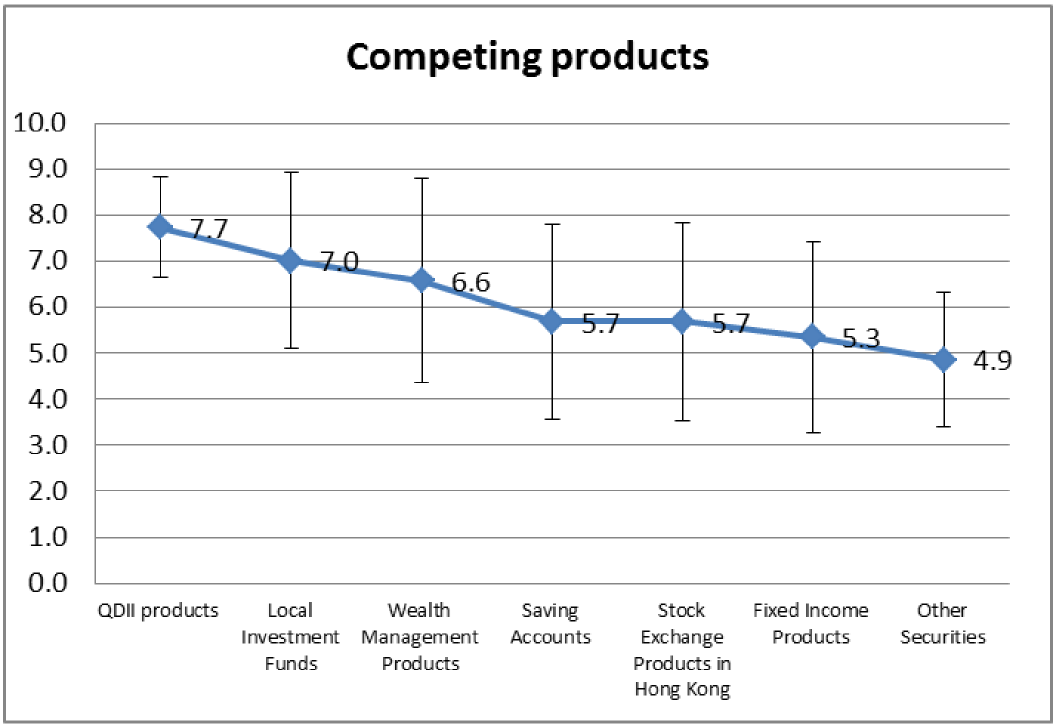

Figure 11: Rating of the competing products for MRF

The QDII programme came out as the biggest competition to MRF with a score of 7.7. QDII also had the lowest standard deviation of 1.1. QDII was followed by local investment funds with a score of 7.0 and a standard deviation of 1.9. Wealth Management products were considered the third greatest threat, with a score of 6.6 and a standard deviation of 2.2.

Other parameters have either a lower score or even a combination of low score and high deviation, which means that not only these items are not considered to be highly in competition, but also that they are seen as controversial. For example the Hong Kong – Shanghai Stock Connect Programme is rated 5.7 with a standard deviation of 2.2.

When researching more in detail from which Asset Pool MRF will attract its investments, the high standard deviation indicates that there is neither an obvious source nor a general consensus among the market experts surveyed.

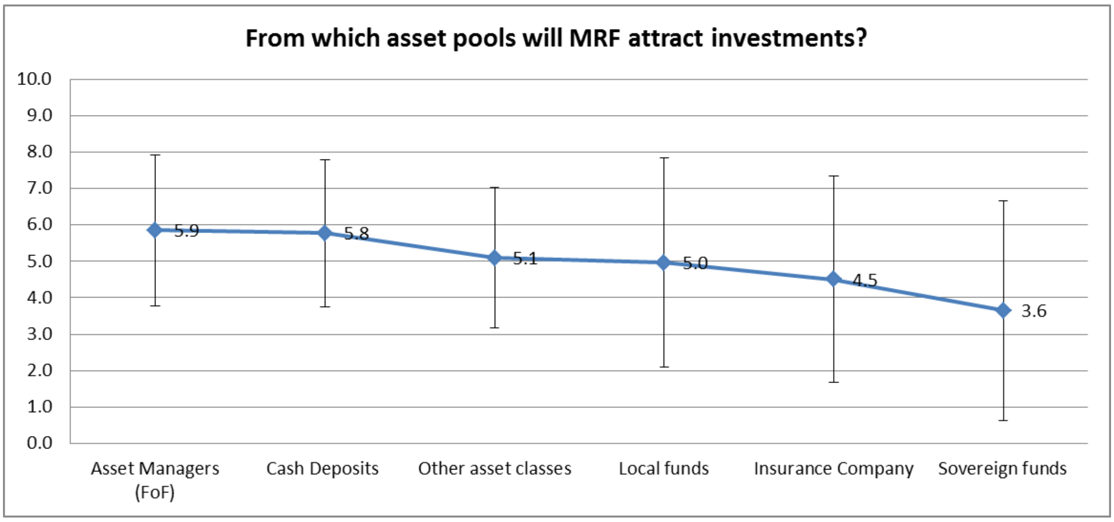

Figure 12: From which asset pools will MRF attract investments

Local Chinese asset managers constructing fund-of-funds (FoF) are expected to make use of the easy access of the MRF programme and invest into international investment funds. Asset managers and FoF products are rated at 5.9, with a standard deviation of 2.1. At the same time it is expected that Chinese investors will take their cash deposits and invest the money in international investment funds – this is rated at 5.8, with a standard deviation of 2.0. The likelihood that Chinese investors would sell their local investment fund to invest into an international investment fund was scored at 5.0, with a high standard deviation of 2.9 indicating a high degree of controversy among market experts with regard to this option. Market experts regard it as very unlikely that international investment funds under the MRF programme would attract attention and investment away from sovereign funds. Overall the score is as low as 3.6, but on top of this it comes with a standard deviation of 3.0.

Looking at the qualitative remarks it is clear that market experts believe that sovereign wealth funds will continue to invest internationally and also into international investment funds products, but not via the MRF programme. This is mainly because product innovation and investment restrictions are applied to the CIS available through the MRF programme, which would not suit the specific needs of sovereign wealth funds. In the words of Dean

Chisholm[18], "Sovereign wealth funds will invest directly offshore and not go through Mutual Fund Recognition." This view is supported by many of the market experts:

- "The Sovereign Wealth Funds will continue to invest offshore directly. If 401(k) plans [Note of author: US defined-contribution pension plans) would be introduced there would be a fair chance that direct investment into foreign investment funds would take off".
- "The big boys [Note from author: the dominant market players like sovereign wealth funds or major financial institutions] on the institutional side will use their QDII quota. Fund-of-fund structures might use the MRF programme to get easy access to international funds. Maybe international asset managers need to position their investment funds as 'low risk products' e.g. overseas bond funds".
- "CIC and the other big ones will use their QDII quotas; this is much cheaper. Also the asset managers with their fund-of-funds structures will use (if they can get them somewhere) their QDII quotas and not MRF. Insurance companies will use third party asset managers for their mandates".

An interesting suggested asset class which was not part of the predefined criteria used for this element of the survey was brought up by five participants. As Peng Fei[19] maintains "Investors will move from Real Estate to investments into international investment funds. They will also move from Real Estate and Government Trust structures to international investment funds". Another expert suggested that "maybe Chinese investors will sell their land and businesses to invest into international markets?"

Not having had this in the predefined categories of the survey yet still having five experts mentioning this aspect explicitly and with a score as high as 9.5 out of 10 was an interesting finding and suggests that this asset class should be included in this category when researching this topic again.

It may be the case that investment in international investment funds will not necessarily result in a shift between asset classes in China. According to Andrew Gordon[20]: "With the emergence of a middle class in China with income over and above their day to day needs, I

---

[18] Regional Head of Operations for Asia Pacific Invesco Asset Management Pacific Limited

[19] Chief Executive Officer & Founding Partner of Winsight Global Asset Management Limited

[20] Managing Director Asia, RBC Investor & Treasury Services

would expect some of that excess cash to find its way into investment funds – and for some of that to go to funds that are sold in China through the Mutual Fund Recognition scheme".

The author believes that there is great potential for success for international asset managers if this large pool of investors which today holds their cash in their bank account could be reached and the advantages of long term saving plans, diversification and international exposure could be explained to them. At the same time the author concludes that currently the main argument of international asset managers must rely on the performance of their investment funds, as this is the key decision criterion of Chinese investors. In an environment of relatively high interest rates offered by the local banks and Trust Companies and their Wealth Management products, international asset managers might find themselves in a situation where they might not be able to compete on the performance aspect. This issue is likely to be made more severe when additionally considering the eligibility restrictions of what fund types international asset managers can provide through MRF. International asset managers should therefore focus on investor education and put the need for asset diversification in the centre of their campaigns.

Other Financial Market Reforms:

As described in Chapter Three, China has put many financial reforms in motion. Surveyed market experts were asked whether the MRF programme was in competition with other Chinese market reforms, or complementary to them.

The results are graphed below:

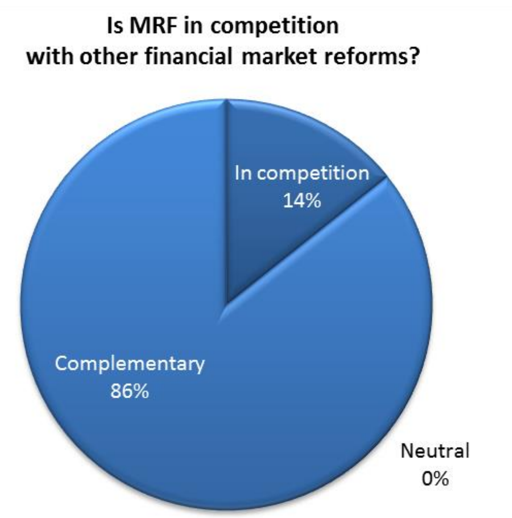

Figure 13: Is MRF in competition with other financial market reforms?

