Global Asset Managers

Connections Series

Why Have Chinese MF Net Flows Been Slow to Develop, and Could Chinese Asset Managers Provide a Source of M&A in the United States?

The Credit Suisse Connections Series leverages our exceptional breadth of macro and micro research to deliver incisive cross-sector and cross-border thematic insights for our clients.

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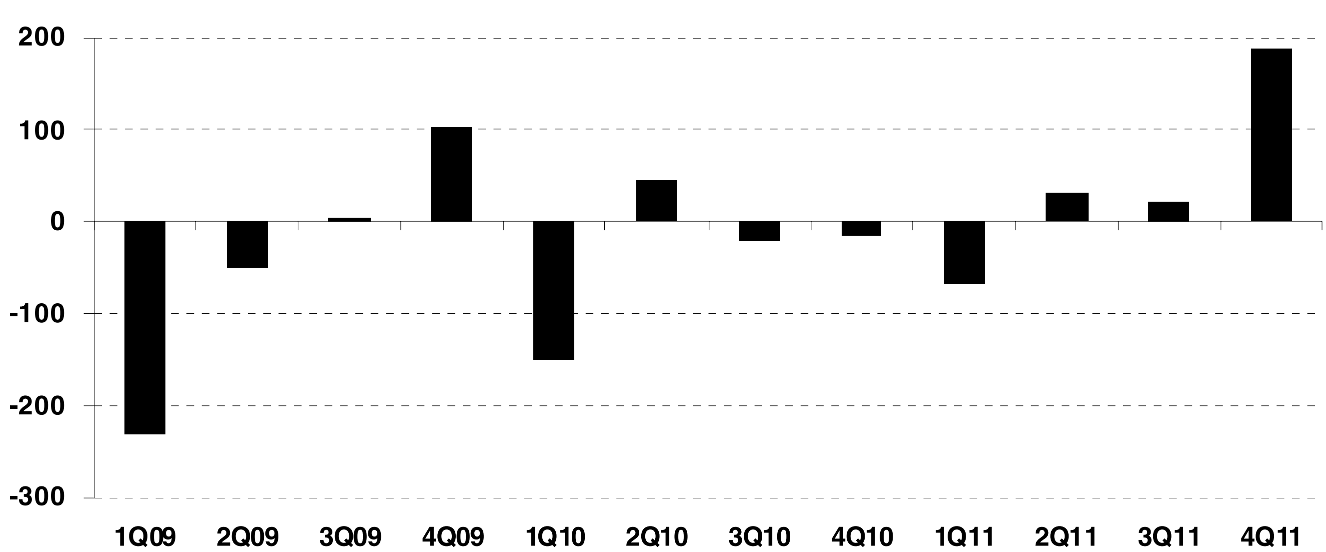
- **Why Have Net Flows Been Weak? The reasons are** poor mutual fund (MF) returns for new Chinese investors in '05-'07, combined with non-MF bank product innovation, shifted net flows into Trust Company Funds, and Bank Wealth Management Products in '08-'11.
- **Why Could Net Flows Increase?** In 2H11, systemic risk issues have caused regulators to restrict the sale of Trust Company Funds, while pension reform could allow local pension plans to allocate assets to third party managers. These two cyclical events suggest improved net flows in '12-'14, while the rapidly expanding middle class will drive strong secular growth with AuM to GDP/capita/deposit levels normalizing.
- **Could Chinese Asset Managers Acquire Small Cap U.S. Asset Managers?** We estimate the largest Chinese asset managers are beginning to develop global businesses, and M&A is the lowest cost method of entering the $25Tn U.S. market. Low valuations (10-16x '13 EPS) for small-cap asset managers provide EM managers an attractive entry point into the U.S. retail channel, while simultaneously opening a new source to distribute Chinese active equities (a product in which Chinese managers have a competitive advantage).
- **Estimate U.S. Asset Manager Interest in Acquiring/Building Chinese Asset Management Businesses Is Declining:** We believe that M&A interest from U.S. asset managers in the Chinese market has declined due to four key developments: (1) higher private market values, (2) lack of strategic JV partners (most are already taken), (3) higher regulation, and (4) lower tolerance for operating losses. U.S. asset managers could wait for the potential removal of ownership restrictions, which would allow them to operate 100%-owned businesses in China.
- **Differentiation:** During our Chinese asset manager tour in 2011, we had the opportunity to build relationships and meet with many of the local and foreign asset managers based in mainland China and Hong Kong (foreigners: AllianceBernstein, Franklin Templeton, Invesco, HSBC, UBS Global; domestics: China AMC, CIC, Bosera, Harvest, ICBC), and the CSRC (Chinese Securities Regulatory Commission). Over the last two months, we hosted calls with Chinese industry contacts, including the advisory firm Z-Ben. We also collaborated with our Demographics team and Hong Kong-based research team.

Investment Detail

- **Mutual Funds Have Lost Financial Asset Market Share in China over the Past Three Years, Similar to Trends Experienced in the United States:** Over the last three years, negative real returns in the Chinese Mutual Fund market (RMB2.2Tn in AuM) have shifted market share to non-MF classes such as Trust Company Funds (RMB4.8Tn), Bank Wealth Mgmt (RMB4.0Tn), Private Funds (RMB168Bn), and Broker Asset Management Products (RMB133Bn).
- **Chinese MF Organic Growth Is Currently Pressured by the Same Issues Facing the U.S. Industry, Including Investor Demand for (1) Higher Real Returns, (2) Lower Volatility, and (3) Increased Liquidity:** Recent investor experience includes a sharp correction in 2008, partial rebound in 2009, and then flattish to down markets to date. However, most retail investors first invested in mutual funds in 2006-07, and then generated significant negative returns in 2008. This shifted demand from equities to income and total return focused products, which drove growth into nonmutual fund markets such as the trust funds after 2008.
- **Chinese MF Net Flows Have Trended Negatively, Excluding Money Market Seasonality in December:** 4Q11 flows were about $20B RMB (up from about -$50B on average in 1Q11-3Q11), driven by money market fund seasonality, as we estimate domestic managers look to boost YE AuM for marketing reasons. Specifically, 4Q11 net flows of RMB206Bn included RMB170Bn of money market inflows and negative RMB9Bn of active equities (flat QDII flows).
- **Due to New Regulations, Trust Fund Organic Growth Should Decelerate in 2012:** Regulation started restricting trust funds in 2011, possibly to prevent appreciation in real estate prices (trust funds own real estate-backed loans). The systemic risk posed by the implicit guarantee to retail investors is also a source of significant concern. Trust Fund companies have started offering equity linked products with fixed returns around 10-12%. These new products are funded by stocks and real estate, but bypass new trust company regulation, and are also not regulated within the mutual fund industry.

Exhibit 1: **Chinese Mutual Fund Net Flows (Billions in RMB)**



Source: Z-BEN Advisors, Credit Suisse Equity Research.

- **Mutual Fund Distribution May Present the Highest LT Growth Opportunities in China, Despite Weak Growth over the Past Three Years:** While the brokerage asset management products may produce the fastest growth rate in 2012, some of our contacts believe that mutual funds will have the greatest growth in the long term due to a more flexible product offering of customizable separate accounts. Specifically, high exposure to equities (highest LT return asset class), and the opening of the institutional asset management industry should benefit total growth. Specifically, pension and insurance reform could cause local pension plans to begin allocating AuM to third-party managers, and given their LT time horizons and high liability hurdles, equity managers may receive the largest allocation. Additionally, the mutual fund industry includes QDIIs, the only means by which Chinese retail investors can gain exposure to foreign equities.
- **M&A—Will Chinese Asset Managers Be Buying U.S. and European Asset Managers?** There are approximately fifty foreign JVs in China. (See Exhibit 4.) However, there are few Chinese managers outside of mainland China and Hong Kong. Chinese Insurer Ping An's investment in Fortis represents one exception. We believe the strongest Chinese Asset Managers will begin efforts to develop well respected global brands by establishing businesses outside of China. Accordingly, we think it would make sense for the strongest domestic businesses in China (China AMC, Harvest, E-Fund, Bosera) to begin building operations in New York, London, Tokyo, and Sao Paulo. However, for 10-16x earnings, Chinese managers could acquire most public small-cap asset managers in the United States and Europe that are willing sellers. This would allow them to acquire a business at an attractive valuation (with no expense synergies), and potentially run Chinese product through the new platform. The on-the-ground Chinese investment expertise could provide an opportunity to grow AuM for some of the smaller U.S. asset managers. In addition, several traditional managers in China, such as EFund, are looking to build out their alternatives business in which demand has been stronger.
- **M&A Interest for U.S. Asset Managers in China Is Declining, We Estimate:** Reversing the situation, we think the interest of larger U.S. asset managers lacking Chinese operations in acquiring or building businesses in China is lower, and most would prefer to wait until they can fully own a local operation. Specifically, private market values are high, most key JV partners are already taken, regulatory burdens are higher than the United States, and few boards/management likely have the stomach for five years of negative profits, while they develop the business.

Exhibit 2: League Table: 1- 20

Rank	FMC	Mkt Share	AUM (Rmb bn)
1	China AMC	8.45%	183.93
2	Harvest	6.43%	140.05
3	E-Fund	6.39%	139.26
4	Southern	5.27%	114.73
5	Bosera	5.01%	109.12
6	GF	4.46%	97.19
7	Hua'an	3.63%	79.00
8	Dacheng	3.35%	72.98
9	ICBC Credit Suisse	3.18%	69.25
10	Yinhua	3.00%	65.38
11	Full Goal	2.76%	60.11
12	China International	2.30%	50.13
13	Penghua	2.29%	49.77
14	China Universal	2.24%	48.85
15	CCB Principal	2.22%	48.31
16	Lion	2.10%	45.83
17	BoComm Schroders	2.06%	44.79
18	BOC	1.98%	43.02
19	Guotai	1.96%	42.58
20	Changsheng	1.88%	40.99

Source: Z-BEN Advisors, Credit Suisse Equity Research.

