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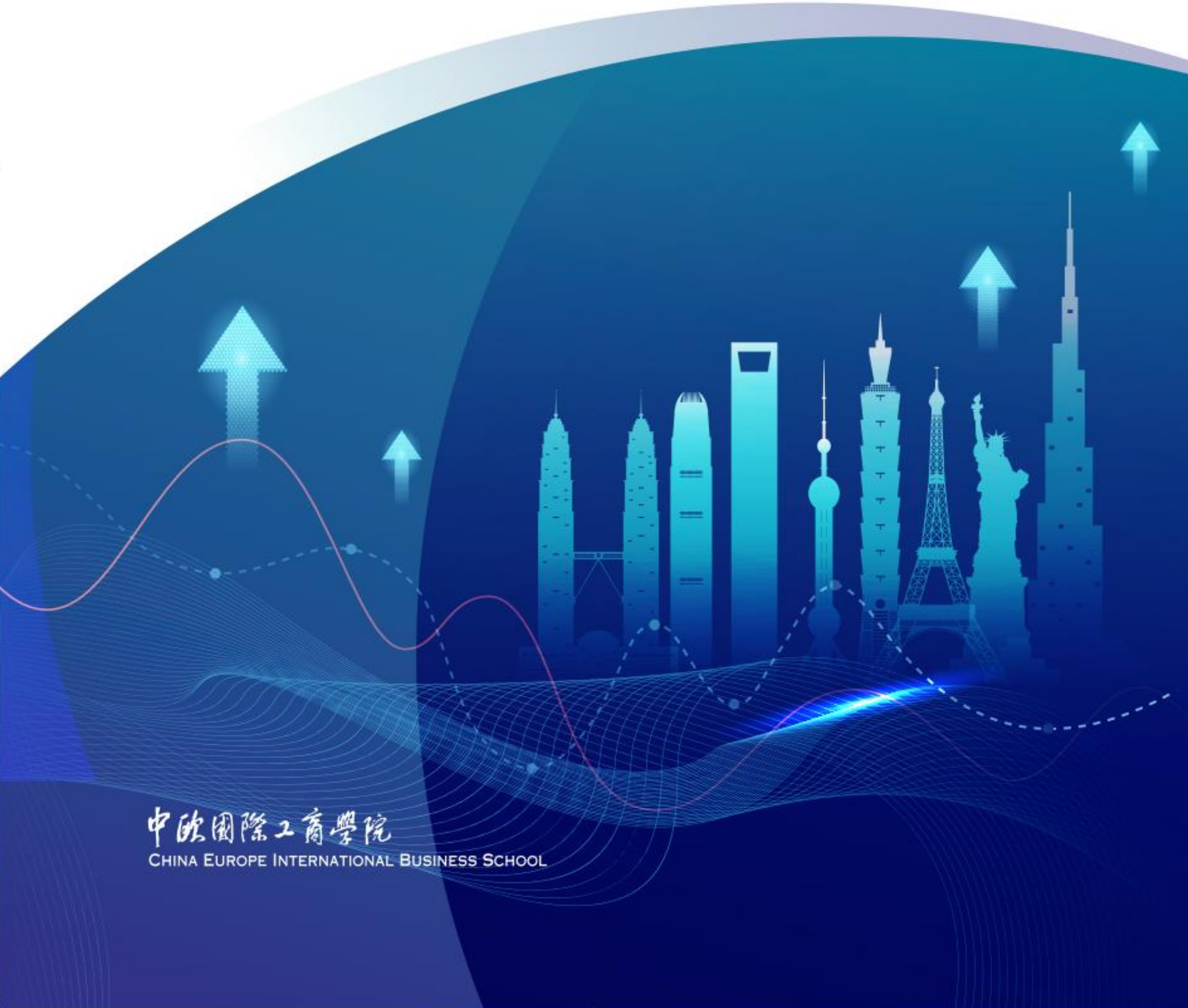
2023 Global Asset Management Center Index Report

CEIBS Lujiazui International Institute of Finance

September 4, 2023



中歐國際工商學院
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EXECUTIVE SUMMARY

Major economies have been affected by multiple factors since 2023, including the Federal Reserve's significant interest rate hikes and the "scarring effect" from COVID-19. As a result, the cross-border allocation of global capital has diminished, friction and financing costs in international payment systems have increased. Additionally, the yields of major asset classes have significantly decreased, reducing the profitability of banks, and diminishing the credit supply in the private sector. Undoubtedly, to enhance the efficiency of capital allocation and risk diversification, we need ask much more help from global asset management industry. After a decade of expansion, the rapid growth trajectory of the industry has shifted. Complex international situation, economic uncertainty, and aging population pose structural challenges to it.

This is the third year that CEIBS Lujiazui International Institute of Finance has compiled the Global Asset Management Center Index. The Institute consolidated its strengths on research and experts' resources of industry to track and study the latest development, then launched the 2023 Global Asset Management Center Index Report. The report adheres to an evaluation based on multidimensional data and presents the trend characteristics and latest pattern of global asset management centers.

This report shows that, compared to 2022, the ratings and rankings of eurozone asset management centers have generally increased, influenced by capital flows and the prosperity of ESG investment. New York still led the global asset management center by a significant margin, with Paris jumping into the top 3 and narrowly overtaking London. On one hand, Paris has achieved a 30%-50% increase in terms of stock market capitalization, number of ESG ETFs and bond issuance. On the other hand, the outflow trend from the London stock and bond market intensified. The number of IPOs plummeted and coupled with the risks in the UK pension market in 2022, the net assets of open-end funds has declined significantly since Brexit.

Global demand for risk hedging products continued to rise amid economic uncertainty, with Chicago rising further to the 4th place from last year, while Singapore slipped slightly to the 5th. Shanghai secured the 6th place, breaking the tie with Chicago from the previous year, thus fully demonstrating the fundamental strengths and inherent resilience of the Shanghai market. Frankfurt has drawn funds from London in both the stock and bond markets, along with substantial net inflows in ESG and alternative assets, propelling it to the 7th place, on par with Boston. Tokyo edged up to the 9th place. Dragged down by the shrinking market capitalization of the stock market and net sales of funds, Hong Kong fell to the 10th place.

Luxembourg and Zurich have both experienced slight rises, surpassing Dublin to the 11th and 12th positions, respectively. Toronto has fallen to the 14th place due to limited or negative growth in underlying assets and asset management products. Benefiting from the establishment of the Beijing Stock Exchange, Beijing has risen to the 15th place.

On the demand side, measured by six indicators including bank deposits, premium balances, pensions, foreign exchange reserves, sovereign wealth funds, and financial account balance, New York, Boston, Chicago, and Los Angeles, Beijing and Shanghai maintained a leading capital advantage in 2023. There were no significant differences in ratings among other Asian and European cities.

From the perspective of the FDI restrictiveness, considering factors such as relevant tax rates (corporate income tax, capital gains tax, maximum personal income tax), the number of financial and insurance employment and their proportion in non-agricultural employment, Zurich, Hong Kong, Luxembourg, and Singapore exhibited strong institutional advantages, and thus more attractive to talent. Moreover, this attractiveness diverged across Europe during economic downturns, with Dublin and Frankfurt falling markedly and Paris rising slightly.

From the perspective of the supply of underlying assets, New York still maintained a dominant position. However, the global interest rate hike has improved asset quality (stock market, bond market yields). As a result, the gap between different locations and New York narrowed, and the scores of Asian and European asset management centers have increased compared to those in 2022. Toronto's decline is mainly due to its proximity to the U.S. market, where Canadian bond balances and IPO numbers have declined significantly against the backdrop of high U.S. bond yields.

Considering the sum of asset under management (AuM) of the top 5 asset managers in each city, as well as the net assets net sales, and number of open-end funds and ETFs, Chicago, Toronto, and Singapore have improved their ratings. This indicated that New York's asset management capacity was further enhanced, widening the gap with other cities. Among these, London and Hong Kong's scores have fallen by more than 4 points, due to large net outflow of funds.

In the field of ESG and alternative asset investing, European asset management centers maintained their competitive edge. Frankfurt, Paris, Luxembourg, and Dublin comprised the first echelon, significantly widening the gap with cities in Asia and the United States, with only Shanghai showing signs of catching up. This was mainly due to Chinese mainland's sustained advantage in green bonds and REITs. Both Hong Kong and Singapore have experienced net outflows in areas where alternative investment are robust.

Comparing the growth rate of various underlying assets management industries regarding the assets, Beijing achieved a breakthrough in the stock market after the smooth operation of the Beijing Stock Exchange. Additionally, Paris experienced a 30%-50% increase in terms of stock market capitalization, ESG ETFs and bond numbers. Chicago's futures and options turnover has grown by 24%, and the net assets of ETF has reached 77%. The number of ESG ETFs and bonds in Frankfurt and London have increased by nearly 30%.

According to the index analysis, the prolonged one-year cycle of interest rate hikes in major economies has caused regional liquidity crises and financial risks. The ensuing structural changes in global asset prices have reversed the high asset valuations and low expected returns of the past few decades. Because the process has moved so fast, many asset managers have not got time to adjust their asset allocations. By the end of 2022, the average AuM of the world's top 10 asset managers had decreased by 14% year-on-year, with Bank of New York Mellon leading the decline at nearly 25%. As the global stock and bond markets improved in the first half of 2023, the AuM of the top 10 asset managers reached a total of $41tn as of June 30, up 6.4% year-on-year. The entire asset management industry is still in the process of rebalancing between risk and return.

The large swings in global AuM suggested that a portfolio diversified solely based on the traditional standard allocation of stocks and bonds (such as 60/40 or 80/20) was not resilient against market turbulence. As signs of world economic recession intensified, portfolios of the global asset management industry were becoming more diversified: Bonds were back in the main role, alternative mutual funds (ALFs) were gaining additional allocation, and the private equity markets still held huge potential. But it also brought other challenges, such as the potential fiscal risks of public pensions and the stagnation of the hedge fund market.

Most noteworthy, Shanghai remained in 6th place, thanks to the continued opening of Shanghai's asset management market. Firstly, the structural reforms on the financial supply side continued to enhance the supply of underlying assets. In the first half of 2023 Shanghai had the highest number of IPOs (62) among the sample asset management centers. Moreover, Shanghai listed new derivatives such as 30-year China government bond futures, aluminum oxide futures, synthetic rubber futures and options, and the Shanghai (export) Containerized Freight Index based on Settled Rates (Europe service) futures. Secondly, the AuM of top asset managers grew against the trend. As of June 2023, the AuM of the top five asset managers headquartered in Shanghai has grown by 23% year-on-year, ranking among the top in the world. Thirdly, policy resources continue to be abundant. In July 2022, Shanghai became a pilot city for integrated domestic and foreign currency capital pools for multinational companies, followed by the initiation of the first batch of climate finance pilots in August 2023. By June 2023, Shanghai had 59 QDLPs and 86 QFLPs.

The net worth transformation of bank financial management is the biggest challenge and means great opportunities in China. In the first half of 2023, net worth wealth management products amounted to 24.3tn yuan, accounting for 96% of the total, showing remarkable standardization and transformation of wealth management business. In the short and medium term, the downward trend of bank deposit interest rate and the adjustments to the residential allocation structure brought about incremental funds. Additionally, the financial supply-side structural reform brought incremental investment opportunities.

In addition, with the increase in the proportion of alternative assets in global asset allocation, in March of this year, China's National Development and Reform Commission and China Securities Regulatory Commission issued documents to expand the scope of

REITs issuance and accelerate the normalization of REITs issuance. Shanghai Stock Exchange's REITs pilot has further covered the field of renewable energy sector. As of June, the number of REITs in Shanghai had surged by 1.7 times year-on-year, and the market value has increased by up to 70%, indicating an accelerating catch-up momentum in Asia.

PART 1

INDEX EVALUATION

Comprehensive Evaluation

Compared to 2022, the ratings and rankings of eurozone asset management centers have generally increased, influenced by capital flows and the prosperity of ESG investment. New York continues to lead the global asset management center by a significant margin, with Paris jumping into the top 3 and narrowly overtaking London. On one hand, Paris has achieved a 30%-50% increase in terms of stock market capitalization, ESG ETFs and bond issuance. On the other hand, the outflow trend from the London stock and bond market has intensified. The number of IPOs has plummeted and coupled with the risks in the UK pension market in 2022, the net assets of open-end funds has declined significantly since Brexit.