86% of the market experts see the MRF programme complementary to the other initiatives put in motion by the Chinese government (QFII, RQFII, QDII, Shanghai–Hong Kong Stock Connect programme). According to Bruno Lee[21], "The Renminbi liberalisation and the opening of China to the international markets is the driver behind all initiatives. The endgame is ultimately the opening of the market and Mutual Recognition for Funds is one of the many avenues". King Lun Au[22] agrees, stating that "Mutual Fund Recognition is an integral part of China's capital account liberation programme".

14% see MRF as in competition with market reforms, but qualitative feedback on the questionnaire indicates that this competition is not general, but instead partial with some selected reforms and initiatives:

"MRF is in competition with the QDII scheme, because MRF provides investors with an easy and convenient way to investment internationally and it provides a bigger universe of investment avenues to investors". [Remark of author: QDII is only for financial institutions which have applied to receive a quota for foreign investments].

"MRF is in competition with QDII and complementary to the other reforms".

The above indicates that from a Chinese investor perspective, MRF is another avenue for investing into international investment funds. What is clear though is that QDII, which Chinese institutional investors can utilise to invest directly into international markets, is the reform most thought of as being in competition with international asset managers offering Hong Kong-domiciled investment funds through MRF. The outcome here confirms the results from the previous product assessment, where QDII was also rated high in terms of being a competing product to MRF. The results again indicate that it is more controversial whether the Shanghai – Hong Kong Stock Connect programme is perceived as being in competition with MRF or not.

Another aspect, which was not been surveyed here because at that time it was not yet announced, is QDII2. In May 2015, the official Securities Times reported that QDII2 will be launched, probably still in 2015. (Sweeney, 2015). While QDII was limited to institutional investors, QDII2 will allow private individuals to invest directly overseas (Sweeney, 2015). This programme will be limited to six cities: Shanghai, Tianjin, Chongqing, Wuhan, Shenzhen and Wenzhou, and will only be available for individuals who have more than US$ 160,000 in financial assets. The author believes that opening up another route for wealthy private

[21] Former Chairman, Hong Kong Investment Funds Association

[22] Chief Executive Officer, Bank of China Asset Management Hong Kong

investors, who are also the target group for international asset managers and their products via MRF, would clearly further increase the competition from QDII on the MRF programme.

5.4 Key Success Factors

Surveyed participants were asked what the key success factors were for international asset managers considering entering the Chinese market. The categories had been derived from desk-based research and expert discussions on key success factors for international asset managers entering local markets in general and China specifically. The results are graphed below.

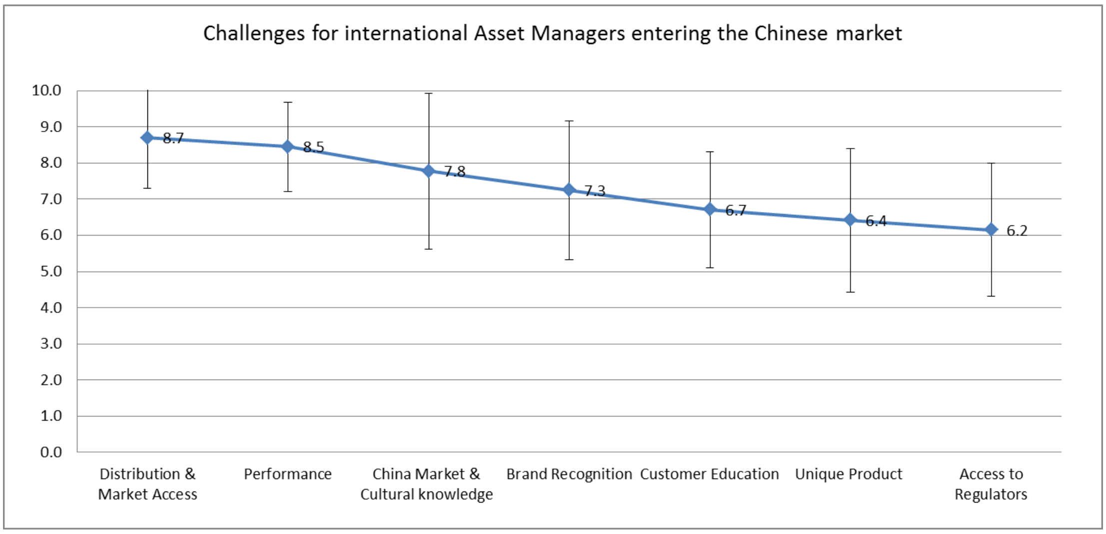

Figure 14: Challenges for international asset managers entering the Chinese market.

Market experts rated "Distribution & Market Access"[23] as the most important aspect to successfully enter and distribute international investment funds to Chinese investors. The score is particularly high: 8.7 with a standard deviation of 1.4, indicating a high degree of consensus on the particular importance of this factor. The category "Performance"[24], with a score of 8.5 and a standard deviation of 1.2 came second. Again here a high degree of consensus on the importance of this factor can be noted. "China Market & Cultural knowledge"[25] was considered the third most important aspect, scoring 7.8 and with a standard deviation of 2.2. The higher standard deviation indicate lower consensus here, as

[23] Distribution and Market Access is the distribution access and channels of international asset managers to reach Chinese investors.

[24] Performance is the absolute performance of the investment fund over a certain period of time.

[25] China Market and Cultural Knowledge is the ability to understand the local market specificities.

will be explored in more detail below. "After Sales Activities"[26] were rated as being relatively low in importance, scoring 5.9 and with a low standard deviation of 1.4. This again indicates that experts are mostly in consensus that "After Sales Activities" are considered not particularly important. Qualitative discussions reinforced the above statistical evidence.

According to the market experts interviewed, the fact that distribution and market access is the most important aspect has to be understood in the context of finding a local partner to distribute the products in China. In the words of one expert: "A combination of a good local partner, distributor and a brand is the key combination which you will need in order to be successful. Language is key as well".

Interviews revealed that a reason why the third most important aspect, "China Market and Cultural knowledge," has a higher standard deviation could be because market participants believe that "China market, language and cultural knowledge are expected to come from the local partner/distributor" and that this capability does not need to be built up within the international asset manager itself. One interviewed market expert stated that "the asset manager needs to find a good distribution partner who has these capabilities". This argument can even more be supported when read in context of what investors generally expect from their banks. As one interviewee put it, "the local Distributor Bank would be associated with trust i.e. investors trust their banks to only sell them 'trusted' products". Another expert concurred, stating "the brand name of the distibutor bank/partner is the most important aspect in order to be able to successfully enter the Chinese market".

The author believes that the key finding here is the crucial importance of the international asset manager finding an appropriate local Chinese distributor banks as a partner. Emphasis needs to be put on the fact that the partner should provide knowledge of the Chinese market, language and culture, as well as providing the international asset manager with investor reach. The partner should be an established institution with a long track record and a trusted brand reputation.

[26] After Sales Activities are all activities performed after the initial purchase i.e. client services, dispute and resolution capabilities, etc.

6 Assessing International Asset managers

6.1 Analysis of Strengths, Weaknesses, Opportunities and Threats (SWOT)

This chapter contains a SWOT analysis, rating the Strengths, Weaknesses, Opportunities and Threats for international asset managers entering the Chinese market.

The SWOT Analysis

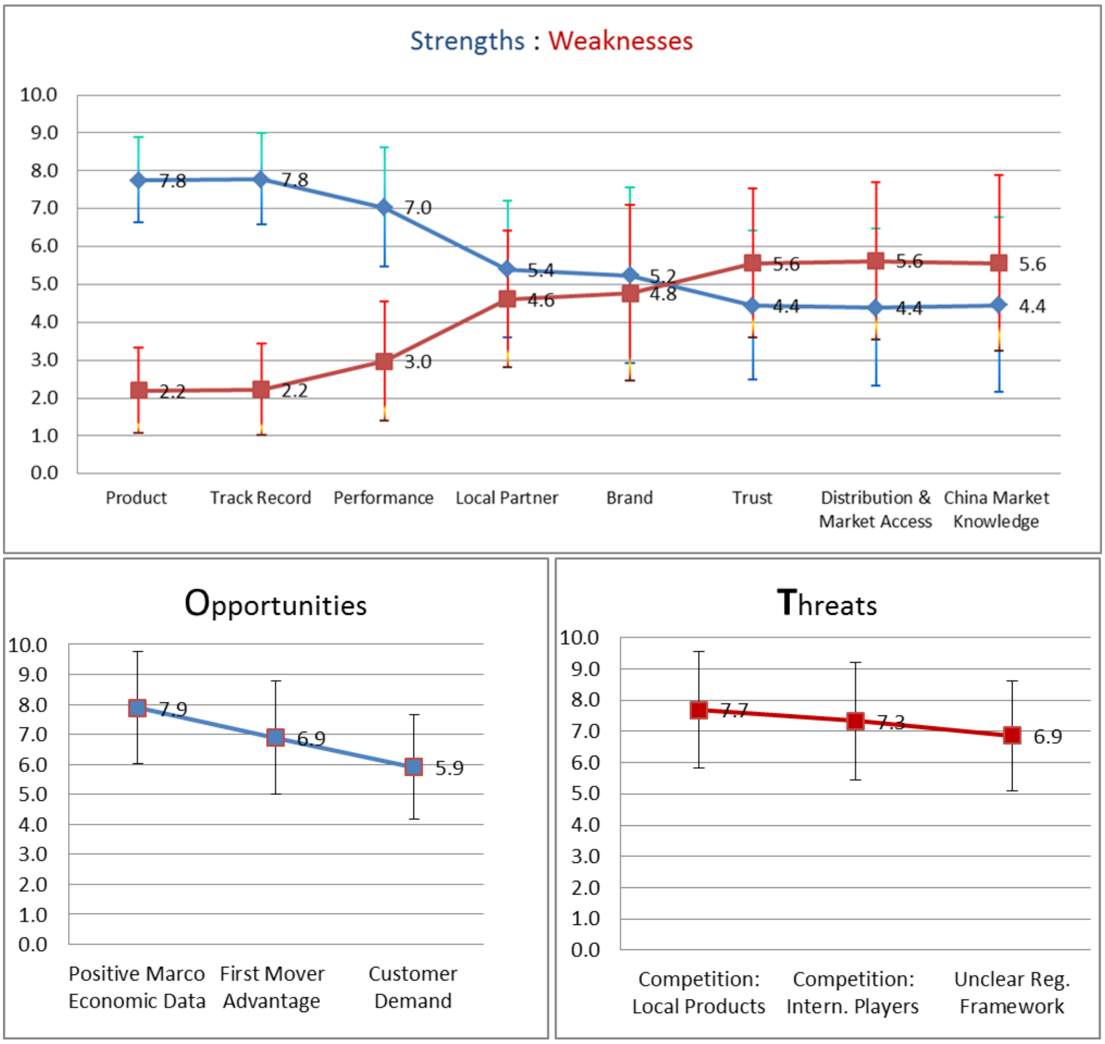

Figure 15: The SWOT Analysis

Strengths & Weaknesses:

The same categories were taken for Strengths and Weaknesses to ensure a high quality and plausibility of answers. Participants agree that the key strengths of international asset managers are their "Products"[27] and their "Track Record"[28] – both of these elements scored the same high score of 7.8, with a standard deviation of 1.1 and 1.2 respectively. The "Performance" of the product with a score of 7.0 and a standard deviation of 1.6 is rated as the third key strength, but is already somewhat behind the top two categories.

