

Z-Ben Advisors presents

2024 China Rankings

The top foreign firms in China

April 2024



Z-BEN | RANKINGS

Land of the blind

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First, I need to address the stark reality: sentiment in the China investment space remains dismal. This is no better illustrated than by the Greater China funds complex which has been hit by both declining securities prices and substantial outflows. To further stress the point, China is deemed so “uninvestable” that there is genuine career risk from just broaching the subject with institutional clients.

This challenging backdrop has certainly influenced the outcomes in this year’s China Rankings. However, we must also consider the relative progress by those global managers which have remained committed to the China market. On this point, I first need to return to 2018 when our outlook for competitive success was quite optimistic. The domestic market was on the precipice of wholly foreign owned participation and local competition comprised mostly large, staid managers. Innovation was extremely limited, and inefficiencies were widespread and ripe to be exploited. We expected global groups to enter, capitalize on their competencies, scale quickly and command market share of a combined 25% by 2028. Even as I write that last sentence I wince. We weren’t overly optimistic. Instead, we were naïve – just not for the reason you might think.

Our naiveté stemmed from failing to account for commercial conceit. This isn’t meant as disrespect but as an observation. Having assessed every single global manager operating a wholly owned business unit locally in China, there is a common pattern: these business units are run in the exact same fashion as any other international operation. The belief that strategies effective in Tokyo, Taipei or Seoul would succeed in Shanghai couldn’t be farther from the truth. This is now showing up in the results – be that for groups running a fund management business or a bank wealth management “joint venture”.

Land of the blind


























The policies being adopted are policies of inertia that simply don't fit in a growth market such as China. There is a tendency to lean towards "this is how we do things" which has manifested as an unwillingness to adapt to local market practices. This is not an oversight of the importance of risk management and compliance, or the value of global frameworks. We understand that these are vitally important. But so too is an acknowledgement of the unique aspects of the onshore market. Something has got to give. Without greater flexibility and adaptability, long-term success will be all-but impossible. A starting point: for those with a local business unit, micromanagement is not the answer.

I would like to add one final comment. This is now my fourth "China is collapsing" cycle. While I'm not here to downplay the structural risks facing China, these are the very same risks that have persisted for decades. What differs this time around is media focus and a wider dissemination of overwhelmingly negative storylines. It's become a vicious feedback loop and has intensified the bleak sentiment. My message stays the same: filter out the noise.

The top 25 foreign firms in China

Moving the business forward despite headwinds

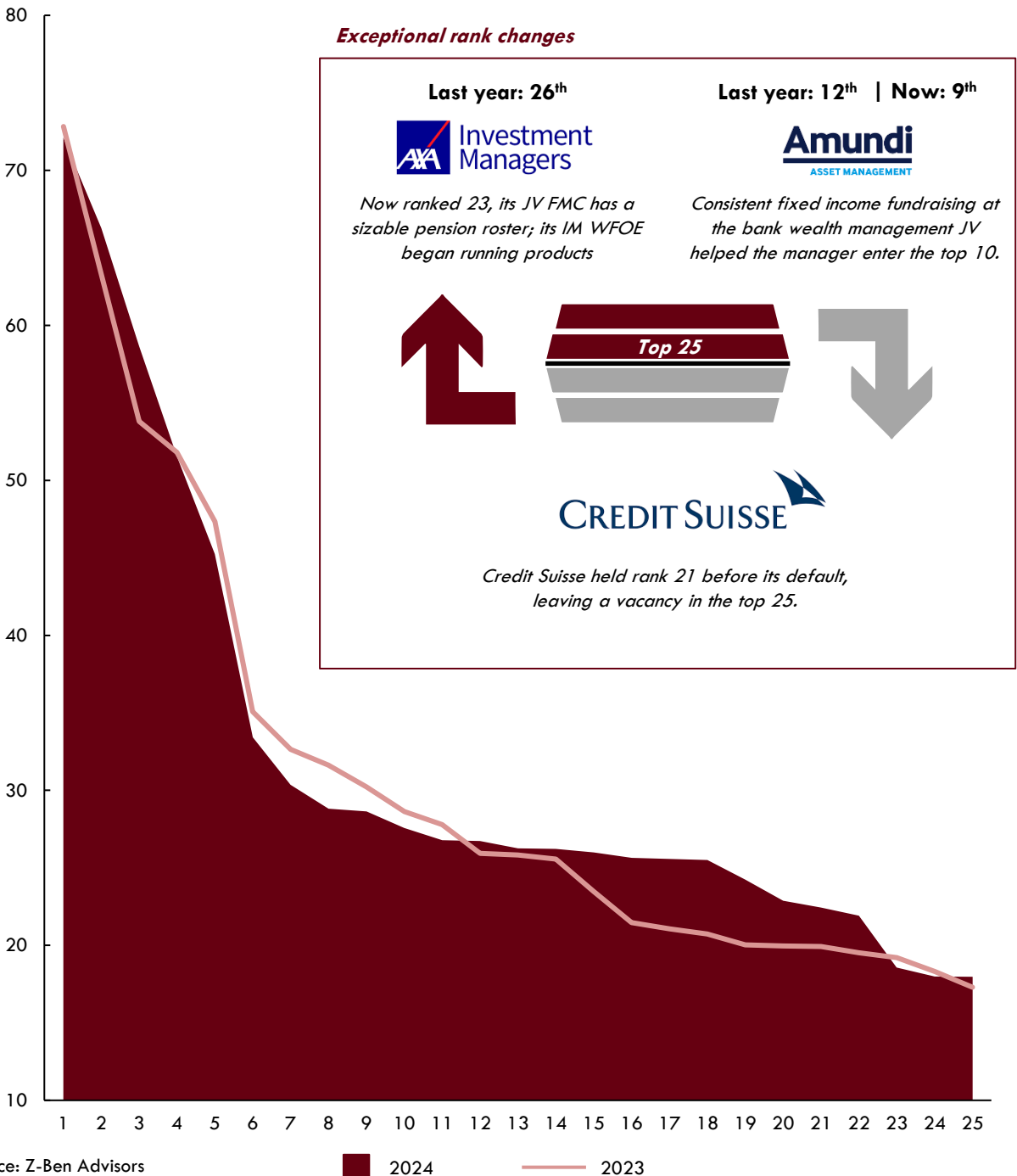
Fixed income product lines prove valuable in 2023