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Table 1-1 Global Asset Management Center Ranking（2023）

Ranking	City	Ranks	Rank change compared to 2022	Ranking change compared to 2022
1	New York	96.0	-1.2	0
2	Paris	85.0	+0.4	+6
3	London	84.4	-2.9	-1
4	Chicago	83.7	-1.1	+2
5	Singapore	83.5	-1.5	-1
6	Shanghai	83.4	-1.4	0
7	Frankfurt	83.3	+1.6	+7
7	Boston	83.3	-3.3	-4
9	Tokyo	83.1	0.0	+2
10	Hong Kong	82.9	-2.0	-5
11	Luxembourg	82.6	+0.4	+2
12	Zurich	82.5	+1.4	+3
13	Dublin	82.3	-0.7	-1
14	Toronto	82.1	-2.0	-5
15	Beijing	80.3	+5.2	+7

Source：CEIBS Lujiazui International Institute of Finance

Evaluation of Subdivided Fields

Table 1-2 Global Asset Management Center Ranking of Subdivided Fields (2023)

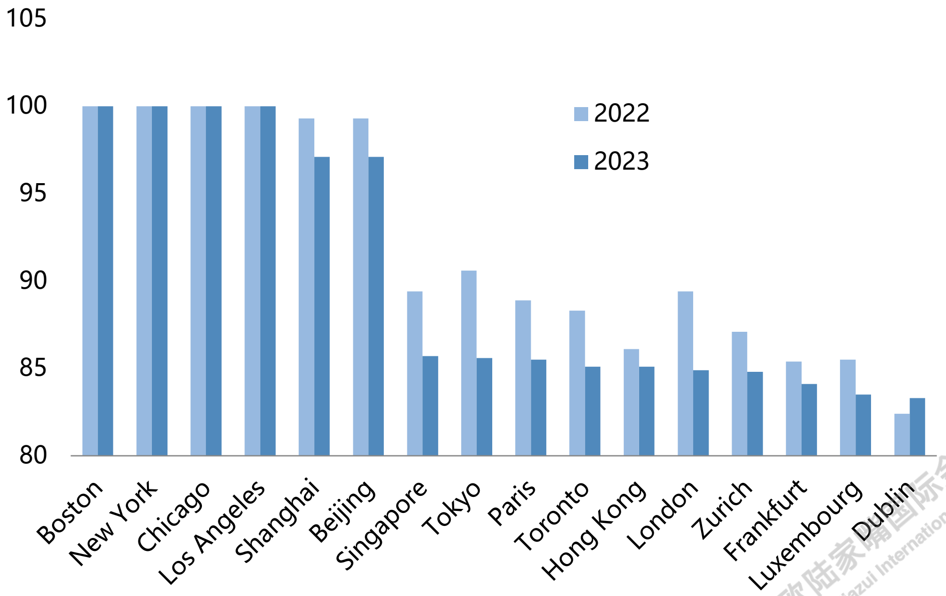
Ranking	Capital Supply (10%)	Institutional Opening, Talent Reserve(15%)	Underlying Assets (25%)	Asset Managers, Open-ended Fund (30%)	ESG Business, Alternative Asset (10%)	Growth Rate (10%)
1	Boston	Zurich	New York	New York	Frankfurt	Beijing
2	New York	Hong Kong	Shanghai	Boston	Paris	Paris
3	Chicago	Singapore	Tokyo	London	Luxembourg	Shanghai
4	Los Angeles	Luxembourg	London	Tokyo	Dublin	Chicago
5	Shanghai	Boston	Paris	Paris	London	Frankfurt
6	Beijing	Los Angeles	Frankfurt	Toronto	Tokyo	London
7	Singapore	New York	Hong Kong	Chicago	Zurich	Dublin
8	Tokyo	Chicago	Singapore	Singapore	New York	Singapore
9	Paris	London	Toronto	Dublin	Shanghai	New York
10	Toronto	Toronto	Chicago	Luxembourg	Hong Kong	Hong Kong
11	Hong Kong	Dublin	Zurich	Frankfurt	Toronto	Luxembourg
12	London	Paris	Dublin	Zurich	Beijing	Zurich
13	Zurich	Frankfurt	Luxembourg	Los Angeles	Chicago	Boston
14	Frankfurt	Beijing	Beijing	Shanghai	Singapore	Tokyo
15	Luxembourg	Shanghai	Boston	Hong Kong	Boston	Toronto

Note: 1. Capital Supply is a metric at the national/regional level. Therefore, the ranking of cities in the same country is consistent. Here we list the rankings separately for clarity in the table.

2. The weights of each secondary indicator are shown in parentheses, please refer to Part 2 Revision.

On the demand side, measured by six indicators including bank deposits, premium balances, pensions, foreign exchange reserves, sovereign wealth funds, and financial account balance, New York, Boston, Chicago, and Los Angeles, Beijing and Shanghai maintained a leading capital advantage in 2023. There were no significant differences in ratings among other Asian and European cities.

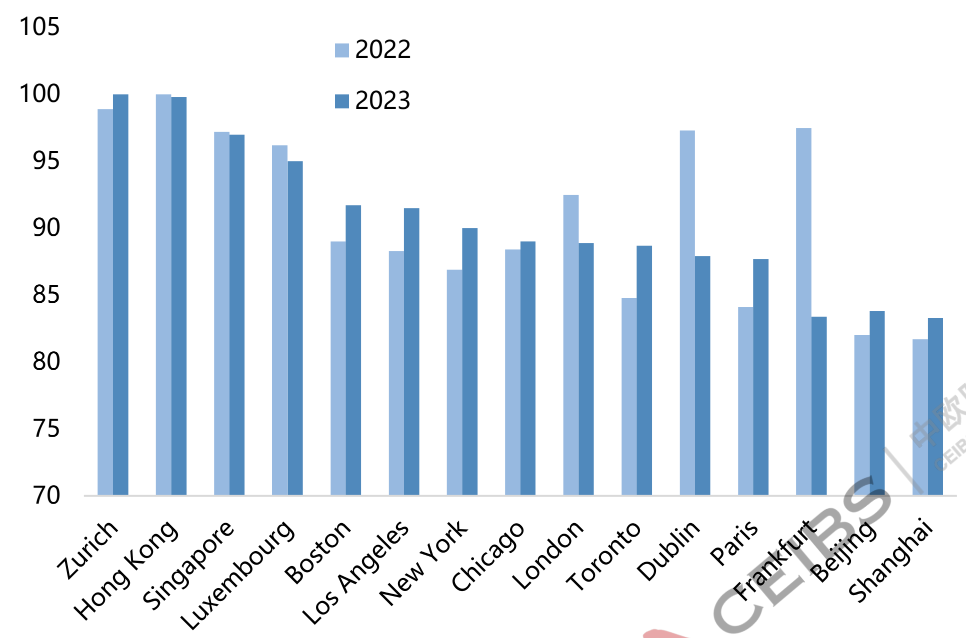
Figure 1-1 Global Asset Management Center Ranking of Capital Supply (2022-2023)



Note: The secondary indicators are all at the national/regional level. Therefore, the ranking of cities in the same country is consistent.

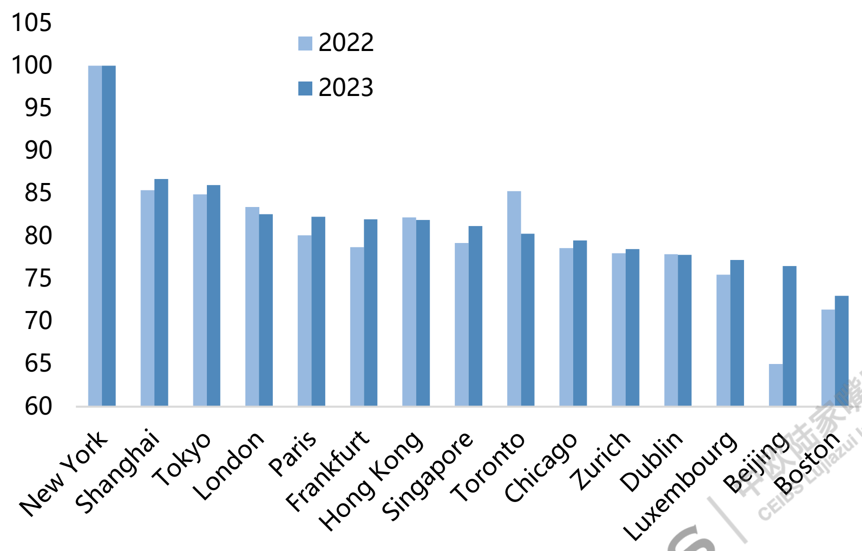
From the perspective of the FDI restrictiveness, considering factors such as relevant tax rates (corporate income tax, capital gains tax, maximum personal income tax), the number of financial and insurance employment and their proportion in non-agricultural employment, Zurich, Hong Kong, Luxembourg, and Singapore exhibited strong institutional advantages, and thus more attractive to talent. Moreover, this attractiveness diverged across Europe during economic downturns, with Dublin and Frankfurt falling markedly and Paris rising slightly.

Figure 1-2 Global Asset Management Center Ranking of Institutional Opening and Talent Reserve (2022-2023)



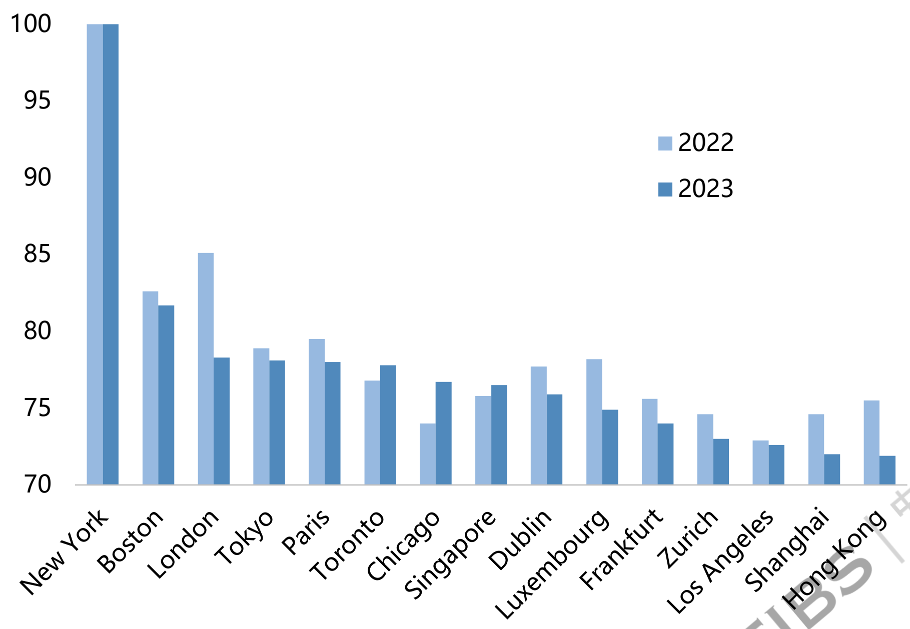
From the perspective of the supply of underlying assets, New York still maintained a dominant position. However, the global interest rate hike has improved asset quality (stock market, bond market yields). As a result, the gap between different locations and New York narrowed, and the scores of Asian and European asset management centers have increased compared to those in 2022. Toronto's decline is mainly due to its proximity to the U.S. market, where Canadian bond balances and IPO numbers have declined significantly against the backdrop of high U.S. bond yields.

Figure 1-3 Global Asset Management Center Ranking of Underlying Assets (2022-2023)



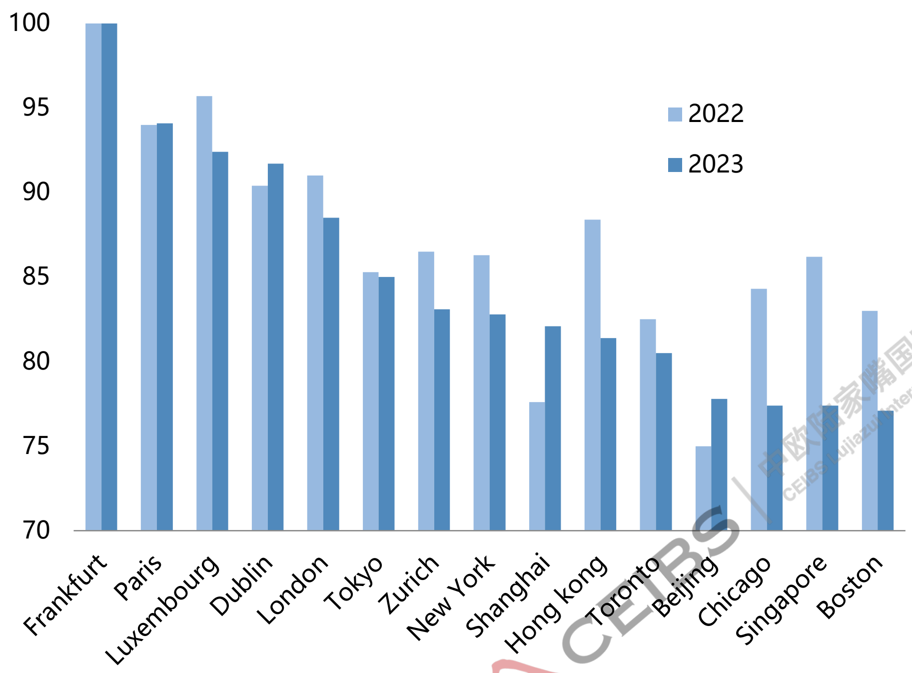
Considering the sum of AuM of the top 5 asset managers in each city, as well as the net assets, net sales, and number of open-end funds and ETFs, Chicago, Toronto, and Singapore have improved their ratings. This indicated that New York's asset management capacity was further enhanced, widening the gap with other cities. Among these, London and Hong Kong's scores have fallen by more than 4 points, due to large net outflow of funds.

