

Asia Asset Management

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China's A share market offers new opportunities

Beijing-based China Asset Management is a power house with deep understanding of the local market that foreign investors can take advantage of

Economy in rebound

Much light has been cast on the current predicament of the Chinese economy, beset with plunging export numbers as a result of deteriorating demand from Western nations and a challenging road ahead to achieve the 8% GDP growth rate that the central government strives to attain for this year. But as the country continues to take giant steps unto the global stage, many have stacked the odds in China's favour as those among the first to recover from the global financial crisis.

Developments unfolding so far in 2009 have certainly given credence to this analysis. The A-share market has risen 30% in the first three months of the year, reversing its slide in 2008. China's capital market currently provides investors with an abundance of companies sporting healthy overall balance sheets, making their valuations more reasonable and appealing compared to those listed in other countries. As of March 2009, China's robust foreign exchange reserves soared 16% year on year to US\$1.954 trillion. Moreover, annual growth in urban fixed-asset investment rose by 28.8% in the first quarter, while industrial output growth bounced back to record an 8.3% expansion for the month of March, up from its record low of 3.8% during January and February.

As external demand evaporates, China has been making its moves in its transition into a more domestic demand-driven economy rather than an export-reliant one. The four trillion renminbi (\$570 billion) stimulus package unveiled by the central government combined with the 4.58 trillion renminbi in new loans issued by banks during the first quarter gives a much needed boost to prop up the domestic economy. Meanwhile, retail sales in the mainland jumped 15.2% over the first two months of the year, indicating signs that domestic demand is picking up.

QFII starts new chapter

A significant development in China in recent years has been the Qualified Foreign Institutional Investor (QFII) programme, launched in 2003 to provide a channel for licensed foreign investors to purchase and sell renminbi-denominated A-shares in the domestic stock exchanges.

Equity markets were previously closed off due to China's

exercise of strict capital controls which restrict the movement of assets in and out of the country.

At present, the total amount of QFIIs stands at 79 firms, while it is said that a further 100 companies are still waiting in queue for their licenses to be approved. Quotas for QFIIs placed under the programme are currently pegged at US\$30 billion.

In addition, foreign fund managers must have a minimum five-year fund operation experience and not less than US\$5 billion in assets under management (AUM).

China AMC's strengths

One firm that has been bolstering its presence in the QFII arena is China Asset Management (ChinaAMC), the largest fund manager in the PRC. As a bona fide industry pioneer, ChinaAMC's history is filled to the brim with numerous industry firsts. Like all trailblazers, it got off to an early start, establishing itself as one of the first three fund management companies in the PRC in 1998. It was one of the first fund management firms to be approved by the National Council for Social Security Fund (NCSSE) to manage its mandate since 2001. In October of the following year, it launched China's first pure bond fund, while two years later it unveiled the Mainland's first exchange traded fund (ETF) with the China 50 ETF. Furthermore, in 2005, it was among the first to be licensed to manage corporate annuities, and in 2007 China AMC successfully launched one of the first Qualified Domestic Institutional Investor (QDII) funds in China.

ChinaAMC also holds the distinction of being designated by the executive's meeting of East Asia Pacific Central Banks (EMEAP) as the sole manager for the ABF China Bond Index Fund in January of 2005. The index fund, which has been allocated 1 billion renminbi initially, tracks the iBoxx ABF China Index and invests in sovereign bonds, agency bonds, and central bank notes that are issued and traded in both the interbank and exchange markets in China.

By laying the foundations ahead of the pack, it has grown to become China's largest fund manager to date in terms of total AUM. As of December 31, 2008, ChinaAMC has AUM of more than 200 billion renminbi (US\$29.2 billion), which is

50 billion renminbi more than its closest competitor. It currently offers 19 mutual funds in its repertoire of products and services more than 12 million clients. For the past years, ChinaAMC has ranked among the top three Mainland fund management firms in each year, including claiming the top spot for the past two years. Posting a 9.74% market share as of year-end 2008, this feat has even more credibility considering that the number of fund companies in China has risen almost two-fold over a five-year span, during which competition has undoubtedly increased in the race to secure the all-important client base.

John Li, chief international business officer at ChinaAMC, attributes his firm's solid track record to its core strengths which cover four areas: steady and compliant operations, a proven investment and research team, efficient client service and a people-oriented corporate culture.

