Z-Ben Advisors presents

2017 China Rankings

The top foreign firms in China

April 2017

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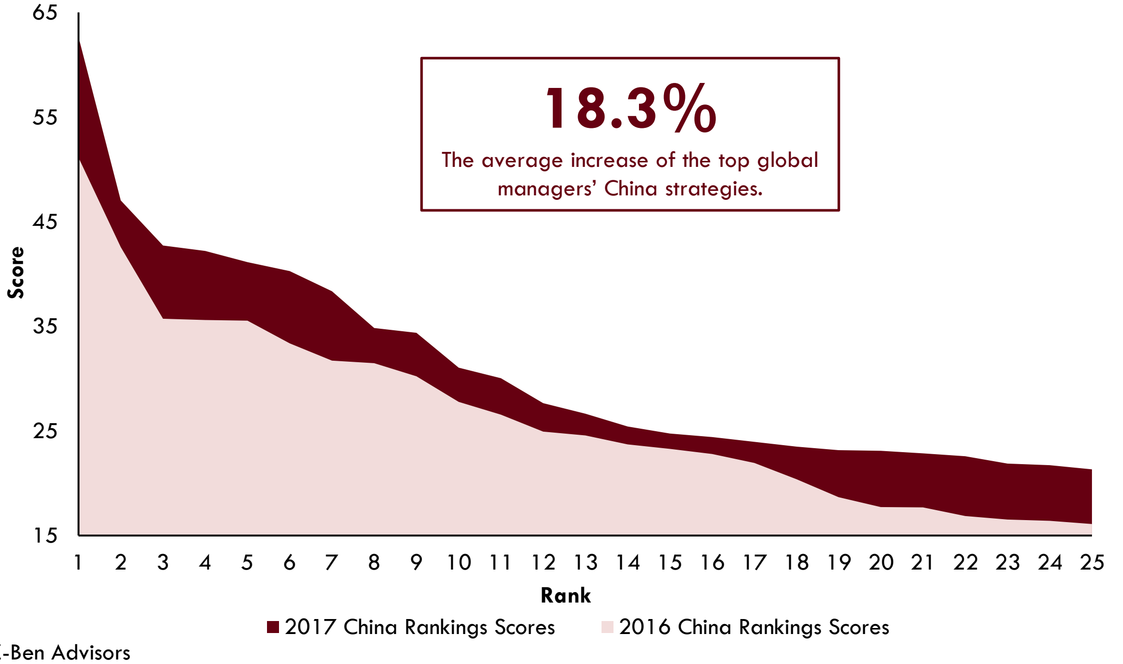
Foreword – The bar has been raised

Stand still and your competitors will overtake you. That is the key finding from Z-Ben Advisors' second annual China Rankings, clearly evidenced by over a quarter of last year's top 25 global managers failing to make this year's list. To remain consistent in positioning requires that global managers have in place a well-diversified China strategy and an approach that is fluid enough to evolve in response to rapid regulatory shifts and inconsistent client demand. In short, "doing China" is more complex than ever before and is demanding even greater attention.

This then brings about the China Ranking's second key finding: the competitive landscape is quickly becoming a war of attrition. Contrary to conventional belief, tangible economic and competitive gains are very real. Achieving those results does demand an investment of not only resources but – most critically – time. It is the latter where the majority of firms are found to have faltered. Still, for global managers with the necessary intestinal fortitude, there remains real room for growth both in AUM and fees. Not all will take action and, with that, you can be assured of greater positional turnover in next year's rankings.

Managers are more competitive across the board

There has been a linear shift upwards in the scores required for each position compared to last year's China Rankings.



