Driving Distribution in Asia

Leo Chen, Managing Director, Head of Asia, Calastone

Update across the region

TAIWAN

- 31 Distributors in Taiwan are automated via Calastone
- Taiwan Depository and Clearing Corporation (TDCC)
- Role of Master

HONG KONG

- Distribution is more concentrated
- Dominated by bank and insurance channels
- Laggard in automation however rapidly catching up and surpassing other countries in Asia

SINGAPORE

- Distribution concentrated across 4 platforms in Singapore
- See the benefits of automation, hungry for other services

Opportunities available

- B Shares back in flavor in Taiwan
- Orders for TDCC Fund Platform – Fundrich gaining traction
- TDCC Non trust flows will be automated

- Singapore and HK distributors are looking for further services such as daily reconciliation and data for dividends
- Automation of CPF (Singaporean Pension)

- Automation of transfers

Fund passporting schemes

- ARFP (Asia Region Funds Passport)
  - 6 countries have signed the Memorandum of Co-operation – Japan, Australia, Korea, New Zealand, Thailand and Philippines.
  - Hon Kelly O’Dwyer MP, Australia’s Minister for Revenue and Financial Services recently in Hong Kong
  - ASEAN Collection Investment Scheme covers Singapore, Malaysia and Thailand

- MRF (Mutual Recognition of Funds)
  - MRF between Hong Kong and China

Z-BEN | ADVISORS

Fund distribution and key trends in China asset management

February 2018

Jasmine Baker, Z-Ben Advisors

Calastone™

The WFOE: Global managers flock onshore using diverse strategies

Establishment

AMAC registration

Pre-launch

1st product

Multiple products

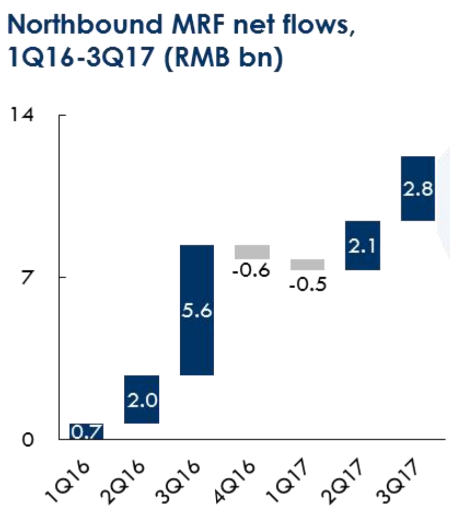
Three-pronged attack
Manulife is ambitiously attempting to house inbound, outbound and onshore strategies under a single China HQ. This strategy is likely only replicable by managers with as large a footprint – covering both insurance and asset management.

Systematic approach
Value Partners, Neuberger Berman and Invesco are no novices onshore. Previous experience is likely being used to hone in on select targets.

Decisive
Fidelity, UBS and Fullerton have long circled China. Each is determined to dictate the pace for those that follow, all while establishing much-vaunted track records for broader institutional coverage.

Source: Z-Ben Advisors

MRF: Currently the most viable outbound investment channel



Source: Z-Ben Advisors, SAFE

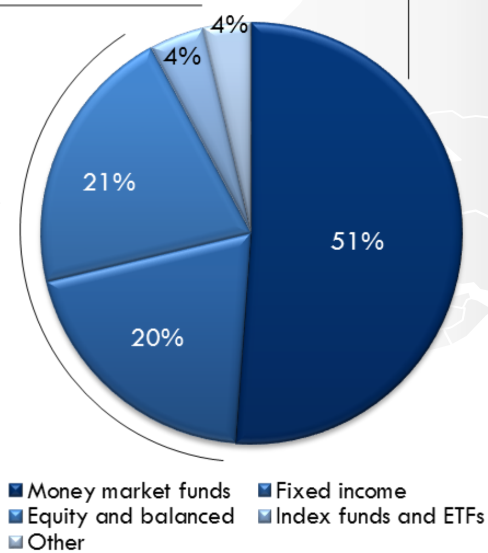
*As of Jan 20, 2018. In order of regulatory approval

