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Z-Ben Advisors presents

A Strategic Outlook

Running Money in China

The Advent of 100% Control

Running Money in China

Executive Summary

Chinese regulators have now formalized the possibility of 100% foreign (non-Chinese) ownership of an asset manager. This means that, for the first time, international firms with interest in the Mainland market will have options outside of the limiting joint-venture approach, which has been the primary avenue for past attempts at market entry. More recently, complicated partnership arrangements have been used to offer a higher degree of control but still fell far short.

The opportunity – a captive market with substantial investment capital – is now real. Operational challenges and costs are as well, and although many have written the Mainland market off as being entirely unapproachable, nothing could be further from the truth. Successful execution of a 100% fully-owned asset manager will require investment capital, time, a degree of autonomy, and most importantly, human resources.

The influx of global money managers and service providers operating in their own names will have significant impacts on the competitive landscape, both within the country and the region, as asset flows begin to shift capital (see following page).

KEY HIGHLIGHTS

- Setting up a dedicated and fully-staffed legal entity will become the preferred way of conducting China-related business; both for targeting RMB investments and for sourcing Chinese retail and institutional assets.
- Managers and service providers which continue to conduct business operations entirely from Hong Kong will be at a distinct disadvantage against onshore competitors in China which are closer to clients and investors while simultaneously able to exercise more control over critical operations.
- Many large organizations have been slow to move on this front given legal uncertainty. That uncertainty has now been removed, however, and a large number of more risk-tolerant players have already set up in the Mainland, and are already building a set of best practices that can be looked to for direction (see page 13 for more detail).

Flexibility Allows Numerous Businesses

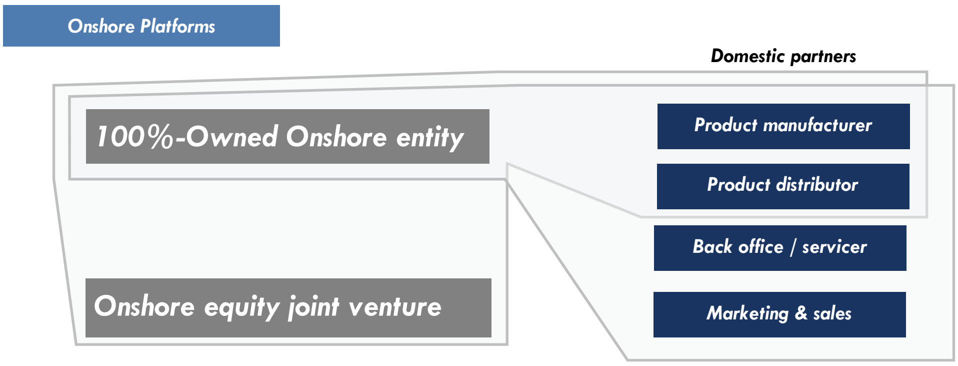
There is no equivalent of incorporating in Delaware in China: not all strategies are right for all firms, and long-term objectives need to dictate approach methods to a much greater degree than committed resources typically enable

The need for an onshore entity does not mean that there is a one-size-fits-all approach ready and available. The dynamism of the Mainland – both in terms of market development as well as the degree to which the space depends on as-yet unconfirmed legal and regulatory developments – prevents cookie-cutting.

There are also significant costs to getting it wrong, both in terms of the actual legal structure of the entity as well as operational details, particularly personnel. Key-man risk is becoming prevalent within the Mainland market and, with one of the highest rates of turnover in the world, structuring recruitment and retention schemes will be among the most critical element s determining whether or not a market entry strategy is successful.

For firms contemplating a longer time horizon, the critical and only determinant of success is likely to be the quality of personnel brought onboard to facilitate the build-out of an onshore strategy. In fact, getting the approach wrong the first time could prove costly, as onshore recapitalization typically consumes a painful amount of manpower and capital.

Different possible combinations of partnerships and ownership enable different degrees of access and involve vastly different cost structures



From a shareholder perspective, numerous combinations of many different platforms are possible, and there is limited clarity from regulators as to what the preferred approach is – they are likely waiting to see what route the majority of entrants choose before formalizing any individual structure

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