Z-BEN | ADVISORS

China Dashboard
Monthly Update

August 2015

Z-BEN ADVISORS Ltd. (Hong Kong)
Two Exchange Square, 39/F
8 Connaught Place
Central, Hong Kong SAR

Research Affiliate
Z-BEN ADVISORS Ltd. (Shanghai, China)
哲奔投资管理咨询（上海）有限公司
Hongjia Tower 25/F
388 Fushan Road
Pudong New Area, Shanghai
China 200122
+86 21 6075 8155

Disclaimer
The contents of the China Dashboard: Monthly Update (the Product hereafter) are for informational purposes only. The data contained herein is based entirely upon the available information provided in public reports by the locally operating fund managers. The contained information has been verified to the best of Z-Ben Advisors and its research affiliate's ability, but neither can accept responsibility for loss arising from the decisions based upon the product. The Product does not constitute investment advice or solicitation or counsel for investment in any fund or product mentioned thereof. The Product does not constitute or form part of, and should not be construed as, any offer for sale or subscription of any fund or product included herein. Z-Ben Advisors and its research affiliate expressly disclaims any and all responsibility for any consequential loss or damage of any kind whatsoever resulting, directly or indirectly, from (a) the use of the Product, (b) reliance on any information contained herein, (c) any error, inaccuracy or omission in any such information or (d) any action resulting therefrom.

Disclosure
Z-Ben Advisors and its research affiliate currently provides other products and services to some of the firms whose products are included in the Product. Z-Ben Advisors and its research affiliate may continue to have such dealings and may also have other ongoing business dealings with other firms whose products are included in the Product.

Copyright
The duplication of all or any part of the Product is strictly prohibited under copyright law. Any and all breaches in that law will be prosecuted. No part of the Product may be reproduced, transmitted in any form, electronic or otherwise, photocopied, stored in a retrieval system or otherwise passed on to any person or firm, in whole or in part, with out the prior written consent from Z-Ben Advisors.

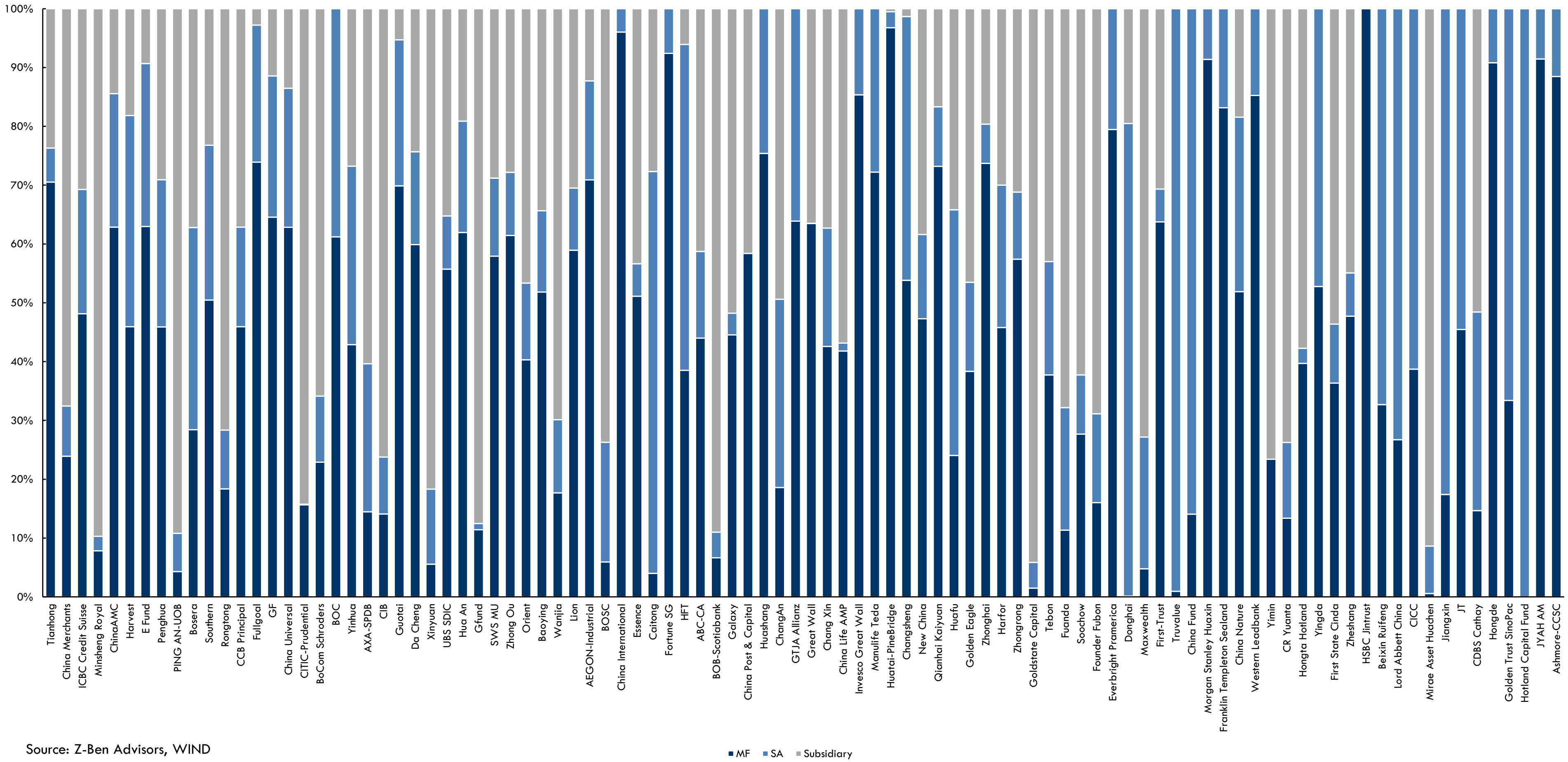
Z-BEN | ADVISORS

Chart Of The Month

Proportion of AUM for mutual funds, segregated accounts and subsidiaries

Estimated mutual fund sector market share (2Q15)

