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Subject: China Fund Industry & JPM JV

China's 2.3 trillion yuan ($337 billion) fund industry may triple in size over the next five years as new products attract money away from banks in the world's fastest-growing major economy.

The nation's 18-year-old fund industry is stepping up innovations under Beijing's financial reforms, preparing for products such as global exchange-traded funds (ETFs), overseas index-tracking products and real estate investment trusts (REITs).

"(An) irreversible trend of bank disintermediation, especially on the retail side, and the increasing attractiveness of financial products will be the main driver of growth," said Zhang Haochuan, analyst at fund consultancy Z-Ben Advisors, which sees China's fund assets under management topping 6.9 trillion yuan by 2014.

"A tripling of assets in five years is not an exaggerated target," said Mandy Wang, CEO of China International Fund Management Co, JPMorgan's China fund venture. "New business opportunities abound."

A bigger, more mature fund industry can bring much needed stability to China's volatile stock markets, and help fund growth of Chinese companies that traditionally rely on bank lending.Product innovation is also crucial to China's ambition to foster globally competitive bourses and make Shanghai an international financial hub by 2020.

Aiming to be one of the world's top exchanges, the Shanghai Stock Exchange is seeking cooperation with some of China's leading fund houses to develop a pilot program for global ETFs.

Global ETFs, which would be listed in Shanghai and typically track overseas stock indexes, are being designed to meet demands from China's increasingly sophisticated investors.

Z-Ben Advisors forecast China's first global ETF may debut in late 2011 or early 2012, with 10 such funds expected to be launched by Sino-foreign fund ventures in the next five years.

China ventures of Deutsche Bank, Blackrock, Invesco Ltd and other foreign institutions with ETF expertise are likely to be among the first fund houses allowed to launch global ETFs in China, the consultancy said.

Plans for global ETFs, which will be launched under China's Qualified Domestic Institutional Investor (QDII) scheme, come as a recovery in the global economy and financial markets help revive Chinese demand for overseas securities.

Approval of new QDII products, which allow Chinese money to invest overseas, was suspended during the global crisis, but many fund managers expect approvals to resume as soon as this year, creating significant new opportunities, PricewaterhouseCoopers said in its 2009 China fund report.

China's foreign exchange and securities regulators met domestic fund houses to discuss QDII issues, sources told Reuters in May, fuelling optimism that QDII may return soon.

"The trend of further deregulation is unchanged," said China International's Wang. "Demand for QDII products is recovering."

China International, which has launched the China International Asia Pacific Advantage Fund under QDII, is preparing for new funds that would give Chinese investors access to US and European stocks, Wang said.

(China Daily)