THE FUTURE OF
ASSET MANAGEMENT
IN CHINA 2024

FLEISHMAN HILLARD

EXECUTIVE SUMMARY

Welcome to the sixth edition of The Future of Asset Management in China report. This year's report is published as the industry continues to see significant developments and challenges in recent years, against the backdrop of geopolitical tensions and macroeconomy uncertainties.

The mainland Chinese government has been actively promoting the development of its asset management industry, aiming to enhance the efficiency and stability of its capital market while opening up new investment opportunities.

While slow global economic growth or an economic downturn (39%) is identified as posing the biggest risk to Chinese mainland investors, the country's economy was off to a strong start in 2024, with overall GDP growth of 5.3% exceeding annual growth targets thanks to strong performances in the industrial and services sectors. Quarterly economic data released by the National Bureau of Statistics showed that several areas of the economy expanded, including industrial output, retail sales, and foreign trade. It is interesting to see that mainland Chinese investors are relatively less risk-averse than other counterparts in Asia with 49% of them perceiving increased buying opportunities and increasing their risk appetite or actual investments in high-yield instruments.

Against such a backdrop, we continue to see overseas asset managers tapping into the mainland China market through applying for Fund Management Company (FMC) licenses or acquiring the remaining stakes of their joint ventures. In our survey, we found that 28% of investors showed interest in onshore retail funds by overseas asset managers, up eight percentage points as compared with the results in 2023.

Private markets investments (in the form of private equity (PE) funds, real estate, and private credit funds) are also getting attention from mainland Chinese investors as 26%, 24% and 20% of respondents respectively are interested in these products over the next 12 months to diversify their portfolios to returns with relatively lower market correlation.

Technology continues to play a significant role in shaping the asset management industry in mainland China, which is at the forefront of technology adoption, with artificial intelligence and machine learning revolutionizing investment analysis, management, and reporting across the industry's functions. More investors are using online banking/fund platforms (63%, +12 pts YoY) for fund patronage, citing variety of funds (90%) as the main reason.

Environmental, social and governance (ESG) considerations are increasingly prominent in mainland China's regulatory landscape. Governments and regulators prioritize sustainable investing practices, implementing ESG frameworks and reporting requirements. Asset management firms face compliance challenges as they align investment strategies with evolving regulations. We continue to see strong interest from investors in mainland China to choose ESG (90%) as one of the major criteria to pick an asset manager, the highest among other Asian investors.

Mainland China's continuous efforts to liberalize its financial sector and foster innovation are expected to fuel significant growth in the industry. With a rapidly expanding middle class and increasing wealth accumulation, there is a substantial demand for sophisticated investment solutions and wealth management services. As mainland China's economy continues to mature and its capital market further expands, the industry is poised to experience robust expansion and to become a vital component of the global asset management ecosystem.

Best regards,

Patrick Yu
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Asia Pacific Lead, Financial and Professional Services Sector
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ASSET MANAGEMENT LANDSCAPE

IN MAINLAND CHINA

MAINLAND CHINA

Faced with global macro-economic challenges, mainland China is experiencing a short-term decline in foreign investor interest in mainland Chinese stocks and bonds, leading to an impact on capital flows[1].

According to Financial Times calculations based on data from Hong Kong's Stock Connect trading scheme, net foreign investment into mainland China fell from US$32.5 billion in August 2023 to just US$4.25 billion by the end of December 2023, with nearly 90% of foreign money withdrawn from the onshore equities market last year. Global active long-only funds alone pulled a combined US$3.8 billion from mainland China and Hong Kong equities in December 2023, marking the worst monthly outflow of the year. While data released in February 2024 by the People's Bank of China showed that foreign entities held a total of US$390 billion onshore Chinese equities at the end of 2023[2], the Institute of International Finance predicts another US$65 billion of capital will be withdrawn from mainland Chinese equities and bonds in 2024[3].

However, the government remains committed to supporting the asset management sector, and mainland China central banks and regulators continue to implement a series of measures aimed at improving investor confidence and boosting market flows, such as requesting state-owned firms to purchase exchange-traded funds (ETFs) tracking the mainland Chinese stock market and asking fund firms to limit net sales of equities.

MAINLAND CHINA EXPANSION VIA WFOE PFM, QDLP AND FMC LICENSES

The Wholly Foreign Owned Enterprise and Private Fund Manager (WFOE PFM) and Qualified Domestic Limited Partner (QDLP) schemes have become key avenues for overseas asset managers to access the local market in mainland China. It is notable that mainland Chinese authorities are looking to expand and integrate these schemes including the FMC licenses as part of their ongoing efforts to open up the financial market.

Following the launch of the first QDLP fund managed by a WFOE private fund manager in March 2023, the Shenzhen Municipal People's Government issued the "Printing and Distributing and Implementing Plan for the Opinion on Financial Support for the Comprehensive Deepening of Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone" in July to support its reform and opening up. This plan seeks to explore the Shenzhen-Hong Kong Private Fund Connect mechanism, improve the efficiency of the Qianhai Co-operation Zone's pilot scheme, which includes Qualified Domestic Investment Entity (QDIE), Qualified Foreign Limited Partnership (QFLP), and WFOE PFM, and lower the entry barriers for Hong Kong investors[4].

The plan also enables entities that hold QFLP qualifications to immediately apply for QDIE qualifications, as well as entities to apply for both QFLP and QDIE qualifications or to begin QDIE and WFOE PFM operations[5], promoting greater cross-border investment cooperation between Shenzhen and Hong Kong.

With regard to FMC licenses, another Europe-headquartered asset manager obtained approval to set up an onshore fund management company in August 2023[6], the sixth such institution to secure a mainland China regulatory approval to establish WFOE retail fund units to conduct business within the mainland China asset management asset management industry.

ETFS ON THE RISE IN 2023

Mainland Chinese ETFs that track the benchmark CSI 300 have been favored by investors looking to buy at the bottom, having experienced continuous capital inflows since the second half of 2023[7]. The low valuation of the CSI 300 emphasized its long-term investment value, drawing attention in the market. Overall assets in mainland China's ETF market surpassed the CNY2 trillion (US$280 billion) mark for the first time in late 2023, reaching US$277 billion by the end of December, having raised US$60.7 billion since the beginning of the year, according to Wind data.

Equities ETFs experienced record high inflows of US$66.2 billion last year, nearly double the previous year. Mainland China's ETF market grew by more than 20% last year, as investors preferred passively managed products over actively managed ones. Fixed income fund assets rose by 24% last year, reaching an all-time high of US$735 billion. The increase in bond fund assets was driven by the outperformance of domestic fixed income strategies compared to stock funds and balanced funds[8].

CHALLENGING M&A MARKET FOR PRIVATE EQUITY FIRMS

The PE market in mainland China has had a quiet 2023 with many PE firms choosing to diversify to other markets across the Asia-Pacific region, such as India, Japan, Australia, and South Korea. This shift is largely due to general investor sentiment in mainland China and high capital outflows in 2023. The secondary market is offering some opportunities as the valuation of mainland Chinese equities falls, however, there has been a substantial spread between bid and ask prices over the past 12 to 18 months. Lower market liquidity has made it challenging for PE investors to exit compared to public investors[9]. Secondary buyers have been seeking discounts ranging from 30% to over 60%, causing PE firms to explore alternative strategies, such as setting up continuation funds to take over holdings for future years, according to people familiar with the market[10].

MAINLAND CHINA

MORE ESG AND SUSTAINABILITY GUIDELINES IN PLACE IN MAINLAND CHINA

ESG investing is a bright spot in the mainland Chinese asset management market. According to Morningstar, the number of sustainable funds in mainland China has tripled over the past 2.5 years, with mainland Chinese asset managers expanding their sustainable product offerings to align with the mainland Chinese government's "dual-carbon" goals announced in September 2020. Despite challenges in the stock market, sustainable funds have continued to achieve inflows since 2020, driven by the government's policies. However, although positive fund flows have been recorded recently, a Morningstar report indicated that sustainable assets under management in mainland China decreased to US$43.5 billion as of the end of June, largely due to the overall domestic stock market performance[11].