Exhibit 3: League Table: 21 - 40

Rank	FMC	Mkt Share	AUM (Rmb bn)
21	Rongtong	1.85%	40.25
22	INVESCO Great Wall	1.74%	37.80
23	China Merchants	1.73%	37.58
24	UBS SDIC	1.65%	35.89
25	Fortune SG	1.64%	35.62
26	HFT	1.46%	31.71
27	AEGON-Industrial	1.45%	31.50
28	Great Wall	1.35%	29.35
29	Huashang	1.23%	26.78
30	China Post & Capital	1.14%	24.84
31	Everbright Pramerica	1.05%	22.76
32	Manulife TEDA	0.98%	21.42
33	Changxin	0.83%	18.00
34	Wanjia	0.79%	17.14
35	Franklin Templeton Sealand	0.65%	14.26
36	ABC-CA	0.65%	14.20
37	Galaxy	0.64%	13.89
38	Huatai-PineBridge	0.61%	13.20
39	GTJA Allianz	0.59%	12.93
40	CITIC-Prudential	0.57%	12.33

Source: Z-BEN Advisors, Credit Suisse Equity Research.

- **Foreign JVs Grew Modestly Faster than Domestics in 2012:** We estimate stronger distribution has aided the growth of the foreign asset managers, as many are partnered with the largest banks, including BlackRock (Bank of China), Credit Suisse Asset Management (ICBC), Principal Financial Group (China Construction Bank), and Amundi (Agriculture Bank of China). Specifically, when you combine the investment expertise of BlackRock and $3.5Tn of AuM with Bank of China's $13Tn of deposits, we see strong growth potential in mainland China. In 4Q11, BOC launched a SMID Growth Fund that raised $3.0B RMB in AuM (second largest in the quarter), while Invesco Great Wall launched a Core fund with $940B RMB.

Exhibit 4: Foreign Joint Ventures in Mainland China—Information Matrix

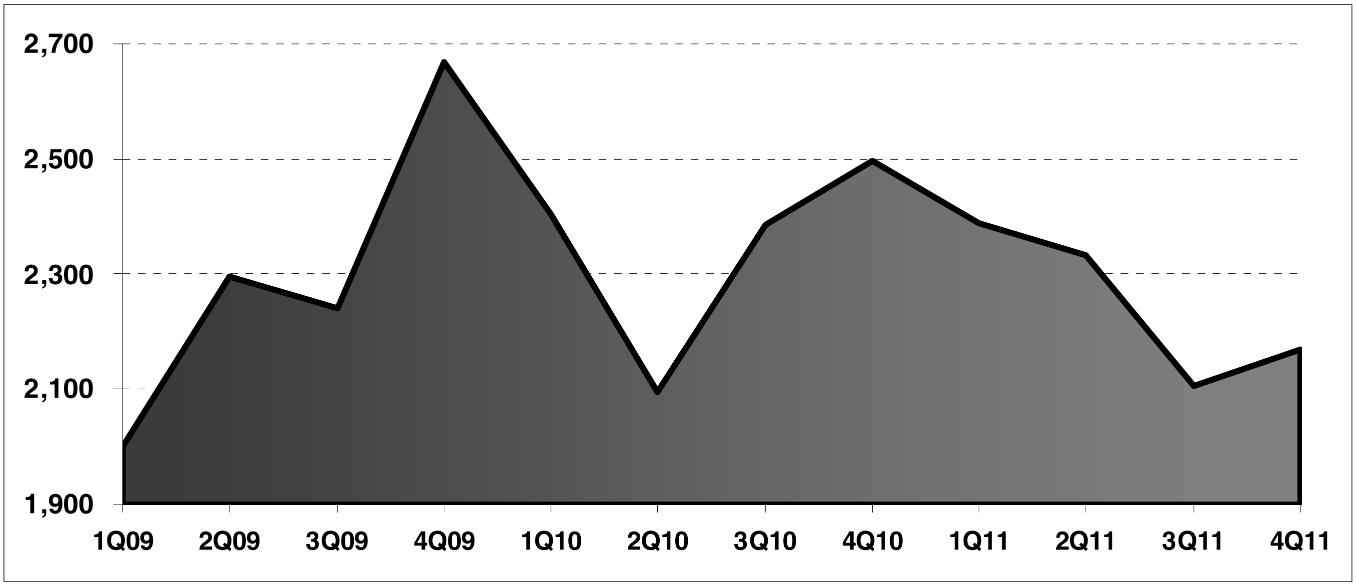
Asset Manager Name	Foreign Investor	Domestic Chinese Investor	Foreign Equity	Oper Date	Reg Capital	HQ	AUM RMB bn	No. of Products
ABC-CA	Amundi Asset Management	Agriculture Bank of China	33.33%	18-Mar-08	200	Shanghai	14.2	11
AEGON-Industrial	AEGON	Industrial Securities	49.00%	* 12-Apr-08	150	Shanghai	31.5	11
AXA SPDB	AXA Investment Managers	Shanghai Pudong Development Bank	39.00%	15-Aug-07	200	Shanghai	2.3	6
BNY Mellon Western	BNY Mellon Asset Management	Western Securities	49.00%	20-Jul-10	200	Shanghai	0.6	2
BOC	BlackRock Investment Management	Bank of China	16.50%	12-Aug-04	100	Shanghai	43.2	15
BoComm Schroders	Schroder Investment Management	Bank of Communications	30.00%	4-Aug-05	200	Shanghai	44.8	16
CCB Principal	Principal Financial	China Construction Bank	25.00%	19-Sep-05	200	Beijing	48.3	18
Changsheng	DBS Bank	Guoyuan Securities	33.00%	* 19-Apr-07	150	Beijing	41.0	17
China AMC	Power Corportation of Canada	CITIC Securities	10.00%	* 24-Dec-11	238	Beijing	183.9	26
China International	JP Morgan Asset Management	Shanghai International Trust	49.00%	12-May-04	250	Shanghai	50.1	15
China Merchants	ING Investment Management	China Merchants Bank	33.30%	27-Dec-02	210	Shenzhen	37.6	20
CITIC-Prudential	Prudential plc	CITIC Trust	49.00%	30-Sep-05	200	Shanghai	12.3	13
Everbright Pramerica	Pramerica Investment	Everbright Securities	45.00%	22-Apr-04	160	Shanghai	22.8	10
First State Cinda	First State Investment Management	Cinda Asset Management	46.00%	5-Jun-06	100	Shanghai	5.8	6
Fortune SG	Lyxor Asset Management	Hwaboo Trust	49.00%	3-Jul-03	150	Shanghai	35.6	19
Founder Fubon	Fubon Securities	Founder Securities	33.30%	8-Jul-11	200	Beijing	1.3	-
Franklin Templeton Sealand	Franklin Templeton Investments	Sealand Securities	49.00%	15-Nov-04	220	Shanghai	14.3	9
Full Goal	Bank of Montreal	Haitong Securities	27.78%	* 28-May-03	180	Shanghai	60.1	24
Golden Eagle	BEA Union Investment	Guangzhou Securities	11.00%	* 13-Dec-10	250	Guangzhou	6.0	9
GTJA Allianz	Allianz Global Investors	Guotai Jun'an Securities	49.00%	3-Apr-03	150	Shanghai	12.9	13
Guotai	Generali Group	Jianyin Investment	30.00%	* 21-Jun-10	110	Shanghai	42.6	21
Harvest	Deutsche Bank Group	China Credit Trust	30.00%	* 17-Jun-05	100	Beijing	140.1	28
HFT	BNPP IP BE Holding	Haitong Securities	49.00%	18-Apr-03	150	Shanghai	31.7	18
HSBC Jintrust	HSBC Investments	Shanxi Trust	49.00%	16-Nov-05	200	Shanghai	8.3	11
Huatai-PineBridge	PineBridge Investments	Huatai Securities	49.00%	18-Nov-04	200	Shanghai	13.2	11
ICBC Credit Suisse	Credit Suisse First Boston	Industrial & Commercial Bank of China	25.00%	21-Jun-05	200	Beijing	69.3	20
INVESCO Great Wall	INVESCO Asia	Great Wall Securities	49.00%	12-Jun-03	130	Shenzhen	37.8	14
KBC-Goldstate	KBC Asset Management	Goldstate Securities	49.00%	28-Nov-06	150	Shanghai	1.0	7
Lombarda China	Unione di Banche Italiane	Guodu Securities	49.00%	19-Jul-06	120	Shanghai	5.3	9
Lord Abbett China	Lord Abbett	Changjiang Securities	49.00%	8-Jun-06	100	Shanghai	3.3	6
Manulife TEDA	Manulife	Northern International Trust	49.00%	* 9-Mar-10	180	Beijing	21.4	16
Minsheng Royal	Royal Bank of Canada	Minsheng Bank	30.00%	3-Nov-08	200	Shenzhen	5.2	6
Morgan Stanley Huaxin	Morgan Stanley	China Fortune Securities	34.00%	* 12-Jun-08	100	Shenzhen	9.7	9
Penghua	Eurizon Capital SGR	Guosen Securities	49.00%	* 22-Jun-07	150	Shenzhen	49.8	24
Ping An UOB	UOB Asset Management	Ping An Trust	25.00%	7-Jan-11	300	Shenzhen	2.7	1
Rongtong	Nikko Asset Management	New Times Securities	40.00%	* 13-Apr-07	125	Shenzhen	40.3	12
SWS MU	Mitsubishi UFJ Trust and Banking	Shenyin Wanguo Securities	33.00%	* 4-Mar-11	150	Shanghai	11.9	12
UBS SDIC	UBS Asset Management	SDIC Trust	49.00%	* 10-Jun-05	100	Shenzhen	35.9	16
Zhonghai	Edmond De Rothschild Banque	Zhonghai Trust	25.00%	* 26-Nov-08	147	Shanghai	12.0	11
-	American Century Investments [1]	Golden Sun Securities	-	-	100	-	-	-
-	AVIVA Investors [1]	Central China Securities	49.00%	-	200	Shanghai	-	-
-	Bank of Novo Scotia [1]	Bank of Beijing	33.00%	-	300	Beijing	-	-
-	Capital Investment Trust [1]	Huaxi Securities	49.00%	-	200	-	-	-
-	F&C Asset Management [1]	Huaxia Bank	19.50%	-	250	Beijing	-	-
-	Korea Investment & Securities [1]	Yingda Securities	-	-	-	-	-	-
-	Mirae Asset Financial Group [1]	Huachen Trust	25.00%	-	-	-	-	-
-	President Securities [1]	Industrial Trust	49.00%	-	100	Xiamen	-	-
-	Samsung Asset Management [1]	Xiangcai Securities	-	-	-	-	-	-
-	SinoPac Securities Investment Trust [1]	Huarong Securities	49.00%	-	200	Beijing	-	-
-	Yuanta Securities Investment Trust [1]	China Resources SZITIC Trust	49.00%	-	200	Shenzhen	-	-