On the weaknesses side "Distribution and Market Access", "China Market and Cultural Knowledge" and "Trust"[29] were rated as weaknesses, although not as strong weaknesses and also not with a high degree of consensus among the experts. The scores of the above three parameters were all at 5.6, with standard deviations between 2.0 and 2.3. In relative terms it should also be noted that the survey participants see more strengths than weaknesses, with an average score of 5.7 over all parameters on the strengths side, and an average score of 4.3 on weaknesses.

Opportunities:

The highest score and consensus with regard to opportunities for international asset managers is the positive macro-economic outlook, which scores 7.9, with a standard deviation of 1.9, suggesting a high degree of consensus. It has to be noted that the survey was carried out before the Chinese market downturn in July/August 2015. Claude Kremer[30] sums up the positivity on this point: "a lot of money with a huge number of people makes together a great market potential". China currently is the world's second largest economy with a GDP of US$ 11.2 trillion. This figure is considerably ahead of the third largest economy, Japan, whose GDP stands at US$ 4.2 trillion. China's GDP is still US$ 6 trillion behind that of the US, which stands at US$ 18.1 trillion (World's largest economies, 2015); (Worldbank, 2015). By 2028, China's economy is expected to become the world's biggest economy with a GDP forecast to be around US$ 33.5 trillion (telegraph.co.uk, 2015). China surpassed the US as world's largest trading nation in 2013 (Monaghan, 2014), (Special Asia

[27] The product is to be understood as the investment fund incl. its methodology, investment policy and portfolio structure/asset allocation

[28] Track Record is the historical development of the investment fund. This includes all aspects of the fund incl. branding, reputation, performance, etc.

[29] Trust is to be understood as the trust which investors would be associating with the asset manager and its investment fund range.

[30] Board of Directors of the International Investment Funds Association

Magazine, 2014), but still the US Dollar holds a much larger share of trade finance (AITE, 2014). China has a stable credit rating, currently at AA- at S&P, AA3 at Moody's and A+ at Fitch (tradingeconomics, 2015). Despite a GDP slowdown to 7.4% in 2014, it is important to note that since 2005 economic growth has consistently been between 7.4% and 14.2%. In comparison, GDP growth in the US fluctuated between -2.8% and 2.7% over the same period (worldbank, 2015). China today has over 1.4 trillion people (Worldometers, 2015) and China's household saving rate exceeds 50% of China's GDP (Roundtable Discussion MRF, 2014). Also, the growth of a new middle class and the increase of HNWIs in Asia are expected to grow faster than in North America (PWC Distribution Report, 2012).

In the survey on the question of what opportunities are available to international asset managers, "Customer demand" was rated with a score of 5.9 and a standard deviation of 1.8, reflecting approximately the same results as in the dedicated question on customer demand described in Chapter 5.2 "The demand for foreign investment funds". Some market players see an opportunity to be a first mover in the market, but this item was also seen controversially with a score of 6.9 and a standard deviation of 1.9.

Next to selling international investment funds directly to Chinese investors through the MRF programme, there are obviously many other strategies for international asset managers to participate in the growing demand for investment fund products. Asset Mangers could investigate whether they could implement a partner model with a local Chinese AMC. Local Chinese asset managers might look for international expertise and capabilities where for example domestic funds can be manufactured by the Chinese AMC by using a master-feeder structure into international investment funds. This approach is backed up qualitatively by interviews; as indicated by one market expert "probably we will see a trend of white labelling in China first i.e. an international player uses a local brand, maybe then goes for co-branding and longer term builds up their own brand in China. It will be key criteria to have a long term strategy to build your business in China".

The author believes that international AMCs could also try to position themselves directly with one of the big pension fund schemes (either through MRF or QDII). Targeting smaller financial institutions and local AMCs and their fund of fund products, and providing such institutions, which do not have their own QDII quota, with an easy access to international funds might be another alternative strategy. Another option would be to partner with one of the international banks entering the Chinese market and use them as the main distribution partner. In this way the international asset manager and international bank together could offer a new and unique value proposition to mainland Chinese investors.

Making use of new media channels, which will influence fund distribution strategies (Forstenhausler, 2014) globally, can also be leveraged in China specifically. Although investment fund distribution is not to be underestimated from a regulatory and compliance point of view, asset managers might be able to use the opportunities which these new channels offer to get directly in contact with the end investor and not be dependent on the intermediaries. As indicated in Chapter 3.2, Alibaba has for instance established itself innovatively in a niche of this market. Asset managers might adopt a novel approach of partnering with other such local companies.

International AMCs which are not planning to setup a Hong Kong based AMC to enter the Chinese market could instead list international investment funds on the Hong Kong Stock Exchange and make these instruments available via the Hong Kong – Shanghai Stock Connect programme. This would obviously be dependent on the Hong Kong Stock Exchange making the desired asset class available, and the regulator to include these instruments in the Hong Kong – Shanghai Stock Connect programme. A similar approach to this has been implemented in other markets, such as Germany, in 2006 (Xetra, 2008).

Threats:

The Threats section is very balanced. The fact that there is an average rating of 6.7 and a standard deviation of 2 indicates that most of the surveyed categories are indeed seen by most of the participants as a potential threat, though no one particular element stands out above the rest. The highest degree of consensus and the highest scores are recognised with regard to competition from local and established investment products. This parameter obtained a score of 7.7 with a standard deviation of 1.9. It was followed by competition from other international asset managers venturing into China, which scored 7.3, with a standard deviation of 1.8. The unclear regulatory framework is another threat that was considered important, rated at 6.9, with a standard deviation of 2.1. Another angle which needs to be brought in here is from Chapter 5.3 "Competitive Landscape", where QDII was also rated high in terms of competition. QDII came out as a threat only during the survey and was not forming part of the predefined threat parameters of the SWOT within the survey, but it nonetheless seems that it should be indeed considered as a threat if international Asset Mangers only use MRF to enter the Chinese market.

The author believes that the biggest challenge for international asset managers will be to closely monitor the political will of the Chinese government and the subsequent developments of the MRF framework. The assessment and plans for international asset managers would for example be substantially altered if MRF would open up to other jurisdictions in the short or mid-term e.g. as a political gift following a similar approach to the RQFII experience. Similarly if the taxation of international investment funds ended up being higher than for local investment fund products (to strengthen the domestic Asset management market) or the Chinese government did not allow trailer fee payments to distributor banks anymore (to ensure investor protection and encourage transparency), this would also have an effect on the strategy of international asset managers.

6.2 Strategic Positioning of International Asset managers

There are a number of possibilities for international asset managers to enter the Chinese market. In order to establish which of these possibilities is considered the most optimal, survey participants were presented with four possible access models and asked to choose which they were planning to implement. It was possible to select multiple access models.

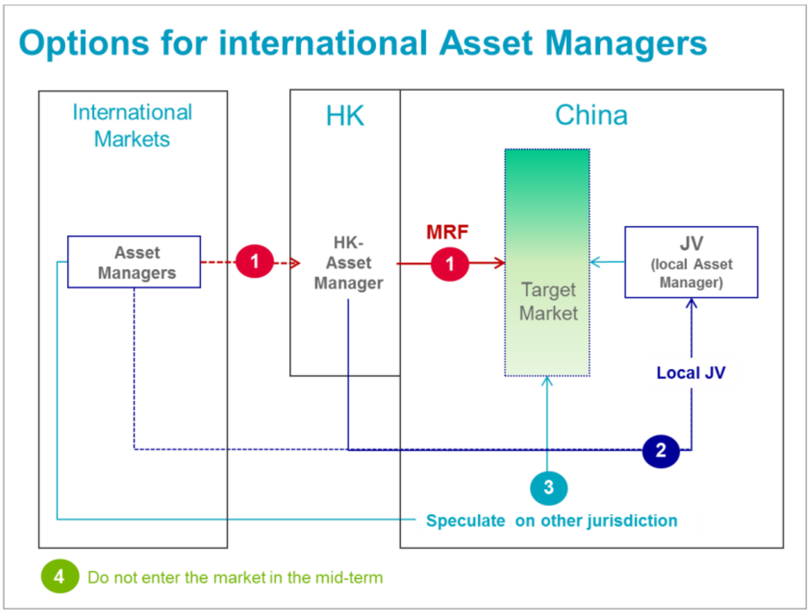

Figure 16: Strategic options for international Asset Managers to enter the Chinese market.

Option 1: represents Hong Kong based and international asset managers that will or have already set up a Hong Kong based asset manager, entering the Chinese market by leveraging the MRF programme.

Option 2: represents Hong Kong based and international asset managers that will or have already set up a local Chinese joint venture asset manager in order to get access to the Chinese investors.

