China Mutual Fund Series: Quarterly Assessment (2Q15)

Records broken on all fronts

Record high public MF AUM

RMB7.05tr

The total AUM of the mainland public mutual fund industry hit RMB7.05tr at the end of 2Q15, beating the previous high of RMB5.15tr
in 1Q15. However, with stock market volatility continuing into the next quarter, investors are retreating from active equity funds. We expect that the AUM for public mutual funds will decline to approximately RMB6.9tr by the end of 3Q15.

Record high industry AUM

RMB16.07tr

For the first time, AMAC released AUM figures for FMC non-core business showing that FMC parent SA business totaled RMB2.9tr and FMC subsidiary AUM hit RMB6.1tr, making total industry an impressive RMB16tr by the end of Q2. Despite market volatility, Z-Ben Advisors believes that total industry AUM will continue to slowly increase to RMB17tr at the end of 2015, fuelled by this non-core business.

Record high quarterly fundraising

RMB887bn

2Q15 witnessed the highest quarterly FMC fundraising in history, almost four times higher than in 1Q15. Despite RMB200bn-worth of injections from CSF in July, investors are more reluctant to invest in the public mutual funds, many having been burned by volatility. Z-Ben Advisors estimates the new fundraising figure in 3Q15 to be less than half that of this quarter, likely around RMB320bn.

Record high personnel turnover

295

Turnover has been a longstanding problem in the MF industry, and it came to a head in Q2, with a record number of both PMs and senior management fleeing their posts, drawn by better incentives elsewhere. Private funds and brokerage AMs were some of the main destinations of these departing PMs, as they raised remuneration when the market was performing well to attract talent to expand their business.

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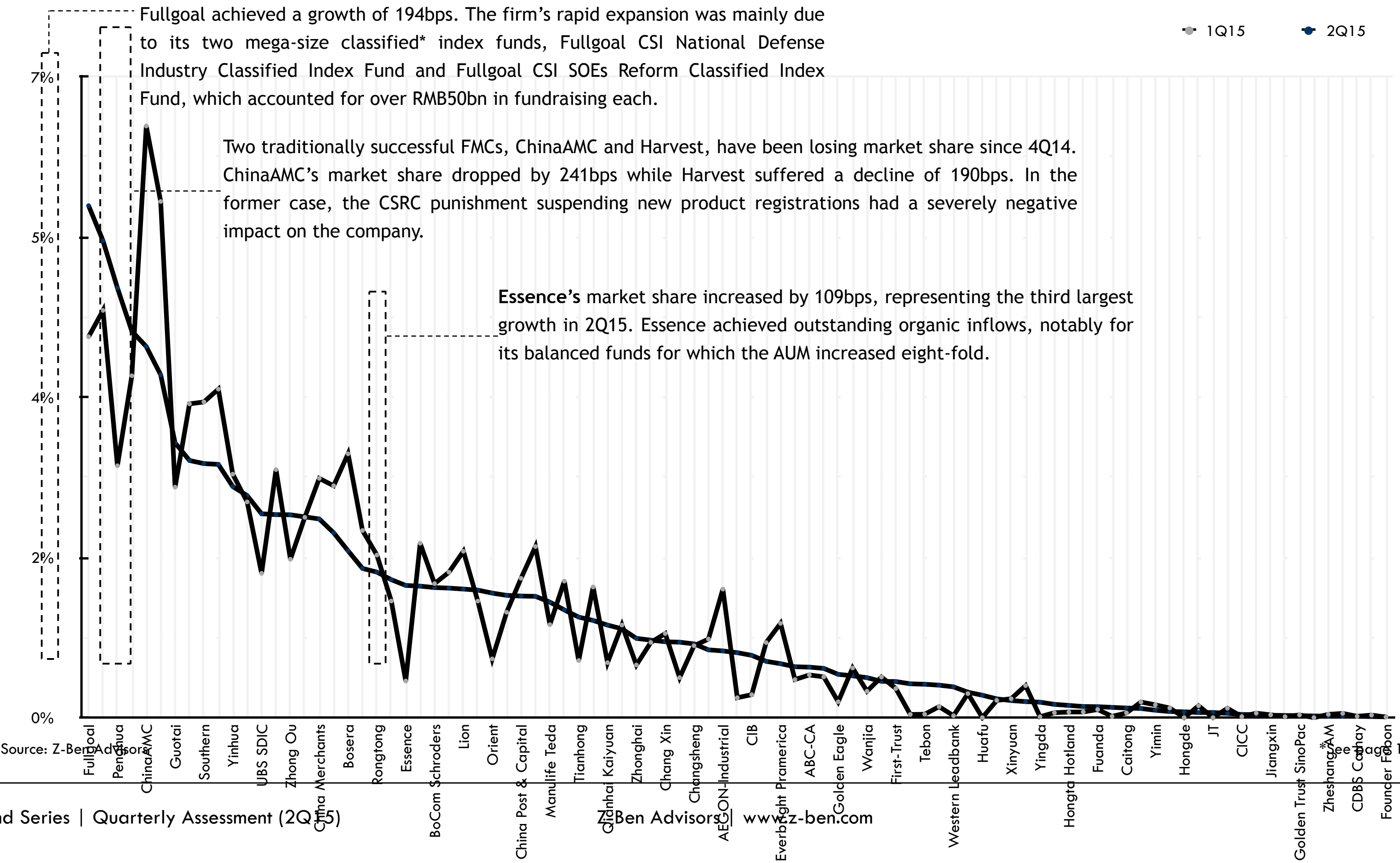
Public mutual funds (excluding MMFs and short-term bond funds)

