



SPOTLIGHT ON CHINA
ASSET MANAGEMENT OUTLOOK
OCTOBER 2019

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INTRODUCTION AND OVERVIEW

PREPARATION, PERSEVERANCE & FLEXIBILITY KEYS TO SUCCESS ONSHORE

In this latest Spotlight on China, we aim to provide our latest updates around the developments in the Asset Management areas in China, especially in light of the recent announcements by the Chinese government as they accelerate the liberalisation of the financial sector.

Looking ahead, international asset management firms have a lot to still be excited about in China. Despite a relative decline in activity over recent months, such as product launches and license approvals, the funds landscape continues to be the centre of attention for two long-term reasons: first, the clear commitment of Beijing to regulatory liberalisation; and secondly, the ever-changing nature and growth potential of the onshore market.

These market dynamics bring with them an ongoing flurry of activity that is keeping us busier than ever. Less “white noise” in the market from 2017/18 certainly doesn’t mean fewer people moving firms.

On one hand, new entrants seek to appoint talent in an array of roles, while on the other hand there are inevitable human capital-related needs as existing asset managers accelerate plans to expand their China businesses, as they are now able to wholly own local fund managers as early as 2020.

The journey to either full fund management status, along with further growth of existing onshore operations, has started to create a steady flow of replacement hires and “upgrade” hires. These are in many ways the result of a maturing strategy of some firms in China. We have seen

that a second or third anniversary of a first-mover wholly foreign-owned enterprise (WFOE), for example, brings with it new requirements in terms of talent acquisition and retention.

In the coming pages, we aim to explain the specific talent-related needs and priorities of firms at different stages of growth and development onshore. One common theme continues to stand out: as China’s asset management industry continues to evolve, so do the challenges in terms of finding and managing human capital in this competitive and changing marketplace.

Drawing from our experience in working with global fund houses on their China strategy, we think several considerations are key to helping firms at different stages of onshore development to take their business forward:

- Consistent, clear and strong leadership and strategy of how to approach the China market
- Open internal channels of communication between offshore and onshore teams
- A strong and collaborative culture that promotes employee loyalty
- Flexibility to adapt to a landscape that is complex and constantly changing, often without much warning, in terms of regulations
- Patience in their long-term commitment to China within a global business framework

INTRODUCTION AND OVERVIEW

It is becoming increasingly important for firms operating in China's asset management landscape to understand the quite specific human capital needs they have, based on their growth ambition and where they stand today on the development cycle. We have segmented the current market landscape into three groups, and our observation shows that in each of these segments, these firms have quite similar yet unique challenges with regards to human capital needs.

FAST MOVERS

Those global managers that acted fastest in terms of setting up their WFOE and launching products quickly. Now, they are the ones most likely to be furthest on their journey to full fund management status or joint venture (or both).



- Recognition of the regulatory demand for certain senior hires in key positions across the business.
- A growing emphasis on also hiring from domestic asset management firms in order to fill the large number of positions required to scale the business
- Increasingly focused on the need to retain existing talent, with departures potentially going to Consolidators and New Entrants, not just peers in this category

CONSOLIDATORS

Those global managers that were probably among the earlier entrants into China's domestic market. However, while they have built solid teams, they have not expanded as quickly. Some of these firms take more of a "wait and see" approach with regards to the full fund management option.



- Increasingly looking for individuals who have the capability and experience to fill mid-level (and some junior) roles and functions across product, investment, distribution, sales, marketing and compliance
- Target to acquire talent from both other global asset managers and some of the larger, more internationally-minded Chinese fund houses
- Retaining existing talent has started to become more important over the last 12 to 18 months

NEW ENTRANTS

Those global managers that have either just started to enter China's domestic market over recent months or are thinking about doing so and might be applying at the moment for WFOE/PFM statutes.



