

# Diversification and yield pick-up in the Chinese Onshore Fixed Income market

## Bond Market Overview



## Investment Case



## FTSE China Onshore Sovereign and Policy Bank Bond 1-10 years Index





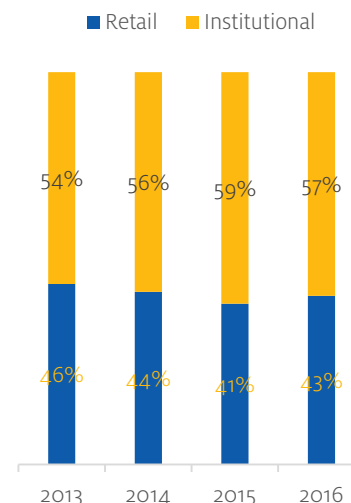
# **Corporate Overview**

# Fullgoal Introduction (1/2)

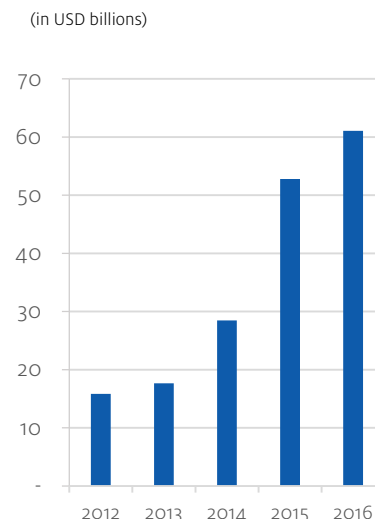
## In a Nutshell

<b>Legacy</b>	<p><b>Established in 1999</b> one of the 10 oldest fund managers in China</p>	<p><b>Institutional client-focused</b> c. 50% of AUMs with stable investor base</p>
<b>Stability</b>	<p><b>Excellent compliance</b> as Fullgoal has never been involved in Chinese fund industry scandals</p>	<p><b>Experienced team</b> 340 employees of which 121 investment professionals with average of +7 years experience within Fullgoal</p>
<b>Fully licensed</b>	<p><b>Asset management</b> with Type 1, 4 and 9 by the Securities and Futures Commission in Hong Kong</p>	<p><b>Foreign investment quota</b> Licensed by the China Securities Regulatory Commission to act as RQFII and QFII</p>

## Client Mix



## AUM



## Investment Strategies

<b>Equity</b>	<b>Fixed Income</b>	<b>Quantitative</b>
<ul style="list-style-type: none"> <li>• Multiple investment strategies</li> <li>• Good long term investment records</li> <li>• Good investment records of both on- and offshore</li> </ul>	<ul style="list-style-type: none"> <li>• Leader in long-term bond funds' AUM</li> <li>• Persisting good Sharpe ratio record</li> <li>• Development of interest and credit bonds investment</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive investment styles &amp; product lines</li> <li>• Leading investment record in the industry</li> <li>• Industry leader</li> </ul>

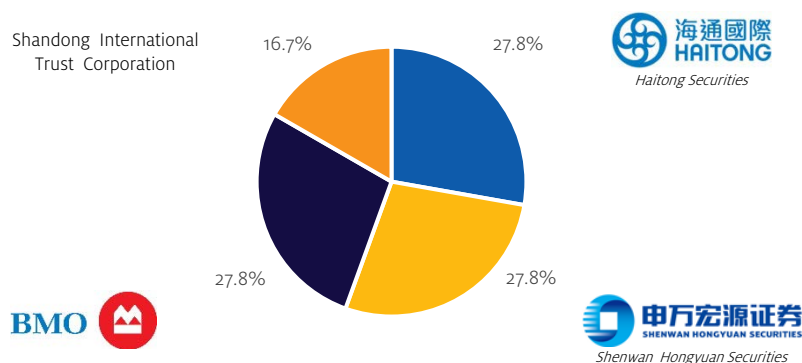
*Fullgoal's philosophy relies on in-depth research, bottom-up stock selection, best utilizing investment managers' advantages and realizing long-term return*