Option 3: represents international asset managers that speculate on their home jurisdiction or regional fund passport (UCITS, ASEAN, ARFP) being included in the MRF programme.

Option 4: represents international asset managers that do not plan to enter the Chinese market in the mid-term.

It should be noted that this section was not answered by the Asset Management Industry Associations, the Custodian/Securities Services Companies or by the Chinese asset manager. By only including the key decision makers of international asset managers in this section, the results should reflect a very realistic strategic positioning, because these decision makers have already decided or will have to decide soon on their respective strategy.

The results show that nine asset managers want to use the MRF programme; eight want to approach the market with their (newly or established) Joint Venture Asset Management Company in China; and three asset managers are opting to wait for their home jurisdiction or passport system to be included in the future. Results also reveal that asset managers favour a dual strategy. Five asset managers are making use of the MRF programme, but at the same time also using their Joint Venture asset manager in China. Four asset managers are planning only to use the MRF route. Two asset managers will use their local Joint Venture asset manager in China, but are also speculating on their home jurisdiction or passport being included in the programme in the future. Speculating on the home jurisdiction to be included is no surprise as, as indicated in Chapter 4.1 and Chapter 4.2, many market experts indeed believe that MRF will be opened up in the mid-term to other jurisdictions. As one market expert put it bluntly "it is a waste of time to set up HK domiciled funds. The example of QFII is the proof that it didn't work out as expected. MRF between Hong Kong and China will transition to something else."

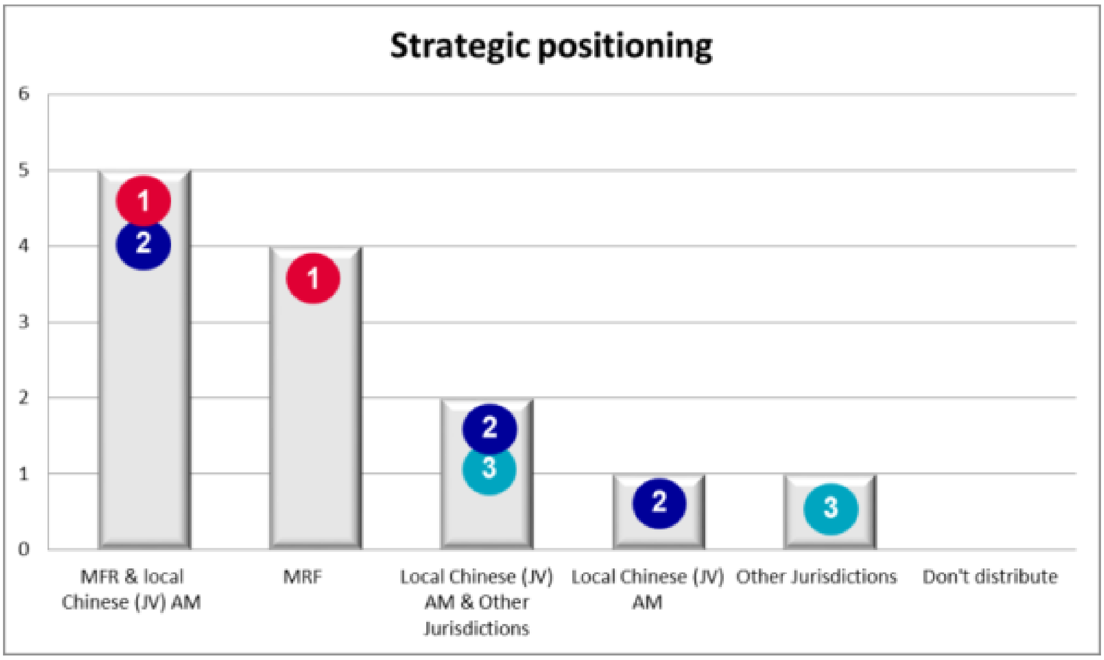

Figure 17: Strategic positioning options for international asset managers

It is no surprise to the author to see asset managers opting for a dual strategy, because many international asset managers had already set up their local Joint Venture Asset Management partnerships in China before the launch of the MRF programme. A natural consequence for the short term is to leverage both options at hand. The question will be how the asset managers will position themselves in the longer term and also whether they would use either Hong Kong or China in a later stage as a base for their international fund range, distributing from there to the rest of the world. Results show that, at least in the short term, 44% of the asset managers plan to use their Hong Kong-domiciled funds also to distribute outside of Hong Kong. In the words of the experts surveyed: "If permitted, Hong Kong funds will also be used to be marketed in other jurisdictions" - alongside the UCITS brand for this specific asset manager. "Hong Kong provides a favourable regulatory environment", confirmed one market expert, but it was also recognised that "in most countries Hong Kong-domiciled funds are not registered/allowed for retail distribution". International asset managers are well-advised to start or continue their strategies to enter the Chinese market as the macroeconomic parameters and the long term market potential is unquestioned (as seen in Chapter 6.1). One market expert succinctly summarised the challenges which need to be overcome, stating "Chinese investors are driven by absolute return. International asset managers will need to convey the benefits of asset diversification. So far diversification is not a decision making criteria at all. It most probably would be true for the entire region, but even more for China. International asset managers will need to explain to retail investors the concept of diversification, its benefits and alongside this also the concept of a long term saving instrument like investment funds". Today Chinese investor's use funds as short term investments and sometimes even as trading instruments. Strategies of buy and hold are uncommon and considered unwise, unlike in other parts of the world where investment funds are understood and positioned as a long term investment (Advisors, 2013).

The author believes that the key challenge is to convey the message to private investors that international investment funds can be an optimal way to diversify their asset allocation and to achieve their long term saving objectives. The author believes that longer term there will be a need for asset diversification into international assets in general and for retirement products specifically; not only to sufficiently spread the investment portfolio, but also because the local financial market does not provide the necessary depth to diversify the assets of the pension funds adequately.

7 Key Findings

7.1 Conclusion on the Hypothesis

Is the evidence and analysis of Chapters Five and Six sufficient to prove the ingoing observations of Chapter One? Can the working hypothesis provided be supported by statistical evidence?

As seen in the findings in Chapter 6.2 "Strategic Positioning" the vast majority of participants plan to use the MRF programme, either as their single route into China or as part of a dual strategy, combining MRF and their local Joint Venture Asset Manager. Only two participants plan to continue to only use their local Asset Management Company in China, but this is because they are originally Chinese asset managers. Only one is waiting for its home jurisdiction to be included in MRF. In summary:

- 100% of the survey participants rated China as an important or the most important market.
- Nearly all international asset managers participating in this survey (with the one exception mentioned above) plan to venture into China by making use of the MRF programme, either implementing a single or dual strategy.
- More and more asset managers are setting up Hong Kong based Asset Management Companies according the official SFC statistics (Chapter 3.2).

Together this forms a solid proof for the first part of the hypothesis that ***"The Mutual Recognition for Funds programme will be used by many international asset managers"***.

Further analysis is needed to prove whether international asset managers will attract many Chinese investors within the next three to five years. This is not an easy assessment, because it is multi-dimensional; in other words, the answer is dependent on a combination of the overall regulatory environment, market maturity, investor demand, competition and the readiness of international asset managers. Each of these elements is examined in turn below.

Figure 18: Methodology of assessment

The Chinese market: It is expected that the overall investment market in China will grow substantially within the next five years. 95% of the survey participants believe that Chinese investors will invest more into investment fund products in the course of the next five years. In addition, the macro-economic outlook, which was rated the key criteria for international asset managers to enter the Chinese Market, is promising despite the recent equity market downturn.

As can be seen from the results of this survey, most of the new net inflow into international investment funds is expected to come from local AMCs investing into fund of fund products and the growing middle class, which is likely to invest their income surplus or take their cash deposits to invest into the investment market. Today, China has a gross saving as a percentage of GDP[31] of above 50% (worldbank, 2015) and recorded a 17% increase in the numbers of HNWIs between 2013 and 2014 (worldwealthreport, 2015). The author believes that next to the promising macro-economic parameters and the positive outlook of the above investor base, we will also witness an indirect demand for international investments through private pension schemes. The private pension schemes and sovereign wealth funds will further need to diversify their asset allocation by including more and more international assets, not only to diversify the risk, but also because of the limited depth of the local financial market.

[31] Gross savings are calculated as gross national income less total consumption, plus net transfers.

All together the outlook for the Chinese investment market is therefore to be considered as positive and there is indeed an opportunity for international AMCs and their sophisticated product ranges.

The framework: The author identified regulatory uncertainty as a potential concern regarding the success of the MRF programme before beginning conducting this study. This was partly confirmed during the expert interviews. When answering the question: "what is different in China to other markets you have entered?" most experts mentioned the uncertainty of the political agenda and subsequent regulatory changes or interpretations of the law. "The system is different - very controlled and politically driven". "There is an uncertainty on the regulatory side. You will always need a counsellor and lawyer to ensure you are on the right track; as the regulation leaves a lot of room for interpretation - it is not as clear as we would wish".

Next to this, the SWOT analysis (Chapter 6.1) clearly highlighted some points on which international asset managers should pay close attention. The strategic positioning for international asset managers would change substantially if the market dynamics were to change. Examples of changing market dynamics could include:

- if MRF turned out to evolve similar to the RQFII programme i.e. would opened up to other jurisdictions or passporting regimes
- if tax on international investment funds ended up being be higher than for local investment funds
- if the Chinese government no longer allowed trailer fee payments to distributor banks

90% of market experts interviewed believe that MRF will evolve in the future and will potentially include other jurisdictions or passport regimes.

On the other side the MRF framework seems to provide the necessary clarity and reliability for international asset managers in their strategic positioning to enter the Chinese market; this is witnessed by the fact that all international asset managers have or are preparing a market entry strategy and 83% of the international asset managers see more upside potential (17% neutral and 0% downside risk) entering the Chinese market. 67% of the market experts believe that MRF will be a success story in the long term.

