# An overview of the private funds industry in China

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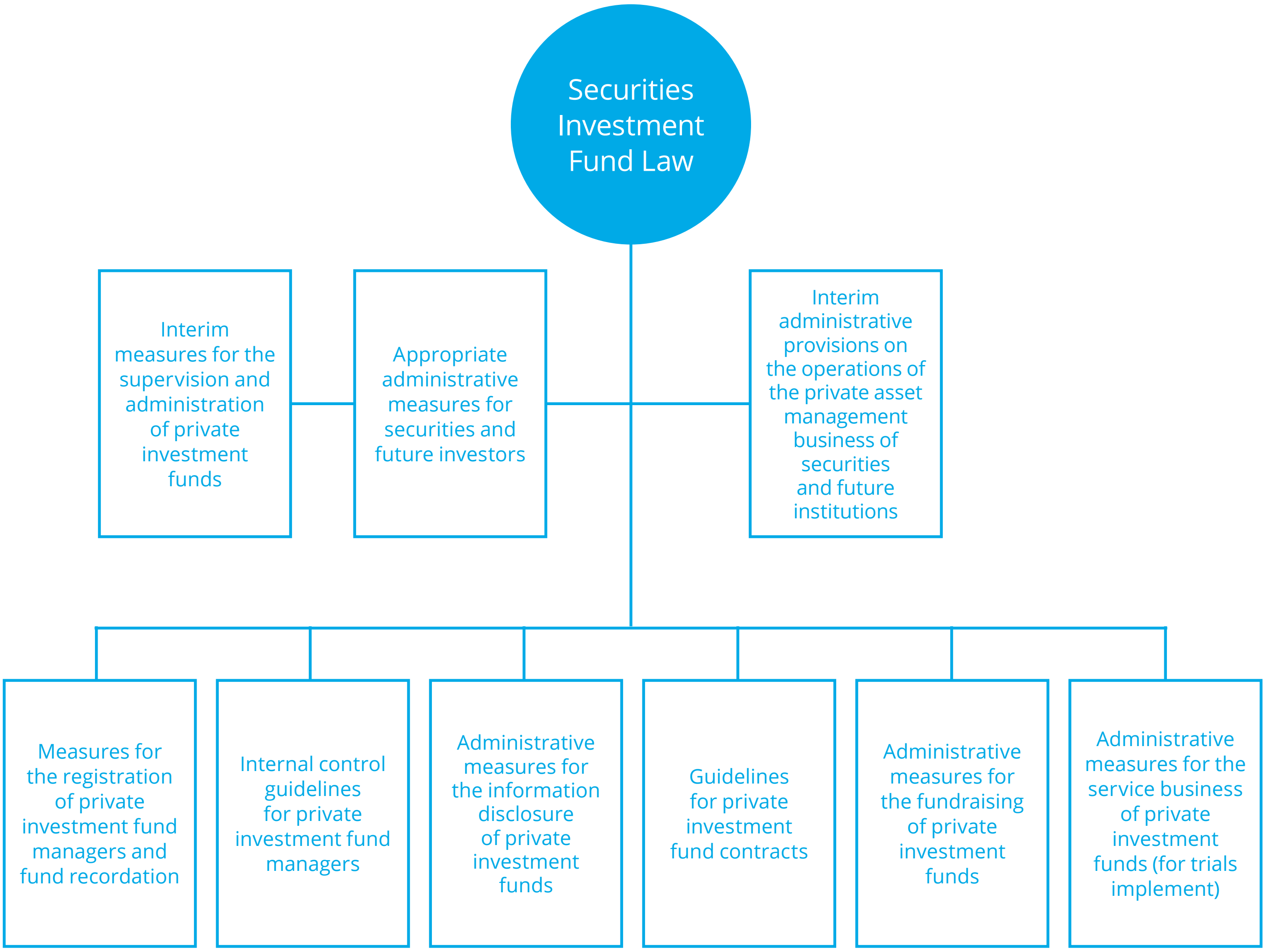
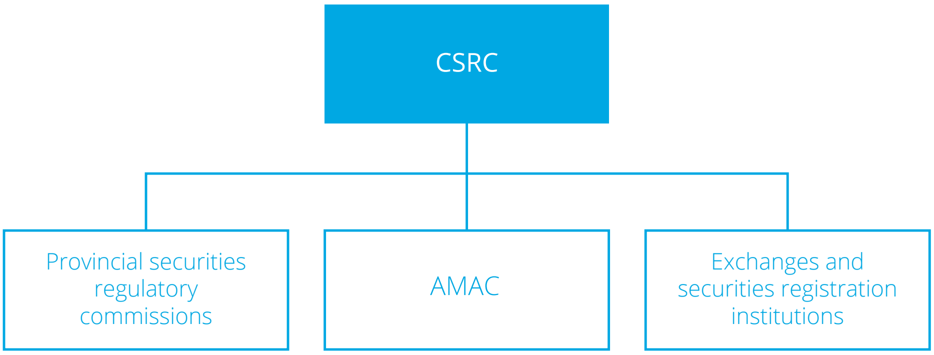
The term private funds used to be quite confusing in China as it only refers to the fund-raising channel without specific reference to the asset type the funds will be invested in. In general, private equity funds, venture capital funds, and private funds focusing on investments in secondary markets for bonds and stocks can be all loosely referred to as private funds. Part of the confusion stemmed from the complex regulatory regime, as private equity funds and venture capital funds were primarily registered with and regulated under the guidance provided by the National Development and Reform Commission, while private funds focusing on investments in secondary market instruments were regulated under the "Trust Act", coupled with regulatory framework guidance provided by the China Securities Regulatory Commission ("CSRC").