Currently managers are not mandated to disclose the ESG exposure of each fund, making it difficult for investors to assess the actual level of ESG integration in a fund, and many asset managers in mainland China have advocated for an improved public disclosure framework with standardized ESG disclosure rules. However, there is still a large cost associated with acquiring ESG data or analytical tools and many mainland Chinese asset managers do not perceive the demand for ESG investing to justify the expenditure. Despite these challenges, mainland Chinese managers continue to launch ESG funds and factor ESG into their investment decisions. Between 2018 and the first half of 2023, mainland Chinese firms rolled out at least 477 fund products that carry "ESG", "Social Responsibility" or "Green" in their names, most of which were equities funds or mixed-asset funds[12], according to a new research report cited by the 21st Century Business Herald.

In February 2024, mainland China's three key stock exchanges - the Shanghai Stock Exchange, Shenzhen Stock Exchange and Beijing Stock Exchange announced their first sustainability-related reporting guidelines, marking a significant step in the country's transition towards a green economy and alignment with international ESG trends. The guidelines aim to enhance listed companies' understanding of sustainable development, improve their information disclosure and educate them on implementing sustainability within the organization[13].

ENHANCED OVERSIGHT OF THE DOMESTIC ASSET MANAGEMENT INDUSTRY

In February 2024, Wu Qing was appointed as the new Chairman of the China Securities Regulatory Commission (CSRC), and he shared his plan for a much stricter regulatory approach for mainland China's asset management industry. This transition came after several regulatory policies aimed at strengthening the onshore A-shares market and boosting investor confidence, such as restrictions on short selling, which came into force amidst the stock market slump[14]. Since then, the securities watchdog has introduced a range of policies intended to increase regulatory oversight of the domestic funds industry and reduce non-compliance. These measures include demanding that shareholders of fund companies improve the management of their own businesses. The CSRC stated that the effectiveness of governance, the implementation of risk prevention, and the awareness of compliance are not high enough in the asset management industry. Tighter governance is required to cultivate a stable financial ecosystem, with the overall goal to have a "comprehensive and effective regulatory system" by 2035[15].

FUTURE OUTLOOK

There has been substantial policy support from the mainland Chinese government to stabilize the economy with more measures expected, especially in the property sector. As a result, outflows from mainland Chinese equities paused through the end of February 2024, and regional managers have begun adding growth and tech stocks in the mainland Chinese market[16] as confidence returns. Meanwhile, some funds are reported to have started trimming holdings in India stocks due to high valuations, creating an opportunity for mainland Chinese stocks to re-enter global portfolios[17], especially when market valuations are at extremely low levels. For many investors, mainland Chinese stocks have not yet reached their lowest point, although they could see signs of a rebound, which presents a potential opportunity for investors in the future[18].

Given mainland Chinese regulators' renewed dedication to boosting investor confidence and market flows, as well as a gradual recovery in its market performance, it is believed that the outlook for mainland China asset management industry remains resilient for 2024.

SURVEY FINDINGS AND RESULTS

SURVEY FINDINGS

- TRUE Global Intelligence, the in-house research practice of FleishmanHillard, fielded an online survey among 250 investors in mainland China during the period from March 30 to April 10, 2024.
- Now in its sixth year, the survey was conducted to explore what mainland China investors think about different investment products and themes. We also asked them about their experiences with overseas asset managers, their access to financial information and advice, and their use of digital platforms.
- Mainland Chinese respondents in the survey have traded or invested in at least one of the followings:

Digital assets or cryptos	41%
PE funds	44%
Balanced funds	28%
Alternatives	33%
ETFs	47%
Fixed income	66%
Equities funds	76%

SURVEY HIGHLIGHTS MAINLAND CHINA

- Mainland Chinese investors primarily trade/invest in equities funds (76%) and fixed income (66%), and are most interested in investing in the same funds for the next 12 months (63%, 48% respectively).
- Asset management house performance (94%) and credibility (92%) are most important in selecting an asset manager. ESG commitment of the asset manager also stands at 90%.
- Over 3 in 5 (64% vs 73% last year) mainland Chinese investors have invested in funds run by overseas managers, due to having a better track record (55%), better performance (54%), and unique investment strategies (54%) compared to local managers.
- In 2024, 49% of mainland Chinese investors are seeing more opportunities and are increasing their risk appetite or actual investments in high-yield instruments.
  - Over one-third (39%) consider slow global economic growth/economic downturn as their biggest financial risk.
- There is highest interest in artificial intelligence (AI) funds (55%) and precious metals (37%) for future investments.
- To diversify the portfolio, 26%, 24% and 20% of mainland Chinese investors are interested in PE funds, real estate funds and private credit funds respectively in the next 12 months, aiming to achieve relatively lower market correlation returns.
- AI (63%) and internet and technology (52%) are sectors of highest interest to invest in, each increasing by 10 percentage points from last year.
- Like last year, mainland Chinese investors are most interested in the Asia-Pacific (APAC) region (64%), especially in China A-shares (70%), Hong Kong and Singapore (both at 45%).
- Social media (52%) and fund house websites (48%) are used most for information on funds and investment products.
  - Specific to social media, Weibo and WeChat are most popular with 67%, respectively.
- More investors are using online banking/fund platforms (63%, +11 pts YoY) for fund patronage, citing variety (90%), ease of use (88%) and instant analysis/advice on asset allocation/risk management (87%) as motivators for use.
- Over half of investors (61% -5 pts YoY) have used AI tools/ ChatGPT and find them easy to use (90%).
- Strong local presence/team expertise (88%) and sophistication in risk management (86%) continue to be important qualities for overseas asset managers operating in mainland China.