The author believes that there is still a lot of uncertainty on the future development of the MRF framework and that a clearer long term plan would be of help to international asset managers and their strategic market positioning – and would potentially save them some money. As an example, further clarity would be of assistance in allowing international asset managers to potentially leverage their existing asset management practices and locations should other fund jurisdiction be included in the nearer future. International asset managers need to closely monitor and follow the developments around the MRF framework and align their strategic and tactical approaches whenever applicable.

The demand: 62% of the survey participants believe that Chinese investors are, already today, demanding international investment funds. Chapter 5.2 indicates that Chinese investors are rather short-term and domestically oriented with a high focus on absolute returns, while international investment funds are foreign instruments designed for long term savings. At the same time it is expected that Chinese investors will get more and more investment-savvy and will transform from a saving into an investment culture. The market experts interviewed expect that the market will evolve quickly and that Chinese investors, who are currently lacking sophisticated investment advice and who are demanding international exposure, will be seeking these capabilities from international asset managers. International asset managers themselves did not rate demand as a particularly high opportunity within the SWOT analysis (Chapter 6.1 – Opportunities).

The author believes that with a growing local investment fund market there will be a need for diversification into international assets, either directly to satisfy the demand from private investors investing into international products, or indirectly via a need on the part of domestic AMCs, sovereign wealth funds or private pension schemes to diversify their asset allocation into international products. Having said this, Chinese retail and private investors, which today represents 80% of the investor base investing into investment funds, do not currently know international (Hong Kong-Domiciled) investment funds. The product is new to the market and investors and it will take some time for it to become well-known. As one market expert rightly puts it "you will need to create the demand". It is still questionable whether international investment funds would be the product that domestic investors are looking for in the short-term.

The competition: Institutional investors, such as the bigger pension funds and sovereign funds who have a QDII quota, are expected to continue to use this route, not only because it is cheaper, but also because there are no restrictions on the type of funds in which they can invest. International asset managers are competing against products from local wealth managers that are perceived risk-free and offering high returns, as well as local investment funds. International asset managers will not be able to rely on their longstanding track record and brand recognition when entering the Chinese market. Many international AMCs that are venturing into China are competing for the same investor money. On top of this, Chinese asset managers will also get more and more sophisticated and will manufacture products which the market demands. This will also include fund of fund products which are investing into international investment funds. This way the international asset managers could indirectly benefit from a growing local asset management market. International asset managers are also limited in their abilities to satisfy the high expectation from domestic investors on the return on investment, because the scope of funds which are eligible within MRF is limited and does not provide much room for product innovation. Overall, competition is a significant element, and a well thought through strategy will be needed to position international investment funds in the Chinese market.

The key success factors and the SWOT analysis: As indicated in Chapter 6.2, there is a huge interest from international asset managers to enter the Chinese market directly via MRF or through a Joint Venture. Mapping the most important "Key success factors" from Chapter 5.4 against the "Strengths" of the SWOT analysis of Chapter 6.1 clearly highlights some gaps in the current capabilities of international asset managers:

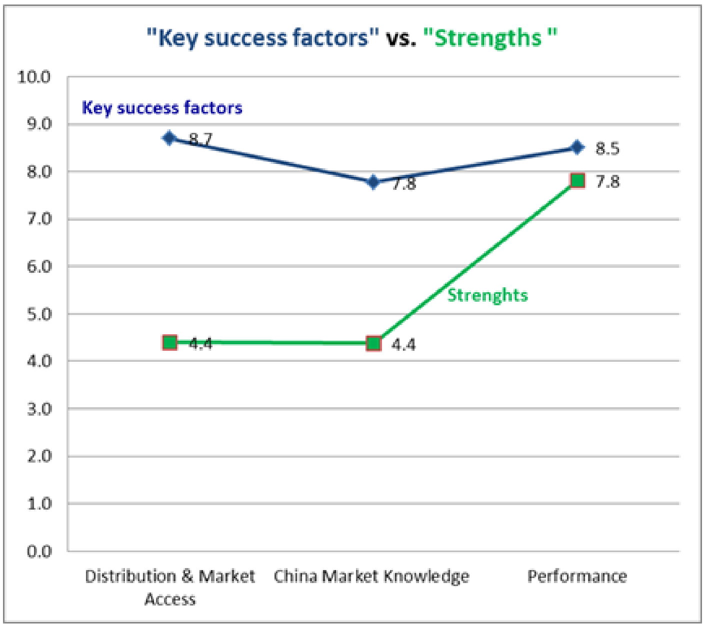

Figure 19: Key success factors mapped to Strengths (Structured expert interview Section 2.10 and 3.1/3.2)

The most important key success factor for international asset managers to enter China is the "Performance" of the investment fund, along with "China Market Knowledge" and "Distribution & Market Access." Comparing the success factors with the ratings from the SWOT analysis clearly highlights the disparity between what is needed for success and the tools at the disposal of international asset managers today. This ultimately brings us to the conclusion that the key challenges for the international asset managers will be to address their distribution channel strategy. Secondly they need to recruit local Chinese staff which can fill the gap of local market and cultural knowledge.

Fortunately for international asset managers, it is generally considered by the experts surveyed that local Chinese banks will sell third party international investment funds. As one expert put it, "the big banks are driven by customer demand and thus they will list in their shelf all products which are demanded - regardless if from own or third party providers". This enables international asset managers to distribute their investment funds to private and retail investors in exactly the same way as in most other countries around the world, where the banking network is the biggest distribution channel.

This study confirms that there is a strong level of certainty among market experts that the big Chinese banks will sell third party foreign investment fund products and put them in competition with their own wealth management products. In the survey 100% of the market experts believe that the big banks will sell third party funds and 95% believe that they will put them in competition with their own fund ranges. In the words of Lawrence Au[32] "Banks sell third party local funds already today. They will continue doing so going forward also with international funds. It will be on a selective basis, but in principle the bank will sell products which are in demand by the investors." Another expert added "the banks will look at Europe and apply what had been learned there. They will also not put any de-incentives from a tax point of view".

The author believes that the most important aspect international asset managers should focus on is finding the right local Chinese distributor bank partner, which can provide the distibution network but also which can provide the knowledge of the Chinese market, language and culture deemed of high importance to successfully sell international funds into China. Asset managers who already have a local Joint Venture partner can obviously leverage their existing network and would therefore have an competitive advantage here.

The alternative route of building up and establishing an own distribution channel can be pursued in parallel, but would probably not be achieveable in the short and medium term.

The final question within the survey confirms this long term perspective. 31% of the international asset managers participating to this survey do not believe that they will make any money within the next five years by participating to the MRF programme, which indicates that they are ready to invest into a long term project here.

In summary: The author believes that there is a market for international asset managers and their products. Factors leading to this conclusion include the following elements:

- There is growing investment fund market and a growing middle class and a strong growth of HNWI in China

[32] Head of Asia Pacific, BNP Paribas Securities Services

- Investors are getting more investment savvy
- There is a need for diversification for private and institutional investors and local asset managers who are expected to invest into international funds for their fund of fund products

On the other hand since there is no eminent investor demand in the short term, investors will first need some time to gain a degree of familiarity and comfort with the new products. The competition from local players and products is high. Local wealth managers offer products which are perceived as risk-free and which offer investors attractive interest rates, while at the same time international asset managers are limited in their ability to bring product innovations into the market, as the funds they can offer under the MRF programme are restrictive in respect to the investment profile. International asset managers also cannot rely on their brand and track record, and despite the fact that local banks are perceived to be willing to distribute international investment funds, international asset managers are not yet ready nor are they in control of the channels.

Moreover, it will take time for international asset managers to sign the necessary distribution contracts in order to get access to Chinese investors. As one market expert puts it "the first two to three years will be tough. You need a well-defined vision and be thought trough. It is not a short term or opportunistic market you are entering here".

The author believes that each of the abovementioned factors as a stand-alone challenge could be overcome within a couple of years, but the combination of Chinese investors not being aware of the product, their short term orientation and their a high focus on the absolute performance, is a significant challenge to overcome in the short term – and the challenge is further compounded by the fact that at the same time international asset managers are not fully ready in their market entry strategy and are competing from the outset with established well-performing local players and instruments. Although the author does not feel this proves the hypothesis in its entire complexity, the evidence does provide a strong suggestion that indeed ***international asset managers will not be able to attract many Chinese investors within the next five years***. International asset managers will however definitely reap the rewards of what they currently putting into place, because the mid to long term market potential is significant, or as Shelley Yang[33] puts it even more forcefully, "the next Financial Centre will be China".

[33] Managing Director China Universal Asset Management (Hong Kong) Company Limited

Finally, as detailed in Chapter 6.2, the majority of respondents are planning multiple access strategies for the Chinese market. Therefore, the hypothesis is correct in the fact that indeed ***international asset managers will not only rely on the MRF programme to sell their international investment funds into China, but will also make use of alternative methods to bring their products into the Chinese market.***

7.2 Critical Assessment & Next Steps

It should be noted that this research study reflects the status quo of knowledge and that a single element can change the entire dynamics. For example: the political will of the Chinese government could be to strengthen investor protection, leading them to implement something similar to the Retail Distribution Review (RDR) (fca, 2013) regime in the UK where Distribution Fees/Trailer Fees paid to the Distributor Banks are not allowed anymore. Without these incentives it would be very unlikely that local Chinese banks would sell international investment funds within their banking network and subsequently international asset managers would need to find different distribution strategies or align themselves with global distributor banks which are also venturing into the Chinese banking sector.

Another example of a potential dramatic change of landscape would be if the Chinese government would implement a higher tax for international funds. This would make these products less attractive for Chinese investors. The same would apply the other way around, in other words if the Chinese government would put in place tax incentives for international investment funds to promote foreign investments. This would certainly make these products more attractive for Chinese investors.

It would be of value to re-qualify the survey by using a different and wider audience of senior executives of international AMCs to draw conclusions based on a wider range of analytical statistics. Also, a separate survey should be established to qualify the question of investor demand – this survey should be addressed directly to Chinese private and institutional investors.