- Focused on cornerstone positions within the domestic entity – including general manager, head of investment / chief investment officer, and head of compliance
- Looking to source talent mostly from other WFOEs and joint venture firms as a second choice
- Second wave of hiring within research, operations, finance, and tech

Based on the different strategies of the foreign fund houses operating in the domestic marketplace, the distinct groups of firms that have emerged require each asset manager to focus on hiring different types of individuals, as well as on managing and retaining that talent. Firms also need to be cognisant of the strategies required at a different stage of evolution. These trends reinforce our observations and expectations of an uptick in the volume of talent needed in 2019 and 2020 in comparison with 2017 and 2018. The "white noise" is reduced as firms are not all walking in lockstep.

PFM ACTIVITY

Below is a snapshot of the PFM market and fund launches chronologically. Please note several of the product names are direct translations from Mandarin.

COMPANY	PFM LICENCE DATE	PRODUCTS LAUNCHED
Fidelity International	Jan '17	China Bond No. 1 Private Fund
		China Equity No. 1 Private Fund
		China Bond Opportunity No. 1 Private Fund
UBS Asset Management	Jul '17	China Equity Private Fund Series 1
		China Ultra Short Income Bond Private Fund Series 1
		UBS Flexible Strategy Bond No.1 Fund
Fullerton Fund Management	Sep '17	Absolute Return China A Strategy Series 1 Private Fund
		Oriental Winner Fudun Growth Fund
Man Group	Sep '17	Man Group Grand No. 1 Fund
		Man Group United States No. 1 Fund
Invesco	Nov '17	Invesco No. 1 Private Equity Fund, China's Core Stock Value
Neuberger Berman	Nov '17	Neuberger Berman Bond No. 1 Fund
		Neuberger Berman Quantitative Flexible and Intelligent Selection Fund No. 1
		Neuberger Berman Bond No. 2 Private Securities Investment Fund
		Quantitative Dynamic Optimum Selection Fund No. 1

COMPANY	PFM LICENCE DATE	PRODUCTS LAUNCHED
Value Partners	Nov '17	Neo-China A Share Fund 1
		China A Share Jade Fund 1
		Feng Tai-China A Share Fund 1
		China A Share Platinum Fund 1
		China A Share Hongxin Fund 1
		China A Share New Era Quality Select Fund 1
		China A Share Ruiyin Fund 1
Aberdeen Standard Investments	Dec '17	Quality Select Equity No. 1 Private Fund
		Aberdeen Standard Core Bond No.1 Fund
BlackRock	Dec '17	China A-Share Opportunities Private Fund 1
		BlackRock China A-share Opportunity Phase 6
Schroders	Dec '17	Schroders China Zhihui Fund 1
		Schroders China Multiple Dynamic Allocation FOF 1

PFM ACTIVITY

COMPANY	PFM LICENCE DATE	PRODUCTS LAUNCHED
Azimut	Feb '18	Azimut Hybrid Fund 1
		Azimut Mixed Fund 2
		Azimut Mixed Fund 3
		Azimut Mixed Fund 11
Bridgewater Associates	Jun '18	Bridgewater China All-weather Private Equity Fund 1
Winton Capital	Jun '18	Winton Capital China Diversified Platinum Fund 1
		Winton Capital China Diversified Platinum Fund 2
		Winton Capital China Diversified Platinum Fund 3
		Winton Capital China Diversified Fund 1
		Winton Capital China Diversified Fund 2
		Winton Capital China Diversified Platinum Fund 5
APS Asset Management	Jul '18	APS Shihui Fund
		APS Shiyuan Fund
Eastspring Investments	Oct '18	Eastspring Investment Private Securities Investment Fund No.1
Mirae Asset Global Investments	Nov '18	-

COMPANY	PFM LICENCE DATE	PRODUCTS LAUNCHED
Allianz Global Investors	Mar '19	Allianz Multi-asset Opportunity Fund 1
AllianceBernstein	Mar '19	AllianceBernstein A Share Fund 1
D.E. Shaw	Apr '19	-
Schroders	May '19	PFM China Equity Alpha Youxun No.1
		PFM China Credit Bond No. 1
		PFM China Macro Bond No. 1 funds
Barings	Jul '19	-
Nomura Asset Management	Jul '19	-

Source: Asset Management Association of China (September 2019)

6 KEY HUMAN CAPITAL OBSERVATIONS

By combining the research results, taken from our survey conducted on the challenges facing WFOEs in China, with our ongoing dialogue with both candidates and clients, who are involved in the liberalisation and internationalisation of China's asset management industry, we see six themes shaping the future of this sector.