SURVEY RESULTS

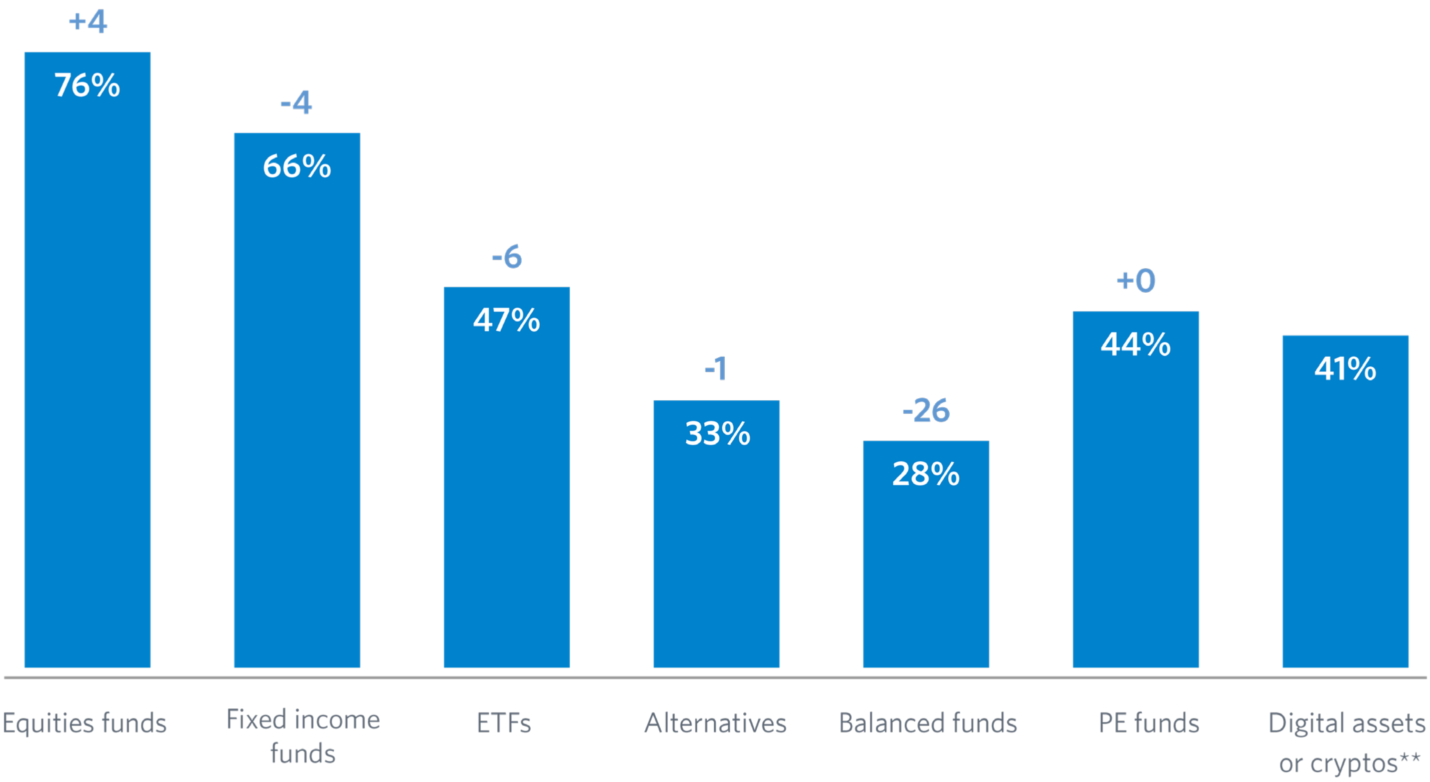
LAST YEAR OVERVIEW

In line with the broader trends in Asia, mainland Chinese investors predominantly allocated their investments to equities funds (76%) and fixed income (66%), although there was a slight decrease in fixed income compared to the previous year's figures of 70%.

PE funds have notably gained traction among mainland Chinese investors, closely following the popularity of equities, fixed income and ETFs. This shift towards PE funds demonstrated investors' appetite for diversification in their portfolios. Investors may view PE funds as a strategic choice to capitalize on opportunities outside the traditional equity and fixed income markets.

Mainland Chinese investors stand out among their Asian counterparts as being particularly interested in digital assets or cryptocurrencies. Approximately 41% of mainland Chinese investors have invested in digital assets in the past 12 months, showcasing a strong appetite for this emerging asset class. This heightened interest in digital assets may be driven by factors such as technological innovation, perceived growth potential, and the desire to diversify investment portfolios beyond traditional asset classes. Additionally, the increasing adoption and acceptance of digital currencies in mainland China's financial landscape may have enhanced the popularity of digital assets among mainland Chinese investors.

Please select the types of financial products which you have traded or invested in.



+/- Change from 2023
** New in 2024

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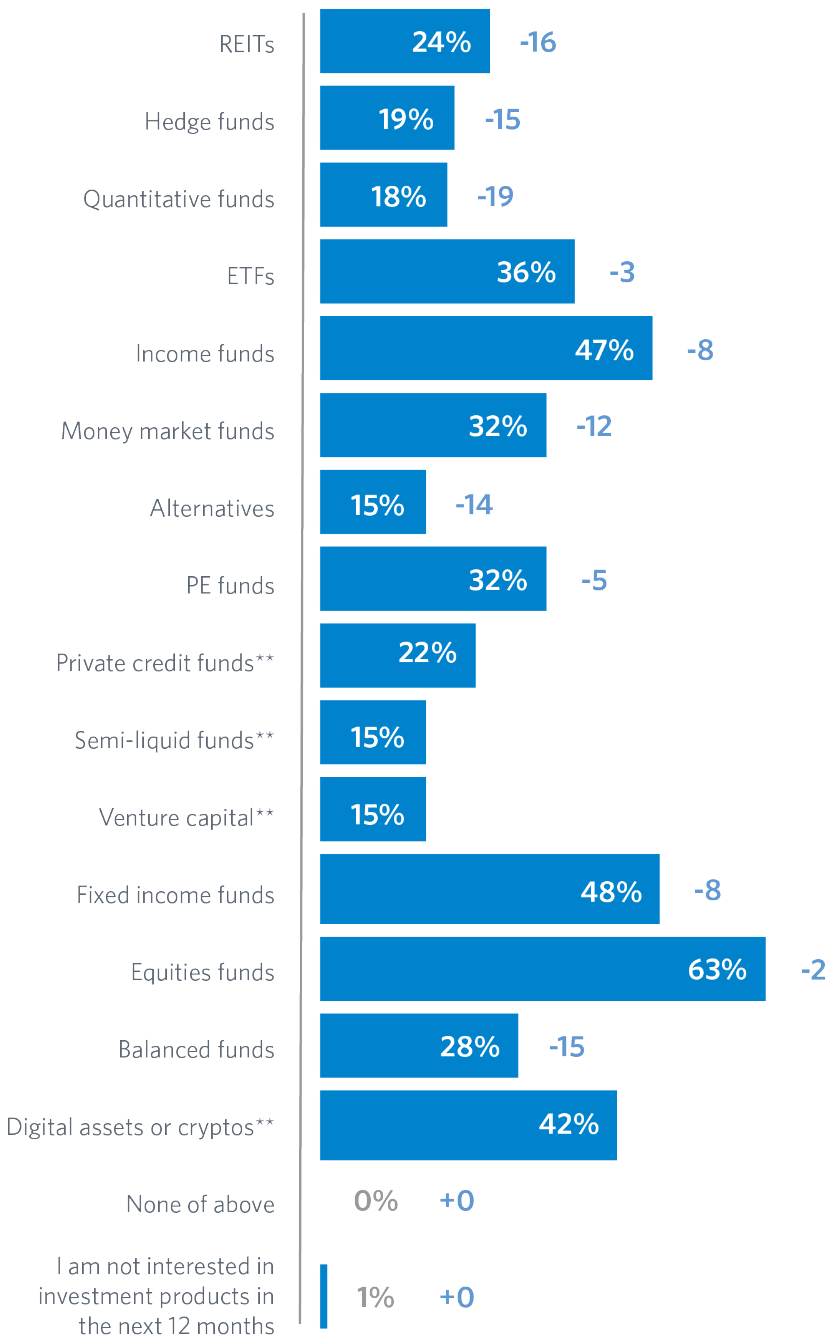
UPCOMING INVESTMENT TRENDS

Looking into 2024, mainland Chinese investors maintain a preference for equities funds (63%), followed by fixed income funds (48%) and income funds (47%).

In contrast to many other Asian investors who show less interest in digital assets or cryptocurrencies (28%), mainland Chinese investors exhibit a higher level of enthusiasm, with 42% expressing interest in this asset class. The increased interest in digital assets among mainland Chinese investors can be attributed to their interest in looking for alternative investment opportunities beyond traditional asset classes.

