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30 Years and Beyond

2024 Global Asset Management Center Index Report

CEIBS Lujiazui International Institute of Finance

September 3, 2024

Brief Introduction about CLIIF

The CEIBS Lujiazui International Institute of Finance (CLIIF) was initiated by the China Europe International Business School (CEIBS) and the Shanghai Lujiazui (Group) Co., Ltd. in October 2007. The purpose of CLIIF is to carry out social influence research and facilitate the construction of Shanghai International Financial Center, for China's macro-economic control and financial stability. Based in Shanghai, CLIIF shall serve as an open and international platform for academic exchange while focusing on studying the opportunities and path to the financial opening-up and development of the service industry under the new development pattern. CLIIF is committed to providing first-class research, consulting and training services to financial institutions, financial regulation agencies, financial investors, and consumers, as it fulfils its role as an influential think tank for the development of Shanghai as an international financial center and promotes a "going-out strategy" for China's financial institutions and enterprises.

Each year, CLIIF undertakes more than 10 key financial research projects commissioned by the Shanghai Local Financial Regulatory Bureau, submits more than 60 special reports for decision-making consulting research, and organizes more than 20 sessions of forums and salons. CLIIF also publishes academic research works and delivers more than 100 articles in various newspapers and media. Notably, CLIIF has innovatively developed the "Global Asset Management Center Evaluation Index", and has continuously released four index reports since 2021, which has attracted increasing attention and recognition across various sectors.

In December 2022, CEIBS established the "CEIBS Lujiazui Finance 50 Forum (CLF50)", based on the foundation of CLIIF. This forum brings together more than 100 economic and financial experts, aiming to build a dynamic platform for economic and financial discourse. It focuses on fostering growth and thought exchange in Shanghai and the Yangtze River Delta Area, positioning itself as a hub with significant potential for development in these regions.

CLF50 is currently co-chaired by Professor Jiang Jianqing (Director of CLIIF and Former Chairman of ICBC) and Professor Wang Hong (Chairwoman of CLIIF and President of CEIBS); Professor Zhu Xiaoming (Founding Chairman of CLIIF and President Emeritus of CEIBS) and Professor Tu Guangshao (Chairman of the Shanghai Finance Institute and Former Executive Vice Mayor of Shanghai) serve as Advisors; Professor Sheng Songcheng (Senior Academic Advisor of CLIIF and Former Director of the Survey and Statistics Department of the PBoC), Professor Zhao Xinge (Executive Deputy Director of CLIIF) and others serve as the Chief Experts.

For more information, please scan the QR

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EXECUTIVE SUMMARY

Since 2023, the world has broadly faced persistent inflationary pressures and challenges in economic recovery. Central banks initially intended to curb consumer spending by raising interest rates, thereby cooling down overheated sectors of the economy. However, these high-interest-rate measures have also led to increased borrowing costs, reduced loan volumes and overall business investments, further causing fluctuations in asset prices: bond yields have risen, stock market valuations have faced downward pressure due to higher discount rates on future earnings, and the entire asset class faced the risk of re-evaluation. As a result, investors have accordingly shifted to more conservative investment strategies. In 2024, this trend has somewhat slowed down, but there has been no fundamental reversal. These changes in capital flows, shifts in asset allocation, and ongoing economic and market feedback continue to reshape the landscape of global asset management centers.

The 2024 Global Asset Management Center Evaluation Index Report is divided into three parts. The first part presents the latest rankings of the world's major asset management centers. Against the backdrop of high interest rates, global capital flows have generally tilted towards Europe and North America, with the scores and rankings of asset management centers in the United States and Canada generally rising, while those in Asia slightly have declined, and the European market has showed mixed results.

New York continues to lead globally, but its overall score has declined compared to previous years, indicating that the gap with other cities has narrowed. The trend of capital outflows from London's equity and bond markets to other Eurozone countries has not yet ended; however, the strong performance of its top asset management institutions has brought it back to second place. Amid economic uncertainty, global demand for risk-hedging products has continued to rise, which has not only elevated Chicago to third place but also boosted Frankfurt's ranking. Paris has remained relatively stable but has been surpassed by Chicago and Frankfurt, dropping to fifth place.

Due to the slowdown in capital flows in Asia, Singapore, Shanghai, and Tokyo have each dropped one position compared to last year, ranking sixth, seventh, and tenth respectively. Benefiting from its significant advantages in ESG and other sustainable products and alternative assets, Luxembourg has risen to eighth place. Although Hong Kong leads Asia in the family office and virtual asset management products, its equity and bond markets remain sluggish, resulting in only slightly rose to ninth place. Beijing remains in fifteenth place, but its score has improved significantly, showing some momentum in catching up.

Specifically, in the ranking of the six sub-sectors:

In terms of capital source and overseas capital inflow indicators, the United States still leads the world. However, unlike last year, the gap between the United States and other countries has

narrowed, reflecting a slowdown in global capital flows. The high-interest-rate environment has increased borrowing costs (especially in the United States), suppressing international investors' financing capacity and willingness, and leading them to re-evaluate the risk assets in their portfolios.

From the perspective of institutional openness and talent supply indicators, Zurich continues to lead globally, while most cities have widened their gap with it compared to 2023. Influences include economic structural transformation, automation and digitization, regulatory changes, and macroeconomic cyclical factors, have led to three different trends in financial industry employment and its share of non-agricultural employment.

In terms of the quantity and quality of underlying assets, asset management centers in Europe and North America have generally closed the gap with New York in 2024, especially in cities like Toronto, Dublin, and Luxembourg. Rising global energy prices and significant profit growth in resource-based companies have driven the performance of related stocks on the Toronto Stock Exchange. In contrast, Asia's stock and bond markets have weakened due to interest rate differentials, slowing economic growth, and shrinking international trade, widening the gap with New York and placing them at a relative disadvantage in global capital markets.

When assessing the scale of assets under management (AuM), such as the size and number of asset management companies and open-end funds, scores have generally increased across most cities. Notably, Shanghai, Chicago, and London saw significant growth, primarily due to the global expansion and market innovation capabilities of asset management institutions. London, through innovative and flexible policy adjustments in 2024, enabled asset management companies to quickly adapt to market changes and expand their global business, helping the city maintain its competitiveness in the global asset management market. Additionally, with the relaxation of foreign investment access and the further opening of capital markets in China, the scale of assets managed by Shanghai-based institutions has also grown significantly.

Regarding the number and scale of ESG products listed on exchanges and alternative asset funds, Frankfurt, Luxembourg, and Paris remain the top three European cities. In Asia, Singapore and Hong Kong showed the most significant increases, while Tokyo and Shanghai saw smaller gains. Both Singapore and Hong Kong are actively exploring blockchain, digital assets, and other areas, with the development of tokenized securities and digital asset platforms is creating more opportunities for managing and trading alternative assets.

The second part of this report discusses several key indicators from the demand side, supply side, and business side. In the context of a slowdown in the Federal Reserve's high-interest-rate policy, capital inflows into the United States have decreased. Sovereign wealth funds are playing an increasingly important role in global financial markets, particularly in the Middle East, where investments in alternative assets and renewable energy have grown significantly.

On the supply side, although the overall financial industry employment has declined in some major financial centers, cities like Luxembourg, Dublin, and Frankfurt have seen increases due to business shifts and economic restructuring. Furthermore, an analysis of underlying assets

indicates that North American and European asset management centers remain strong in the bond and stock markets, while Asian regions, due to slowing economic growth and narrowing interest rate differentials, have shown relative weakness.

The business side primarily explores the scale and growth of asset management institutions (AuM). Global asset management institutions continue to expand, particularly in asset management centers like New York, London, and Shanghai. The rapid expansion of top global asset management institutions like BlackRock and Vanguard Group reflects the positive impact of global economic resilience and policy expectations on the asset management industry. Additionally, ESG (Environmental, Social, and Governance) products and alternative assets have become an important part of the business side of asset management centers, with Europe particularly leading in this area.

The third part of this report presents the latest development trends of asset management centers in Europe, North America, and the Asia-Pacific region. The start of the interest rate cut cycle in European markets has created investment opportunities for fixed-income products, particularly in the European high-yield bond market, where the spread is relatively large, offering investors a substantial premium. At the same time, the United Kingdom is committed to promoting fund tokenization through distributed ledger technology, an innovative initiative that is expected to improve fund management efficiency and enhance market liquidity. Luxembourg, as an important fund registration center in Europe and globally, continues to attract fund companies from around the world, further solidifying its leading position in cross-border fund distribution.

In North American markets, asset management centers such as New York and Boston are leveraging the power of financial technology, particularly artificial intelligence, to significantly enhance the operational efficiency and investment decision-making capabilities of the asset management industry. The United States has optimized investment management, trading execution, and customer service through AI technology, keeping its asset management institutions ahead in global competition. Canada, on the other hand, tends to focus on cloud computing and blockchain technology, enhancing the proactivity and flexibility of investment strategies.

Asset management centers in the Asia-Pacific region show their respective advantages and challenges. Japan has announced the establishment of four asset management special zones in Sapporo, Tokyo, Osaka, and Fukuoka, bringing significant policy opportunities. Hong Kong, through the construction of a virtual asset center, has enriched the supply of asset management products and increased the allocation choices between Hong Kong and mainland China by deepening cooperation with mainland capital markets. Singapore, through continued promotion of blockchain and digital asset development, is creating more opportunities for managing and trading alternative assets.

Overall, in the 2024 global asset management center index rankings, Shanghai has fallen from sixth to seventh place. This decline reflects the challenges Shanghai faces in several key areas within the new competitive landscape of global asset management centers, but the growth resilience of Shanghai's asset management sector remains strong, and its structural highlights

continue to stand out. On one hand, the slowdown in global capital flows and China's economic growth has reduced the attractiveness of Shanghai's underlying assets, particularly in stock and bond yields, directly affecting Shanghai's competitiveness in the global asset management market. In terms of the global expansion of asset management institutions, although the top five asset management institutions in Shanghai collectively manage $1.8 trillion with a growth rate of 12.50%, this still lags the expansion speed of other major global leading asset management centers like New York and London. Additionally, Shanghai's ability to attract international asset management institutions to set up headquarters and expand their business remains limited, restricting its influence and voice in global capital markets. In the increasingly important field of alternative asset management, Shanghai shows some growth potential, but its overall scale remains small, unable to catch up with competitors such as Singapore and Hong Kong. Furthermore, Shanghai has been slower in promoting the development of emerging financial fields such as digital assets and blockchain technology, missing the opportunity to fully capitalize on the growing global demand for sustainable and innovative investments. In the future, Shanghai needs to be more proactive in promoting the opening and reform of financial markets, increasing investment and innovation in emerging fields, and enhancing its competitiveness in the global asset management market.

Notably, Shanghai's structural highlights in the asset management field show its stable advantages and growth resilience. First, its capital source scale is second only to New York. Local asset management institutions such as Ping An Asset Management have significantly improved their expansion capabilities. The net sales of open-end funds are nearly $110 billion, ranking among the top in the world, second only to New York and Dublin. ETF net inflows are close to $60 billion, with both scale and growth rate among the top globally. Additionally the total number of ESG products has increased by 22% compared to the same period last year, reflecting the market's positive response to the government's stable policies on sustainable development. This contrasts with the trend of some U.S. asset management institutions withdrawing from related climate investment agreements, sending a positive signal to international investors about the stability of China's policies. Although the scale of alternative investments remains relatively small, its growth rate of 29% ranks among the highest globally.

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PART 1 INDEX EVALUATION

Comprehensive Evaluation

In 2024, New York, London, and Chicago ranked as the top three global asset management centers. Against the backdrop of high interest rates, global capital flows generally tilted towards Europe and North America, with the scores and rankings of asset management centers in the United States and Canada generally rising, while those in Asia declined, and the European market showed mixed results.

Table 1-1 Global Asset Management Center Ranking（2024）

Ranking	City	Score	Score change compared to 2023	Ranking change compared to 2023
1	New York	95.5	-0.5	0
2	London	86.1	+2.4	+1
3	Chicago	86.0	+1.7	+1
4	Frankfurt	85.8	+2.4	+3
5	Paris	85.7	+0.9	-3
6	Singapore	85.2	+0.7	-1
7	Shanghai	85.1	+1.7	-1
8	Luxembourg	84.9	+2.3	+3
9	Hong Kong	84.8	+2.0	+1
10	Tokyo	84.6	+1.5	-1
11	Boston	84.2	+0.9	-3
12	Dublin	84.1	+1.8	+1
13	Toronto	83.3	+0.9	+1
14	Zurich	82.5	0.0	-2
15	Beijing	82.4	+2.0	0

New York continues to lead globally, but its overall score has declined compared to previous years, indicating that the gap with other cities has narrowed. The trend of capital outflows from London's equity and bond markets to other Eurozone countries has not yet ended, but the strong performance of its top asset management institutions has brought it back to second place. Amid

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economic uncertainty, the global demand for risk-hedging products has continued to rise, which has not only elevated Chicago to third place but also boosted Frankfurt's ranking. Paris has remained relatively stable but has been surpassed by Chicago and Frankfurt, dropping to fifth place.

Due to the slowdown in capital flows in Asia, Singapore, Shanghai, and Tokyo have all dropped one position compared to last year, ranking sixth, seventh, and tenth, respectively. Benefiting from its significant advantages in ESG and other sustainable products and alternative assets, Luxembourg has risen to eighth place. Although Hong Kong leads Asia in the family office and virtual asset management products, its equity and bond markets remain sluggish, only slightly rising to ninth place.

Boston and Zurich have both slipped slightly, ranking eleventh and fourteenth, respectively. Dublin and Toronto have each risen one position to twelfth and thirteenth. Beijing remains in fifteenth place, but its score has improved significantly, showing some momentum in catching up.

The rankings of the major global asset management centers in the six sub-sectors in 2024 are as follows:

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Table 1-2 Global Asset Management Center Ranking of Subdivided Fields (2024)

Ranking	Capital Source (15%)	Institutional Openness, Talent Supply (10%)	Underlying Assets (25%)	Asset Management Institutions, Open-End Funds (25%)	ESG Business, Alternative Assets (15%)	Growth Rate (10%)
1	Boston	Zurich	New York	New York	Frankfurt	Chicago
2	New York	Hong Kong	Toronto	Boston	Luxembourg	Zurich
3	Chicago	Luxembourg	London	London	Paris	Shanghai
4	Los Angeles	Singapore	Shanghai	Chicago	Singapore	London
5	Beijing	Dublin	Tokyo	Tokyo	Hong Kong	Hong Kong
6	Shanghai	Frankfurt	Frankfurt	Dublin	London	Boston
7	Paris	Boston	Paris	Paris	Dublin	Paris
8	Tokyo	New York	Dublin	Singapore	Tokyo	Beijing
9	Hong Kong	Chicago	Hong Kong	Luxembourg	Chicago	Singapore
10	Singapore	Los Angeles	Singapore	Toronto	Zurich	Frankfurt
11	London	London	Luxembourg	Frankfurt	New York	Tokyo
12	Toronto	Tokyo	Chicago	Shanghai	Toronto	Dublin
13	Zurich	Toronto	Beijing	Los Angeles	Shanghai	New York
14	Frankfurt	Paris	Zurich	Hong Kong	Beijing	Toronto
15	Luxembourg	Shanghai	Boston	Beijing	Boston	Los Angeles

Note: 1. The "Capital Source" indicator is a national/regional indicator, so cities in the same country have consistent rankings and scores. The rankings are listed separately for clarity in the table. 2. The figures in parentheses represent the weight of each secondary indicator, as detailed in the appendix on the revision of the indicator system in this section.

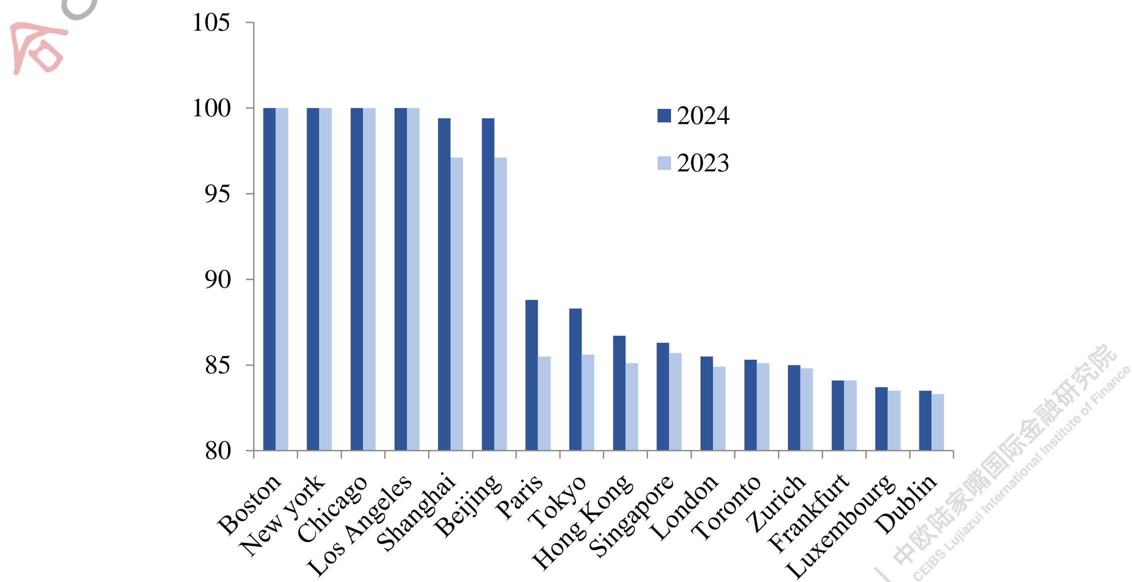
Evaluation of Subdivided Fields

Capital Source

The scale of demand for asset management business funding is compared using seven indicators: local funding pools (bank deposits, premium balances, private pension fund size, foreign exchange reserves, sovereign wealth fund (SWFs) size, public pension fund (PPFs) size) and

overseas capital inflows (i.e., financial account balance). The United States still leads globally, but unlike last year, the gap between the United States and other countries is narrowing. For example, Beijing and Shanghai's scores rose from 97.1 to 99.4, and Paris and Tokyo's scores increased from 85 to above 88. This reflects a slowdown in global capital flows. In terms of direct investment, global supply chain instability and geopolitical risks have prompted some countries to reduce their dependence on external economies, promoting "localization" of production and investment, thereby reducing reliance on international markets (including the U.S. market). In terms of indirect investment, the high-interest-rate environment has increased borrowing costs (especially in the United States), suppressing international investors' financing capacity and willingness, leading them to re-evaluate the risk assets in their portfolios.

Figure 1-1 Global Asset Management Center Ranking of Capital Source (2023-2024)



Note: The secondary indicators are all at the national/regional level. Therefore, the ranking of cities in the same country is consistent.

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Business Environment

The business environment is evaluated based on institutional openness (degree of FDI restrictions, statutory corporate income tax rates, capital gains tax rates, and personal income tax rates) and talent supply (employment in the financial industry, financial industry employment/non-agricultural employment ratio). Zurich still leads globally, and the gap between it and most other cities has widened significantly compared to last year. The main variable is the number of jobs in the financial industry and its share of non-agricultural employment. Three scenarios are observed:

- The number of jobs in the financial industry increases, and its share also increases, as seen in Luxembourg, Dublin, Frankfurt, and Zurich, primarily benefiting from the transfer of financial business to the Eurozone after Brexit. Scores for these cities have improved by 1.8, 3.9, and 7.1 points, respectively, compared to last year.

- The number of jobs in the financial industry increases, but other non-agricultural jobs increase even more, leading to a decrease in its share, as seen in New York and Paris, where scores have dropped by 2.4 and 4.9 points, respectively, compared to last year.

- The number of jobs in the financial industry decreases, and its share also decreases, as seen in Boston, Chicago, London, Toronto, Singapore, Beijing, and Hong Kong.

The reasons for these trends are as follows:

Firstly, the economic structure is transitioning from a traditional finance-dominated model to a more diversified economic model. Industries like new energy and healthcare are rapidly growing, attracting significant investment and labor inflows, reducing the relative importance of the financial industry within the broader economy.