*Source: Z-BEN Advisors, Credit Suisse Equity Research; Footnote * - the date the foreign partner bought in; Footnote 1 – JVs in preparation.*

- **Our Oversimplified Thesis; Why Should Chinese AuM Growth Exceed the U.S.?** In China, 323M adults have a net worth of over $10,000 USD versus 168M in the United States. In addition, 670 cities in China have 1M-plus people versus nine in the United States. Chinese demographics plus economics (+8% nominal GDP growth and rising GDP per capita) are fundamental underpinnings for rapid AuM growth.

Mutual Fund Industry Is in a Secular Growth Phase, Despite Recent Low Growth

Exhibit 5: **Chinese Mutual Fund AuM**

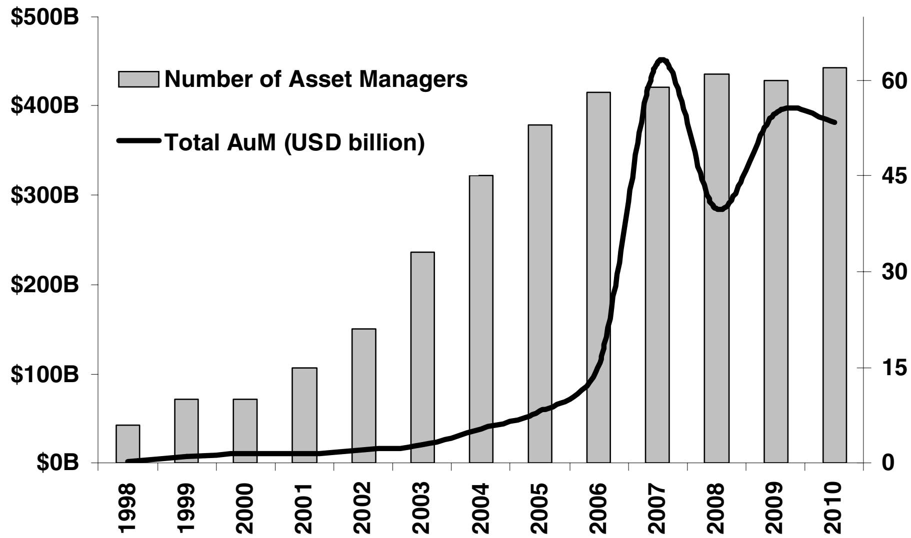


Source: Z-BEN Advisors, Credit Suisse Equity Research.

While we estimate that Chinese net flows could exceed that of the United States in ten years, we estimate Chinese mutual fund AuM levels may only represent 20% of U.S. levels by 2020**.**

There are 670 cities in China with a population exceeding 1M, compared with nine in the United States, illustrating that the opportunity in the Chinese asset management industry is not limited to Beijing, Shanghai, Shenzhen, and Guangzhou. Four of the largest commercial banks in the world are Chinese (ICBC, China Construction Bank, Bank of China, Agricultural Bank of China), as well as two of the largest insurers (China Life, Ping An), and in the next decade we believe several of the largest asset managers in the world will also be Chinese, owing to strong domestic opportunity. While the large commercial banks and insurers have floated equity on stock exchanges, we believe that there will be an opportunity for the large asset managers to go public and pursue acquisitions outside of mainland China. High GDP growth is increasing GDP per capita at a rapid rate, expanding the potential for middle class and high net worth-focused distribution. While most global asset managers recognize the growth potential in the young asset management industry in China, we believe that many could underestimate the magnitude of future AuM growth, and are discouraged by the prospect of negative/low returns before the market deregulates. While many are unwilling to invest and lose money for several years through a JV structure, others like Capital Research, Fidelity Investments, PIMCO, T. Rowe Price, and Vanguard could wait for the 49% ownership constraint to be raised in order to have a fully controlled business; however, this may take five years or longer.

Exhibit 6: AuM and Number of Asset Managers in Mainland China (in $USD)



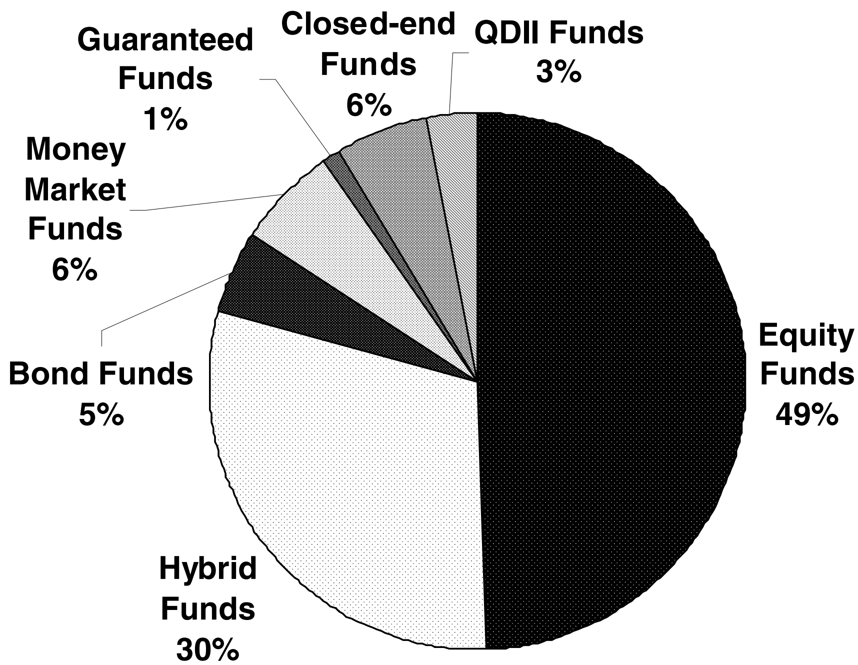
Source: China AMC, WIND, Credit Suisse Equity Research.

Exhibit 7: Asset Class Mix in Mainland China—Bond Funds Are Small; Negatively Affected by an Illiquid Bond Market and High Net Flow Volatility from Short-Term Investors that Can Negatively Affect Fund Performance

Fund Type	Number of Funds	AUM (USD billion)	AUM (RMB billion)	% in Total AUM
Equity Funds	340	188	1,238	49.4%
Hybrid Funds	168	113	744	29.7%
Bond Funds	97	19	125	5.0%
Money Market Funds	47	23	153	6.1%
Guaranteed Funds	7	4	28	1.1%
Closed-end Funds	50	21	141	5.6%
QDII Funds	33	12	77	3.1%
Total	**742**	**380**	**2,506**	**100%**

Source: China AMC, WIND, Credit Suisse Equity Research.

Exhibit 8: AuM Mix Illustration—Strong Equity Culture in China



Source: China AMC, WIND, Credit Suisse Equity Research.

Exhibit 9: Relative Demographic Detail

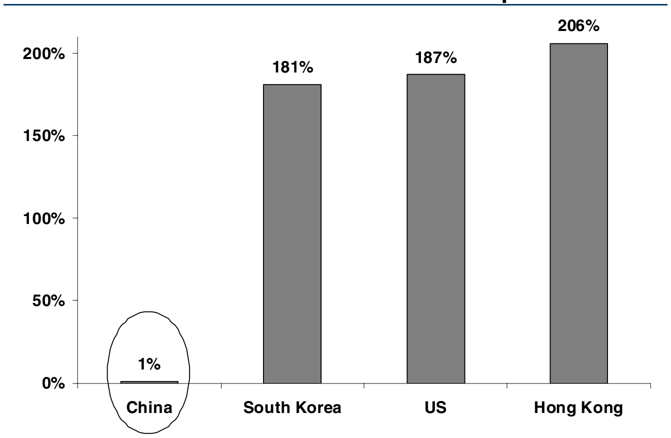
	US	Europe	China
Size (mi^2)	3,794,066	3,930,000	3,704,427
Population	305,746,000	731,000,001	1,321,851,888
Cities with > 1 million people	9	36	671

Source: Where East Eats West, by Sam Goodman, Credit Suisse Equity Research.

