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‘Being selective’ key to navigating China’s new, investor-friendly policies

Rex Lo, Managing Director of Business Development at BEA Union Investment, talks to Hubbis about China’s increasingly investor-friendly capital investment structures, such as its Wholly Foreign-Owned Enterprise (WFOEs) scheme, aimed at facilitating the opening up of its markets to the world. New channels are becoming available for foreign investors to participate in China’s vast financial services marketplace. To do well, however, asset managers must be prepared to play the long game.

Executive summary

Rex Lo is managing director of business development at BEA Union Investment (BU), a Hong Kong-based Asian equity and fixed income specialist. He talks to Hubbis about how his company, a joint venture between Bank of East Asia of Hong Kong and Union Investment of Germany with assets under management of about USD 10 billion, is targeting the burgeoning financial services marketplace in mainland China. The company aims to do this through participation in the various foreign-capital investment structures emerging out of the Chinese government's initiatives to encourage the opening up of its capital and financial markets to the world.

BU has been seeing a number of funds to Chinese investors under Qualified Domestic Institutional Investor program for the last eight years, one of which is its flagship, five-star rated, US dollar-based Asian Bond and Currency Fund, which invests primarily in Asian corporate and government-issued bonds. Lo says the attractiveness of this fund to Chinese investors lies in the fact that its underlying currency is the US dollar, which helps them mitigate against fluctuations in the renminbi.

The Chinese financial services marketplace is only just getting started, and institutional investments such as pension funds are still controlled by the government when trends are shifting towards the liberalisation of pension fund markets. Lo believes that these markets will continue to grow in China, with "huge amounts of assets which are going to need a lot of expertise to manage" in the long term.

Similarly, the ascendency of the middle class in China and its parallels with that of the U.S. back in the 1970s and '80s means that there will be an increasing interest in wealth management advisory services here, and it is for this reason that Lo believes that asset management, financial planning and insurance will be the "the next big opportunity" in China.

REX LO
BEA Union Investment

HONG KONG-BASED ASSET MANAGEMENT COMPANY BEA UNION INVESTMENT (BU) SPECIALISES IN ASIAN EQUITIES AND FIXED INCOME INVESTMENTS. The company is the result of a joint venture, formed in 2007, between Hong Kong's Bank of East Asia (BEA) and Germany's Union Investment.

With the growth of its business mainly in Hong Kong and mainland China, the company now has current assets under management of approximately USD 10 billion, up from USD 6 billion three years ago. The strength of BU lies in a strategic combination of a global, macro outlook from its German shareholder with the up-close Asian knowledge and extensive network of BEA.

In China, BU operates as a 'Investment Management Wholly Foreign-Owned Enterprise' (IM WFOE), a framework within which global asset managers may incorporate foreign-owned companies in China. The company set up its IM WFOE presence in Qianhai, Shenzhen in November 2017.

"We set up in Shenzhen for its proximity to Hong Kong and the Greater Bay Area, which is going to be the focus of our attention," Lo says . So far, there are thirty-two IM WFOE set up in China. "We are the only WFOE in Shenzhen, while the majority are located in Shanghai." he says.

Within this framework of operating as a foreign-owned asset manager, he acknowledges, "We are competing with more than a hundred public fund companies in China, all of whom are very experienced in investing in A-share."

That said, the strength of BU lies in its capability of investing offshore. Upon receiving relevant regulatory qualification, the company can help onshore investors to manage their overseas asset allocation. "That is where

Key Priorities

Based in Hong Kong with an office of 50 people, BEA Union Investment (BU) received its Wholly Foreign-Owned Enterprise (WFOE) license in November 2017, and set up a presence in Qianhai Special District, Shenzhen.

The next step for the company, Lo says , is obtaining its Private Fund Manager licence from the Asset Management Association of China (AMAC), which it hopes to be able to do by the end of the year. The licence will allow BU to raise and invest capital onshore, and launch a private fund targeted at professional investors.

"We would like to introduce our onshore investment capabilities to securities firms in China, who are the major type of financial institution to distribute private fund products," Lo says.

The Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, launched in July 2015 and regulated by Hong Kong's Securities and Futures Commission (SFC) and the China Securities Regulatory Commission (CSRC), allows asset managers in China and Hong Kong to distribute funds in each other's jurisdictions, similar to Stock Connect, the 2014-launched cross-border programme which allows investors in Hong Kong to trade in Chinese Mainland equities, and vice-versa. Lo acknowledges that the progress of the MRF scheme has been somewhat 'slower than expected'; the reasons for which, he believes, are due to interventionary policies from China in trying to manage fluctuations in the renminbi.

At this stage of the development of the wealth management market in China, BU sees a lot of banks, insurance companies and other financial institutions looking for investment solutions, and beginning to set rules on the proper management and governance of assets before eventually setting up their own asset management subsidiaries, which Lo believes these newly setup companies will become more mature in terms of operation efficiency in three to five years.