Secondly, automation and digitization, with the application of technologies such as artificial intelligence and blockchain, have greatly increased the efficiency of financial services while reducing the demand for labor. Many traditional roles, such as traders and data processors, are being replaced by technology, directly leading to a decrease in the number of jobs in the financial industry.

Thirdly, changes in the regulatory environment, with stricter global financial regulations under macroeconomic volatility, have increased capital requirements, risk management, and compliance checks for financial institutions. These changes have raised the operating costs of the financial industry and reduced profit margins. Some financial institutions have opted to downsize, reduce employment, or shift their business to lower-capital-intensive areas such as fintech.

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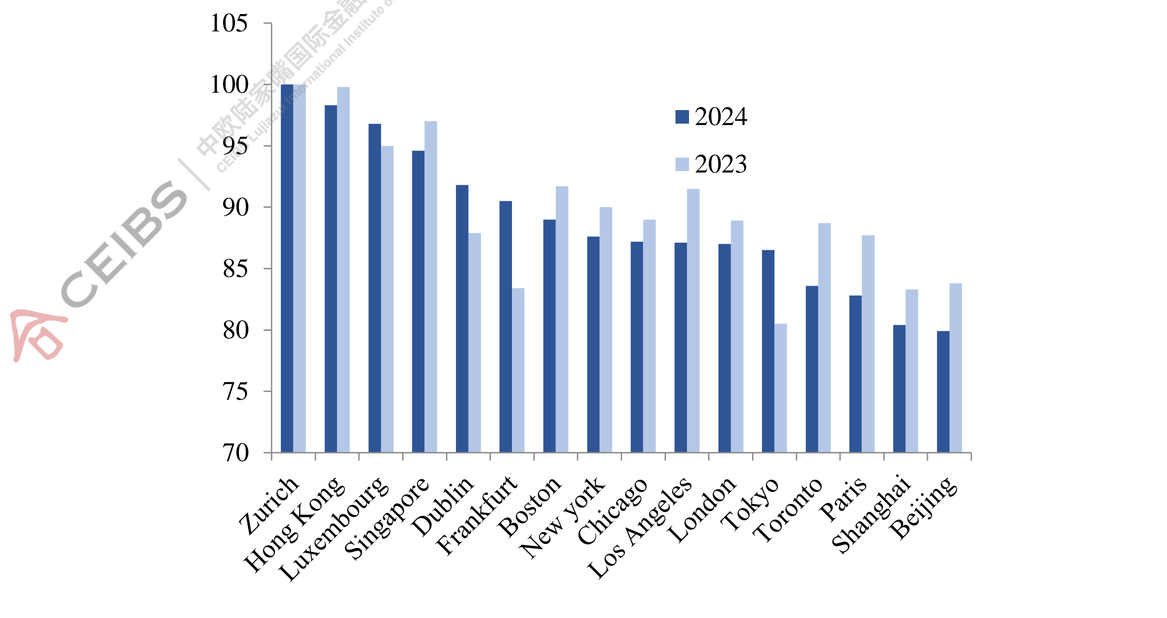
Finally, macroeconomic cyclical factors also affect employment in the financial industry. During economic expansion periods, financial activity increases, and industry employment tends to rise; during economic contractions or periods of increased uncertainty, the financial industry often reduces costs through layoffs and reduced hiring. These cyclical fluctuations impact the financial industry's share of total employment.

Figure 1-2 Global Asset Management Center Ranking of Institutional Opening and Talent Reserve (2023-2024)

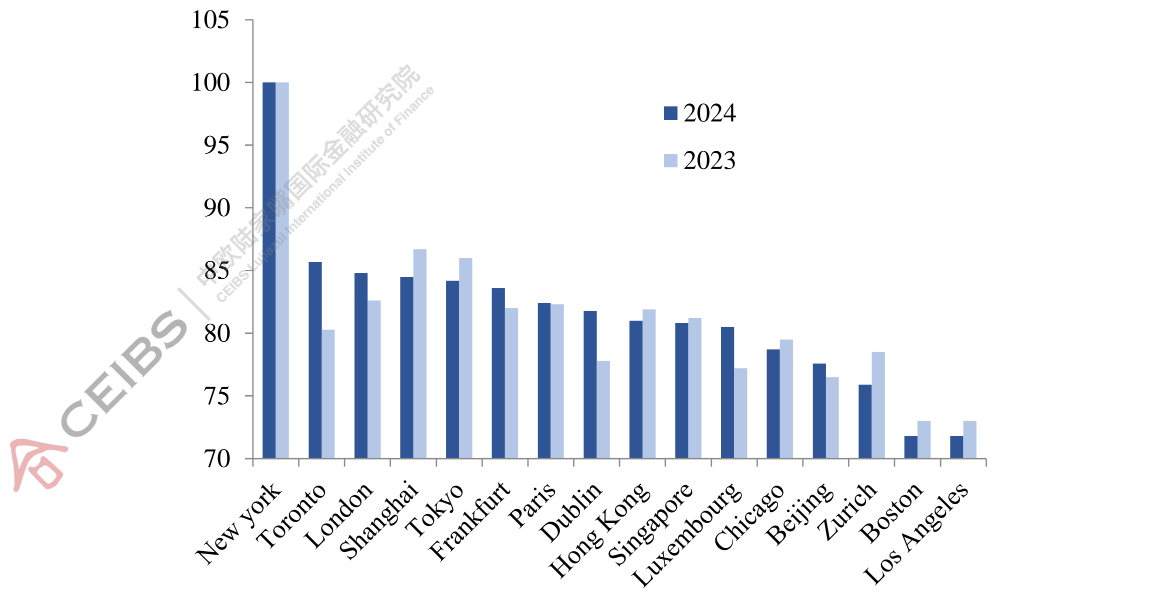


Underlying Assets

When evaluating underlying assets, using indicators such as the absolute scale and quantity of stock markets, bond markets, and futures markets, as well as the quality of underlying assets measured by ten-year government bond yields and one-year stock market returns, asset management centers in Europe and North America have generally closed the gap with New York this year, especially Toronto (+5.4), Dublin (+4.0), and Luxembourg (+3.3). Toronto has benefited mainly from the strong performance of the energy and resource industries. In 2023-2024, global energy prices rose, and the profits of resource-based companies increased significantly, driving the performance of related stocks on the Toronto Stock Exchange (TSX). At the same time, the financial markets in Toronto and New York share similar layouts in some key industries, such as finance, technology, and manufacturing. Therefore, when these industries perform well in the U.S. market, corresponding sectors in the Toronto market tend to be positively affected. In contrast, Asian regions have seen a widening gap with New York due to factors such as interest rate differentials, slowing economic growth, and shrinking international trade driven by weak demand in Europe and the United States. Scores for Shanghai

(-2.2), Tokyo (-1.8), Hong Kong (-0.9), and Singapore (-0.4) have all declined compared to last year, placing them at a relative disadvantage in global capital markets.

Figure 1-3 Global Asset Management Center Ranking of Underlying Assets (2023-2024)

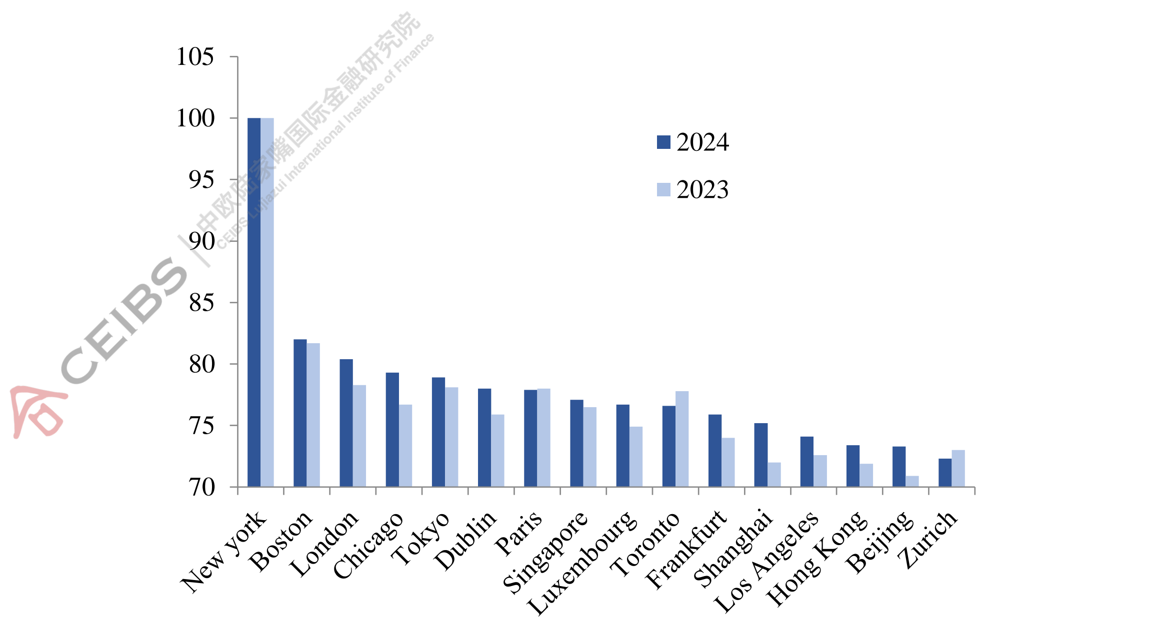


Asset Management Business

When observing the scale of assets under management (AuM) in various asset management centers, using indicators such as the combined scale of the top five local asset management companies, the number of headquarters and branches of the world's top 50 asset management institutions in the locality, and the net asset scale, quantity, and net sales of open-end funds and ETFs, the scores show that only Paris (-0.1), Toronto (-1.2), and Zurich (-0.7) have declined, indicating that their gap with New York has widened, while other cities have generally improved. Notably, Shanghai (+3.2), Chicago (+2.6), and London (+2.1) have seen significant increases. On the one hand, this is due to the global expansion and market innovation capabilities of asset management institutions. Despite the challenges of Brexit, London quickly adapted to market changes in 2024 through innovative and flexible policy adjustments, expanding its global business and helping London maintain its competitiveness in the global asset management market. Similarly, with the relaxation of foreign investment access and further opening of capital markets, the scale of assets managed by Shanghai-based institutions has also grown significantly. On the other hand, compared to New York and Chicago, Toronto has relatively less advantage in attracting global asset management institutions to set up headquarters or branches. As global asset management institutions shift more resources and business to markets with greater growth potential, Zurich's attractiveness as a traditional financial safe haven has relatively declined. The collapse of Credit Suisse in 2023, in particular,

not only shook investor confidence in the Swiss financial market but also made global asset management institutions more cautious about setting up branches and expanding business in the region.

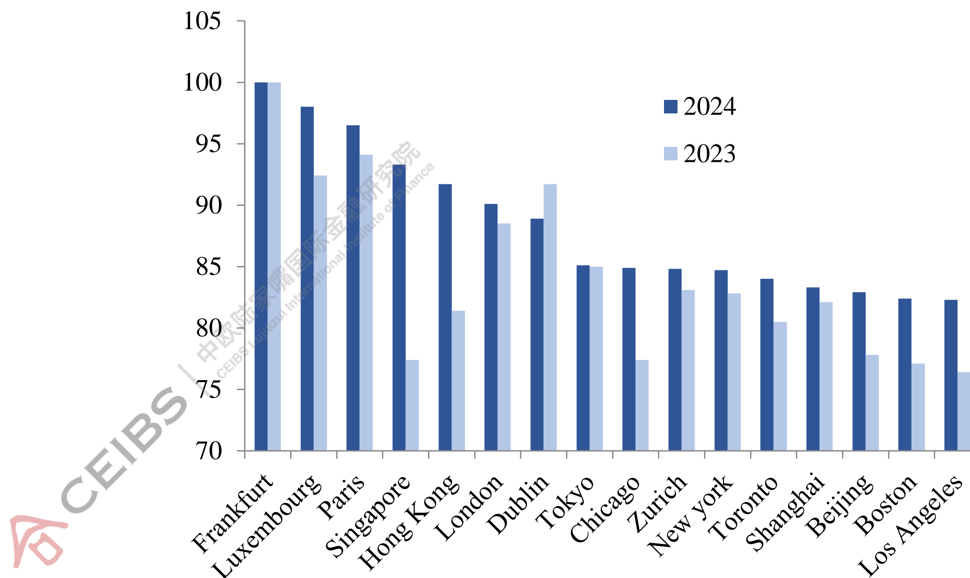
Figure 1-4 Global Asset Management Center Ranking of Asset Managers and Open-ended Fund (2023-2024)



ESG and Alternative Business

When evaluating the number and scale of ESG bonds, indices, ETFs, and derivatives listed on exchanges, as well as the number, net asset scale, and net sales of alternative asset funds, Frankfurt, Luxembourg, and Paris continue to rank as the top three European cities. Almost all asset management centers, except Dublin, are focusing on ESG and alternative asset business. In Asia, Singapore (+15.9) and Hong Kong (+10.3) saw the most significant increases, while Tokyo (+0.1) and Shanghai (+1.2) showed smaller gains. Comparing these four cities, in terms of ESG business, Japanese and Chinese companies have made slower progress in ESG information disclosure and compliance compared to Singapore and Hong Kong. In the alternative asset business, Singapore and Hong Kong are actively exploring blockchain, digital assets, and other areas, and the development of tokenized securities and digital asset platforms is creating more opportunities for managing and trading alternative assets. Shanghai and Tokyo are more conservative, with relatively lower acceptance of alternative assets among investors.

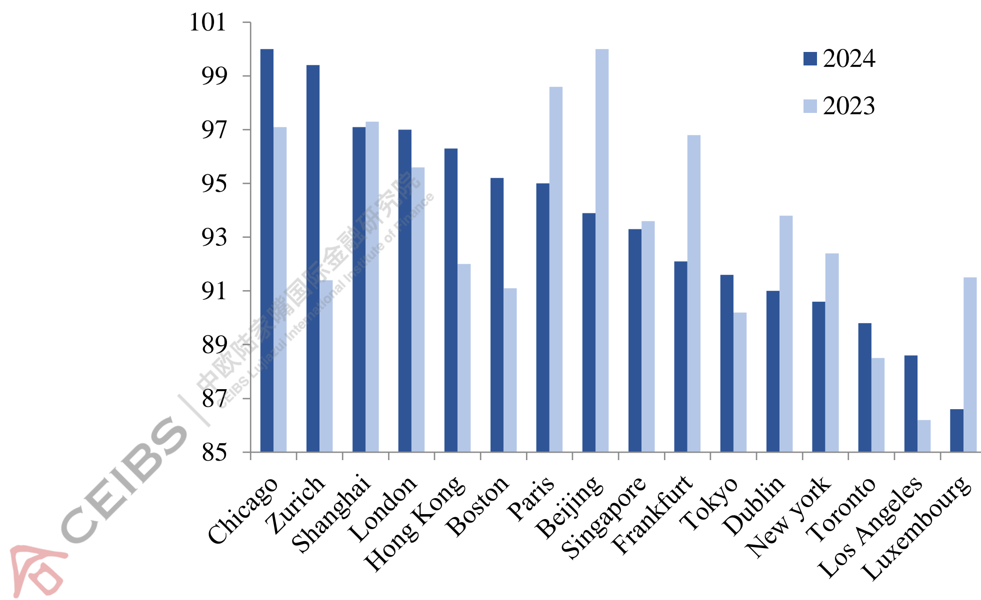
Figure 1-5 Global Asset Management Center Ranking of ESG Business and Alternative Assets (2023-2024)



Growth Rate

By comprehensively comparing the growth rates of the sub-sector indicators such as underlying assets, asset management institutions, open-end funds, ESG business, and alternative asset business, it is observed that Chicago ranks first, with Zurich (+8), Hong Kong (+4.3), and Boston (+4.1) showing relatively high comprehensive growth rates. Paris (-3.6), Beijing (-6.1), and Frankfurt (-4.7) have shown relatively stagnant development. Although Chicago saw double-digit year-on-year declines in derivative market trading volumes, this was not enough to completely offset the advantage of Chicago's asset management institutions' AuM and the strong growth in ESG business. Zurich also performed well in high-net-worth client management and sustainable investment. Hong Kong's growth mainly benefited from its close ties with mainland China. Despite facing global economic uncertainty, Hong Kong has achieved growth in open-end funds and alternative assets by strengthening green finance and its connection with mainland markets.

Figure 1-6 Global Asset Management Center Ranking of Growth Rate (2023-2024)



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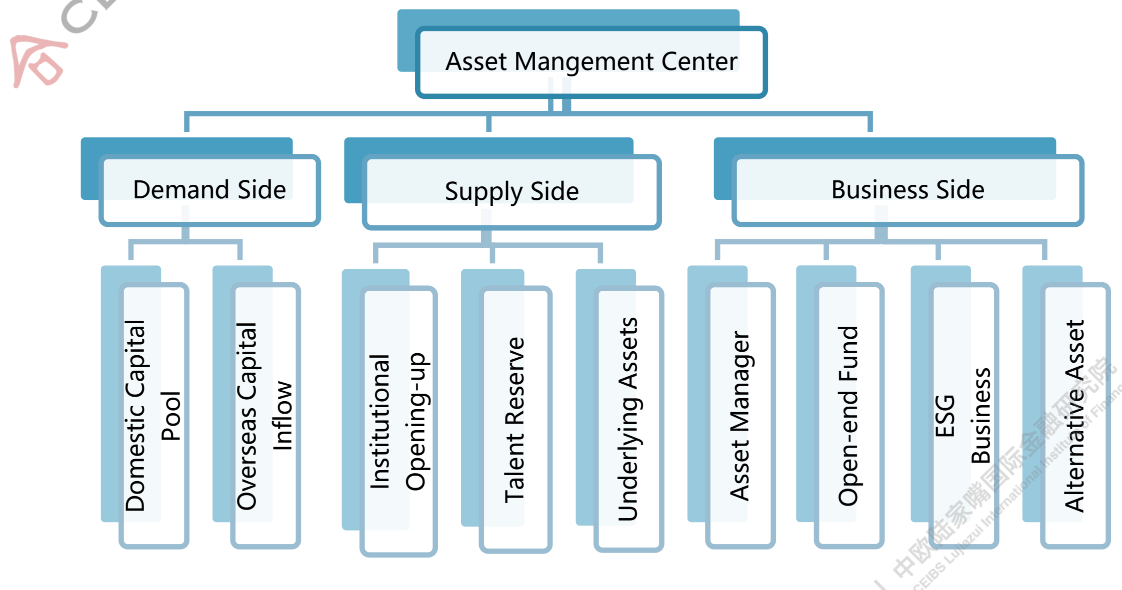
Appendix: Indicator System

The 2024 Global Asset Management Center Indicator System remains consistent with 2023. The primary indicators are divided into the demand side, supply side, and business side of asset management. Secondary indicators measure asset management demand from local funding pools and overseas capital inflows; asset management supply from institutional openness, talent reserves, and underlying assets; and asset management business from asset management institutions, open-end funds, ESG (Environmental, Social, and Governance) business, and alternative assets. The tertiary indicators, totaling 53, reflect specific information from the above layers and are all quantitative indicators that are regularly updated.

Figure 1-7 Global Asset Management Center Evaluation System



It should be noted that compared to 2023, the indicators and weight assignments in this report have been further optimized and refined. First, the tertiary indicators "IPO Quantity" and "IPO Growth Rate," which are flow concepts, have been removed to balance the evaluation of stock and bond markets. Second, the weight of indicators that change less frequently each year, namely "Institutional Openness and Talent Reserves," has been reduced from 15% to 10%. In line with global asset management trends, the weight of "ESG and Alternative Assets" has been increased to 15%.

