

WFOE PFM in China: A share market is attractive, try to do localization

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The China A-share market remains attractive to wholly foreign-owned enterprise private fund management (WFOE PFM) companies despite its high volatility and big corrections this year. Notably, a number of WFOE companies had in the first half of the year accelerated their entry into the A-share market, promoted localization strategies, and are ready to launch new products.

What makes the A-share market so attractive?

According to the latest statistics, 15 well-known foreign asset management institutions – Fidelity, UBS, Fullerton, Man Group, Value Partners, Invesco, Neuberger Berman, Aberdeen, Blackrock, Schroders, Azimut, Bridgewater, Winton, CBRE, and APS – had successively acquired private fund management licenses in China. Among them, 10 have begun distributing products onshore that mostly invest in the A-share market, according to information disclosed by AMAC.

However, continued volatility in the China A-share market this year led to huge losses from private investment funds, while the number of product filings by large private fund managers with AUM exceeding CNY10 bn declined. Against this backdrop, what are the reasons for these foreign private funds to remain bullish on the A-share market?

Wong Kok Hoi, founder and CIO of Singapore-headquartered APS Asset Management, told International Finance News: “Foreign investors are underweight China A-shares, and the Chinese market boasts the most potential for long-term development in the next 5 to 10 years. Unlike domestic investors, foreign investors typically buy stocks during market downturns.”

According to the APS CHINA A SHARE FUND’s Q1 2018 report, its three major overweight sectors – IT, Consumer staples and Consumer discretionary – are weighted 30.1%, 22.6% and 16.5% respectively.

According to public sources, Invesco believes that government policy support is also another reason that the A-share market is attractive to foreign investors. With the widening of channels into Chinese capital markets for foreign investors, they can now gain access to A-shares through the Hong Kong Connect and QFII – a significant improvement from before.

According to ‘Simupaipaiwang’ (www.simuwang.com): “At present, the valuation of the A-shares market is relatively low, and the price of some consumer sectors are at attractive levels. A study of the A-shares against historical data (as of 17th Aug) shows that the CSI300 at 11x and GEM Index at 38x are at relatively low levels. In addition, the number of stocks that are less than 1x book value has reached 279 (including ST stocks). Therefore, the A-share market is attractive to foreign investors from a P/B ratio perspective.”

Go local

For WFOE PFM, localization is the only way to penetrate the Chinese market. The process can be intense, long drawn, and challenging. If you don't pay close attention, you may not make the cut. Foreign asset management companies should be well prepared for this.

According to public sources, APS had established its A-share research team in Shanghai as early as 2002, and invested in the A-share market since 2004 through the QFII program. Over the years, APS has established an experienced local 10-person investment research team.

"APS is not a pure foreign-owned enterprise because we have a number of Chinese employees, of which several are also our shareholders. You can say that we are sometimes more Chinese than the Chinese, sometimes more Westernized." says Wong Kok Hoi.

Before entering the Chinese market, Invesco also made preparations early on. According to relevant information, Invesco had earlier in 1992 issued an offshore China equity fund and later in 2003, established the first Sino-US joint venture Fund company, Great Wall Invesco. Invesco's accumulated experience of 26 years and 15 years respectively in managing offshore and onshore Chinese equities funds has given the company a broad advantage.

Solomon Moos, head of Asia Enterprise Development at Idinvest Partners, told International Finance News: "We believe that the localization of WFOE PFM is crucial. We will first build a multi-cultural team which can offer valuable advice to foreign private funds looking to develop in onshore China and encourage synergy. Next is to build a transparent and respectful relationship with the government and bring our unique value to help the development of the Chinese market. WFOE PFMs need to adjust to meet the needs of the Chinese market. This process may take time, but it will eventually benefit all parties. "

This reporter understands that APS plans to launch its first onshore private fund by the end of this year. Winton started its preparations after obtaining their license on 29th Jun, and has already submitted their first product proposal to AMAC. In addition to a Futures Strategy product, Winton is also preparing for an A-share Quantitative Strategy product. Separately, Schrodgers had launched its first product in May and plans for additional product launches in the near future.

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