



Long term, Asia will likely represent the largest asset management region outside of the United States. As one of the biggest and most dynamic asset management markets in the region, China continues to attract an enormous amount of interest from fund managers.

This report, in its second iteration, focuses on foreign manager participation in the Chinese asset management marketplace and evaluates the various market entry strategies into the retail and institutional sectors using proprietary survey data from Chinese asset managers.

This report allows firms to:

- Assess market potential and target opportunities
- Understand market dynamics and product development trends
- Determine the state of distribution across various channels
- Consider alternative market entry strategies
- Benchmark marketshare via comparative analysis of joint ventures
- Identify cross-border asset management opportunities
- Assess the addressability and viability of pursuing institutional assets

This report contains 71 exhibits and 112 pages. It includes the following chapters:

1. Market Overview
2. Joint Ventures
3. Cross-Border Asset Management
4. Institutional Asset Management

Table of contents, user examples, and sample exhibits are included in this attachment.

INSIDE LOOK:

Key findings:

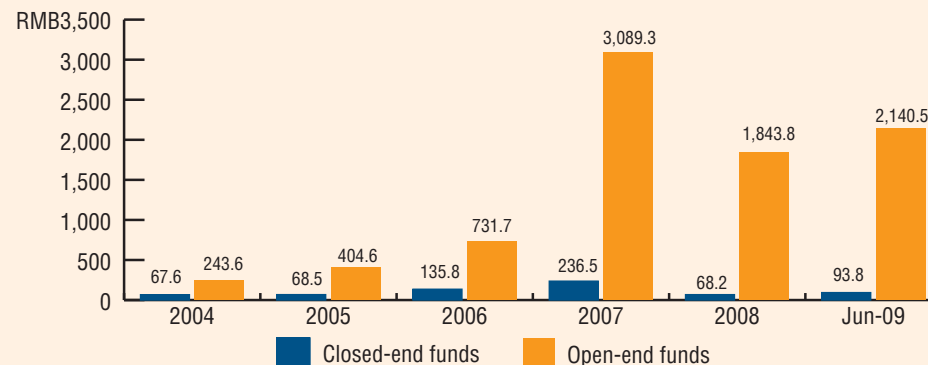
- The Chinese fund management industry managed to recover some ground lost in 2008, reaching RMB2.2 trillion as of June 2009.
- China's retail fund industry is expected to regain its position as the largest mutual fund market in Asia ex-Japan by 2013.
- Institutional assets are estimated to exceed RMB18 trillion as of 2008—but Cerulli estimates that only 11% of assets are outsourced to third-party managers.

Exclusive data:

- Size and addressability of China's asset management market
- Past and projected retail and institutional AUM growth rates
- Evaluation of key product development and distribution trends
- Quantitative and qualitative analysis of joint ventures
- Revenue analysis, including fees and costs
- Assessment of QDII and QFII markets

Sample Exhibit:

Chinese Mutual Fund Assets Under Management, 2004-June 2009 (RMB billions)



Sources: Morningstar Direct, Jin Rong Jie website, Wind Financial Database, Cerulli Associates



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New in 2009: Quantitative Updates are now subscription-based and include online access to a database of prior annual releases of this report, related Thematic Reports, and a data supplement updating select exhibits.

See page 3 for more details.

Cerulli Associates
Boston • Singapore • London

October 2009



USER EXAMPLES:

The following are examples of how this report can be applied to business planning and strategic decision-making:

Scenario 1: A U.S.-based asset management firm has decided to enter China as part of their global expansion plan. The global head of strategic planning needs to determine the appropriate market entry strategy. *Cerulli Quantitative Update: China 2009* provides data and insight into the following questions:

- How big is China's mutual fund marketplace and what is its projected growth trend? (Exhibits 1.02, 1.03)
- What are the onshore vs. offshore opportunities in the mutual fund business? (Exhibits 3.01, 3.03, 3.04, 3.06-3.08)
- Is there a role for foreign asset management firms in China's institutional marketplace? (Exhibits 4.03, 4.09-4.11, 4.14-4.16)
- Which entry strategy garners the most revenue and what are the associated fees and cost structures? (Exhibits 1.12-1.14)