Figure 1-4 Global Asset Management Center Ranking of Asset Managers and Open-ended Fund (2022-2023)



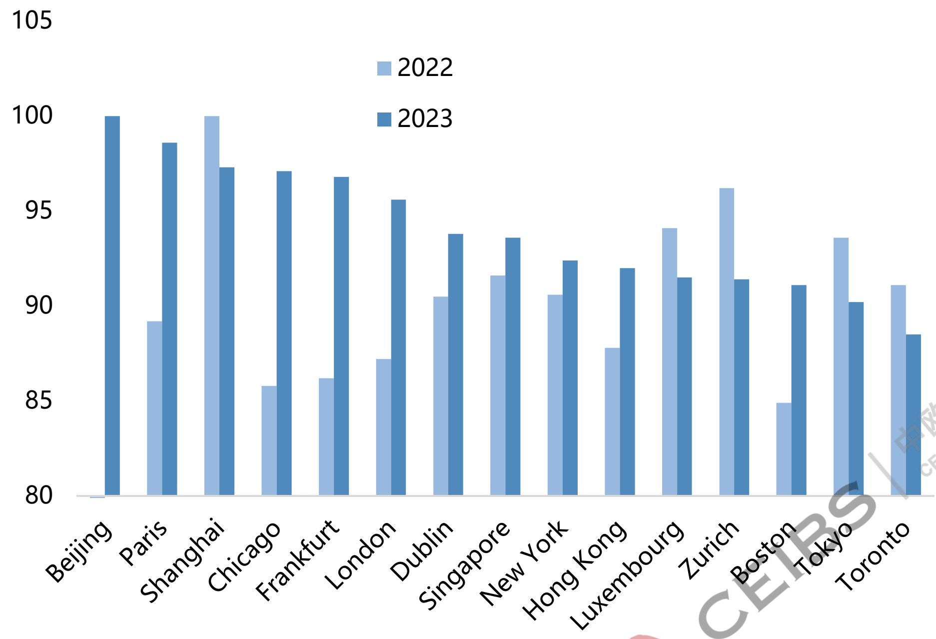
In the field of ESG and alternative asset investing, European asset management centers maintained their competitive edge. Frankfurt, Paris, Luxembourg, and Dublin comprised the first echelon, significantly widening the gap with cities in Asia and the United States, with only Shanghai showing signs of catching up. This was mainly due to Chinese mainland's sustained advantage in green bonds. Both Hong Kong and Singapore have experienced net outflows in areas where alternative investment are robust.

Figure 1-5 Global Asset Management Center Ranking of ESG Business and Alternative Assets (2022-2023)



In terms of growth, through comparing the growth rate of various underlying assets management industries regarding the assets and quantity, Beijing achieved a breakthrough in the stock market after the smooth operation of the Beijing Stock Exchange. Additionally, Paris experienced a 30%-50% increase in terms of stock market capitalization, ESG ETFs and bond numbers. Chicago's futures and options turnover has grown by 24%, and the net assets of ETF has reached 77%. The number of ESG ETFs and bonds in Frankfurt and London have increased by nearly 30%.

Figure 1-6 Global Asset Management Center Ranking of Growth Rate (2022-2023)



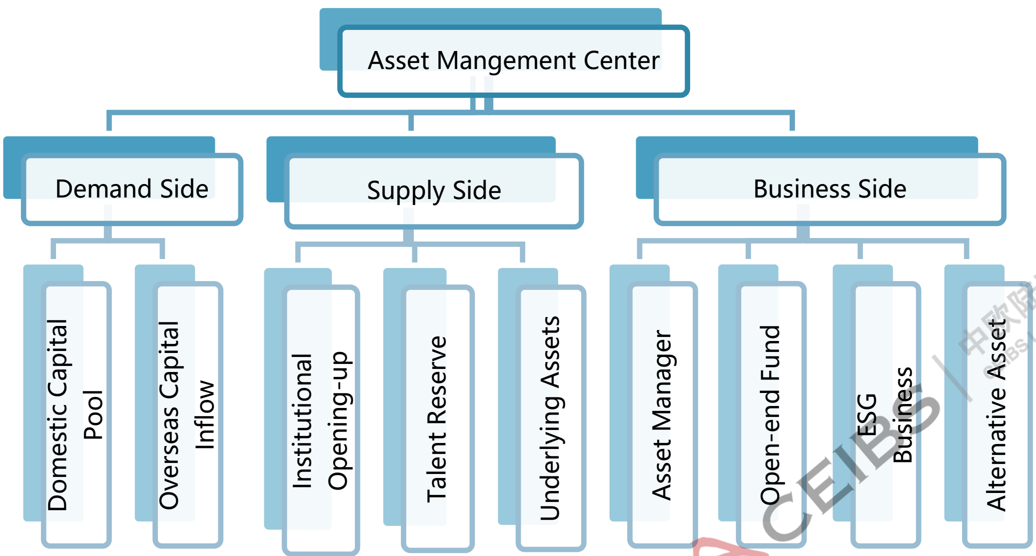
PART 2

INDICATOR SYSTEM

Revisions

Overall，the index system of 2023 Global Asset Management Centers still maintain the framework of 2022. Indicators of tier 1 are divided into the demand-side, supply-side and business side of asset management. Indicators of tier 2 describe demand-side from the aspects of local pools and overseas capital inflows; supply-side from the aspects of institutional opening, talent reserve and underlying assets; business side in terms of asset managers, open-end funds, ESG (environmental, social and governance) assets and alternative assets. Indicators of tier 3 reflect specific information with total of 56, all of which are regularly updated quantitative indicators.

Figure 2-1 Global Asset Management Center Evaluation System



In addition, there are some revisions in terms of indicators and weight assignment compared with 2022. Firstly, regarding indicators adjustment. "Average long-term government bond yield" and "major stock index yield (one year)" in the "overseas capital inflows"(tier 2) have been reclassified under "underlying assets"(tier 2) to better reflect the quality of the underlying assets. The indicator "number of employees in the financial industry/number of employees in the tertiary industry" has been revised to "number of employees in the financial industry/number of employees in non-agriculture" to better reflect the relative prosperity of financial industry employment in the changing economic cycles. New growth rate indicators for ESG business have been added to reflect the growth of ESG business in different asset management centers. In addition, three indicators, namely, "financial system (bank-led or capital market-led)", "legal system (common law or civil law)" and "expected GDP growth rate in the current year" have been removed to minimize the subjective bias in the evaluation process.

Secondly, regarding indicator weight adjustment. On the supply side, the weights of "institutional openness" and "talent reserve," which exhibit relatively minor changes annually, have been combined into a 15% weight, and the weight of "underlying assets," which is highly sensitive to the economic situation, has been increased to 25%.

Table 2-1 Weights of Tier 2 Indicators (2022-2023)

Tier 1	Tier 2	Weights		
		2022	2023	Change
Demand Side and Supply Side (50%)	Capital supply	10%	10%	0
	Institutional opening, talent reserve	25%	15%	-10%
	Underlying assets	15%	25%	+10%
Business Side (50%)	Asset managers, open-end fund	30%	30%	0
	ESG business, alternative asset	10%	10%	0
	Growth rate	10%	10%	0
Total		100%	100%	0

Table 2-2 Global Asset Management Center Evaluation Indicator System (2023)

Tier 1	Tier 2	Tier 3	Source
Demand	Domestic Capital Pool	Total deposit	CEIC
		Insurance premium	SIGMA
		Private pension funds	OECD
		Foreign reserve	Monetary authorities
		Sovereign wealth funds	SWF
		Public pension funds	
	Overseas Capital Inflow	Balance of payments: Financial account	Federal Reserve Bank of St. Louis
Supply	Institutional Opening	FDI restrictiveness-Finance	OECD
		FDI restrictiveness-Commerce	
		Statutory corporate income tax rate	KPMG
		Capital gains tax rate	
	Talent Reserve	Individual income tax rate	
		Number of employees in financial industry	Bureau of cities/regions
		Number of employees in the financial industry/number of employees in non-agriculture	
	Underlying Assets	Average long-term government bond yield	Moody
		Returns of major stock indexes (1 year)	BLOOMBERG
		Number of IPOs	WFE
		Growth rate of IPO number	
		Number of listed stocks	
		Growth rate of number of listed stocks	
		Number of listed bonds	
		Growth rate of number of listed bonds	
		Stock market capitalization	
		Growth rate of stock market capitalization	
		Bond market balance	
		Growth rate of bond market balance	
		Turnover of futures and options	
		Growth rate of turnover of futures and options	

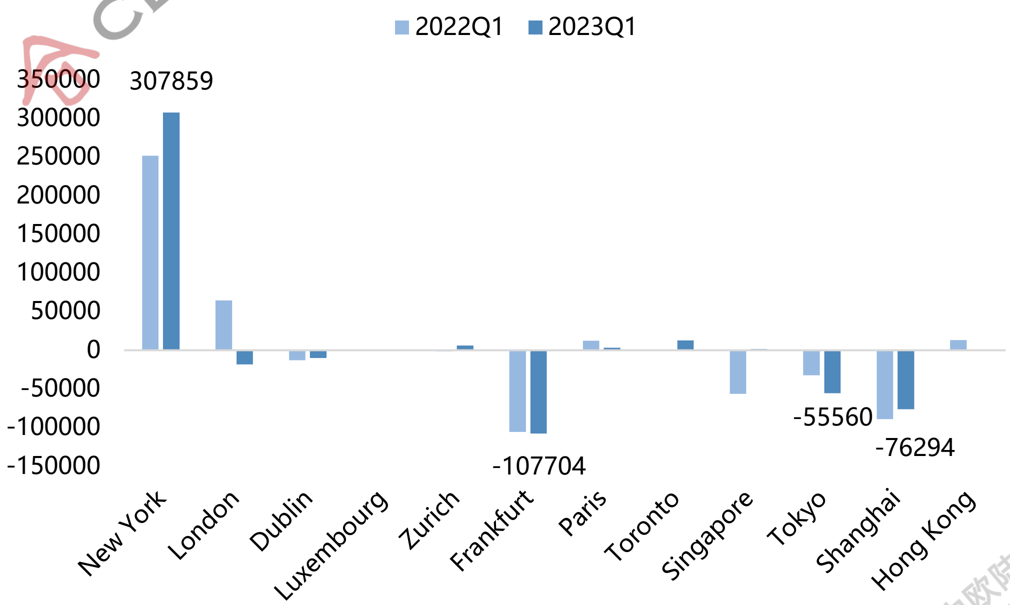
Table 2-2 Global Asset Management Center Evaluation Indicator System (2023) (Continued)

Tier 1	Tier 2	Tier 3	Source
Business	Asset Managers	AuM of top 5 asset managers with local headquarters	Asset managers
		Growth rate of AuM of top 5 asset managers with local headquarters	
		Number of local headquarters of the top 50 global asset managers	
		Number of local branches of the top 50 global asset managers	
	Open-ended Funds	Total net assets of open-end funds	IIFA/Related exchanges
		Growth rate of total net assets of open-end funds	
		Net sales of open-end funds	
		Number of open-end funds	
		Growth rate of number of open-end funds	
		Total net assets of ETFs	
		Growth rate of total net assets of ETFs	
		Net sales of ETFs	
		Number of ETFs	
		Growth rate of number of ETFs	
	ESG Business	Number of ESG index	Related exchanges
		Growth rate of number of ESG index	
		Number of ESG ETF	
		Growth rate of number of ESG ETF	
		Number of ESG Derivatives	
		Growth rate of number of ESG Derivatives	
		Number of ESG bond	
		Growth rate of number of ESG bond	
	Alternative Asset	Number of alternative asset funds	IIFA/Related exchanges
		Growth rate of number of alternative investments	
		Total net assets of alternative investment	
		Growth rate of total net assets of alternative investment	
		Total net sale of alternative investment	

The Analysis of Main Indicators

Financial Account Balance. Since 2022, global inflation has been high, and interest rates in US have hiked, attracting international capital inflow continually. In Q1 2023, the US financial account surplus was $307.8bn, while Germany, Japan and China all had large financial account deficits.

Figure 2-2 Balance of Payments: Financial Account (mn $, 2022-2023)

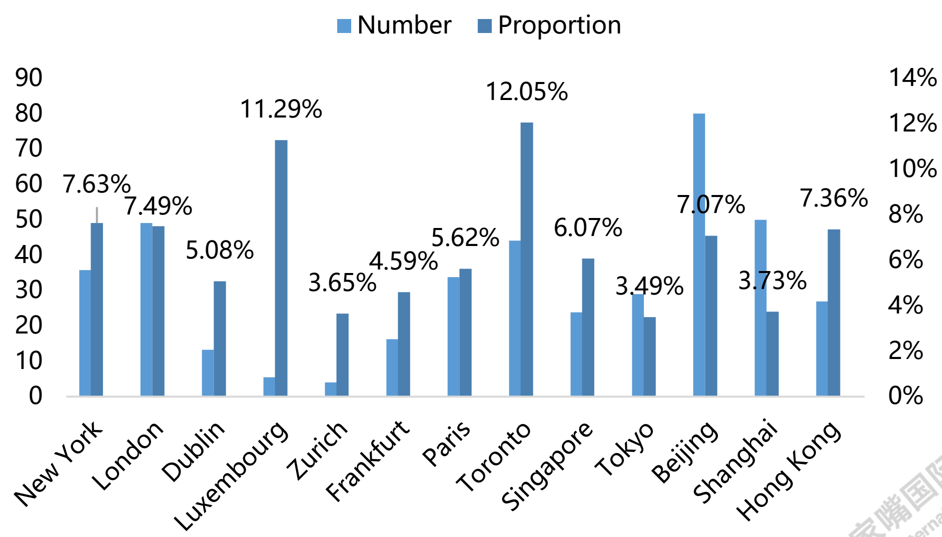


Note: This data is in the scope of nation or region. So, it is represented with the main asset management center in certain country or region.

