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Riding on Wealth Management Connect (WMC) in China's Greater Bay Area (GBA)

Stewart Aldcroft, Chairman, Cititrust Limited, Managing Director, Citi Markets & Securities Services
stewart.aldcroft@citi.com

Agenda

- The Greater Bay Area (GBA) in General
- Background and Details of Wealth Management Connect (WMC)
- China Access Schemes
- Participants and Products on Offer
- Possible Roll-out of the WMC Scheme
- Opportunities and Challenges for Fund Managers
- Q&A

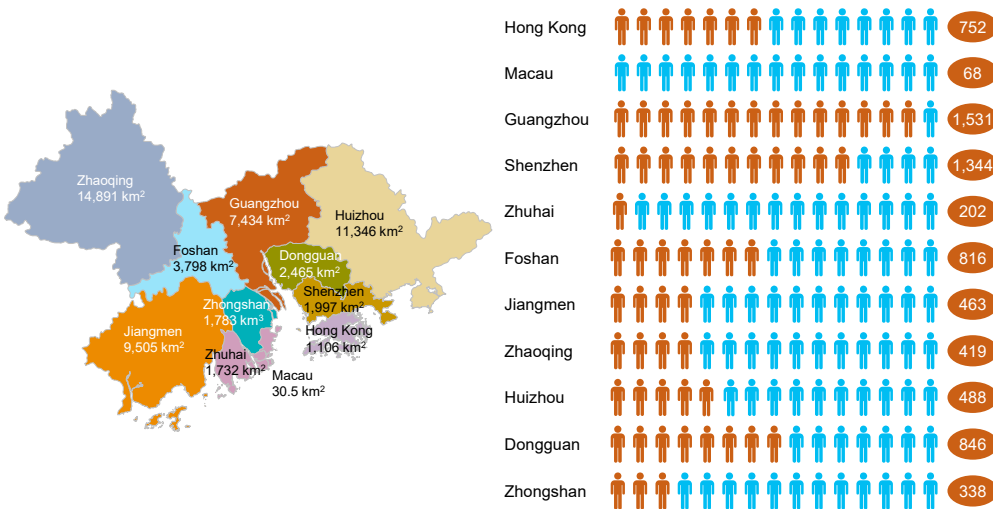
China's Greater Bay Area

- Combines 11 cities in the Guangdong, Hong Kong, Macau and Shenzhen area of Southern China
- Initiated by President Xi Jinping in 2017
- Represents 72m+ population, with combined GDP of US\$1.6 trillion+
- Is linked by road, rail and ferry transportation
- Includes major Financial, Technology, Manufacturing, Trading and Tourism hubs
- GBA Circular 2020-95 Outline Development Plan, 14 May 2020
- HKMA, MAM, PBoC announcement 29 June 2020

City	GDP in RMB	City	GDP in RMB
Hong Kong	2,435bn	Zhongshan	310bn
Guangzhou	2,363bn	Macau	368bn
Shenzhen	2,693bn	Jiangmen	315bn
Foshan	1,075bn	Zhuhai	344bn
Dongguan	948bn	Zhaoqing	225bn
Huizhou	418bn		

Source: PwC. CEIC, National Bureau of Statistics, figures for 2019

Area and Population (10,000) of the 9+2 Cities in Greater Bay Area, 2019



Population Aged Above 65 and its Percentage of the Whole Population of 9+2 Cities

City	Population Aged Above 65 (In 10,000s)	Percentage
Hong Kong	119	16.20%
Macau	6.34	9.80%
Shenzhen	38.37	3.37%
Huizhou	31.16	6.55%
Zhuhai	10.86	6.65%
Guangzhou	106.62	7.90%
Zhongshan	18.39	5.73%
Foshan	50.46	6.79%
Jiangmen	51.48	11.39%

GBA by Comparison to Other Major “Bay Areas”

World-class City Clusters



Greater Bay Area



San Francisco Bay Area



New York Metropolitan Area



Greater Tokyo Bay

Population (mm)	71	7.7	20.2	44
Land area (1,000 km ²)	56	17.9	21.5	36.9
GDP (US\$ trillion)	1.6	0.8	1.7	1.8
Estimated GDP in 2030 (US\$ trillion)	4.6	2.2	2.2	3.2
Number of the world's top 100 universities as ranked by QS	4	3	2	2
Number of Fortune 500 companies	16	28	22	60