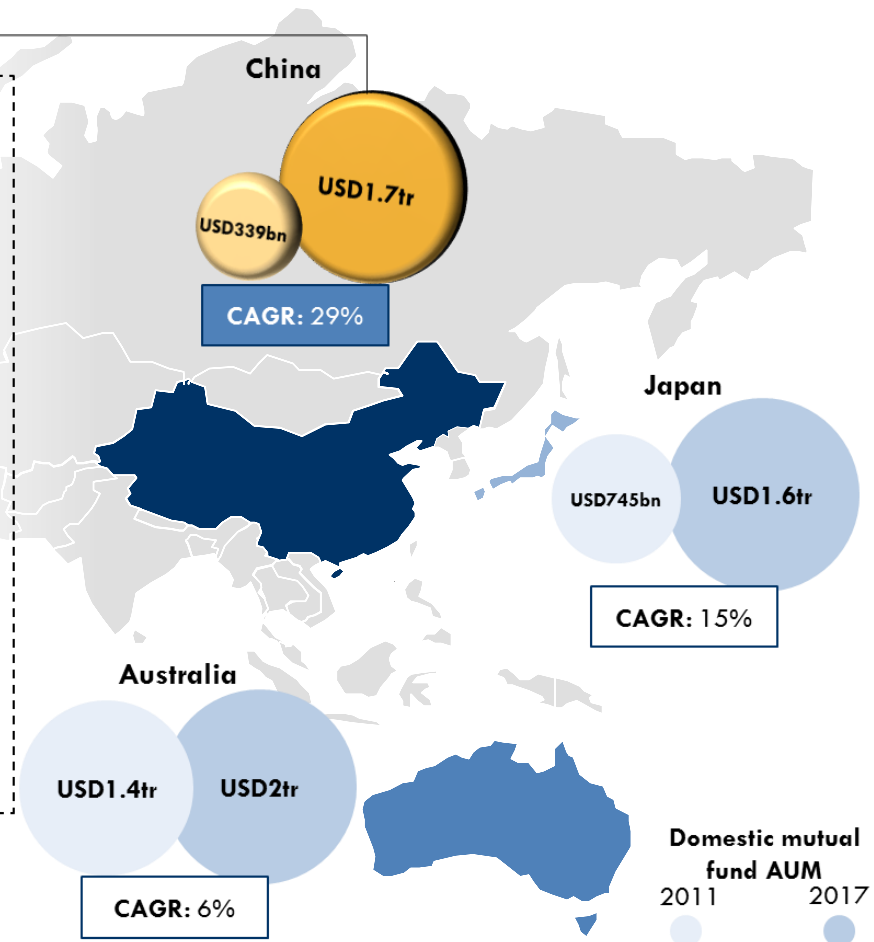
China's mutual fund market now second largest in Asia. Soon to be #1.

The shift to passive management has yet to occur in China. **Index funds and ETFs account for just 4.9% of the industry.**

Money market funds accounted for 51% of China's mutual fund industry as of 2Q17.

41% of the industry is actively-managed funds. Chinese investors are still willing to pay for performance.