Table 1-3 Weights of Tier 2 Indicators (2023-2024)

Tier 1	Tier 2	Weights%		
		2024	2023	Change
Demand and Supply (50%)	Capital supply	15	10	+5
	Institutional openness, talent reserve	10	15	-5
	Underlying assets	25	25	0
Business (50%)	Asset managers, open-end fund	25	30	-5
	ESG business, alternative asset	15	10	+5
	Growth rate	10	10	0
Total		100%	100	100

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Table 1-4 Global Asset Management Center Evaluation Indicator System (2024)

Tier 1	Tier 2	Tier 3	Source
Demand	Domestic Capital Pool	Total deposit	CEIC
		Insurance premium	SIGMA
		Private pension funds	OECD
		Foreign reserve	Monetary authorities
		Sovereign wealth funds	SWF
		Public pension funds	
	Overseas Capital Inflow	Balance of payments: Financial account	Federal Reserve Bank of St. Louis
Supply	Institutional Opening	FDI restrictiveness-Finance	OECD
		FDI restrictiveness-Commerce	
		Statutory corporate income tax rate	KPMG
		Capital gains tax rate	
	Talent Reserve	Individual income tax rate	
		Number of employees in financial industry	Bureau of cities/regions
		Number of employees in the financial industry/number of employees in non-agriculture	
	Underlying Assets	Long-term government bond yield (10 years)	BLOOMBERG
		Returns of major stock indexes (1 year)	
		Number of listed stocks	WFE
		Growth rate of number of listed stocks	
		Number of listed bonds	
		Growth rate of number of listed bonds	
		Stock market capitalization	
		Growth rate of stock market capitalization	
		Bond market balance	
		Growth rate of bond market balance	
		Turnover of futures and options	
		Growth rate of turnover of futures and options	

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Table 1-4 Global Asset Management Center Evaluation Indicator System (2024) (Continued)

Tier 1	Tier 2	Tier 3	Source
Business	Asset Managers	AuM of top 5 asset managers with local headquarters	Asset managers
		Growth rate of AuM of top 5 asset managers with local headquarters	
		Number of local headquarters of the top 50 global asset managers	
		Number of local branches of the top 50 global asset managers	
	Open-ended Funds	Total net assets of open-end funds	IIFA/Related exchanges
		Growth rate of total net assets of open-end funds	
		Net sales of open-end funds	
		Number of open-end funds	
		Growth rate of number of open-end funds	
		Total net assets of ETFs	
		Growth rate of total net assets of ETFs	
		Net sales of ETFs	
		Number of ETFs	
		Growth rate of number of ETFs	
	ESG Business	Number of ESG index	Related exchanges
		Growth rate of number of ESG index	
		Number of ESG ETF	
		Growth rate of number of ESG ETF	
		Number of ESG Derivatives	
		Growth rate of number of ESG Derivatives	
		Number of ESG bond	
		Growth rate of number of ESG bond	
	Alternative Asset	Number of alternative asset funds	IIFA/Related exchanges
		Growth rate of number of alternative investments	
		Total net assets of alternative investment	
		Growth rate of total net assets of alternative investment	
		Total net sale of alternative investment	

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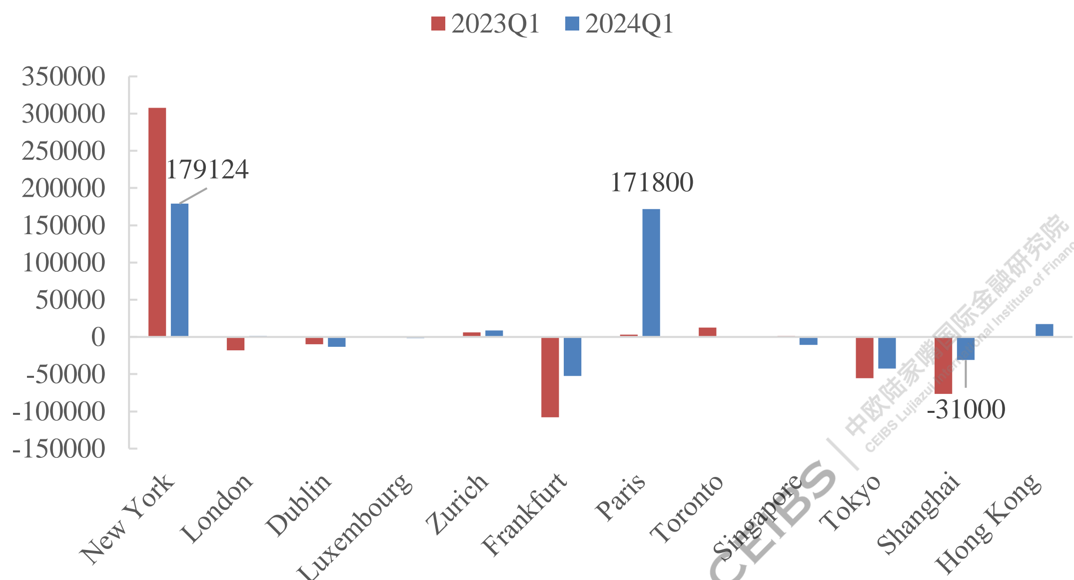
PART 2 ANALYSIS OF KEY INDICATORS

Demand Side

- Financial Account Balance. Since July 2023, the Federal Reserve has paused interest rate hikes and maintained the federal benchmark interest rate at a high level of 5.25%-5.50%. As U.S. inflation levels gradually decrease, expectations of rate cuts have risen, resulting in a decrease in capital inflows compared to the same period last year. As of the first quarter of 2024, the U.S. non-reserve financial account surplus was $179.1 billion. Meanwhile, Germany, Japan, and China all experienced significant financial account deficits.

Figure 2-1 Balance of Payments: Financial Account (mn $, 2023-2024)



Note: This data is in the scope of nation or region. So, it is represented with the main asset management center in certain country or region.

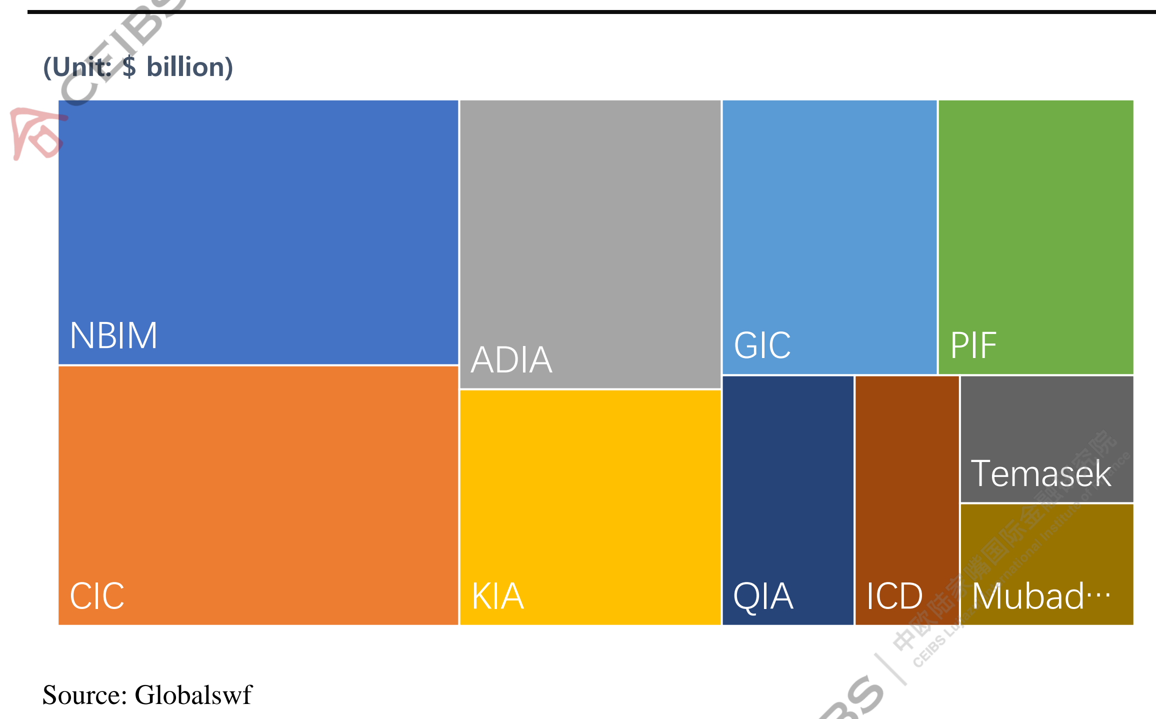
Source: Federal Reserve Bank of St. Louis

Topic 1: Asset Allocation Characteristics of Sovereign Wealth Funds (SWFs)

Sovereign Wealth Funds (SWFs) are investment entities established and managed by governments to handle state-owned financial assets, with professional fund managers hired as state funds under the law. Since the establishment of the world's first SWF in Kuwait in 1953, SWFs have evolved from simple government reserves into complex investment institutions, becoming a significant force in the global financial system. In 2023, over 100 SWFs managed assets totaling $11.3 trillion, nearly ten times the amount in 2000; 40% of these assets come from the Middle East, 37% from Asia, and 16% from Europe.

Figure 2-2 Top 10 Global Sovereign Wealth Funds and Their Asset Management Scale (2023)

(Unit: $ billion)



Source: Globalswf

To serve government strategic objectives, SWFs need to hold diversified investment portfolios across different industries and regions to balance risk and return in volatile markets. In recent years, SWFs' asset allocations have generally shifted from traditional assets (stocks, bonds) to alternative assets (real estate, private equity, infrastructure) and from traditional markets to emerging markets.

On one hand, geographic diversification with focused investments**: In the context of global investment strategies, SWFs still need to make regional allocations based on their own strengths, risk preferences, and strategic goals. For example, Norway's Government Pension Fund has deeper investment layouts in European markets, particularly in Nordic countries; the Kuwait Investment Authority traditionally has a significant investment share in U.S. and European

markets, with a notable increase in investments in the Asian market, especially in China, in recent years; Singapore's Temasek Holdings focuses on the Asian market, particularly Southeast Asian countries.

On the other hand, industry diversification with specialization**: Norway's Government Pension Fund particularly emphasizes renewable energy and sustainability projects; Saudi Arabia’s Public Investment Fund (PIF) is prominent in technology and innovation sectors; Abu Dhabi’s Mubadala Investment Company and Kuwait Investment Authority have significant investments in semiconductor manufacturing and education and healthcare sectors, respectively; Singapore’s Temasek Holdings is particularly focused on investments in biotechnology and medical technology companies.

In recent years, Middle Eastern SWFs have shown significant trends and characteristics in their global capital market allocations:

Firstly, large asset management scale. Due to geopolitical conflicts, high inflation, and rising interest rates, Middle Eastern SWFs have received large capital inflows, with asset management scales continuing to climb, second only to Asia globally. As of November 2023, the top 15 SWFs in the Middle East managed assets worth $4.3 trillion, accounting for nearly 40% of global SWF assets. Five of these were among the most active SWFs in 2022, including the Abu Dhabi Investment Authority (ADIA), Saudi Arabia's Public Investment Fund (PIF), Mubadala Investment Company, and Qatar Investment Authority (QIA).

Secondly, high proportion of investment in alternative assets. Middle Eastern SWFs, due to having fewer short-term and medium-term liabilities compared to other types of institutional investors, have flexibility in making investment decisions, including in non-traditional asset classes such as real estate, commodities, and hedge funds that can hedge against inflation. As of the end of 2023, the average allocation of Middle Eastern SWFs to alternative assets increased from 22% at the end of 2021 to 44%. Mubadala focuses on European assets, while ADIA concentrates its investments in the North American market and emerging markets. In terms of investment fields, recent years have seen a focus on emerging technologies and infrastructure. For example, ADIA and Singapore's Government Investment Corporation (GIC) jointly invested in projects such as Zendesk, Taibang Biologic, Triveni Turbine, and Climate Technology.

Table 2-1 Top 15 Sovereign Wealth Funds in the Middle East (2023)

Country	Name	Year Established	Assets Under Management (Billion USD)	Proportion of Alternative Assets (%)
Saudi Arabia	Public Investment Fund	1971	730	37
	NDF	2017	132	100
United Arab Emirates	Investment Corporation of Dubai	2006	341	65
	Abu Dhabi Investment Authority	1967	984	32
	Mubadala Investment Company	1984	276	67
	ADQ	2018	199	45
	Emirates Investment Authority	2007	91	21
	Dubai World	2005	47	100
	Dubai Holding	2004	35	93
Kuwait	Kuwait Investment Authority	1953	801	23
	Gulf Investment Corporation	1983	3.3	
Qatar	Qatar Investment Authority	2005	429	41
Oman	Oman Investment Authority	1980	47	31
Iran	National Development Fund of Iran	2011	150	79
Bahrain	Bahrain Mumtalakat Holding Company	2006	18	79
Total			4283.3	
Weighted Average				42.5

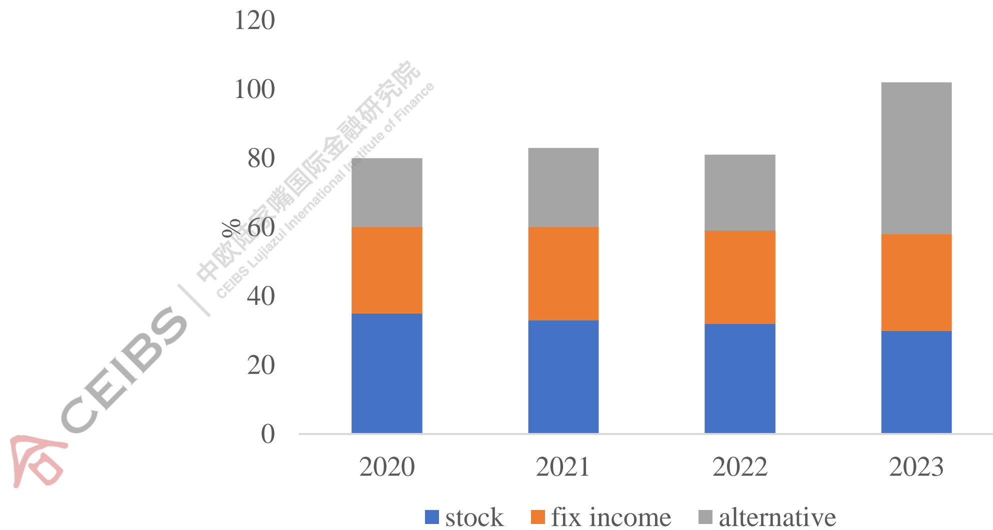
Source: Globalswf

Thirdly, investment in renewable energy surpasses fossil fuels. In 2022, Middle Eastern sovereign funds invested $18.7 billion in 51 green transactions, accounting for 29% of global sovereign wealth fund green investments; in contrast, investments in 11 traditional energy transactions amounted to $6.7 billion. In 2023, these funds invested $5 billion in climate technology, three times the $1.8 billion invested in 2022, particularly in solar and wind energy projects, promoting the development of green hydrogen and low-emission manufacturing.

Lastly, co-investment with emerging markets. On the one hand, there is a more optimistic view of the development prospects of emerging markets, such as the Qatar Investment Authority's $400 million investment in infrastructure focused on transportation, communication, and energy in South Africa; Abu Dhabi and Malaysia's investment cooperation in energy, tourism, and real estate. On the other hand, shared interests lead to greater collaboration and coordination,

such as the Qatar Investment Authority's joint venture with Indonesia to invest in natural resource extraction and tourism in Vietnam.

Figure 2-3 Asset Allocation Categories of Middle Eastern Sovereign Wealth Funds (2020-2023)



Source: GlobalSWF, Invesco

Supply Side

- **Financial Employment/Non-agriculture Employment.** In terms of absolute scale, Shanghai has as many as 500000 financial employees, ranking among the top in the world. However, in terms of relative scale, the proportion of financial employees in Shanghai is 3.85%, which is quite different from New York, London and Hong Kong.

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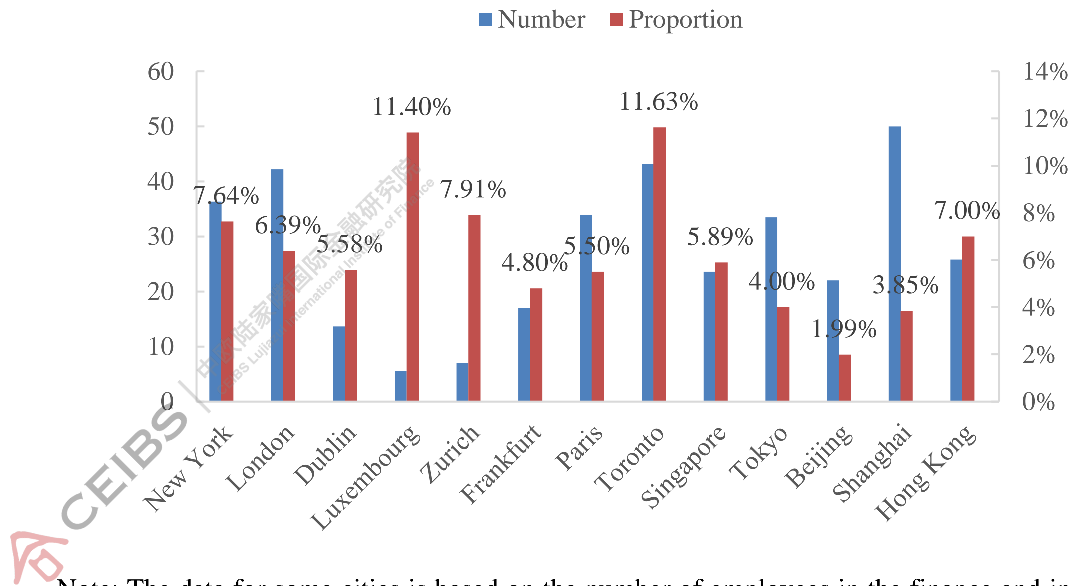
Figure 2-4 Number of Employees in Financial Industry and Proportion to Non-Agriculture Employees (10000, %,2023)

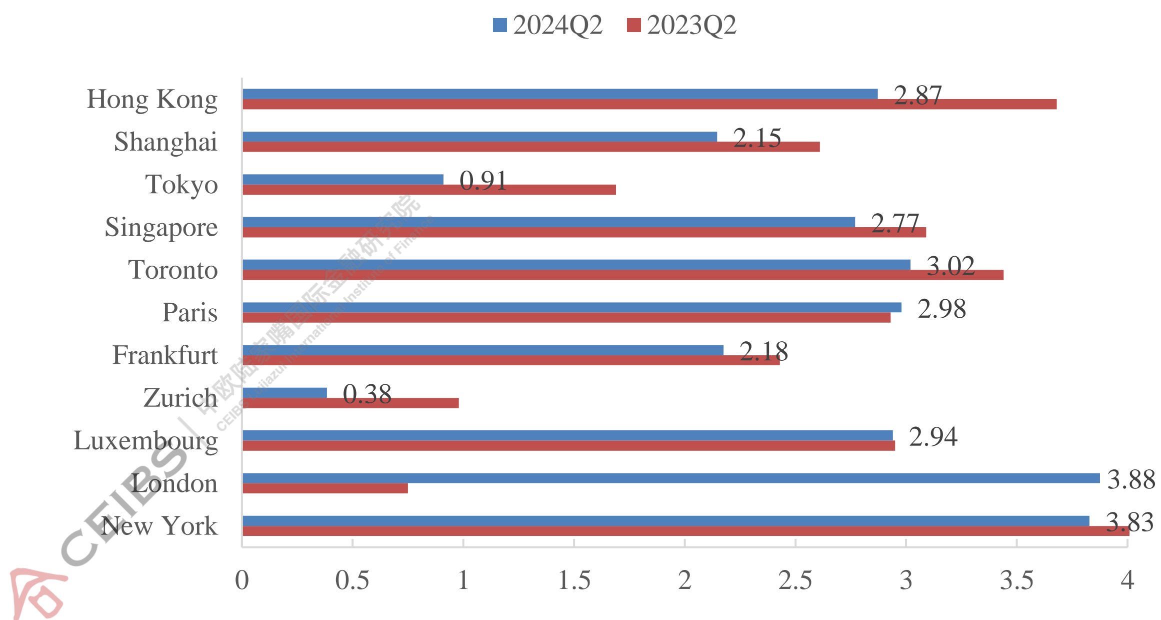


Note: The data for some cities is based on the number of employees in the finance and insurance industries.