4 Source: HSBC, HKTDC, Government statistical offices

China Access Schemes- Routes into (and out of) China (1/2)

ACRONYM	R/QFII	R/QDII	CIBM	MRF	WMC	SC BC
Means	Qualified Foreign Institutional Investor (RMB denominated)	Qualified Domestic Institutional Investor (RMB denominated)	China Interbank Bond Market Direct Access	Mutual Recognition of Funds	Wealth Management Connect Pilot Scheme	Stock Connect Bond Connect
Objective	Enables non-Mainland controlled access to (RMB denominated) equity and bond.	Enables Mainland access to foreign mutual funds and equities	Enables non-Mainland access to bonds in the China Interbank Bond Market	Enables cross-border sales of mutual funds domiciled and authorised in both HK and China	Enables cross-border sales of mutual funds domiciled and authorized in Guangdong- Hong Kong –Macau Greater Bay Area (GBA).	Bilateral access for all investors to trade cross border stocks, equities, government bonds
Year Started	QFII: 2002 RQFII:2011 Unified in 2020	2006	2010	Launched: 1 July2015	Announced in July 2020 Official launch date- TBA	2014: HK/Shanghai 2016: HK/Shenzhen 2017: Bonds
Licenses/ Quota	No license/quota restrictions By October 2020: 322 QFII licenses 256 RQFII licenses 31 countries	157 Licenses Quota: US\$107.3bn	No license/quota restrictions Requires registration with PBOC (People’s Bank of China) 1,423 approved FIs and products	Northbound quota: RMB300bn (US\$43bn) Southbound Quota: RMB300bn (US\$43bn) At 1 November 2020 50 Mainland funds approved in HK 29 HK funds approved in China	Specific quota is not released yet, aggregating US\$45bn expected	No license restriction SC: Daily quota for each, no overall aggregate. BC: No quota restrictions.
Limitations	Yes, tax filing for profits repatriation	Yes, longer redemption time	No	Not more than 20% may be invested in target market No more than 50% of investors by AUM from target market	Northbound and Southbound Wealth Management Connect will be subject to aggregate and individual investor quota management.	Daily quota. Designated stocks only
Future development (November 2020)	New rules released by CSRC in September 2020 Unifying requirements for foreign investors investing in China via different channels	QDII2 New US\$10bn quota announced	Further expand investment scope Introduce foreign credit company	Relaxation of some restrictions. Add ETFs	Formal launch of the scheme PBoC to release more implementation details	See-through underlying investor under SC. ETF Connect

China Access Schemes- Routes into (and out of) China (2/2)

ACRONYM	WFOE	QDLP	PFM	FMC	JV
Means	Wholly Foreign-Owned Enterprise	Qualified Domestic Limited Partnership	Private Fund Manager	Fund Management Company	Joint Venture Fund Management Company
Objective	Allows 100% ownership of Mainland based company	Enables Mainland controlled access to limited range of hedge fund and mutual fund managers	Allows WFOEs to offer advice, guidance, fund management and other similar services to domestic private funds in China	Allows WFOEs to offer advice, guidance, fund management and other similar services to domestic retail funds in China	Allows foreign fund managers partnered with China fund managers to create, launch and manage collective investment funds invested in securities markets in China
Year Started	2013: advisory 2016: fund management 2017: bonds	2013 – 1 st batch 2015 – 2 nd & 3 rd batch 2018 – new quotas	2016	April 2020	Late 1990s Max. foreign ownership: 2017: 51% April 2020: 100%
Licenses/ Quota	No quota 29 by September 2020 Requires registration with AMAC (Asset Management Association of China) Enables asset raising in Mainland	6 HF, US\$50m each 5 HF, US\$100m each 6 LF, US\$100m each	No quota 29 foreign managers have been granted the license as of September 2020	No quota BlackRock is the only foreign fund manager with the license up to date Fidelity and Neuberger Berman are in application JPM is in process of acquiring the remaining stack of its JV to make it 100%-owned FMC	No quota 44 by the end of August 2020
Limitations	Fund raising limited to max. 200 Qualified Investors All systems and decisions taken in China	Need to establish a Wholly Foreign Owned Enterprise (WFOE). Quota subjective to location, granted by local governments (Shanghai, Beijing)	Need to have WFOE-investment advisory license. Need to launch private funds within 6 months after license approval.	The number of products one fund manager can run simultaneously is no more than 15 passive products or 10 active funds.	No
Future development (November 2020)	Possible future impact for SWF management	Allow foreign banks to provide custody and FA		More license to be approved	Foreign fund managers/ minority partners can acquire the remainder of JV.