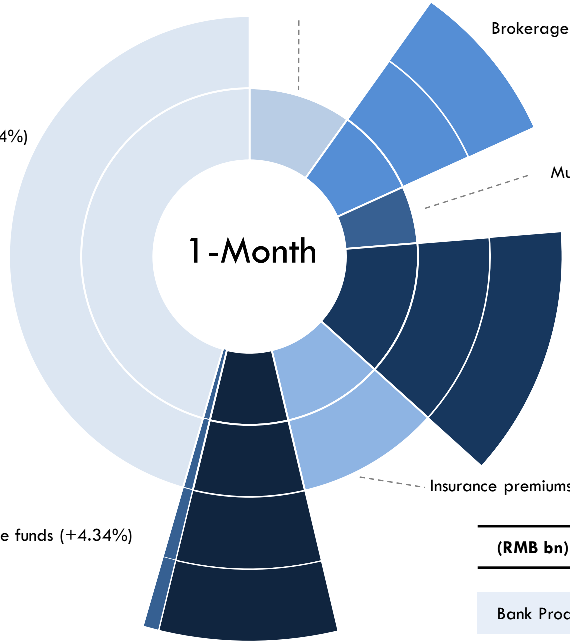
AMAC released figures for the entire mainland mutual fund industry which showed that AUM totaled over RMB16tr (USD2.6tr). This includes both public mutual fund assets (RMB7tr, USD1.2tr) and non-core assets (RMB9tr, USD1.5tr). The latter is becoming increasingly vital to industry growth as a whole and is radically redefining the competitive landscape, in terms of size as opposed to profitability. Non-core is another business diversification channel for mainland managers and has grown 55% in six months. This is a clear indication of where the industry is heading: far beyond public mutual funds by utilizing less-volatile and apparently more resilient business lines.



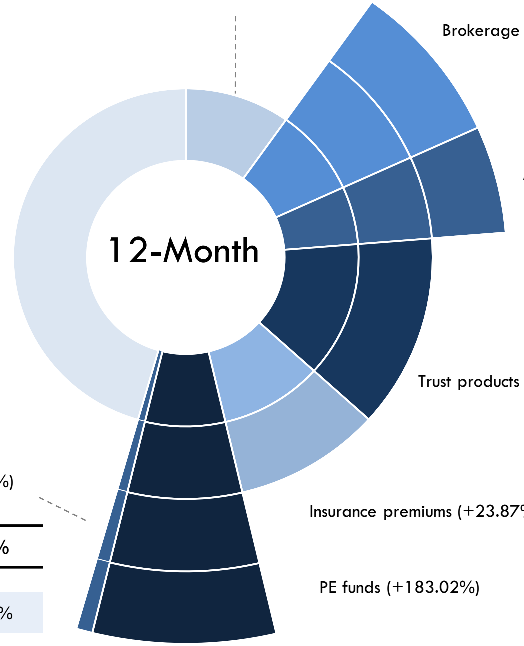
Source: Z-Ben Advisors, WIND

Fund flows

1-Month fund flow
Overall size (volume) vs. MoM change in assets (depth)



12-Month fund flow
Overall size (volume) vs. YoY change in assets (depth)



(RMB bn)	Jul '15	Jun '15	MoM %	Jul '14	YoY %
Bank Products	11,837	11,755	0.69%	10,250	15.48%
Brokerage AMs	10,053	9,808	2.44%	7,000	43.61%
Mutual Funds	6,642	7,114	-7.11%	3,816	74.05%
Trust Products	15,577	15,085	3.16%	11,442	36.13%
Insurance Premiums	11,551	11,430	1.05%	9,325	23.87%
PE Funds	9,000	8,500	5.56%	3,180	183.02%
Private Funds	806	781	3.16%	470	71.59%
Household Deposits	54,702	53,750	1.74%	50,567	8.18%

Perhaps unsurprisingly, mutual funds saw the largest outflows as retail investors reduced their exposure to equity markets in the six weeks from the middle of June. This also explains the growth in household deposits, as capital taken from mutual funds has yet to be reallocated. Demand for bank products has continued to be weak.

YoY flows were also affected by the equity market correction. The most notable declines were in mutual funds and brokerage AMs, which saw annual asset flow growth decline from 128.2% and 63.5% to 74.1% and 43.6% respectively. These assets found their way into private equity and particularly household deposits.

Percentages reflect YoY and MoM change estimates for each segment affected by fund flows (defined as organic inflows, outflows and new products while ignoring capital appreciation). Volume of each segment measures total estimated current size.

Source: Z-Ben Advisors

Z-BEN | ADVISORS

Regulatory updates

PBoC

PBoC widens access to the IBB market
The central bank furthered its liberalization of capital markets by allowing qualified foreign institutional investors easier access to the interbank bond (IBB) market. The removal of certain barriers to entry into the market should increase in the number of foreign participants, and improve liquidity and price discovery.

Payment platforms remove banking
PBoC will gradually remove online payment platforms' banking function by limiting account balance and business scope. It will bring fundamental change to the online payment industry as competition continues to grow fiercer and regulations continue to be enacted.

The types of foreign investors granted access to the IBB are central banks, international financial organizations and sovereign wealth funds. The new system uses filing instead of the original licensing framework, and allows investors to choose their own quota. Foreign investors file with PBoC, and there is no need to ask for approval. This is likely to be phase one of the opening of the IBB market, and it is expected that it will be expanded to other foreign investors.