This study should be followed by an assessment of how Chinese asset managers can leverage MRF to sell their funds to the international investor community. It would also be interesting to discover whether Chinese AMCs intend to establish international subsidiaries - setting up international investment fund ranges for international distribution, and also whether they are planning to potentially bring these international investment funds back to the Chinese investor in the PRoC.

8 Executive Summary

The aim of this study was to examine the impact of the Mutual Recognition for Funds (MRF) programme on the Chinese investment fund industry; to investigate how international asset managers are positioning themselves to react to the upcoming changes and to find evidence which supports or not the working hypothesis of the author that "The Mutual Recognition for Funds programme will indeed be used by many international asset managers, but international asset managers will not be able to attract many Chinese investors within the next five years. Furthermore, international asset managers will not only rely on the MRF programme to sell their international investment funds into China, but will also make use of alternative methods to bring their products to the Chinese market."

MRF is a programme which allows Hong Kong and Chinese asset managers to distribute their funds in each other's jurisdiction. Up to the present, international investment funds cannot be sold to Chinese private and retail investors. The MRF programme, which was officially launched on 1st July 2015, will now allow Hong Kong-domiciled funds to be distributed to private and retail investors in China, and vice-versa for China-domiciled funds. While having the legal framework is a prerequisite for international asset managers based in Hong Kong to directly distribute their investment funds to Chinese investors, this does not necessarily mean that there is investor demand for such investment products, nor does it imply that local Chinese banks are necessarily willing or ready to sell such products to them.

The ingoing hypothesis of the author was based on several observations. Firstly, the author noted that many international asset managers were preparing to make use of the MRF programme. Secondly, the demand of Chinese investors for international investment funds and domestic investor behaviour remained unclear. Thirdly, the author identified that other Chinese financial market reforms and regional passport initiatives were be potentially in conflict with what MRF was aiming to achieve.

Next to these observations, it was important to assess the competitive landscape for this new opportunity and to investigate the readiness of international asset managers to really make use of this new framework, because there are already today alternative routes to attract investors' money. The question was whether international asset managers would use MRF in parallel to these alternative channels or whether they would consider MRF as their sole strategic route into China.

In order to find answers which would support these observations and the ingoing hypothesis, the author quickly realised that the data needed was not available and that only dedicated empirical research would provide sufficient evidence. The author obtained this evidence by conducting structured expert interviews with 21 senior decision makers from leading international Asset Managers.

After the evaluation of the survey and together with desk-based research, the author believes that there is sufficient evidence to prove that:

- The Mutual Recognition for Funds programme will be used by many international asset managers.
- International asset managers will not only rely on the MRF programme to sell their international investment funds into China, but will also make use of alternative methods to bring their products to the Chinese market.

There was not sufficient evidence to prove outright the third aspect of the hypothesis that "international asset managers will not be able to attract many Chinese investors within the next five years." This element of the hypothesis was difficult to prove due to its multidimensional complexity – in other words because there were many interlinked factors influencing the conclusion. Elements which were considered in the study in this context included investor demand, the regulatory framework, other financial market reforms, competition from other products and players and the readiness of international asset managers.

Although the author does not feel the evidence obtained is sufficient to prove this part of the hypothesis in its entire complexity, the evidence however does provide a strong suggestion that indeed International asset managers will not reap rewards within the next three to five years, but rather in the longer term. The main reasons for this conclusion are as follows:

- No clear investor demand in the short term; investors will first need some time to gain a degree of familiarity and comfort with the new products.
- The competition from local players and products is high. Local wealth managers offer products which are perceived as risk-free and which offer investors attractive returns.
- International asset managers are limited in their ability to bring product innovations into the market, as the funds they can offer under the MRF programme are restrictive in respect to the investment profile.
- International asset managers currently have no distribution contracts in place with domestic banks to reach Chinese investors.

The author believes that while each of the above mentioned factors as a stand-alone challenge could be overcome within a couple of years, together they pose a challenge that is too big to overcome in the short term. The study did however provide evidence that there is indeed a market for international asset managers and their sophisticated investment fund products, although it will take a few years to come to full fruition. As such, international asset managers are well-advised to start or continue their strategic positioning and concrete market entry strategies as it is not so much a question of *"if"* there will be a demand for such products in China, but more of *"when."*

Table of Literature: (ISO 690)

- **Abegg L.** Ostasien denkt anders. Zurich : 1949.
- **Advisors, Z-Ben. 2013.** "China: The World's Best Opportunity for Asset Managers?" . s.l. : Citi OpenInvestor, 2013.
- **AITE. 2014.** Internationalizing the Renminbi: Weaving a Web for the Next World Currency. s.l. : AITE & Clearstream, 2014.
- **Aitken, Roger. 2014.** How Long Before China's Renminbi Becomes Fully Convertible? Forbes.com. [Online] Forbes.com, 14.07.2014. [Cited: 20.09.2015] http://www.forbes.com/sites/rogeraitken/2014/07/30/how-long-before-chinas-renminbi-becomes-fully-convertible/.
- **Alfi. 2011.** financial-glossary. [Online] 01.07.2011. [Cited: 21.11.2015] http://www.alfi.lu/investor-centre/helpdesk/financial-glossary.
- **Alfi. 2012.** Different types of UCITS funds. Alfi. [Online] 30.01.2012. [Cited: 22.11.2015] http://www.alfi.lu/investor-centre/how-do-ucits-investment-funds-work/different-types-ucits-fund.
- **Americansabroad. 2014.** Mutual Fund Restrictions. Mutual Fund Restrictions. [Online] americansabroad.org, 07.11.2014. [Cited: 17.10.2015] https://americansabroad.org/issues/banking/mutual-fund-restrictions/.
- **Ann, Lim Xiou. 2014.** The industry has to get used to different ways of doing things to increase efficiency. s.l. : The Asian Banker, 2014. October 24th, 2014.
- **APEC. 2015.** Asia Region Funds Passport. APEC. [Online] APEC (Asia-Pacific Economic Cooperation), 14.09.2015. [Cited: 19.09.2015] http://fundspassport.apec.org/2015/09/14/signing-of-the-statement-of-understanding-2/.
- **Au, Derek. 2015.** China's QDIE scheme goes live. AsiaAssetManagement . [Online] 06.02.2015. [Cited: 17.10.2015.] http://www.asiaasset.com/news/QDIE_schemeDA0602.aspx.
- **Bednarz, Sebastian. 2009.** Die Regulierung von Hedge-Fonds. Hamburg : Dr. Kovac, 2009. ISSN 1435-683.
- **Benchmark your Global Fund Distribution 2014.** pwc. 2014. March 2014, s.l. : pwc, 2014, Vol. 2014.
- **Bonnie Glaser, Brittany Billingsley, CSIS. 2011.** CSIS: Center for Strategic & International Studies . Comparative Connections. [Online] 09.2011. [Cited: 17.10.2015] http://csis.org/files/publication/1102qus_china.pdf.
- **Bradsher, Clifford Kraus and Keith. 2015.** China's Global Ambitions, With Loans and Strings Attached. NYTimes. [Online] The New York Times, 24.07.2015. [Cited: 20.09.2015] http://www.nytimes.com/2015/07/26/business/international/chinas-global-ambitions-with-loans-and-strings-attached.html?_r=0.
- **Capon, Noel. 1995.** An Individual Level Analysis of the Mutual Fund Investment Decision. Clear Water Bay Kowloon, Hong Kong : School of Business and Management Hong Kong University of Science & Technology, 1995. Gavan J. Fitzsimons, Russ Allan Prince.
- **CBRC. 2015.** The main functions of the CBRC. China Banking Regulatory Commission. [Online] China Banking Regulatory Commission, 2015. [Cited: 18.10.2015] http://www.cbrc.gov.cn/showyjhjjindex.do.
- **China pursues happiness**, not growth. Jiabao, Premier Minister Wen. 2011. page 49, s.l. : The Economist, 2011.

- **China, The National People's Congress of the People's Republic of. 2015.** State Structure of the People's Republic of China. State Structure of the People's Republic of Chin. [Online] The National People's Congress of the People's Republic of China, 18.10.2015. [Cited: 18.10.2015] http://www.npc.gov.cn/englishnpc/stateStructure/node_3826.htm.
- **Choi, Christina. 2015.** Mutual Recognition of Funds Symposium. SFC-Securities and Futures Commission. [Online] 3.07.2015. [Cited: 19.09.2015] http://www.sfc.hk/web/EN/files/ER/PDF/MRF_ppt_01_03072015.pdf.
- **Commission, European. 2015.** European Commission. Banking and Finance. [Online] European Commission, 2015. [Cited: 19.09.2015] http://ec.europa.eu/finance/securities/isd/mifid/index_en.htm.
- **CSRC. 2014.** Fund Management Companies . [Online] CSRC, 10.01.2014. [Cited: 22.11.2015] http://www.csrc.gov.cn/pub/csrc_en/participants/FundsRelatedList/FundManagementCompanies/.
- **CSRC. 2013.** News and Press releases. The CSRC Seeks Public Comments on the Revised Drafts of the Trial Administrative Measures for Overseas Securities Investments of Qualified Domestic Institutional Investors and the Rules thereunder. [Online] CSRC, 14.03.2013. [Cited: 20.09.2015] www.csrc.gov.cn/pub/csrc_en/newsfacts/release/201304/t20130407_223096.html.
- **CSRC. 2012.** Regulations & Policies. Chinese Securities Regulatory Commission. [Online] Chinese Securities Regulatory Commission, 2012. [Cited: 09.09.2015] http://www.csrc.gov.cn/pub/csrc_en/OpeningUp/RelatedPolices/RQFII/.
- **CSRC. China Securities Regulatory Commission. 2008.** China Securities Regulatory Commission (CSRC). Introducing the CSRC. [Online] 30.11.2008. [Cited: 18.10.2015] http://www.csrc.gov.cn/pub/csrc_en/about/intro/200811/t20081130_67718.html
- **Economicshelp. 2015.** Problems of Chinese Economic Growth? [Online] economicshelp.org, 2015. [Cited: 26.11.2015] http://www.economicshelp.org/essays/problems-chinese-economic-growth/.
- **Ecrresearch. 2011.** China's currency: the RMB, CNY, CNH…. ecrresearch.com. [Online] ecrresearch, 28.12.2011. [Cited: 20.09.2015] http://www.ecrresearch.com/chinas-currency-rmb-cny-cnh.
- **EFAMA. 2011.** Asset Management in Europe. [Online] 05.2011. [Cited: 22.11.2015] http://www.efama.org/Publications/Statistics/Asset%20Management%20Report/Asset%20Management%20Report%202011.pdf.
- **EFAMA. 2015.** Asset Management in Europe . [Online] 04.2015. [Cited: 22.11.2015] https://www.efama.org/Publications/Statistics/Asset%20Management%20Report/150427_Asset%20Management%20Report%202015.pdf.
- **EFAMA. 2015.** efama.org/Publications/Statistics/International. [Online] 2015. [Cited: 15.09.2015] http://www.efama.org/Publications/Statistics/International/Quarterly%20%20International/150808_International_Statistical_Release_2015_Q1.pdf.
- **Eichler, U. Hirschber, page 3ff. 1998.** Interkulturelles Training Süd-Ostasien, Seminarunterlagen. 1998.
- **Elephant in the room** . Michael Chan, BNY Mellon Asset Servicing, Asia Pacific, CEO. 2014. s.l. : funds global ASIA, 2014, Vol. Winter .
- **Elephant in the room.** Alex Henderson, Henderson Global Investors. 2014. s.l. : funds global ASIA, 2014, Vol. Winter.