Scenario 2: A large multinational asset management firm is evaluating the viability of setting up a joint-venture asset management operation in China. Before they make any serious commitments of senior management time, they need a summarized assessment of the performance of existing joint ventures in the country. *Cerulli Quantitative Update: China 2009* provides the following data metrics and Cerulli's assessment:

- List of existing foreign joint ventures in China with shareholding information and updates on new entrants, as well as valuations of selected equity deals over the years. (Exhibits 2.01, 2.02)
- A comparative assessment of foreign owned asset management firms against domestic Chinese fund houses. (Exhibits 2.04-2.07)
- A competitive evaluation of joint ventures operating in China. (Exhibits 2.08-2.10)
- Qualitative assessment of challenges, current penetration, and future opportunities in China's asset management industry by joint-venture managers. (Exhibits 2.12, 2.13)

Scenario 3: A European institutional fund house plans to expand its Asian footprints to China. They are conducting a review of various segments of the Chinese institutional marketplace and exploring the accessibility of assets for a presentation to the board of directors. *Cerulli Quantitative Update: China 2009* provides the following information and exhibits:

- The size of the Chinese institutional sector and the addressability of institutional assets. (Exhibits 4.01, 4.02)
- An examination of the insurance sector and identification the largest insurance companies. (Exhibits 4.04-4.07)
- An overview of the retirement landscape in China and a detailed analysis of retirement opportunities for asset managers. (Exhibits 4.08-4.13)
- An evaluation of institutional product trends and manager selection criteria. (Exhibits 4.17, 4.18)

MORE INFORMATION:

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A subscription to *Cerulli Quantitative Update: China 2009* remains active through 2/15/2011 and includes online access to the 4 related reports below at no cost. See the green Purchase tab on www.cerulli.com for more information on these reports.

- Cerulli Quantitative Update: Asset Management Opportunities in China 2008
- Cerulli Quantitative Update: Asset Management in China and India 2007
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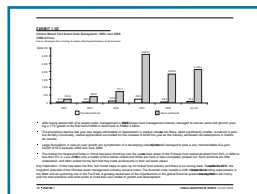
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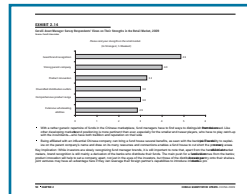
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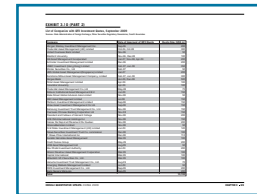
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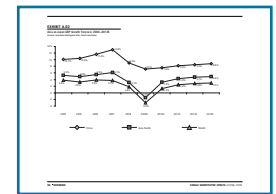
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INTRODUCTION & METHODOLOGY

Cerulli Quantitative Update: China 2009's analysis and coverage of the asset management industry in China builds on the firm's ongoing research coverage of fund management industries throughout the Asia-Pacific region. Cerulli continues to believe that, in the long term, Asia will most likely represent the largest asset management region in the world outside of the United States. As one of the biggest and most dynamic asset management markets in the region, China continues to attract an enormous amount of interest from fund managers.

As with last year's report, this report has been presented in the **Cerulli Quantitative Update** format as a response to clients' demand for granular, quantitative information on this market, and complements all our other Asian publications.

Report format

While our report retains its coverage of market sizing, product development, and distribution dynamics in China's asset management industry, the report, this year, focuses on foreign manager participation in the country to include an analysis of various market-entry strategies. This ranges from evaluating the joint venture asset management firms and assessing cross-border asset management, to examining the opportunities present for fund managers in the institutional sector. Besides addressing the key metrics of the industry, the report also includes a discussion of revenues, fees, and costs—all of which have become crucial metrics in the context of the recent financial crisis.

Complementary to the quantitative analysis, which includes explanations that highlight key developments and implications, each section has an in-depth qualitative component that focuses on recent industry trends and regulatory developments, in addition to a commentary on the future developments.