Both of these new policy changes show that regulators are keen to help companies to meet their liabilities without the threat of an imminent margin call or forced liquidation. These risks would be more common during times of heightened market volatility. However, by allowing firms to pledge stock as collateral against existing or expiring loans, regulators are easing the pressure on firms by allowing them to have more time to meet obligations during difficult market conditions.

CBRC

Stock collateral pledged loans
CBRC is allowing stock to be pledged as collateral to cover loans. By pledging more stock collateral, the new loan rate would be lower than that of the contract, which allows the two parties to agree on their own rate.

CSRC

Brokerage margin service amended
CSRC has amended existing brokerage margin trading services rules to allow borrowers to avoid margin calls and account liquidations by pledging stock as collateral for margin loans.

Analysis

MoF

Local debt accepted as collateral
MoF has announced that local government bonds will be accepted as collateral for treasury cash management. This will help to improve the liquidity of the municipal debt by vastly expanding the size of the market.

Municipal debt set for further quota
Ministry of Finance (MoF) is reportedly considering the third batch of municipal bond replacement quota, the preliminary quota having been set at RMB1tr. The program is designed to allow local governments to have debt relief.

MoF announced on July 14 that it will incorporate local government debt into collateral of treasury cash management, the collateral ratio is 115%, 10% higher than T-Bonds. Generally the measure is to increase the liquidity of local government debt. Currently, the secondary market for local government bonds is very small, and this change will help commercial banks to absorb government deposits using these bonds as collateral.

Several fund managers, such as E Fund, applied for regulatory approval on leveraged and short products, but have since withdrawn their applications. Long-only classified funds performed well during the second quarter, as equity gains were leveraged, but regulators have been quick to reduce the amount of financial leverage in the markets. In addition, they have enforced a crackdown on short selling for non-hedging purposes, suspending trading accounts that have violated these rules.

CSRC

CSRC halts exotic product approvals
CSRC has announced that it has suspended approvals for exotic fund products, stating that the country's financial markets are not yet ready for them. The regulator has stated that the products' structure is too complicated and FMCs should be required to improve their systems and investor eligibility arrangements for those products.

CSRC cracks down on financial crime
CSRC announced that 36 cases of financial crime were uncovered in 1H15 and more regulations over crowd funding are coming. Regulators have been quick to crack down on excessive stock lending, which fuelled the equity rally and subsequent decline

Z-BEN | ADVISORS

Cross-border activities

Updates

BlackRock receives QDLP license

BlackRock now joins hedge funds such as Man Group, Citadel, and Canyon as participants in the Qualified Domestic Limited Partnership (QDLP) scheme. This enables firms to fundraise in China from HNWIs and institutions, under their own name for their offshore flagship funds.

Chinese SWF buys overseas property portfolios

CIC International has acquired retail properties in France and Belgium valued at USD1.4bn from a fund managed by CBRE Global Investors, as well as spending USD2.5bn on Australian commercial real estate.

Hang Seng to launch majority-owned JV fund

The Hong Kong-based HSBC subsidiary plans to launch the first foreign majority-controlled JV FMC in China through the Closer Economic Partnership Arrangement (CEPA). The FMC would be based in Shenzhen's Qianhai zone, a test-bed for cross-border liberalization, and target both institutional and individual investors for its mutual fund sales and asset management business

RQFII ETFs saw net outflows of RMB5.1bn

The net outflows in July follow net inflows of RMB3.2bn in June, which takes the total YTD net outflows to RMB21bn. The majority of the net outflows were attributable to the CSOP FTSE China A50 ETF and the ChinaAMC CSI 300 ETF.

Market woes contribute to slow MRF take-up

After one month of MRF, equity market concerns have changed the playing field for both announced and prospective participants. However, the window of opportunity has been lengthened

Irish funds get go-ahead for Stock Connect

Irish-domiciled UCITS funds will now be able to participate in the Shanghai-HK Stock Connect on a case-by-case basis, with approval from the Irish central bank

Analysis

BlackRock's QDLP entry, its aggressive bank QDII expansion and, presumably, its inevitable early MRF entry indicates a willingness to attack multiple targets through multiple access programs. It also paints a roadmap for firms that are planning to raise capital in China: MRF can be used for mass retail fundraising, and QDLP can be used to raise funds from HNWIs and institutions. Oaktree has also attained a QDLP license, and is in the process of launching its first product.

The structure of this JV is a significant step towards allowing foreign fund managers to function independently. The CSRC is expected to allow WFOEs to operate like domestic private funds, eliminating friction from opposing visions and cultural differences. Large global FMCs like Franklin Templeton are eyeing these regulatory easings closely, as continued liberalization efforts present unprecedented opportunities to build mainland brand presence whilst offering overseas access.

Hong Kong FMCs seem to be in the strongest position as their funds are typically balanced or fixed income, whereas Mainland fund managers are typically offering equity funds. First and second rounds of participants are now ill-defined and all but irrelevant. Previously it was the case that first movers would capture large market share through fundraising while second movers could mimic the most successful strategies However, the benefits of both have now converged

Data

RQFII Quota Changes In July

Company	Quota Change (RMB bn)	Current Quota (RMB bn)
Swiss Reinsurance	5.0	5.0
Samsung Life Insurance	2.0	2.0
HI Asset Mgmt	1.5	1.5

QFII Quota Changes In July

Company	Quota Change (USD m)	Current Quota (USD m)
Société Générale	550.0	1,000.0
E Fund (HK)	500.0	764.0
Brunei Investment Agency	200.0	200.0
Bank of Taiwan	100.0	100.0
Mega International	80.0	180.0
Trustees of Columbia Univ.	-5.0	85.0
CMS AM (HK)	-10.0	56.0
HSBC GAM (HK)	-19.0	327.0
APS AM	-19.0	243.0
SEB	-23.0	77.0
City of London IM	-32.0	68.0
Commerzbank	-102.0	423.0
Allianz Global Investors	-138.0	62.0
Barclays	-248.0	652.0

Source: Z-Ben Advisors

Capital Markets

Updates

Citadel has a China trading account suspended
The US hedge fund has announced that one of its proprietary capital accounts managed by Guosen Futures was among the 38 suspended accounts, as the CSRC investigates securities violations.