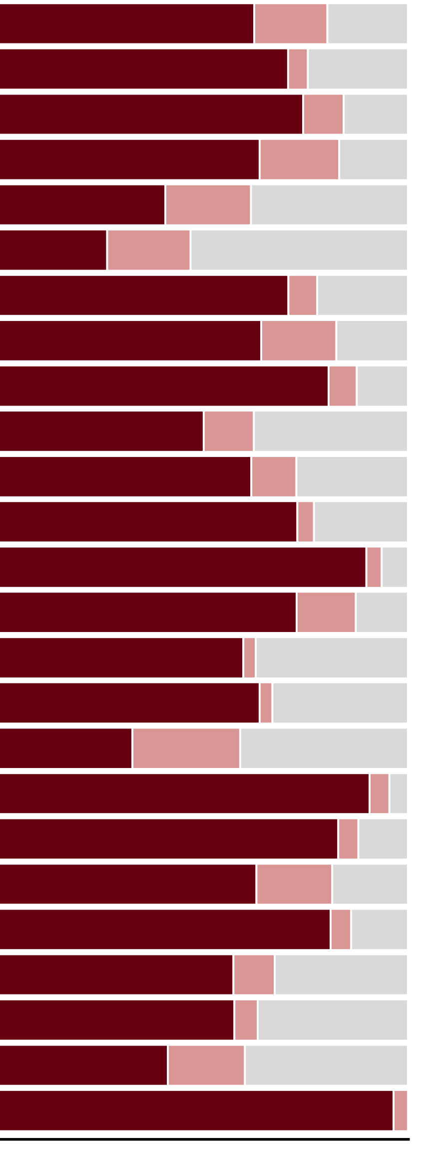
Source: Z-Ben Advisors

The top 25 foreign firms in China

A global focus on China

Only a few managers remained in the same position, highlighting the intensity of competition already present.

2017 Rank	2016 Rank	Firm		2017 Score	Score distribution across the three business lines
1	1	JP Morgan	United States	62.7	
2	2	UBS	Switzerland	47.0	
3	6	HSBC	United Kingdom	42.7	
4	4	Invesco	United States	42.2	
5	5	Schroders	United Kingdom	41.1	
6	8	BlackRock	United States	40.3	
7	14	Allianz GI	Germany	38.4	
8	20	Morgan Stanley	United States	34.8	
9	9	Deutsche AM	Germany	34.4	
10	16	Fidelity	United States	31.0	
11	3	BNP Paribas	France	30.0	
12	15	PineBridge	United States	27.6	
13	12	Eurizon	Italy	26.6	
14	18	Franklin Templeton	United States	25.4	
15	-	Generali	Italy	24.7	
16	11	Nikko AM	Japan	24.4	
17	13	Value Partners	Hong Kong	23.9	
18	23	AXA IM	France	23.5	
19	7	Societe Generale	France	23.2	
20	-	Bridgewater	United States	23.1	
21	-	Manulife	Canada	22.8	
22	-	Vanguard	United States	22.6	
23	-	Aberdeen AM	United Kingdom	21.9	
24	-	Hang Seng	Hong Kong	21.7	
25	-	AEGON	Netherlands	21.3	