Source: Bureau of cities/regions

- **Average Long-term Government Bond Yield (10-year).** Government bond yields in most of the world's major economies are on a downward trend. The main reason is that inflation in these economies has been effectively controlled, and the monetary tightening policy has gradually shifted, prompting the local government bond yields to adjust accordingly. Since the beginning of this year, Switzerland, the euro area, Canada and United Kingdom have entered a cycle of interest rate cuts, and the expectations of interest rate cuts in other regions have gradually increased. At the same time, the slowdown in China's economic growth, coupled with the downturn in the stock market and the unexpected interest rate cuts, have increased the demand for bond allocation, prompting China's government bond yields to continue to decline. As of the first quarter of 2024, the yield on 10-year government bonds in China is 2.15%.

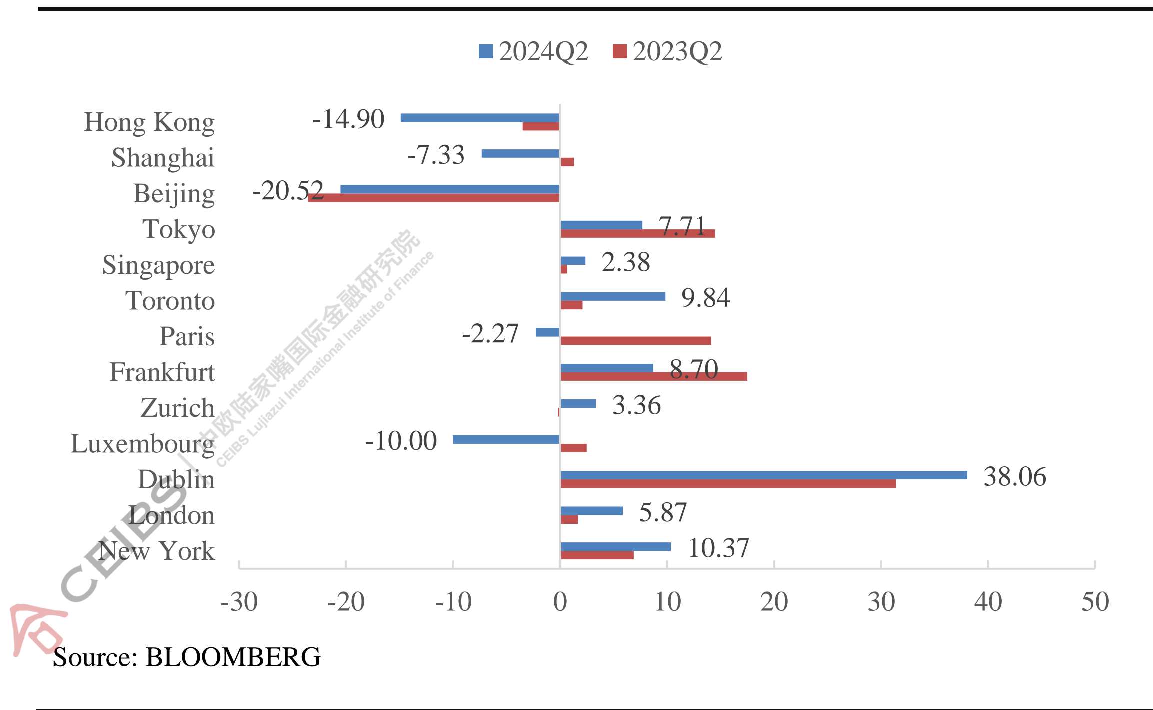
Figure 2-5 Average Long-term Government Bond Yield (%)



Note: This data is at the national/regional level. For the convenience of comparison, we represent the country/region with related main asset management centers.
Source: Moody's Analytics

- **Returns of Major Stock Indexes.** Over the past year, rising interest rate cut expectations, defensive nature and low valuations have contributed to a broad rally in European equities. Firstly, the expectation of interest rate cuts has risen, inflation in Europe has been brought under control earlier, and economic growth pressure has prompted European interest rate cut expectations to heat up and enter the interest rate cut cycle earlier, promoting the recovery of local corporate profits. Secondly, the European stock market is more defensive, and most of the Big 11 European stocks belong to industries such as health care and FMCG, and strong earnings have supported the rise of the local stock market in the context of slowing economic growth. Thirdly, the valuation is relatively low, unlike the United States stock market, which is dominated by growth sectors such as technology, the European stock market have more traditional industries such as utilities, energy and finance, and the relatively low valuation level makes it more attractive for allocation.

Figure 2-6 Returns of Major Stock Indexes (12 months, %)



Source: BLOOMBERG

- **Stock Market Capitalization.** Catalyzed by the wave of technological revolution, the New York stock market has seen the largest increase in market capitalization, rising to $53.79 trillion at the end of the second quarter of 2024, an increase of $7.61 trillion over the same period last year. Meanwhile, the United Kingdom stock market saw the largest increase in market capitalization, increasing by 46.60% from $3.18 trillion at the end of the second quarter of 2023 to $4.67 trillion at the end of the second quarter of 2024. In addition, the market capitalization growth rate of Beijing's stock market is among the highest in the world, with a year-on-year increase of 15.74%.

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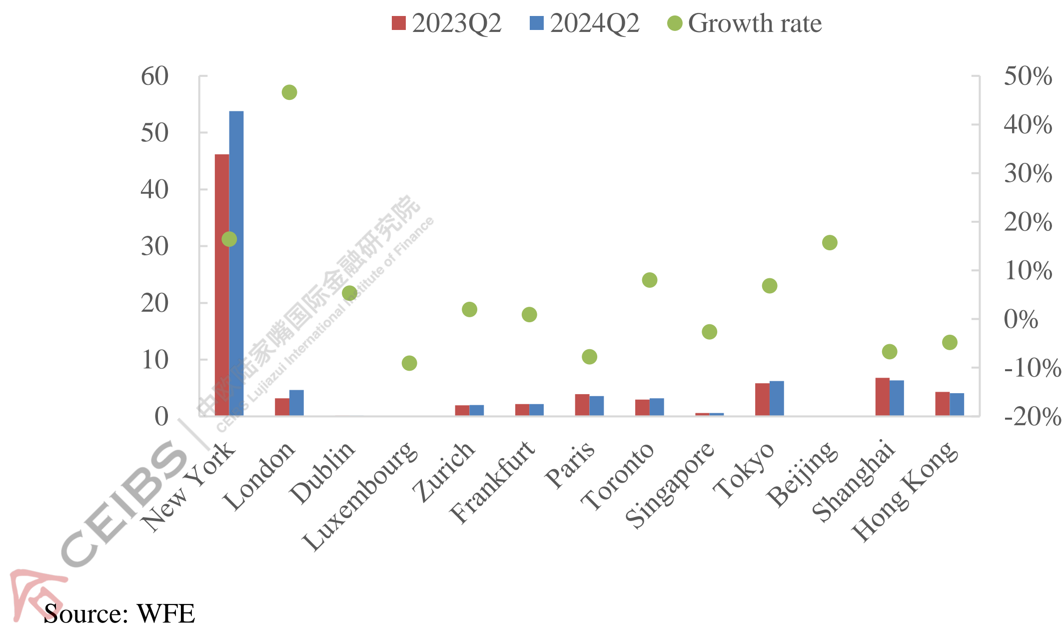
Figure 2-7 Stock Market Capitalization and Growth Rate (tn $, %)



Source: WFE

Topic 2: Strong Performance of U.S. Technology Stocks

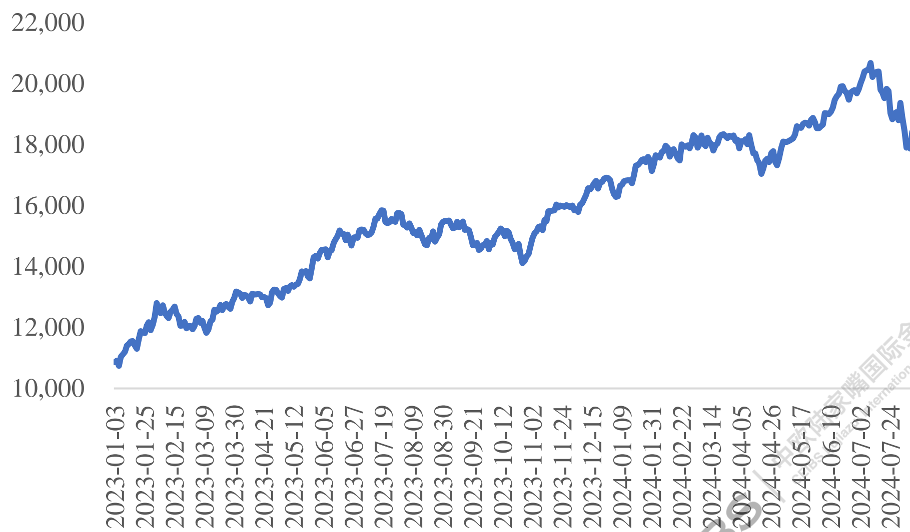
In theory, rising interest rates negatively impact the stock market because increased corporate financing costs lead to reduced consumption and investment, which in turn affects corporate profitability. Sectors like technology and high-growth fields are more vulnerable to this adverse impact. However, market reactions also depend on various factors, including economic growth expectations, corporate profitability, and investor expectations for future inflation and interest rate trends. For example, the higher rate hikes by the Federal Reserve compared to other markets' returns attracted global capital inflows into U.S. stocks. Simultaneously, the leadership of U.S. high-tech companies in the global market led investors to focus on the long-term growth potential of these companies, overlooking the losses from rising interest rates. At the end of 2023, the market capitalizations of seven major U.S. technology companies—Apple, Microsoft, Amazon, NVIDIA, Google, Meta, and Tesla—rose by 45%, 56%, 85%, 234%, 55%, 185%, and 110%, respectively, compared to the end of 2022, collectively increasing by $5.2 trillion. This contributed to over 66% of the S&P 500 index's gains and also boosted the annual growth rates of the Dow Jones Industrial Average and the S&P 500 index to 11% and 16%, respectively, enhancing the resilience and attractiveness of the U.S. stock market.

In early 2024, as the Federal Reserve's monetary policy stabilized, market expectations for the end of the rate hike cycle strengthened. In this context, technology stocks showed stronger momentum, benefiting from continued investments in AI technology and increased demand for enterprise cloud services, while the semiconductor sector also performed well due to the gradual

recovery of global supply chains. As the U.S. presidential election approached, the technology industry faced more policy uncertainty, with Congress intensifying antitrust investigations against large technology companies, particularly in the social media and e-commerce sectors. This regulatory pressure caused some technology stocks to face selling pressure during the quarter. Nonetheless, some technology companies mitigated part of this pressure by expanding business areas and launching innovative products. For example, Tesla made breakthroughs in autonomous driving technology, driving its stock price higher despite adjustments in other technology stocks. Overall, technology stocks experienced significant volatility in the second quarter, with weakened growth momentum.

In the second half of 2024, due to disappointing mid-year financial reports from tech giants and concerns about a hard landing for the U.S. economy triggered by weak employment data and PMI figures, global markets entered a panic sell-off, with significant outflows of funds from tech stocks that had seen substantial gains earlier. The NASDAQ fell by 10% in July, and the STOXX 600 technology sector in Europe dropped by over 6% in the first week of August.

Figure 2-8 NASDAQ 100 Index (2023-2024)



Source：wind

However, the overall market sentiment remains optimistic about long-term technological innovation. In the global asset management industry, many asset management giants have invested in U.S. technology stocks through various funds and ETF products, covering a wide range of companies from large tech giants to emerging tech firms, particularly in cutting-edge fields such as quantum computing and biotechnology. These products have typically attracted funds from a wide array of global investors, becoming significant players in the tech stock market.

Table 2-2 One-Year Returns of Major Asset Management Products Investing in U.S. Technology Stocks (2024)

ASSET MANAGERS	INVEST PRODUCTS	1 YEAR YIELD %（TO 2024/8/20）
BlackRock	iShares U.S. Technology ETF (IYW)	22.34
	iShares Expanded Tech-Software Sector ETF (IGV)	6.62
Vanguard	Vanguard Total Stock Market Index Fund	17.07
State Street Global Advisors	SPDR S&P 500 ETF Trust (SPY)	18.49
	Technology Select Sector SPDR Fund (XLK)	17.32
Fidelity Investments	Fidelity Contrafund	16
	Fidelity Select Technology Portfolio (FSPTX)	29
Morgan Stanley Investment Management	Morgan Stanley Insight Fund	40
Allianz Global Investors	Allianz Technology Trust	23.7
Invesco	Invesco QQQ Trust (QQQ)	17.87
	Invesco S&P 500 Equal Weight Technology ETF (RYT)	13.48

Source: BLOOMBERG

- **Turnover of Futures and Options.** Chicago has the largest turnover of futures and options, at $1011 trillion. Turnover of futures and options in London is the fastest-growing one, with a year-on-year increase of 17.55% to $276.50 trillion at the end of the second quarter of 2024. At the same time, the turnover of futures and options in Shanghai increases slightly, reaching $23.93 trillion at the end of the second quarter of 2024, up 0.71% year-on-year.

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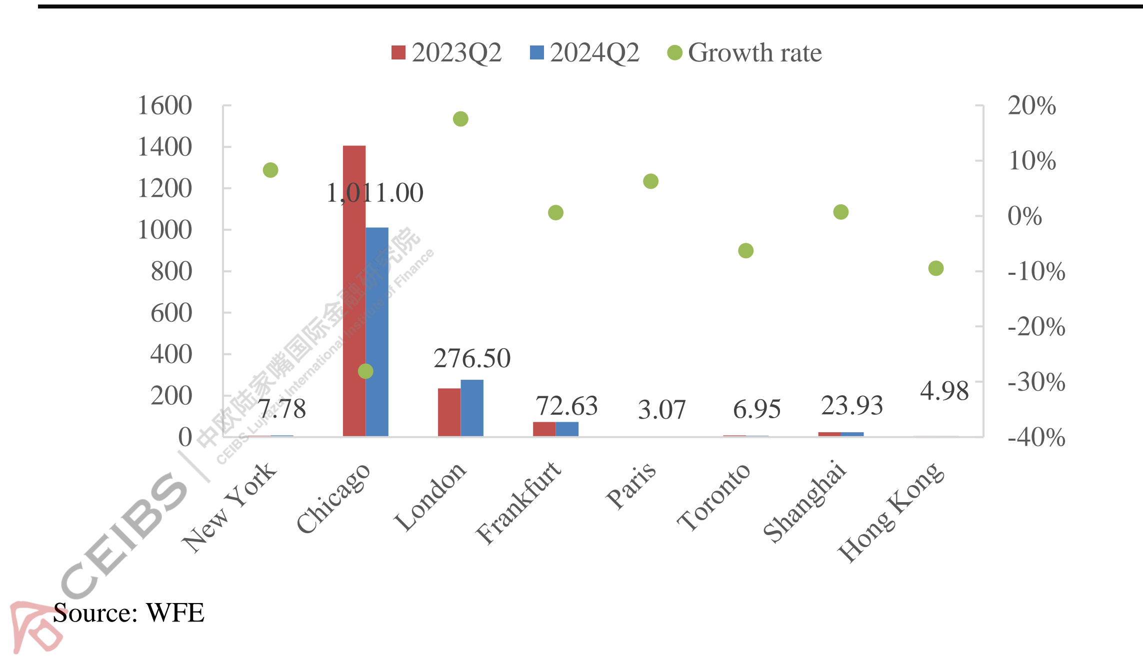
Figure 2-9 Turnover of Futures and Options (tn $)



Source: WFE

Business Side

- **AuM of Asset Managers.** The scale of the world's leading asset managers continued to expand. As of the end of June 2024, the AuM of top five asset managers headquartered in New York was US$21.05 trillion, a year-on-year increase of 12.39%. The size of the top 5 asset management institutions headquartered in Shanghai was 1.8 trillion US dollars, a year-on-year increase of 12.50%, the growth rate was at a medium level.

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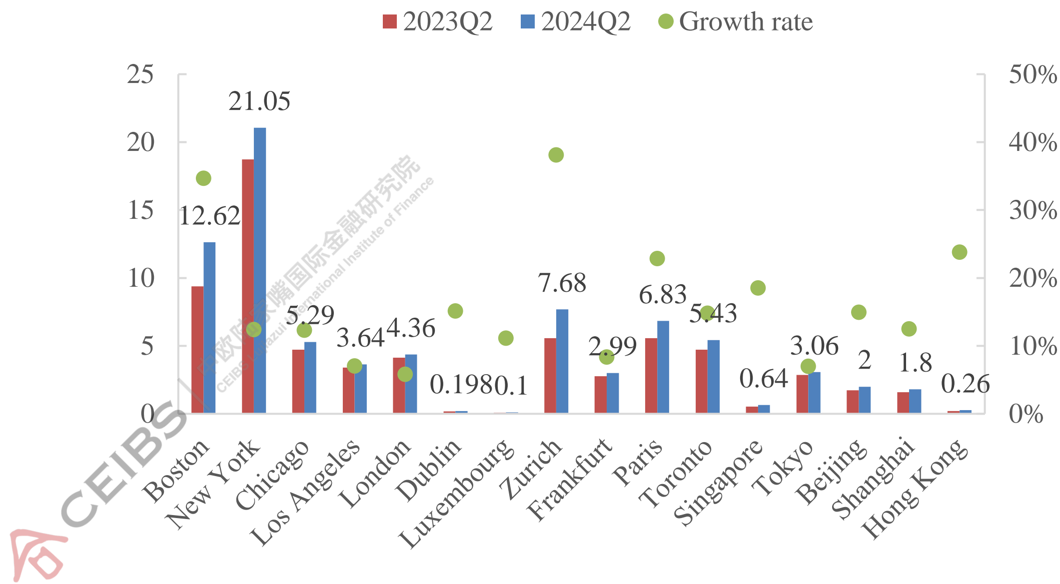
Figure 2-10 AuM and Growth Rate of Top 5 Asset Managers with Local Headquarters (tn $, %)



Source: Asset managers

Topic 3: AuM of Asset Managers Expanded Significantly

The impact of global geopolitical conflicts has gradually subsided, the effectiveness of inflation governance in various countries has gradually emerged, and the trend of monetary policy shift has become increasingly clear since 2024. In this context, the opportunities and challenges faced by asset managers have become increasingly clear, the allocation strategy has been adjusted accordingly, and the scale of management has increased significantly. As of the end of June 2024, the world's top 10 asset managers are all in the expansion stage, with an overall scale of US$49.18 trillion, a year-on-year increase of 15.61%. Among them, Vanguard Group's assets under management increased the most, increasing by 2.1 trillion US dollars over the same period last year, a year-on-year increase of 29.17%.

Table 2-3 Changes in the AuM of the world's top 10 asset managers (2023-2024)

Sort by AuM in 2024 Q2		2024Q2	2023Q2	Year-on-year
		AuM (trillion US dollars)		
1	Black Rock	10.65	9.43	12.94%
2	Vanguard Group	9.30	7.20	29.17%
3	UBS	5.87	5.53	6.15%
4	Fidelity Investment	5.50	4.50	22.22%
5	State Street	4.42	3.80	16.32%
6	JPMorgan	3.70	3.20	15.63%
7	Goldman Sachs	2.93	2.71	8.12%
8	Capital Group	2.60	2.30	13.04%
9	Credit Agricole-Amundi SA	2.16	1.96	10.20%
10	Bank of New York Mellon	2.05	1.91	7.33%
Total		49.18	42.54	15.61%

Note: Since the second quarter of 2023, UBS Invested Assets includes the investment assets of associates of the Asset Management Business Unit, and the relevant data has been restated.
Data source: Official websites of asset managers

BlackRock, the world's largest asset manager, has expanded significantly against the backdrop of heightened uncertainty. As of the second quarter of 2024, BlackRock's assets under management reached $10.65 trillion, an increase of $1.22 trillion or 12.94% year-on-year over the same period last year. In the first half of 2024, BlackRock had a net flow of more than $140 billion, including a net flow of $81.565 billion in the second quarter.