Source: Federal Reserve Bank of St. Louis

The Proportion of Financial Employment to Non-agriculture Employment. It reflects the relative prosperity of financial employment in the changes of economic cycle. In terms of relative scale, the proportion of financial employees in Beijing is 7.07%, which is close to that of New York, London, and Hong Kong, while Shanghai is far away.

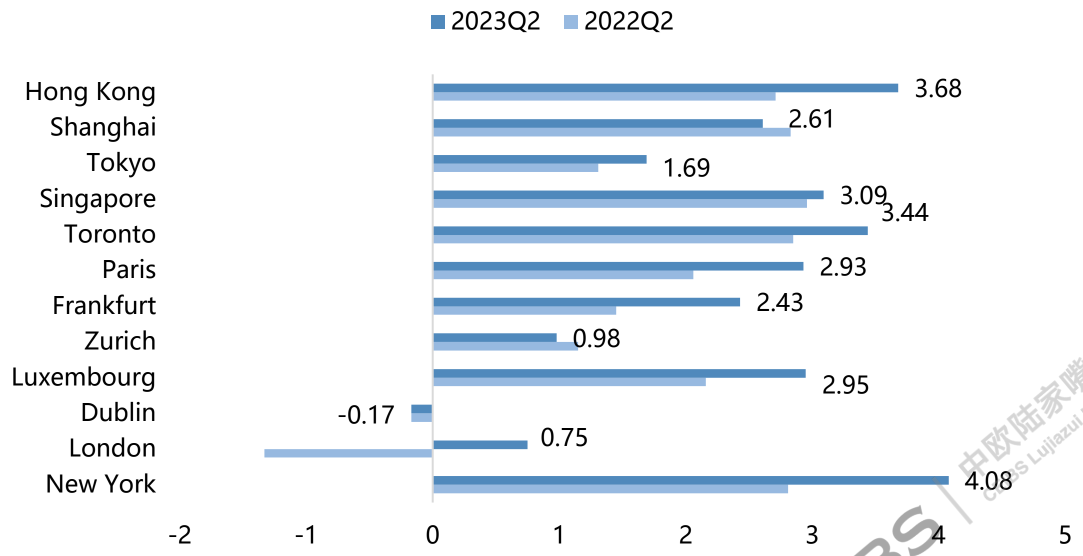
Figure 2-3 Number of Employees in Financial Industry and Proportion to Non-Agriculture Employees (10000, %, 2022-2023)



Source: Bureau of cities or regions

Average Long-term Government Bond Yield. China's economic growth is slowing down, inflation and bond yields are falling. By the Q2 2023, the average long-term government bond yield of Chinese mainland was 2.61%. On the contrary, many countries have continued to raise interest rates to control inflation, and bond yields have increased significantly compared with 2022. The average long-term government bond yield in the US and Canada has increased to nearly 4%.

Figure 2-4 Average Long-term Government Bond Yield (%, 2022-2023)

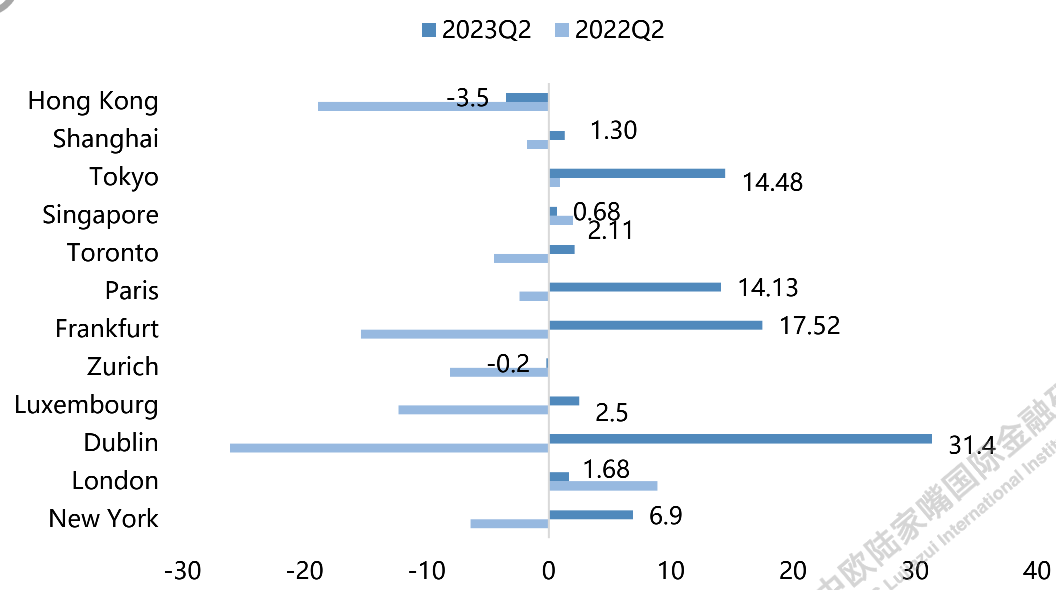


Note: This data is at the national/regional level. For the convenience of comparison, we represent the country/region with related main asset management centers.

Source: Moody’s Analytics

Returns of Major Stock Indexes. Valuation repairs drove a general rally in European equities as the market reversed its pessimism amid stronger economic fundamentals than expected and a fading geopolitical impact. Return of Dublin ISEQ Composite index reached 31%, Frankfurt DAX30 17.52% and Paris CAC40 14.13%. Shanghai Composite edged up 1.30%, while Hong Kong Hang Seng narrowed its losses to -3.5%.

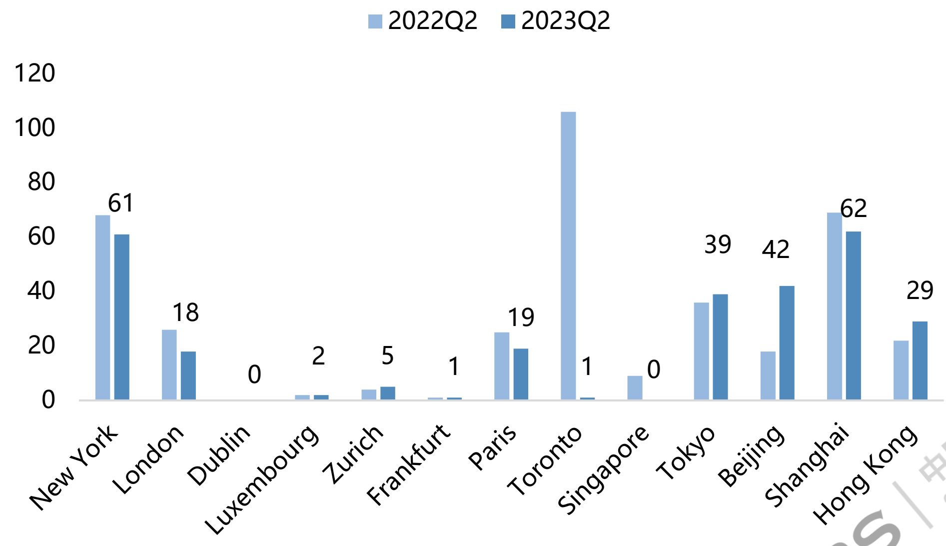
Figure 2-5 Returns of Major Stock Indexes (12 months, %, 2022-2023)



Source: BLOOMBERG

Number of IPOs. The Asian IPO market generally increased, while the European and American markets mostly showed a decline. In the first half of 2023, the number of IPOs in Shanghai was 62, ranking the top in the world. And that in Beijing was 42, up 133% year on year, which was among the highest in the world. The number of IPOs in Zurich was 5, all of which were depositary receipts issued by Chinese listed companies through China-Switzerland Stock Connect which is also a concentrated embodiment of the high-level opening of China's financial market.

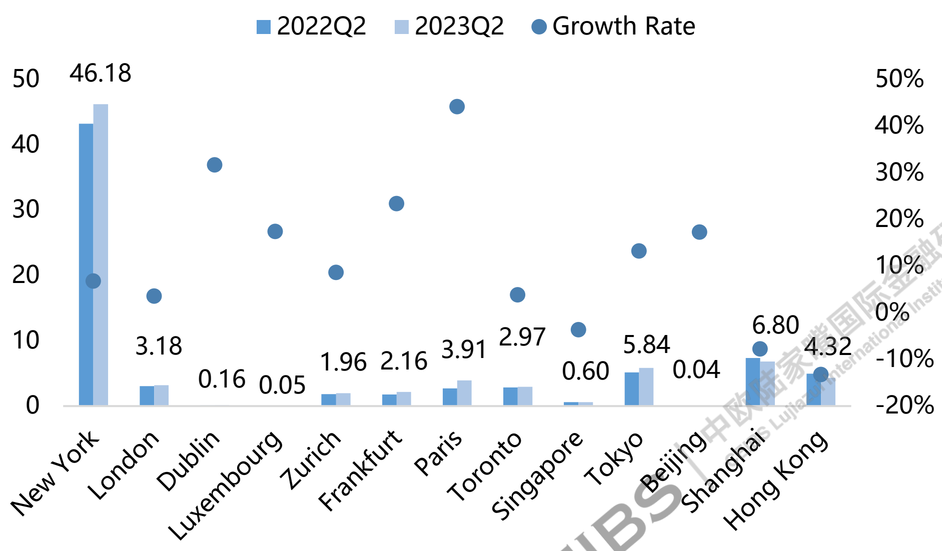
Figure 2-6 Number of IPOs(2022-2023)



Source: WFE

Stock Market Capitalization. Overall European and US stock markets strengthened in the first half of the year. As of June 2023, New York stock market capitalization was as high as $46.2tn, recording a 6.85% increase against the backdrop of continued interest rate hikes in the US, mainly benefiting from factors such as abundant market liquidity, strong economic resilience, and expectations of technological innovation. In addition, economic fundamentals, market sentiment and valuation repair factors drove the rapid growth of European stock market capitalization, with Paris, Dublin and Frankfurt rising by 44.21%, 31.70% and 23.43% respectively.

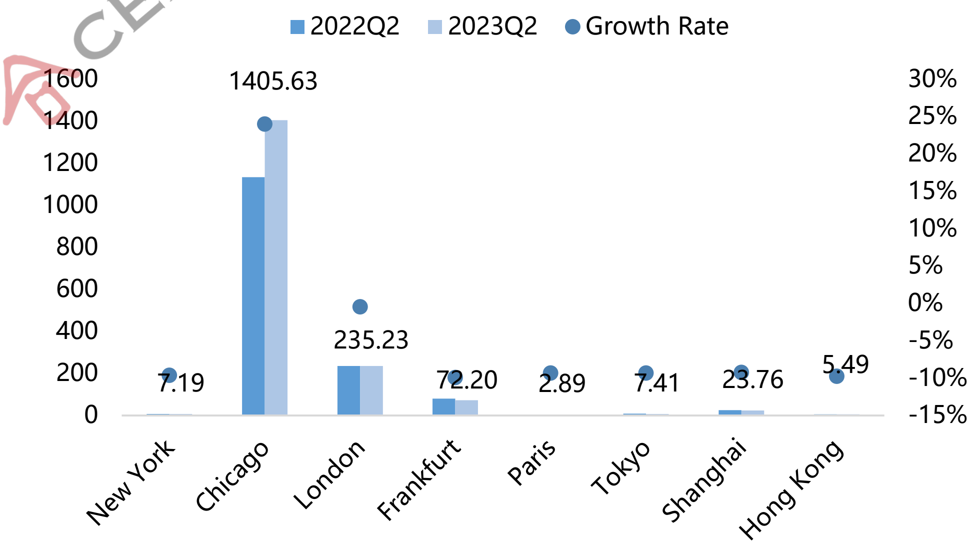
Figure 2-7 Stock Market Capitalization and Growth Rate (tn $, %, 2022-2023)



Source: WFE

Turnover of Futures and Options. Geopolitical conflict and high inflation have added to global economic uncertainty and boosted derivatives turnover. As of June 2023, the turnover of futures and options traded in Chicago was as high as $1406tn, up 24% from a year earlier. Meanwhile, Shanghai was $23.8tn, down 9.2% from a year earlier, as global commodity prices fell.