Equity woes hit BlackRock China ETF
BlackRock lost 2% market share over the last quarter, with its iShares FTSE A50 China Index ETF suffering outflows of USD3.1bn, putting its current AUM at USD6.8bn. However, the iShares China Large-Cap ETF received USD1.7bn of inflows, as its total AUM reached USD8.1bn.

CSF to provide substantial liquidity support
In an effort to stabilize markets, the China Securities Finance Corp (CSF) has opened a credit line with several commercial banks, has access to liquidity from PBoC, and will offer debt instruments on the IBB market. It intends to use the funds to purchase stocks and mutual funds, as well as provide liquidity to brokers.

July equity market fall was the largest in six years
After an unprecedented rally in equity markets until the middle of June, China endured a market correction as concerns grew over leverage

REITs to be listed on the IBB market
Real estate companies will have a much wider access to financing after it was announced that REITs would be available to trade on IBB markets. This comes as China is liberalizing IBB trading, including allowing access for qualified foreign institutional investors.

SAFE's BOP shows that PBoC is offshoring capital
The report shows a clear trend of capital exports across the board, which is timely given the capital inflow growth from MRF and 100% foreign ownership of private funds

Analysis

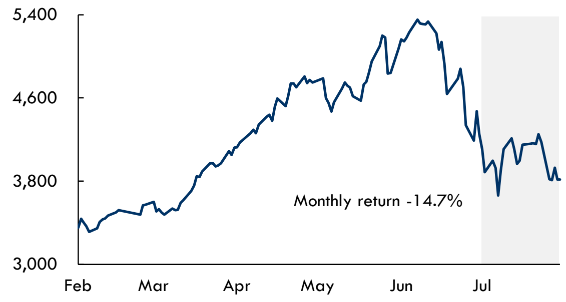
China's crackdown on market manipulation has focused on malicious short selling and market manipulation. The order cancellation ratio even reached 80% in a few spoofing cases. Multiple products from a few domestic PFMs, some of which have been actively developing quant strategies, are also involved in the suspension. The news likely won't have major consequences for Citadel's China business, as its USD50m QDLP quota is unlikely to be affected.

Chinese equities suffered their worst month in six years, which saw the CSI300 fall from 4,277.2 to 3,663.7. The government cracked down on excessive leverage and subsequently implemented several measures to stabilize the markets, which led to A-Shares seeing net outflows of RMB1.8tr over June and July. Daily trading volume between May 29 and July 31 fell from RMB1.9tr to RMB877bn, and the balance of securities borrowing and lending fell from RMB2.1tr to RMB1.3tr.

Although some offshoring can be attributed to capital flight, this shows that China is making more foreign investments and capital exports. In tandem with this, the growing capital inflows show the stability of current foreign investment into China, and how PBoC is preparing for further capital account liberalization, which will likely affect programs such as RQFII and QFII.

Data

Equity Market
CSI 300 Index (Feb-Jul)



Source: Z-Ben Advisors, WIND

Bond market
CSI aggregate bond index (clean price, Feb-Jul)

Source: Z-Ben Advisors, WIND

Insurance sector

Updates

An Bang Life allowed to invest offshore

The China Insurance Regulatory Commission (CIRC) has given permission to An Bang Life to invest up to 15% of its total assets overseas. An Bang Group has previously made some investments overseas, including the acquisition of the Waldorf Astoria in New York.

Chinese insurance industry triples profits in 1H15

Chinese insurance companies tripled their profits to RMB230bn in 1H15 as managed assets took advantage of the rally in A-shares over the first half of the year. Insurers allocated RMB1.5tr to equity security investment funds, up from 9.4% a year ago to 15%.

China Life can issue AM products for pensions

The Chinese life insurer has become the sixth pension firm to attain a license allowing it to issue asset management products for pension management.

Fosun Group acquired an office building in Milan

Chinese insurers have been actively acquiring overseas property in 2015, and this trend has been continued by Fosun Group. The insurer acquired the 47,000 square meter Piazzo Cordusio in Milan through its Portuguese subsidiary. The building is currently the headquarters of UniCredit.

CCB to establish insurance and AM companies

CCB has applied for two insurance licenses: one for an insurance company and the other for an insurance asset management business. Other Chinese banks are looking at entering into the industry, with ICBC and BoComm both intending to apply.

Insurance asset allocation shows diversification

Asset allocation data for the June showed that insurers continue to diversify away from deposits and bonds and into funds, stocks and alternative assets.

Analysis

An Bang Group has been involved in several high profile overseas investments, such as acquisitions of the Waldorf Astoria hotel, Belgian bank Delta Lloyd, and insurers FIDEA of Belgium, Vivat Dutch, and a 57.5% stake in Korean Oriental Life. With the CIRC now allowing its subsidiary An Bang Life to do the same, the group will further diversify its investment exposure away from China. Overseas investment is an ongoing trend for Chinese insurers, as July also saw the smaller Yongan Property Insurance receive overseas investment approval.

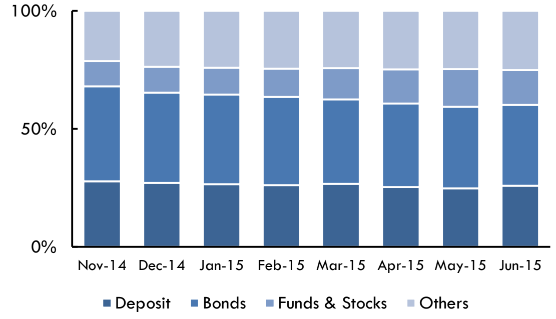
Further pension liberalization in China will see life insurers able to directly invest into assets such as infrastructure and real estate. This comes as CIRC is expanding Chinese life insurers' investment scope, in order to utilize insurance capital to support markets. The insurance industry is seeing exponential growth in the value of its asset allocation, as well as a diversification away from cash and bonds, into funds, stocks and other assets.