AUM for the mainland mutual fund industry increased 55%, when excluding MMFs and short-term bond funds. The Q1 rankings were shaken up as **Fullgoal** and **Penghua** moved into 1st and 3rd, replacing **ChinaAMC** and **Harvest** which dropped town to 4th and 5th. These drops can be attributed to their heavy concentration in index funds. Given market conditions in late June, these firms suffered from relatively large outflows. However, **E Fund** still retained its position in the top three, due to the diversification and flexibility of its product line which allowed it to maneuver capture investor demand. Continuation of this strategy into Q3 will be key to maintaining its position.

Industry market share ranking (ex-MMFs and short-term bond funds), 2Q15



Source: Z-Ben Advisors

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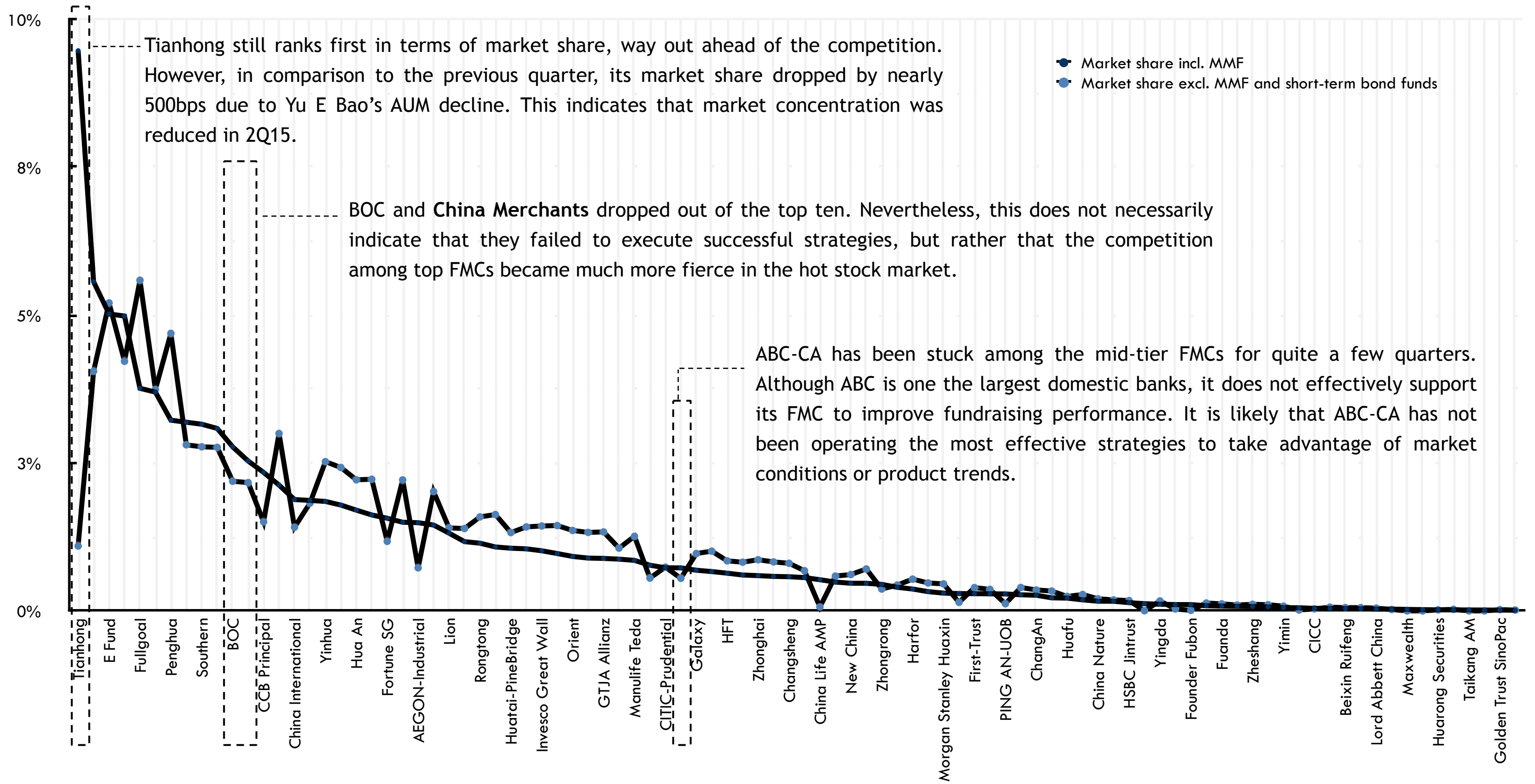
Public mutual funds (including all funds)

Total public MF AUM expanded 32% in 2Q15. Among the top ten FMCs by AUM, **Tianhong** retained its first place despite Yu E Bao losses, but it has much less of a lead than in Q1. **Fullgoal** and **Penghua** rapidly climbed the ranks owing to the success of their classified* offerings, targeted to meet investor demand when the market was strong. Among the Big Four bank-backed FMCs, **ICBC Credit Swiss** and **BOC** remained relatively stable, but **CCB Principal** dropped out of the top ten. **ABC-CA**, however, remains among the mid-tier FMCs. During strong market performance, banks operate a more open architecture, delegating business to multiple parties, not only their partners.