In June 2013, the enactment of the revised Securities Investment Fund Law created the first nationwide industry self-regulatory body: the Asset Management Association of China ("AMAC"). This was a landmark event as, for the first time, there was a specific requirement for all funds to be regulated by AMAC. In February 2014, AMAC started accepting the registration of all private funds and fund management companies.

**By the end of 2016, a well-defined regulatory framework was in place in China.**



**The regulatory agencies are structured as follows:**




Two years after the enactment of the revised law and after continual refinement of the regulatory framework, in 2017, AMAC decided to publish its inaugural official reports for the sector. Deloitte China was invited to take part in the design, data collection, and analysis of the survey to provide an overview on the private funds sector in China, with a focus on private securities investment funds ("PSIF"), which predominantly invest in secondary market instruments. This was the first national review on the entire sector and the survey provided some interesting insights.

By the end of 2016, a total of 7,996 PSIF managers were registered with the AMAC, of which 29 were foreign managers under the Qualified Domestic Limited Partners ("QDLP") program. QDLP is a program introduced by the Finance Service Office of Shanghai, which offers foreign managers the opportunity to raise funds from domestic Chinese institutional investors and qualified individual investors to feed offshore investment funds.

As illustrated in figures 1.1, the PSIF sector grew steadily throughout 2016. This is despite the fact that the total number of registered PSIF managers fell sharply in Q4 2016, primarily as a result of a clean-up of domestic fund managers that did not open or close a single fund within a year of registering as fund managers. However, the amount of total assets under management still increased despite the reduction in the number of fund managers.