Over the past 18 months, the percentage of AUM allocated to funds and shares has grown from 10% to 15%. This is unsurprising given the strong performance of domestic equities. However, it illustrates a major difference between Chinese and overseas insurers, which typically have less than 5% of assets in equities. In addition, insurers have been actively expanding their other holdings, rising from 18% to 25% over the same period.

Data

Asset Allocation

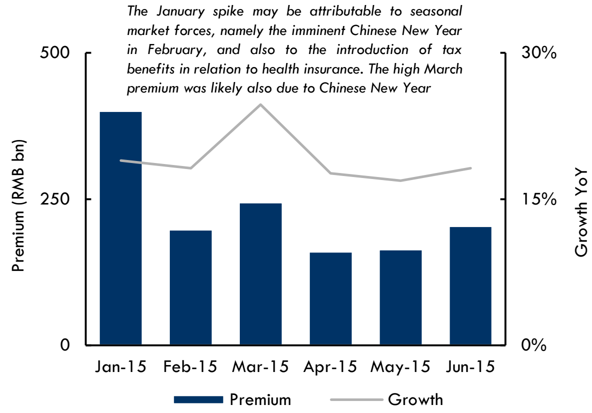
Allocation in 2015 (monthly)



Source: Z-Ben Advisors, CIRC

Premium Income

Premium income (monthly)



Source: Z-Ben Advisors, CIRC

Z-BEN | ADVISORS

Mutual fund sector

Updates

CSF invests RMB200bn into five funds

CSF has invested RMB40bn each into five mutual funds in order to make large block purchases and stabilize China's volatile domestic equity markets.

Over 100 equity funds become balanced funds

After the equity market correction in June and July, FMCs have converted over 100 equity funds to balanced funds, in order to gain more flexibility in fund investments. Balanced funds can diversify away from equities, allowing FMCs to deal with market volatility.

Total AUM in China increases 27.4% in Q2

The past quarter has seen the total AUM of Chinese FMCs grow by RMB6.5tr to RMB30.4tr. AUM across all types of funds increased significantly.

Zhongrong FMC increased its registered capital

The FMC now has registered capital of RMB750m after the capital injection of RMB250m, its second injection this year. The firm seems to have capitalized its FMC, and we may now see the it capitalizing its segregated account subsidiary

AMAC releases Q2 FMC AUM proportions

56% of mutual fund AUM is attributed to subsidiary businesses and segregated accounts. For some firms, it represents the vast majority of their business. Minsheng Royal has the fourth largest AUM, of which less than 10% is attributable to the traditional mutual fund business

Lord Abbett sells JV share to domestic P2P firm

US investment firm Lord Abbett sold its 49% stake in its joint venture FMC to CreditEase Huimin, as one of its partners buys out the remaining partner to take a 51% stake.

Analysis

CSF injected RMB40bn of capital into one fund each from ChinaAMC, China Merchants Fund, Southern, E Fund and Harvest, representing the second largest fundraising in history, after the Harvest Strategic Balanced Fund. Since the market downturn, equity funds have seen heavy redemptions and balanced funds have reduced their equity exposure in favor of fixed income. Excluding these five funds, July saw the lowest fundraising level since 2014.

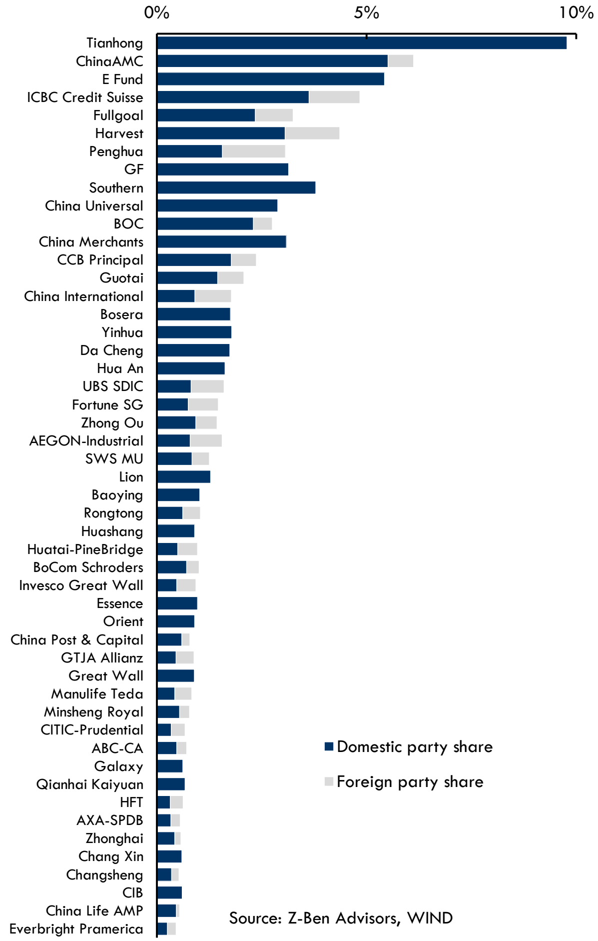
The latest capital injection has made Zhongrong FMC the largest mutual fund company. The registered capital increase from RMB300m to RMB750m in eight months is unprecedented. Confidence of shareholders is driven by Zhongrong's market-leading performance. There has been a fundamental upgrade to Zhongrong's business scope with its AUM increased to RMB55.2bn, and they are now planning to start an investment banking business with a stronger capital backup.