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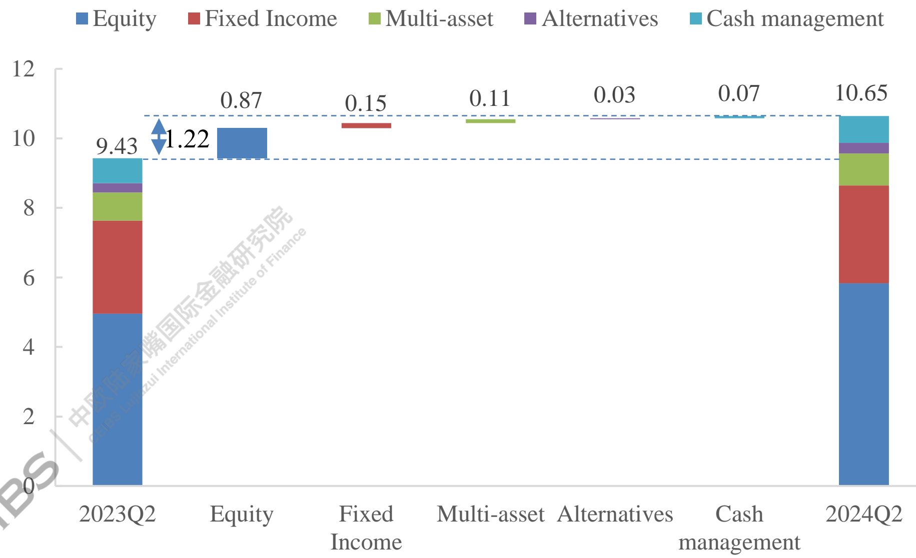
Figure 2-11 BlackRock AuM size and structural changes (2023-2024, trillion USD)



Source: BlackRock

The expansion of BlackRock's asset management scale is mainly due to a variety of factors, such as economic resilience, policy expectations and product innovation. Firstly, economic resilience and technological revolution have driven the stock market up, helping to expand the AuM of stock products. The United States economy is resilient, with real GDP seasonally adjusted annualized rate of 2.8% in the second quarter of 2024 at, higher than the previous value of 1.4% and market expectations of 2%. At the same time, the in-depth development of the scientific and technological revolution has triggered a market investment boom, which jointly promotes the rise of the stock market. Between the third quarter of 2023 and the second quarter of 2024, the S&P 500 rose 22.70%, prompting BlackRock to increase the size of its equity-related products by $0.87 trillion to $5.83 trillion.

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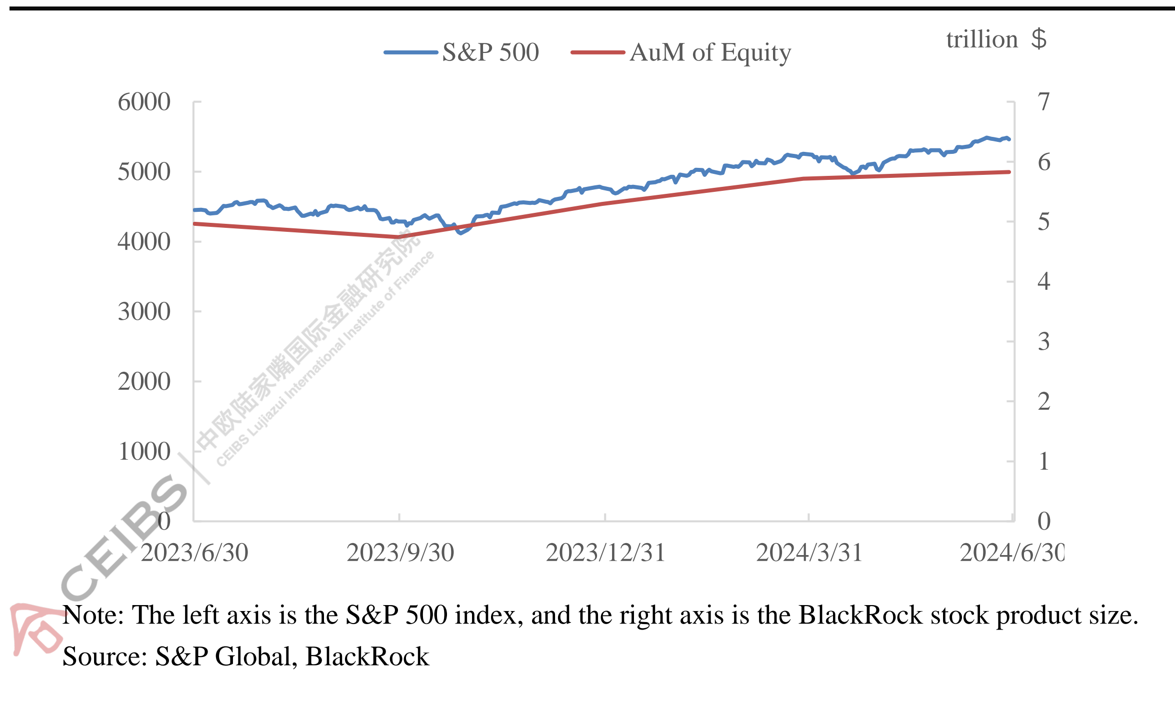
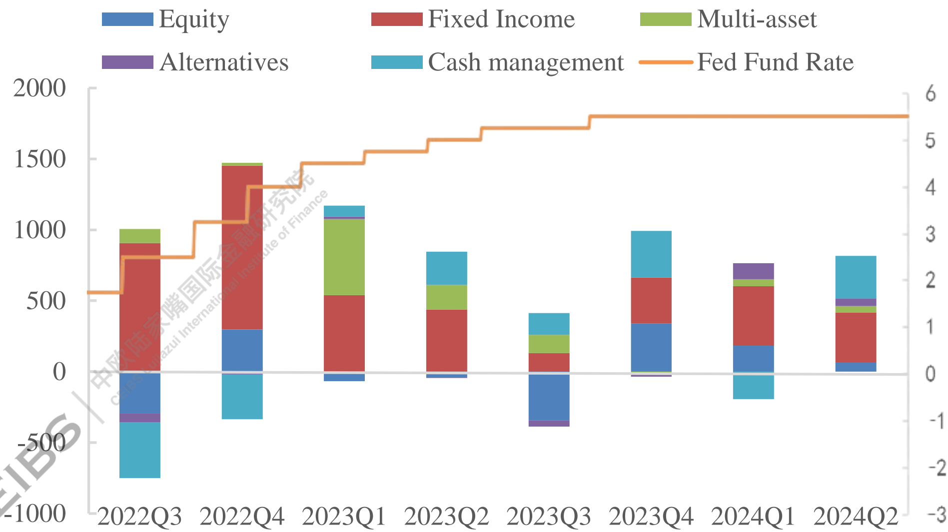
Figure 2-12 S&P 500 Index and Aum of BlackRock Equity Product (2023-2024, trillion USD)



Note: The left axis is the S&P 500 index, and the right axis is the BlackRock stock product size.
Source: S&P Global, BlackRock

Secondly, the expectation of interest rate cut of Federal Reserve has increased and driven the net flow of fixed income products to continue to expand. As the effectiveness of inflation control gradually emerges, the Fed has slowed down the frequency of interest rate hikes and decreased the magnitude. In July 2023, the Fed raised the cap on the federal funds rate to 5.5% by 25 basis points, after which rate hikes were paused and kept higher for longer. Over time, interest rate cut expectations have gradually increased, especially after the United States CPI fell for four consecutive months in July 2024 and returned to below 3%. Rising expectations of interest rate cut have led to higher prices in fixed income assets, prompting flows into fixed income products to return to the expansion cycle, making them the asset class with the largest net inflows in the past three quarters. In the second quarter of 2024, BlackRock's net inflow of various products reached US$81.565 billion, of which the net inflow of fixed income products was US$35.409 billion, accounting for 43.41%.

Figure 2-13 Fed Funds Rate and BlackRock Net Flows of Various Products (2022-2024, trillion USD, %)

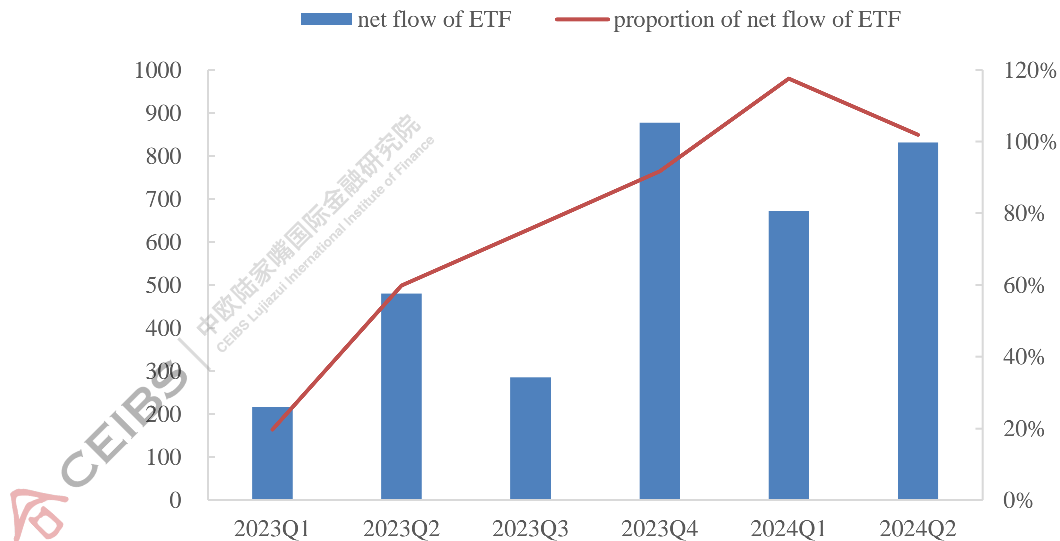


Note: The federal funds rate here refers to the upper end of the target range, which is the right axis in the chart and the left axis is the net flow.

Source: Federal Reserve Bank of St. Louis, BlackRock

Thirdly, the strong inflow of funds into ETF products has supported the expansion of BlackRock's AuM. Under the influence of favorable factors such as strong macroeconomic resilience, relatively low stock market volatility and high bond yields, the inflow of ETF products continued to increase. In the first quarter of 2023, the net inflow of BlackRock ETF was only US$21.705 billion, and in the second quarter of 2024, the net inflow of ETFs has increased to US$83.141 billion, accounting for 101.93% of the total net inflow, making most contributions to the growth of the overall AuM. At the beginning of 2024, BlackRock launched the iShares Bitcoin Trust (IBIT), which has a net worth of $20.543 billion as of August 14, attracting a large amount of capital inflows.

Figure 2-14 Net Flows and Proportion of BlackRock ETF (2023-2024, USD 2024)

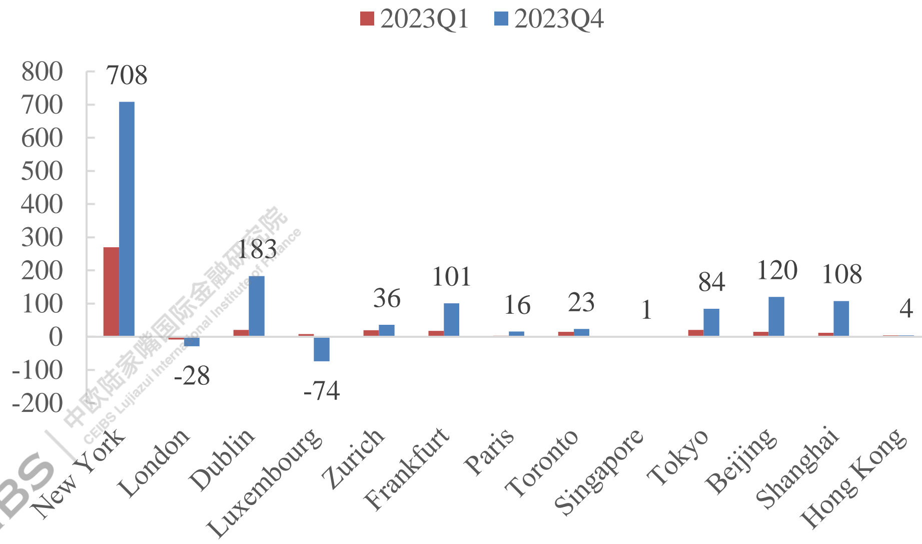


Note: The proportion of ETFs in the third quarter of 2023 is affected by extreme values and is smoothed here. The left axis is the net flow of BlackRock ETF, and the right axis is the proportion of the net flow.

Source: BlackRock

- **Net Sales of Open-end Funds.** The size of global open-end funds has generally increased, and net sales have also increased. New York had strong net inflows, with net inflows reaching $708 billion in the fourth quarter of 2023, a significant increase from the beginning of the year. Beijing and Shanghai have the world's highest net fund sales, with US$120 billion and US$108 billion, respectively.

Figure 2-15 Net Sales of Open-end Funds (bn $)



Note: Data for 2024Q1 has not yet been released so data for the 2023Q4 is used here.
Source: IIFA

- **Net Assets and Growth of ETFs.** The scale of passive investment is relatively stable against the backdrop of economic uncertainty. As of the fourth quarter of 2023, the net asset size of New York ETFs was $6.47 trillion, decreasing 8.16% year-on-year. Although net asset of Zurich is smaller, it has the fastest growth rate, with an increase of 190.86% at the end of 2023 compared with the beginning of the year. Shanghai's growth rate is slower, with ETF net assets of $193.1 billion at the end of 2023, an increase of 1.06% from the beginning of the year.

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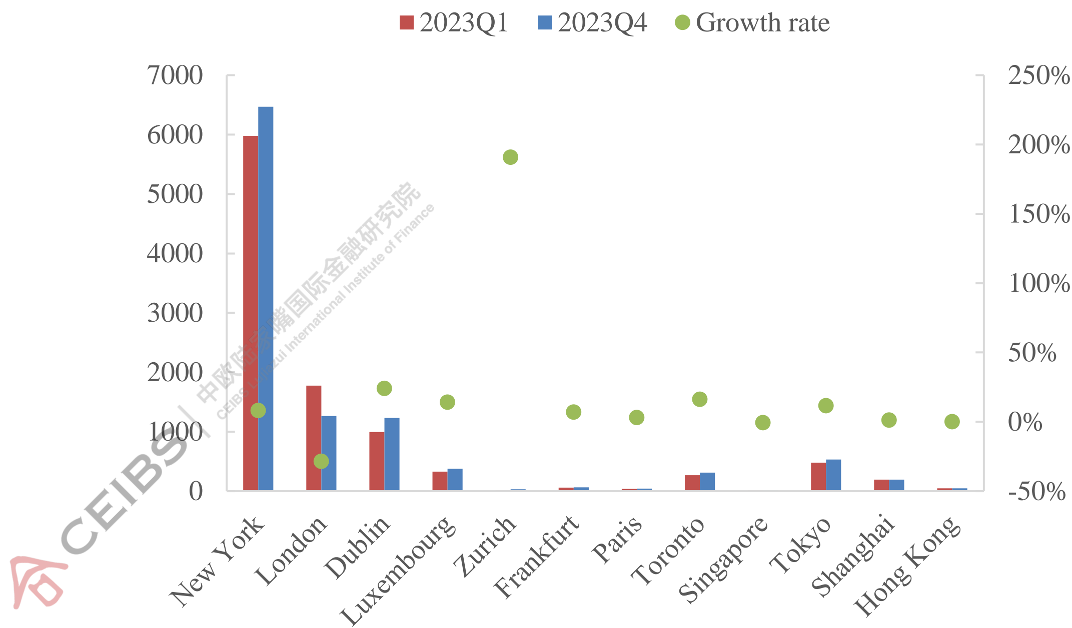
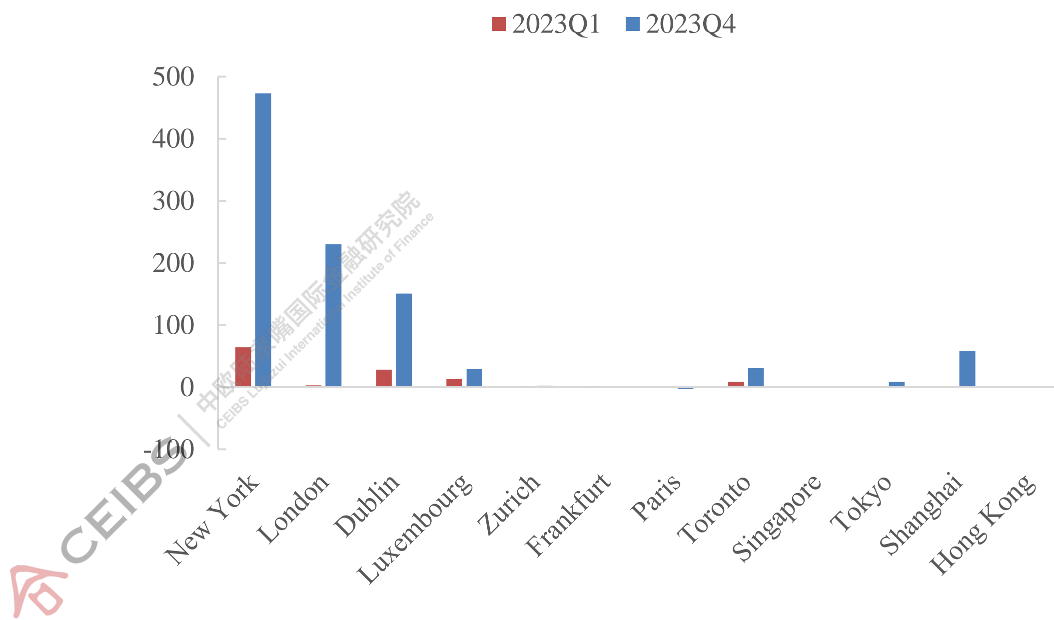
Figure 2-16 Total Net Assets and Growth Rate of ETF (bn $, %)



Note: Metrics of Shanghai are calculated based on IIFA and Shanghai Stock Exchange data.
Source: IIFA

- **Net Sales of ETFs.** Global ETF net inflows tend to accelerate. As of the fourth quarter of 2023, New York ETFs saw the largest increase in the world with net inflows of $473.1 billion. Meanwhile, London and Dublin saw net ETF inflows of $230.1 billion and $150.9 billion. At the same time, the net inflow of ETFs in Shanghai in 2023 was about US$58.69 billion, ranking among the top in the world in terms of scale and growth.

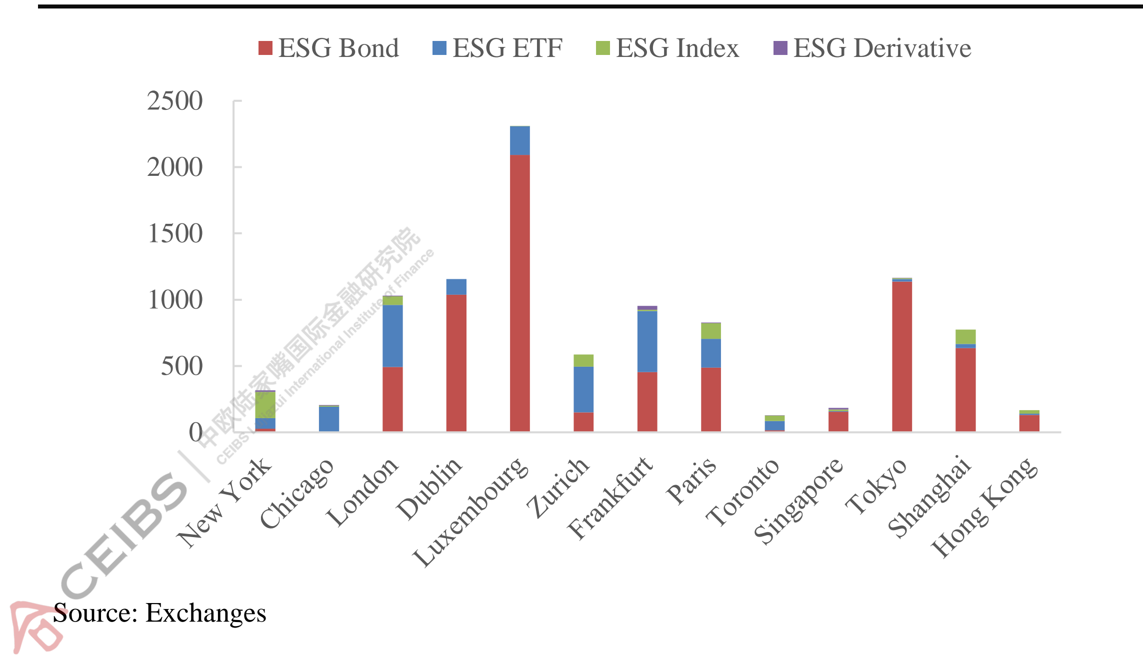
Figure 2-17 Net Sales of ETF (bn $)



Source: IIFA

- **Number of ESG Products.** ESG development presents a polarization trend. As the birthplace of ESG concepts, Europe still leads the world in the number of ESG products. As of June 2024, Luxembourg was the asset management center with the largest number of ESG products in the world, with a total of 2311 ESG-related products. As of June 2024, there were 635 ESG bonds, 31 ESG ETFs, and 108 ESG indices in Shanghai, with the total number of ESG products increasing by 21.89% over the same period last year. In addition, the cost of ESG investment and the conflict of interest made it cold in United States. In March 2024, Bank of United States, Citibank, Wells Fargo and JPMorgan Chase withdrew from the Equator Principles, after which State Street, Pacific Investments and Goldman Sachs withdrew from the Climate Action 100+ initiative.