2024 Rank	2023 Rank	Firm		2024 Score	YoY change	Score distribution across the three business lines
1	1	JP Morgan	United States	72.13	-4.44	
2	3	UBS	Switzerland	66.27	9.45	
3	2	BlackRock	United States	58.67	1.82	
4	4	Invesco	United States	51.53	-2.80	
5	5	Schroders	United Kingdom	45.25	-8.91	
6	9	HSBC	United Kingdom	33.43	2.35	
7	13	Manulife	Canada	30.35	0.32	
8	7	Fidelity	United States	28.81	-4.14	
9	12	Amundi	France	28.65	-1.43	
10	6	Allianz GI	Germany	27.57	-7.42	
11	15	Franklin Templeton	United States	26.78	-0.42	
12	11	DWS	Germany	26.74	-3.43	
13	18	Mackenzie	Canada	26.26	0.39	
14	14	Eastspring	United Kingdom	26.22	-2.60	
15	19	BNP Paribas	France	25.99	0.82	
16	10	Eurizon	Italy	25.65	-4.59	
17	8	Morgan Stanley	United States	25.58	-5.53	
18	17	AEGON	Netherlands	25.50	-1.54	
19	16	Neuberger Berman	United States	24.25	-2.83	
20	22	PineBridge	United States	22.88	1.42	
21	-	Hang Seng	Hong Kong	22.44	3.61	
22	20	Bridgewater	United States	21.91	-2.36	
23	-	AXA IM	France	18.57	-0.70	
24	23	abrdn	United Kingdom	17.99	-3.08	
25	25	Nomura	Japan	17.97	-1.53	