Source: Fullgoal Fund Management Co., Ltd, data as of December 31, 2016

# Fullgoal Introduction (2/2)

Fullgoal's stable investment and research team coupled with its stable shareholding structure and active asset management expertise positions it as a leader in China

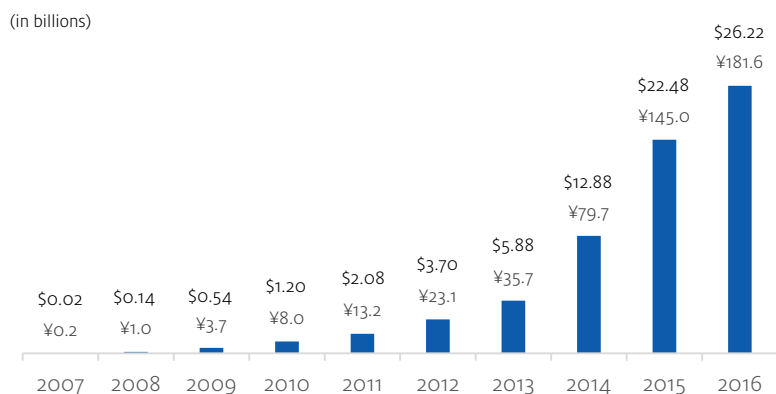
## Shareholding Structure



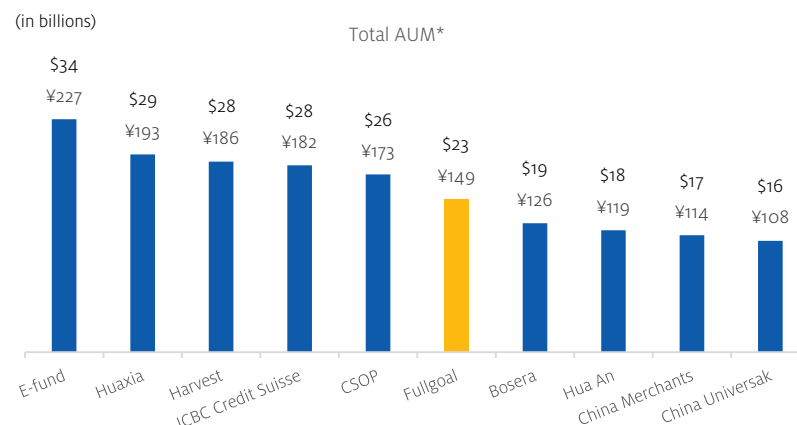
## Number of Employees

	Number of Investment and Research Personnel	Average Industry Experience	Average Years at Fullgoal
Equity Investment: Fundamental Active	24	10	6
Equity Investment: Quantitative & Index	13	5	5
Equity Investment: Global	4	8	5
Equity Research	24	9	4
Fixed Income Investment and Research	34	6	4

## Non-mutual Fund Business Growth



## Long-term Mutual Fund Market Share



\* excluding money market fund and short term bond funds;  
Source: Fullgoal Fund Management Co., Ltd, China Galaxy Security Fund Research Center, data as of June 30, 2016



# **Bond Market Overview**



# China's Onshore Bond Market Overview

## Market Size Snapshot

- China Interbank Bond Market has grown into the 3<sup>rd</sup> largest bond market following the US and Japan
- Total outstanding amount: RMB 43.06 trillion (by end of 2015)
- Daily trading volume: RMB 350-500 billion
- Number of market players: 10,018 (by end of 2015)
- Primary market issue amount: RMB 21 trillion in 2015