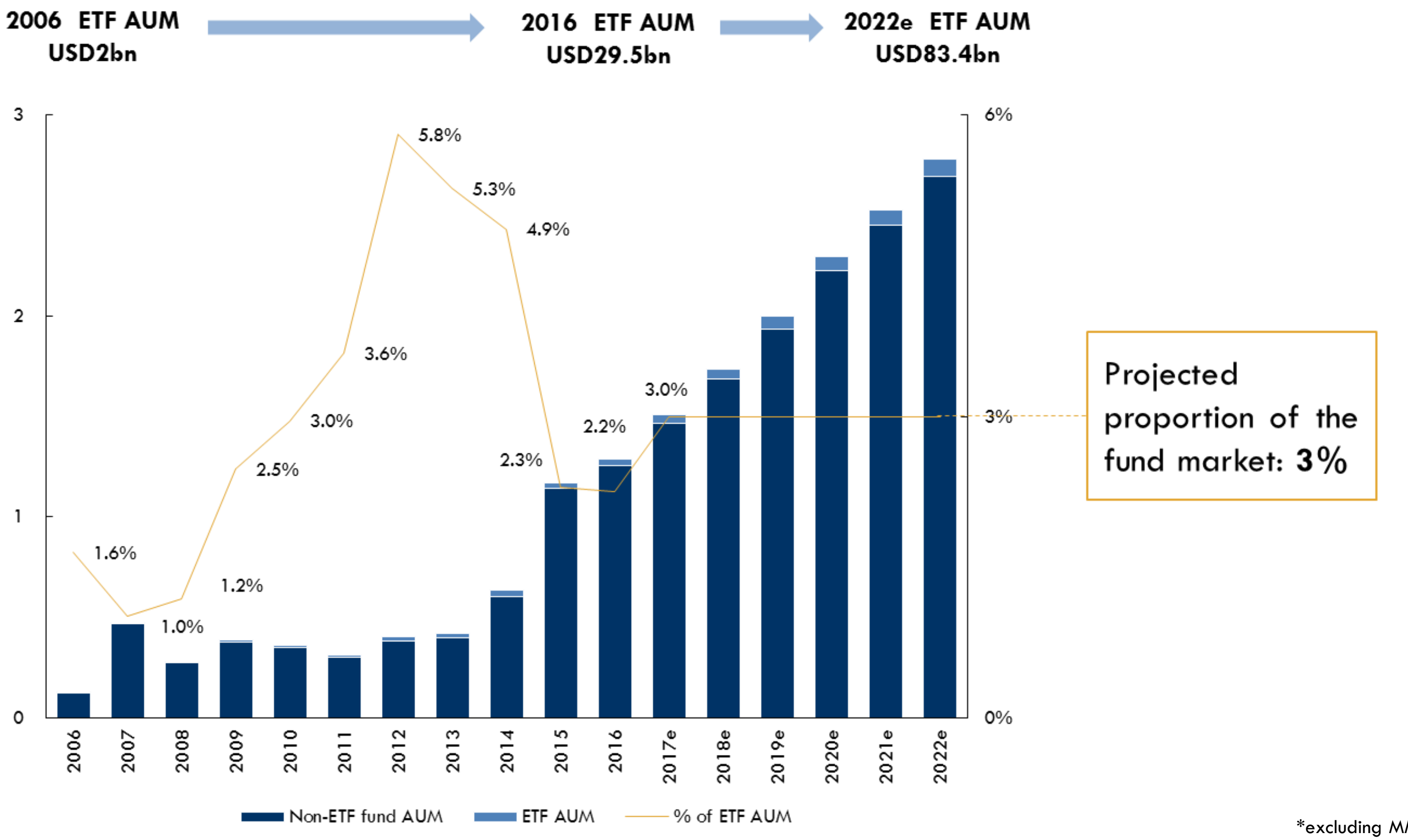




Source: Z-Ben Advisors, ICI, Australia Bureau of Statistics

The ETF market in China is embryonic

ETFs* as a proportion of the whole fund market, 2006-2022e (USD tr)