Scores of the top 25

A rare opening in the leaderboard

Pressure from lower tiers mounts on incumbents

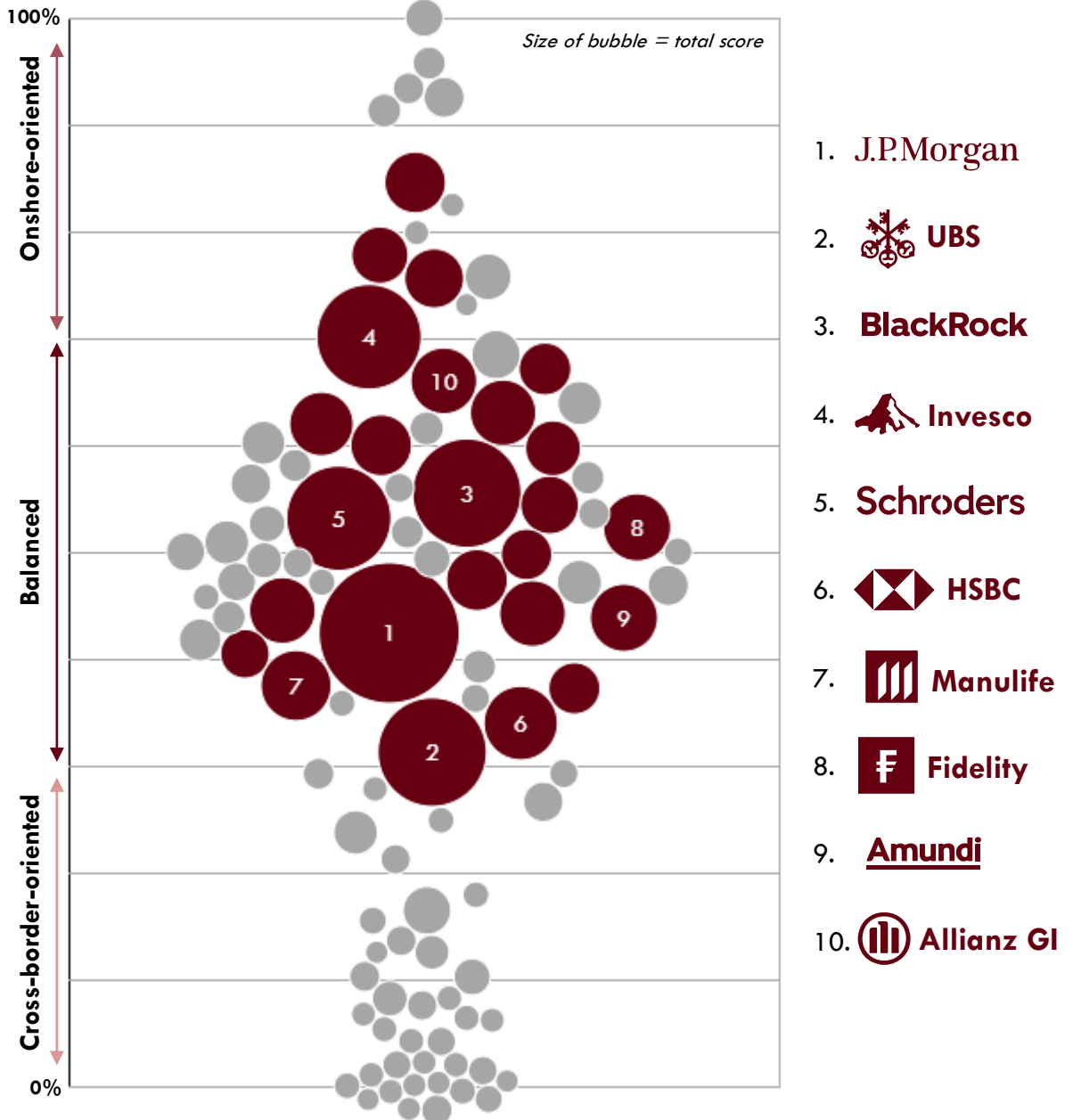


Diversify or focus?