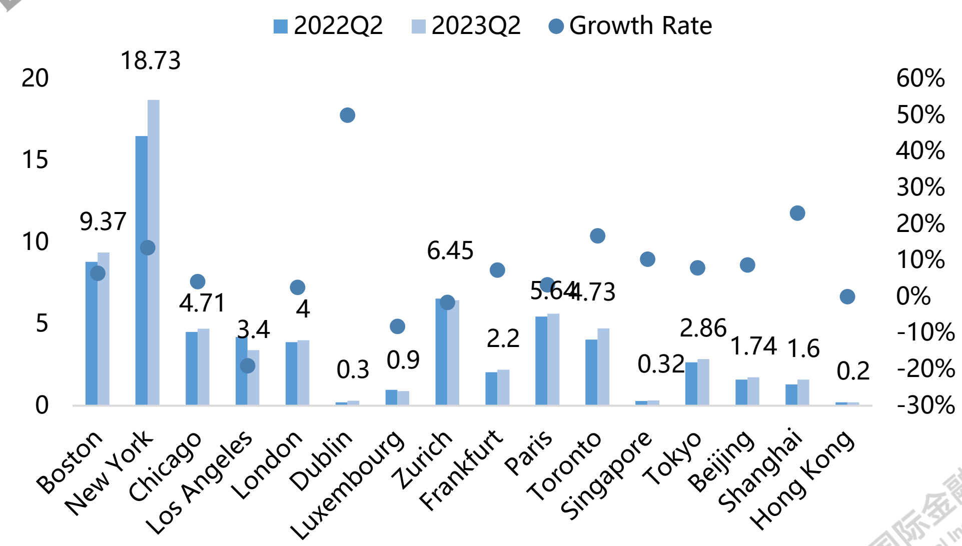
Figure 2-8 Turnover of Futures and Options (tn $, 2022-2023)



Source: WFE

AuM of Asset Managers. The advantages of top global asset managers are accelerating. As of June 2023, the AuM of the top 5 asset managers headquartered in New York was $18.73tn, up 13.5% year on year. Shanghai was $1.74tn, up 23% year on year, ranking among the fastest expansion in the world.

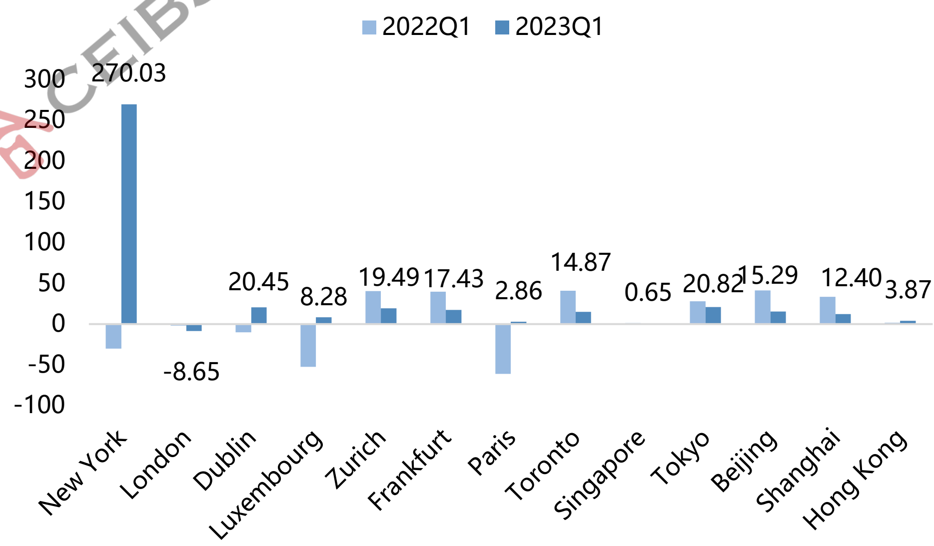
Figure 2-9 AuM and Growth Rate of Top 5 Asset Managers with Local Headquarter (tn $, %, 2022-2023)



Source: Asset managers

Net Sales of Open-end Funds. The assets of open-end funds worldwide have generally declined, and net sales have fallen as well. New York alone had strong net inflows, up more than 9 times year on year to $270bn in Q1 2023, followed by Dublin. London saw a net outflow of $8.65bn.

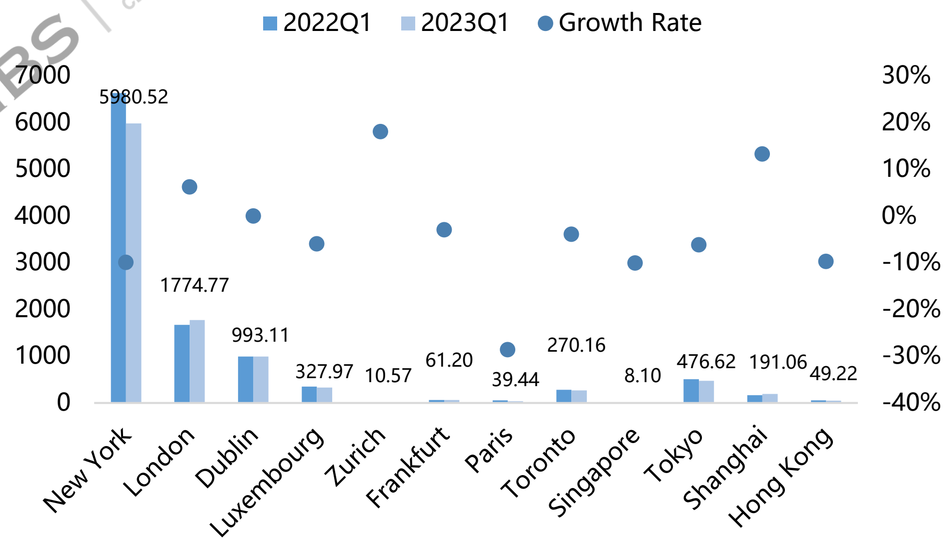
Figure 2-10 Net Sales of Open-end Funds (bn $, 2022-2023)



Source: IIFA

Net Assets and Growth of ETFs. The asset of passive investment is relatively stable in the context of economic uncertainty. By the Q1 2023, the net assets of New York ETFs were $5.98tn, down 9.86% year on year. Zurich and Shanghai grew by 18% and 13% respectively.

Figure 2-11 Total Net Assets and Growth Rate of ETF (bn $, %, 2022-2023)

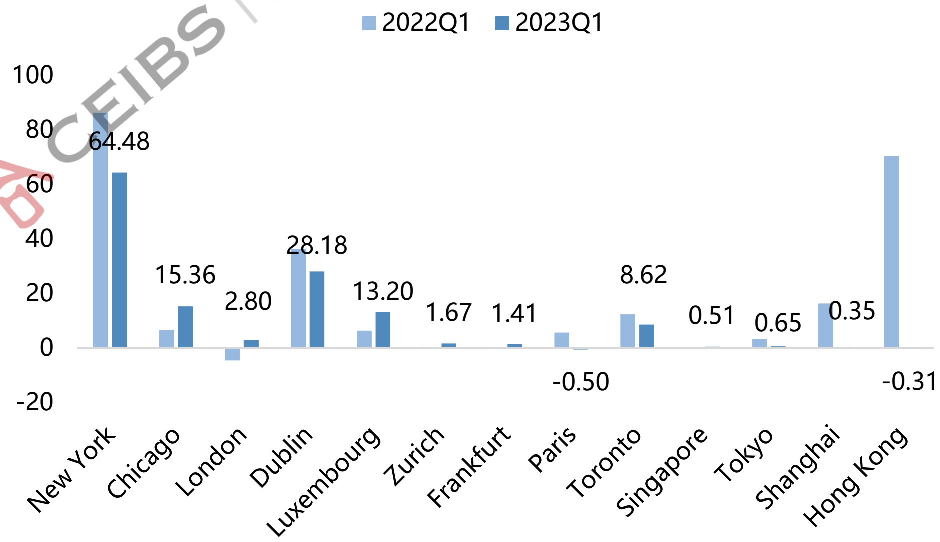


Note: Metrics of Shanghai are calculated based on IIFA and Shanghai Stock Exchange data.

Source: IIFA

Net Sales of ETFs. There was a broad slowdown in global ETF net inflows. By the Q1 2023, ETFs in New York had a net inflow of $64.5bn, but it was down 25% year-on-year. Shanghai saw net inflow of about $350mn during the same period.

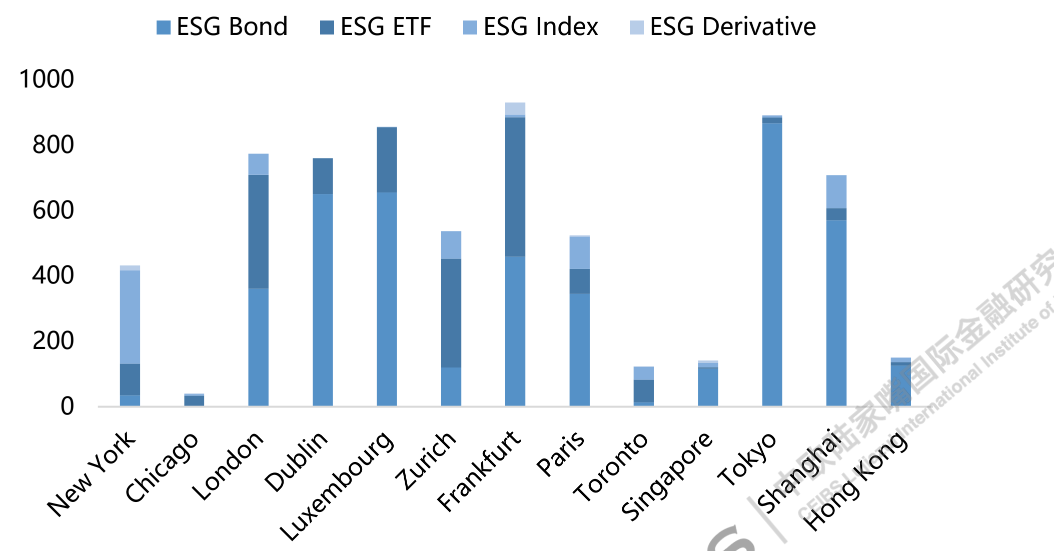
Figure 2-12 Net Sales of ETF (bn $, 2022-2023)



Source: IIFA

Number of ESG Products. The definition of ESG has been expanded and adjusted in the past year. Globally, ESG bonds are the largest ESG products, followed by ESG ETFs, while ESG indexes and ESG derivatives are relatively few. Major asset management centers in Europe are leading in all aspects, and the total number of ESG products in Deutsche Börse Group in Frankfurt ranks first in the world, with a total of 931 related products. As of June 2023, there were 571 ESG bonds, 37 ESG ETFs and 101 ESG indices in Shanghai, ranking second only to Tokyo in the total number of ESG products in Asia.

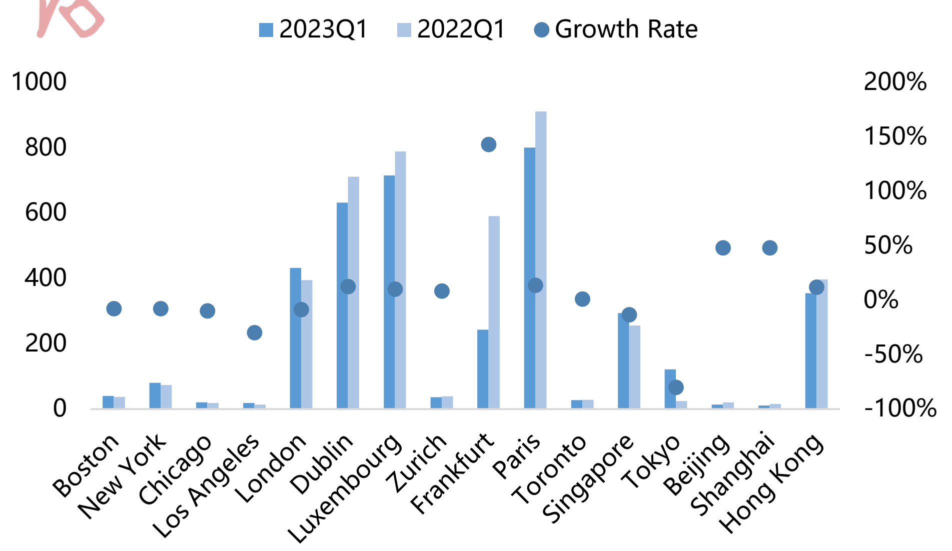
Figure 2-13 Number of ESG Products(2023)



Source: IIFA

Alternative Investment Net Assets and Growth Rates. Alternative investments are more favored in a market environment of high interest rates. By the Q1 2023, the net asset of alternative investments in major asset management centers in Europe continued to grow on a high base. Among them, Frankfurt saw the largest increase (143%), while Paris, Dublin and Luxembourg all saw double-digit growth.

Figure 2-14 Total Net Assets and Growth Rate of Alternative Investment (bn $, %, 2022-2023)



Source: IIFA

PART 3

ANALYSIS OF INDEX

Causes and Effects of Global Monetary Tightening

High Inflation in Major Economies

The current bout of high global inflation is mainly affected by three aspects: demand-side dynamics, supply-side shocks, and intensified trade protectionism. Since the onset of the pandemic, extremely loose monetary policies have been adopted around the world to revive the economy. Advanced economies, led by the US, implemented extensive fiscal stimulus plans, causing the Fed's balance sheet to expand from $4 trillion to over $9 trillion in two years. Meanwhile, they suffered supply shocks from three different sources. First, aggressive carbon-neutral policies, especially in Europe, contributed to a scarcity in traditional energy supplies, driving notable increases in oil and thermal coal prices.

Second, the Ukraine crisis caused great uncertainty in energy and food supplies, which led to a significant rise in global commodity prices.