The Three Key Drivers for Growth

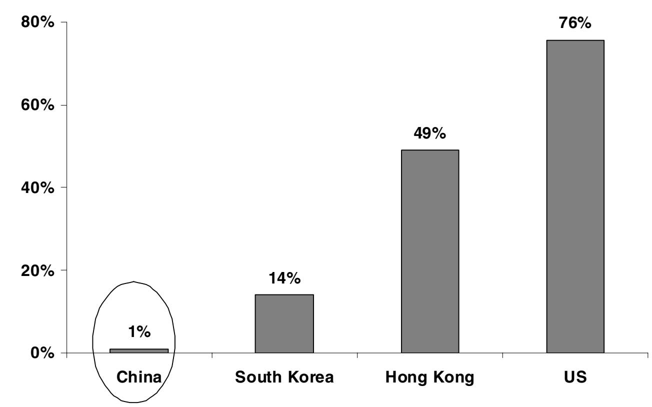
The key drivers that could accelerate growth are (1) deregulation, (2) consumer education, and (3) higher GDP per capita. Owing to nominal GDP growth above 10% for the past six years (excluding 2009) and with Chinese aggregate GDP expected to match that of the United States by 2020-2030, the question of higher GDP per capita should not be if, but, how soon? Despite these drivers, the mutual fund industry has not grown since the boom in domestic and QDII (qualified domestic institutional investor equals international funds sold to Chinese investors) flows in 2007. We believe that this is mostly a function of poor market returns (outside of China in 2008, and relatively inside of China in 2010). Chinese investors are similar to U.S. retail investors in that they are highly focused on near-term performance, and we estimate that organic growth will correlate significantly with trailing performance. We also believe that a significant hurdle for asset manager growth is the small percentage of Chinese corporate ownership that is public. (The Chinese stock market is 2% of MSCI, while China's contribution to global GDP is 12%).

Exhibit 10: Mutual Fund AuM to Demand Deposits



Source: Invesco, Strategic Insight, Credit Suisse Equity Research, As of 2009.

Exhibit 11: Mutual Fund AuM to GDP



Source: Invesco, Strategic Insight, Credit Suisse Equity Research, As of 2009.

Demographic Changes Present a Fundamental Underpinning for Organic Growth

Mutual fund and total AuM for a specific market will correlate to general economic variables such as economic growth, wealth, and population. As the market matures with the expansion of the middle- and upper-class brackets, so will the penetration of the mutual fund industry (deeper and wider within a population). Owing to nominal GDP growth of 10%, we expect Chinese total AuM to at least grow at this rate over the next five years and see significant upward pressure driven by the three factors discussed previously. However, we estimate net flow volatility will be high. We specifically believe that Chinese investors will chase performance closely. For example, if the Shanghai Composite Index increases by 20-40% in 2012, we estimate Chinese industry net flows could track at a 20-30% run rate of AuM in 2013. Flows currently are weak, as Chinese equity performance underperformed key international indexes, and banks and insurance companies offered more competitive product. Banks generally offer a 5% guarantee on CD-like products. In addition, small and large investors are focused on the real estate market, which is one of the highest performing asset classes in China, as the Chinese culture, like U.S. culture, supports home ownership.

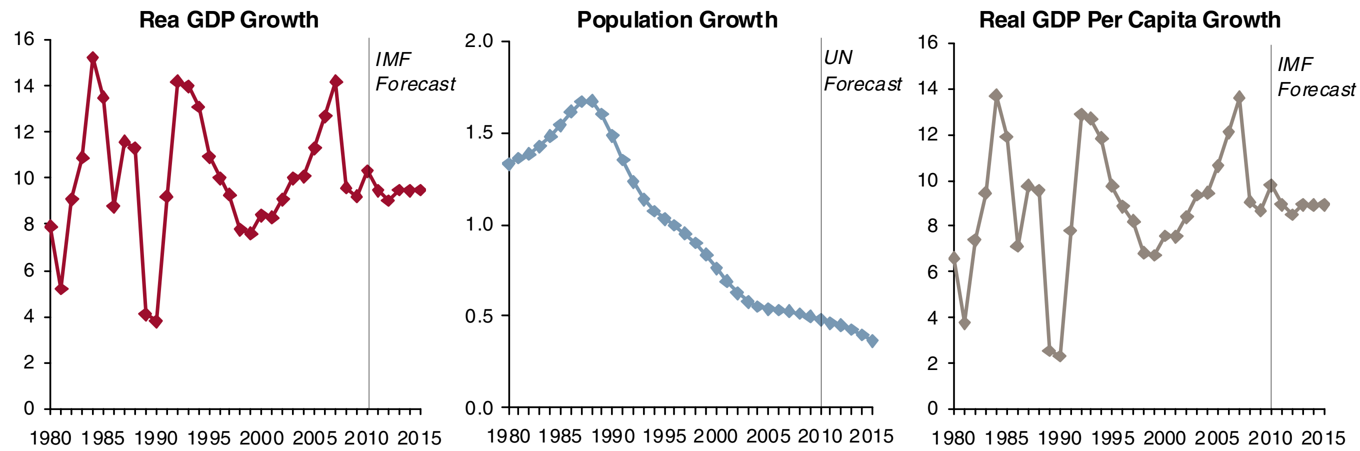
Demographics as a Driver of Growth in Asset Management Industry

Demographics underlie financial asset demand not just through aggregate population growth, but also by derivative effects such as increased GDP per capita growth, urbanization, education, health, etc. These factors jointly influence the consolidated demand for financial assets by individuals, households, corporations, and institutional investors including pension funds and insurance companies.

China's rapid economic growth and dramatic increase in GDP per capita over the last few decades have occurred alongside changes in individual consumer and worker behavior. With increased income and wealth, shifts occur in the budget constraint along with changes in preferences across work and leisure, consumption and savings, and asset allocation, in the near and the long term. During the rapid globalization and technological advancement of the past two decades, AuM growth in other Asian emerging markets has been driven by global, regional, and country specific growth. In the current macroeconomic environment of weak global growth, the developments in trade and capital flows from developed countries affect China and other emerging markets. Therefore, we must consider paying attention to the current global macroeconomic environment, as well as the factors underlying China's rapid economic growth in order to understand the evolution of assets under management in China.

The annual growth rate of real GDP has averaged 10% 1980-2010 (Exhibit 12), while real GDP per capita averaged 9% over the same period. Although the government has lowered target growth from the previous 8% to 7.5% in 2012, forecasts for real GDP growth remain high for the coming years.

Exhibit 12: GDP Growth, Population Growth, and GDP per Capita Growth in China (%)

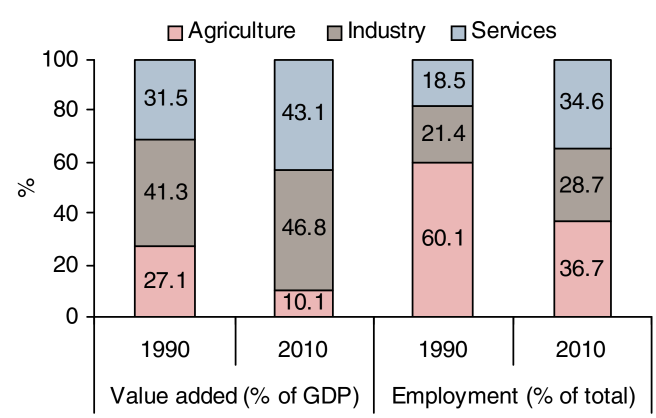


Source: IMF, UN, Credit Suisse Demographics Research.

Alongside China's rapid economic growth, its economic structure has also undergone a transformation (See Exhibit 13: Structure of Economy.) During 1990-2010, value added as a share of GDP shrank from 27.1% to 10.1% in agriculture, and expanded from 41.3 % to 46.8% in industry and from 31.5% to 43.1% in services. The same shift from agriculture to industry and services took place in employment.

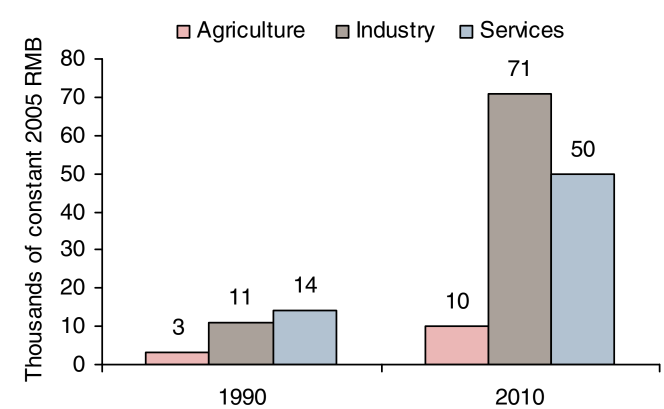
Rapid improvements in productivity also occurred in all sectors. (See Exhibit 14.) The value added per worker grew by multiples in industry and services in the two past decades.

Exhibit 13: Structure of Economy



Source: World Bank, National Bureau of Statistics of China, Credit Suisse Demographics Research.

Exhibit 14: Value Added per Worker by Sector



Source: World Bank, National Bureau of Statistics of China, Credit Suisse Demographics Research.

In our previous report (Credit Suisse Demographics Research, *A demographic perspective of economic growth*, dated 2009) , we decomposed GDP growth into factors that reflect changes in the labor force structure. As part of this framework we decompose real GDP growth into the following components:

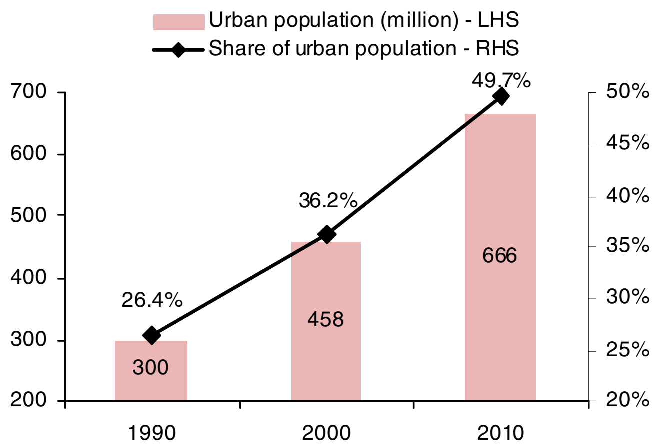
- Working-age population growth (population aged 15-64 years);
- Labor-productivity growth (real GDP/hours worked);
- Labor-utilization growth (hours worked/working-age population).

In China the future path of all these three factors will affect GDP growth. Aging will adversely affect working age population growth and would require higher labor productivity and utilization growth to compensate.