Source: Chinabond, SCH

## Market Monthly Turnover by Tenors (RMB bn)

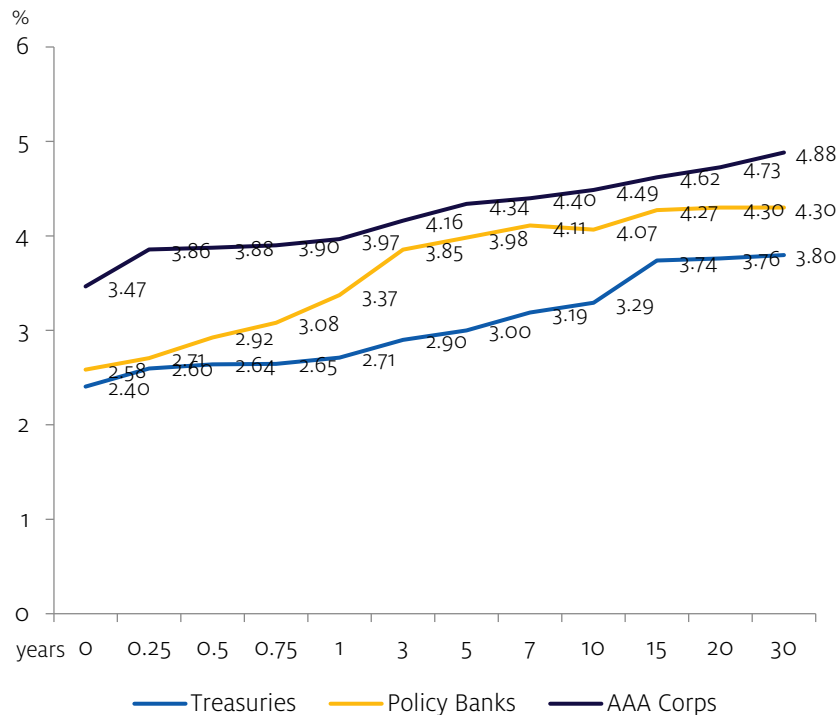
< 1Y	3,699	38.4%
1-3Y	1,951	20.3%
3-5Y	1,609	16.7%
5-7Y	759	7.9%
7-10Y	1,383	14.4%
>10Y	230	2.4%





# China's Onshore Bond Market Overview

## Term Structure



Source: WIND, as of February 28, 2017

## Market Monthly Turnover by Coupon (RMB bn)

Fixed Rated	6,872	71.4%
Floating Rated	374	3.9%
Zero Coupon	2,385	24.8%







# China's Onshore Bond Market Overview

## Share of different bond markets

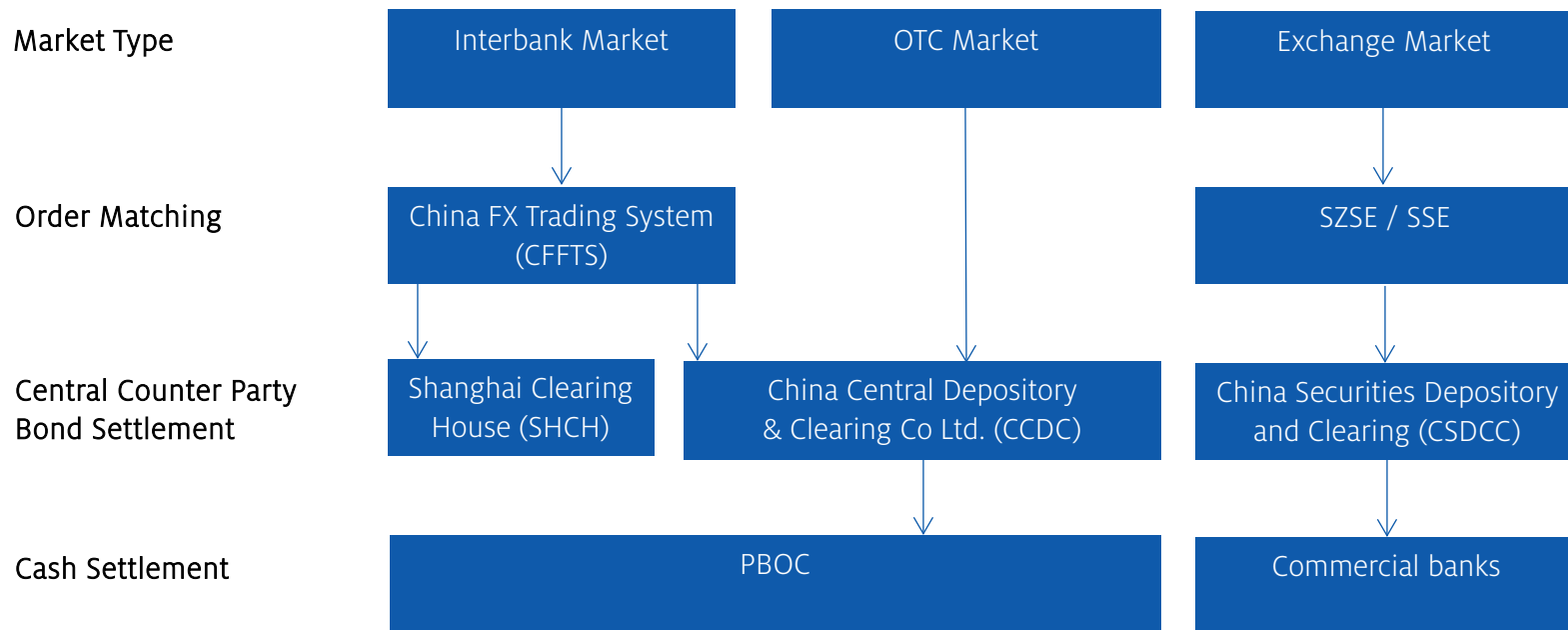
Market Type	Outstanding (RMB billion)	Percentage
Interbank	43,062	94.89%
Exchange	1,452	3.20%
OTC	664	1.46%
Others	204	0.45%