Figure 2-18 Number of ESG Products



Source: Exchanges

- **Net Assets and Growth Rates of Alternative Investment.** Alternative investments have made great strides by virtue of advantages of diversification, resilience and yield enhancement. Europe's major asset management centers have a large net of alternative investments and are seeing rapid growth in 2023. Among them, the net assets of alternative investments in Paris at the end of the fourth quarter of 2023 were reported to be 992.02 billion US dollars with a growth rate of 8.90%. Although the scale of alternative investment in Shanghai is small, the growth rate of 28.96% is among the highest in the world. In addition, Hong Kong's alternative assets have the highest growth rate among the world's major asset management centers, with a growth rate of 51.10% at the end of 2023.

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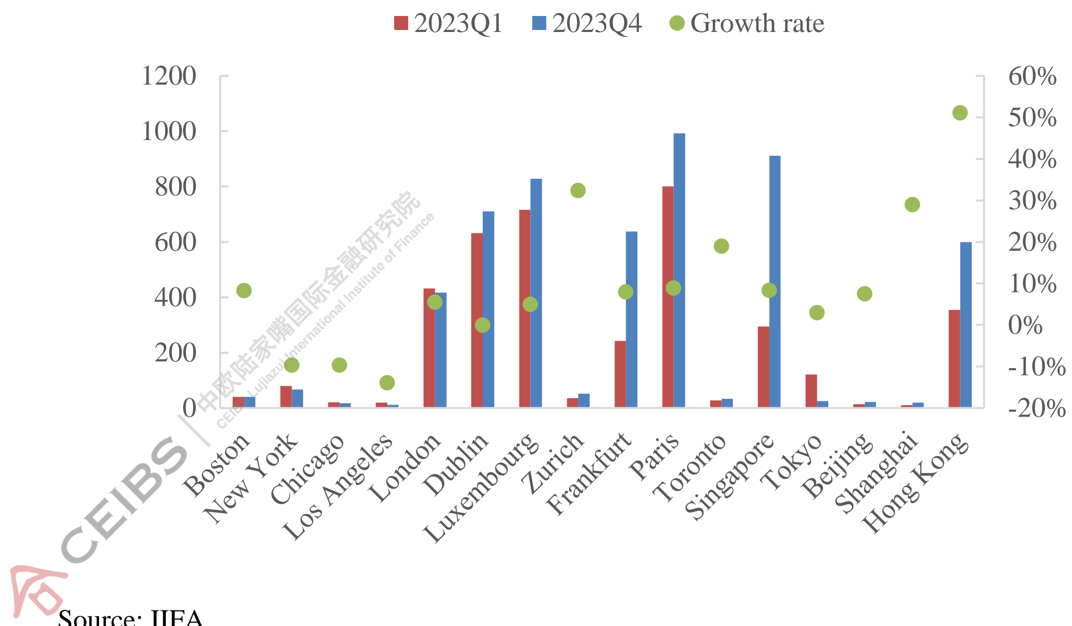
Figure 2-19 Total Net Assets and Growth Rate of Alternative Investment (bn $, %)



Source: IIFA

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PART 3 ANALYSIS OF REGIONAL CHARACTERISTICS

Europe

After inflation was brought under control, many European countries began to shift their monetary policies. Subsequent intensive interest rate cuts brought opportunity to European fixed income. At the same time, the development of financial technology has a profound impact on the asset management industry. United Kingdom is committed to applying distributed ledger technology to empower the development of the fund industry and realize fund tokenization. With its advantages in markets, taxes, tools and channels, Luxembourg has attracted funds from all over the world and has become the world's leading cross-border fund domicile.

European interest rate cut brings certain opportunities

On June 6, 2024, the European Central Bank (ECB) decided to lower the three key interest rates by 25 basis points, marking the beginning of a downward interest rate cycle in Europe. Since July 2022, the ECB has raised interest rates ten times, with a total of 450 basis points in the key rates. After September 2023, Euro area maintained high interest rates for a long time, and the inflation rate fell by more than 2.5 percentage points, and the inflation outlook would improve significantly. Against the backdrop of continued weakening price pressures and a broad decline in inflation expectations, the ECB began to shift its monetary policy, with interest rates on deposit facility, main refinancing operations and marginal lending facility falling to 3.75%, 4.25% and 4.5% respectively.

The easing of global inflation has prompted many countries to enter the window of interest rate adjustment, especially in Europe. Since 2024, many developed countries around the world have adjusted their benchmark interest rates, among which Israel was the first to cut interest rates, lowering interest rates by 25 basis points on January 1, 2024. In addition, Hungary has the most frequent and the largest depth of interest rate cuts, with a total of 6 rate cuts in the first half of 2024 and a 375 basis point cuts in the benchmark rate. In the first half of 2024, a total of five countries or regions in Europe have lowered their benchmark interest rates 14 times, which will have a greater impact on local financial markets and asset managers.

Table 3-1 Timeline and depth of interest rate cuts by central banks in developed countries (bps, 2024)

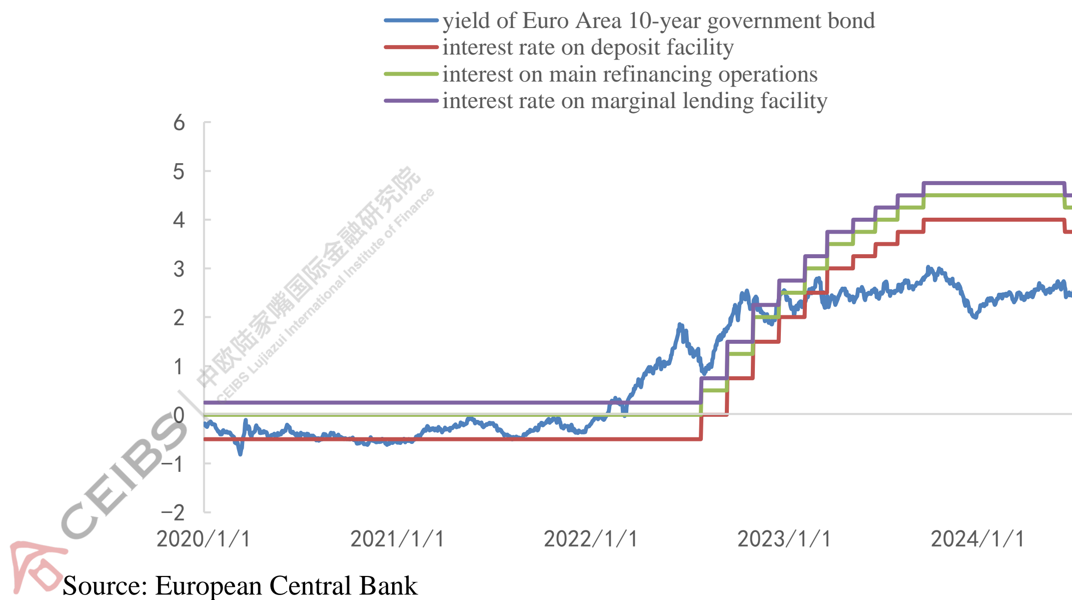
Country	Date	Interest rate before the cut	Interest rate after the cut	Depth of the cut
Israel	January 1	4.75%	4.50%	25
Hungary	January 31	10.75%	10.00%	75
Czech Republic	February 8	6.75%	6.25%	50
Hungary	February 28	10.00%	9.00%	100
Czech Republic	March 20	6.25%	5.75%	50
Switzerland	March 21	1.75%	1.50%	25
Hungary	March 27	9.00%	8.25%	75
Hungary	April 24	8.25%	7.75%	50
Czech Republic	May 2	5.75%	5.25%	50
Sweden	May 8	4.00%	3.75%	25
Hungary	May 22	7.75%	7.25%	50
Canada	June 5	5.00%	4.75%	25
Eurozone	June 6	4.00%	3.75%	25
Hungary	June 19	7.25%	7.00%	25
Switzerland	June 20	1.50%	1.25%	25
Czech Republic	June 27	5.25%	4.75%	50
United Kingdom	July 31	5.25%	5.00%	25

Note: As of July 31, 2024.

Source: European Central Bank, Bank of England, Swiss National Bank, Czech National Bank, Sveriges Riksbank, Magyar Nemzeti Bank, Bank of Canada, Bank of Israel.

Intensive interest rate cuts in Europe provide certainty for fixed income products. Since the second half of 2023, many countries around the world have stabilized at a high level of interest rates. Recently intensive cuts of interest rates in many European countries indicate that the tightening cycle has peaked, and interest rates have begun to enter a downward cycle. The European Central Bank's interest rate cut in early June led to a significant decline in Euro Area 10-year government bond yield, and opportunities in the sovereign debt market are gradually opening up. At the same time, the peak in yields is a good opportunity to lock in higher bond yields.

Figure 3-1 ECB Key Rate and Euro Area Government Bond Yields (%, 2020-2024)



Source: European Central Bank

At the same time, the narrowing of global corporate bond spreads has provided a significant premium for European high-yield bonds. Over the past few quarters, global corporate bond spreads have narrowed sharply as fears of a hard landing have receded, but there have been differences between regions. After months of continuous narrowing, United States corporate bond spreads have become relatively small, with United States investment grade and high-yield spreads of 88 basis points and 338 basis points, respectively, and the holding risk is not far from United States Treasuries. In contrast, spreads for European investment grade and high yield bonds are 108 basis points and 351 basis points, respectively, which is a significant gap from historical lows. After taking into account the duration and rating of the index, European high yield bonds offer a higher premium. Schroder allocated bonds before the start of the interest rate cut cycle, slightly increased its holdings of European corporate bonds, and took a neutral stance on United States corporate bonds, of which investment-grade bonds accounted for 26% and high-yield bonds accounted for 10%.

Table 3-2 Comparison of Yield Spreads Between High-yield Bonds in Europe and America (bps, 2024)

Index	Credit spread	Rating	Duration	Adjusted spread
United Kingdom High Yield Bonds	442	BB-	3.45	478
European high-yield bonds	349	BB-	3.61	381
United States high-yield bonds	338	B+	4.85	273

Note: As of June 2024.

Source: ICE Indices, TwentyFour

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UK fund tokenization and distributed ledger technology

The United Kingdom is the world's leading and Europe's largest asset management center. According to the annual review statistics of the European Fund and Asset Management Association, the total AuM in Europe in 2023 was 27.77 trillion euros, of which 9.92 trillion euros was under management in United Kingdom, accounting for 35.7% of the total size of Europe, roughly the same as the next closest France, Germany and Switzerland combined. At the same time, overseas client assets accounted for 48%, the number of overseas asset managers accounted for 60%, global investment accounted for 78%, and asset management service exports accounted for 5.5% of United Kingdom's total net exports. Ongoing geopolitical conflicts, increased economic uncertainty and severe financial market volatility have led to a decline in United Kingdom AuM.

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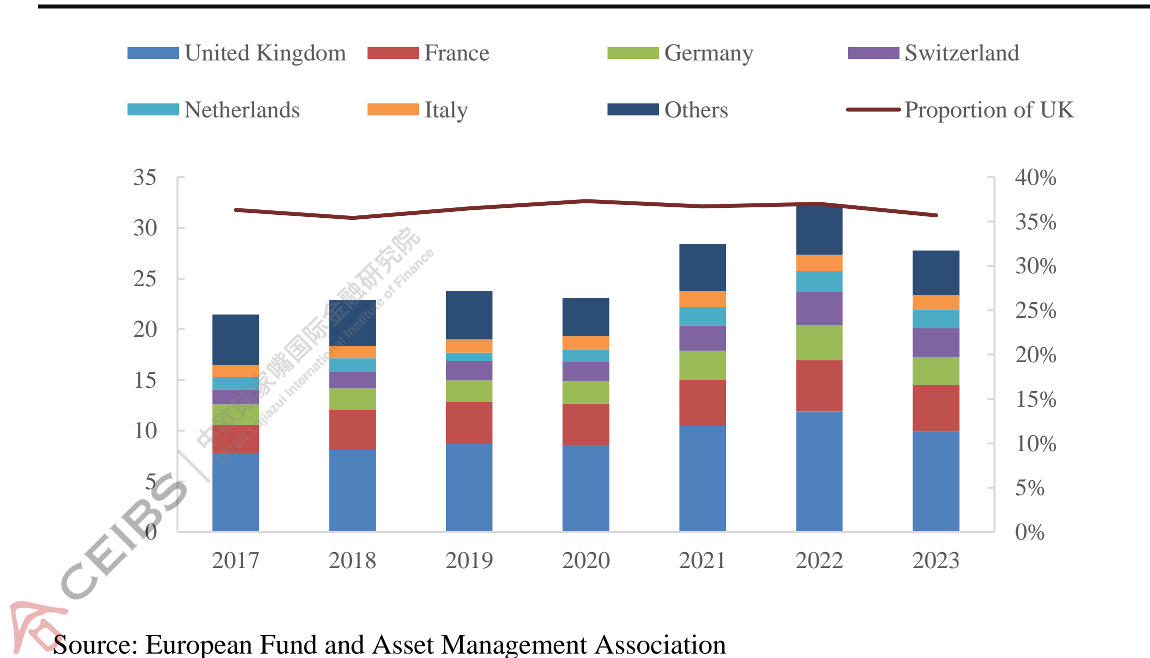
Figure 3-2 Europe AuM and UK share (EUR trillion, 2017-2023)



Source: European Fund and Asset Management Association

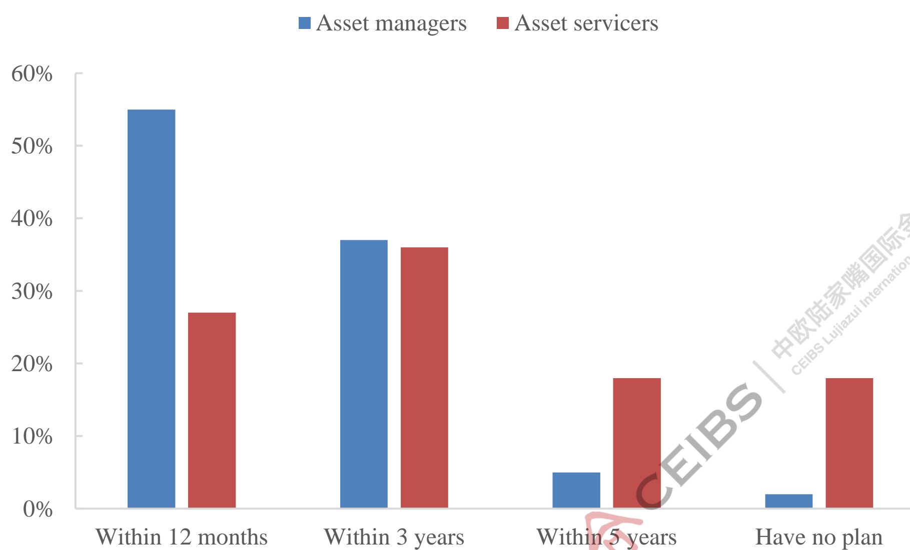
The United Kingdom is committed to making a positive impact on the asset management industry through the application of advanced technology. To this end, the HM Treasury and the Financial Conduct Authority (FCA) are working closely together to plan to introduce fintech to the asset management industry in three phases. Firstly, by building a fund tokenization blueprint, distributed ledger technology was introduced to United Kingdom fund companies. Secondly, explore and deepen the tokenization of funds and realize investment funds 3.0 through cooperation. Finally, while the key projects of fund tokenization are implemented, the potential opportunities of artificial intelligence and other technologies for the asset management industry will be focused.[①]

① The fund tokenization is led by the Science and Technology Working Group, which studies the impact of technology on the United Kingdom investment management sector. The Working Group was established under the auspices of the Government Asset Management Working Group and is supported by the Investment Association of the United Kingdom. For details, please refer to the following website: https://www.gov.uk/government/news/technology-working-group-publish-second-fund-tokenisation-report.

The United Kingdom's promotion of fund tokenization is mainly to improve the efficiency of investment funds. Specifically, firstly, fund tokenization can provide a real-time shared record-keeping system, simplify books and record procedures, and reduce fund management costs. Secondly, optimize settlement capabilities and speed up settlement, provide greater flexibility for the fund and reduce the credit and operational risks associated with liquidity. Thirdly, automate processes through smart contracts to facilitate fund distribution, improve the quality of disclosure, and facilitate regulatory oversight. Fourthly, tokens are highly transferable, allowing for better access to market liquidity when used as collateral.

The financial industry has made significant progress in tokenization. Research shows that $16 trillion in assets will be tokenized in 2030, accounting for about 10% of global GDP. According to the Annual Report on Fund Services 2023, more than half of the fund managers surveyed will offer tokenized fund products within one year. At the same time, 37% of asset managers expect to provide tokenized fund products within three years, while only 2% have no plan to carry out fund tokenization.[①] It can be seen that fund tokenization is no longer at the conceptual stage but has gradually become an emerging reality. The fund tokenization is not driven by trends alone, but by the advantages of distributed ledger technology in enhancing transparency, efficiency, and security.

Figure 3-3 Expected timeline for the supply of tokenized products



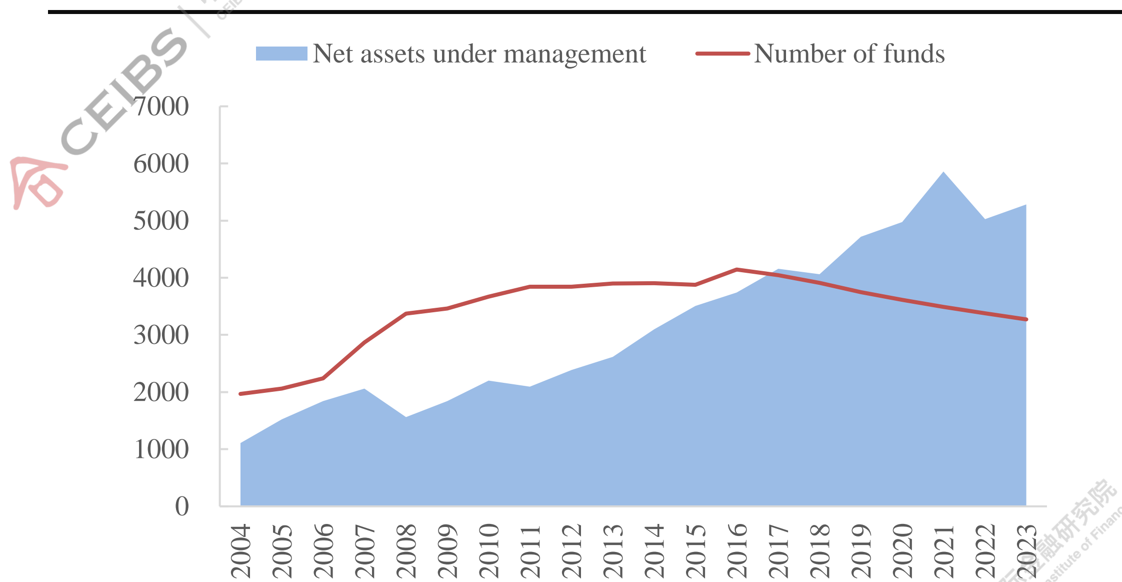
Source: Calastone

[①] The data comes from the Fund Services Annual 2023 co-authored by Calastone and Global Custodian, with the United Kingdom accounting for the highest proportion of respondents.