Source: Z-Ben Advisors

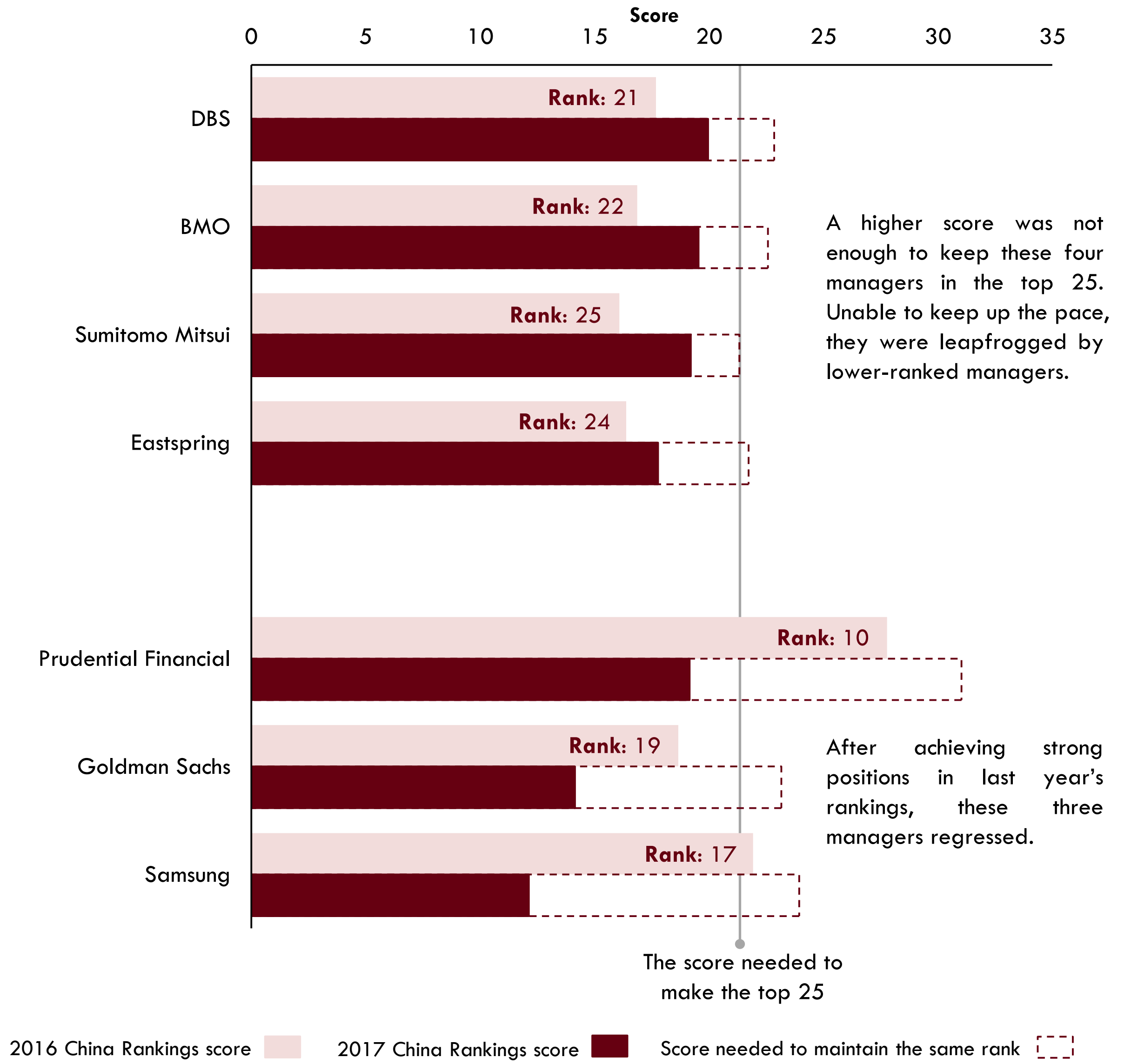
Proportion of overall score: Onshore Outbound Inbound

Relativity matters

When good isn't good enough

Seven firms fell out of the top 25, despite most increasing their score.

When competitors are improving their China strategies, you have to keep up the pace, or else you'll fall behind. This was the case for seven of last year's top 25. Four of these managers were able to register higher scores, but it just wasn't enough. The other three managers endured a difficult year as their China strategies regressed, causing their scores to fall.



