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China Mutual Fund Series

Quarterly Assessment (1Q16)

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Public mutual fund AUM

RMB7.73tr

Public mutual fund AUM reached RMB7.7tr (USD1.2tr) at the end of 1Q16, representing a QoQ decrease of 7.4%. The market volatility in the first quarter meant that capital depreciation reached RMB309bn overall. Moreover, the industry incurred RMB470bn of organic outflows as end of year window-dressing capital was extracted.

MRF fund flows

RMB44.6m vs. RMB720m

In 1Q16, the initial fund flow results for southbound and northbound MRF were RMB44.6m and RMB720m respectively in the first quarter. Four northbound and 15 southbound MRFs have been launched so far. Offshore investors' uncertainty about the volatility of the A-share market is affecting southbound sales.

Proportion of institutional investment

57%

Z-Ben Advisors has calculated that the proportion of institutional investors in the mutual fund market increased from 31% in 2014 to 57% in 2015. Institutional investment accounts for 70% of investment in bond funds and 63% of that in MMFs. We expect more institutional capital to flow into mutual funds over the coming year.

FMC subsidiaries

New capital requirements

FMC subsidiary AUM reached RMB9.8tr in 1Q16, a growth of RMB6tr in the past five quarters. Regulators are currently moving to control risky subsidiary channel business. CSRC has drafted new capital requirement rules for FMC subsidiaries which should impact shareholders, and also lead to recapitalization and industry consolidation in future.

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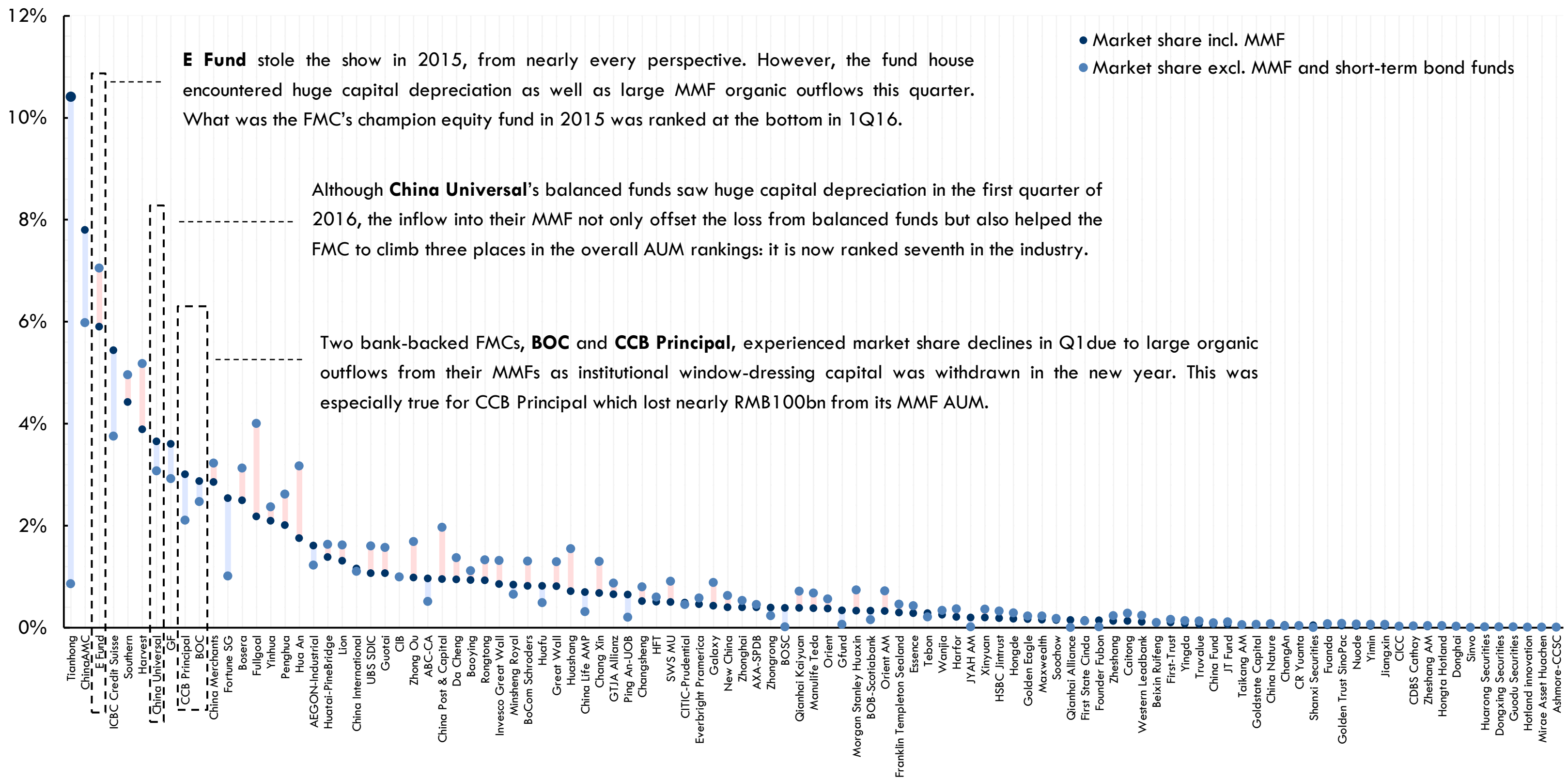
Public mutual funds (including all funds)