**Figure 1.1a: Changes in manager numbers and AuM from 2014 to 2016**

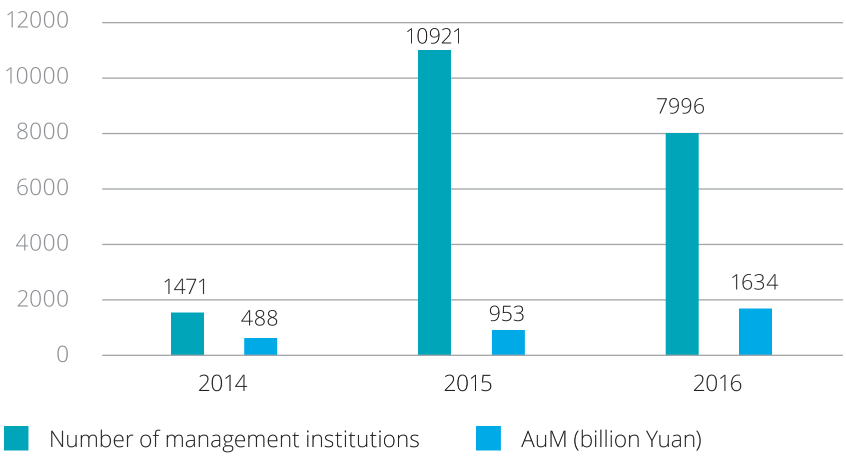



**Figure 1.1b: Growth of the scale of filing for PSIFs (total asset under management in billions)**

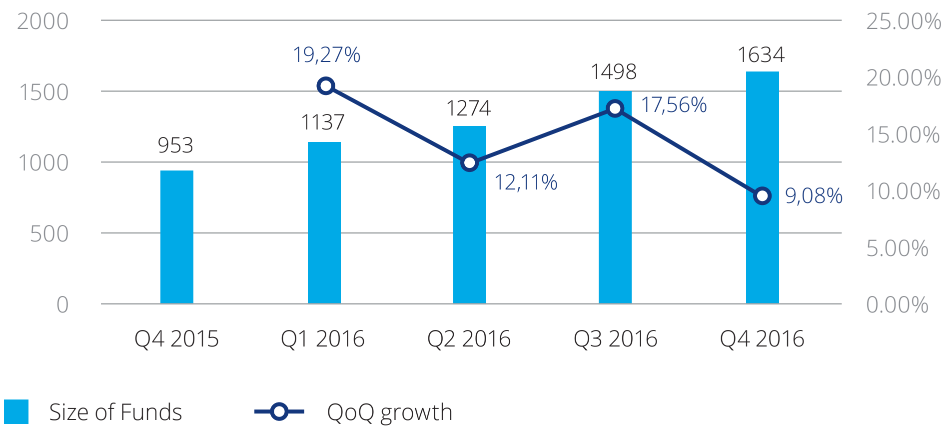
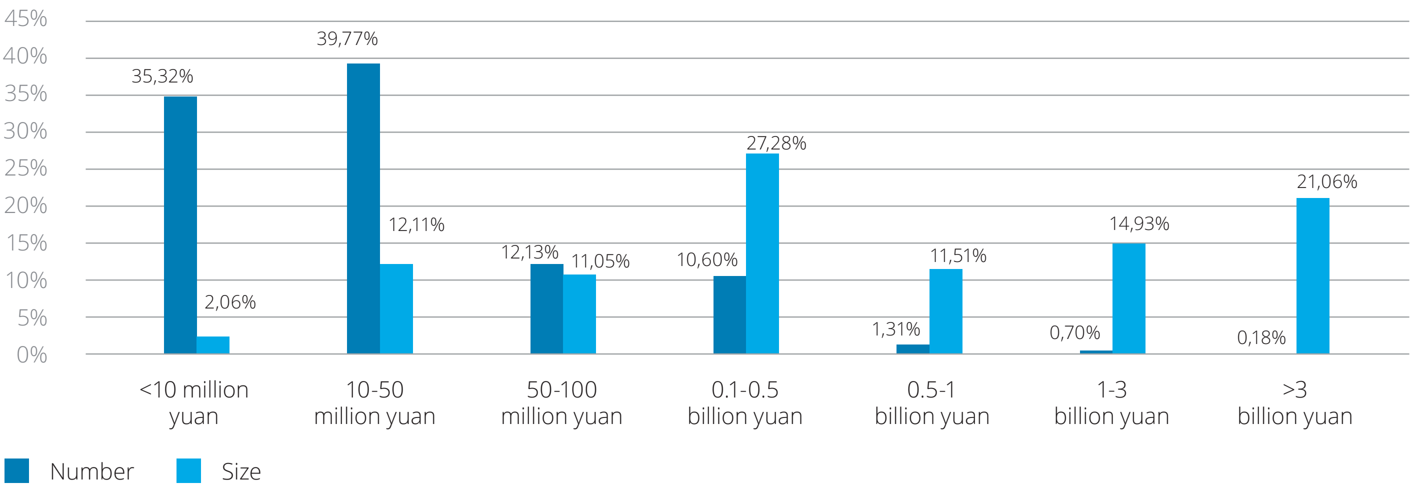


