



Growing Asia's Markets



Importance of Research Sharing to Global Asset Managers

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INTRODUCTION

With the continued opening up of China's capital markets, many foreign asset managers have or are in the process of setting up an onshore public fund management company (**FMC**), either wholly foreign-owned (**WFOE**) or majority foreign-owned, in addition to the private fund management company (**PFM**), joint venture bank wealth management subsidiary (**BWMS**) and/or unregulated advisory or consulting WFOE that they might have already established in China.

Regardless of the type of asset management entity global asset managers have or plan to establish in China, the ability to share research and exchange investment outlook and views between them and their wholly or majority owned subsidiaries in China is a critical part of their strategy and also a key factor in their attraction to investors on a global scale.

This paper sets out (1) the research sharing practices of global asset managers, (2) the reasons why research sharing is part of their fundamental value and core competencies, (3) the importance of research sharing to global asset managers which have to stay informed of investment opportunities as well as risks globally, (4) the benefits that research sharing brings to the development of local research analysts and the asset management industry in China, and (5) how research sharing promotes a better understanding of the China market as well as the global markets and presents an objective view of the investment opportunities in China and elsewhere in the world.


I. GLOBAL ASSET MANAGERS' RESEARCH SHARING

It is a common practice for global asset managers to adopt a group or global research sharing model where they share internal research, which includes research on the macro-economy, industries, sectors and individual companies, within their group.

Global asset managers normally consider their in-depth research as one of their core competencies and the foundation of many of their businesses. They typically have global research teams made up of professionals whose disciplines include macro-economic, equity, fixed income and quantitative research, across many markets and regions.

Their investment expertise includes, for example, (1) actively-managed strategies across both global and regional universes, and across capitalization ranges and investment strategies; (2) passive management strategies, such as index and enhanced index strategies; (3) alternative investments, such as hedge funds, fund-of-funds, private equity, and real estate; and (4) multi-asset services and solutions, such as dynamic asset allocation, customized target-date funds and target-risk funds. The investment experts in each of these areas share their best ideas across geographies, asset classes and sectors, collaborating with each other to generate investment insights.

Global asset managers' internal industry analysts typically would need to understand industry trends and individual company's strengths, taking into account industry development, ecological chains and competition on a global scale. For example, an onshore analyst covering an electric vehicle company



in China could reach out to another analyst within the group overseas to compare the strength of the company to other similar industry market leaders elsewhere in the world and/or to understand what problems or issues may arise in that industry elsewhere.

Similarly, an analyst covering China from overseas would learn from their counterparts in China about the latest developments and innovations in China and the latest investor preferences in China. Until China asset management entities are allowed to manage foreign portfolios or overseas funds that invest in the China market, overseas analysts and investment managers would benefit substantially from the research conducted by their affiliates in China.

In addition, it is not uncommon for some global asset management firms to have global industry analysts who would cover research on companies of a particular sector (e.g., e-commerce) globally and share research results with portfolio managers within their group. Portfolio managers treat the research results as part of the mosaic in their investment decisions. Research and investment management, although closely related, however are two distinct activities. In many cases, investment research or ideas would not result in an investment decision.

II. BENEFIT/IMPORTANCE OF RESEARCH SHARING


Sharing research results among investment teams across geographies within an asset management group (for internal purposes only and not for sharing with third parties) is a common practice of global asset managers. It brings the following benefits.

CONSISTENT GROUP INVESTMENT VIEW AND POLICY

The sharing of research across entities within the same group can minimize the risk of contrarian views so that an overarching "house view" can be derived from a variety of investment views and the investment objectives of onshore and offshore strategies of the group can be more aligned. This is what distinguishes one global asset manager from another, and this is the advantage or benefit that they can bring to China. This would not only benefit the group but ultimately all investors, including Mainland Chinese investors, who are likely to be interested in a broader view of the markets as well as investment opportunities.

Global asset managers would want to ensure the quality and consistency of the research published by its wholly- or majority- owned fund management company in China as it would raise questions from investors, both foreign and domestic, if the investment views on China expressed by its China subsidiary are different from the group's views expressed elsewhere in the world. The sharing of research and investment views on industries, sectors within the same group would help the group align its onshore and offshore investment strategies and ensure consistency of the group's investment approach towards China.