China is Opening up Insurance, Pensions, Asset and Fund Management

中国人民银行
THE PEOPLE'S BANK OF CHINA

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Relevant measures to further expand the opening up of the financial industry

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In order to implement the decision-making arrangements of the Party Central Committee and the State Council on further expanding the opening up to the outside world, in accordance with the principle of "it should not be slow, it should be sooner rather than later", on the basis of in-depth research and evaluation, the following 11 measures for opening up the financial industry will be introduced:

1. When foreign-invested institutions are allowed to carry out credit rating business in China, they can rate all types of bonds in the inter-bank bond market and the exchange bond market.
2. Encourage overseas financial institutions to participate in the establishment and investment of shares in commercial bank financial management subsidiaries.
3. Allow overseas asset management institutions to establish joint ventures with Chinese banks or insurance companies to establish wealth management companies controlled by foreign parties.
4. Allow overseas financial institutions to invest in the establishment and participation of pension management companies.
5. Support foreign investment to establish or participate in currency brokerage companies.
6. The transition period from the 51% increase to the 100% for foreign-invested foreign-invested stocks was advanced from 2021 to 2020.
7. Cancellation of domestic insurance companies holding a total of not less than 75% of the shares of the insurance asset management company, allowing foreign investors to hold more than 25% of the shares.
8. Relax the conditions for entry of foreign-invested insurance companies and cancel the 30-year business life requirement.
9. Advance the time limit for the cancellation of foreign shares of securities companies, fund management companies and futures companies in 2021 to 2020.
10. Foreign-funded institutions are allowed to obtain the Class A lead underwriting license for the inter-bank bond market.
11. Further facilitate the investment of overseas institutional investors in the inter-bank bond market.

Office of the Financial Stability Development Committee of the State Council
July 20, 2019
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Relevant measures to further expand the opening up of the financial industry. 20 July 2019.

6. The transitional period for raising the foreign ownership cap on life insurers from 51 percent to 100 percent will be brought forward to 2020 from 2021.

8. Entry conditions of foreign insurers will be eased by removing the requirement of over-30-year operation.

11. China will further facilitate the investments of overseas institutions in the inter-bank bond market.

3. Overseas asset management institutions will be permitted to co-establish foreign-controlled asset management companies together with subsidiaries of Chinese banks or insurers.

4. Overseas financial institutions will be permitted to invest in the establishment of or make equity investment in pension management companies.

7. The requirement that the total share of an insurance asset management company held by domestic insurers shall be no less than 75 percent will be removed, and the foreign ownership will be permitted to exceed 25 percent.

Wealth Management Connect (理财通) China's Greater Bay Area (GBA Circular 2020-95)

Circular issued on 14 May 2020 by PBoC, CBIRC, CSRC and SAFE lists 26 clauses for consideration. Confirms GBA Outline Development Plan issued in February 2019. Announcement 29 June links HKMA, MAM and PBoC to the launch of Wealth Management Connect

Southbound – China Money into HK Products

- Phase 1
 - Banks only allowed to distribute
 - Mutual Funds, HK domicile only
 - Bank Deposits
- Wealth Management Products – to be defined
- Phase 2
 - Potentially allowing Investment Advisory to distribute
 - Life Insurance – ILAS or protection or both?
 - Private Equity/Credit products, retail and institutional (QFLP/QDLP/QDIE)
- Later Phases
 - Vehicle Insurance
 - Medical & Accident Insurance
 - Pensions (MPF?)

Northbound – HK Money into China Products

- Phase 1
 - Banks only allowed to distribute
 - Mutual Funds, China domicile only
 - Bank deposits
- Phase 2
 - As above

How do Mainland Chinese investors buy products?