Proprietary research

Central to achieving the goal of providing usable quantitative information are our proprietary surveys of asset managers in China. In 2004, Cerulli became one of the first international research firms to conduct proprietary surveys with the largest Chinese asset managers, and we have continued to expand our coverage to include more local players as well as foreign joint ventures over the years. In line with our research focus this time around, we showcase the results of surveys with foreign joint ventures operating in the Chinese marketplace.

Completing the analyses is the qualitative input our research efforts bring to bear, and this relies on more than 50 highly focused and in-depth research meetings and conference calls with local and regional asset managers, banks, insurance companies, and regulators.

Besides our annual report on China's asset management industry, the following is a list of Asia-focused research led from our regional base in Singapore:

-
- ***Cerulli Quantitative Update: Asian Distribution Dynamics 2009*** is Cerulli's flagship Asian report that focuses on investment fund distribution trends in Korea, Hong Kong, Singapore, Taiwan, and China, as well as India. In its eighth iteration, this report relies on annual surveys with asset managers and banks in the region.
 - ***Cerulli Quantitative Update: Asset Management in Southeast Asia 2009*** analyzes the asset management industry in Malaysia, Thailand, Indonesia, the Philippines, and Vietnam, covering market sizing, product development, domestic and cross-border opportunities, and distribution trends in one of the fastest growing sub-regions in the world. This report is now in its third iteration.
 - ***Cerulli Quantitative Update: Institutional Asset Management in Asia 2009*** focuses on asset management opportunities offered by some of Asia's most important institutions and provides a sizing of outsourced assets. The report leverages proprietary surveys and interviews with institutional investors and managers active in the region.
 - ***The Cerulli Edge—Asia Pacific Edition***: A quarterly research notes publication that highlights recent proprietary research initiatives and provides the most current Cerulli viewpoints on developments in the region's asset management industries, focusing on the marketplaces of Australia, China, Korea, Hong Kong, India, Japan, Singapore, and Taiwan.

The information in this report was obtained from public and non-confidential sources, as well as proprietary surveys. Cerulli believes that the data herein is reliable and has made every reasonable effort to verify statistics presented; however, Cerulli does not guarantee its accuracy or completeness. All data in this report is calculated and presented in local currency or U.S. dollars to allow for comparative analysis. Exchange rates from June 30, 2009 have been used.

Cerulli benefited from the cooperation of a number of regulators and trade industry associations in China, and is especially grateful for assistance from the following:

- China Securities Regulatory Commission, Beijing
- China Banking Regulatory Commission, Beijing
- China Insurance Regulatory Commission, Beijing
- Ministry of Human Resources and Social Security of the People's Republic of China, Beijing
- Ministry of Finance of the People's Republic of China, Beijing
- National Council for Social Security Fund, Beijing
- State Administration of Foreign Exchange, Beijing
- The People's Bank of China, Beijing