In addition, this iterative process builds trust with investors and builds credibility in the markets and the companies being invested in. Having real-time access to their subsidiaries' relevant research



enables global asset managers to speak to clients in a consistent manner globally, which is particularly important during times of market volatility.

BROADENING THE VIEWS OF ONSHORE ANALYSTS

For onshore China analysts, regular sharing of research and exchanges of research views with their overseas colleagues can open up a broader perspective for their domestic portfolios and improve the quality and service level of their own research. Since world economies are often intertwined and as dependencies across regions become more prominent, being well-informed on global and regional trends and having access to group research that are diverse and views that are from different angles and regions of the world is just as important as the research that they conduct locally themselves.

The sharing of research and views of research analysts within a global asset management group should result in the local China research teams being better informed when making investment decisions which benefits and better protects the interests of their domestic investors. In the long run, it will help China-based analysts prepare for and meet the overseas investment needs of domestic investors and protect their overseas investment interests. It will increase their knowledge base and prepare them to not only manage overseas investments of their domestic clients but also offshore portfolios investing into the China market.

DEVELOPMENT OF LOCAL TALENT AND THE ASSET MANAGEMENT INDUSTRY IN CHINA

Moreover, allowing the free flow of research into and out of China and unrestricted exchanges of research and investment views between global asset managers and their wholly- or majority-owned China subsidiaries will lead global asset managers to hire or re-locate more of their China-focus analysts in China which will facilitate the development of China's asset management industry as a whole. This is why many regulators in the region, such as Hong Kong's SFC and Singapore's MAS, are all trying to encourage asset managers to be based in their jurisdiction.

Many of the global asset managers which have established or are planning to establish an FMC in China are looking to scale up their onshore presence and investment management operations. If they cannot freely share research with their China subsidiaries, they would have to keep their China-focus analysts in other markets (e.g., Hong Kong and Singapore), which is not ideal as global asset managers prefer to build their investment and research teams in or close to the markets in which they invest.

FURTHER OVERSEAS UNDERSTANDING OF THE CHINA MARKET

For overseas analysts covering the China market from abroad, they can learn a lot from their China colleagues on the ground who are better informed on and have greater access to government policies, industry sectors and trends, and corporate strategies. Research from their China colleagues will supplement their global research, thereby strengthening their overall research and outcomes. It will help them better understand the China market and better explain it to foreign investors.



China is often misunderstood by the outside world particularly in today's geo-political environment. Therefore, it becomes ever more important for there to be access to information from China on its capital markets, industries and companies if Chinese companies were to regain their overall credibility and China were to attract more foreign capital inflows. Global asset managers being able to access research from their own subsidiaries in China would contribute greatly to the credibility and trustworthiness of their views on investing in the China market.

Global asset managers which have established or are in the process of establishing asset management entities in China clearly believe in the prospects and viability of the China market. It is important and beneficial for them to learn from their China subsidiaries, whether it is the research generated by such subsidiaries or their knowledge and experience gained in having a subsidiary operating in China.

Since other major markets in which global asset managers operate do not have restriction on research sharing between members of the same group, if China adopts the same approach, it would send a very positive message to global investors. In these other markets, there are usually sufficient controls and monitoring in place to prevent potential leakage of non-public information, front-running, conflicts of interest and other risks that regulators in other markets are concerned about.

III. TYPES OF RESEARCH AND INVESTMENT VIEW SHARING

The research and exchange of investment views shared globally within a global asset management group typically include the following:


- Macro developments
- Market data and development
- Market expectations
- Research on different asset classes (equities, fixed income, real estate)
- Research on industry sectors
- Research on individual companies (financial analysis, ratings, valuations)
- Investment thesis and ideas

GREATER RESTRICTIONS ON FMCs

We understand that while Chinese regulators tend to be stricter with FMCs on the sharing of research with their shareholders, PFMs, BWMSs (which are regulated by the China Banking Insurance Regulatory Commission and not the CSRC) and unregulated advisory or consulting WFOEs have been able to share research with their shareholder (including foreign or overseas shareholder).

INDEPENDENCE OF FMC'S INVESTMENT DECISIONS

Article 9 of the *Guiding Opinions on the Prevention and Control of Insider Trading in Investment and Research Activities by Fund Management Companies* issued by the China Securities & Regulatory Commission (CSRC) on 15 November 2012, for example, provides that investment decisions by FMCs



should be independent and prudent. Similarly, Article 19 of the CSRC's *Administrative Measures of Publicly-offered Securities Investment Fund Companies* issued on 20 May 2022 requires that the FMC put in place measures that the FMC's research and investment decisions are scientific, professional, independent and objective.