Source: Z-Ben Advisors

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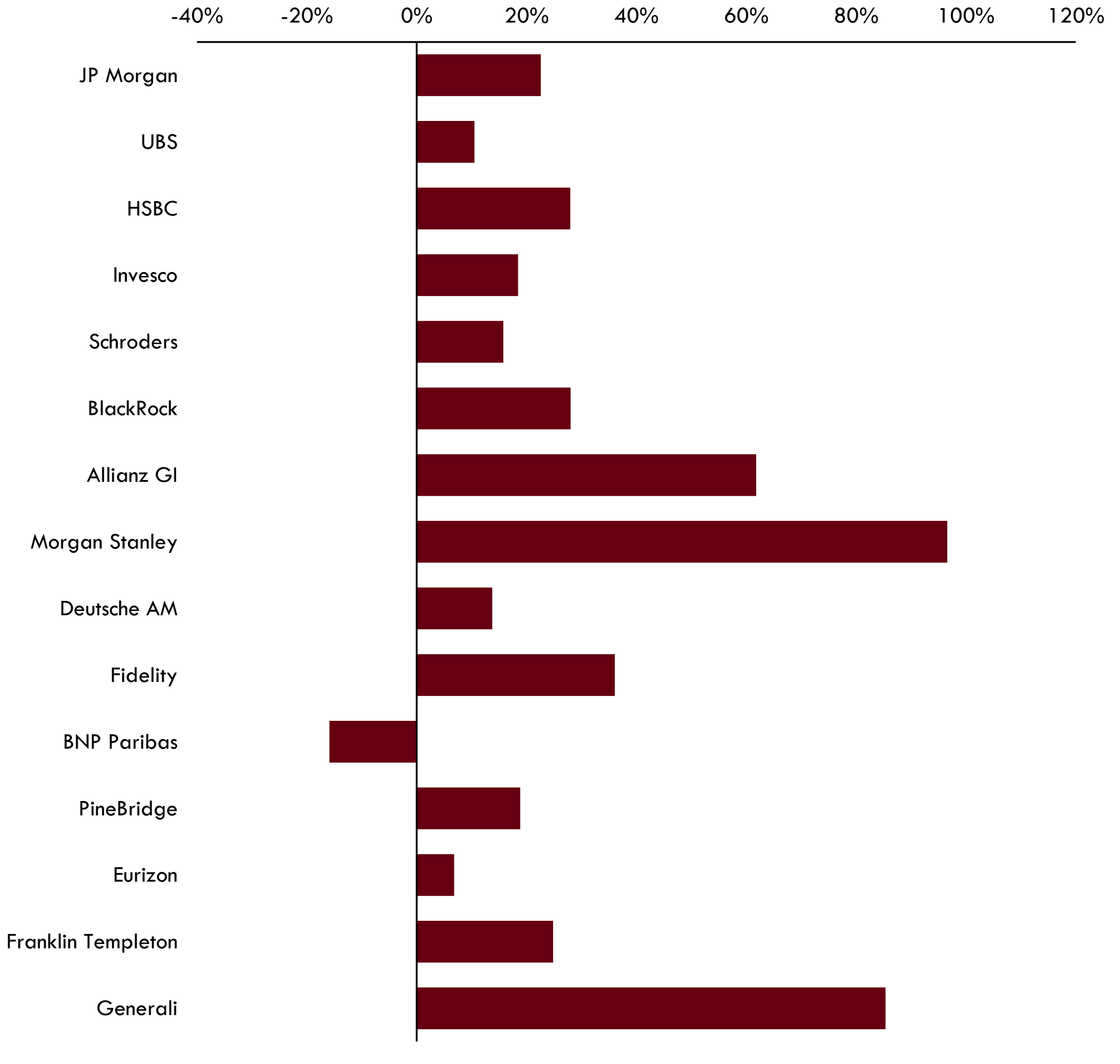
No resting on your laurels

Top managers have kept up the pace

Most of last year's highest-ranked managers have increased their score by at least 15%.

The bar has been lifted across the whole competitive landscape of foreign firms. Even after scoring highly in the 2016 China Rankings, top managers have continued to develop their China business. However, BNP Paribas' year-on-year score decline saw it fall to 11th place, while UBS and Deutsche AM have seen peers make progress in closing the gap.

Percentage change in score between the 2017 China Rankings and the 2016 China Rankings



