



A bump in the road

The Chinese Market has taken a knock but long term trends remain positive.

The market turmoil in China is well documented. Its impact on the savings industry, whether mutual funds or insurance and pension funds has been significant. Having reached a level of more than \$1.1 trillion in the middle of 2015, the second half saw a sharp decline in net asset values. This was largely the result of the general sell-off in the market and hence reduced valuations. While some domestic investors have sold funds, for the most part they have, as is often the case in western markets, been the most long-term in their focus. Redemptions have occurred but perhaps not to the extent that some industry observers were expecting. Nonetheless a number of funds have been closed due to net asset values falling below commercially sustainable levels as well as the regulatory threshold. Also in common with western markets, even where mutual fund investors do sell out of equity or fixed income funds it is as often as not to invest in money market or other savings products. So overall assets stay within the mutual fund industry, albeit in funds that are less risky and command lower fees.

The longer term question for the industry is whether the recent position is a modest setback on what many still see as a future of great promise, or a major shift in patterns of saving and spending that could afflict and affect the industry for years to come. The answer to this question probably has more to

do with the overall economic situation in the country rather than with the short term gyrations of what remain relatively illiquid securities markets. The most optimistic scenarios for the funds industry assumed to some extent that the Chinese economy would continue to grow, that citizens would become wealthier and that as they aged they would look to save more of their salaries to provide for a more comfortable retirement. To the extent that the economy grows more slowly, those opportunities become more limited. While China has always been a nation of savers, the investment approach has tended to be cautious. Increased exposure to equities was encouraged and in the short run for many may have not turned out very well. That may discourage further engagement with securities funds as opposed to money funds.

Certainly in the short run, the economic position of the funds business has taken a knock. Lower asset values and lower margin products are not the context on which many business plans were based. However the industry is dominated by major financial groups, both domestic and foreign, with a long term view and deep pockets. We do not expect much fall out in the near term. However, servicing providers, such as those covered in this Survey cannot be immune from cost pressures and must anticipate client demands for lower fees. Not really any different from other global funds markets. ■

SURVEY OVERVIEW

Still going strong

Market turmoil notwithstanding clients remain very happy with operations and administrative support services from their domestic banks.

We are delighted that the second year of our Survey of Domestic Custody in China has attracted even more responses than our very first Survey, published in 2015. The quality and credibility of its respondents remains critical to the success of the published output.

Once again the very largest managers have responded to the Survey in numbers. Fully eighty per cent of the biggest firms measured by Assets under Management provided input. Their business carries with it the highest levels of scale and complexity in operational, reporting and valuation services. We very much appreciate the time and effort that the individuals who completed the Survey have given and we believe that as a result, the Survey reflects a comprehensive, solid and credible assessment of the fundamental services provided by custodian banks in China. We also appreciate that a large number of smaller managers, pension funds and others took time to complete the questionnaire.

The results are once again exceptional in terms of the average scores achieved both by the largest providers measured by number and weight of responses and taken overall. The average overall score was 6.6 i.e. between Very Good and Excellent. Figure 1 shows the actual scores received in each of the ten core areas of service evaluated within the questionnaire and shows how these compare these to those seen a year ago. In three areas scores are higher than in 2015 while in seven they have declined. The biggest absolute

decline is recorded in the Handling of non-Domestic securities leaving it as the lowest scoring question in the Survey.

However, in terms of core service provision the decline of 0.14 points in Asset Servicing and 0.12 points in Relationship Management and Client Service are perhaps more noteworthy. Elsewhere both gains and declines in scores are small and relatively insignificant. The area of highest scoring was Reputation and Asset Safety where the score of 6.75 was indeed extraordinary as a vote of confidence in the position of all of the provider banks.

Given the turbulence seen in the financial markets it is important that managers have confidence in the creditworthiness of their providers and also in their ability to maintain necessary levels of investment in support of what remains a key area of future business growth for all market participants.

In terms of service priorities, Figure 2 highlights both the relative position of different service categories in the minds of clients and the evolution over the last twelve months. In this regard it is worth noting the increase in importance of Relationship Management and Client service. This is offset to some extent by the decline seen in the mentions for Reputation and Asset Safety. The level of satisfaction with the latter is probably reflected in its decline in relative importance. Similarly the greater focus on Relationship Management may be a function of the fact that scores are lower this year.

