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## Investment opportunity in China?

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By Editor Test    *Tue, Apr 24, 2012*

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*Western investors shouldn't assume that they have no shot at managing China's pension assets, according to a news report in IPE.com.*

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Until recently, only a slim selection of NCSSF (National Council for Social Security Fund) mandates, out of the fund's RMB7.4tr (\$1.18tr) worth of pension capital, have been open to Western investors.

But demographic trends and growing deficits are pushing Chinese regulators into action, and the investment scope for pension assets is expanding.

Equity investment is being encouraged, especially into alternative assets such as private equity. Insurance and enterprise annuities (EAs) are also seeking to increase investment returns, presenting more sources of cash for investment managers to draw on.

With pension participation rates increasing and a greater sense of urgency among policy makers, China's pension system is expected to balloon to RMB28tr (\$4.48tr) by 2020.

By the end of 2011, Investments & Pensions estimates that China's pension system will have a total of RMB7.4tr in AUM, with insurance assets accounting for approximately 55% of all assets and public pension funds accounting for about RMB2tr.

Both segments of the industry, as well as EAs and the NCSSF, have their capital sitting in underachieving investment products - mostly fixed-income.

The number of Chinese over the age of 60 will swell from today's 178 million to 221 million by 2015. With more than RMB1.3tr (\$208bn) in deficits existing in individual pension accounts, regulators are well aware that without reforms, deficits will increase RMB100bn (\$16bn) annually. By 2020, the deficit could be as big as RMB6.2tr (\$1tr) if contribution rates and investment returns do not rise.

Regulators are already widening the pension system's investment scope. NCSSF is looking more to alternative assets, and insurers and EAs are moving away from their riskless bank deposit and bond investments.

More importantly, the opportunities for mandates are increasing in all segments for both joint venture and foreign fund management companies (FMC) alike. EA licenses are being handed out, insurers are beginning to look beyond insurance asset management companies (AMC) and NCSSF is receiving more capital than it can manage.

To realize increased investment returns, assets will be outsourced to investment managers with expertise in private equity, equity or overseas markets. Interested parties need to weigh the benefits of directly applying for mandates from NCSSF or establishing a joint venture, such as an FMC, brokerage or trust, where they can obtain an EA license. Setting up an insurance AMC will be the optimal strategy to creating an investment portfolio that will cater to insurance AMCs' risk appetite.