1

COMPETITION FOR
TALENT HAS BECOME
EVEN MORE FIERCE

The fact that “lack of available talent” and “lack of talent depth and skill shortages” rank as the biggest WFOE-related challenges and risks for many global fund houses, reinforces just how competitive the race for human capital has become. Asset management executives shouldn't mistake the recent reduction in the “white noise” from the initial WFOE start-up phase for a pull-back from this market. On the contrary, some of the more established firms have been focused on upgrading, replacing and adding to their headcount. For later entrants that form part of the next wave of WFOEs, they are looking to existing WFOEs for their initial recruits. Adding to the competitiveness is the growing number of firms now also looking beyond making obvious hires from competitors in favour of individuals that enable firms to differentiate themselves and their China strategy.

2

THE ONLY CONSTANT IS
CHANGE

The surprise announcement from the State Council in mid-July 2019 that wholly foreign-owned fund management company applications would be accepted from 2020 – 12 months ahead of schedule – shows just how quickly the market can change. The influence on people as well as product needs to be understood and preparations put in place. Having a clear game-plan is essential for global firms to be able to adapt more quickly by making decisions at head office level in coordination with knowledgeable local leadership. This highlights the importance of having autonomy locally in China over key decisions, rather than frustrate leaders of the onshore business by head office retaining too much influence over the China strategy. As per the survey results on attracting talent in the first place and then keeping it, success will more likely come from strong management and leadership, plus better communication between local and regional teams.

3

KEEPING PACE
WITH QUICKENING
REGULATION ADDS TO
THE TALENT BURDEN

At the time the schedule for fully foreign-owned asset managers was brought forward, the China Securities Regulatory Commission (CSRC) emphasized that this was part of a plan to accelerate its drive to liberalise the domestic financial sector. While this might seem a positive development at a higher level in head office, it puts (often undue) pressure on delivering on existing talent strategies. Further, the time and energy spent on pursuing previously agreed strategies may have been wasted given the need for significant flexibility. This makes it more challenging for global firms to be able to achieve goals that are considered, in our survey, important for talent retention – such as being clear and transparent about business strategy and goals.

6 KEY HUMAN CAPITAL OBSERVATIONS

4

PREPARATION AND READINESS IS KEY TO MEET NEW REQUIREMENTS

The desire among many international asset managers to develop their China business can only be fulfilled if they have the leadership onshore who is able to understand what is required of them in terms of the regulations, coupled with established communication and coordination with head office to adapt at relatively short notice. For example, with the CSRC demanding specific experience for certain job roles within a full fund management company, asset management firms need to make quick decisions. Those global players that seem to be navigating the environment most effectively are also those firms that have been engaging with regulators with a human capital mindset – not just focused on product. Patience is also required, since from experience, unforeseen hurdles should be expected regardless of the time taken to plan at the outset. Again, our survey supports this need for readiness since strong management and leadership, plus an open and team-oriented business culture, are considered key to attracting talent in the China market.

5

TALENT STRATEGIES DEPEND ON ONSHORE BUSINESS MATURITY AND AMBITION

With the race to establish market share and brand awareness in China's onshore asset management landscape now several years down the track, we have seen a clear separation among international fund houses depending on the extent to which they have embraced and invested in this opportunity so far. From our perspective, three groups have emerged: first, those charging ahead for full fund management status; secondly, those consolidating their PFMs; and thirdly, those looking to enter so at the start-up phase. Each of these approaches dictates a very different set of objectives and solutions for the talent acquisition, management and retention strategies that the firms need to employ. These firms have therefore developed their businesses in different ways and are seen differently by the wider industry – including, importantly, potential employees. For example, the early adopters, or faster movers, tend to attract candidates who are happier to embrace risk and change; more cautious candidates avoid global firms that are seen to be “breaking new ground”.