Third, the supply chain has not been fully restored, leading to challenges in securing raw materials, logistics and transportation, and import and export customs clearance, all of which amplified global logistics costs. In addition, trade protectionism is prevalent amid slowing economic growth. This has led to a trend of regionalization and localization in global industrial and supply chains, reducing the exchange efficiency of international trade and increasing import and export costs. Consequently, the growth rate of world trade has decelerated. Affected by these factors, inflation in major economies is high. Apart from Japan, most G7 countries have experienced inflation rates within the range of 5%-10% for most of this year.

Continued Interest Rate Hikes Trigger Liquidity Crisis

To curb the negative impact of high inflation on the economy, numerous countries have continuously increased interest rates since the fourth quarter of 2021. By August 2023, the Fed raised interest rates from near zero to 5.25%-5.5% through 11 consecutive interest rate hikes. Similarly, the Bank of England raised the benchmark interest rate to 5.25% for the 14th consecutive time in a row, while the European Central Bank also raised rates by 425 percentage points. Consequently, global economic activity has slowed significantly, with the IMF projecting a mere 2.8% global growth for 2023. This subdued growth is due to long and wide-ranging interest rate hikes along with a slower-than-expected decline in inflation. [1] There are widespread concerns about a potential recession, evidenced by the inversion of the yield curve of US bonds.

Amid the aggressive interest rate hikes, commercial banks with a single business structure suffered runs and subsequent bankruptcies. Take the Silicon Valley bank, which was among the first to collapse, as an example. As early as March 2020, the Federal Reserve began implementing a combination of monetary policy tools encompassing "zero interest rate + quantitative easing" (the legal reserve ratio of commercial banks was directly reduced from 10% in 1992 to 0%, while the low interest rate was 0.1%). Many technology and biomedical start-ups deposited the financing obtained from the stock market into Silicon Valley bank, which in turn used these funds to purchase US treasury bonds and mortgage-backed securities (MBS) with an average interest rate of 1.5%.

However, this asset portfolio of "short debt and long investment" kept its cash flow extremely low. After the Fed raised rates aggressively, the yields on these bonds surged to 5%-7%, leading to paper losses of up to $18.9billion on a $120billion (cost) bond portfolio by the end of 2022. At the same time, start-ups could not

[1] IMF World Economic Outlook Report, April 14.

obtain enough financing from the stock market due to the downward trend but could only continue to consume bank deposits. Beginning in Q3 2022, Silicon Valley Bank encountered many redemptions (depositor withdrawals), with 95.6% of deposits lacking coverage by deposit insurance. The 0% reserve ratio also led to the original lack of liquidity to protect the relief valve, leading to Silicon Valley Bank's insolvency and subsequent bankruptcy in early March of this year. This failure quickly spread to other banks such as Sign Bank (with substantial digital assets) and First Republic Bank (focuses on wealth management). In the macro environment of increased volatility, banks with a single structure have a great resonance with the economic cycle and a higher probability of bank runs.

With America's banking sector in a tailwind, the share prices of US regional banks have tumbled, and more vulnerable banks have cut back on lending to improve their liquidity. The Federal Reserve's bank survey in late April showed that credit conditions within banks had tightened since March, with lending declines in all major sectors. The proportion of banks that tightened commercial and industrial lending conditions for large and medium-sized companies rose to 55.6% from 31.3% in the fourth quarter, nearing the highest level observed in 2020.

In addition to the banking industry, related enterprises have also suffered liquidity shocks. First, financial institutions that hold equity in the collapsed banks. Second, science and technology enterprises have been profoundly affected. The bankruptcy of Silicon Valley Bank has caused a huge impact on the stock prices of science and technology enterprises, exacerbating the adverse effects on their ongoing operations, especially within the broader context of widespread layoffs in the technology sector. Third, due to low expected returns, high interest rates and higher bank loan criteria, global commercial real estate projects are facing serious financing difficulties which may cause defaults and bring new risks.

Impact on the Global Asset Management Industry

The AuM Fluctuates Sharply

Structural changes in global asset prices have reversed the high asset valuations and low expected returns of the past few decades. At the same time, due to the rapid progress of these changes, many asset managers have not had time to reallocate their investment between stocks and bonds. By the end of 2022 , the AuM of the world's top 10 asset managers had fallen by 14% year-on-year, led by nearly 25% at Bank of New York Mellon. As of June 30, their AuM totaled $41 trillion, an increase of 6.4% year-on-year as the global equity and bond market improved. Consequently, the entire asset management industry is still in the process of rebalancing risk and return.

Table 3-1 Changes in AuM of Global Top 10 Asset Managers (2022-2023)

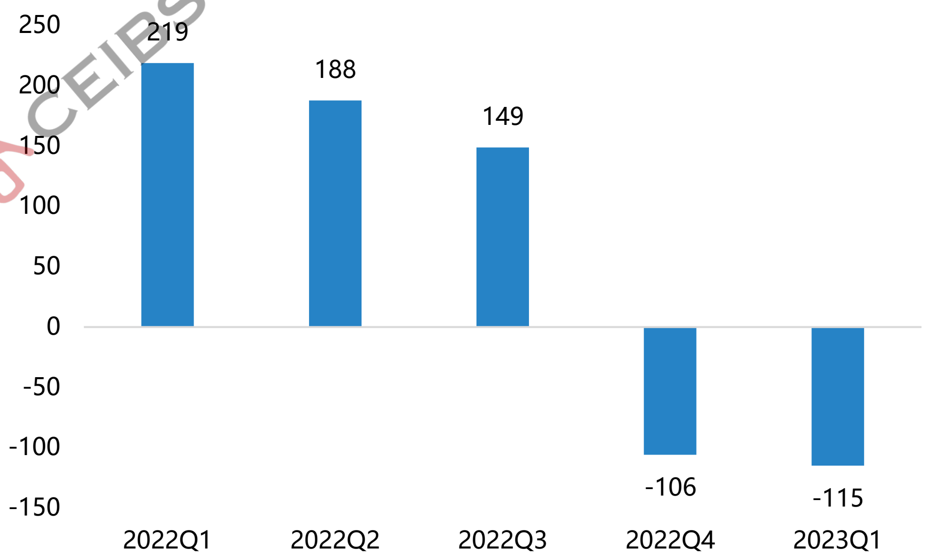
Sort by AuM in 2023 Q2		2023Q2	2022Q2	Growth Rate
		AuM (tn $)		
1	Black Rock	9.4	8.5	10.6%
2	Vanguard Group	7.2	7.6	-5.3%
3	Fidelity Investment	4.5	3.7	20.8%
4	UBS	4.1	3.9	5.1%
5	State Street	3.8	3.5	8.6%
6	JPMorgan	3.2	2.7	18.5%
7	Goldman Sachs	2.7	1.8	50.0%
8	Capital Group	2.3	3.1	-25.8%
9	Credit Agricole-Amundi SA	2.2	2.1	4.8%
10	Bank of New York Mellon	1.9	1.9	0.0%
Total		41.3	38.8	6.4%

Note: UBS's data does not include Credit Suisse.

Source: Asset Managers

Credit Suisse Group AG suffered the most significant impact, experiencing a substantial 9% decrease in its AuM during Q1 2023. Additionally, even with a SFr1.5billion write-down on its AT1 bonds, the adjusted income was down 33 % year -on-year, resulting in a pre-tax loss of SFr115m.

Figure 3-1 Restated Adjusted Pre-tax Wealth Management Income or Loss of Credit Suisse (mn CHF, 2022-2023)



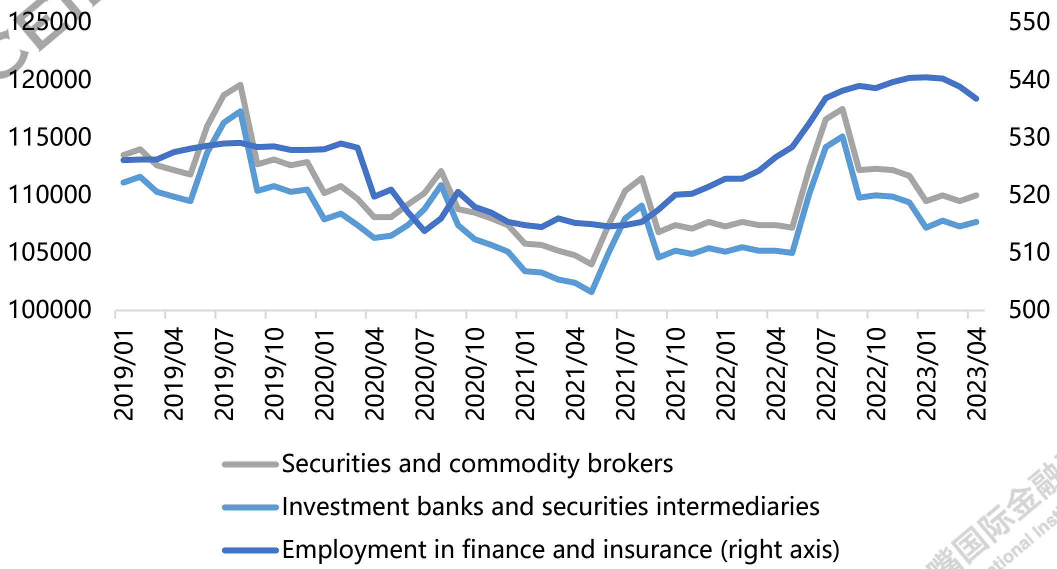
Source: Credit Suisse

In the process of global short adjustment, global asset managers have lost revenue and profit margins. The average EBITDA margin of US asset managers rose to 50% from 30% in 2019, but then declined to below 30% in June 2022, and further fell to 15% in January this year[2]. Meanwhile, the downward pressure on fees and rising costs has further intensified. Since 2022, the average management fees and performance fees have been below the long-term industry standards. This phenomenon can be attributed to two main factors. Firstly, there is intense competition among homogeneous fund products, funds tracking popular indices have been undercutting

[2] https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html

each other. Established beta and smart beta strategies have resulted in investors paying just a few basis points in fees. Secondly, technological progress, compliance and regulatory fees, the cost of human capital have all risen. Especially in the US, the tight labor market has led to financial sector wages returning to pre-pandemic levels in the second half of 2022, the highest level in three years.

Figure 3-2 Employment and Wage Changes in the US Financial Industry ($, 1000 people, 2019-2023)



Source: New York State Department of Labor

The large swings in global AUM suggest that a portfolio diversified solely based on the traditional standard allocation of stocks and bonds (60/40[3] or 80/20) is not resilient to market turbulence. As signs of the world economy falling into a recession in 2023 intensify, the diversified portfolio of global asset management is richer.

[3] 60% of the global 60/40 portfolio is invested in the MSCI World Index and 40% in the Barclays Capital Global Total Bond Index.

Bonds Return to Their Primacy

First, there is short-term US investment grade corporate credit, which has relatively low duration risk and less downside risk compared to global equities. Second, there are emerging market bonds, offering a significantly higher total yield than that of advanced economies. Fixed income is the only asset class to see better returns in 2023 than in 2022, according to the classified asset returns of the two largest North American pension funds, CPPIB and CalPERS.

Table 3-2 Returns of Major North American Pension Funds (2022-2023)

Asset class	Canada CPPIB 1-year return rate (%)		California CalPERS 1-year return rate (%)	
	2022	2023Q1	2022	2023H1
Stock	1.3	0.3	-13.1	5.8
Private equity	18.6	6.8	21.3	14.1
Fixed income	-3.8	-0.8	-14.5	0.0
Real estate	10.2	-1.2	24.1	-3.1
Infrastructure	10.8	5.6	—	

Source: Annual Reports of CPPIB and CalPERS

However, due to persistent inflation and policy uncertainty, fixed income alone cannot achieve the desired investment returns. Retirees and near-retirees are more inflation-sensitive groups, and the increasing cost of goods and services, including healthcare expenses, can erode the purchasing power through expected income increases for retirees on fixed incomes. As a result, inflation-linked bonds are in high demand, especially assets that are positively correlated with inflation. This is particularly appealing to large pensions funds seeking steady income. In Norway's GPFG, for example, while inflation-linked bonds accounted for less than 6% of fixed-income assets for many years, the share increased to 7% as of 2022 due to rapidly rising inflation. In real terms, this share increased from 1.5% in 2017 to nearly 2% in 2022-2023.

Table 3-3 Investment Performance of Inflation Linked Bonds in Recent Years (2017-2023)

	Inflation linked bonds in Norway's GPFG			
	Rate of return %	Proportion in fixed income assets %	Proportion of fixed income %	Actual proportion %
2017	-0.1	5.0	30.8	1.5
2018	-0.4	5.5	30.7	1.7
2019	6.7	6.5	26.5	1.7
2020	9.1	6.3	24.7	1.6
2021	6.4	6.2	25.4	1.6
2022	-13.3	7.1	27.5	1.9
2023H1	2.0	7.0	26.4	1.8

Source: Annual Reports of GPFG

Additional Allocations of Alternative Liquid Funds (ALFs)

This is noteworthy given that asset managers have been reducing their exposure to alternative investments in favor of traditional fixed income. For example, NY Mellon has reduced its exposure to alternative assets from 40% to 20%. But alternative assets have performed better during periods of higher inflation, making them an indispensable asset class in 2023.