Multiple paths forged to reach the top 10

Onshore versus cross-border scores of top 100 firms

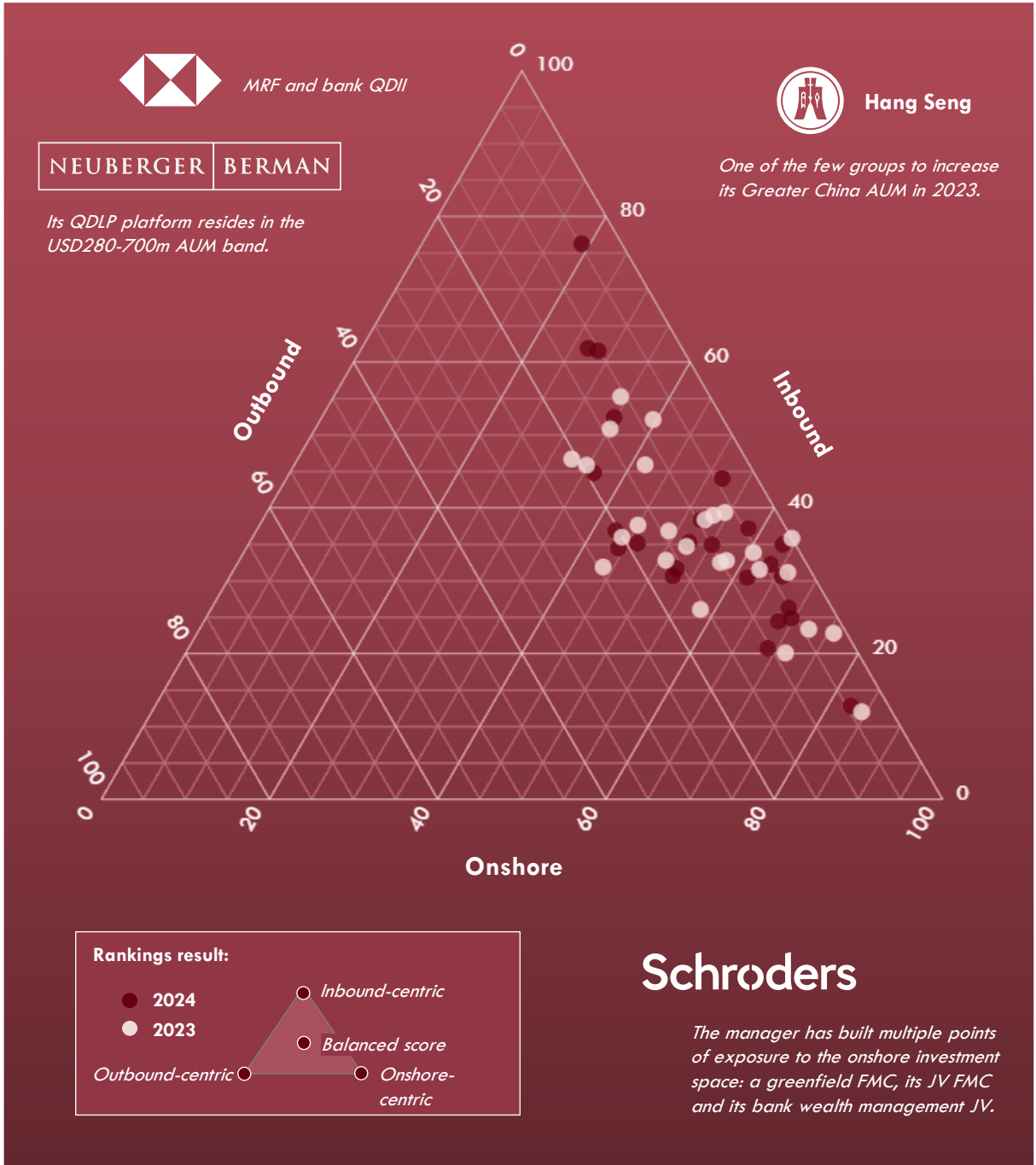
Portion of overall score from the onshore business