6

INTERNATIONAL STRATEGIES IN CHINA OFTEN DON'T PLUG THE TALENT GAP

Many global fund houses look to apply tried-and-tested offshore strategies to China and expect these will be equally successful. This might be in the way they try to launch and distribute new products, or how they approach research and client management. Although this is logical, we have seen that it creates problems for employers – the local talent pool simply does not exist in some areas. The results of the survey, for example, showed that investment, research and portfolio management are jobs that present the biggest hiring challenges in the China market, with sales, client service and distribution also hard positions to fill. This has led to potential solutions such as internal mobility, global sourcing and offshore talent pooling becoming even more of a focus for international firms.

TAKING THE MARKET'S PULSE

WHAT IS THIS?

We conducted an anonymous survey into what is driving hiring and other human capital decisions for international firms. We are very grateful to the high number of survey respondents.

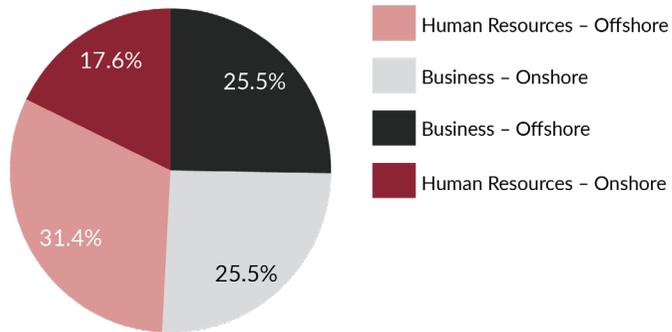
WHY DID WE DO THIS?

We wanted to produce a section based entirely on the views of you, your colleagues and your peers.

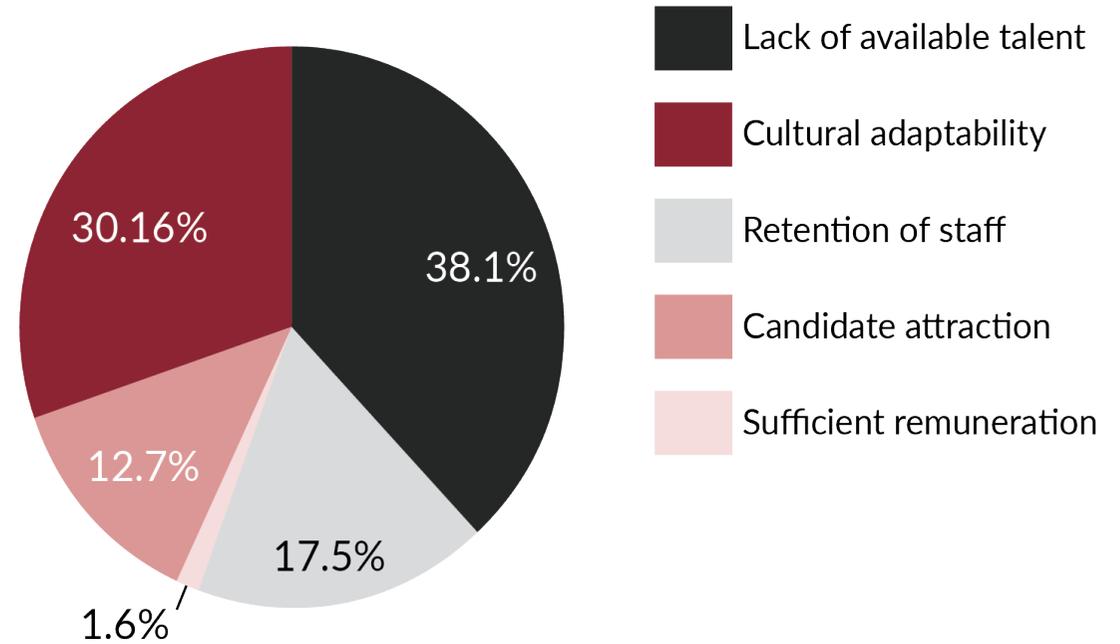
WHO CONTRIBUTED?

We contacted onshore and offshore professionals from both HR and Business sectors. Please see below for a breakdown of contributors.