Source: ChinaBond, Shanghai Clearing House by end of 2015





# China's Onshore Bond Market Structure



Source: ChinaBond, Asia Development Bank





# Changing Market Accessibility

## CIMB Scheme

- 2016 February announcement → liberalization of the China Interbank Bond Market
  - removal of prior approval and quota restrictions
  - simple investment filing process
  - ability to trade certain OTC derivatives for hedging purposes\*
  - no lock-up period to repatriate investment principal
  - daily repatriation possible\*\*
  - possible scope for long-oriented hedge funds to participate\*\*
  - eligibility assessed by settlement agent

\*Ability to engage in other types of trading, such as bond lending, bond forwards, or interest rate swap for hedging purposes

\*\*Ratio of RMB to FCY should be maintained within +/-10% when capital remitted out of the market. The first such remittance does not need to follow the requirement, however it may not exceed 110% of the cumulative inward remittance in RMB or foreign currency





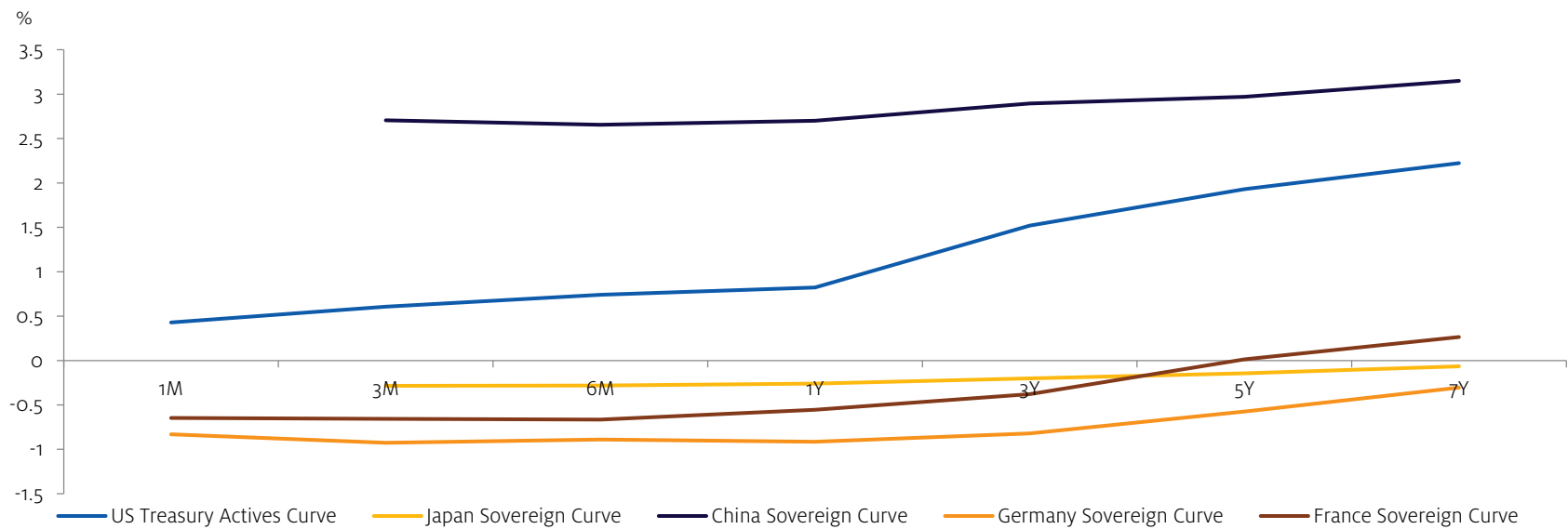
# **Chinese Onshore Bond Investment Case**