China has been witnessing unprecedented population migration from rural to urban areas, as it undergoes rapid industrialization, jobs become available in cities, and contribution of agriculture to output and employment declines. The 2010 census reported that one-half of the population resided in urban areas. (See Exhibit 15.) Urbanization brings easier access to financial services and information, which changes attitudes towards investment. The per capita disposable income of urban residents is also much higher than that of rural residents (See Exhibit 16.) The rise of urban middle class in China provides a large base of retail investors.

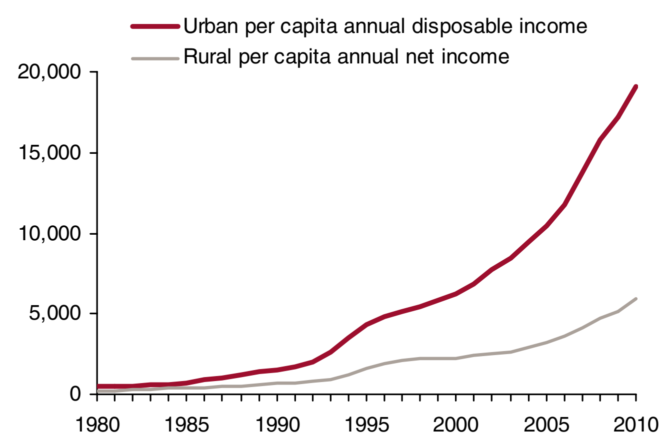
According to the ADB Working Paper (T*he Rise of the Middle Class in the People's Republic of China*, dated Feb 2011), 89.1% of the population in China belonged to the middle class in 2007 earning $2-20 PPP per capita daily income, up from 40.4% in 1991. The upper-middle class earning $10-20 PPP per capita daily income consisted of 18.7% of total population in China, 32.82% of urban population and 7.88% of rural population.

Exhibit 15: Rapid Urbanization



Source: National Bureau of Statistics of China, Credit Suisse Demographics Research.

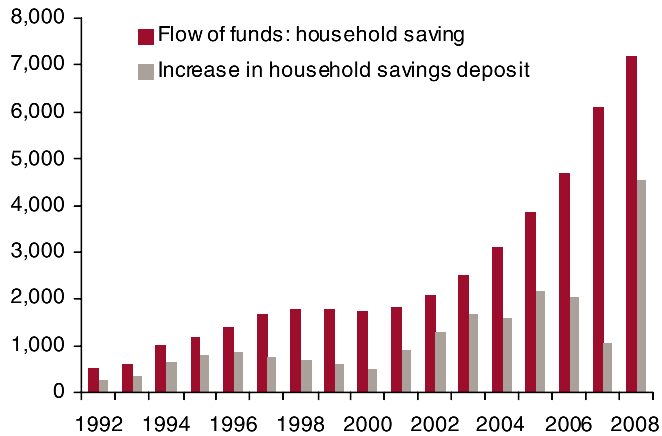
Exhibit 16: Urban and Rural Income Difference (Rmb)



Source: China Urban Life and Price Yearbook, China Yearbook of Rural Household Survey, Credit Suisse Demographics Research.

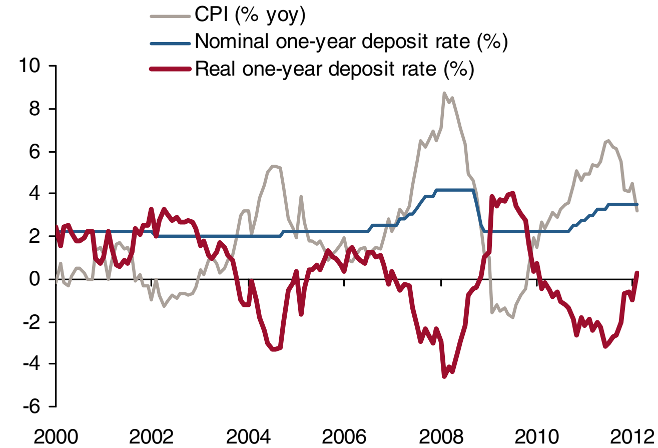
The savings rate in China is among the highest in the world. In 2010, the rural and urban households saved 26% and 30% of their respective disposable incomes. Household financial portfolios; however, consisted mainly of bank deposits. For example, in 2008, household saving deposits increased by Rmb 4,500bn. (See Exhibit 17.) Households are increasingly looking for alternative investment outlets, especially when high inflation erodes the purchasing power of bank deposits with capped interest rates. The real one-year deposit rate (Exhibit 18) has been negative in periods of high inflation.

Exhibit 17: Household Savings Deposit (RMB billion)



Source: CEIC, Credit Suisse Demographics Research.

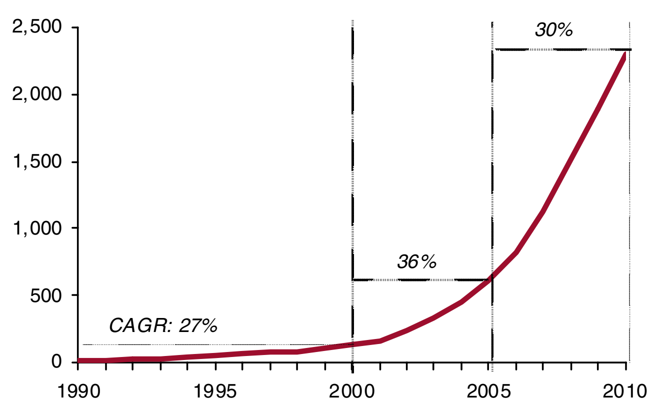
Exhibit 18: Nominal and Real Deposit Rates



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse Demographics Research.

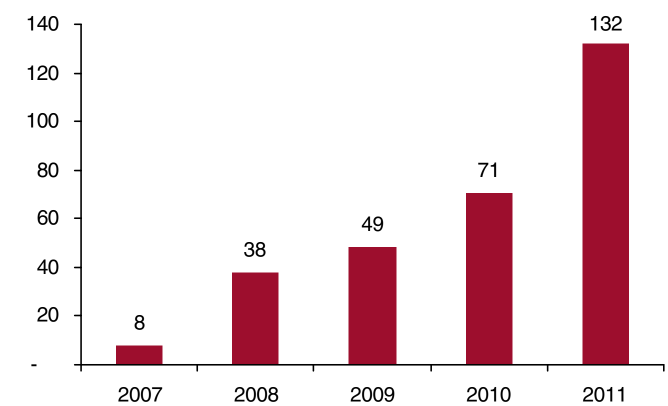
In addition to growth in retail demand, asset managers should also benefit from growth in pension-related assets. The Chinese population has already started aging rapidly and the process will accelerate in the coming decades, as people continue to live longer and have fewer children. In response, the government has started building a pension system and mandating companies to provide pensions and insurance to employees. The rapid growth in institutionalized savings is favorable for asset managers.

Exhibit 19: Social Insurance Fund Year-End Balance (bn RMB)



Source: Company data, Credit Suisse estimates.

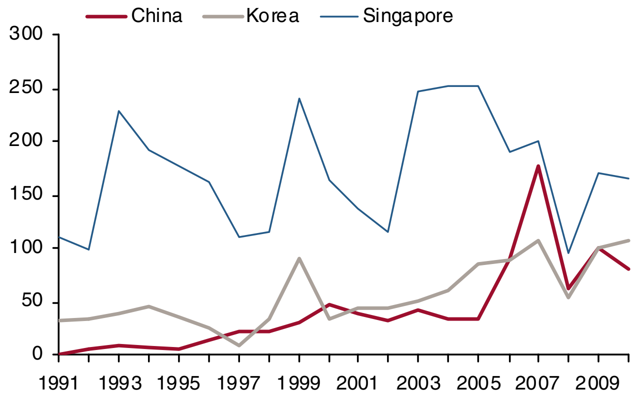
Exhibit 20: Enterprise Annuity Assets Invested (bn RMB)



Source: Company data, Credit Suisse estimates.

Financial market development is linked with economic growth and indicates the investment patterns of a country. In Exhibit 21, we show the stock market capitalization in China compared with Korea and Singapore. Singapore has experienced high and volatile levels of stock market capitalization. China started with a low levels and over the last two decades has reached levels similar to those in Korea. The increasing extent of financial development in China is an anchor for future growth in assets under management, just like it was for the other advanced countries.

Exhibit 21: **Stock Market Capitalization (% of GDP)**



Source: World Bank, Credit Suisse Demographics Research.

Exhibit 22: **Development in Fund Product Variety**

Year	Type of fund product first launched
2001	Open-end fund
2002	Bond fund
	Index fund
2003	Umbrella fund
	Principal-guaranteed fund
	Money market fund
2004	Convertible bond fund
	Listed open-end fund
	Exchange traded fund
2005	Mid/short-term bond fund
2006	QDII fund

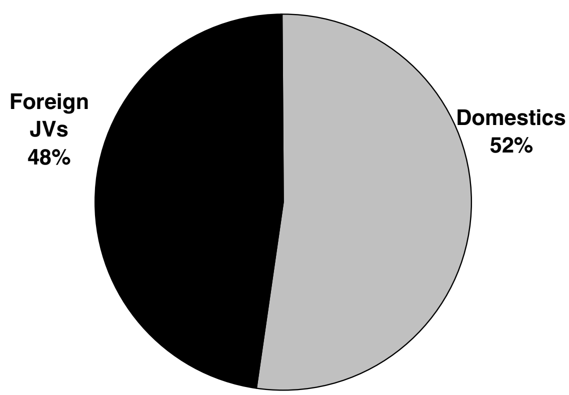
Source: China Capital Market Development Report.