The P2P finance company CreditEase acquired the 49% from Lord Abbett. The remaining 51% stake in the JV was held by Chang Jiang Securities and Tsinghua Holdings, who held 30% and 21% respectively. Tsinghua acquired Chang Jiang's 30% in order to hold 51% of the FMC. The name has since changed to Nuode Fund, and has announced that it will launch a new fund in the second half of the year, but it remains unclear as to whether the CreditEase platform will team up with Nuode.

Data

Top 50 FMCs by market share

Estimated mutual fund sector market share (July)



Source: Z-Ben Advisors, WIND

Banks

Updates

More than 50 firms plan for privately-owned banks

After the launch of private banks from tech giants Alibaba and Tencent, more than 50 enterprises are now planning to launch their own, including online retailer JD.com and smartphone manufacturer Xiaomi.

China Development Bank gets capital injection

CDB received a capital injection from the State Council, along with two other policy banks. China is increasingly using its foreign currency reserves to fund corporate global investments and M&A deals overseas. CDB is one of the key conduits for this, along with CIC and SAFE.

Foreign banks included in CD issuance expansion

The issuance of certificates of deposit will allow for self-regulation within the industry, has been expanded to 102 banks, including three foreign owned banks, such as HSBC. The aim of the expansion is to maintain a fair and orderly interest rate pricing market.

Internet finance firms attract top banking talent

China's listed banks are facing a personnel drain as the industry's top talent is migrating to the internet private bank sector. Alibaba and Tencent have entered the market, and are more than able to match listed bank salaries.

Annualized BWMP returns declined below 5%

Of the 721 non-structured products in the market, the average expected rate of return was 4.98%. Declining yields has been a continuous trend over the past few years, and has been exacerbated by recent central bank policy and equity market conditions.

Bank QDII product market shares

Citibank and Standard Chartered Bank continue to dominate the distribution market for bank QDII products, with market shares of 30% and 17% respectively. Among offshore product managers, BlackRock and Schroders hold market leading shares of 21.8% and 15.5% respectively

Analysis

The latest draft rule of PBoC places heavy restrictions on the online finance business. However, internet giants like Alibaba and Tencent would not be affected since they both have banking licenses. Xiaomi and JD.com are no novices in the e-finance industry and they would not want to lose out in this wave of online finance industry restructuring. PBoC is positive towards the development of privately-owned banks, so it's likely that there will be more privately-owned bank license applications and approvals in the near future.

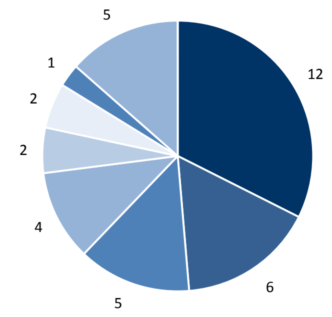
16 listed banks have seen 32 directors and senior executives resign in order to take positions at Internet companies. With the growth in private banks funded by the likes of Alibaba and Tencent, state own banks are finding that they can't afford to keep their top talent. A prime example of this is Tencent's WeBank, which hired a whole team from Ping An. Listed banks have also been reducing their staff compensation, which is encouraging this trend further.

This decline is seen across a longer time scale, as the average expected rate of return for a 1-3 month product is 4.9%, 4.95% for a 3-6 month product, and 4.8% for a 6-12 month product. This is part of a long-term trend in the industry. Two years ago, BWMPs offered returns of between 6% and 7%. With PBoC likely to continue its monetary easing policy, it is likely that BWMP rates of return will continue to decline.

Data

Fund distribution

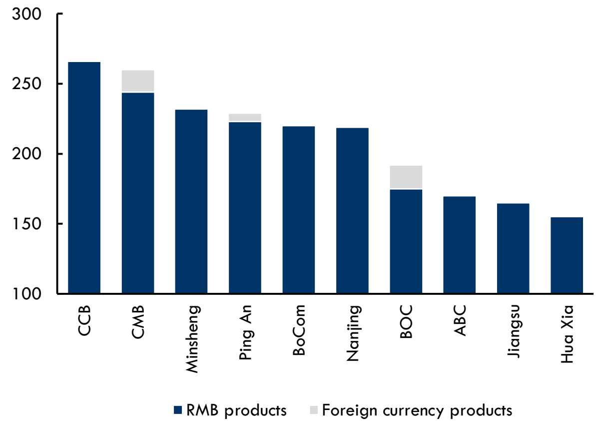
Distribution and number of funds launched (July)



Source: Z-Ben Advisors, WIND

Bank wealth management products

No. of products launched (July)



Source: Z-Ben Advisors, WIND

Trust sector

Updates

Umbrella trust AUM declines as regulations tighten

Umbrella trusts have found it much more difficult to raise and leverage capital since the equity market correction, as institutions and regulators are wary of their ability to leverage investments, and their effect on security markets.

CITIC Trust launches the first RMB1tr PPP project

The 2016 World Horticultural Exposition (WHE) will be the first Public-Private-Partnership (PPP) project in the Chinese trust industry. PPP can fund a project via governmental and private investment sources, with both risk and profit shared.

Trusts see falling profit margins

Although EBIT margins are higher than 2Q10 and 2Q11, they are lower than 2Q12, 2Q13 and 2Q14. This is notable because previous quarters saw AUM growth rate declines, but never profitability declines. The decline is due to increased costs, possibly due to active management expenses.

New China Trust receives QDII license

New China became the eighth trust company to receive a QDII license from CBRC along with a quota of USD450m. This marks a notable change in strategy after product defaults have led to a large fall in profitability.

Trusts' business focus continues to shift

Securities account for 20% of trust AUM compared to 17% during the first quarter and 12% a year ago. This comes at the expense of infrastructure and real estate which continued their decline to 19% and 9% respectively. Taking these declines along with single-client AUM declines, it suggests that the channel business is shrinking.