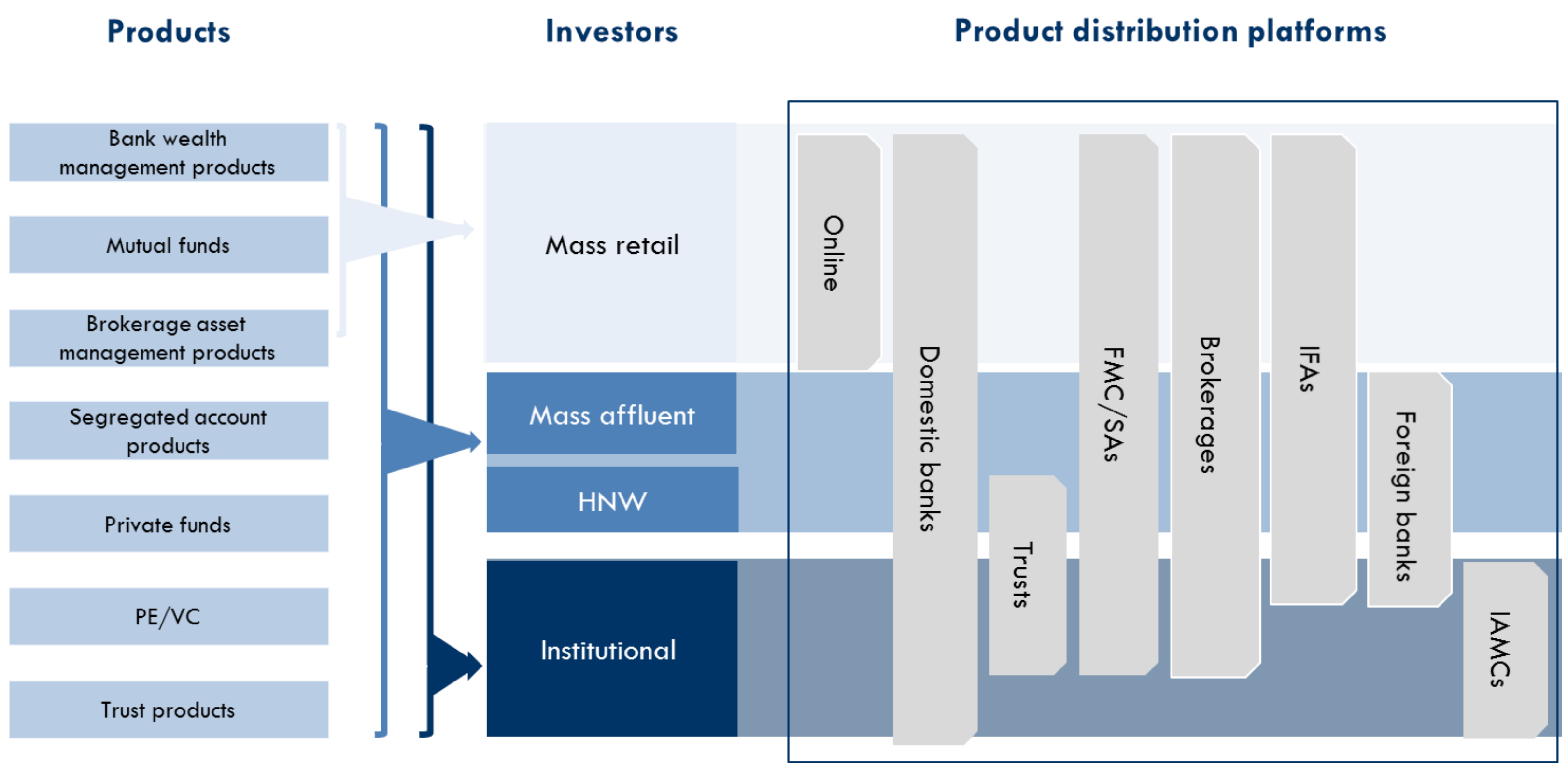


Source: Z-Ben Advisors

*excluding MMF ETFs

*Note: Exchange rate is the 2016-end USD/CNY fixing rate (6.9370).