The side-effects of MMF window dressing capital being withdrawn, plus the stock market's poor performance at the start of the year induced huge organic outflows and capital depreciation across the public mutual fund industry. Apart from new fundraising, inflows into bond funds became the only way that FMCs were able to offset losses due to outflows from balanced funds and MMFs. Most of the bank-backed FMCs such as **BOC** and **CCB Principal**, saw huge declines in their MMF products' AUM. **ICBC Credit Suisse** lost relatively less, resulting in a tiny climb over its competitors.

Industry market share rankings, 1Q16



Source: Z-Ben Advisors

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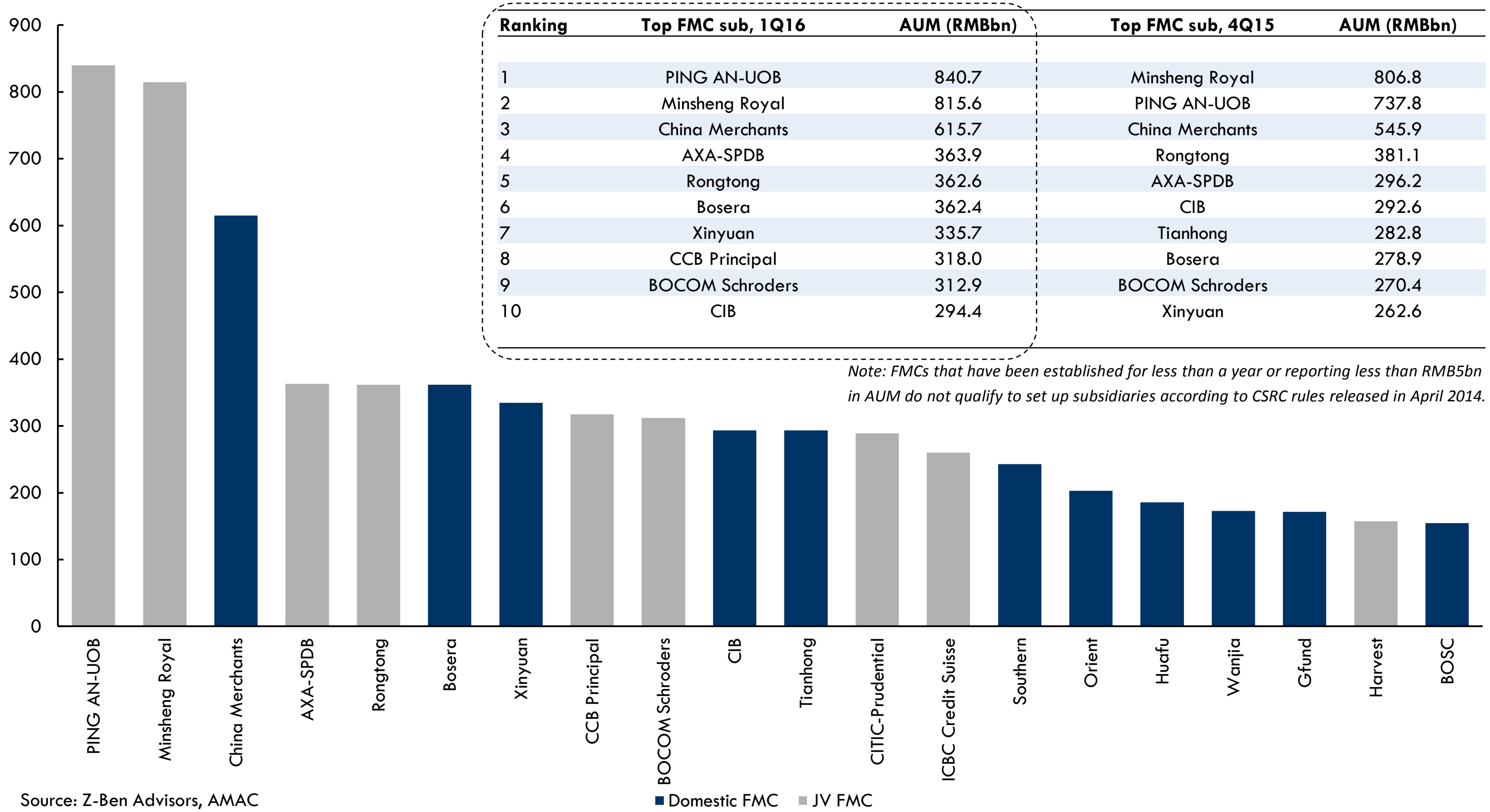
FMC subsidiary

Subsidiary AUM continued its aggressive growth reaching nearly RMB10tr by the end of 1Q16. **Ping An-UOB** this time overtook **Minsheng Royal** to have the largest subsidiary AUM. CCB Principal saw an increase of 64% in their subsidiary AUM, pushing them into the top ten. However, the rapid