# Chinese Onshore Bond Investment Case

## Yield Pick-up

- China bonds currently offer an attractive yield premium compared to those in developed markets of similar credit rating



Source: Bloomberg, as of February 28, 2017





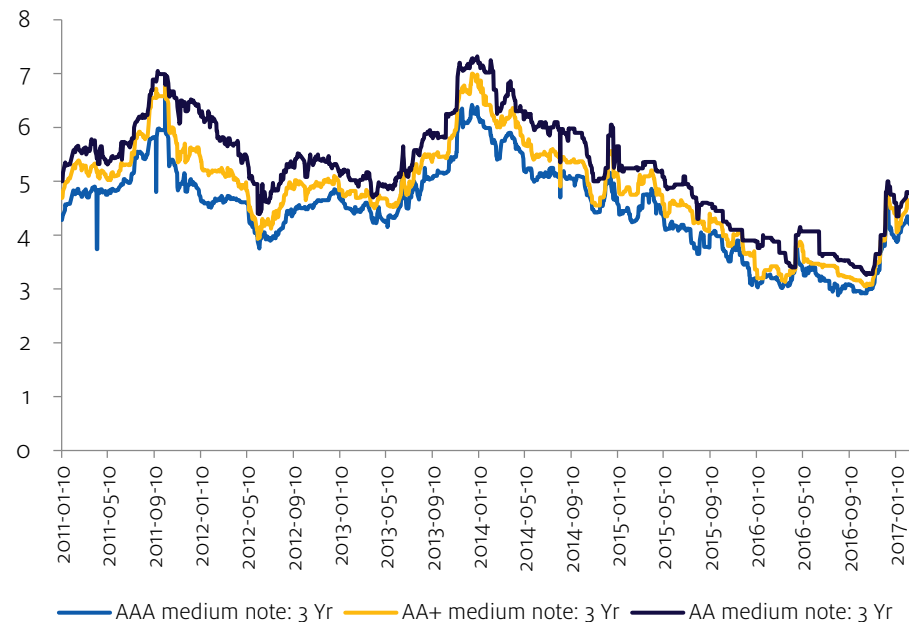
# Chinese Onshore Bond Investment Case

## Compared with developed markets

- Onshore fixed income performance



Source: WIND, as of February 28, 2017



Source: WIND, as of February 28, 2017

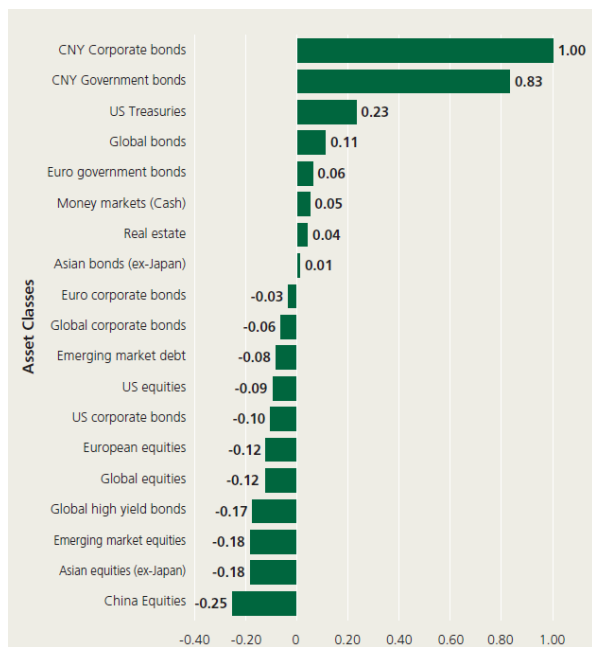