Investment products of interest in the next 12 months



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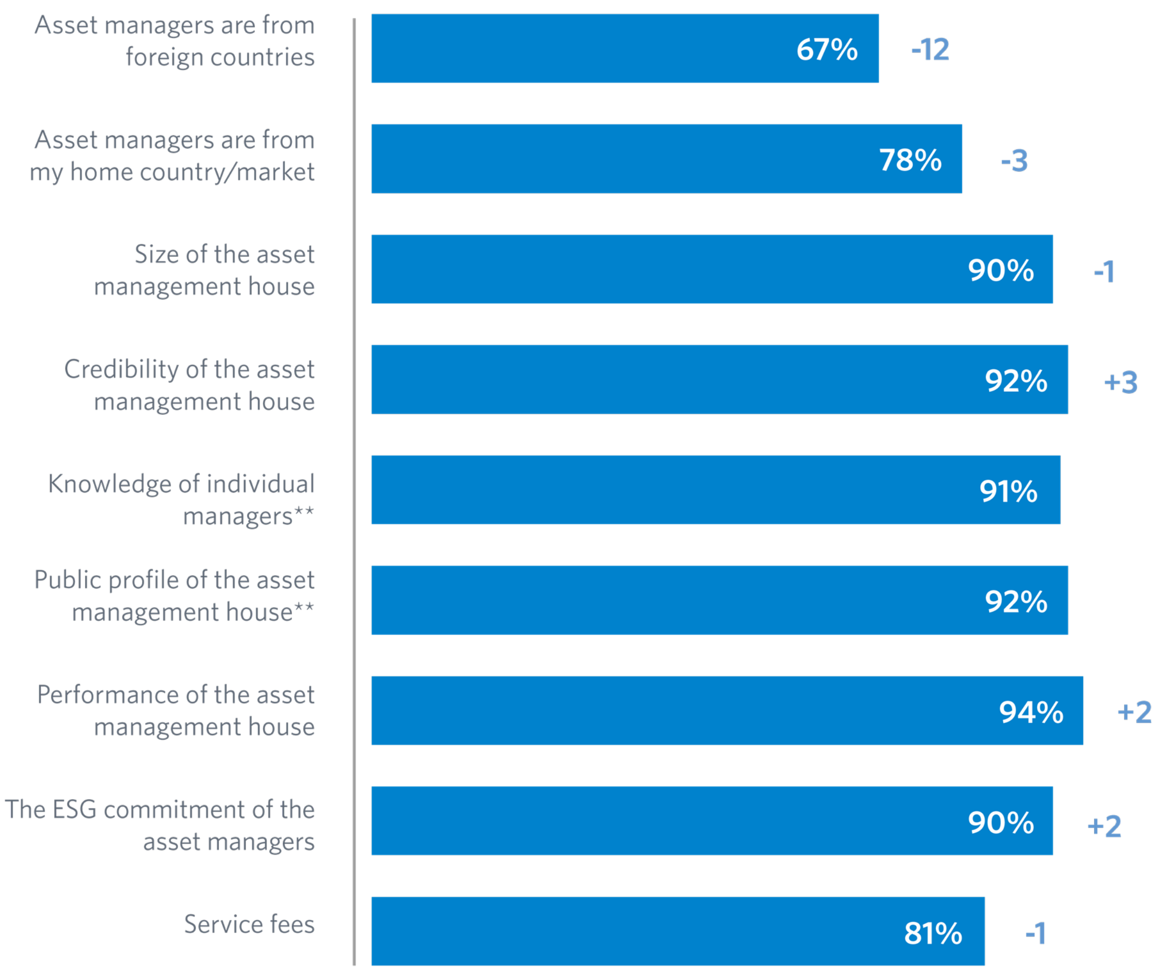
FACTORS TO CHOOSE AN ASSET MANAGER

Performance (94%) is the most important factor for mainland Chinese investors when selecting an asset manager, followed closely by credibility (92%) and the public profile of the asset management house (92%), which also hold considerable importance in the decision-making process for mainland Chinese investors. ESG commitment of asset managers also stands high at 90%.

This focus on credibility and public profile underscores the importance for asset managers to connect with their audiences through transparent communications, positive brand representation, and strategic marketing initiatives. These efforts are essential to resonate with mainland Chinese investors, build relationships based on trust and credibility, and effectively position the asset management firm in the competitive landscape.

Importance of factors when choosing an asset manager



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REFLECTIONS ON GLOBAL ASSET MANAGERS

Sixty-four percentage of mainland Chinese investors have chosen fund products managed by overseas asset managers, making a nine percentage points decrease from 73% in the previous year. Among these investors, 51% favor funds managed by sino-foreign asset management joint ventures, while the percentage of investors selecting funds managed by sino-foreign wealth management joint ventures has increased by 11 percentage points to 49%. This trend may be attributable to the increasing demand for customized wealth management solutions that prioritize growth, preservation, protection, and the transfer of private wealth.

Investment in QDLP products by mainland Chinese investors has declined by 18 percentage points to 44%, while investing in onshore retail funds managed by overseas asset managers has increased eight percentage points to 28%.

When choosing overseas asset managers, investors prioritize factors such as a better track record (55%), better performance (54%), and unique investment strategies not available from local asset managers (54%).

ESG credentials are valued by 38% of mainland Chinese investors, aligning with the importance placed on recommendations from friends and family (39%) and independent financial advisers or intermediaries (38%). This underscores the need for overseas asset managers to establish strong business networks and cultivate positive word-of-mouth recommendations.

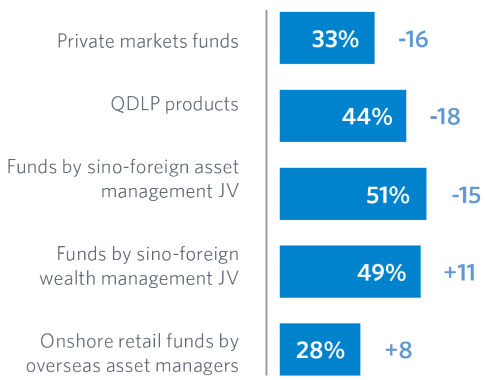
Overseas asset managers

64%

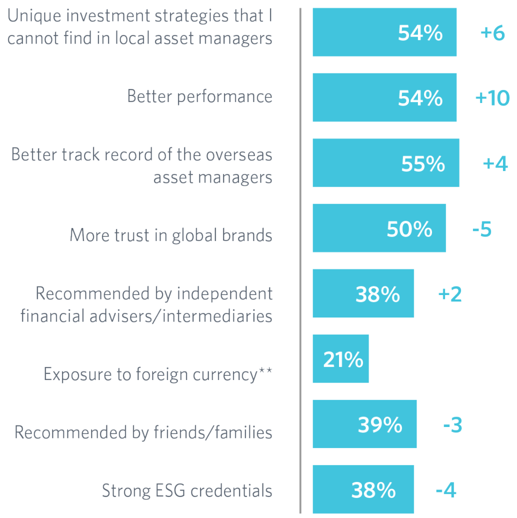
(-9%)

Of mainland Chinese investors have invested in local fund products run by overseas asset managers

Kinds of funds invested



Reasons to purchase from overseas asset managers



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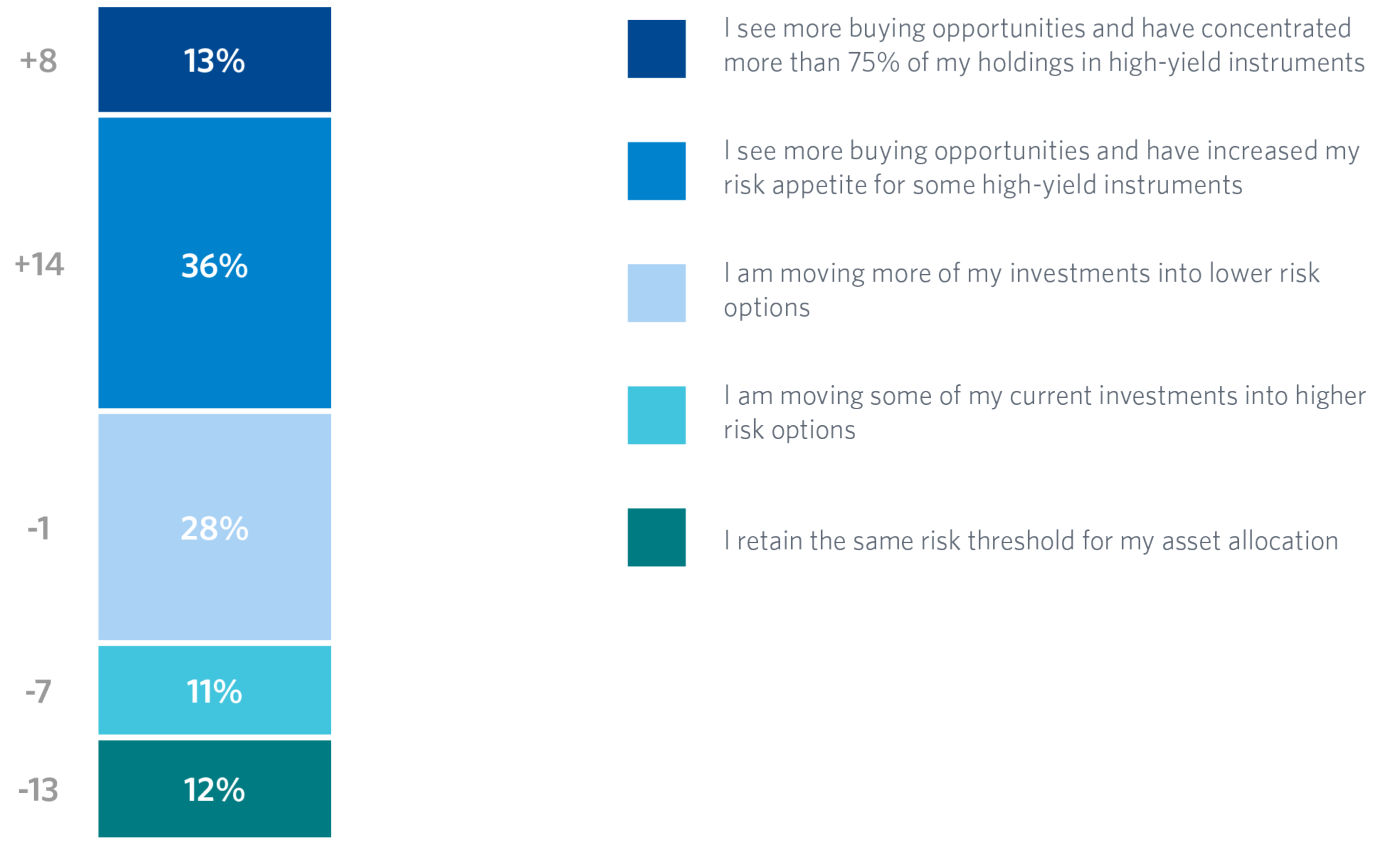
RISK APPETITE