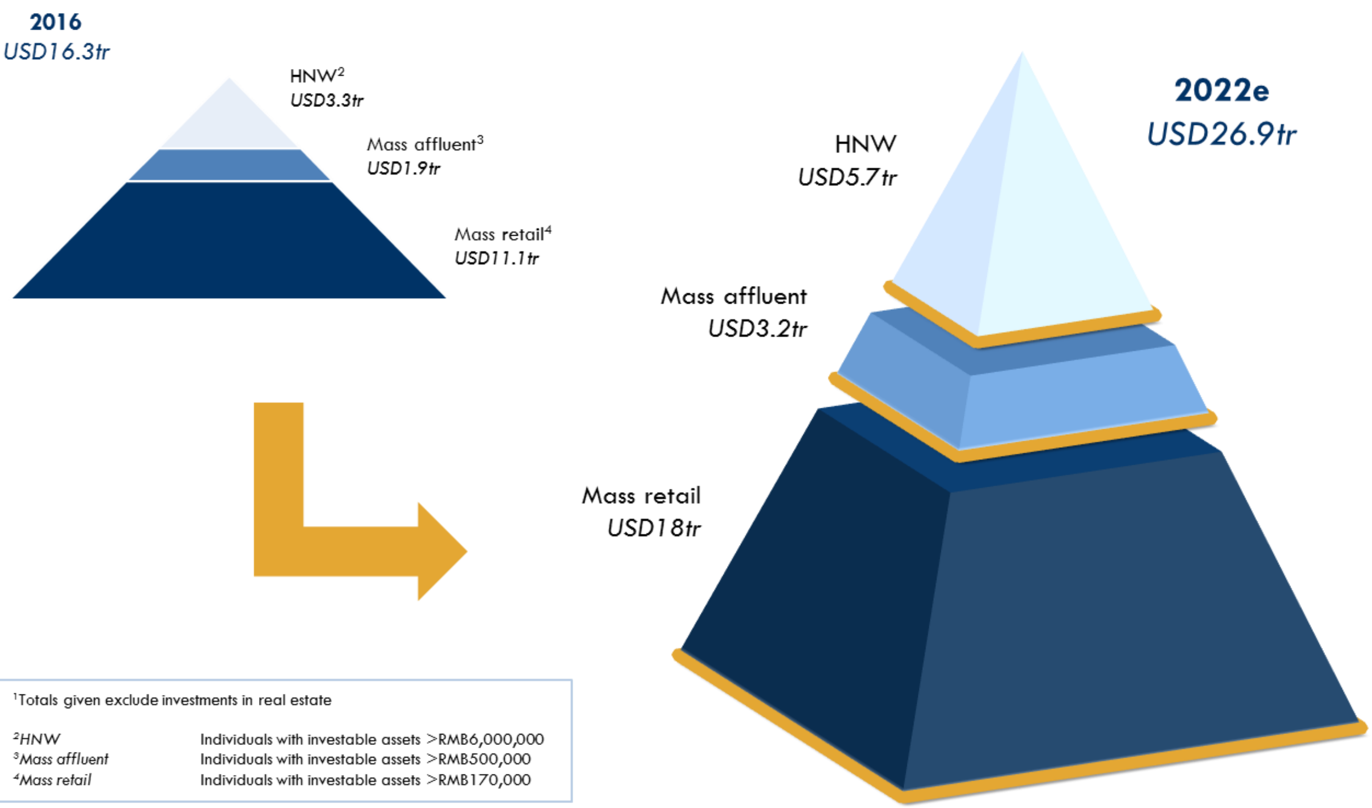
China's distribution landscape



Source: Z-Ben Advisors

Retail investor market: Growth potential

Total retail investor assets[1], 2016 & 2022e (USD tr)