Industry market share ranking, 2Q15



Source: Z-Ben Advisors

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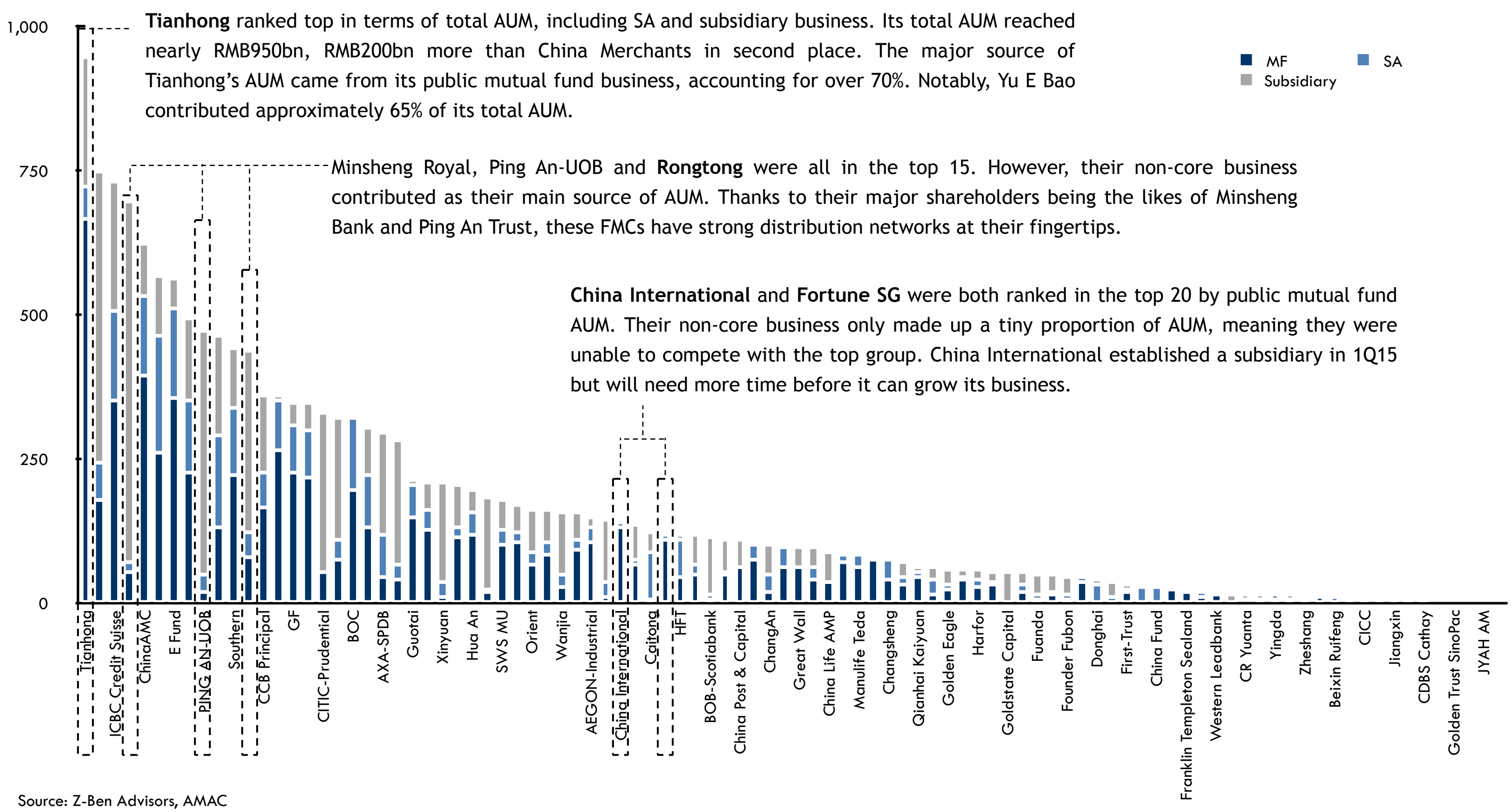
Industry AUM

AMAC released 2Q15 total industry AUM figures at the manager level, including non-core business, revealing the true gargantuan size of the sector as RMB16tr. FMCs which have a larger proportion of their AUM in public mutual funds do not necessarily have a high total AUM relative to peers which have shifted their focus from public mutual funds into non-core business. Examples of non-public specialists include **China Merchants**, **Minsheng Royal** and **Ping AN UOB**. Bank-backed or trust-backed FMCs are more likely to have large subsidiary AUMs due to their natural advantage in distribution which supports them to conduct more channel/packaging businesses.

FMC total AUM breakdown, 2Q15 (RMB bn)