Who contributed to this survey?

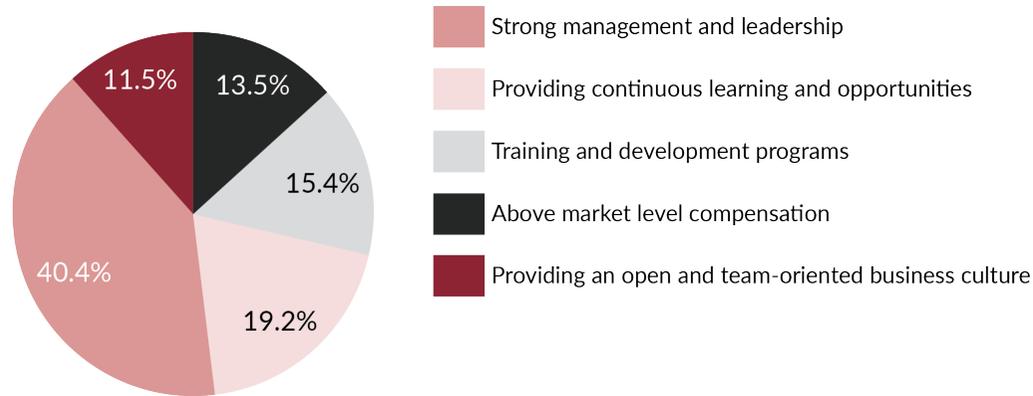


What do you think are the most pressing talent challenges facing asset management WFOEs in China?

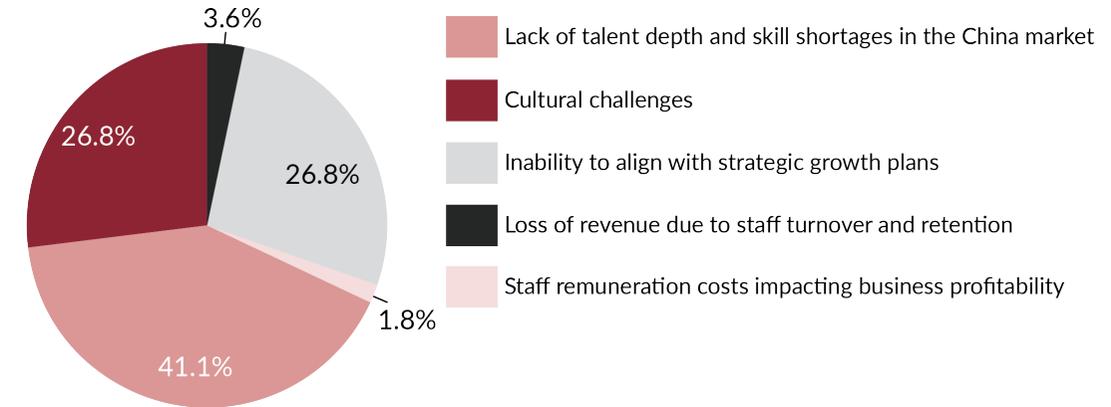


TAKING THE MARKET'S PULSE

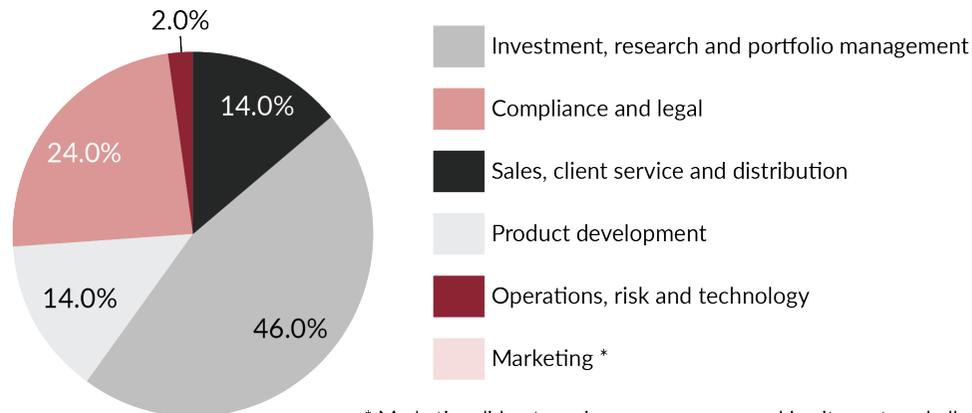
What do you think are the best ways to attract talent in the China market?