# Chinese Onshore Bond Investment Case

## Low Correlation

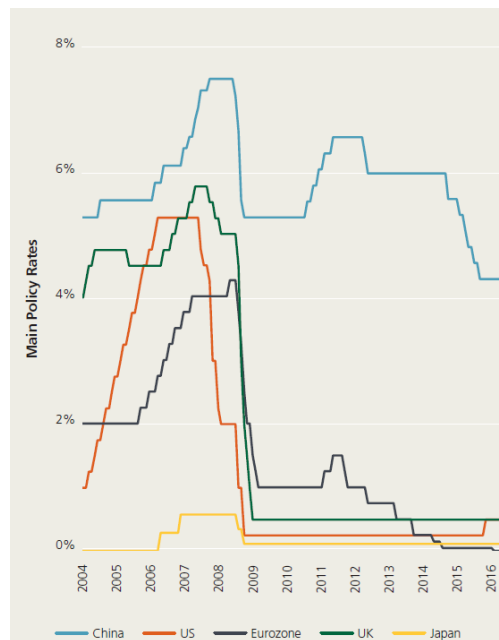
Return correlation between RMB onshore corporate bonds and major global asset classes over the past 10 years



Return correlation to onshore RMB corporate bonds

Source: Bloomberg, Manulife Asset Management, as of April 30, 2016

The People's Bank of China monetary policy versus major central banks



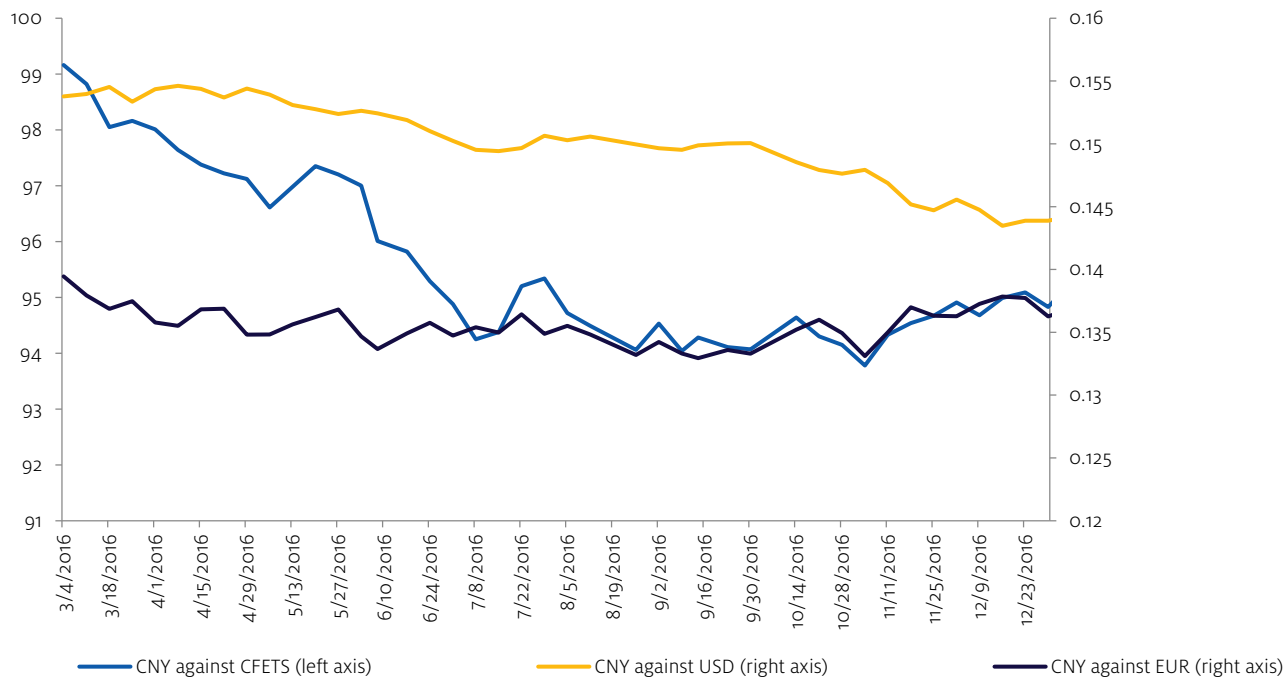
Source: Bloomberg, Manulife Asset Management, as of May 31, 2016