SAMPLE SECTION

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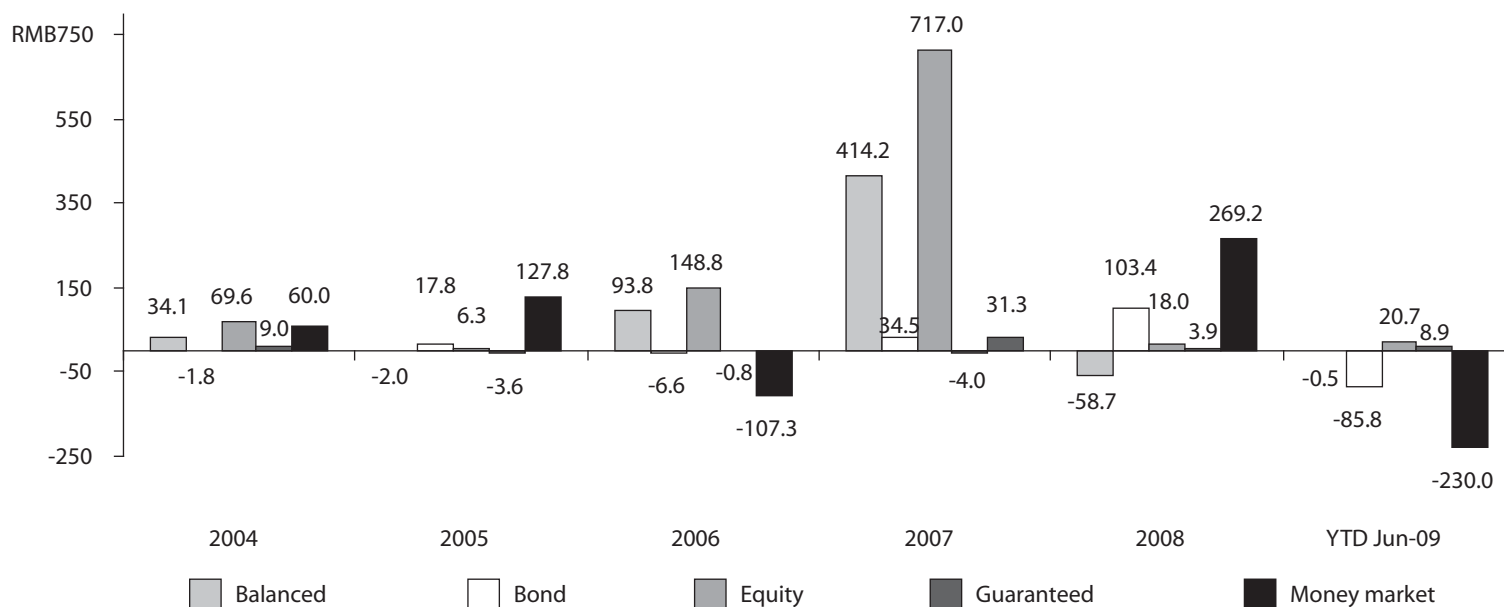
**CERULLI QUANTITATIVE UPDATE:
CHINA 2009**

EXHIBIT 1.06

Chinese Open-End Mutual Fund Net New Inflows by Investment Objective, 2004–YTD June 2009

(RMB billions)

Sources: Lipper FERL, Morningstar Direct, Wind Financial Database, Cerulli Associates