It is in this window of opportunity that he sees BU, as a foreign asset manager with the necessary Asian insight, background and experience, playing a bridging role and providing the necessary solutions and advice to these institutions.

our expertise is," he says. "We will be able to raise capital onshore, and invest it offshore."

On whether the opportunities are there to justify the company's efforts and those of the Shanghai-based others in obtaining WFOE licenses, he says it depends on the strategy of each individual company. He believes that being selective, rather than "trying to do everything", is very important.

"Obviously, the opening up of the China market is a great attraction, but you have to have a good grasp and know-how of doing business in China. Some of the other investment advisories set up their WFOEs in China ten years ago, and it was only very recently that they started making any money."

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The company's value propositions lie in its focus on Asian equities and fixed-income investments and familiarity with Chinese regulations, which makes it more flexible in terms of doing business. "Plus, we make decisions efficiently and quickly because all decisions are made here in Hong Kong," Lo adds. "We don't have headquarters, we are the headquarters."

Mitigating risks

For Chinese retail investors, the company offers a number of funds, one of them is a fixed-income fund named Asian Bond and Currency Fund., which invests primarily in Asian corporate and government-issued US dollar and other Asian currency denomination bonds.

The fund has been sold over the BEA branch network in China for the past eight years, under the auspices of the Chinese Qualified Domestic Institutional Investor (QDII) program which allows investors to buy into equities and bonds markets overseas via institutions approved by the China Securities Regulatory Commission. The fund can be bought into either in US dollars, or renminbi.

Lo believes this fund, which has been "quite successful" with a five-star rating by Morningstar, suits those investors in China who may be averse to the kind of volatility that the renminbi has seen in the last couple of years, and who now lean towards investment rather than speculation. The attractiveness of the fund to Chinese investors, he says, comes from their being able to diversify portfolios and mitigate possible renminbi fluctuations with the fund's base currency, the US dollar.

Opportunities

For foreigners looking to invest in China, Lo sees opportunities in the growth of institutional investments. He says an example of these is the pension market in China, which is still mostly run by the government. "Take a look at Japan, and some of the other Asian countries," he says. "Things are moving towards the liberalisation of pension markets. Obviously, with an ageing population, these markets are definitely growing. There are huge amounts of assets, which are going to need a lot of expertise to run for long-term investment purposes."

Lo also sees opportunities in the growth of the wealth management sphere in China. He points to the ascendency of the Chinese middle

Getting Personal

Rex Lo was born in Hong Kong and studied Economics and Psychology in Winnipeg, Canada, at the University of Manitoba. After graduating, he began his career in finance industry at Standard Chartered Bank in Hong Kong. It was at this time, in the mid-1990s, that he perceived wealth management becoming an important component of the banking business in Asia, and so moved to become more involved in the industry, where he has remained ever since.

Over the years, Lo has held key roles in investment banks and securities firms, including Daiwa Capital Markets and China Securities (International) Company, developing the skills and knowledge which enable him to actively participate in consultations on the new legislations governing capital market investments and financial services in a rapidly-growing Chinese marketplace.

In his free time, Lo is a keen skier. He names Niseko, Zermatt and Val d'Is're as his favourite ski destinations.

class and draws parallels with it and that of the Americans in the 1970s and '80s. "Obviously, when people make sufficient money to live on, the next thing they think about is long-term planning," he observes. "So I would say wealth management - asset management, financial planning, insurance - is indeed the next big opportunity in China."

Positive changes

BU is now positioning itself to ride the waves of change and reform in Chinese policy making, which are increasingly favouring, among other things, the opening up of its capital and financial markets to the world, the expansion of China's Belt and Road projects and the establishment of the renminbi as an international currency.

Lo points out that the opening of channels available to foreign investors to participate in the China marketplace - such as the introduction of WFOE structuring, which have removed foreign-stake limits in banks and asset management companies, and QDLP programmes, which allow qualified foreign companies to raise capital onshore to be invested offshore - raises the exposure of global investors to renminbi, and the portfolios of global investors to Chinese companies.

He welcomes these changes, along with the recent increases in regulation over the operations of banks, insurance companies and asset management firms. "There is a wider spectrum of local private fund managers in the market; but there are also some that may not be very well-run," he observes. "Some proposed new regulations are still under consultations at the moment, but there is a determination to create a better, healthier ecosystem - for example, by getting rid of high-risk, principal-guaranteed products by some of the lower-end financial institutions."

"So I would say wealth management - asset management, financial planning, insurance - is indeed the next big opportunity in China."

What is important to understand, he says, are the fundamental objectives behind Chinese policies, which are "enhancing market efficiency, minimising systematic risks, and the maintenance of social stability." ■