What would you say are the key risks to your WFOE business in China from a talent perspective?

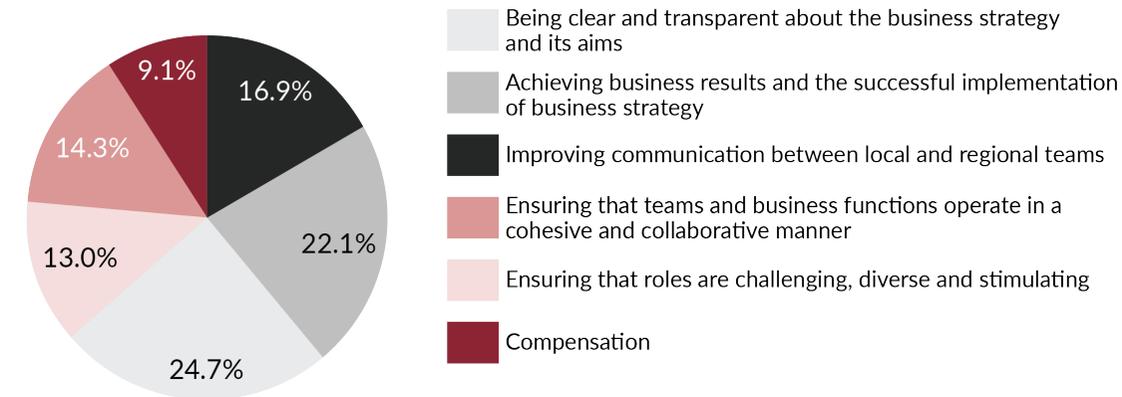


What functional areas do you find most challenging to hire into in the China market?



* Marketing did not receive any responses ranking it as a top challenge.

What do you feel are the most important business and personal drivers that improve talent retention?



TAKING THE MARKET'S PULSE

Below are survey answers to the simple question of what are “people challenges” within the current marketplace.

ONSHORE

“

“Limited understanding from within China of the firm’s global business.”

– Onshore Business Professional

“Ambitious growth with limited resources within a rapidly expanding market.”

– Onshore HR Professional

“Being able to verify that a certain WFOE has a long-term commitment to China’s asset management market.”

– Onshore Business Professional

“A regulatory environment subject to potential changes in both directions, often without fair warning.”

– Onshore Business Professional

“A lack of clear communication from the head office around changes of strategic direction.”

– Onshore HR Professional

OFFSHORE

“An openness among prospective candidates to make the leap from a current employer.”

– Offshore HR Professional

“Different expectations of communication between onshore and offshore divisions.”

– Offshore Business Professional

“The lack of transparency and unwillingness among onshore staff to work with the offshore team.”

– Offshore Business Professional

“Finding talent onshore that not only has the required industry experience and knowledge, but also the essential mind-set and culture adaptability.”

– Offshore Business Professional

“The growing importance of benefit packages, particularly medical coverage.”

– Offshore HR Professional

”

TALENT ACQUISITION

Ever-tougher competition in China's asset management market is creating ongoing challenges for firms looking to acquire and keep their talent, regardless of where they are in their growth cycle.

Our observation is that increasingly the most progressive organisations are those that are the most agile and proactive in how they approach talent acquisition. Adopting this approach involves looking at new hires from multiple avenues, represented by each of the talent sources outlined below.