**Figure 1.2: Proportions of the number and assets of PSIFs in terms of size by 2016**




As illustrated in Figure 1.2, at the end of 2016, we started to witness a polarization of PSIF managers in China—a handful of managers were managing 21 percent of the total assets, while almost 75 percent of managers managed less than 15 percent of total assets. The large population of managers with low levels of AUM might be an indication that there are high numbers of young managers who have recently set up their businesses, since the enactment of the new law provided a more benign and transparent environment for PSIF fund managers.

Almost 65 percent of all PSIF funds were invested in stocks and bonds if we add funds invested in stocks, bonds, and mixed together. We also notice from Figure 1.3 that, even as a young sector, FOF grew quickly to account for 20 percent of all funds, which may indicate that reliance on professional intermediaries by qualified investors and institutional investors was on the rise.

**Figure 1.3: Proportions of the number and size of different PSIFs**

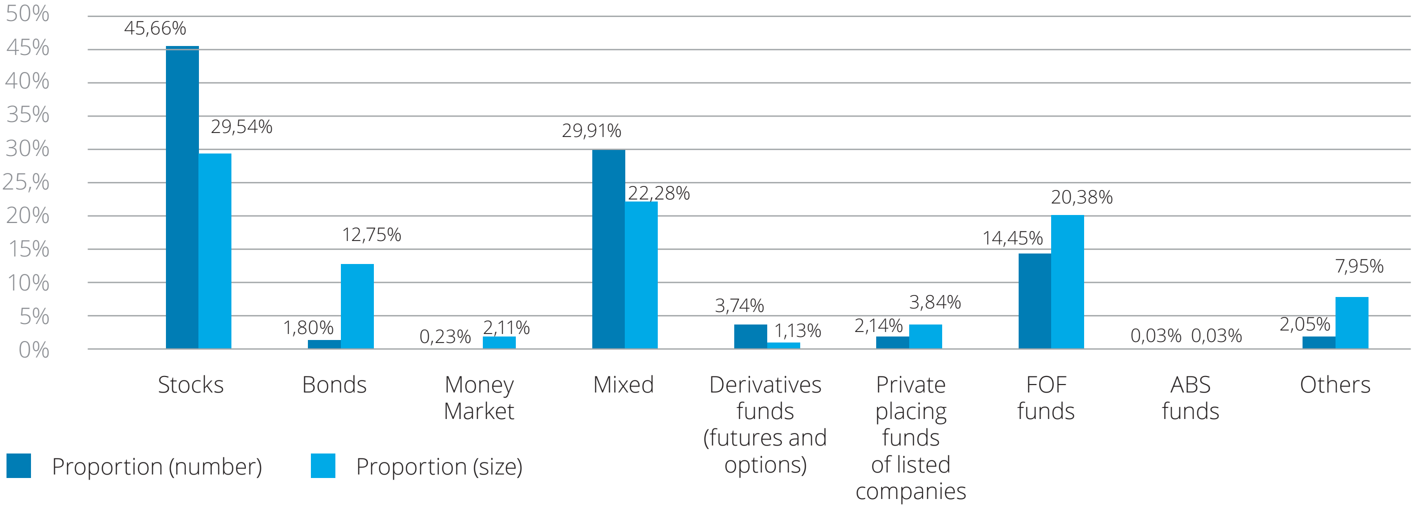
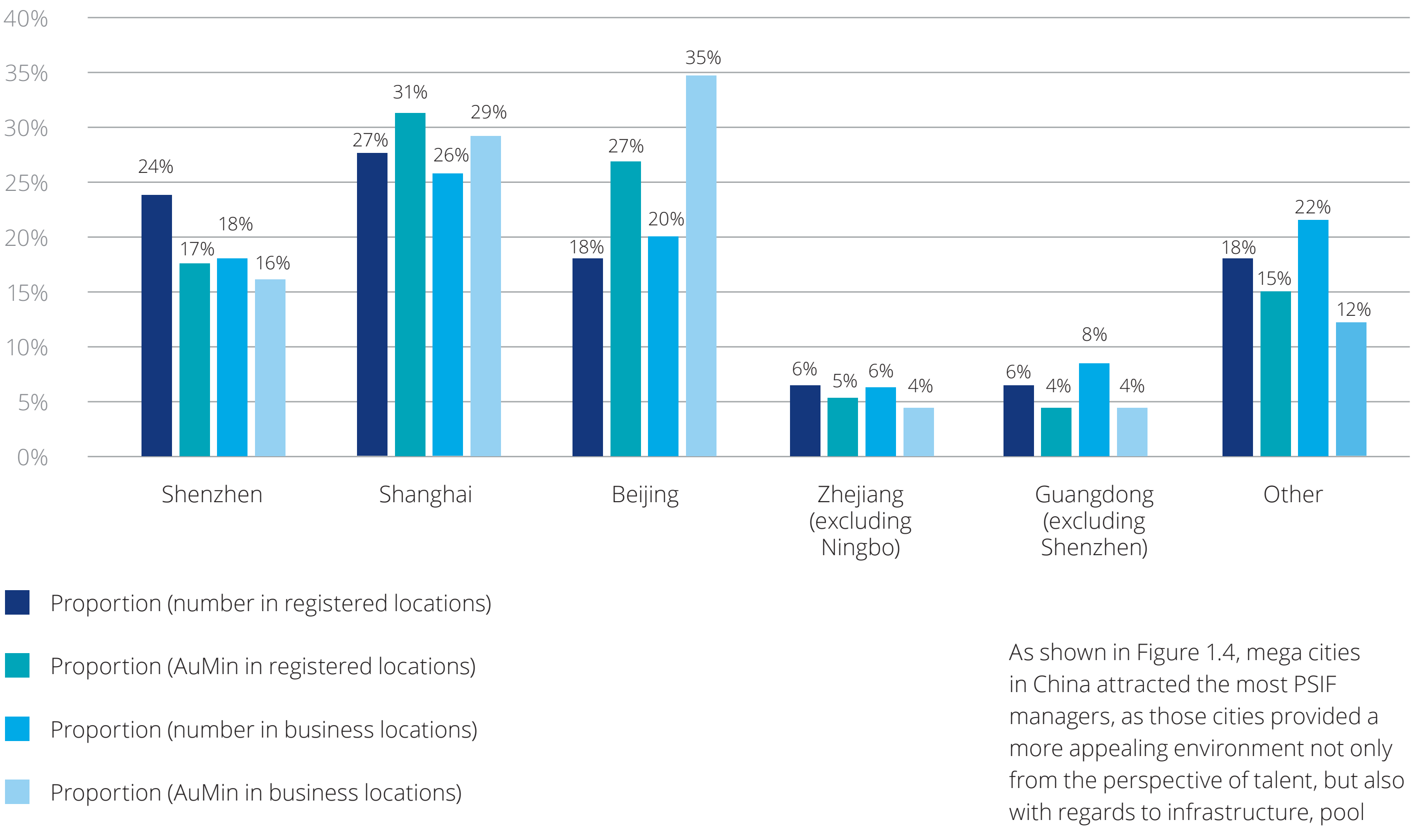
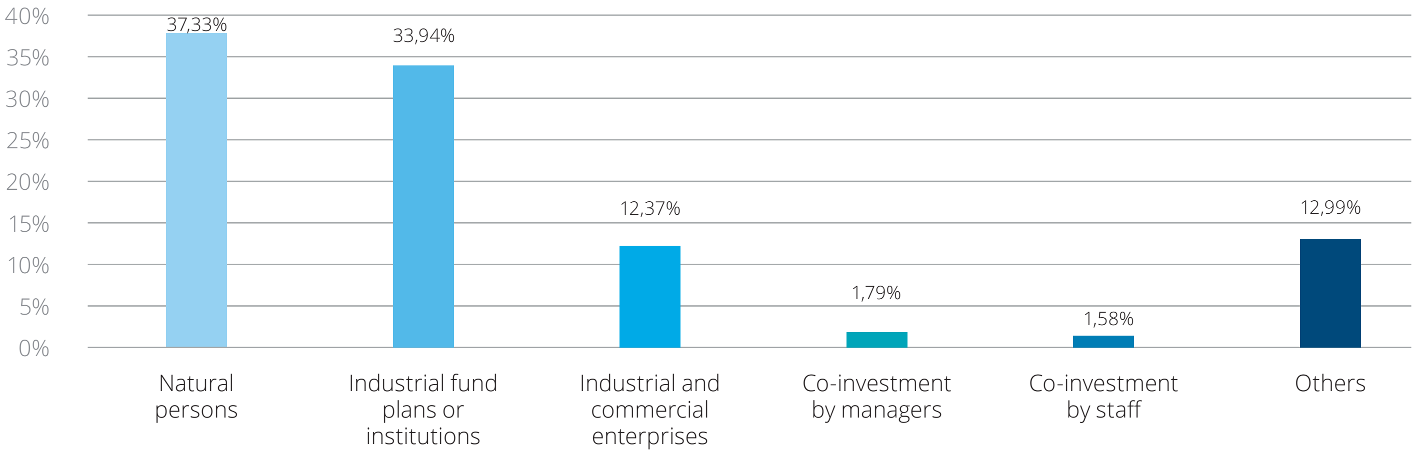