Fig 1: Average scores by category

Service area	2016	2015
Relationship management & client service	6.60	6.72
Fees and value	6.49	6.50
Settlement	6.55	6.61
Asset servicing	6.49	6.63
Special operational requirements	6.38	6.66
Reporting	6.50	6.53
Technology	6.52	6.51
Fund accounting & valuation	6.59	6.67
Trustee services	6.62	6.56
Reputation & asset safety	6.75	6.72

Fig 2: Respondent priorities ranking

Service area	2016	2015
Relationship management & client service	16.91	11.17
Reputation & asset safety	13.85	16.27
Settlement	13.42	11.64
Fees & value	11.98	11.79
Asset servicing	11.76	10.75
Reporting	8.24	7.44
Fund accounting & valuation	7.11	9.73
Special operational requirements	6.56	6.34
Technology	6.10	8.64
Trustee services	4.17	6.22

Fig 3: Type of respondent

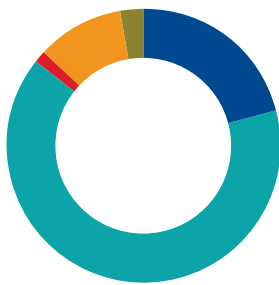
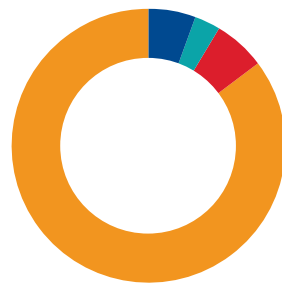


Fig 4: Size of respondent



The nature of responses from different types and sizes of clients is also important in understanding the effectiveness of service provision across the broad range of clients. Figures 3 and 4 show the breakdown by Type and Size respectively based on the weight of respondents in each case. As in 2015 the majority of responses are from the larger clients and mutual fund managers also dominate but to a lesser extent. As is the case in other surveys, the larger clients tend to score less well and the growth in their numbers may be a factor in the modest decline in scores recorded in 2016. ■

Methodology

Global Custodian domestic surveys are intended to assess the extent to which local service providers are meeting the expressed needs of their domestic clients. Such needs are often different from those of cross-border investors covered in the Agent Bank surveys published by the magazine. Many service providers also focus mainly or exclusively on domestic clients.

To obtain the relevant information, clients are invited to complete a short on-line questionnaire. This typically involves around 20 questions. The questions are grouped into between eight and twelve service categories for presentation purposes. Respondents evaluate each question for each service provider that they use. Scores range from 1 = Unacceptable to 7 = Excellent. Where clients have insufficient experience of a service or do not use it all, they can enter N/A. Clients are also asked to indicate which categories are most important to them in assessing the overall service being received and are given the opportunity to provide explanatory comments and identify specific strengths and weaknesses of their service provider(s).

Each question is given an individual weighting depending on the importance attached to it by clients. Each respondent is given a weighting based on the scale and breadth of their business and the detail included in the response(s) they provide. Respondents are also described by their type of business and the level of their assets under management (AuM).

Global Custodian's Research department calculates weighted average scores for each provider, for each question, each category and an overall total. The Research department also calculates scores for different types and size of respondent allowing us to reflect as accurately as possible the relative position of each service provider, both overall and with specific client subgroups. Summary information is presented in each Provider Profile together where relevant, with explanatory contextual commentary.

More detailed analysis of scores and comments received is available from the Global Custodian Research department. This group also administers the digital accreditation process by which suitably qualified providers can receive a formal accreditation of their achievements, in the form of one or more digital badges.

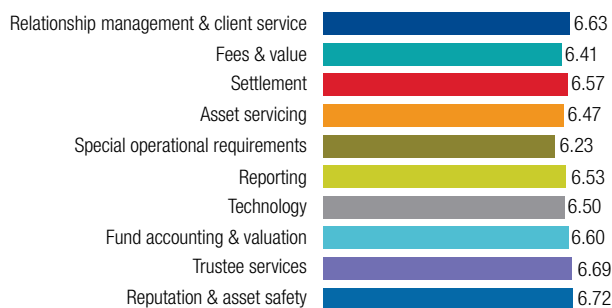
Agricultural Bank of China

Agricultural Bank of China (ABC) scores, in contrast to the overall Survey results were noticeably improved compared with 2015. Eight of the ten categories saw better scores. In particular there was a gain of 0.52 points in scores for Reputation and Asset Safety and a smaller, but nonetheless important improvement in Relationship Management and Client Service (0.08 points). These are areas where all clients offer scores and so the gains reflect a genuinely higher client perception of performance than that seen a year ago. ABC had one of the highest proportions of weight among the largest demanding clients as well as clients who were in a position to compare performance of different providers. Given this

demographic, the results of ABC are especially encouraging.