INTERNAL SOURCES

INTERNAL MOBILITY

- These individuals tend to be “fit for purpose” as they will be familiar with the firm's strategy and culture, so are more likely to be effective in a relatively short timeframe
- These individuals might lack the perspective on key trends and regulations in the China asset management market, or in terms of the strategies of competitors

INCUBATION

- This involves hiring people who are based in a different city or geography to where the employer wants them to end up. The intention is to immerse them within the new corporate culture over a period of 18 to 36 months before they are “ready” to move offices
- A potential pitfall with this approach is “flight risk”, plus the possibility that other ambitious firms try to poach that individual while they are still not yet settled in their main role with their new employer

EXTERNAL SOURCES

COMPETITORS IN CHINA

- Hiring China-based professionals already working within the domestic asset management sector can help overcome the challenges of finding people with experience who understand the local market
- However, many China businesses within global fund houses are still relatively small in terms of headcount, so might not appear as influential or important within the firm's overall culture and global strategy

COMPETITORS GLOBALLY

- A growing number of people in fund houses around the world now work in China-related roles, so hiring from peers in other geographies can speed up the acquisition of talent who are either Chinese nationals or, at least, native Mandarin-language speakers. This also brings with it some competitive intelligence
- On the flip side, people moving from another part of the world, often Europe or North America, face a combination of new experiences and pressures relating to moving to a new country, including starting a new job or joining a new company and very likely a new culture

TALENT MANAGEMENT & RETENTION

Below are the thoughts of employees of WFOEs across Shanghai with whom we regularly engage. We have gathered samples of their feedback concerning job satisfaction. As expected, the results are mixed. This is a distillation of those views.

EMPLOYEES	
What are the main factors motivating employees to stay ?	What are the main factors motivating employees to leave ?
✓ Good line managers	✗ Weak China strategy
✓ Solid compensation	✗ Weak leadership onshore
✓ Proactive career management	✗ Changing direction from senior management
✓ Realistic KPIs	✗ Lack of investment in people
✓ Regular interaction with head office	✗ Slow promotion possibilities
✓ Efforts to bridge cultural gaps	✗ "They don't understand China"
✓ Promises kept	✗ Inflexible approach to onshore opportunities

EMPLOYERS	
What are firms doing well ?	What are firms doing poorly ?
✓ Communication	✗ Not keeping promises
✓ Keeping promises	✗ Not listening to onshore views
✓ Visiting the Shanghai office regularly	✗ Pushing too hard for short-term revenue goals
✓ Showing interest from senior management	✗ Not clearly explaining their China strategy
✓ Seizing opportunities for onshore growth	✗ Changing direction without consultation
✓ Respecting local opinions	

"China is different" is a phrase sometimes overused – and often as an excuse. What remains clear is that whilst China is different, the much larger influence on talent retention are the same as elsewhere: good management, strong communication, keeping promises and respecting other people's opinions. While China may be different 25% of the time, the remaining 75% relies on good management.

WHAT'S NEXT FOR GLOBAL FUND HOUSES IN CHINA

There is little doubt about the clear and concerted efforts among regulators and industry players alike to help accelerate and evolve China's onshore asset management industry.

As such, we anticipate the next 12 to 24 months to be busier, and probably more challenging, than what we have seen to date.

Global fund houses with high ambitions for their China business will be among the trailblazers in their bids for the full fund management licenses or JVs (possibly with banks), while a different group of firms taking a slightly more conservative approach will seek to consolidate their WFOE and PFM operations.

The paths these firms choose will require them to tackle a different set of regulatory challenges and changes – all of which will impact how they manage their human capital. Our observation is that the market is settling into three different groups with different goals and needs.

This makes it essential for them to keep several key talent-related objectives at the forefront of their strategy, as highlighted by the findings in our survey:

- **Detailed planning** – firms entering the market or seeking full fund management status need to plan very carefully and get full agreement and support at the head office level.
- **HR, a strategic and critical partner** – the human capital considerations mean HR needs to be involved in strategic decisions from day one. Without their input and counsel, seemingly well thought out business plans might fall short.
- **Agile hiring strategy** – firms need to be opportunistic in terms of when and how they identify talent, regardless of timing, so getting head-office sign-off on investment should be done ahead of time.
- **Be adaptable** – regulations, strategies, market trends, investment appetite and other dynamics will change, so being ready to pivot quickly is vital.