**Figure 1.4: Top five operational regions in terms of number and AuM in 2016**




As shown in Figure 1.4, mega cities in China attracted the most PSIF managers, as those cities provided a more appealing environment not only from the perspective of talent, but also with regards to infrastructure, pool of funds, and business community, among other factors.

**Figure 1.5: Source of funds**




| Products | Number | Size (billion yuan) | Proportion (number) | Proportion (size) |
|---|---|---|---|---|
| Asset management plans of securities companies and their subsidiaries | 165 | 53 | 4.23% | 5.76% |
| Special fund account and fund subsidiaries | 1,533 | 428 | 39.28% | 46.80% |
| Asset management plans of futures companies and their subsidiaries | 531 | 49 | 13.60% | 5.39% |
| Trust plans | 1,596 | 359 | 40.89% | 39.19% |
| Asset management plans of insurance companies and their subsidiaries | 18 | 13 | 0.46% | 1.40% |
| Other | 60 | 13 | 1.54% | 1.46% |
| **Total** | **3,903** | **915** | **100%** | **100%** |

As shown in Figure 1.6, over 3,900 funds were using investment advisors with total assets over RMB900 billion.

The data shown above points to a young and booming PSIF sector in China. Undoubtedly, it is one of the fastest growing sectors in China with ever-increasing levels of personal wealth and more experienced professionals leaving traditional financial institutions to start their own PSIF firm. However, the sector is not without challenges: barrier of access to insurance funds, pension funds; limited ability to structure financial products for differentiation; lack of third-party professional service providers to enable efficient operation, etc.

2018 will be another interesting year for the PSIF market as the regulator continues to announce new measures for further sector standardization. Some of these measures are more restrictive, while others open up more possibilities for product innovation. Some of the measures for socially responsible investment are also at the top of the regulatory agenda. While the full English text of the 2016 report will be released by the Chinese regulator in late April, Deloitte China is already in the process of preparing for the 2017 sector report, which is scheduled to be released in late 2018. By that time, we will work with the Performance Editorial again to share the most up-to-date information from China with our readers.

## To the point:

- A well-defined regulatory framework is now in place in China
- Total AuM has increased despite the reduction in the number of fund managers
- A handful of managers manage 21 percent of the total assets, while 75 percent of managers manage less than 15 percent of total assets
- Reliance on professional intermediaries by qualified investors and institutional investors is on the rise
- Mega cities in China attract most PSIF managers
- The booming sector also faces challenges