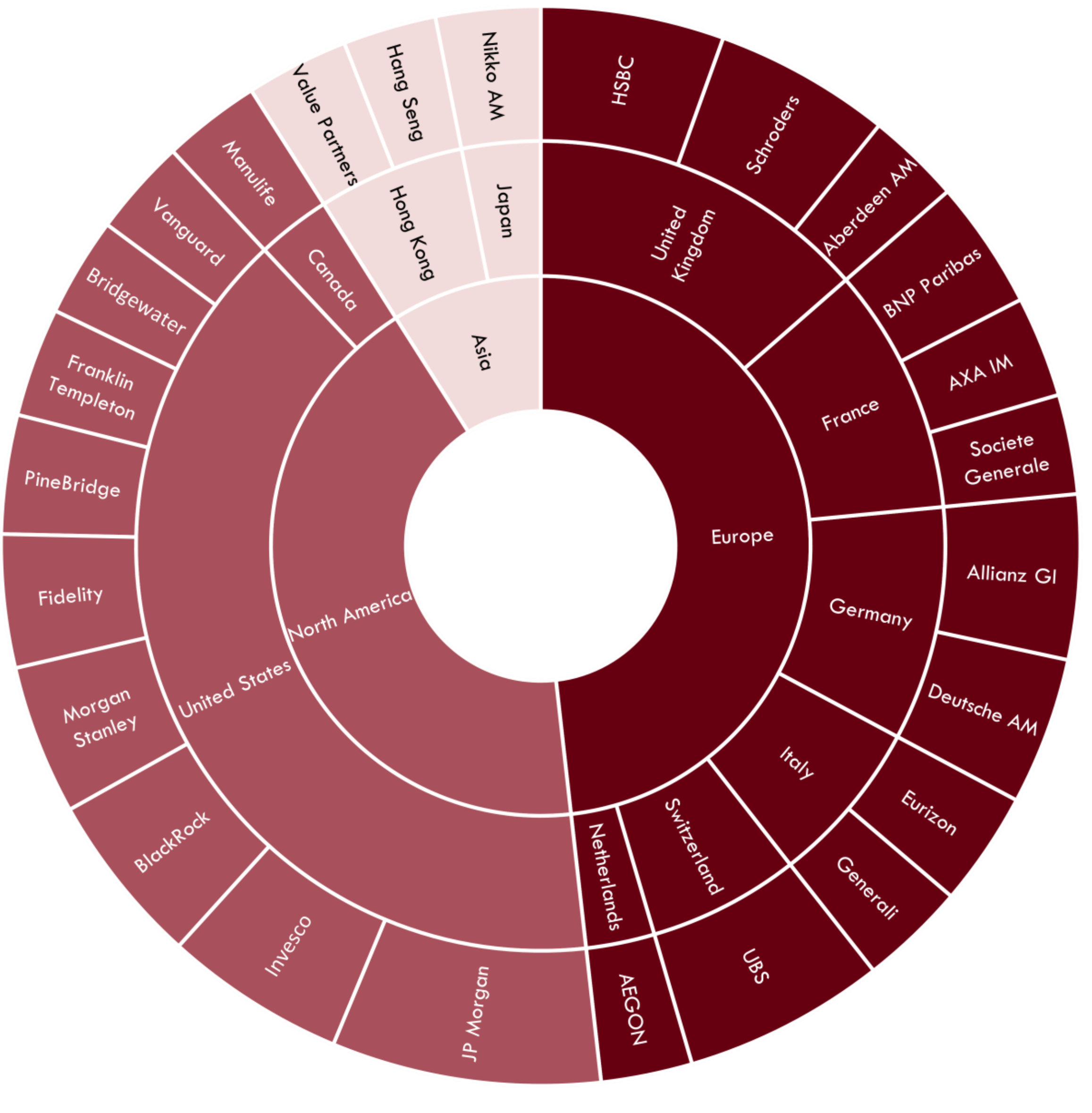
Source: Z-Ben Advisors

Europe and the US further assert their dominance

Geography of the top 25

Heavyweights from developed western markets have developed their China strategies more than rivals from the Asian region.

European managers were the biggest gainers in the 2017 China Rankings. They account for just under half of the scores of the top-25-ranked managers. With North American managers' presence in the top 25 also increasing, Asian managers lost out.



Source: Z-Ben Advisors

Note: Presence is measured as the sum of scores of managers from each region divided by the sum of all scores in the top 25 positions.

A year of significant change for foreign managers

No longer just an opportunity down the line

Major progress was made for global managers in regards to facilitating their onshore and inbound business lines. However, at the same time, managers faced difficulties in raising domestic capital to invest offshore.

One step closer to running money onshore

A wide range of global managers set up an investment management platform in 2016. After registering with regulators, global managers can use this platform to mainland money onshore.