While many Asian investors are maintaining their current risk levels or shifting to lower risk options, mainland Chinese investors have adopted a relatively less risk-averse investment approach.

A significant portion of mainland Chinese investors, totalling 49%, perceive increased buying opportunities in the market. Among them, 13% have concentrated 75% of their holdings in high-yield instruments, and 36% exhibit a heightened risk appetite for these high-yield instruments.

The willingness of mainland Chinese investors to take on higher levels of risk reflects their desire to capitalize on opportunities for increased returns, presenting potential opportunities for asset managers to offer different products in the market.

2024 investment outlook



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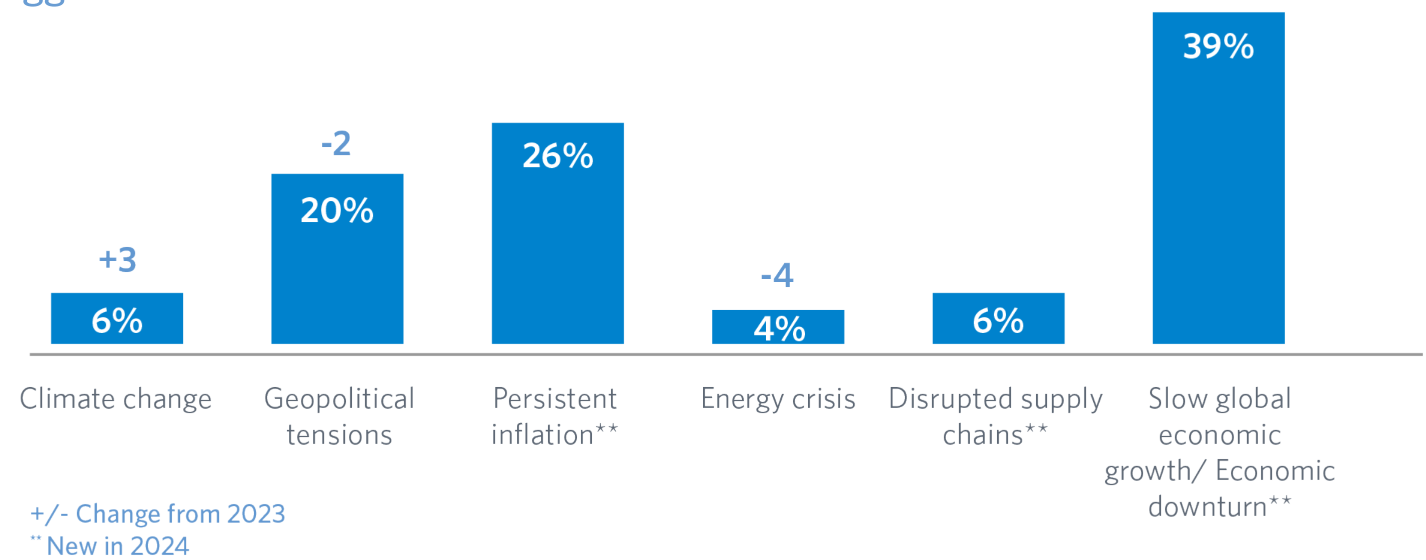
UPCOMING RISKS

Thirty-nine percent of mainland Chinese investors view slow global economic growth or an economic downturn as the foremost risk when making investment decisions. This concern arises from the potential impact of a sluggish economy on investment returns and market stability.

Persistent inflation (26%) and geopolitical tensions (20%) are also significant concerns for mainland Chinese investors, while climate change (6%), disrupted supply chains (6%), and energy crises (4%) are relatively less worrisome for mainland Chinese investors.

Biggest financial risk



FUTURE INVESMENTS

Mainland Chinese investors have demonstrated a keen appetite in AI funds, with 55% expressing interest in this investment theme. This percentage is significantly higher than the Asian average by 21 percentage points, highlighting a strong preference for AI-related investments among mainland Chinese investors. The substantial interest in AI funds also sets it apart from the second most popular investment-themed product, precious metals, which garner interest from 37% of investors in the country.

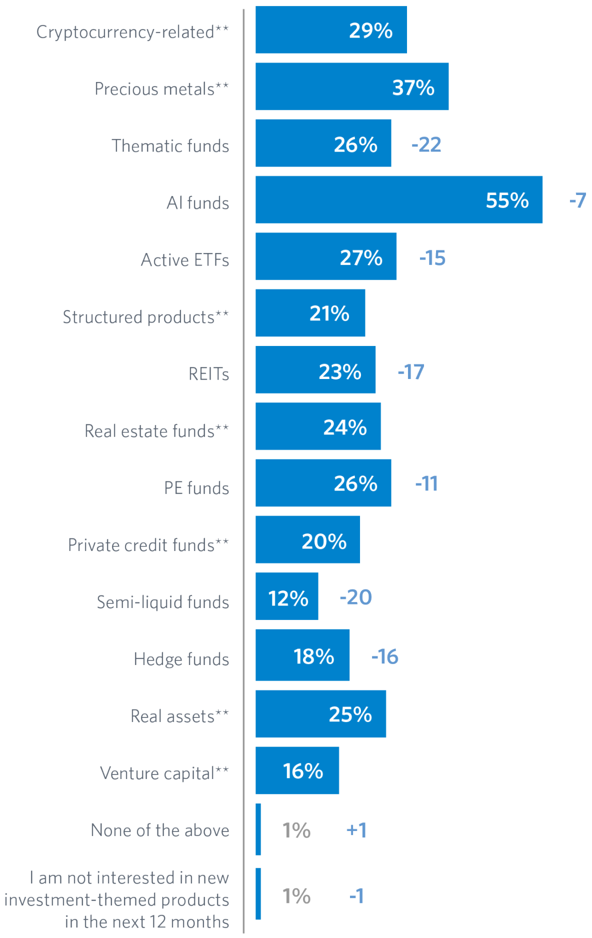
Despite a rising interest in precious metals among many Asian investors, mainland Chinese investors maintain a higher level of interest, with a 14 percentage points difference compared to the 23% Asian average. Such investment behavior can be attributed to traditional beliefs and cultural preferences for investing in tangible assets like gold and silver as stores of value and hedges against economic uncertainties.

Additionally, mainland Chinese investors show a significant interest in cryptocurrency-related products (29%), ranking third among preferred investment-themed products. This interest surpasses that in active ETFs (27%), thematic funds (26%), and PE funds (26%).

The preference for cryptocurrency-related products reflects mainland Chinese investors' willingness to explore innovative investment opportunities, demonstrating a higher risk tolerance and a penchant for investments in emerging sectors. These trends align with previous findings, indicating that mainland Chinese investors are inclined towards taking risks and investing in thematic and cutting-edge products that offer potential for higher returns and diversification.