Trust industry AUM exceeds RMB15tr in 1H15

Total AUM of trusts increased by 21% in 1H15 and is believed to have exceeded RMB15tr. Trust money invested into security markets increased significantly and has tripled since 1H14, while property investments halved.

Analysis

CITIC Trust will take a 60% (RMB0.6tr) share whilst the government takes on 40% (RMB0.4tr). The local government also expressed willingness to work with CITIC in areas including water and heat supply, and waste treatment after the 2016 WHE. The government introduced PPP in September 2014 but the results so far haven't been satisfactory. Major trusts started to invest in PPP projects after new government guidance in May was put forward to gradually increase the proportion of private capital in large infrastructure projects.

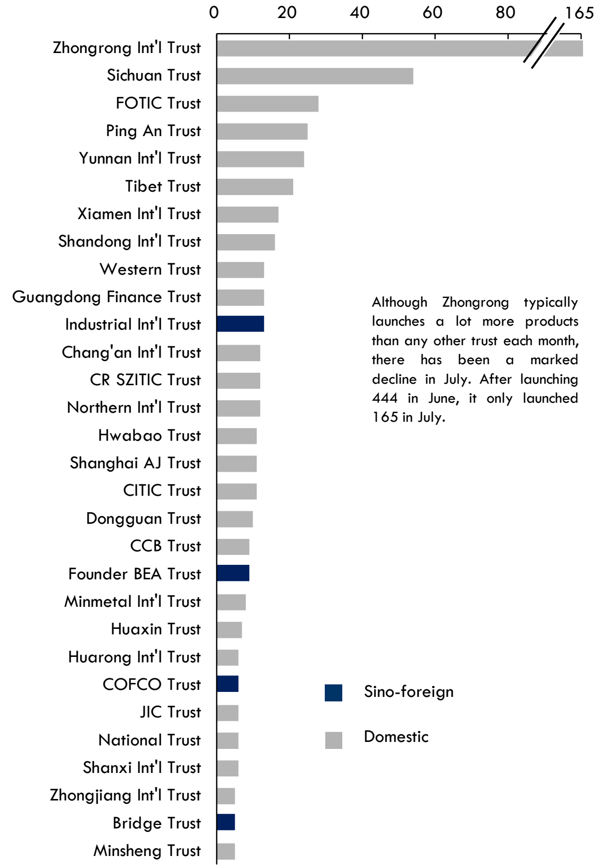
New China Trust saw its 2014 net profit margin fall to 10% from 30% a year ago due to many product defaults. It is hoped that the new international focus will address this. In December 2014, AIG agreed to sell up to 90% of its international financial leasing company to a group, including New China Trust. By acquiring this QDII license, the firm has taken a step closer to profiting from its leasing business

With equity market volatility and tighter trust regulations, there may be a general slowdown but the upward trend shouldn't change. Securities trusts are gaining traction while the property market is still relatively unattractive. The redemption due in 4Q15 will be the largest in history (RMB1.2tr) and it's likely that there will be rollover in certain products. SMEs and smaller real estate firms need to watch out for this redemption wave.

Data

Top 30 Trusts by products launched

No. of products launched (July)



Source: Z-Ben Advisors, WIND

Z-BEN | ADVISORS

Brokerage sector

Updates

AUM of broker AM exceeded RMB10tr by 1H15
CITIC remained the clear brokerage market leader, with total AUM almost double that of its nearest rival. The growth in AUM was sparked by the equity market rally during the first half of the year.

Brokerage composition focus on two businesses
Since the first half of 2014, the core brokerage business has grown from 34.1% to 49.2% of brokerage revenues. Investment banking has joined financial advisory, investment advisory and asset management as negligible business lines, whilst proprietary investment remained stable.

Brokers accelerate financing channel expansion
There has been a major decline in leverage in domestic equity markets, as regulators aim to decrease market volatility. Nevertheless, brokers have been expanding their financing channels in order to maintain business growth.

1H15 brokerage active management rankings
CITIC remained the market leader in terms of actively managed AUM with RMB412bn, more than double its closest rival Shenwan Hongyuan. The average proportion of actively managed assets to total AUM for the top 10 firms was 31.2%, whilst the industry average was 28.9%. CITIC's proportion was 36.5%.

Brokerage revenues and profits greatly increased
The first half of the year saw a large increase in brokerage revenues and net profits, as firms benefitted from the equity rally and nationwide interest in investing.

OTC derivatives market to be standardized
Due to the growth in the OTC derivatives market, the SAC is implementing the standardization of OTC markets. This is a market that brokerage firms have been actively expanding into, as demand for high risk/reward products grew throughout the first half the year.

Analysis

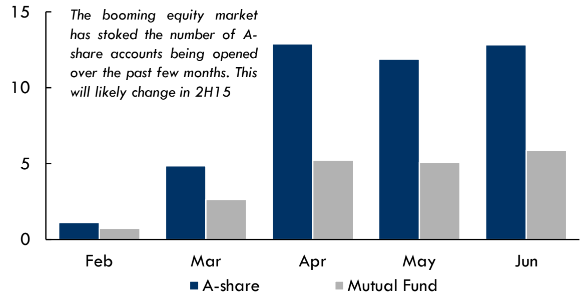
91 security companies in the industry are responsible for managing over RMB10tr, including CITIC Securities, which has AUM of RMB1.1tr. The 30 companies with AUM exceeding RMB100bn account for 81.7% of the industry, indicating the high concentration of large firms in the industry. The industry average management fee ratio is approximately 51bps. Considering that this includes segregated accounts and asset management fees, it is reasonably low, and suggests that the channel business is very concentrated.