- Via bank branches
- Online, via bank network
- Events, seminars
- Click n'buy on "live" streaming
- Talking head video, daily updates

What are Mainland Chinese investors buying?

- "Hot" or "Blockbuster" funds, Star name" fund managers
- Tech, Multi-asset, Equity, Money Market funds

Restrictions likely (not confirmed)

- Possible aggregate investment quotas – RMB150bn
- Maximum Investor thresholds – RMB1m per person
- "Close capital circulation management", i.e. non-fungible investing
- Banks prioritized for first phase
- Requirement to have in-person visit to HK/China prior to purchases

Product choices for GBA investors

- MRF Products restricted to plain vanilla
- GBA Products for cross-border restricted to plain vanilla
- Local product sales, local to local, not restricted

Hong Kong's future take on the Greater Bay Area

Develop MRF for the GBA

- Allow MRF funds to be sold to investors within the GBA. Adds 60m+ target market
- Relax 50/50 limit on AUM for sales to investors
- Allow HK fund managers to delegate investment functions to overseas managers within same group

Launch ETF Connect

- Coordinate between HKEx and Shenzhen Exchange
- Enhancement of Stock Connect

Participation in China's Pension Schemes

- Enable HK products inclusion in new schemes. MRF funds can be used as part of insurance company feeders
- Enable use of (HK) MPFA APIFs within "Third Pillar Pension Tax Initiative" scheme

Cross-border Integration

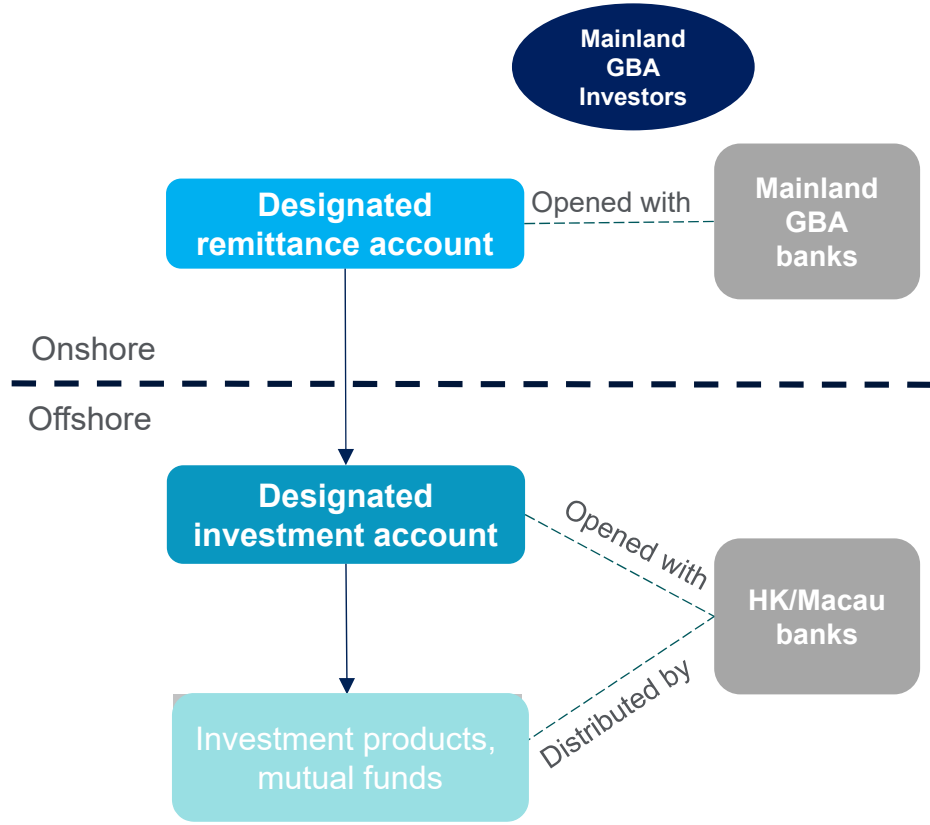
- Recently developed infrastructure allows greater access, by road, rail etc. within the GBA
- New fund distribution channels
- Banks to lead product distribution
- Potential for new advisory services in GBA and HK