While global asset managers adopt a global research sharing model, portfolio managers manage their portfolios independently, in accordance to their own investment thesis and investment objectives of their funds/clients while taking into account the research information available to them. FMC's portfolio managers, in compliance with Chinese law, should be making their own independent investment decisions. However, research sharing should not be equated with investment decisions.

Global asset managers are experienced with operating across many jurisdictions, each with their own regulatory requirements and market practices. They are set up internally to ensure compliance with not only local but also global regulations applicable to them.

PROTECTION OF NON-PUBLIC INFORMATION

CSRC's concerns over FMCs' sharing with its shareholder (particularly an overseas/foreign shareholder) may be due to the fact that FMCs manage retail public funds and the leakage of any non-public information of the FMC may hurt the interest of retail investors of the FMC's funds. However, it is a common requirement and widely accepted practice that financial institutions have in place policies, procedures and controls on their access and use of non-public information. The risks of leakage of such information are not unique to the China market as global asset managers typically manage many public funds in other jurisdictions and often gain access to non-public information which are considered internally only and usually shared among a limited number of staff within the company or group on a need to know basis subject to strict information barriers and controls.

Global asset managers have put in place controls to ensure that they comply with both global and local laws and regulations applicable to them. In addition, some global asset managers have multiple business lines, such as investment banking, brokerage as well as asset management within the same group, and there are exiting information barriers and controls to ensure proper segregation of the different businesses. Even within the asset management business, there could be additional information barriers and controls.

Besides the strict compliance policies and procedures already adopted by global asset managers to protect the leakage of non-public information, they can still introduce additional controls to address concerns of Chinese regulators with respect to the sharing of research by FMCs or other local asset management entities with their shareholder. Global asset managers with such entities in China would welcome an opportunity to engage with the CSRC and/or other regulators on such additional controls to address their concerns.



IV. RISKS AND CONTROLS

Some of the controls that global asset managers have in place or can incorporate include:

- (1) identifying and/or entering into a research sharing agreement specifying the type of research that may be shared within the group (which the CSRC can approve under Article 18 of the CSRC's *Governance Guidelines for Securities Investment Fund Management Companies (for Trial Implementation) issued on 15 June 2006*), such as macro-economic data, market data, research on asset classes, industry sectors and individual companies (financial analysis, ratings, valuations) and excluding certain types of information such as client information, position and trading information as specified in laws or regulations,
- (2) systems dedicated to (a) the internal sharing of research, both onshore and cross-border within the group, (b) identifying and separating non-public information among the research materials, (c) additional protection around access to and use of such information, (d) putting in controls or limits on those individuals who have access to such information, (e) maintaining a list of those individuals who have access to such information, and (f) monitoring those who have or may have access to such information to ensure no sharing of such information outside designated individuals within the group;
- (3) periodic training of staff on the policies and procedures for the proper handling of research and any non-public information.

FMCs can also adopt proper governance procedures to ensure that their operation and investment management decisions are separate and independent from that of their shareholder without restricting the sharing of research with their shareholder as global asset managers also have a duty and legal obligation to exercise proper oversight of its subsidiaries.

V. SUMMARY

China allowing research sharing within members of a global asset management group (for internal purposes only and not for distribution to third parties) will bring the following benefits:

- (a) Broaden the views of onshore China analysts with experiences and knowledge acquired in other markets, which ultimately benefits Chinese investors;
- (b) Deepen foreign investors' understanding of the China market from the sharing of local knowledge and experience, thereby attracting more foreign investments into China;
- (c) Bring global best practices in compliance, surveillance and monitoring that would better protect the interests of Chinese investors;
- (d) Develop local asset management talent both for the domestic market and also for future outbound investments; and



- (e) Prepare China to be a regional financial asset management hub that will service both local and global investors.

In summary, the benefits of allowing research sharing between global asset managers and their China subsidiary, in particular FMC, far outweigh the risks, which can be mitigated by the FMC adopting proper corporate governance, procedures and controls. The latter is the common approach taken by many overseas markets or jurisdictions to mitigate against such risks.