The gain of 0.21 points in Asset Servicing was accompanied by a number of respondents who considered that to be a key strength of ABC. This was the most frequently mentioned area of positive comment. Also among the strong points of the ABC offering were Reputation and Asset Safety and Relationship Management. ABC is focused on meeting client expectations in some of the most important core areas of service. One area where scores declined was in Handling of Non-Domestic Securities, the lowest scoring aspect of service for ABC. While the score achieved was still very good, in relative terms it is perhaps the area that could most benefit from further focus in the year ahead. ■

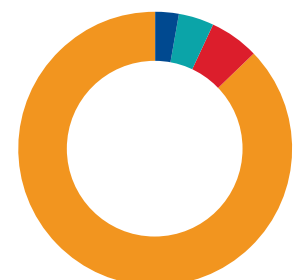
ABC: Respondent priorities ranking



ABC: Type of respondent



ABC: Size of respondent (AuM)



China Construction Bank

Once again the performance of China Construction Bank (CCB) was exceptionally strong. It received more responses, based on weight of respondent than any other provider, more than 30% of the total. It achieved the highest average score of all providers in eight of the ten categories covered in the Survey. In particular it scored best in both Reputation and Relationship Management. While scores failed to match the extraordinary levels of 2015 they remain distinctive in absolute and relative terms. Where scores did not stand out were relatively less important categories. Everywhere scores were better than 6.50, which suggest that the bank is able to meet the very highest of standards. Of most significance is that where respondents were rating more than one

provider, they were generally of the view that CCB scores should be the same or higher than those of other banks being evaluated. The differences may not be statistically significant they suggest anecdotally that CCB is slightly ahead of its competitors.

Clients saw specific strength in the areas of Settlement and Cash Management and also in a handful of cases in Fees and Value Delivered. This latter point is not always an area that clients or providers want to focus on. However in the absence of serious weakness or competitive strength among different providers, Fees cannot be discounted as a factor in selection. The main area mentioned for improvement was Handling of non-Domestic Securities. ■

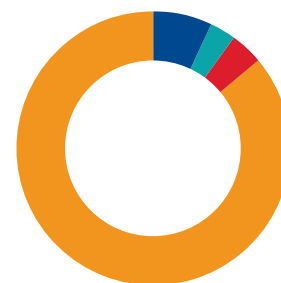
CCB: Respondent priorities ranking



CCB: Type of respondent



CCB: Size of respondent (AuM)



ICBC

Industrial and Commercial Bank of China (ICBC) had the highest proportion of business from the very largest clients and measured against their very high expectations it performed extremely well.

Scores for ICBC were higher than a year ago in six of the ten categories of service. Significant gains were seen in Asset Servicing and Handling non-Domestic Securities. The latter area was still mentioned by some respondents as an area needing improvement, which illustrates the evolving nature of expectations among Chinese investors in this area.

Areas of greatest strength for ICBC spanned most elements of the Survey. This suggests that clients are generally very satisfied

with all areas and perhaps have difficulty determining a specific area that merits singling out for particular praise.

The best scores were reserved for the two most important areas of Reputation and Relationship Management and it is clear that ICBC is seen as focusing effectively on elements that are most important to its clients.