Luxembourg attracts global cross-border fund registration

Luxembourg has become the largest investment fund center in Europe due to its political, economic and social stability, its proximity to 500 million European investors and its geographical location in the heart of Europe. By the end of 2023, there were 3274 investment funds registered in Luxembourg, with net assets under management of 5.29 trillion euros. In recent years, the slow decline in the number of fund registrations and the continuous increase in the scale of funds under management have coexisted, reflecting the gradual deepening of the head-taking trend of the Luxembourg fund industry, and the intensification of competition has contributed to the survival of the fittest among fund companies in the region.

Figure 3-4 Luxembourg fund count and AuM (billion euros, 2004-2023)



Source: CSSF, ALFI

Luxembourg is the world's largest domicile of cross-border funds, attracting fund companies from all over the world. At the end of 2023, the United States, United Kingdom, Germany, Switzerland and France were the largest sources of cross-border funds in Luxembourg, accounting for 75.3% of total net assets. In terms of the number of cross-border fund registrations, Germany is the largest source of cross-border funds in Luxembourg, accounting for 32% of the total number of cross-border fund registrations.

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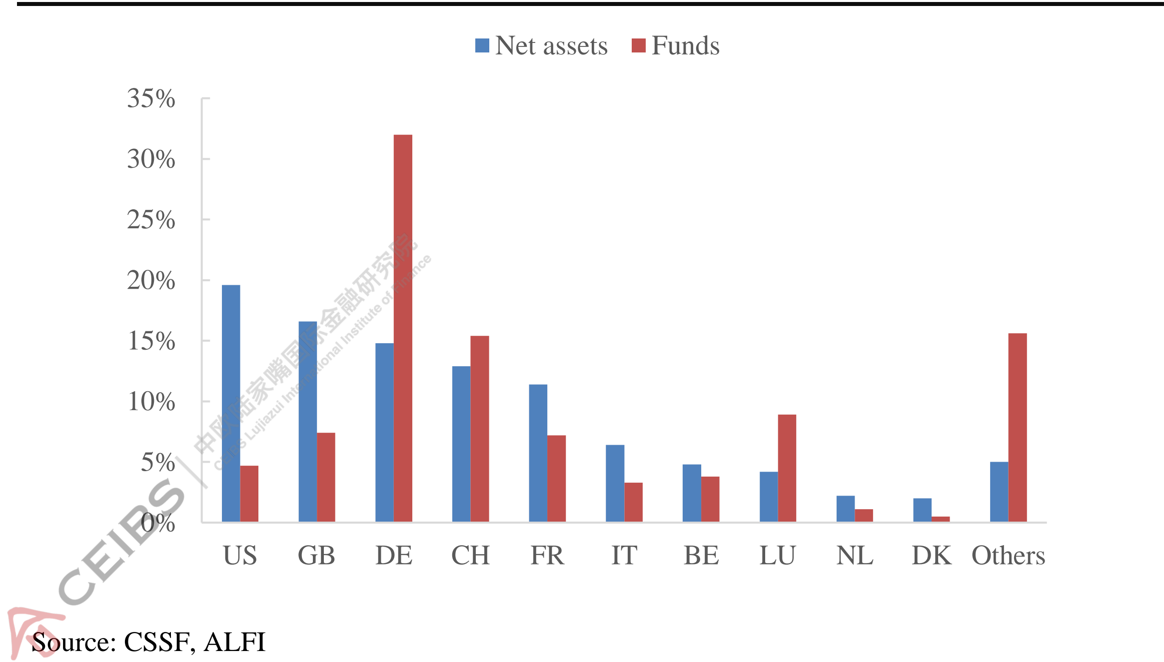
Figure 3-5 Distribution of Originator Sources for Funds Domiciled in Luxembourg (2023)



Source: CSSF, ALFI

Luxembourg accounts for a large share of the global distribution of cross-border funds. In 2023, the total number of cross-border funds in the world is 14725, and the total number of registrations for cross-border distribution is 140635. Luxembourg dominates the distribution of cross-border funds in the world, with 76718 registrations and a market share of 54.6%. In addition, Ireland registered 51228 cross-border fund distributions, with a market share of 36.4%. Luxembourg and Ireland account for most of the global distribution of cross-border funds, with other countries having relatively little cross-border fund distribution.

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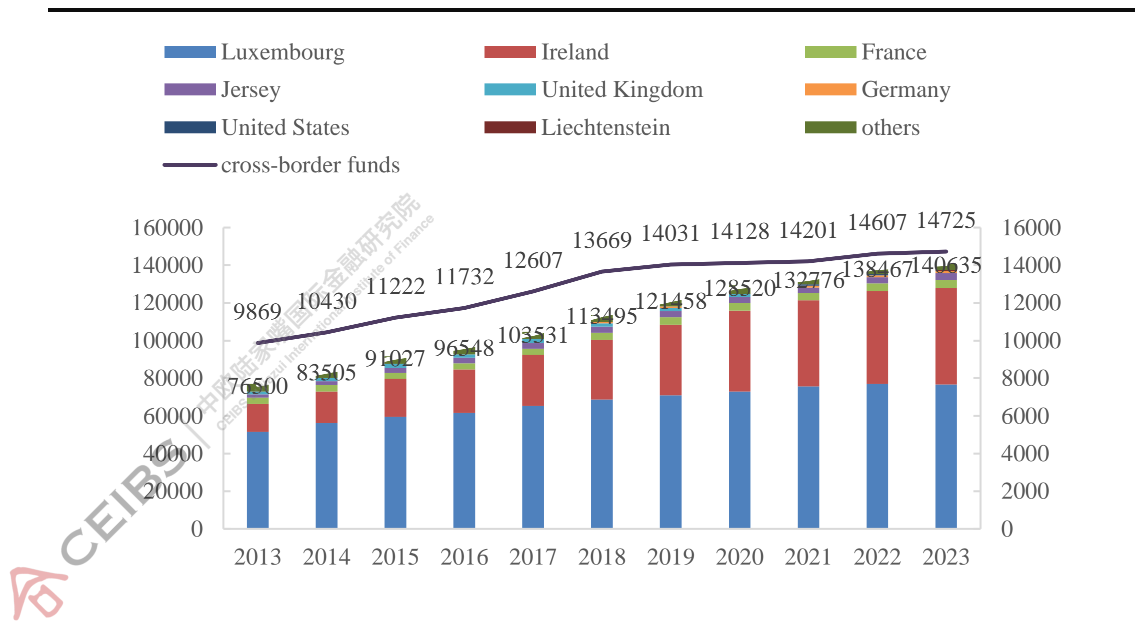
Figure 3-6 Number of Global Cross-border Funds and Cross-border Distribution Registrations (2013-2023)



Note: The left axis is the number of cross-border fund distribution registrations, and the right axis is the actual number of cross-border funds.

Source: PwC Global AWM & ESG Market Research Centre analysis, Lipper, ALFI

Luxembourg's attractiveness to global cross-border funds stems mainly from the market passport, tax regime, richness of fund instruments and breadth of distribution channels. Specifically, the first is that the EU market passport provides a huge market size and convenient operational procedures, and authorized fund managers can manage and market fund products in different EU countries. Secondly, the tax system reduces the tax burden on investors and fund companies, Luxembourg has an extensive network of tax treaties, fund products are exempt from income tax, and qualified management fees are exempt from VAT. Luxembourg provides fund managers with various tools that greatly enhance the convenience and flexibility of structuring strategic portfolios, including Undertaking for Collective Investment in Transferable Securities (UCITS), Venture Capital Investment Companies (SICARs), Specialized Investment Funds (SIFs) and Reserved Alternative Investment Funds (RAIF). Fourthly, the breadth of distribution channels, Luxembourg has built an efficient global distribution channel with an in-depth understanding of the legal, technical, operational and cultural aspects of the global asset management industry, In 2023, Luxembourg widely distributed cross-border funds in 81 countries around the world.

North America

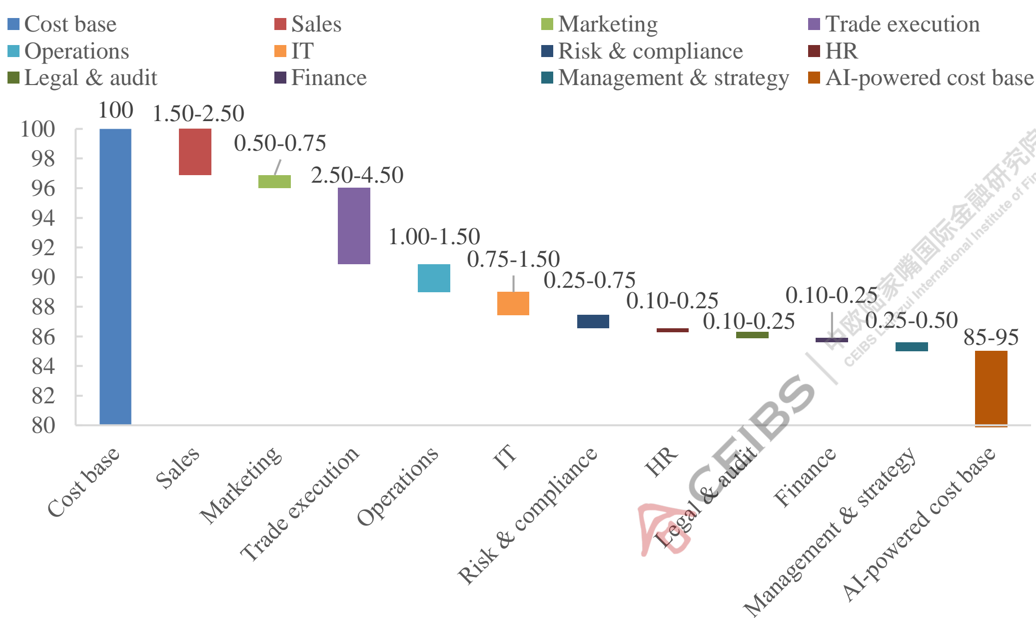
The sustainable development of the asset management industry is inseparable from the empowerment of financial technology. North America, as the world's largest asset management

cluster, is at the forefront of the application of financial technology. United States empowers the development of the asset management industry through artificial intelligence, which improves the efficiency of the value chain. Canada is more inclined to deploy cloud computing and blockchain and enhance the initiative of investment strategies through technology and other means.

AI empowers the United States asset management industry to improve efficiency

With the rapid development and increasing popularity of fintech, emerging technologies such as artificial intelligence are gradually changing the direction and pace of the asset management industry. The application of AI in asset management can help reduce costs, generate alpha, improve operational efficiency, improve product and distribution, and aid risk management. According to the Boston Consulting Group's research data, asset management institutions can achieve efficiency improvement and cost reduction through AI empowerment in all aspects of the value chain, reducing the cost of asset management institutions by 5% to 15% at this stage. Among them, AI has the strongest role in improving efficiency in investment management and transaction execution, as well as in sales.

Figure 3-7 AI-empowered asset management value chain to improve efficiency (%)



Note: Due to rounding, the sum of each link in the value chain might be different from 100%.
Source: BCG's Global Asset Management Benchmarking Database

Generative AI has been widely used at all stages of the asset management price chain. This trend is driven by three main factors: higher accuracy than previous generations of natural

language processing, a wider range of applications covering industries and business functions, and more accessible and user-friendly interfaces. In sales and customer service, generative AI can enhance sales and consultants' ability to engage existing customers and better identify and convert leads, which can lead to a 30 to 40 percent increase in efficiency, according to a joint study by Morgan Stanley and Oliver Wyman. In product development, generative AI can speed up routine tasks such as report drafting, reducing product development time by 25% to 35%. On the investment and research side, generative AI can replace information gathering and data cleaning tasks more efficiently, providing portfolio managers with services such as grapefruit research and risk analysis, improving the efficiency of this process by more than 30%. For middle and back-office functions, generative AI can save 25% to 50% of time by improving legal, compliance, and operational efficiencies and enabling code generation.

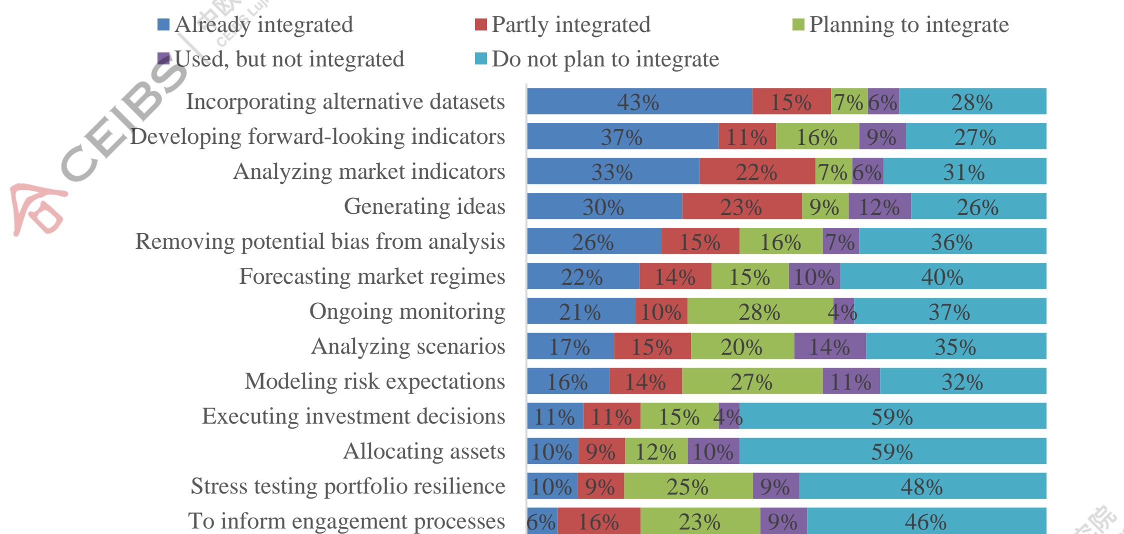
Table 3-3 BlackRock uses AI to improve user experience and interfaces

Business	Scenarios	AI Use Cases
Sales and client service	Sales and fundraising	•Personalized customization according to customer needs •Draft insights and sales talking points on customer customization •Draft customized proposal or response documents
	Marketing	•Drafting of customized marketing materials targeted to multiple channels •Synthesize market feedback and customer data to generate marketing plans
	Client servicing	•Translate customer inquiries and conduct similar questions in the knowledge base match, and respond in a customized way •Drafting of customized periodic investor reports
Product development	Product development	•Summarize market intelligence such as comparing trends and competitor products •Brainstorming of new product/solution ideas, tailored to client needs
Investment research	Portfolio management	•Extract and transform large amounts of information from news or reports to predict market movements or securities risk •Generate market or risk scenarios, synthesize historical and forecast numbers and back testing •Proposal of new investment ideas and selecting relevant securities from a defined universe
	Study	•Combine studies and pull data from multiple sources •Drafting market commentary and outlook •Drafting of investment committee documents
	Trade	•Validate trading rules by incorporating market information real-time •Smart hedging and unwinding •Optimize trading strategies based on counterparty price elasticity information
Middle and back-office	Risk, Legal and Compliance	•Search and aggregate legal and compliance documents •Drafting risk and performance reports
	IT and Operations	•Build and debug code •Customize reports on financial, operational, and technical events on demand •Paperwork/form assistant that pre-populate data, suggest complete version

Source: Morgan Stanley, Oliver Wyman

In the investment process, artificial intelligence has been integrated into the generation of alpha. Among them, artificial intelligence has been deeply integrated in the data analysis process, mainly used to establish alternative data sets, build forward-looking indicators and analyze market indicators, in which the degree of integration of artificial intelligence is more than 50%, and less than 30% of institutions have no integration plan. In addition, continuous monitoring, risk modeling, and portfolio resilience stress testing are important scenarios for asset managers to integrate AI technology in the future. Asset managers apply AI to conduct research and generate alpha, reflecting the emphasis on data analysis, and AI's deep involvement in the investment process.

Figure 3-8 The progress of AI integration in the investment process



Note: Due to rounding, the sum of all categories is different from 100%.
Source: Mercer (US)

BlackRock is focused on applying artificial intelligence to improve the customer experience and improve the efficiency and accuracy of operational workflows. BlackRock uses AI-powered user interfaces to engage with audiences such as large institutions and asset managers, and is committed to improving customer service, data analytics and technology development, improving the ability to connect with customers and deliver customized products and solutions based on customer preferences to help customers achieve their financial or investment goals. Specifically, BlackRock uses Aladdin Wealth as a tool to help financial institutions carry out business operations such as risk monitoring and portfolio analysis. In addition, BlackRock uses artificial intelligence to support pension-related planning through iRetire, providing scenarios and tax insights through the advisory center.

Table 3-4 BlackRock uses AI to improve user experience and interfaces

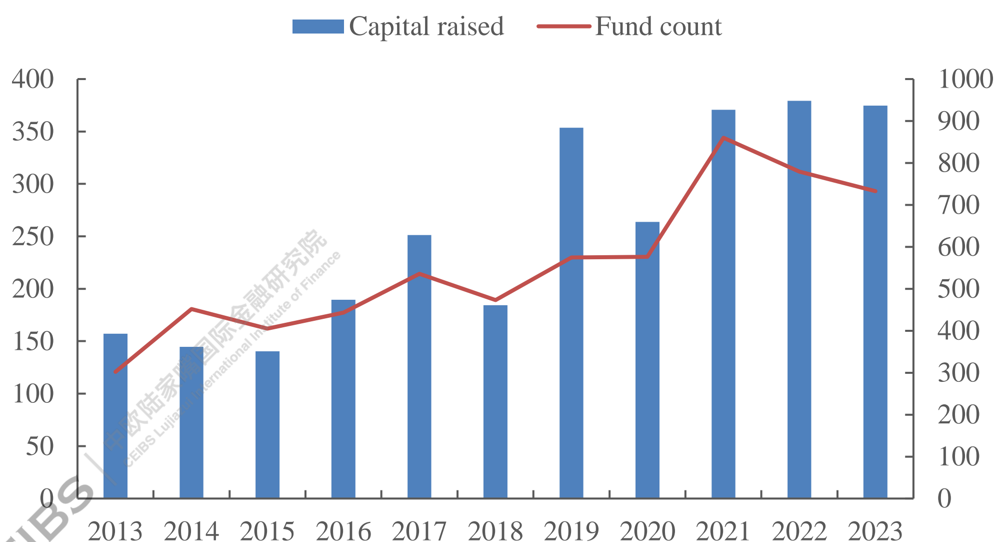
Integrated tools	Overview of the tool
Alladin Wealth	Aladdin Wealth provides an institutional-quality solution to wealth management firms and banks, including enterprise-wide business and risk oversight and portfolio analysis and construction capabilities
Future Advisor	FutureAdvisor digitizes the wealth management process for financial institutions and their advisors to onboard and serve new client segments in a scalable way
iRetire	iRetirehelps financial professionals build plans that are focused on retirement saving, spending and income quickly and efficiently using a repeatable process–so they can focus on client service and asset acquisition
Advisor Center	Advisor Center provides practice management capabilities, like scenario analysis and tax insights, powered by Aladdin, on the web

Source: BlackRock

The obstruction of exit channels promotes the development of the secondary market of private equity in United States

Against the backdrop of a stable policy environment and increasing market demand, the amount of private equity financing has continued to grow over the past decade. In 2013, United States private equity raised $157.2 billion and 302 funds. By the end of 2023, United States private equity funds raised as much as $374.8 billion, an increase of 138%. The number of funds was 733, an increase of 143%. In the past two years, high global inflation accompanied by a sharp rise in interest rates has led to a slight decline in the scale of private equity fundraising, with the number of funds and the amount of funds raised reaching record highs in 2021 and 2022, respectively.