WMC – Key Issues Outstanding

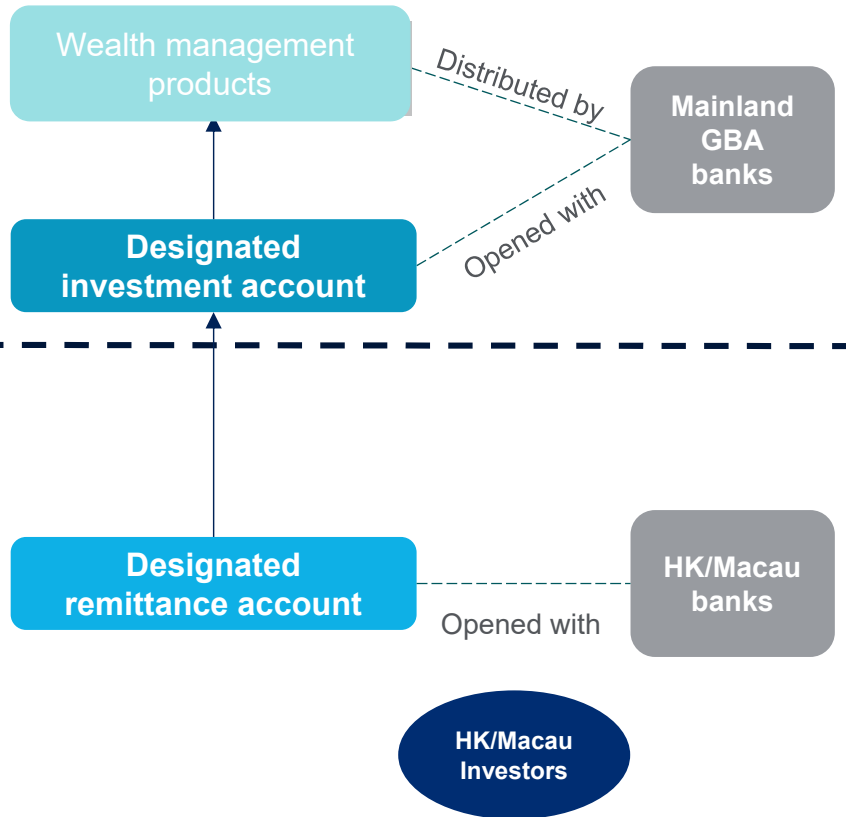
- Ongoing negotiations between HKMA and PBoC to finalise issues
- Distribution – Initially by Banks only
- Account Opening – In person, cross-border
- Quota – RMB1m per head, RMB150bn in aggregate
- Sales/Marketing – Not allowed
- Advice – Not allowed “Execution Only” deals
- Products available – Bank Deposits, Mutual Funds in Phase 1
- Mutual Fund Products – Risk rating 1, 2 or 3 (Low to Medium), non-complex
- Start date - TBA

Follow the Money Flows – Northbound and Southbound

Southbound WMC



Northbound WMC



WMC – Key Issues Outstanding

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- **Products available – Bank Deposits, Mutual Funds in Phase 1**
- **Mutual Fund Products – Risk rating 1, 2 or 3 (Low to Medium), non-complex**
- **Start date - TBA**
- **When will Phase 2 occur? What will it offer?**

Participants and Products on Offer

Fact Sheet of WMC

	Investment Scope	Who to invest	Account Opening	Quota
Northbound	<p>PHASE 1</p> <ul style="list-style-type: none"> - Deposits, approved by banks - Mutual funds, SFC-authorized funds that are domiciled in HK and Mainland China with approvals from CSRC and classified as low to medium risk and non-complex by the distributing banks. - Banks in Hong Kong and/or Mainland China cannot repackage or bundle the WMC funds at this stage - More products to be available by discussing with Mainland China regulators, e.g. individual bonds 	<ul style="list-style-type: none"> - All HK residents holding HK ID card - Subject to KYC by Hong Kong banks - Individual investors only 	<ul style="list-style-type: none"> - New investment and remittance accounts for WMC in both Hong Kong and Mainland China - RMB cash transfer - Closed loop system is applicable - Required in-person account opening initially. - Mainland Chinese investors can use their existing remittance accounts in Mainland China for the WMC, provided that funds for the WMC are segregated from funds used for other purposes. 	<p>Same for northbound /southbound.</p> <p>Total quota: RMB150bn (US\$22.4bn)</p> <p>Individual quota: RMB1million (US\$150k)</p> <p>Based on the net remittance amount</p> <p>Not affected by the capital gains or loss</p>
Southbound	<p>PHASE 2 (time TBA)</p> <ul style="list-style-type: none"> - ILAS products - Life insurance - Private equity/ Credit products - Investment advisory/ IFA 	<ul style="list-style-type: none"> - Individual investors only - KYC by Chinese banks 		
<p>Restrictions</p> <ul style="list-style-type: none"> - Not including ETFs at the stage - Only HK domiciled products are allowed for northbound - Initially allows low to medium risk, plain vanilla funds 				