growth of subsidiary AUM has made regulators concerned about the risk of the sprawling loan packaging business. CSRC has been drafting guidelines for registered capital requirements for FMC subsidiaries, similar in nature to requirements for trusts. This may result in some hefty cash calls for a number of FMCs and further business restructuring and industry consolidation.

FMC subsidiary AUM, top 20, 1Q16 (RMB bn)



Ranking	Top FMC sub, 1Q16	AUM (RMBbn)	Top FMC sub, 4Q15	AUM (RMBbn)
1	PING AN-UOB	840.7	Minsheng Royal	806.8
2	Minsheng Royal	815.6	PING AN-UOB	737.8
3	China Merchants	615.7	China Merchants	545.9
4	AXA-SPDB	363.9	Rongtong	381.1
5	Rongtong	362.6	AXA-SPDB	296.2
6	Bosera	362.4	CIB	292.6
7	Xinyuan	335.7	Tianhong	282.8
8	CCB Principal	318.0	Bosera	278.9
9	BOCOM Schroders	312.9	BOCOM Schroders	270.4
10	CIB	294.4	Xinyuan	262.6

Note: FMCs that have been established for less than a year or reporting less than RMB5bn in AUM do not qualify to set up subsidiaries according to CSRC rules released in April 2014.

Source: Z-Ben Advisors, AMAC