A significant majority of surveyed mainland Chinese investors also show interest in private markets products in the next 12 months, believing that these investments are essential for enhancing and diversifying their investment portfolios, complementing their traditional stock and bond holdings (96%). These investors also recognize the attractive risk reward profile of private markets products, especially in uncertain market conditions (94%), and acknowledge the abilities of these products in mitigating overall portfolio risk, particularly during economic downturns (92%).

Investment-themed products interest in the next 12 months



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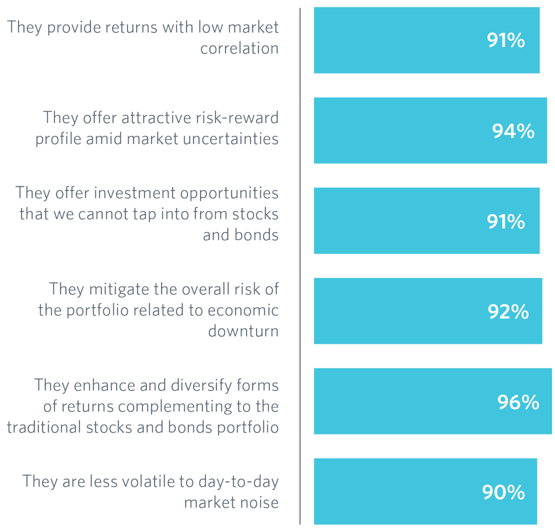
Reasons to invest in private markets products

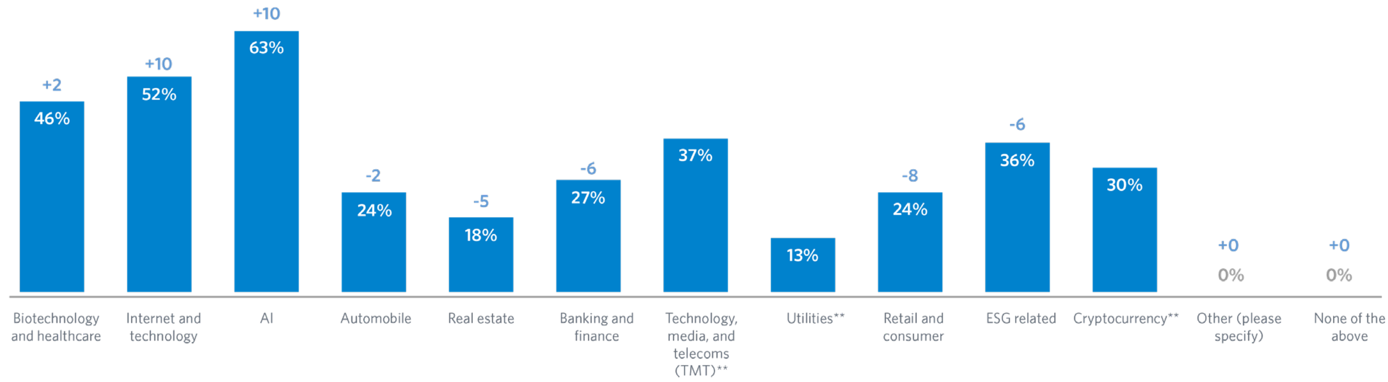


SECTORS AND REGIONS TO INVEST IN THE NEXT 12 MONTHS

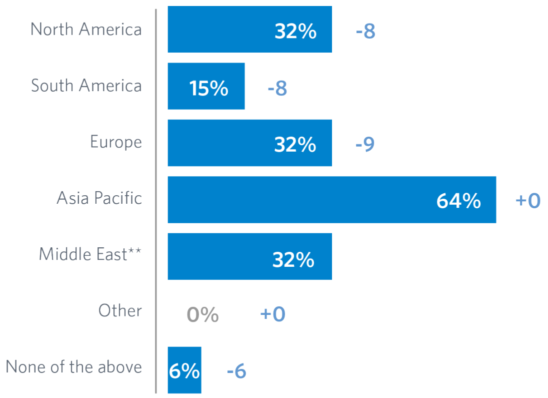
AI (63%) and internet and technology (52%) draw most interest from mainland Chinese investors for investing in the next 12 months. The upward trend is observed as both sectors seeing 10 percentage points increase from last year.

Asia Pacific (64%) remains the most popular region to invest in for the next 12 months while interest in other overseas regions such as North America, Europe and South America drops a bit compared to last year. Home bias continues to direct mainland Chinese investors putting their future investments in China A-shares (70%).

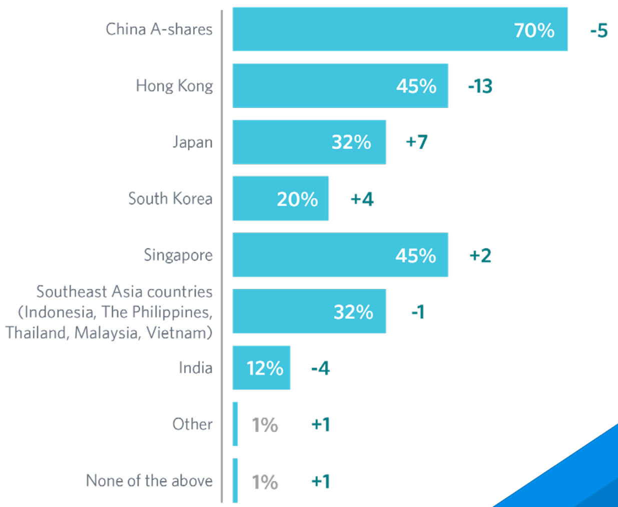
Sectors of interest for investing in the next 12 months



Regions of interest in the next 12 months



APAC markets of interest in the next 12 months



+/- Change from 2023
** New in 2024

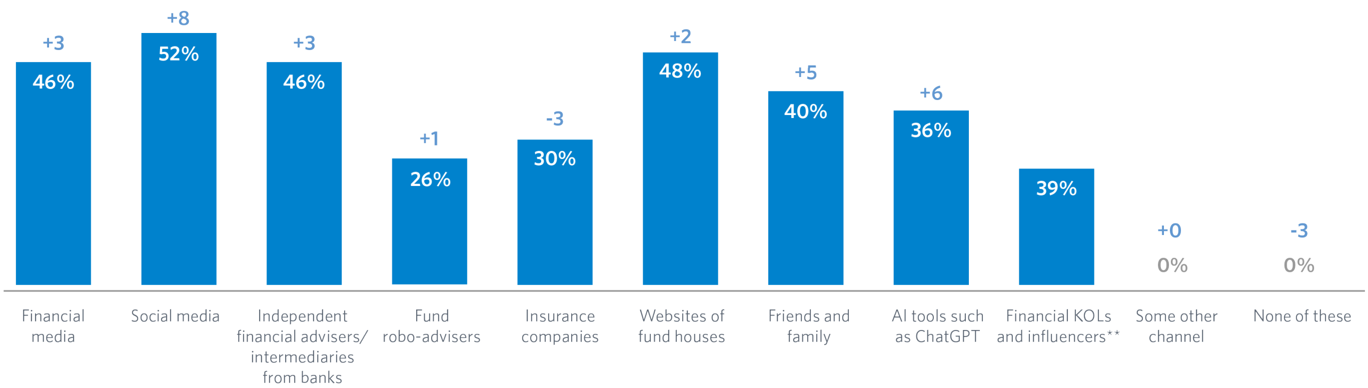
INFORMATION SOURCES

Mainland Chinese investors prefer to obtain product information from social media (52%, up eight percentage points YoY), overtaking fund house websites as the key channel of information (48%, up two percentage points YoY). It is worth noting that financial media (46%) and independent financial advisers/intermediaries (46%) from banks are also rising as the key channels of information.