The regulators see the development of institutional investors as critical to the long-term development of the capital market in China, and hence have been actively promoting the asset management industry since the late 1990s. First, the asset management industry has been going through gradual liberalization, and the approval procedures have been simplified. The average approval time for establishing a fund, for instance, shortened from 122 working days in 2000 to 16 working days in 2006. Second, the variety of fund products has also expanded. (See Exhibit 22.) The launch of QFII (Qualified Foreign Institutional Investor) and QDII (Qualified Domestic Institutional Investor) allowed licensed foreign institutional investors to invest in China and licensed domestic institutional investors to invest in overseas markets. Third, the regulator has also worked to improve market regulatory standards. (Source: *China Capital Market Development Report*, dated 2008, China Securities Regulatory Commission). In summary, it is critical to understand the behaviour of Chinese consumers, savers and workers to fully understand the dynamics underlying Mutual Fund Industry in China.

Growth Potential Is Stronger for the Foreigners than Domestics over the Next Few Years Due to Partnership with Bank Distributors

In 2012, foreign JVs grew modestly faster than domestic. We estimate strong distribution has aided the growth of the foreign asset managers, as many are partnered with the largest banks, including BlackRock (Bank of China), Credit Suisse Asset Management (ICBC), Principal Financial Group (China Construction Bank), and Amundi (Agriculture Bank of China). Specifically, when you combine the investment expertise of BlackRock with $3.5Tn of AuM with Bank of China's large base of depositors, we estimate that the Bank of China business should have strong growth potential in mainland China.

Exhibit 23: AuM Mix—Foreign JVs (48% of Total) versus Domestic Companies (52%)



Source: WIND, Credit Suisse Equity Research.

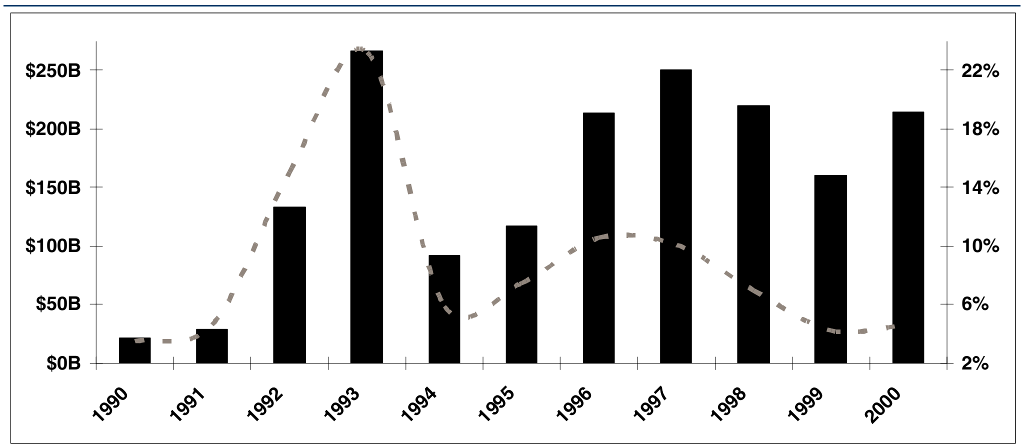
Additional Details on Chinese Asset Management Industry

Exhibit 24: **Developing Market Aggregate League Table**

Rank	Company	Country	(US $ Bn)
1	Samsung Group	South Korea	248
2	Itau-Unibanco	Brazil	191
3	Banco do Brazil	Brazil	175
4	Life Insurance of India	India	174
5	Bradesco	Brazil	139
6	Investec Group	South Korea	66
7	Caixa Economica Federal	Brazil	63
8	Cathay Life Insurance	Taiwan	63
9	Sanlam	South Korea	60
10	Mirae Asset Financial Group	South Korea	48
11	Hanwha Group	South Korea	47
12	China Asset Management	China	45
13	FirstRand Group	South Africa	38
14	STANLIB	South Africa	36
15	Allan Gray	South Africa	35
16	Bosera Asset Management	China	31
17	Safra	Brazil	26
18	Harvest Fund Management	China	23
19	Coronation Fund Managers	South Africa	22
20	Kyobo Life Insurance	South Korea	19
21	China Southern Fund	China	18
22	Nossa Caixa	Brazil	17
23	UTI Asset Management	India	17
24	GF Fund Management	China	16
25	Da Cheng Fund Management	China	15

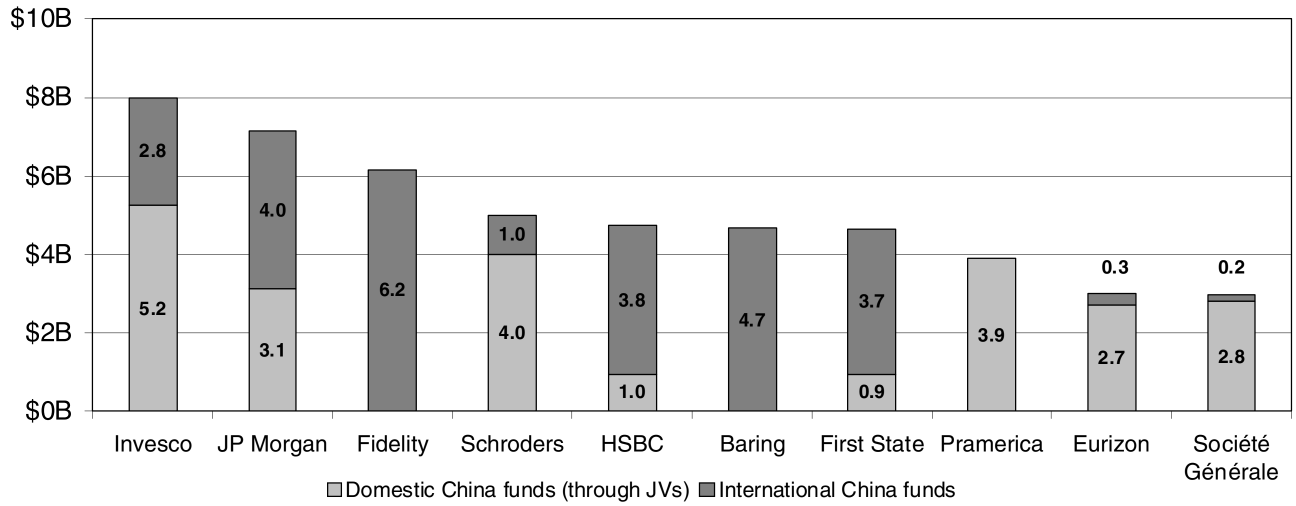
Source: P&I, Towers Watson, Credit Suisse Equity Research, Shaded = Chinese Asset Managers.

Exhibit 25: **U.S. Mutual Fund Flows and Organic Growth—The Golden Years of U.S. Mutual Fund Flows. Will the Next Decade in China Look Like This?**



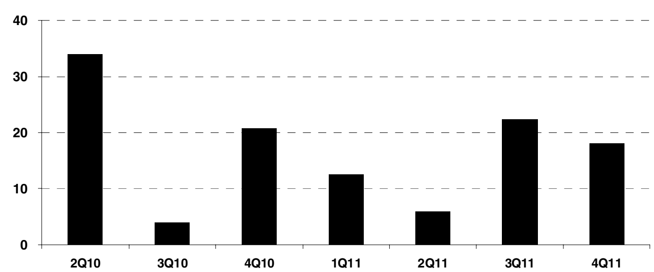
Source: Strategic Insight, Credit Suisse Equity Research.

Exhibit 26: Top Ten Retail Chinese Equity Managers Outside of China—Invesco Ranks Well



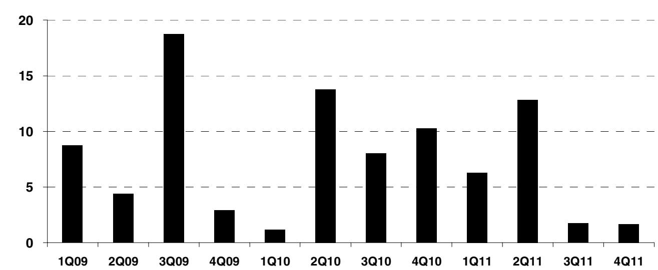
Source: Invesco, WIND, Morningstar, Z-Ben Advisors, Credit Suisse Equity Research (June 2010).

Exhibit 27: Chinese Private Fund Net Flows (RMB in Bn)



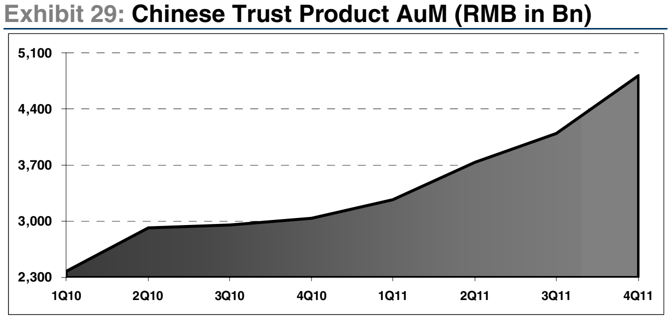
Source: Z-BEN Advisors, Credit Suisse Equity Research.

Exhibit 28: Chinese Brokerage Asset Management Product Net Flows



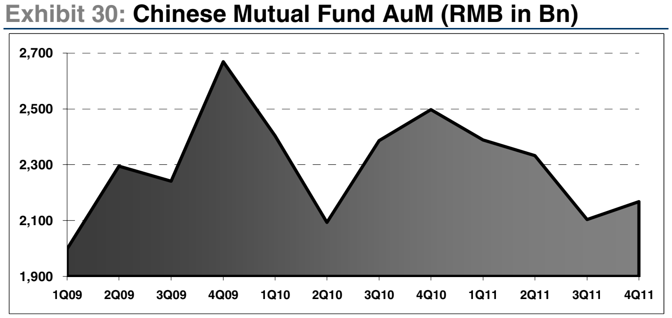
Source: Z-BEN Advisors, Credit Suisse Equity Research.