By being committed to running a stable and compliant operation, ChinaAMC has been able to grow steadily, and in the process, encountered zero regulatory problems over the past ten years. Consequently, ChinaAMC has been able to build on its reputation which it counts as a key factor in its success. "Reputation is very important. In the past two years, despite the ups and downs of the market, our market share has actually increased, indicating that investors trust us to manage their money," declares Mr. Li.

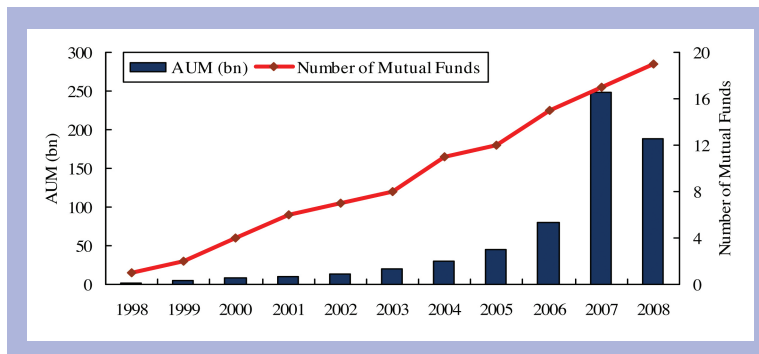
Counting its proven investment and research team as a core strength, ChinaAMC backs this up with numbers, employing a 100-plus strong team dedicated to focussing on investment research in the region. It has around 35 analysts covering all the major sectors and industries, upholding the corporate philosophy "research creates value" and that all investments must come from research.

The firm prides itself on providing efficient client service, stating the point that although it is very difficult to maintain the top spot in terms of performance, a company can always be number one in service quality, if the effort is there. Keeping this in mind, ChinaAMC has invested its money, people and resources to enhance its service capabilities in order to serve more than 12 million investors currently.

The fourth aspect is ChinaAMC's people-oriented culture built over the past decade, enabling people to work together harmoniously. This has resulted in low personnel turnover compared to that of its peers. Annual turnover is lower than 10%, with the senior management team having worked in ChinaAMC for more than seven years on average. In addition, the fund management team and the team of analysts – on average – have been with the firm for more than six years and more than four years respectively.

QFII specialist

With its core strengths in place, ChinaAMC seeks to utilize them further into the QFII arena as part of ChinaAMC's vision to become a solid asset management company with global influence. Currently, ChinaAMC provides different types of



QFII services to its overseas clients: they can invest directly in the firm's products such as mutual funds, or by utilising the firm's sub advisory services, helping the QFIIs invest in the A-share market with research support, or delegate the mandates to ChinaAMC for discretionary asset management.

It has forged a path to becoming a key player in the QFII industry by offering special value-added services to its clients. ChinaAMC is staffed with an independent team from the mutual fund investment division that provides tailored investment management to institutional investors, including a separate team dedicated to provide services to QFII clients. Its contribution to foreign investors is the excess return generated through the firm's thorough and intensive research of the A-share market.

Throughout the years, it has also made communication and the exchange of ideas with its foreign counterparts a top priority, paving the way for more efficient investments. As a result of its efforts, ChinaAMC is now providing sub advisory services to several renowned foreign financial institutions including Wells Capital Management, the US-based fund house that is an affiliate of Wells Fargo Bank.

The road ahead

Potential QFIIs seeking to enter into the Chinese market would best heed ChinaAMC's advice: For starters, they should prepare themselves for a lengthy application period and remain patient. They must also possess wide and stable asset resources, as well as emphasize product design or have a clear product plan upon entering the market. Finally, they must realize their respective investment advisor's value in helping them achieve their goals.

Having established a strong foothold in the industry over the past eleven years, ChinaAMC from the beginning sought to be the best in China. While its core business still remains in the PRC, it strongly believes it is necessary to eventually and gradually expand overseas to diversify its business and cater to increasing foreign demand for global investing. In doing so, ChinaAMC understands that the key to success in the long-run is to establish mutually beneficial relationships with its clients, and never for short-term gain – a principle that has certainly enabled it to become the largest fund manager in China. ■

For more information, please contact

Pearl Chen
 Director, International Business
 Tel: (86) 10 8806 6990
chenh@ChinaAMC.com
www.ChinaAMC.com