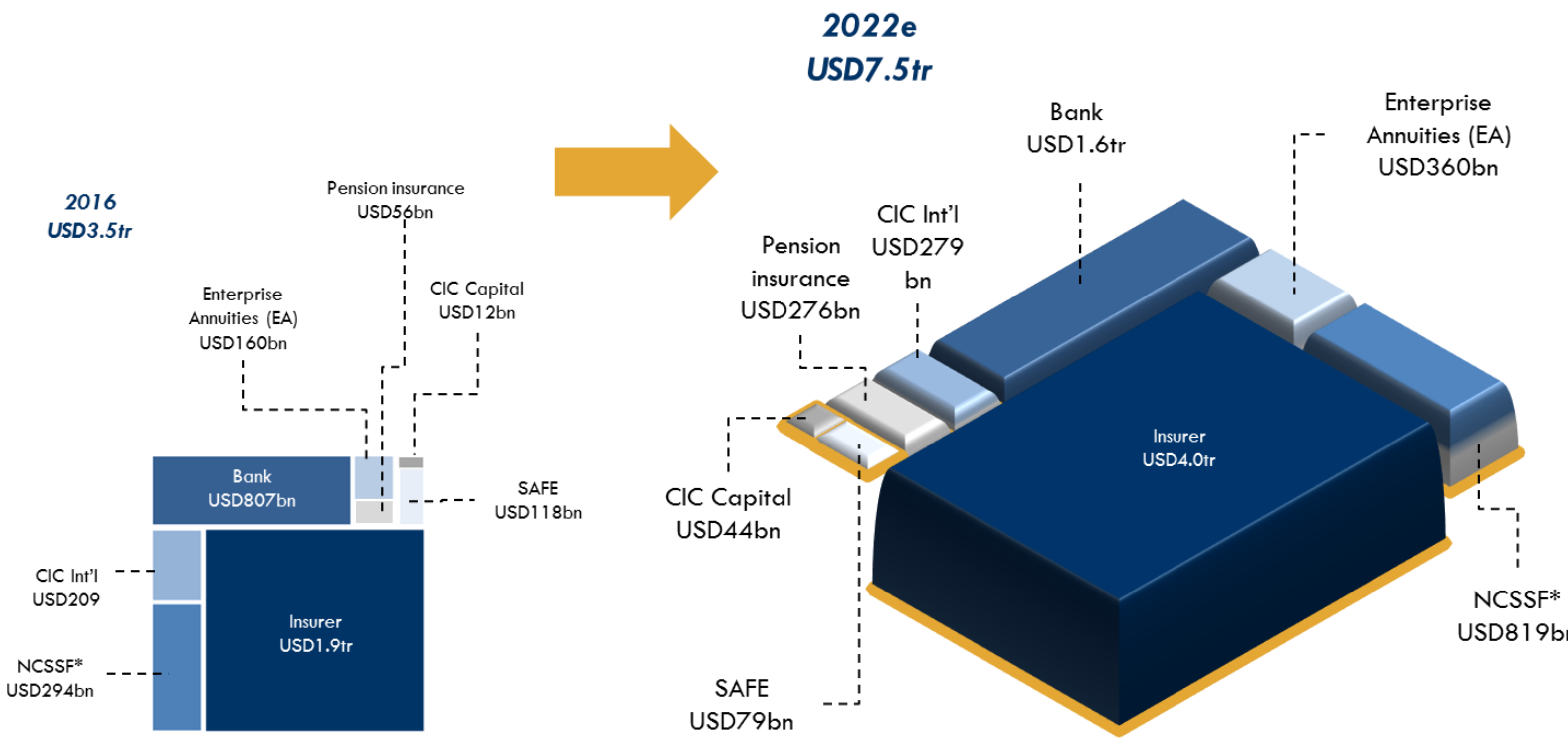
[1]Totals given exclude investments in real estate

[2]*HNW*	Individuals with investable assets >RMB6,000,000
[3]*Mass affluent*	Individuals with investable assets >RMB500,000
[4]*Mass retail*	Individuals with investable assets >RMB170,000

Source: Z-Ben Advisors

Chinese institutions: Transformation is underway

China's institutional landscape, investable assets, 2016-2022e



Source: Z-Ben Advisors

*Including NSSF and PPF.

2017 laid the foundations for 2018 market reform

Key events from 2017 and expectations for 2018

2017

January 2017
Fidelity registers with AMAC.

May 2017
Fidelity becomes the first foreign manager to launch a private fund.

June 2017
HSBC receives approval for majority-owned securities company.

June 2017
MSCI announces A-share inclusion.

July 2017
Bond Connect launched.

October 2017
19th CPC Party Congress.

November 2017
MoF announces opening of financial industries to foreign majority ownership.

FSDC formally established.

SOE asset transfer announced as next stage in pension reform.

December 2017
UK-China Economic and Financial Dialogue.

2018

Market opening

We will begin to see implementation of the ownership reforms announced in November.

Competitively, 2018 will be defined by reactivity; those still on the sidelines at year-end will have a mountain to climb. We expect two new foreign majority-owned FMCs in 2018.

Pension reform

The 19th CPC has accelerated pension reform. Commercial pensions will be the focus for 2018.

Inbound program reforms

R/QFII programs are set for an upgrade, as well as talks of Connect and MRF schemes with London that came out of the recent EFD.

Outbound program reforms

Capital controls will remain in place. Investment flows will remain tapered.

Source: Z-Ben Advisors

Q&A

Calastone™

Thank You