It is essential to keep in mind that while China is an emerging asset management market, its key attributes are consistent with other countries at a similar stage of development. Ultimately, a best-practice management style will prove itself a key differentiator between those international firms who have what it takes to hire and retain the staff they want, against those firms who find it challenging to gain traction. This means good, adaptable and professional managers who can develop and execute a strategic vision with realistic expectations, coupled with a long-term commitment towards its people. We strongly believe these are the types of firms that will triumph over time.

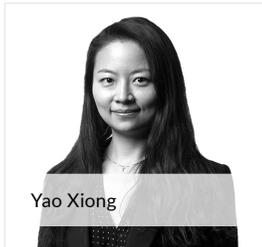
OUR ASSET MANAGEMENT TEAM

SHANGHAI



Andy Zhi

Associate Director
Legal & Compliance
azhi@profileasia.com



Yao Xiong

Associate Director
Front Office
yxiong@profileasia.com



Lingling Pan

Consultant
Infrastructure
lpan@profileasia.com



Ivy Wang

Consultant
Front Office
iwang@profileasia.com



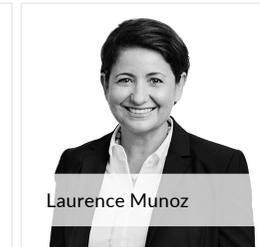
Andrew Oliver

Managing Director
Front Office
aoliver@profileasia.com



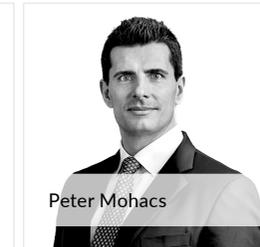
Barbara Cochrane

Director
Infrastructure
bcochrane@profileasia.com



Laurence Munoz

Director
Legal & Compliance
lmunoz@profileasia.com



Peter Mohacs

Director
Front Office
pmohacs@profileasia.com

HONG KONG

SINGAPORE



James Rushworth

Managing Director
Infrastructure
jrushworth@profileasia.com



Stanley Teo

Regional Director
Front Office
steo@profileasia.com



Rachel Liu

Director
Front Office
rliu@profileasia.com



Suan Wei Yeo

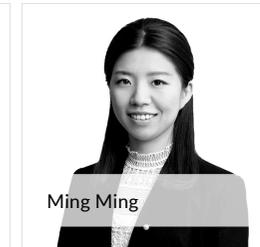
Director
Legal & Compliance
syeo@profileasia.com

BEIJING



Winni Wei

Director
Front Office
wwei@profileasia.com



Ming Ming

Associate Director
Human Resources
mming@profileasia.com

OUR TRACK RECORD WITHIN WFOEs

Profile has been extremely active working with international companies establishing and building their WFOE businesses in China. Below are some statistics for hires made in the last 24 months within the four broad areas as discussed. We have also enclosed some examples of specific placements, all of which were located in Shanghai unless stated. We have completed 37 searches and have numerous searches ongoing.

INVESTMENT

10

GENERAL MANAGEMENT & DISTRIBUTION

6

GOVERNANCE

15

INFRASTRUCTURE

6

SELECTED HIGH-PROFILE APPOINTMENTS

Managing Director, Country Head of China
Managing Director, Head Asset & Wealth
Head of Business Development
Director, Business Development
Director, Equity Portfolio Manager
Director, Fixed Income Portfolio Manager
Equity Research Analysts (Beijing & Shanghai)
Credit Research Analysts
Strategy Manager

Chief Compliance & Risk Officer
Chief Compliance Officer, China
Legal Division Manager
Legal Counsel
Associate Director, Operations
Head of China, Ops & Projects (Hong Kong)
Finance Manager
Human Resource Business Partner
IT Manager

DISCLAIMER

The scope of this document is to share our thoughts on China's current asset management landscape, the impact of the high level of activity in the WFOE space and the potential opportunities and challenges for global players from a human capital perspective. Given this is a sector where changes happen quickly, it is important to note that the factual content is based on market research from public sources as of September 2019, in addition to our first-hand experience in dealing directly with many asset managers and candidates in China over the past nine years of operating onshore. China is the core of our focus, now with half our business based in Beijing and Shanghai.