Exhibit 29: Chinese Trust Product AuM (RMB in Bn)



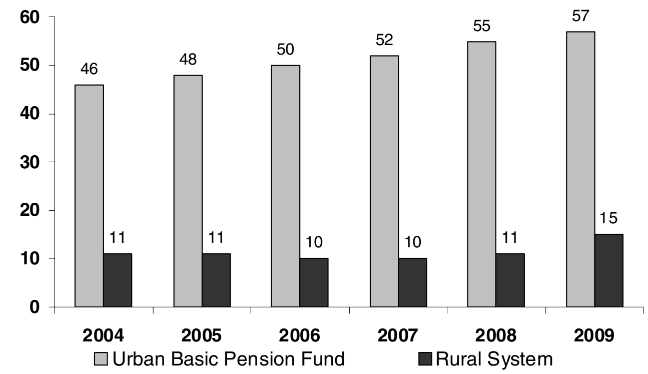
Source: Z-BEN Advisors, Credit Suisse Equity Research.

Exhibit 30: Chinese Mutual Fund AuM (RMB in Bn)



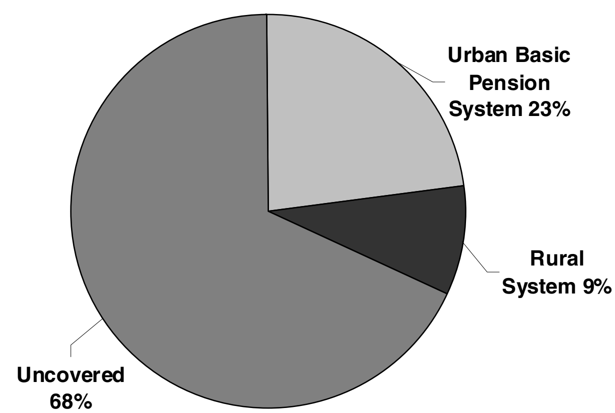
Source: Z-BEN Advisors, Credit Suisse Equity Research.

Exhibit 31: Percent of Urban and Rural Workers Covered by Public Pension



Source: Credit Suisse Demographics Research, MOHRSS.

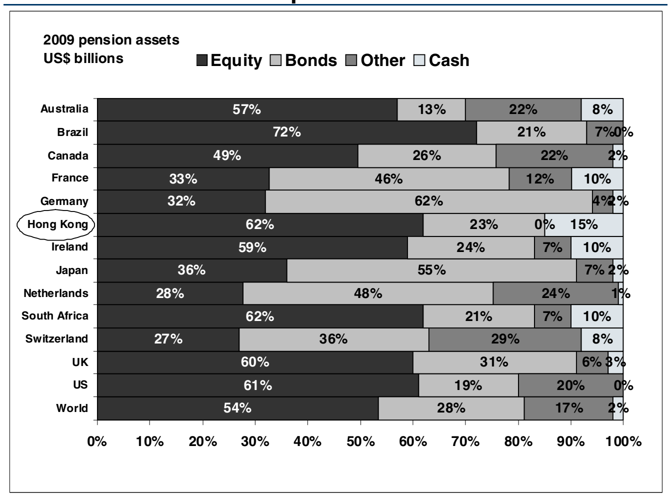
Exhibit 32: Percent of Workforce Covered by Public Pension, 2009



Source: Credit Suisse Demographics Research, MOHRSS.

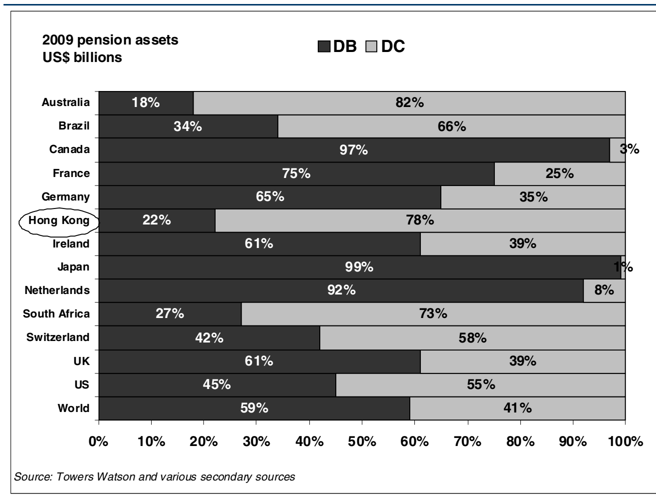
Defined benefit and defined contribution mix by country.

Exhibit 33: Asset Class Split



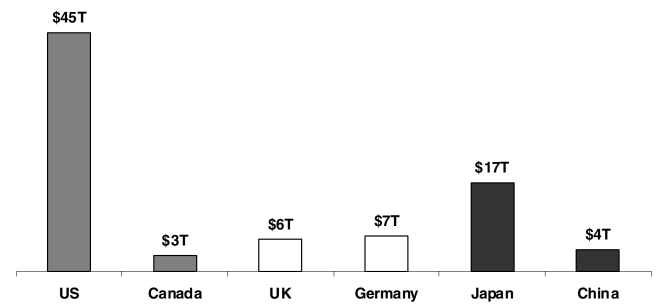
Source: Towers Watson: Global Pension Asset Study 2010 (January 2010), Credit Suisse Equity Research.

Exhibit 34: Pension Plan Mix



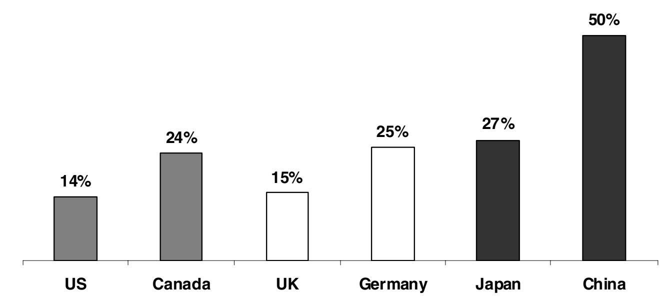
Source: Towers Watson: Global Pension Asset Study 2010 (January 2010), Credit Suisse Equity Research.

Exhibit 35: Household Financial Assets Worldwide (USD Tn)



Source: Invesco, U.S. Federal Reserve; UK Office of National Statistics; Bank of Japan; Cerulli.

Exhibit 36: Savings Levels Worldwide (% of Nominal GDP, Three-Year Average)



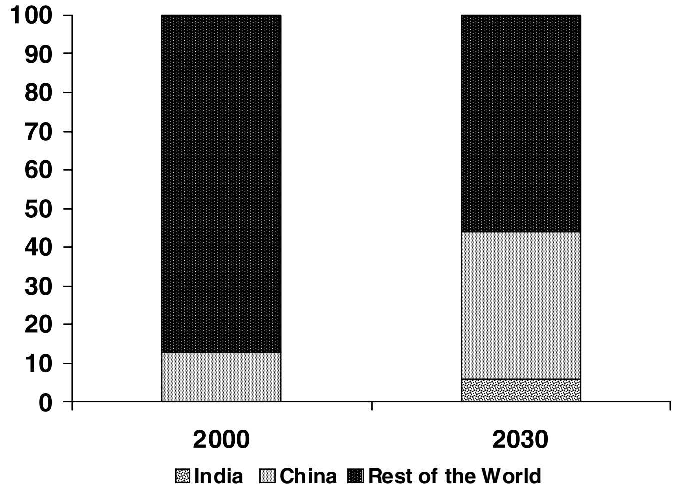
Source: Invesco, U.S. Federal Reserve; UK Office of National Statistics; Bank of Japan; Cerulli.

Exhibit 37: Top-20 Sovereign Wealth Funds

Sovereign Wealth Fund	Country	Est. AuM ($bn)
State Administration of Foreign Exchange	China	2,840
Government Pension Fund of Norway (NBIM)	Norway	550
Saudi Arabian Monetary Authority (Foreign Holdings)	Saudi Arabia	415
ADIA	UAE	400
China Investment Corp (ex Huijin)	China	300
Govt of Singapore Investment Corp	Singapore	260
Korea National Pension Service	Korea	240
Kuwait Investment Authority	Kuwait	215
ADIC	UAE	200
Hong Kong Monetary Authority (Investment and Exchange Funds)	China	140
Temasek Holdings	Singapore	124
Canadian Pension Plan	Canada	120
Chinese National Social Security Fund	China	115
Qatar Investment Authority	Qatar	110
Employees Provident Fund (EPF)	Malaysia	106
Russia National Welfare Fund	Russia	89
Libyan Investment Authority	Libya	70
Algerian Revenue Regulation Fund	Algeria	50
Australian Govt Future Fund	Australia	40
Khazakhstan National Oil Fund / Samruk Kazyna	Khazakhstan	40

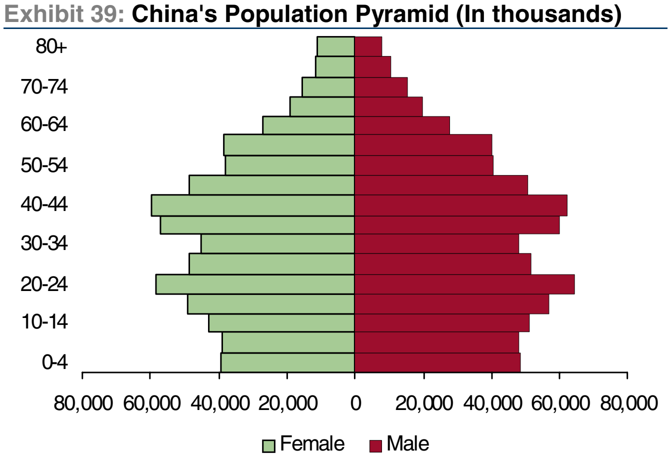
Source: Credit Suisse's Sovereign Wealth Fund Group (Benjamin Mitchell, London), Shaded equals Chinese SWFs.