Year-on-year highlights

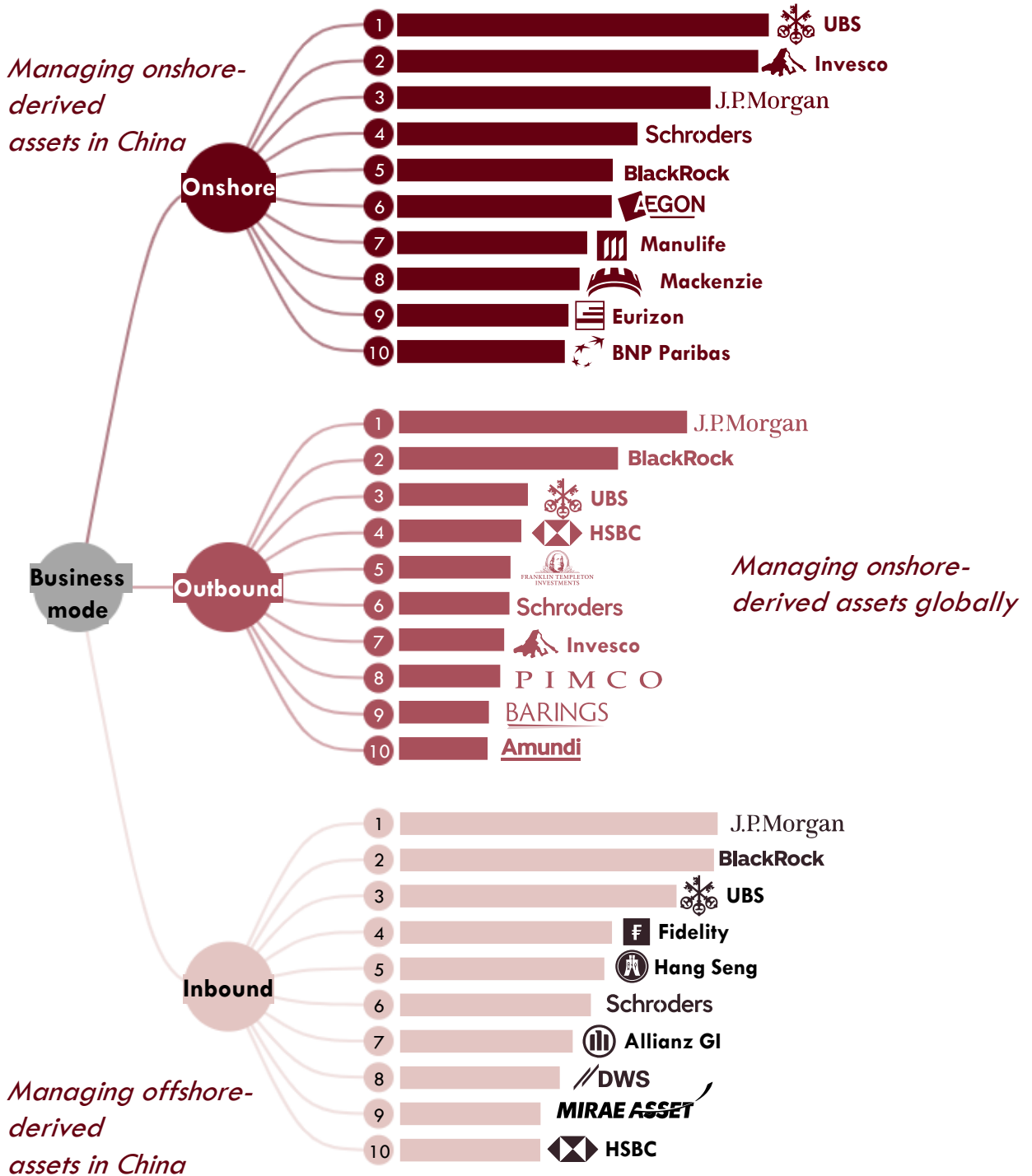
Risk-off A-shares afford headway for cross-border specialists

Year-on-year scores by business line of top 25 fund managers, 2022-2023



Source: Z-Ben Advisors

The top ten managers by business line



Source: Z-Ben Advisors

2023 overview

Adversity quotient

Regulatory and market recap

Opening

An open door

We see a clear bifurcation in terms of willingness to assume business risk; early entrants have products on shelves while few other global groups commit to the market. Only one fund license application was filed in 2023.

Onshore

A year of fixed income and passive

Outperformance remains extremely rare, reinforcing broader risk-off sentiment and skewing demand towards fixed income and passive equity. The latter saw major increases in institutional participation, including state buy-ins.

Inbound

Volatile sentiment

Capital depreciation and outflows were severe in some cases, particularly as China Concept funds lagged far behind returns of other markets. However, a sizable core remains with most institutions only trimming exposure to small-cap A-shares.

Outbound

Quota elasticity

The USD5.8bn in new quota was outpaced by rising demand for global equity exposure. At the lower end of the risk barbell, investors also sought FX deposits and fixed income QDII funds to capture yield differentials.