First, private assets have insufficient liquidity premiums and tend to adopt floating interest rates, leading to higher yields in an environment of rising interest rates.

Second, both traditional infrastructure (such as toll roads and utilities) and non-traditional infrastructure (such as cell towers and renewable energy) can serve as hedge against inflation to varying degrees. In addition to the ongoing energy concerns caused by the Russia-

Ukraine crisis, globally active policies (such as the US Inflation Reduction Act and Europe Green Deal Industry Plan) can help channel capital from traditional to green energy, thereby increasing yields on renewable energy infrastructure.

To avoid the risk of insufficient liquidity of alternative assets[4], institution investors have generally augmented their allocation to Alternative Liquid Funds (ALF, also known as Alternative Mutual Funds) in 2023[5]. These mainly include trend-following funds, macro funds and commodity funds, among others, which can perform better in uncertain markets by adopting strategies with low correlation. Compared to traditional mutual funds, they can provide more diversified returns. But at the same time, the use of more complex investment trading strategies may also lead to higher costs and additional risks.

The Private Equity Market Still Holds Great Potential

Funds continued to flow into private markets, driven by high asset valuations and low expected returns until 2022. The total global size of private markets (including equities, credit, and real assets) reached $12 trillion at the end of 2022, double the size of the past six years. In terms of structure, leveraged M&A and venture capital each account for 1/3, while the rest are dominated by real assets and loans.

From the source of funds, mainly from developed markets. Some are pension funds of all kinds. At the end of 2022, real estate and private equity/debt combined accounted for about 30% of the pension assets of CalPERS and up to 50% of CPPIB. Not only that, these pension funds are not limited to the traditional positioning of LP (Limit Partners) but are conducting more cooperation with GP

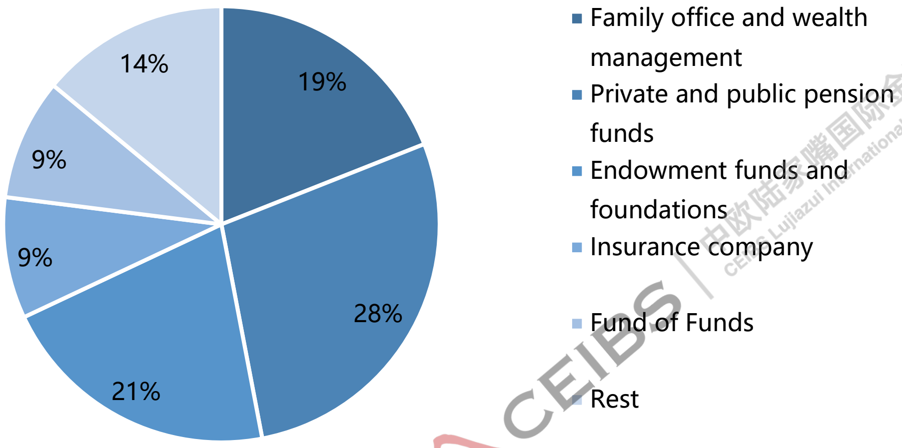
[4] For example, UK pension funds are unable to make up for the huge pension losses in the third quarter of 2022 due to their holdings of many extremely liquid alternative assets.

[5] www.investor.gov.

(General Partners) to participate in the private equity market in the form of co-investment and direct investment.

The other segment is family wealth offices and endowment foundations. Take North America, for example. The share of family offices in private equity in North America increased to 27% in 2022 from 22% in 2021, and this figure is projected to continue rising to 46% this year. In terms of sustainable investing, North America reached 37% in 2022, yet it still lags Europe (66%) and Asia-Pacific (42%). In addition, their investments are concentrated within the technology sector, including healthcare, biotech, fintech, digital technology, artificial intelligence, and green technology. Portfolio allocations in these areas are expected to continue to increase this year.

Figure 3-3 Sources of US Private Equity Fund Investors (2022)



Source: IMF, global financial stability report, April, 2023

In terms of capital investment, the private equity markets in North America, Western Europe, China, and India are highly attractive for capital. As the IPO market shrinks and the number of mergers and acquisitions falls sharply, the GP model begins to show a marked rise.

Potential Financial Risks Exist in Public Pensions

The world's large public pension funds faced not only a reduction in the value of their assets (by $1.3 trillion) but also an increase in the present value of their liabilities because of the monetary tightening. Most seriously, there are widespread government guarantees for public pension funds, which could pose explicit or implicit fiscal risks in two ways.

First, the decline in the labor force participation rate leads to the deterioration of the social security balance. On the one hand, the number of individuals exiting the labor market and the scale of drawing pensions has increased, and on the other hand, employment has declined, and real wages have stagnated or fallen, leading to a decline in the payroll tax base. For the contributory defined fixed-income pensions scheme, the most direct impact is the decline in contribution income caused by the reduction of the payroll tax base, which will lead to a deterioration in the balance of fixed-income social security accounts and a decrease in the financing ratio.

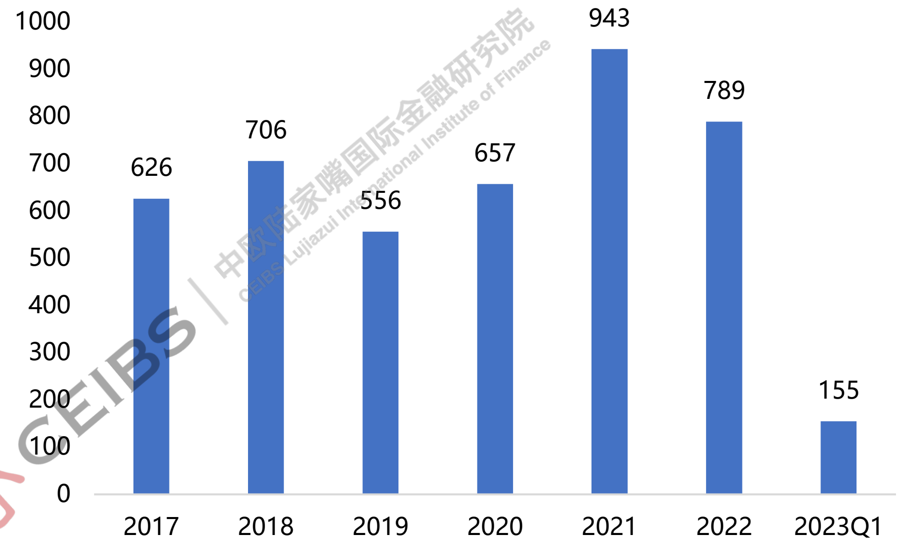
Second, asset price shocks have a negative impact on pension fund balance sheets. Ideally, the funding ratio should fluctuate around 100%. If it remains below 100% and asset values do not rebound, the pension liabilities can only be reduced or funded more by the pension sponsor. If the sponsor is the government itself (such as civil service pension schemes), the current shortfall in funding or the resulting future pension deficit will lead to lower spending elsewhere or higher government deficits, leading to higher taxes or higher public debt. At the same time, lower asset values mean that enrollees who retire (or liquidate their account balances) during a recession receive less pension income. This, in turn, could lead to increased poverty among the elderly, and require increased welfare spending in the coming years.

The Development of Hedge Funds Stagnated

First, the global macro hedge fund strategy has been affected. Hedge funds had three consecutive years of positive returns in 2020-2022, but volatility in interest rates caused by the failure of several major regional banks in the US had a significant impact on their macro strategies. In addition, the impact of the crude oil market production cut in 2022 continued into Q1 2023. While the financial turmoil in the US may reduce demand for crude oil, and China's economic growth may stimulate the demand, it is unclear whether the latter will make up for the reduced demand caused by the recession in western countries. By the end of the first quarter, global hedge fund issuance was at a three-year low level of 155.

Second, the distribution of hedge funds has shifted. Some hedge funds moved from traditional locales such as New York, London, and Hong Kong to Dubai and Singapore. On the one hand, as oil prices have boosted the size of sovereign wealth funds in the Gulf, international financial centers in the Middle East, such as Dubai, were able to reduce license fees and capital requirements for hedge funds and offer competitive tax incentives. On the other hand, Singapore has attracted some of the migration of smaller hedge funds and an influx of talent around the world, particularly from Hong Kong. Singapore has become a tax-efficient base for multinational corporations investing in India benefiting from the early Comprehensive Economic Cooperation Agreement between Singapore, as India emerged to be a major destination for international capital inflow. Moreover, Singapore has also become a gateway to Southeast Asian capital markets such as Vietnam and Indonesia.

Figure 3-4 Global Hedge Fund Issuance Record Low (2017-2023)



Source: Preqin Pro

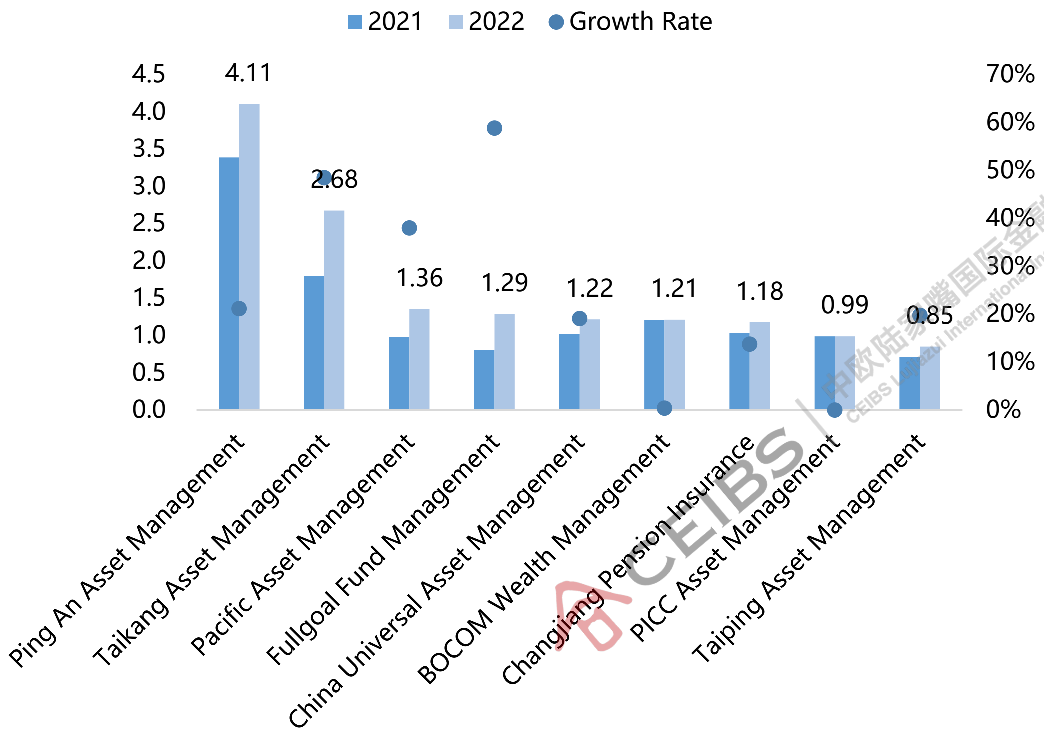
Challenges and Opportunities in China's Asset Management Market

Accelerating the Opening Up of Shanghai's Asset Management Market

First, the supply-side structural reform in the financial sector has continued to enrich the supply of underlying assets. In the first half of this year, Shanghai Stock Exchange was the top exchange in the sample in terms of IPO numbers (62). The Futures and Derivatives Law specifies the registration system for listing new varieties, accelerating the development and innovation of financial derivatives. Exchanges in Shanghai listed new products such as 30-year China government bond futures, aluminum oxide futures, synthetic rubber futures and options, and Shanghai (export) Containerized Freight Index based on Settled Rates (Europe service) futures. In addition, the two-way opening of the capital market has also provided more overseas investment targets for entities in China. In the first half of this year, four listed companies have issued GDR in Switzerland through the China-Switzerland Stock Connect, and one ETF has been listed in Shanghai through the Shanghai-Hong Kong Stock Connect. Meanwhile, the cooperation between Shanghai-Hong Kong ETF Connect has laid a good foundation for further enriching the underlying assets.

Second, top-tier asset managers have led the global growth of AuM. As of June 2023, the AuM of top five asset managers headquartered in Shanghai increased significantly, with a year-on-year growth rate of 23%, ranking among the highest in the world.

Figure 3-5 AuM and Growth Rate of Main Asset Managers in Shanghai (2021-2022)



Source: Asset Managers

In addition, BNP Paribas ABC Wealth Management opened in

Shanghai in June, which reflects the acceleration of global asset management giants' expansion in China in recent years. China has long formed an indirect financing financial system dominated by commercial banks, with limited foreign competition. By supporting joint ventures of financial subsidiaries of Chinese commercial banks (especially registered in Shanghai) and global asset managers overseas Shanghai has become a bridgehead for foreign asset managers to enter China. As of June, this year, all the joint-venture wealth management companies established with the participation of China's five major domestic banks, but with the foreign side holding the majority stake, have settled in Shanghai, namely CBI Wealth Management, BlackRock CCB Wealth Management, Schroders Bank of Communications Wealth Management, Goldman Sachs ICBC Wealth Management and BNP Paribas ABC Wealth Management. Although those joint ventures' current AuM is small, their parent companies' expansion in China is expected to accelerate, with the continuous opening of the capital market and the improvement of asset quality in China.