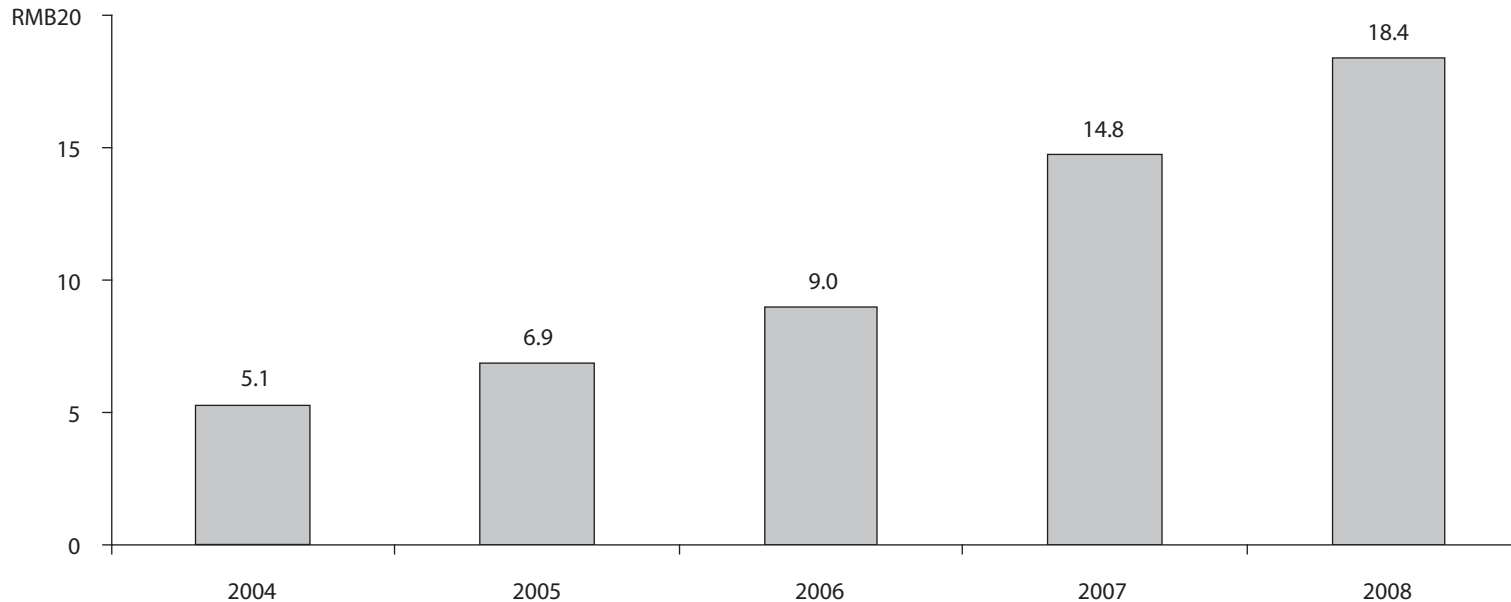
- **Only equity and guaranteed funds saw positive net inflows, at RMB21 billion and RMB8.9 billion, respectively, in the first half of 2009.** Interest in equity funds was reignited with the central government's expansionary fiscal and monetary policies, which saw the Shanghai Composite Index rising an impressive 60.1% in the first six months of the year.
- **The net inflows into guaranteed funds were the largest since 2004.** Guaranteed funds were not popular during the bullish years leading up to 2007 due to their limited upside potential, but after experiencing huge losses from riskier asset classes in 2008, **retail investors are beginning to see value in these funds again, although how long their interest will be sustained is a moot point.**
- **All other asset classes suffered aggregated net outflows of RMB316 billion.** Steep redemptions of RMB230 billion from money market funds in the first six months of the year were no surprise. The bulk of these were in very short-term investments bought by institutional investors in the last quarter of 2008, which expired in early 2009. There were also retail investors who pulled out of money market funds to participate in the stock market recovery.

Key Implication: Existing funds did not get much attention from retail investors as a good deal of the new money flowed into new fund launches. Managers have to be wary of fuelling the short-term investment mentality of retail investors by launching new funds with the latest popular themes, since such asset-gathering tactics are likely to see outflows just as quickly in the next quarter. Instead, cultivating a longer-term investment philosophy will benefit both manufacturers and investors. Regular savings plans (RSPs) have worked well to smooth out the flows in countries like Korea, although the awareness and popularity of RSPs in China is still too low to have a tangible impact on smoothing out the volatility in the marketplace.

EXHIBIT 4.01

Chinese Institutional Investable Assets, 2004–2008 (RMB trillions)

Source: Cerulli Associates



- **Investable assets held by Chinese institutions grew at a four-year CAGR of 37.6% from 2004 to 2008, exceeding RMB18 trillion (US\$2.6 trillion) at the end of 2008.** Cerulli uses investable assets as an indicator of the potential for institutional asset management in the country, based on the amount of financial assets that institutions can invest.
- **The People's Bank of China is the biggest institutional investor in China,** accounting for a leading 72% marketshare of investable assets, contributed by its massive foreign reserve holdings. Following a distant second and third behind are insurance companies and CIC with 12.7% and 11%, respectively.
- **The spike in assets in 2007 is attributable to not just new inflows and market appreciation at the height of the market bull run, but also to the establishment of CIC. By 2008, a deteriorating investment climate had moderated growth to 25%**—which is still a commendable feat when judged against the huge investment losses suffered by other global and regional institutions. By and large, conservative and domestically focused portfolios buffered Chinese institutions from the worst of the financial storm.

Key Implication: Although the pace of liberalization has been slower in the institutional market, the introduction of discretionary portfolio management and corporate pensions in the form of the Enterprise Annuities (EA) scheme in recent years is an encouraging sign for further development. As seen in 2008, institutional assets, being stickier and more consistent, cushioned the sharp fall in retail assets, providing a useful foil for large fluctuations in the retail market.