Policy

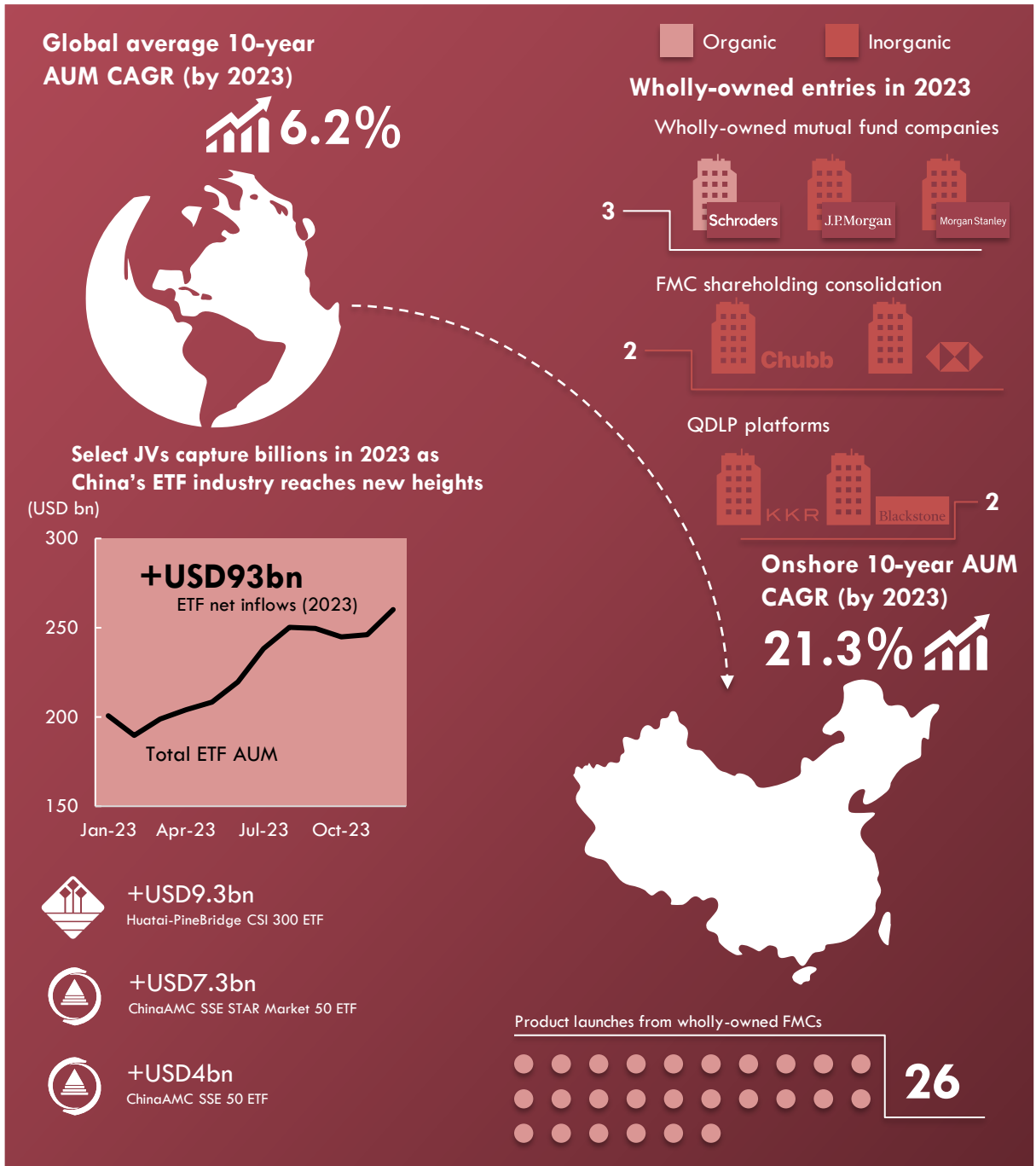
Elevating industry standards

Reform initiatives took effect across the industry, including lowered management fees, with the aim of strengthening interest alignment with investors. The year also marked the official start to tax-incentivized commercial pensions, though growth has been slow.