Access granted to fixed income markets

China threw open the doors of its USD9.3tr interbank bond market to global investors. Managers have since been positioning themselves to enter the market.

Outbound investment is curtailed

In a bid to reduce capital outflows, most of China's outbound channels saw limited usage in 2016. However, MRF and the Stock Connect proved popular with mainland investors eager for offshore exposure.

Inbound China assets become the norm

With a range of inbound channels at their disposal, the majority of Greater China-focused funds are using multiple inbound channels to gain exposure to onshore China asset classes. This is a major shift from 2015.

Emerging market quota grants

It's not just Greater China funds taking advantage. Large emerging market and APAC funds are using inbound channels to gain China exposure. This follows large quota grants throughout 2016.

Source: Z-Ben Advisors

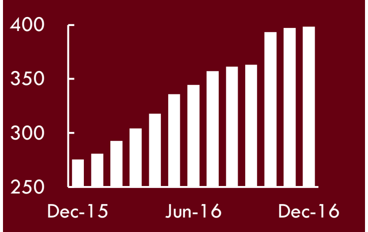
Capabilities in detail

Asset managers have found that focusing solely on one business line isn't enough to reach the upper echelons of our China rankings. A broad China strategy is needed. All three business lines offer attractive opportunities to foreign investors.

Onshore

China's private fund industry AUM ***grew 54.6% in 2016 to USD398bn.*** *Global asset managers are able to enter this industry to run domestic Chinese capital under their own brand name.*

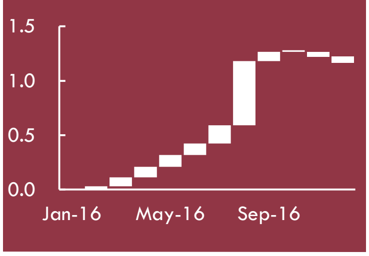
China's private fund industry AUM, Dec 15-Dec 16 (USD bn)



Outbound

Despite greater restrictions on outbound channels in 2016, managers have positioned themselves to take advantage of ***relaxations on overseas investments.***

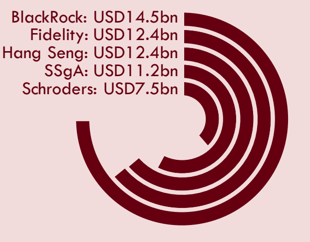
Net outbound MRF flows, Jan 16-Dec 16 (USD bn)



Inbound

Bulge-bracket managers have amassed large Greater China AUM, despite a difficult year in 2016. They have been actively channeling AUM through inbound channels.

Greater China fund AUM, Dec 16 (USD bn)



Top 10 managers for China onshore business

Rank	Firm
1	JP Morgan
2	UBS
3	HSBC
4	Deutsche AM
5	Allianz GI
6	Invesco
7	Eurizon
8	Morgan Stanley
9	AXA IM
10	AEGON

Top 10 managers for China outbound business

Rank	Firm
1	JP Morgan
2	Schroders
3	Invesco
4	BlackRock
5	Morgan Stanley
6	Value Partners
7	BEA
8	Barings
9	Bridgewater
10	HSBC

Top 10 managers for China inbound business

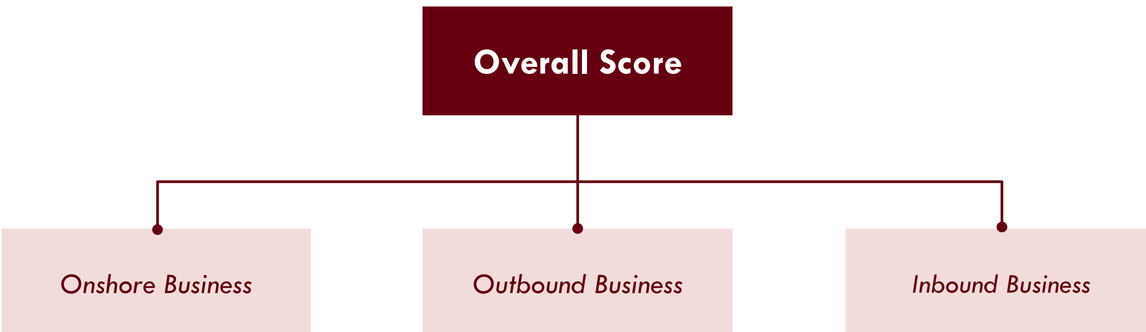
Rank	Firm
1	BlackRock
2	Schroders
3	JP Morgan
4	Fidelity
5	State Street
6	UBS
7	First State
8	Value Partners
9	Generali
10	Hang Seng