Amid tightening credit conditions, brokerage firms are expanding their financing channels by applying for margin loan ABS issuance in the exchange market. In the eyes of the regulator, this is acceptable because it allows brokerage firms to ensure steady growth and development. This shows that brokers are still seeking to expand their margin trading service, despite the publicized crackdown by regulators.

At the end of 2Q15, brokerage firms were the second single largest player in the OTC derivatives market behind PFMs. Brokerage firms have used the market to offer beneficiary certificates to their clients. Beneficiary certificates act like synthetic options contracts, offering investors a high risk/reward profile. Monthly growth in beneficiary certificate issuance throughout the quarter shows a growing focus on OTC markets.

Data

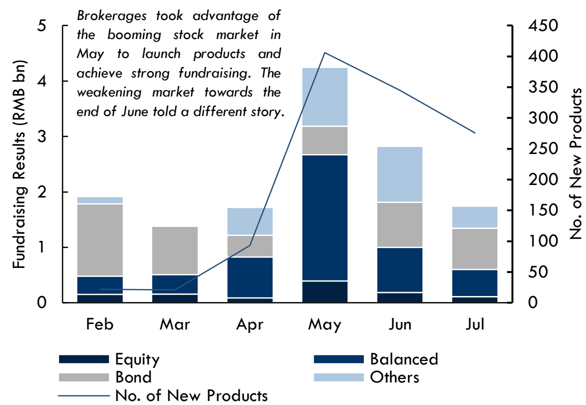
Securities accounts
A-share & MF accounts opened (monthly, m)



Source: Z-Ben Advisors, CSDCC

July data unavailable

Brokerage products
Fundraising of brokerage products (monthly, RMB bn)



Source: Z-Ben Advisors, WIND

Private (hedge) funds

Updates

28 PFMs now have AUM over RMB10bn
The total number of PFMs with AUM of over RMB10bn has increased to 28, up from only 7 by the end of 2014. The total AUM of private fund industry has reached RMB1.3tr

CSRC limits trading of 24 funds
Along with Citadel, several domestic PFMs saw their trading accounts limited by the CSRC, as part of the regulator's investigation into quantitative trading.

Foreign PFMs treated the same as domestic PFMs
As part of the US-China Strategic & Economic Dialogue, foreign PFMs can have the same access to Chinese capital markets as domestic PFMs, if they register with AMAC.

PFM investor breakdown released
AMAC's investor breakdown shows a higher than expected proportion of institutional capital. 50.2% of investors are individuals, 27% are companies, 4.5% are partnerships, 16.1% are asset management products, and 2.2% are other institutions. It should be noted that the end investors of AM products are individuals.

AMAC releases 2014 new fundraising breakdown
2014 self-launched funds were 53% equity, 2% bond, 10% balanced, 5% FOF, 15% hedged, 7% ABS, 3% derivatives, and 1% multi-asset. Although the market is still 80% equity, it implies that diversification is happening, and that self-launched products may be leading this trend.

300 FMC products close to liquidation level
Due to the equity market correction during June and July, FMCs have understandably found themselves suffering. Net asset values have fallen to the brink of liquidation levels, as funds struggle with redemptions and the inability to close illiquid positions.

Analysis

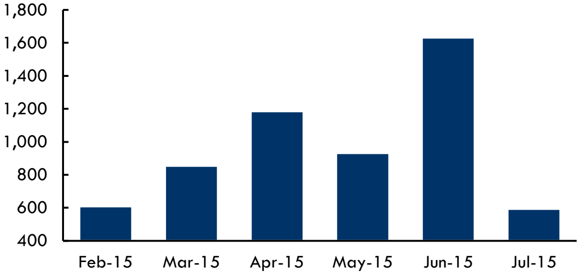
Among the 28 PFMs, 14 are Shanghai-based and 11 are in Beijing. StarRock of Beijing increased fourfold to RMB20bn in 1H15 due to a very positive image of risk management. Other PFMs expanded by offering a wider range of products and a more mature strategy. There has been a substantial increase in quant hedge funds, although it remains to be seen how ongoing market stabilization regulations from CSRC will affect this.

Although not mandatory, AMAC registration offers many benefits to foreign PFMs. Without it, the PFM would have to use a domestic subadvisor, and launch subadvisor-branded products. An AMAC-registered foreign PFM can release own-branded products, and access a wider asset range, including IBB, inter-institutional, exchange traded bonds, New Third Board, OTC markets, and IPO and merger related trades.

300 PFMs saw their net asset value fall below RMB0.8, whilst 80 funds fell below RMB0.7. According to convention, the winding down point is between RMB0.7 and RMB0.8. Given the lag on private fund disclosures, the actual liquidation rate may be even higher. As volatility in domestic equity markets spiked, many equity FMCs weren't dynamic enough to diversify and cope with redemptions, meaning that they were left holding equities that had suspended themselves from trading.

Data

Private funds
Number of new private funds launched by month



Source: Z-Ben Advisors, WIND

Private fund performance
Top-performing private funds: 1m and 12m returns

Fund name	1-m	Fund name	12-m
Xintai Stable Return Phase 1	205.0%	Taida Bonus No.11	3,031.9%
Yingda No.1 (Phase 8)	163.5%	Yi Mingrui Investment No.1	917.8%
Heavenly Huishang China Dream Desert Grass No.3	140.7%	Zexi Phase 3 (Shandong)	777.6%
Ruixing Stable Return	122.3%	Zexi Phase 3	755.8%
Chang An Investment No.307	121.0%	Zexi Phase 1 (Huarun)	671.9%
Average	150.5%	Average	1,231.0%
CSI 300	-14.7%	CSI 300	62.4%

Source: Z-Ben Advisors, WIND

Hongjia Tower 25/F, 388 Fushan Road
Pudong New Area, Shanghai, China 200122

Phone: (86-21) 6075-8163 | Fax: (86-21) 6075-8161
(86-21) 6075-8155 | Email: info@z-ben.com