2023 overview

Contesting the largest growth market

Market and competitive developments, 2023

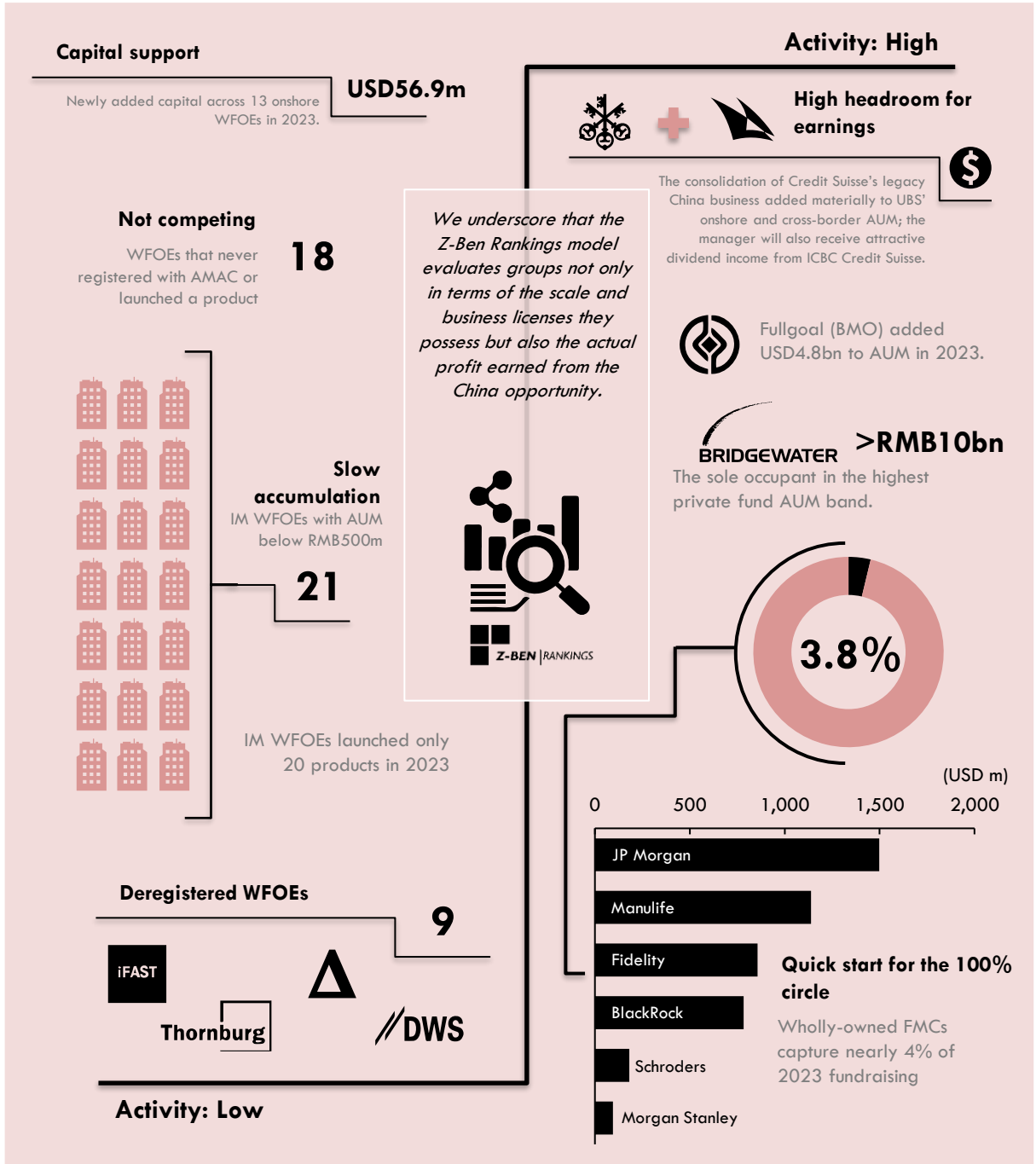


Source: Z-Ben Advisors, ICI

Quality metrics: Activity and profit

Recognizing lucrative business and successful execution

Overview of global groups' mainland progress, 2023



Source: Z-Ben Advisors, ICI

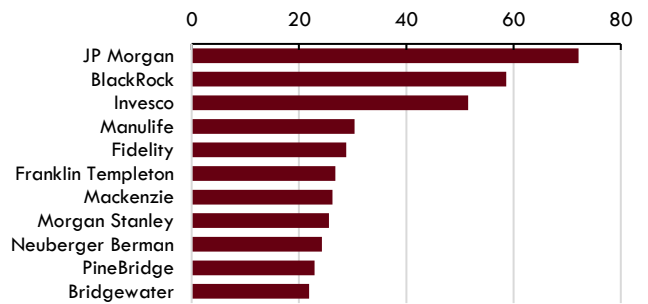
Geography of top 25

Managers from Europe and Asia improve rank

Geographic breakdown of the top 25

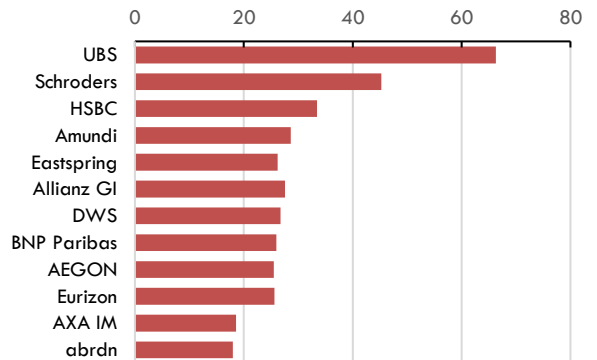


North America



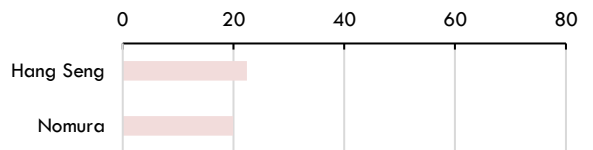
This region has the largest number of wholly foreign-owned fund management companies (seven).