Exhibit 38: Percentage of Global Middle Class



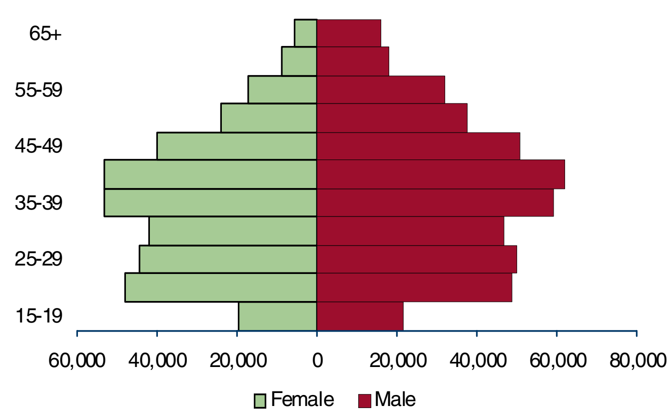
Source: World Bank Policy Research Working Paper, Authors: Maurizio Bussolo, Rafael E. De Hoyos, Denis Medvedev and Dominique van der Mensbrugghe, "Global Growth and Distribution: Are China and India Reshaping the World (2007)"; Credit Suisse Demographics Research.

Exhibit 39: China's Population Pyramid (In thousands)



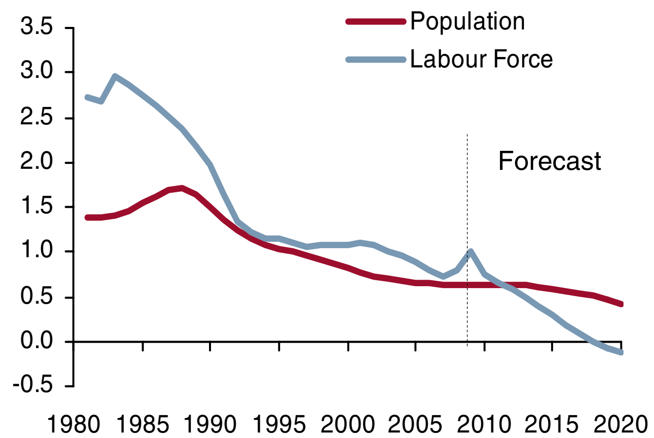
Source: Credit Suisse Demographics Research (2010), UN.

Exhibit 40: China's Labor Force Pyramid (In thousands)



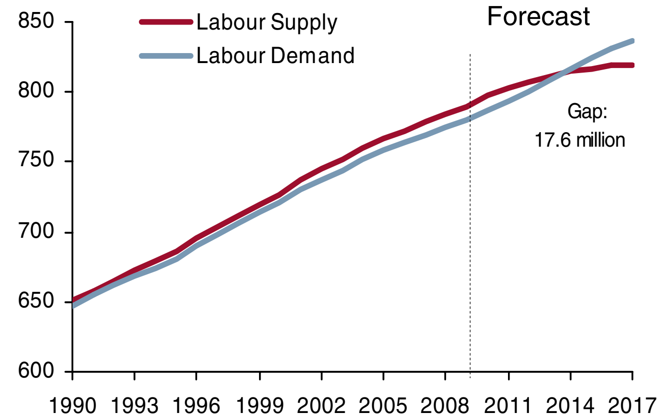
Source: Credit Suisse Demographics Research (2010), UN.

Exhibit 41: Population and Labor Growth (Rate per annum (%) – UN, ILO Projections After 2008)



Source: UN, ILO, Credit Suisse Demographics Research.

Exhibit 42: Total Labor Supply and Demand: (In millions) – Credit Suisse Projections After 2009



Source: UN, ILO, China Labor Statistical Yearbook (2009), China Statistics Yearbook (2010), Credit Suisse Demographics Research.

Disclosures

Companies Mentioned *(Price as of 13 Mar 12)*
Aegon (AEGN.AS, Eu3.94, NEUTRAL, TP Eu5.20)
Agricultural Bank of China (1288.HK, HK$3.74, UNDERPERFORM, TP HK$3.75)
AllianceBernstein (AB, $15.40, NEUTRAL, TP $14.00)
Allianz SE (ALVG.DE, Eu90.21, OUTPERFORM, TP Eu111.00)
AVIVA Plc (AV.L, 361 p, OUTPERFORM, TP 435.00 p)
AXA (AXAF.PA, Eu12.22, OUTPERFORM [V], TP Eu17.00)
Banco Safra S.A (FI180394)
Bank of Beijing (601169.SS, Rmb10.32)
Bank of China Ltd (3988.HK, HK$3.33, NEUTRAL, TP HK$3.54)
Bank of East Asia (0023.HK, HK$30.55, UNDERPERFORM, TP HK$24.00)
Bank of Montreal (BMO.TO, C$57.67, OUTPERFORM, TP C$65.00)
Bank of Nova Scotia (BNS.TO, C$54.10, OUTPERFORM, TP C$61.00)
BlackRock (BLK, $194.88, NEUTRAL, TP $205.00)
BNP Paribas (BNPP.PA, Eu37.42, OUTPERFORM [V], TP Eu41.40)
Cathay Financial Holding (2882.TW, NT$34.90, NEUTRAL, TP NT$36.00)
Changjiang Securities Co Ltd (000783.SS, Rmb9.56, NOT RATED)
China Construction Bank (0939.HK, HK$6.35, OUTPERFORM, TP HK$7.63)
China Merchants Bank (600036.SS, Rmb12.47)
China Minsheng Banking Corporation (1988.HK, HK$7.34, UNDERPERFORM, TP HK$8.09)
Citic Securities (A) (600030.SS, Rmb12.44, NEUTRAL, TP Rmb11.22)
Citigroup Inc. (C, $36.45, OUTPERFORM, TP $48.00)
Commonwealth Bank of Australia (CBA.AX, A$48.37, NEUTRAL, TP A$51.00)
Coronation Fund Managers Ltd (CMLJ.J, R2789)
DBS Group (DBSM.SI, S$14.33, NEUTRAL, TP S$14.90)
Deutsche Bank (DBKGn.F, Eu36.73, OUTPERFORM, TP Eu33.50)
Everbright Securities Ltd (601788.SS, Rmb13.12)
F&C Asset Management plc (FCAM.L, 72 p, UNDERPERFORM, TP 70.00 p)
FirstRand Limited (FSRJ.J, R24.6, NEUTRAL, TP R26.5)
Franklin Resources (BEN, $119.67, NEUTRAL, TP $120.00)
Fubon Financial Holding (2881.TW, NT$34.75, NEUTRAL, TP NT$35.50)
Generali (GASI.MI, Eu12.66, UNDERPERFORM, TP Eu14.10)
Guotai Junan Intl Holdings Ltd (1788.HK, HK$2.5, NOT RATED)
Haitong Securities Co Ltd (600837.SS, Rmb9.61)
Hanwha Corporation (000880.KS, W34,750)
HSBC Holdings (HSBA.L, 572 p, NEUTRAL, TP 580.00 p)
Huatai Securities Co Ltd (601688.SS, Rmb9.81, NOT RATED)
Huaxia Bank Company Ltd (600015.SS, Rmb11.26)
Industrial & Commercial Bank of China (1398.HK, HK$5.39, OUTPERFORM, TP HK$6.46)
ING Group (ING.AS, Eu6.84, OUTPERFORM [V], TP Eu10.00)
Intesa Sanpaolo (ISP.MI, Eu1.49, NEUTRAL [V], TP Eu1.53)
INVESCO (IVZ, $25.06, OUTPERFORM, TP $27.00)
Investec PLC (JSE) (INPJ.J, R49)
JPMorgan Chase & Co. (JPM, $40.54, OUTPERFORM, TP $52.00)
KBC (KBC.BR, Eu18.52)
Korea Investment Holdings Co Ltd (071050.KS, W45,000)
Liberty Holdings Limited (LGLJ.J, R11,001)
Manulife Financial Corporation (MFC.TO, C$12.65, NEUTRAL, TP C$13.00)
Mirae Corp (025560.KS, W305)
Mitsubishi UFJ Financial Group (8306, ¥422)
Morgan Stanley (MS, $18.96, OUTPERFORM, TP $26.00)
Ping An (A) (601318.SS, Rmb40.65, OUTPERFORM, TP Rmb59.00)
Principal Financial Group (PFG, $27.22, NEUTRAL, TP $31.00)
Prudential Financial, Inc. (PRU, $61.22, OUTPERFORM, TP $67.00)
Royal Bank of Canada (RY.TO, C$58.00, NEUTRAL, TP C$57.00)
Sanlam (SLMJ.J, R32.35, OUTPERFORM, TP R35)
Schroders (SDR.L, 1589 p, NEUTRAL, TP 1,550.00 p)
Shanghai Pudong Development Bank (600000.SS, Rmb9.47)
Shenyin Wanguo HK Ltd (218.HK, HK$2.53, NOT RATED)
Sinopac Holdings (2890.TW, NT$11.15, NEUTRAL, TP NT$11.20)

Societe Generale (SOGN.PA, Eu24.58, NEUTRAL [V], TP Eu29.10)
Standard Bank Group (SBKJ.J, R110.01, UNDERPERFORM, TP R108)
The Bank of New York Mellon Corp. (BK, $22.62, NEUTRAL, TP $23.50)
UBI Banca (UBI.MI, Eu3.60)
UBS (UBSN.VX, SFr12.77, NEUTRAL, TP SFr11.30)
United Overseas Bank (UOBH.SI, S$18.01, NEUTRAL, TP S$20.00)
Yuanta Financial Holding Co Ltd (2885.TW, NT$16.80, OUTPERFORM, TP NT$20.50)

Disclosure Appendix

Important Global Disclosures

I, Craig Siegenthaler, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

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Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Neutral/Hold*	42%	(57% banking clients)
Underperform/Sell*	10%	(49% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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