# Chinese Onshore Bond Investment Case

## Foreign Exchange



Source: Bloomberg, as of February 28, 2017







# **Navigating China's Onshore Bond Market**



# Navigating China's Onshore Bond Market

## Challenges

- Research practice
- Different rating systems between local and international rating agencies
- Local rating standards are still developing under the still-evolving corporate transparency culture of the country
- Limited materials available in English





# Navigating China's Onshore Bond Market

## Opportunities

- Recent opening up of CIBM grants easier access for investors resulting in more foreign capital inflow
- Possible inclusion of China bonds in international indices
- China may become the top emerging market with the largest foreign ownership of local bonds
- Low correlation to other major global asset classes offering diversification benefits within a broad portfolio
- Negative correlation to the China A-share market with different investor profiles
- SDR inclusion of RMB in October 2016





# Navigating China's Onshore Bond Market

## Risks

- Policy risk
- Plausible RMB depreciation
- Liquidity or execution risk
- Credit rating differentiation

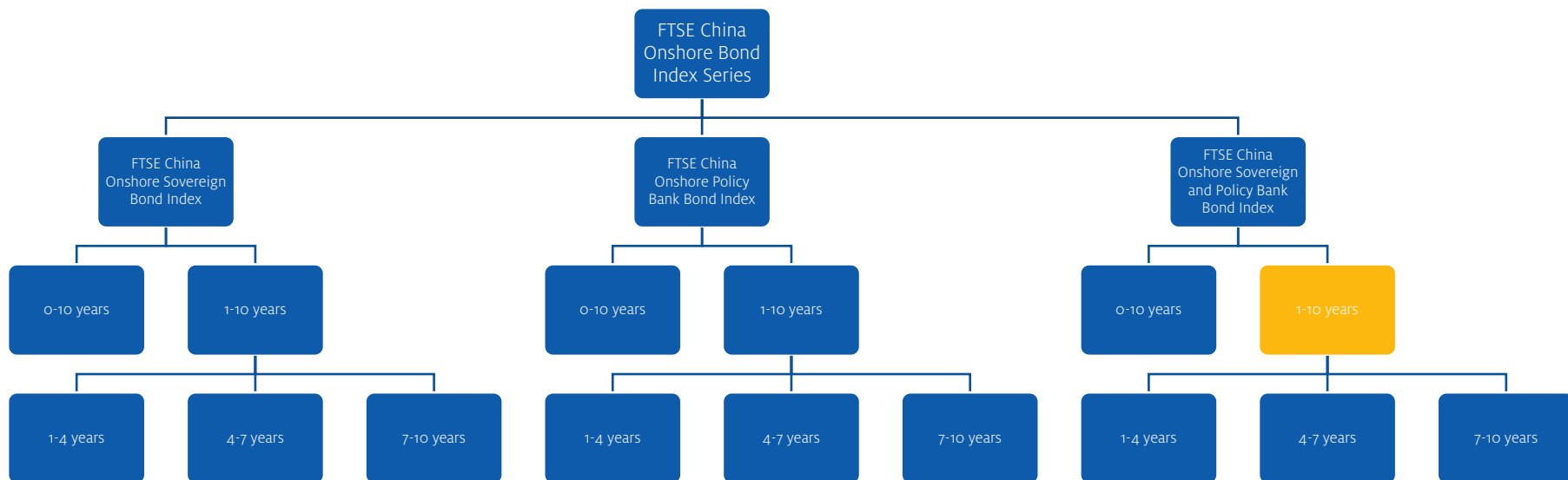




# **FTSE China Onshore Bond Index Series**



# FTSE China Onshore Bond Index Series family tree



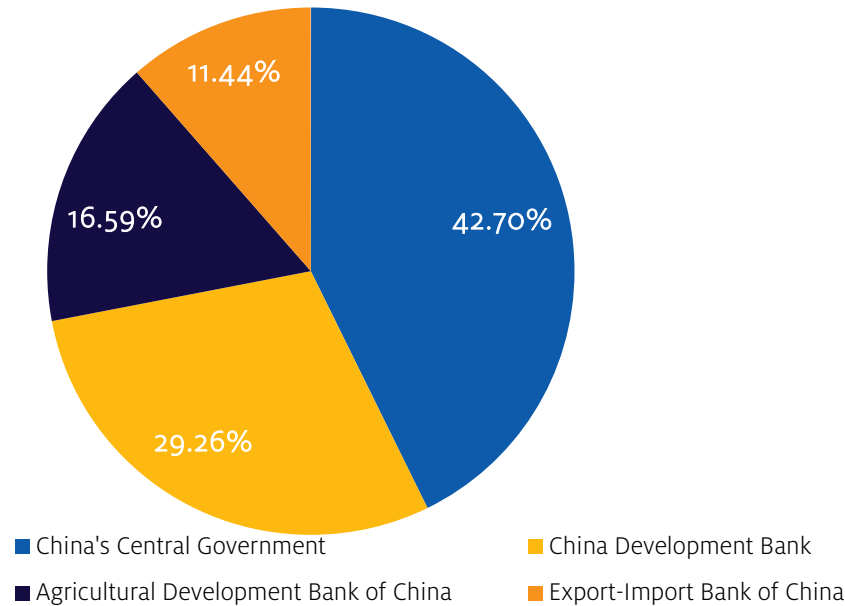
Source: FTSE Russell, as of May 2015



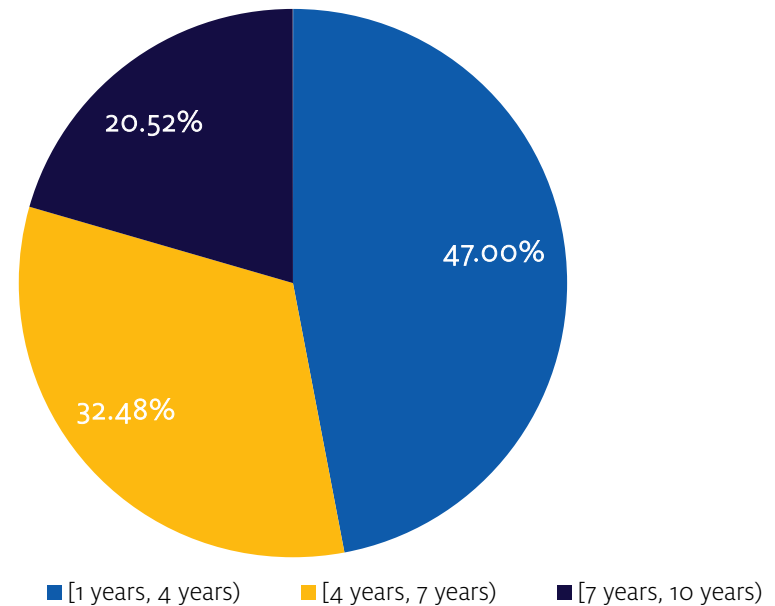


# FTSE China Onshore Sovereign and Policy Bank Bond 1-10 years Index

Index Issuers (%)



Index Time to Maturity (%)



Source: FTSE Russell, as of February 28, 2017



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