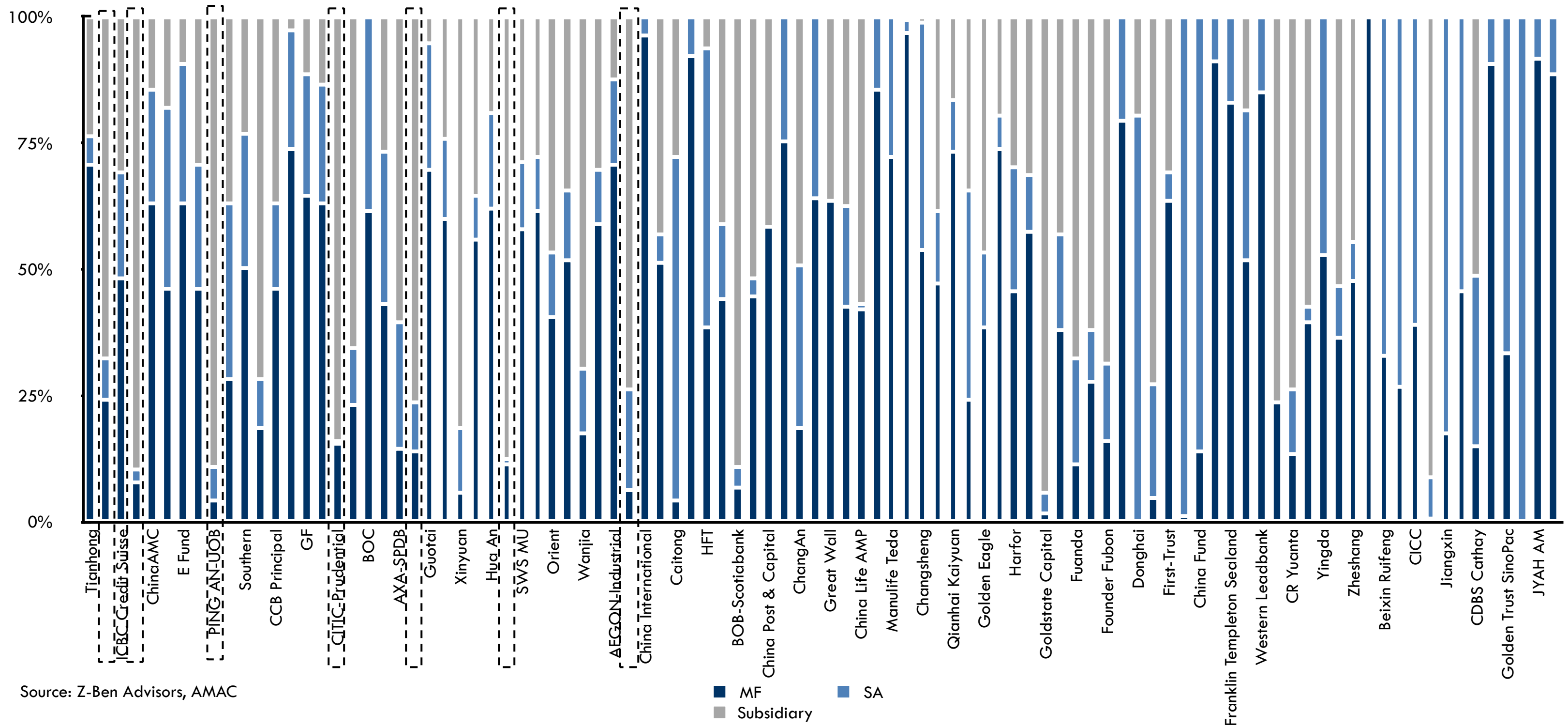


Source: Z-Ben Advisors, AMAC

Breakdown

As the AUM breakdown below shows, the asset base of traditional industry leaders such as **Tianhong**, **Fullgoal**, **GF** and **China Universal** remains dominated by public mutual fund business. The non-core business of such firms generally accounts for less than 40% of their AUM. On the other hand, **Minsheng Royal**, **Ping AN-UOB**, **CITIC-Prudential**, **CIB** and **BOSC** are focusing their attention on developing non-core business. As trust companies are increasingly constrained by tighter regulatory oversight and capital requirements, they are using the channel provided by their FMC subsidiaries to expand their channel/packaging business.

FMC total AUM breakdown, 2Q15



Source: Z-Ben Advisors, AMAC

- The different structure in total AUM breakdown represents the different business strategies of FMCs. Traditional household names such as **ChinaAMC**, **Harvest**, **E Fund** and **Fullgoal** have a high proportion of AUM in public mutual funds thanks to their first mover advantage. The FMCs view non-core business is just a source of extra income. However, other trust-backed and bank-backed FMCs have better access to leverage channel/packaging business and thus so-called non-core business has become core business for them.