Table 3-4 AuM of Shanghai Joint Venture Wealth Management Company (2022-2023)

Joint venture wealth management company	AuM-RMB100mn (As of End of 2022)	Overseas parent company	AuM- tn $ (As of June 2023)
Goldman Sachs ICBC Wealth	1.5	Goldman Sachs Asset Management	2.7
Amundi BOC Wealth Management	509.7	Amundi	2.2
BlackRock CCB Wealth Management	67.4	BlackRock	9.4
Schroders BOCOM Wealth	180.8	Schroders	0.9
BNP Paribas ABC Wealth Management	/	Banque BNP Paribas	1.3

Source: Asset Managers

Third, policy resources continue to be abundant. The integrated domestic and foreign currency fund pool for multinational companies is a policy to facilitate the pooling and the use of cross-border funds by multinational companies, and Shanghai became a pilot in July 2022. Qualified Domestic Limited Partners (QDLP) and Qualified Foreign Limited Partners (QFLP) are important policies to improve the diversified asset management institution pool. As of June 2023, there are 59 QDLPs and 86 QFLPs in Shanghai.

The transfer of private equity in secondary market is an important way to enhance market liquidity, promote allocation diversification and manage risks. Shanghai Equity Custody and Exchange Center has become a pilot for private equity fund transfer, effectively broadening the exit channels of equity investment and venture capital. To promote green finance and sustainable development, the climate investment and financing pilot, as a policy-oriented financial tool, plays an important role in promoting more resource allocated to the field of climate change. Shanghai Pudong New Area became the first batch of pilot areas in August 2022.

It is worth noting that, due to its proximity to the national economic and financial policy center, headquartered asset managers are more concentrated in Beijing, and Beijing has obvious advantages in building an asset management highland. By the end of 2022, the total assets under management of banks, insurance, securities, public funds, private funds, trusts and other asset managers in Beijing were about 30 trillion Yuan, ranking first in China. Among the top 10 institutions in the field of private banking, securities, fund, trust and insurance, half are headquartered in Beijing. At the end of 2022, the AuM of top five asset managers in Beijing was 11.6 trillion Yuan and slightly higher than that in Shanghai (10.7 trillion Yuan). The year-on-year growth rate of AuM of state-owned banks was higher, such as Bank of China Wealth management (111%) and ABC Wealth management (161%) Moreover, the average AuM of state-owned banks was above 100 billion Yuan, much higher than that of joint venture wealth managers.

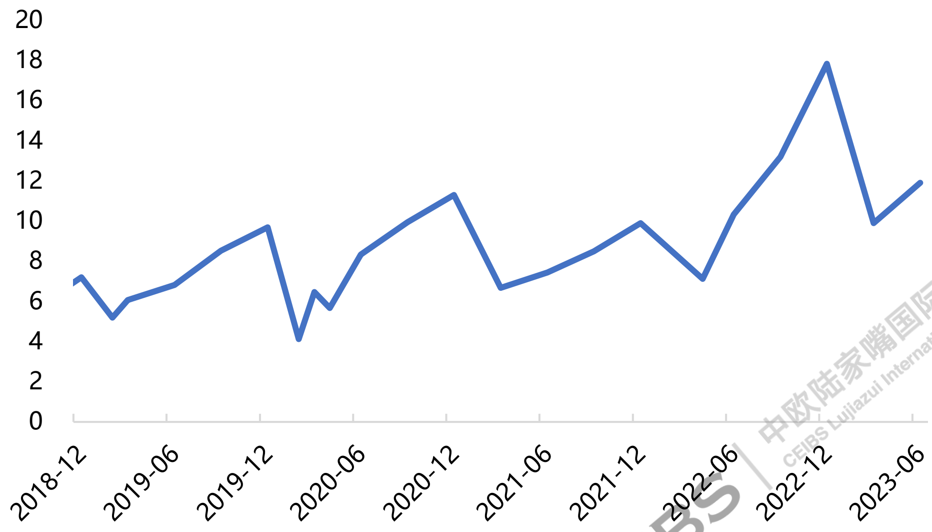
In the context of high-level Opening of China's financial market, Beijing and Shanghai are implementing parallel and complementary development strategies. From the institutional perspective, Beijing is making full use of headquarters resources to promote Chinese asset managers to become stronger and bigger, set up overseas branches, and strive to become an export-oriented asset management center. Shanghai is actively attracting leading foreign asset managers to bring advanced investment culture, market mechanisms, diversified products, and risk control concepts to the domestic asset management market, improving the ecology of the asset management industry, enhancing the level of Chinese-funded asset managers, and becoming a balanced asset management center. From the perspective of regulatory policies, Beijing is actively promoting the two-way opening of capital accounts to enhance international competitiveness and reflect the outward "tension" of China's financial system. Shanghai is actively optimizing the business environment, further reducing the threshold of market access, exploring institutional Opening, and enhancing the "gravity" of financial Opening. These two are working together to support the construction of a high-level two-way financial Opening pattern.

The Banks' Transformation Towards Net-Worth Wealth Management Shows Effects

According to the Semi-annual Report on China's Banking Wealth Management Market (2023 I) released by the Banking Wealth Management Registration and Custody Center, by the end of June this year, the bank wealth management market was 25.34 trillion Yuan, of which the net worth financial products had a value of 24.31 trillion Yuan, accounting for 96%, which increased 0.85% over the same period last year. The standardized transformation of the wealth management business has achieved remarkable results, and thus, the wealth management market is expected to accelerate in the second half of the year.

First, in the short to medium term, residents' demand for asset allocation will continue to grow. In 2022, China saw a new addition of 17.8 trillion Yuan in household deposits, that is 7.9 trillion Yuan more than the number in 2021, forming "excess savings". Most of them returned from wealth management market after products fall below net value. At the end of June, the increase of household deposits were 11.9 trillion Yuan over the beginning of the year and 1.9 trillion Yuan more than that of the same period last year.

Figure 3-6 New Addition of Resident Deposits in China (tn RMB,2018-2023)

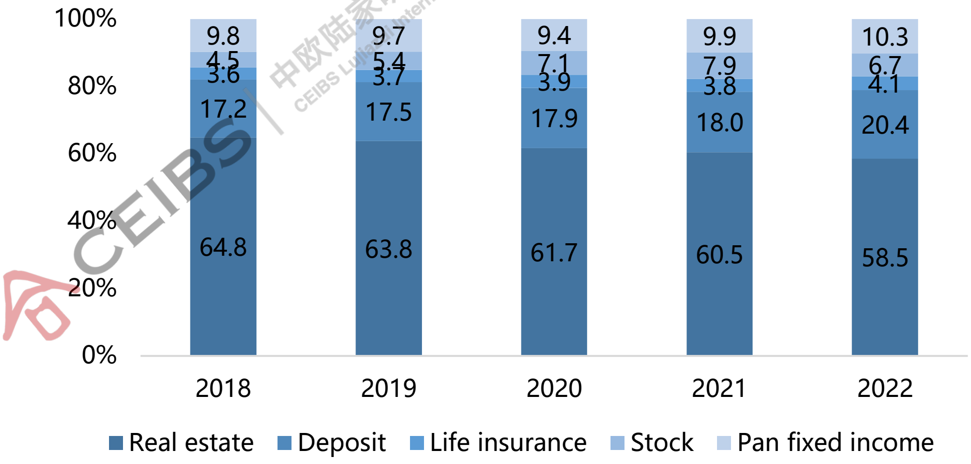


Source: The People's Bank of China

Second, the decline of bank deposit interest rates and the adjustment of residents' allocation structure bring incremental funds to the wealth manage market. Since the beginning of this year, the interest rates of notice deposits, agreement deposits, demand deposits and multi-year time deposits have been reduced one after another. The shrinking of deposit income has enhanced the substitution effect of the bank financial market. At the same time, with the policy "No

Speculating on Houses", the residents' asset allocation structure has been gradually adjusted, showing the transformation from real assets to financial assets, bringing incremental funds to the banks.

Figure 3-7 Asset Allocation Structure of Chinese Residents (2018-2022)



Source: CICC

Third, supply-side structural reform in the financial sector has brought incremental investment targets to the bank wealth manage market. Since the implementation of the registration system for stock issuance, futures and options, the listing of investment targets has accelerated, bringing more investment options to the wealth manage market. In addition, the long-awaited Cross-border Wealth Management Connect and Bond Connect, China-Switzerland Connect and Swap Connect have realized the two-way opening of the multi-level capital market, which greatly enriches the overseas assets that can be invested while introducing overseas funds.

It is worth noting that the lack of risk appetite of customers restricts the business development under the net value transformation. In Chinese bank wealth management market, investors have weak risk preference, and the thinking of "Bail Out" increases market instability, which easily lead to liquidity risks in the process of net value adjustment. To cater to customers' risk preference, the market has formed a relatively single structure dominated by fixed-income products, which restricts the market's anti-risk ability and income enhancement opportunities under the volatile market.

Infrastructure REITs Continue to Expand

Globally, slowing economic growth has led to fewer tenants in warehousing logistics, whose growth has been led largely by growth in e-commerce spending. Leading economic indicators like Consumer Confidence Indexes suggest that demand is likely to remain subdued in the second half of 2023.

However, there are still significant differences among sub-sectors, as well as between coastal and inland areas. In the Q1 2023, the pilot scope of public offering of REITs on the Shanghai Stock Exchange further covered the new energy field with the underlying assets of offshore wind power and photovoltaic power generation projects. As of August 2023, a total of 19 public REITs has been listed on the Shanghai Stock Exchange, with a market value of nearly 70 billion Yuan and driving investment of more than 320 billion Yuan. Their projects cover various asset types such as toll roads, industrial parks, sewage treatment, warehousing and logistics, low-income rental housing, and new energy, forming a certain scale effect and demonstration effect.

Compared with other exchanges in Asian asset management centers, the growth rate of Shanghai Stock Exchange REITs is accelerating. As of Q2 2023, the number of REITs listed in Tokyo and Singapore both had negative year-on-year growth, with the market value of Tokyo REITs falling by nearly 10% and Hong Kong down nearly 20%. In Shanghai, not only the number increased by 1.7 times year-on-year, but also the market value increased by 70%. The growth in Shanghai exhibited typical characteristics of emerging asset management markets.

Table 3-5 Distribution of Major Listed REITs in Asia (2022-2023)

		Tokyo	Singapore	Shanghai	Hong Kong
Number of REITS	**2022Q2**	68	43	7	11
	2023Q2	65	42	19	11
	Growth rate	-4.4%	-2.3%	171.4%	0.0%
Capitalization of REITS-bn $	**2022Q2**	121.5	78.8	5.2	27.2
	2023Q2	109.8	73.7	8.8	22.1
	Growth rate	-9.6%	-6.5%	69.2%	-18.8%

Source: WFE, SGX

In March this year, the China National Development and Reform Commission and the China Securities Regulatory Commission issued a document to expand the scope of REIT and accelerate the normalization of REITs issuance [6] ."Supporting the issuance of consumption infrastructure REITs which could enhance consumption capacity, improve consumption conditions, and innovate consumption scenarios; Priority will be given to urban and rural commercial outlets such as department stores, shopping malls, and farmers' markets, as well as for community commercial projects that guarantee basic people's livelihood." Starting from "small steps and fast running", China's public REITs will usher in a period of rapid development of the industry.

[6] On March 7, 2023, the Notice on Further Promoting the Normalization of the Issuance of Real Estate Investment Trusts (REITs) in the Infrastructure Sector was issued.

OUTLOOK

The asset management industry is highly concentrated. Data from the first half of 2023 shows that the AuM of the world's top 10 asset managers has exceeded 40% of the global total. According to a recent PWC survey, more than 70% of asset managers are considering strategic integration with another to enter new market segments and reduce risk. Under the pressure of cost and competition, global AuM will be more concentrated in the leading companies.

Huge amount of assets in China needs to be managed, second only to the US. China's asset management industry is still young, and bank wealth management and trusts are in the throes of transformation. As private pension business accelerates, by 2030, the second pillar and the third pillar of pension assets are expected to grow to 15-21tn Yuan, will provide global asset managers with huge market opportunities. At the same time, the diversification of investment varieties of pension products, including greater access to overseas products, will help Chinese pension savers achieve stable, long-term risk-adjusted returns.

Although overall inflation in Europe and the US has been slowing down since the Q3 2023, core inflation remains high, and commodity prices are rising again after a short-term decline. Global stocks, especially in the US, emerged from a bear market due to tech boom. Consumer spending continues to increase, the market forecast for the US recession has shifted to "soft landing". However, the damage of interest rate hikes to the world economy continues to emerge, and the yield curves of the Eurozone and the UK have been seriously inverted, indicating that the possibility of a "hard landing" of these economies is still high. In addition, the asset quality of banks would further deteriorate. In August, Moody and S&P downgraded the ratings of several US regional banks successively, making the risk of the US banking industry one of the biggest uncertainties in the global capital market. A portfolio focused on long-term returns can withstand the risk of rising long-term interest rates, which will no doubt continue to change the product strategy preferences of the asset management industry.