Acronyms:	GBA WMC SFC IFA	Greater Bay Area Wealth Management Connect Hong Kong Securities and Futures Commission Independent Financial Advisor	HKMA MAM PBoC KYC	Hong Kong Monetary Authority Monetary Authority of Macau The People's Bank of China Know Your Customers	CBIRC CSRC SAFE ILAS	China Banking & Insurance Regulatory Commission China Securities Regulatory Commission State Administration for Foreign Exchange Investment-linked Assurance Schemes
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Opportunities and Challenges for Fund Managers

Do you have Hong Kong domiciled, HK SFC authorized funds?

- There are 500+ HK domiciled funds, but less than 100 likely to be eligible
- Funds using derivatives, small funds, high risk funds, private funds, APIFs and ETFs ineligible
- Both OFC and UT routes are OK for new funds

Do your eligible funds have a 1,2 or 3 risk rating?

- Onus on banks to rate funds. Potential for variation between banks.
- Non-complex funds only, no FDI, no leverage.

What type of fund products will banks want for GBA WMC?

- As “execution only” no advice, thus portfolios unlikely
- Regional and global multi-asset funds popular, to provide appropriate risk levels
- China-invested funds unlikely to be popular
- Probably need RMB share class

How do you get funds onto the bank platforms for use in WMC?

- Is your fund house on the platform already?
- Need to establish distribution agreements. Potentially different for WMC products.

What if you only have UCITS funds? Can you set up new funds?

- Will need to create HK domiciled funds
- Fund-of-funds allowed under Chapter 7.11A of SFC Code.
- Maximum 30% in any single fund, thus 4 funds minimum, must also be SFC authorised.

Which is better: WMC or WFOE PFM?

- Both are good. Where is your business focus?
- If long term objective is to gain FMC license in China, then PFM is essential

Hong Kong—China MRF—net flows

Monthly Net Sales (RMB in Millions)	Northbound	Southbound	Monthly Net Sales (RMB in Millions)	Northbound	Southbound
Total for 2016	7,732	74	January 2019	(88)	(3)
January 2017	(286)	(2)	February 2019	76	6
February 2017	(182)	4	March 2019	1,336	12
March 2017	(10)	5	April 2019	976	(79)
April 2017	67	9	May 2019	970	(39)
May 2017	1,141	43	June 2019	1,450	(28)
June 2017	929	18	July 2019	2,450	2
July 2017	314	61	August 2019	466	(20)
August 2017	948	41	September 2019	803	(11)
September 2017	1,504	14	October 2019	(112)	(5)
October 2017	289	52	November 2019	87	(2.09)
November 2017	384	6	December 2019	(455)	0.9
December 2017	(410)	(10)	Total for 2019	7,959	(166)
Total for 2017	4,688	241	January 2020	(407)	63.69
January 2018	(116)	62	February 2020	1,050	(21.18)
February 2018	(523)	32	March 2020	(1,530)	16.51
March 2018	(97)	(29)	April 2020	2,280	2.88
April 2018	(268)	18	May 2020	(259)	0.53
May 2018	(180)	9	June 2020	(367)	2.76
June 2018	(1,471)	90	July 2020	(1,170)	68.8
July 2018	(410)	(22)	August 2020	(418)	(1.75)
August 2018	(235)	(1)	September 2020	(761)	36.2
September 2018	(141)	(16)	October 2020		
October 2018	291	(10)	Year to Date Total	(1,582)	168.4
November 2018	(173)	2			
December 2018	(114)	(38)			
Total for 2018	(3,163)	97			

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