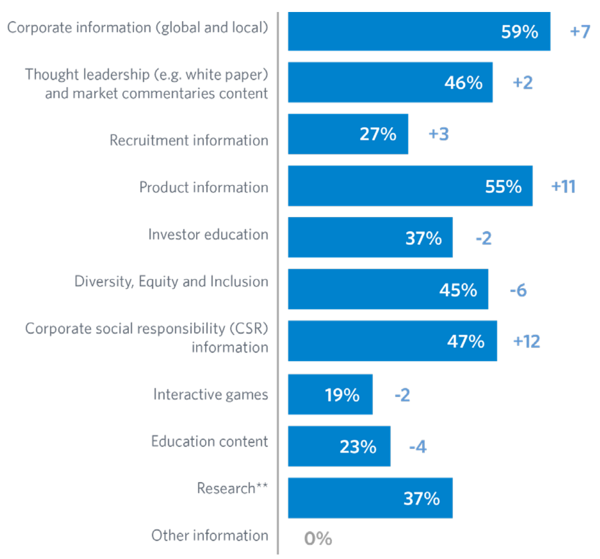
WeChat and Weibo are equally important when it comes to access to fund information, despite a drop of four and 12 percentage points respectively compared to the results last year. Regarding the increasing importance of receiving fund information from financial media and independent financial advisers/intermediaries from banks, mainland Chinese investors remain more inclined to obtain information from a professional source.

In mainland China, most investors are looking for corporate information (59%) and product information (55%) in the social media channels of asset managers. Corporate social responsibility (CSR) has gained stronger interest from mainland Chinese investors with 47% of them saying they would look for such information, up 12 percentage points from last year. CSR information now ranks top three as the type of information to seek in the social media channels of asset managers. Firms that can strengthen corporate positioning and showcase commitment to mainland China market through CSR can build a stronger brand affinity among the mainland Chinese investors.

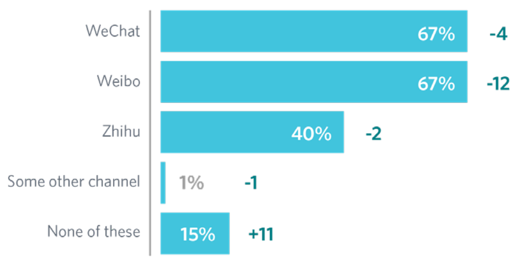
Channels for receiving information on funds and investment products



Type of information sought from asset manager's social media channels



Social media platforms accessed for fund information



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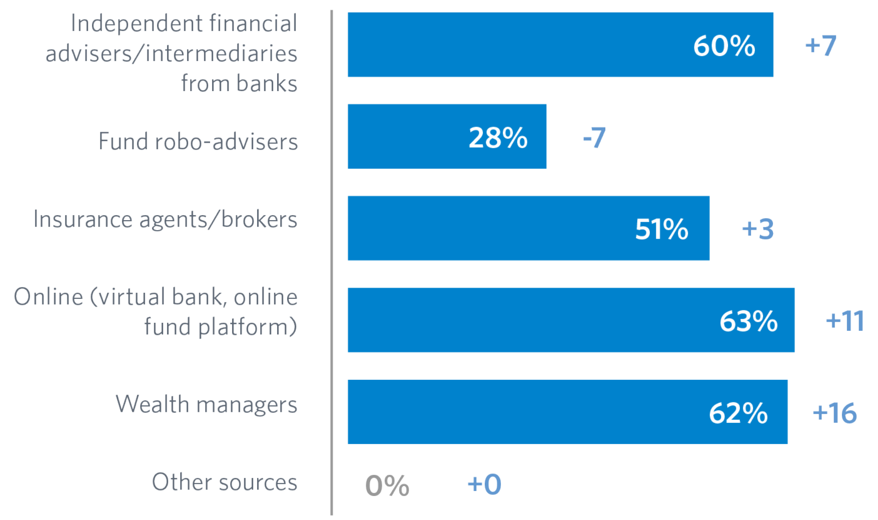
FUND PATRONAGE

In mainland China, most investors (63%) seek fund patronage from online fund platforms and virtual banks, up 11 percentage points from last year. Respondents continue to highlight the easy-to-use (88%) feature of digital platforms. They also use digital platforms for instant analysis and advice on asset allocation and risk management (87%).

Wealth managers (62%) are emerging as second most important, up 16 percentage points from last year. Financial advisers/intermediaries from banks (60%) follow to be the third most important, up seven percentage points from last year.

We continue to see mainland Chinese investors shifting away from fund robo-advisers (2024: 28% vs 2023: 35%). The similar downward trend is observed among Hong Kong investors, down seven percentage points to 28%.

Fund patronage sources



Digital platforms

82%
(+5%)
Of investors have used digital platforms to purchase mutual funds

Experience when using digital platforms to purchase funds

+/- Change from 2023

FUND PATRONAGE

An increasing number of mainland Chinese investors (61%) have used generative AI tools for making investment decisions, with 90% finding the tools easy to use and 88% agreeing that it offers very useful guidance and advice. It is believed the adoption of generative AI tools in making investment decisions and is growing as there is a decreasing number of mainland Chinese investors (48%) do not think it is helpful, down 10 percentage points from last year.

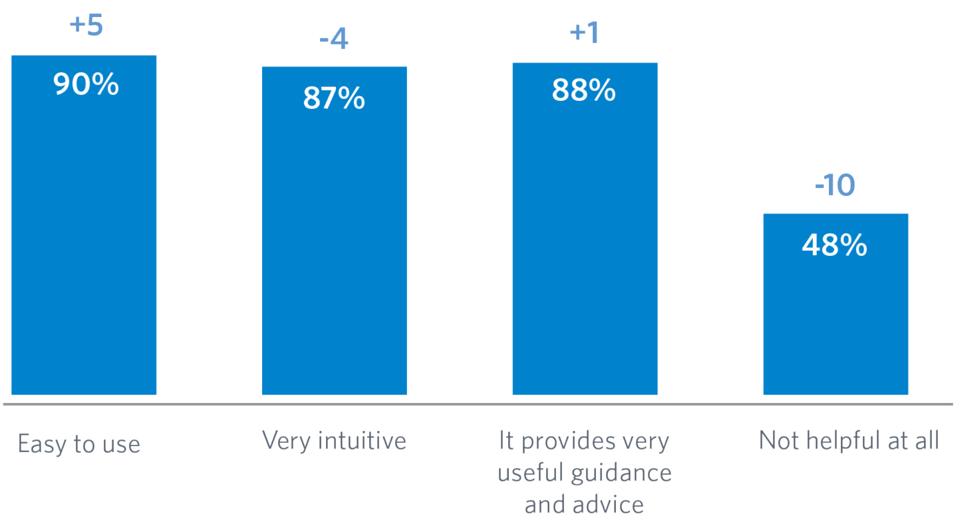
Tools to select fund managers or help make investment decisions

61%

(+5%)

Of investors have used AI tools to select fund managers or help make investment decisions

User experience of AI tools



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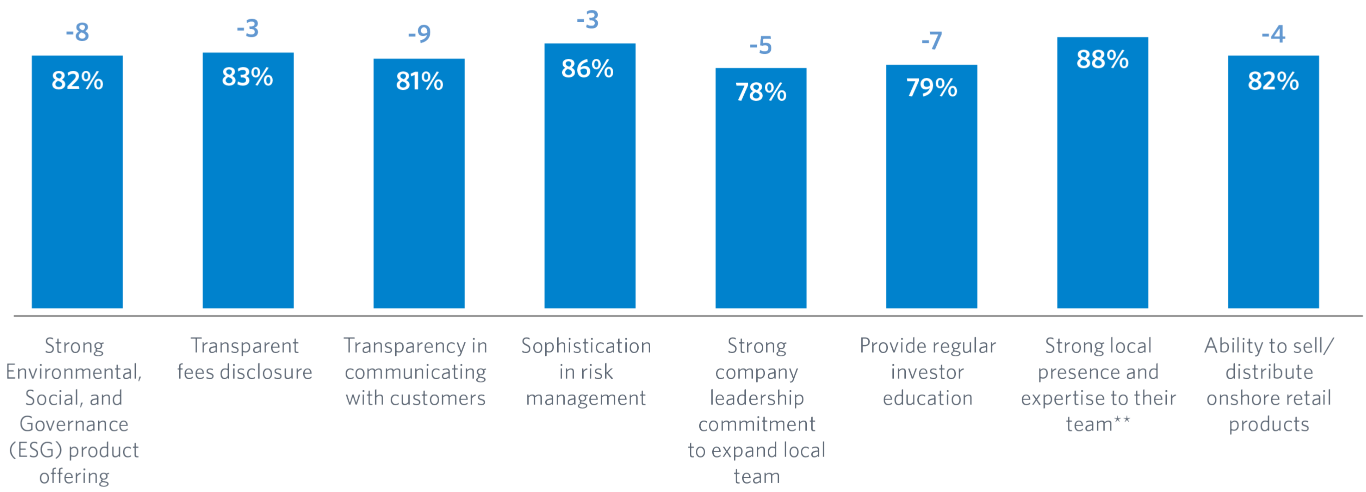
LOCAL RELEVANCY

In mainland China, overseas investment managers having a strong local presence and expertise is deemed as most important for investors (88%). Sophistication in risk management is being valued with 86% of mainland Chinese investors choosing this as an important factor. This can be attributed to the growing market uncertainties around the world.