- **ESMA . 2012.** ESMA Press Release . [Online] 06.07.2012. [Cited: 02.11.2015] http://www.esma.europa.eu/system/files/2012-424.pdf.
- **ESMA. 2009.** http://www.esma.europa.eu/system/files/L_302_32.pdf. [Online] 2009. [Cited: 18.11.2015.] http://www.esma.europa.eu/system/files/L_302_32.pdf.
- **ETF-Fonds. 2015.** ETF Fonds. Definition ETF. [Online] 2015. [Cited: 21.11.2015.] http://www.etf-investmentfonds.de/definition-etf.php.
- **European, Commission. 2008.** Commission Européenne. Press Release Database. [Online] European Commission, 16.07.2008. [Cited: 19.09.2015] http://europa.eu/rapid/press-release_MEMO-08-510_en.htm?locale=fr.
- **European-Commission. 2013.** European Commission - Banking and Finance. Alternative Investments. [Online] The European Comission, 17.12.2013. [Cited: 26.07.2015.] http://ec.europa.eu/finance/investment/alternative_investments/index_en.htm.
- **FCA. 2013.** How firms are implementing the RDR . [Online] 25.07.2013. http://www.fca.org.uk/news/rdr-six-months-in.
- **Fei, Peng. 2015.** CEO & Founding Partner, Winsight Global Asset Management Limited. 2015.
- **Finance-glossary. 2015.** finance-glossary. finance-glossary. [Online] finance-glossary, 2015. [Cited: 19.09.2015] http://www.finance-glossary.com/define/passive-fund/1651.
- **Financial-dictionary. 2015.** financial-dictionary. financial-dictionary. [Online] Farlex Financial Dictionary. © 2012 Farlex, Inc., 2015. [Cited: 20.09.2015] http://financial-dictionary.thefreedictionary.com/Third-Party+Distributor.
- **Financial-dictionary. 2015.** FinancialDictionary - Mutual Funds. FinancialDictionary - Mutual Funds. [Online] financial-dictionary.thefreedictionary.com, 2015. [Cited: 17.10.2015] http://financial-dictionary.thefreedictionary.com/Mutual+fund.
- **Financial-dictionary. 2015.** Fund Manager. [Online] financial-dictionary.thefreedictionary.com, 2015. [Cited: 17.10.2015] http://financial-dictionary.thefreedictionary.com/fund+manager.
- **Financialstabilityboard. 2013.** financialstabilityboard.org. Strengthening Oversight and Regulation of Shadow Banking. [Online] 29.08.2013. [Cited: 25.07.2015] http://www.financialstabilityboard.org/wp-content/uploads/r_130829a.pdf?page_moved=1.
- **Florini. 2012.** China - From Local Innovations to National Reform - Experiments. Washington : The Brookings Institutions, 2012. 978-0-8157-2200-7.
- **Forstenhausler. 2014.** Driving growth and aligning interests. s.l. : EY.com, 2014.
- **Friedman, Alexander. 2015.** World Economic Forum. China Economics. [Online] 06.08.2015. [Cited: 21.11.2015] https://agenda.weforum.org/2015/08/could-the-renminbi-act-as-a-global-reserve-currency/.
- **FTSE. 2014.** What are QFII and RQFII. FTSE. [Online] 19.02.2014. [Cited: 19.09 2015] http://www.ftseangle.com/2014/02/what-are-qfii-and-rqfii/.
- **Funds global.** Jack Wang, CSOP Asset Management. 2014. s.l. : funds global ASIA, 2014, Vol. Winter .
- **Fung, Anita. 2014.** Chinese New Year 2014: RMB Liberalisation and Yuan Growth. s.l. : International Business Times , 2014.
- **Gabler Wirtschaftslexikon.** Gabler Wirtschaftslexikon. Exchange Traded Funds. [Online] Springer Gabler Verlag. [Cited: 26.07.2015] http://wirtschaftslexikon.gabler.de/Archiv/7131/exchange-traded-funds-v9.html.
- **Globalcustody. 2015.** Domestic fund. Domestic fund. [Online] globalcustody.net, 17.10.2015. [Cited: 17.10.2015] http://www.globalcustody.net/Domestic_fund/

- **Gov. 2014.** Mandatory Provident Fund. Hong Kong : The facts. [Online] December 2014. [Cited: 21.11.2015] http://www.gov.hk/en/about/abouthk/factsheets/docs/mpf.pdf.
- **Grant, Robert M. 1998.** Contemporary Strategy Analysis. Oxford : Blackwell Publishers Ltd., 1998. ISBN 0-631-20780-5.
- **Guo, Lydia. 2015.** Hong Kong-China mutual fund recognition scheme reveals quotas. Investment Strategy . [Online] FinancialTimes , 31.05.2015. [Cited: 09.11.2015] http://www.ft.com/intl/cms/s/0/33b8254e-0532-11e5-9627-00144feabdc0.html.
- **Hill, Steven. 2014.** China's investments in the US are growing. Should we be concerned? . s.l. : theguardian.com, 2014.
- **Holliday, Katie. 2014.** Five things you should know about Alibaba. Technology. [Online] 07.05.2014. [Cited: 17.10.2015] http://www.cnbc.com/2014/04/17/five-things-to-know-about-alibaba.html.
- **Hun, Kwan Chi. 2009.** Nomura Institute of Capital Markets Research . Reform of China's State-owned Banks a Success. [Online] 2009. [Cited: 17.10.2015] http://www.nicmr.com/nicmr/english/report/repo/2009/2009win03.pdf.
- **ICI FACTBOOK. 2014.** 2014 Investment Company. s.l. : ICI - Investment Company Institute, 2014.
- **IMF, International Monetary Fund. 2000.** Offshore Financial Centers. Offshore Financial Centers. [Online] IMF, 23 06 2000. [Cited: 18.10.2015] https://www.imf.org/external/np/mae/oshore/2000/eng/back.htm.
- **Investhub. 2014.** Finance Dictionary and Glossary of Investment Terms. Domestic Stock Fund. [Online] InvestHub.com's, 2014. [Cited: 17.10.2015] http://www.investhub.com/glossary/Domestic-Stock-Fund.htm.
- **Investopedia. 2015.** Asset Management. Investodedia. [Online] Investopedia, 19.09.2015. [Cited: 19.09.2015] http://www.investopedia.com/terms/a/assetmanagement.asp.
- **Investopedia. 2015.** Dim Sum Bond. Investopedia. [Online] 2015. [Cited: 4.11.2015] http://www.investopedia.com/terms/d/dim-sum-bond.asp.
- **Jeanny Yu . 2014.** Beijing's QDII scheme to increase outflow of yuan stalls. scmp.com . [Online] South China Morning Post, 23.07.2014. [Cited: 08.08.2015] http://www.scmp.com/business/banking-finance/article/1557335/beijings-qdii-scheme-increase-outflow-yuan-stalls.
- **Jingjing Yang, Jing Chi, and Martin Young. 2014.** Mutual Fund Investment Strategies and Preferences . s.l. : The Chinese Economy, 2014. ISSN 1558-0954.
- **Jocob, Michael. 2012.** Asset Managment. Wiesbaden : Springer Gabler, 2012. ISBN: 978-3-8349-4070-4.
- **Johnson, Steve. 2015.** China's 'sunshine' funds triple in three years. Investment Strategy . [Online] 11.01.2015. [Cited: 17.10.2015] http://www.ft.com/intl/cms/s/0/fdc1c5ea-9749-11e4-845a-00144feabdc0.html#axzz3opa9p8Hd.
- **Jürgen Rothlauf, Prof. Dr. rer. pol. 1999.** Interkulturelles Management. 1999.
- **Klenner, Wolfgang Prof. Dr. 2006.** Chinas Finanz- und Währungspolitik nach der Asienkrise. Stuttgart : Lucius & Lucius Verlagsgesellschaft mbH, 2006. 3-8282-0348-5.
- **Konyn, Mark. 2013.** Asia incubates a regional fund dragon. http://www.ft.com/cms/s/0/d15d0850-4afd-11e3-ac3d-00144feabdc0.html#axzz3fvvOyDsD. [Online] Financial Times, 17.11.2013. [Cited: 15.07.2015] http://www.ft.com/cms/s/0/d15d0850-4afd-11e3-ac3d-00144feabdc0.html#axzz3fvvOyDsD.