While scores for Settlement were effectively unchanged, those for Technology and Reporting, as well as Asset Servicing were higher than in 2015. Only Fees together with the less critical element of Fund Accounting and Valuation saw noticeable declines in scores, with other differences being marginal. ■

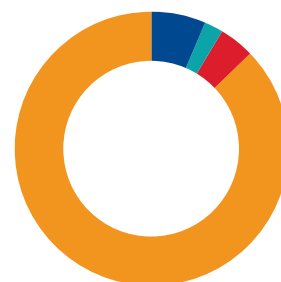
ICBC: Respondent priorities ranking



ICBC: Type of respondent



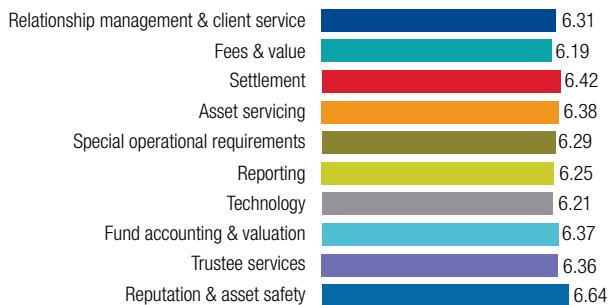
ICBC: Size of respondent (AuM)



Bank of China

In 2015 Bank of China (BOC) did not receive enough responses to qualify for a write-up of its own, being incorporated into the 'Other' group of providers. 2016 saw response numbers increase and they offered enough breadth and depth to merit inclusion. The responses were dominated by those from mutual fund managers who accounted for more than 80% of the total by weight. They were also among the largest respondents. There are no comparable scores from 2015 as the response levels did not allow an appropriate calculation to be made. Generally scores for 2016 were very good in an absolute sense. The average score in all categories was better than 6.0 (Very Good), which is strong in the context of surveys

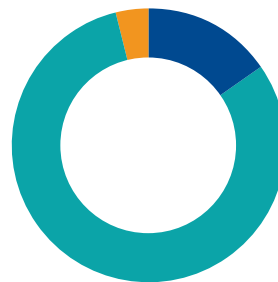
BOC: Respondent priorities ranking



generally. However compared with others in China the results look slightly weak. Only in terms of Reputation and Asset Safety did BOC beat 6.50. Scores for Fees and Value, as well as Technology were below 6.25. Again in most surveys this would be more than satisfactory but, in the particular circumstances of this Survey BOC appears to be behind its competition.

Interestingly two respondents regarded the Handling of non-Domestic Securities as being a particular strength of BOC while one client saw it as a weakness. This highlights just how hard it is to maintain a standard of service that all customers find consistently exceptional. It will be interesting to see how BOC business and scores evolve in future. ■

BOC: Type of respondent



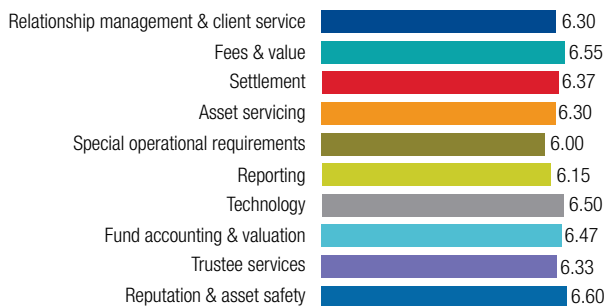
BOC: Size of respondent (AuM)



Other

This year saw a noticeable increase in the number of providers receiving at least one response to the Survey. As well as China Merchants Bank (CMB) which was mentioned last year, responses were received for Bank of Jiangxi, China Guangfa Bank, China Industrial Bank, Bank of Communications, Bank of Ningbo and China Minsheng Bank. CMB received more responses than any of the other providers covered here but was still some way short of receiving enough to merit a meaningful assessment of overall capabilities. Other banks typically received only one or two responses. It is not clear exactly what the basis of their competitive profile is i.e. regional or specific type of business in terms of focus.

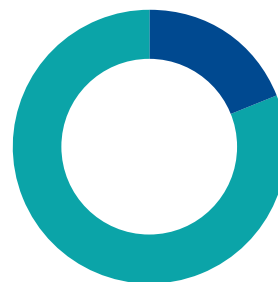
Other: Respondent priorities ranking



The sheer number of providers who did generate a response suggests that the future environment is likely to become more rather than less competitive.

In terms of scores achieved, this group generally received ratings that were consistent with the overall Survey scores though in some cases they were lower than the average. Given the small number of respondents in each case it is inappropriate to draw any specific conclusions. Clearly there may be geographic, business or industry links that allow for new clients to be won and price can also be a factor. Overall the market promises to be an interesting one in the years ahead as these new players seek out a distinctive space in the market. ■

Other: Type of respondent



Other: Size of respondent (AuM)