Europe



The 2023 rankings reflect growing representation from Europe, particularly in mainland institutional business.

Asia

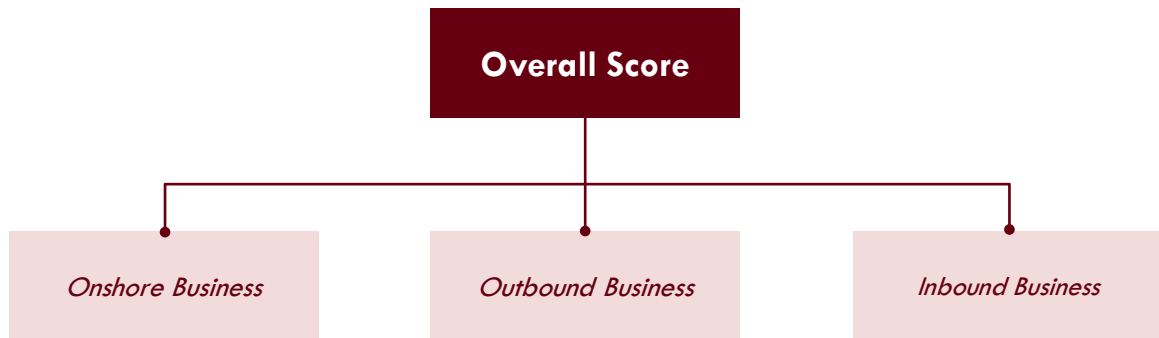


While Asian managers tend to lag in onshore development, this group kept cross-border business more stable than managers from other geographies.

Appendix

Scoring structure

The overall score is calculated by summing the weighted scores of the three distinct business lines. The highest possible overall score that any firm can get is 100. This would result from being the highest-ranked firm in not only all three categories, but in every subcategory.



Time frame

Data was collected as of 31st December 2023. Instead of just providing a snapshot of each firm at that point in time, we have also considered factors that analyze a company's performance throughout the year. Many, but not all, firms also responded to direct surveys which sought data about various aspects of their broad China strategies for which public disclosure is non-uniform or incomplete.

Onshore business

The onshore business focuses on several aspects, anchored by two key areas of mainland presence: fund management companies and wholly-foreign-owned entities (WFOEs). In previous editions of the China Rankings, the fund management company and WFOE were weighted equally reflecting the optionality of an onshore China strategy. Starting in 2020, we have gradually increased the fund management company weighting each issue to account for the advent of full foreign ownership; WFOE weightings were decreased for this issue in light of limited activity and growth potential. The formal expansion of the commercial pension program in 2023 and growing involvement in bank wealth management also merited upweights in this year's edition.

Outbound business

The outbound business considers the various programs that permit domestic capital to be invested overseas. Despite capital outflow restrictions over the past few years, firms were able to raise capital. Positioning for when restrictions are relaxed, as has been indicated with significant quota issuances over the past year, is considered. We also rank the scale of the firm's subadvisory business.

Inbound business

The inbound business covers the Greater China fund management business as well as the use of China's various inbound investment channels. Emphasis was placed on physical asset investment in fund products. Inbound mandates and institutional business are also considered.

Weightings

Each of the three categories is assigned a weighting that is based on its importance to current and future China strategy. As a result, the mainland business score has the highest weighting, followed by the inbound business. The outbound business has the lowest weighting due to the relative infancy of most outbound programs and the capital outflow controls that remain in place as of the time of writing. Within each of the three categories, firms are given scores for numerous subcategories, of which each is assigned a weighting based on its importance to the business line.

The rankings model is designed to maintain the same structural format each year and weightings may change based on the evolving nature of foreign firms' strategy in China and the regulatory environment. These changes would reflect the way that firms view China and are building their strategy.

Source: Z-Ben Advisors



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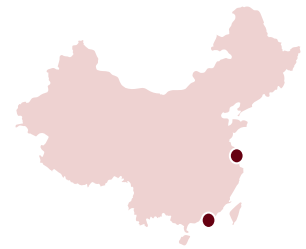
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ABOUT Z-BEN ADVISORS

Z-Ben Advisors has led global financial institutions to a more actionable understanding of China's financial market dynamics by providing market intelligence and strategic advice on every facet of the China asset management industry in real time. We combine raw fund flow data with competitive benchmarking to deliver focused and forward-looking market analysis, all contextualized against the regulatory developments that will significantly impact the China outlook and bottom lines of global financial firms.

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