- **Ku, Eunice. 2013.** Setting Up a Wholly Foreign-Owned Enterprise in China. China Briefing. [Online] china-briefing.com, 11.09.2013. [Cited: 21.11.2015] http://www.china-briefing.com/news/2013/09/11/setting-up-a-wholly-foreign-owned-enterprise-in-china.html.
- **Lam. 2014.** SFC's Deputy Chief Executive Officer. Mutual Recognition Scheme: Regulatory Developments - Global Fund Distribution Asia Conference 2014. [Online] SFC, 21.10.2014. [Cited: 04.11.2015] http://www.sfc.hk/web/EN/files/ER/PDF/Speeches/Alexa_20141021.pdf.
- **Matthew Miller. 2015.** Reuters. China to approve new foreign fund managers for QDLP scheme. [Online] reuters.com, 21.04.2015. [Cited: 26.07.2015] http://www.reuters.com/article/2015/04/21/china-funds-idUSL4N0X61RX20150421.
- **Minister, APEC Finance. 2014.** Consultation Paper: Arrangements for an Asia Region Funds Passport. s.l. : APEC Finance Minister, 2014. ISBN 978-0-642--74967-3.
- **Monaghan, Angela. 2014.** China surpasses US as world's largest trading nation. The Guardian. [Online] 2014.01.2014. [Cited: 16.07.2015] http://www.theguardian.com/business/2014/jan/10/china-surpasses-us-world-largest-trading-nation.
- **Mulvey, Stephen. 2010.** Why China's currency has two names. News. [Online] BBC, 26.06.2010. [Cited: 09.11.2015] http://www.bbc.com/news/10413076.
- **News, Chinese Financial. 2013.** China Development Bank. History of China Development Bank Published, Recounting CDB's History of Growth and Showcasing Its Impressive Performance. [Online] 26.07.2013. [Cited: 17.10.2015] http://www.cdb.com.cn/english/NewsInfo.asp?NewsId=4690.
- **Picardo, Elvis. 2015.** 10 Countries With The Biggest Forex Reserves. [Online] investopedia.com, 31.03.2015. [Cited: 16.07.2015] http://www.investopedia.com/articles/investing/033115/10-countries-biggest-forex-reserves.asp.
- **PWC Distribution Report. 2012**. PWC Distribution Report. s.l. : PWC, 2012.
- **PWC-Global Fund Distribution. 2015.** Benchmark your Global Fund Distribution. s.l. : PWC-Global Fund Distribution, 2015.
- **Rink, S. 1994.** Stichwort China. Munich : s.n., 1994. Originalausgabe.
- **Roundtable Discussion MRF. 2014.** Asia Asset Management in 2014: A J.P. Morgan Roundtable Discussion on Mutual Recognition. J.P. Morgan Roundtable Discussion on Mutual Recognition. [Online] Q1 2014. [Cited: 04.11.2015] https://www.jpmorgan.com/pages/jpmorgan/is/thought/magazine/1q2014/asia.
- **Samuel Shen and Pete Sweeney. 2015.** China offshore funds halt subscriptions as HK share binge exhausts quotas. Reuters.com. [Online] Reuters.com , 10.04.2015. [Cited: 08.08.2015] http://www.reuters.com/article/2015/04/10/china-funds-qdii-idUSL4N0X71QD20150410.
- **Schell, Rainer. 1999.** Methoden der empirischen Sozialforschung. München : Oldenbourg, 1999. ISBN 3-486-25043-4.
- **Scholl, Armin. 2009.** Die Befragung. Stuttgart : UVK Verlagsgesellschft mbH, 2009. ISBN 978-3-8252-2413-4.
- **Schumann, Dr. Siegfried. 2006.** Repräsentative Umfrage . München : Oldenbourg Wissenschaftsverlag GmbH, 2006, Vol. 4. 978-3-486-58070-9.
- **SEC, 2005.** Mutual Funds. Mutual Funds. [Online] The U.S. Securities and Exchange Commission, 17.10.2005. [Cited: 17.10.2015] https://www.sec.gov/investor/tools/mfcc/mutual-fund-help.htm.

- **SFC. 2015.** List of investment products. [Online] Securities and Futures Commission (SFC), 2015. [Cited: 24.07.2015] http://www.sfc.hk/web/EN/regulatory-functions/products/product-authorization/list-of-investment-products.html.
- **SFC. 2015.** Fund Management Activities Survey 2014 . [Online] 07.2015. [Cited: 24.11.2015] http://www.sfc.hk/web/EN/files/ER/PDF/2014%20FMAS%20Report_English_20150721_Final.pdf.
- **SFC. 2015.** Joint Announcement of China Securities Regulatory Commission and Securities and Futures Commission. [Online] Securities and Futures Commission, 22.05.2015. [Cited: 04.11.2015.] http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=15PR52.
- **Shaking things up** . **ASIA Autumn 2014. 2014.** s.l. : FundsGlobal, 2014. page 30.
- **Slavutskaya, Anna. 2014.** Dissertation: Three Essays on Hedge Funds . Konstanz : Anna Slavutskaya, 2014. URL:http://nbn-resolving.de/urn:nbn:de:bsz:352-289691.
- **Special Asia Magazine.** Luxembourg for Finance. 2014. Luxembourg : Luxembourg for Finance, 2014.
- **Stier, Winfried. 1998.** Empirische Forschungsmethoden. St. Gallen : Springer-Verlag Berlin Heidelberg New York, 1998. ISBN 3-540-65295-7.
- **Surz, Kenneth S. Philippes and Ronald J. 2003.** Hedge Funds . New Jersey : John Wiley & Sons. Inc., Hoboken, 2003. ISBN: 0-471-46309-4.
- **Sweeney, Samuel Shen and Pete. 2015.** China offshore funds halt subscriptions as HK share binge exhausts quotas. Reuters.com. [Online] Reuters.com, 10.04.2015. [Cited: 20.09.2015] http://www.reuters.com/article/2015/04/10/china-funds-qdii-idUSL4N0X71QD20150410.
- **Sweeney. 2015.** China to launch QDII2 overseas investment scheme soon in six cities - paper. reuters.com. [Online] reuters.com, 26.05.2015. [Cited: 08.08.2015] http://www.reuters.com/article/2015/05/26/china-economy-qdii-idUSL3N0YH35J20150526.
- **Telegraph. 2015.** telegraph.co.uk. [Online] 2015. [Cited: 16.07.2015.] http://www.telegraph.co.uk/finance/economics/10536759/The-worlds-largest-economies-in-2028-in-pictures.html?frame=2763563.
- **The ACMF. 2014.** Handbook for CIS Operators of ASEAN CISs. s.l. : The ACMF, 2014.
- **The Chinese Financial System. J. Elliot, Douglas and Kai Yan. 2013.** Number 6, Washington, D.C. : John L. Thornton - China Center at Brookings, 2013, Vol. China Center Monograph Series. page 2.
- **The drive towards normality** . Nick Fitzpatrick . s.l. : funds europe - China Report 2014.
- **Theiam. 2014.** The Institute of Asset Management. The Institute of Asset Management. [Online] 2014. [Cited: 04.11.2015] https://theiam.org/what-asset-management.
- **Trading Economics. 2015.** Trading Economics. China Foreign Direct Investment . [Online] tradingeconomics, 26.07.2015. [Cited: 26.07.2015] http://www.tradingeconomics.com/china/foreign-direct-investment.
- **Trading Economics. 2015.** China: Credit Rating. [Online] tradingeconomics, 2015. [Cited: 18.07.2015.] http://www.tradingeconomics.com/china/rating.
- **Tri Vi Dang, Honglin Wang, Aidan Yao. 2014.** Chinese Shadow Banking: Bank-Centric Misperceptions. s.l. : Tri Vi Dang from Columbia University, Honglin Wang from HK Institute for Monetary Research, Aidan Yao from AXA Investment Managers, 2014.
- **Wang, Ronald Coase/Ning. 2013.** Chinas Kapitalismus, Weg ohne Plan und Zukunft. 2013. ISBN-10: 3791032666 - p. 184.
- **Weggel, Oskar. 2002.** China. München : C.H. Beck, 2002. ISBN 3 406 48092 6.

- **Wildau, Gabriel. 2014.** Alibaba affiliate wins approval for bank licence. Banks. [Online] 29.09.2014. [Cited: 17.10.2015] http://www.ft.com/intl/cms/s/0/605c26bc-47d3-11e4-ac9f-00144feab7de.html#axzz3opa9p8Hd.
- **Worldbank. 2015.** worldbank.org. [Online] World Bank national accounts data, and OECD National Accounts data files., 2015. [Cited: 16.07.2015] http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=1.
- **Worldbank. 2015.** The World Bank. Data. [Online] 14.04.2015. [Cited: 19.09.2015.] http://databank.worldbank.org/data/download/GDP.pdf.
- **Worldometers. 2015.** Worldometers. [Online] Worldometers, 16.07.2015. [Cited: 16.07.2015] http://www.worldometers.info/world-population/china-population/.
- **World's largest economies. 2015.** CNN Money. [Online] CNN, 2015. [Cited: 16.07.2015] http://money.cnn.com/news/economy/world_economies_gdp/.
- **Worldwealthreport. 2015.** worldwealthreport. [Online] 2015. [Cited: 17.07.2015] https://www.worldwealthreport.com/Global-HNWI-Population-and-Wealth-Expanded.
- **Xetra. 2008.** Fund Trading on Frankfurt Stock Exchange Faster and Cheaper with Xetra. [Online] 1.12.2008. [Cited: 21.11.2015.] http://deutsche-boerse.com/INTERNET/MR/mr_presse.nsf/0/14ff2524e67fbbe1c1257512002f27bc?OpenDocument&lang=en&newstitle=fundtradingonfrankfurtstockexc&location=press&Click=.
- **Yao, Coco Li and Kevin. 2015.** UPDATE 2-China says will control risks as yuan becomes more convertible. Reuters.com. [Online] Reuters, 26.03.2015. [Cited: 20.09.2015] http://www.reuters.com/article/2015/03/26/china-economy-yuan-idUSL3N0WS1LO20150326.
- **Zhong, Xiaofeng. 2013.** s.l. : Funds Global Asia, 2013.