Important factors for overseas asset management houses



+/- Change from 2023
** New in 2024

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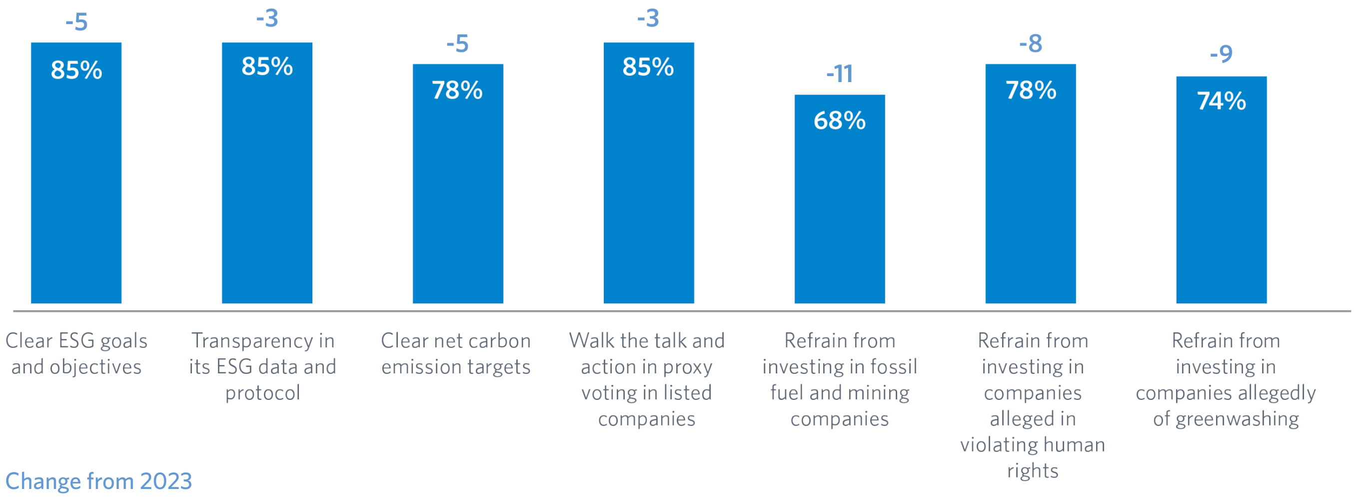
ESG COMMITMENT

"Walk the talk", transparency of data and protocol, and clear ESG goals and objectives are equally important for ESG commitment that mainland Chinese investors seek from asset managers. Noticeably, there is decreasing attention on investing in companies allegedly of greenwashing, down nine percentage points from last year to 74%.

Importance of ESG commitments from asset managers



+/- Change from 2023

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KEY INSIGHTS FOR ASSET MANAGERS

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The mainland China asset management industry has experienced significant growth and transformation in recent years. Asset managers need to be aware of the following key trends that will continue to shape the landscape of the industry.

EMPHASIS ON ASSET MANAGEMENT REFORMS

The mainland Chinese government has implemented various reforms to enhance the asset management industry. Reforms have focused on improving market transparency, investor protection, and risk management. Measures have been taken to address issues such as mis-selling, fund liquidity management, and the use of leverage. These reforms aim to create a more regulated and sustainable asset management industry in mainland China.

GROWTH OF WEALTH MANAGEMENT AND HIGH NET WORTH INVESTORS

There is a growing shift towards wealth management and catering to high net worth investors, as we see 49% of respondents have invested in products by sino-foreign wealth management joint ventures in mainland China, up 11 percentage points as compared with last year. As high net worth investors seek investment opportunities beyond traditional investment products, there has been a growing demand for private markets investment products, active ETFs and other innovative investment strategies. Asset and wealth managers need to develop products and services tailored to the needs and preferences of high net worth investors, including simplified investment processes, low-cost options, and digital distribution channels.

PRIVATE MARKETS INVESTMENTS

Private markets investing has emerged as an attractive avenue for high net worth investors in mainland China seeking to diversify their portfolios and access unique investment opportunities, as PE funds (26%), real estate funds (24%) and private credit funds (20%) are investment products that they are interested in the next 12 months.

Unlike public markets, private markets involve investing in privately held companies, start-ups, real estate, PE, venture capital, and other non-publicly traded assets. high net worth investors are drawn to the potential for higher returns and lower correlation to traditional asset classes that private markets investment can offer. Additionally, private markets investing allows for more direct involvement and influence in the companies or projects being funded, providing a sense of control and involvement.

That being said, private markets investing also comes with its own set of considerations and risks. These investments tend to be illiquid with longer lock-up periods, requiring investors to have a longer-term investment horizon. Due diligence and thorough research are crucial in assessing investment opportunities and mitigating risks. Despite the challenges, private markets investing has gained popularity among high net worth investors in mainland China, offering the potential for attractive returns and the opportunity to participate in the growth of promising companies and sectors.

FMC, WFOE PFM AND QDLP

As overseas players continue to navigate the complexity of the industry, different models of operating in mainland China continue to evolve (FMC, WFOE PFM and QDLP), in addition to newly formed QFLP and QDIE qualifications. There is no one-size-fits-all approach for asset managers but we have seen an increasing interest of mainland Chinese investors on onshore retail products from overseas asset managers (28%, up from 20% in 2023). The reasons for mainland Chinese investors picking overseas managers continue to be better track record (55%), better performance (54%), and unique strategies not found in local asset managers (54%) as shown in our survey findings this year.

ARTIFICIAL INTELLIGENCE

AI is revolutionizing the asset management industry in mainland China, offering unprecedented opportunities for enhanced performance, efficiency, and decision-making. AI-powered algorithms and machine learning models are being leveraged to analyze vast amounts of financial data, identify patterns, and generate investment insights. Asset management companies in mainland China are increasingly adopting AI-based tools and technologies to automate processes, optimize portfolio management, and improve risk assessment.

Moreover, natural language processing and sentiment analysis are being utilized to extract valuable information from news articles, social media, and other unstructured data sources, enabling asset managers to make informed investment decisions. The integration of AI in the asset management industry is fostering innovation, expanding market access, and delivering tailored investment solutions to investors in mainland China, while also posing challenges in terms of data privacy, transparency, and regulatory compliance that need to be carefully navigated.

GROWTH OF ESG INVESTING

Investors in mainland China continue to place a growing emphasis on ESG investing. The government has prioritized sustainable development and introduced policies to promote ESG practices. Asset managers are launching ESG-focused funds to meet the rising demand for socially responsible investing. Increasing integration of ESG factors into investment processes and disclosure practices is expected to continue shaping the mainland China asset management industry.

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ARE YOU READY?

FleishmanHillard is committed to advising all asset managers, financial institutions and other professional bodies in supporting their market entry, thought leadership and public affairs campaigns in mainland China.

> "FleishmanHillard is your go-to-advisory firm in managing your communications and reputation in mainland China."

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The statements and analysis expressed herein are an assessment of such materials, and do not reflect the views or position of FleishmanHillard and their employees.

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