Source: Z-Ben Advisors

Appendix

Scoring structure

The overall score is calculated by summing the weighted scores of the three distinct business lines. The highest possible overall score that any firm can get is 100. This would result from being the highest-ranked firm in not only all three categories, but in every subcategory.



Time frame

Data was collected as of 31st December 2016. Instead of just providing a snapshot of each firm at that point in time, we have also considered factors that analyze a company's performance throughout the year. Many, but not all, firms also responded to direct surveys which sought data about various aspects of their broad China strategies.

Onshore business

The onshore business focuses on two key areas of mainland presence: joint venture companies and wholly-foreign-owned entities (WFOEs). The past twelve months have seen a marked increase in the number of firms setting up investment management WFOEs onshore as it will likely be the primary way that most foreign firms conduct business onshore. Although raising capital through this entity is soon to be a reality, it is still considered a source of future growth. As a result, we have considered joint ventures more valuable to a firm's 2016 China strategy.

Outbound business

The outbound business considers the various programs that permit domestic capital to be invested overseas. Despite capital outflow restrictions in 2016, firms were able to raise capital and position themselves strategically for as and when restrictions are relaxed. We also rank the scale of the firm's subadvisory business.

Inbound business

The inbound business covers the Greater China fund management business as well as the use of China's various inbound investment channels. Emphasis was placed on physical asset investment in fund products.

Weightings

Each of the three categories is assigned a weighting that is based on its importance to current and future China strategy. As a result, the mainland business score has the highest weighting, followed by the inbound business. The outbound business has the lowest weighting due to the relative infancy of most outbound programs and the capital outflow controls that were imposed at the end of 2015, which remain in place as of the time of writing. Within each of the three categories, firms are given scores for numerous subcategories, of which each is assigned a weighting based on its importance to the business line.

The rankings model is designed to maintain the same structural format each year and weightings may change based on the evolving nature of foreign firms' strategy in China and the regulatory environment. These changes would reflect the way that firms view China and are building their strategy.

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As head of the data analytics department, Mr. Shi is responsible for overseeing all of Z-Ben Advisors' analysis and thought leadership on a variety of topics, including China's asset management industry, financial institutions, financial markets, macroeconomic and policy developments. During his nine years with Z-Ben Advisors, Mr. Shi has had the opportunity to work extensively on both research and advisory work, where he specializes in examining regulatory developments. Prior to joining the firm, Mr. Shi served as the personal research assistant to American journalist and political commentator, James Fallows, where he spent a year investigating policy and social reforms.

Mr. Shi holds a B.A. and M.A. from Shanghai International Studies University.

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Mr. Flynn leads the research and deliverable production for the Greater China investment management industry as well as the annual investment manager rankings. His work covers both active and passive management in the region as well as emerging strategies such as smart beta and ESG. His specialties also include hedge funds, fixed income and alternative asset classes. Prior to joining Z-Ben Advisors, he worked as a derivatives trader for a global macro hedge fund in London.

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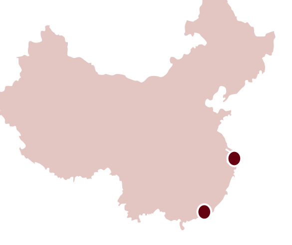

ABOUT Z-BEN ADVISORS

Z-Ben Advisors has led global financial institutions to a more actionable understanding of China's financial market dynamics by providing market intelligence and strategic advice on every facet of the China asset management industry in real time. We combine raw fund flow data with competitive benchmarking to deliver focused and forward-looking market analysis, all contextualized against the regulatory developments that will significantly impact the China outlook and bottom lines of global financial firms.

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