Figure 3-9 United States Private Equity Fundraising (USD billion, 2013-2023)



Note: The left axis is the amount raised, measured in billions of dollars. The right axis is the number of funds.
Source: PitchBook

The exit of private equity is a key link in the capital formation chain and an indicator of the health of the market. In the past two years, private equity exits have declined sharply, with the amount and number of exits falling to record lows. The main factors hindering the exit of private equity are as follows: firstly, high inflation, which has declined but is still at a high level, resulting in pressure on the profits of many companies, thereby reducing the attractiveness of buyers. Secondly, interest rates remain high, and higher financing costs reduce potential buyers' willingness to invest. Thirdly, the continuous geopolitical conflicts and uncertainty have increased the pressure on the supply chain, causing investors to wait and see and wait for a more stable environment. Fourthly, the risk of global recession still exists, causing investors to avoid more cyclical industries. Fifthly, IPOs have stagnated, IPOs are an important exit channel for private equity, and the weak performance of global IPOs has directly hindered the exit of private equity.

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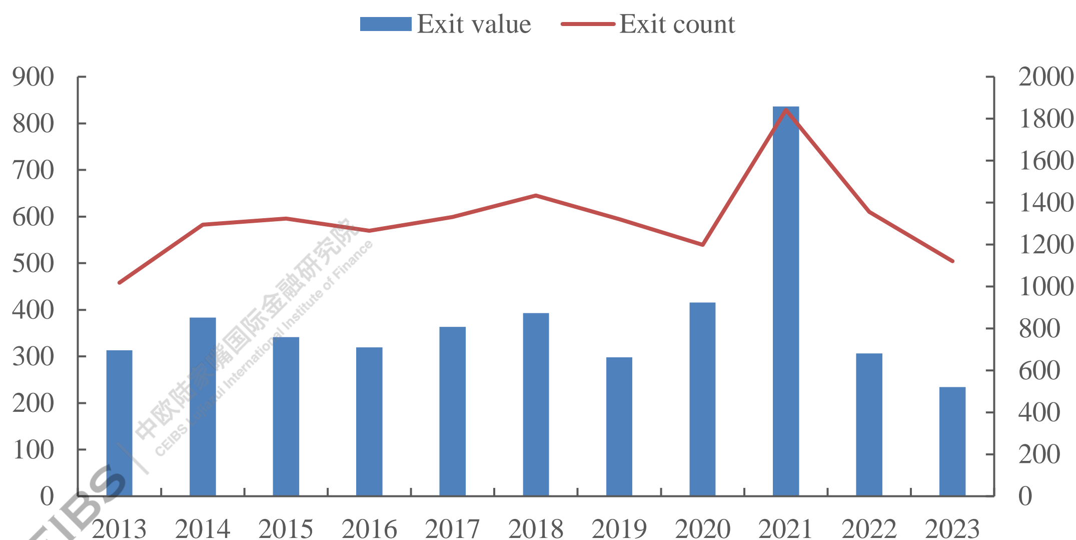
Figure 3-10 Private Equity Exit Size (USD billion, 2013-2023)

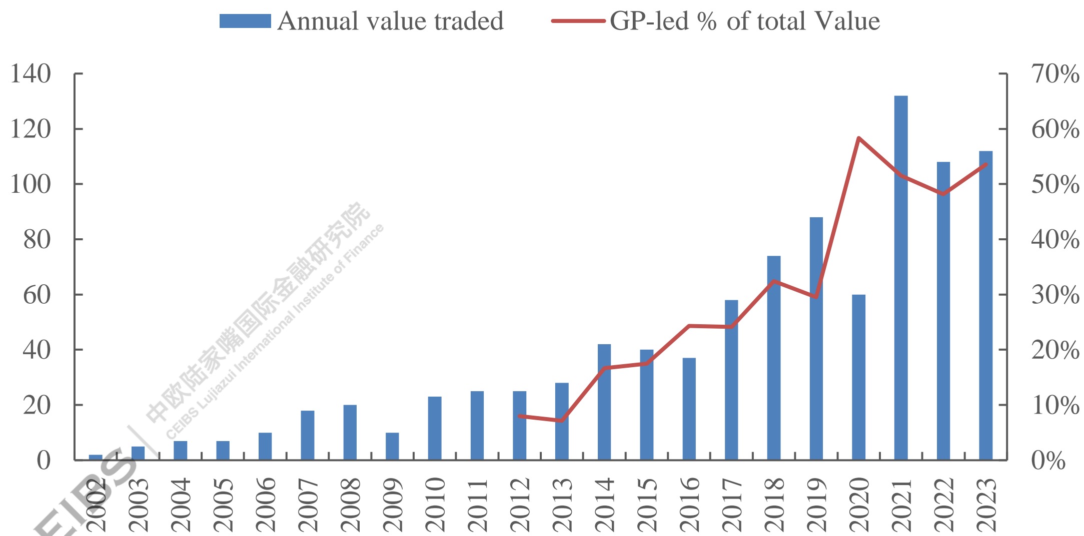


Note: The left axis is the exit value in billions of dollars. The right axis is the exit count.
Source: PitchBook

In recent years, the demand for liquidity in the secondary market of private equity has increased significantly, mainly due to three factors: firstly, the numerator effect, private equity investment performed better in 2020-2021, and capital raising was relatively smooth, resulting in excessive allocation of limited partners to private equity. The second factor is the denominator effect, in 2022, the valuations of the stock and bond markets fell, and the private equity fund portfolios became more resilient, which further exacerbated the overallocation of effective partners; Thirdly, the withdrawal is depressed, and the allocation of new investments and funds that are expected to mature in this context has also increased the problem of overallocation to a certain extent, constituting an important factor in the increase in the scale of transactions in the secondary market.

From the perspective of market structure, GP-led transactions have become an important part of the secondary market, which can effectively meet the practical needs of general partners, limited partners and investors in the secondary market. Firstly, for GPs, GP-led transactions can extend the duration of private equity investments, giving GPs more time to create value. At the same time, new capital can be brought in from the secondary market to finance the follow-on investment of the general partner. Secondly, GP-led transactions can provide LPs with the opportunity to realize returns earlier than expected, allowing them to lock in returns and access liquidity in advance, thereby rebalancing their private market portfolios. Finally, GP-led trading can be traded at a discount or premium in the secondary market, providing investors with an attractive risk-return investment opportunity. GP-led transactions have grown rapidly in recent years, reaching $112 billion in the United States as of 2023, accounting for 53.57% of the total turnover in the secondary market.

Figure 3-11 Private Equity Secondary Market Transaction Size (USD billion, 2002-2023)



Note: The left axis shows the total value traded, measured in US$ billion. The right axis is the proportion of GP in %.

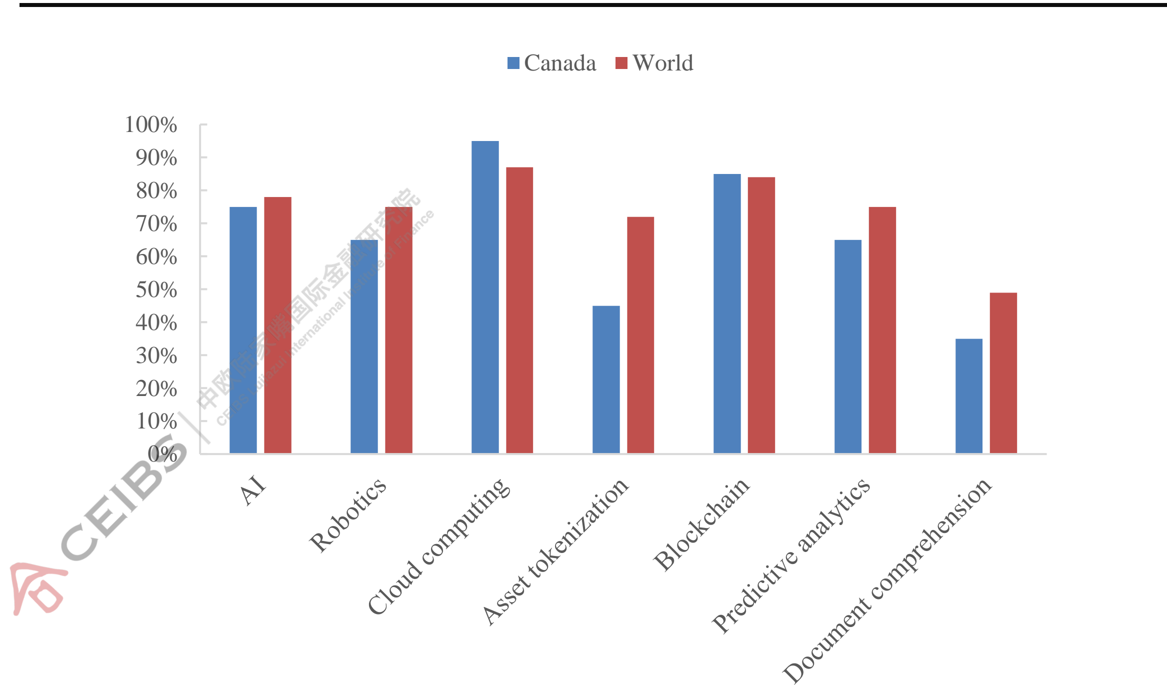
Source: Greenhill Global Secondary Market Review

The digital transformation of Canada's asset management industry is more inclined to cloud computing and blockchain technology

For asset managers, data is increasingly becoming an important source of information, an operational tool, and an investable asset. With the proliferation of data in size and type, the ability to interpret data and transform it into usable information has become a key differentiator in the asset management industry. The ever-increasing volume of data is transforming every aspect of asset management, including corporate functions, product development, investment management, and marketing. The digital transformation of the asset management industry is a global trend that is reshaping the entire industry.

Canada's asset management industry is leading in the application of cloud computing and blockchain technology in the process of digital transformation. CIBC Mellon's survey of 200 asset managers in Canada and around the world shows that in the next three years, 85% of asset managers in Canada plan to deploy cloud computing technology and use blockchain technology to improve the data synchronization process, which is relatively ahead of other places in the world. At the same time, only 45% of Canada asset managers surveyed plan to tokenize their assets, down from 72% in the rest of the world, and less in areas such as artificial intelligence, robotics and process automation, predictive analytics and document understanding.

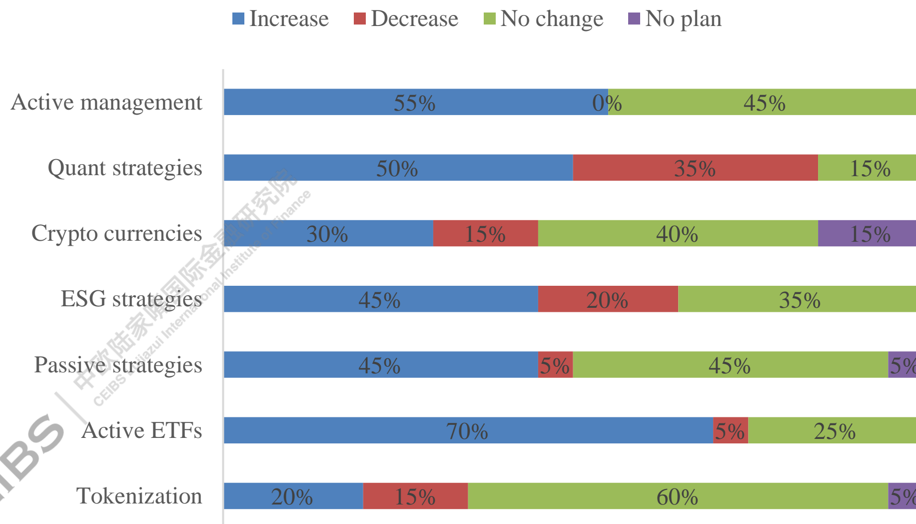
Figure 3-12 Canada asset management institution's fintech layout plan for the next three years



Source: CIBC Mellon

Canada Asset Management is committed to enhancing strategic initiative. In the context of passive management becoming a trend, Canada asset managers tend to integrate active management strategies more closely through technology and other means. Firstly, most institutions are actively deploying active ETFs, with 70% of Canada respondents planning to increase the application of active ETF strategies in the next five years, pursuing above-benchmark excess returns by combining ETF operation models with active management strategies. Secondly, asset managers plan to increase the application of active management strategies, with 55% of Canada asset managers planning to increase active management strategies in the next five years, and the remaining 45% planning to make no changes. Thirdly, enhance the initiative of the strategy through technical means, with 50% of Canada asset managers plan to enhance the initiative of passive investment through quantitative means and smart beta strategies in the next five years.

Figure 3-13 Canada's asset managers' investment strategies and tools over the next five years



Source: CIBC Mellon

Asia-Pacific

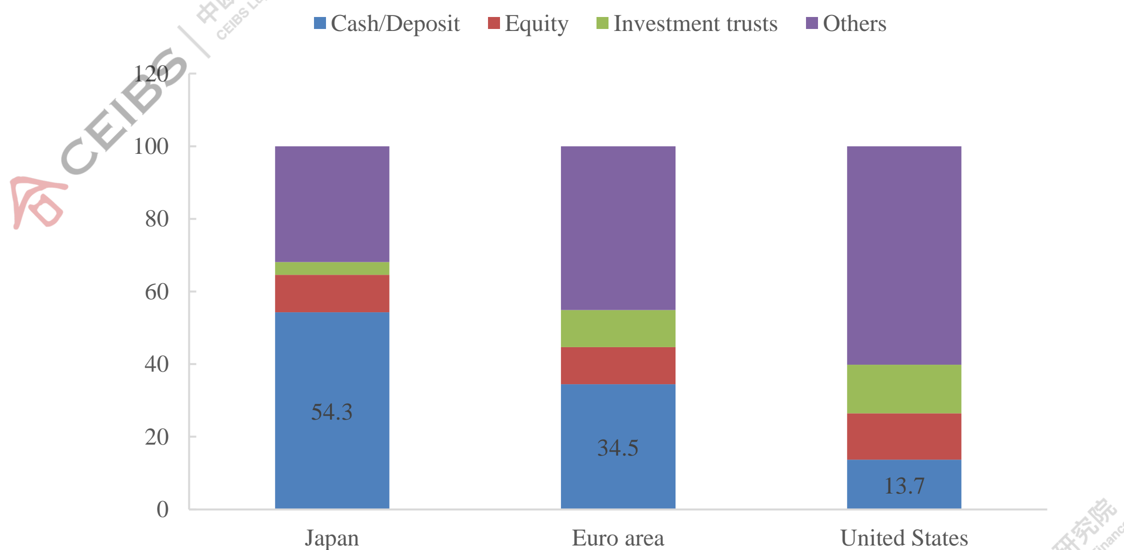
Asia Pacific is the fastest-growing region in the world for asset management, creating new opportunities through greater openness and fintech. Japan has opened Sapporo, Tokyo, Osaka and Fukuoka as special asset management zones to build a leading asset management center and has announced a series of reform measures. In the process of building a international virtual asset center, Hong Kong has taken the lead in listing a series of virtual asset futures ETFs and spot ETFs in the Asia-Pacific region, complementing and enriching the supply of asset management products. At the same time, the China Securities Regulatory Commission (CSRC) has launched five measures for capital market cooperation with the Hong Kong, bringing more allocation options to both sides.

Japan's construction of a leading asset management center brings great opportunities

In December 2023, the Japan government released the Policy Plan for Promoting Japan as a Leading Asset Management Center, which aims to reform Japan's asset management sector and asset ownership. Under Fumio Kishida's "new capitalism" initiative, the Japan government has been taking various measures to achieve a virtuous cycle of growth and distribution. In other words, the Japan government has been promoting more of Japan's huge savings to flow to productive investment and returning the increase in corporate value to households, thereby boosting private sector investment and consumption.

Cash and deposits dominate the asset allocation structure of Japan households. Household investment in Japan lags far behind that of other developed countries, with most household assets held in bank deposits. In 2023, 54.3% of Japan's household financial assets were cash and bank deposits, much higher than the 13.7% in United States and 34.5% in Euro Area. Against the backdrop of rising inflation in Japan, it is necessary to change the structure of Japan's household financial asset allocation, and the investment of 1000 trillion yen of household cash and bank deposits will help improve asset returns and bring significant opportunities to domestic and foreign participants.

Figure 3-14 Comparison of household asset allocation structure in Japan, Euro Area and United States (%, 2023)



Source: Bank of Japan

In order to build Japan into a leading global asset management center, the Japan government has made the following five major reforms. The first is the reform of the asset management industry, calling on major financial groups to formulate strategic plans for asset management business, formulating product governance principles for asset management companies, rectifying Japan's unique business management and remove barriers to entry, establishing special zones for financial and asset management, introducing a new type of manager program. The second is asset ownership reform, which formulates the principle of asset ownership, including common principles for investment policy, governance and risk management; Reform of occupational pension funds, promote the disclosure of information on defined-contribution pension portfolios, and encourage pension associations to enrich small database services. The third is to promote capital formation and investment diversification, and promote venture capital in start-ups with growth potential, and diversify alternative and sustainable investments.

The fourth is to work with the Tokyo Stock Exchange to promote effective interaction between institutional investors and listed companies. The fifth is to strengthen public relations and communication, and jointly launch asset management forums with domestic and foreign asset managers and investors.

The establishment of the asset management special zone provides a great opportunity for global asset managers to enter Japan. The special zones aim to attract domestic and foreign investment funds to land by improving the business and living environment to gather financial and asset management businesses. In June 2024, Japan announced four special zones for financial and asset management businesses: Sapporo, Tokyo, Osaka, and Fukuoka. Among them, Sapporo is positioned for green transformation, closely integrating industrial and financial functions, and is committed to becoming a special zone for green transformation, financial and asset management business. At the same time, Tokyo is positioned as a leading city for sustainable finance, promoting sustainable finance and the growth of Asian start-ups by creating a better environment as an international financial center. In addition, Osaka is committed to attracting foreign investment and promoting start-up development and technological innovation. Finally, Fukuoka is positioned as a gateway to Asia, taking advantage of its geographical proximity to Asian countries to attract venture capital from Asia and promote the development of Japan start-ups.

Table 3-5 Japan Special Zone for Financial and Asset Management Business

<table>
<tr><th>Special Zone</th><th>Position</th><th>Areas of encouragement</th><th>Specific measures</th></tr>
<tr><td>Sapporo</td><td>Green transition</td><td>Renewable energy</td><td rowspan="4">○ Deregulation to allow asset managers to outsource middle and back-office operations
● Strengthen English-speaking administrative services
● Create a new status of residence for foreigners who invest in start-ups
● Support foreigners to open bank accounts
● Deregulate banks' investment in green transformation businesses
● Expand the investment quota of venture capital funds for qualified institutional investors
○ Removal of compressed hydrogen storage limits
○ Promote the acceptance of foreign nationals through the points system for highly skilled persons
●Provide tax and financial support to foreign financial and asset managers, reduction and exemption of local taxes, subsidies for the establishment of local business bases</td></tr>
<tr><td>Tokyo</td><td>Sustainable Finance</td><td>Start-ups</td></tr>
<tr><td>Osaka</td><td>Technological innovation</td><td>Scientific research institutions</td></tr>
<tr><td>Fukuoka</td><td>Gateway to Asia</td><td>Venture capital in Asia</td></tr>
</table>

Note: Note: ○ indicates measures taken nationwide, and ● indicates measures taken in the Special Zone.

Source: FSA

Since Japan proposed to build a leading asset management center, several asset managers have entered the Japan market. According to the Japan Financial Market Entry Office, since December 2023, at least eight foreign financial institutions have participated in Japan's financial market. Among them, there are 5 companies from the United States, 2 companies from the United Kingdom, and 1 company from Canada. The continued participation of foreign financial institutions also reflects the positive global expectations for Japan's asset management market.

Table 3-6 Successful cases of Japan's financial market entry office

Asset managers	Origin	License	Date
Impax Asset Management Japan Ltd.	UK	IAA	December 2023
Carlyle Japan, LLC	US	IAA	December 2023
Muzinich & Co. Japan Pte. Limited	UK	IAA	January 2024
Newton Investment Management Japan Ltd.	US	IAA	January 2024
StepStone Group LP	US	Type II	January 2024
Hines Real Estate Investment Management	US	IAA	February 2024
Alpha Financial Advisors, LLC	US	IAA	March 2024
Brookfield Japan	Canada	Type II	April 2024

Note: Type II refers to the second type of investment management business under the Financial Asset Management Association. IAA refers to investment consulting and agency business, and the data is as of April 2024.
Source: FSA

Hong Kong aims at international virtual asset center and enrich the supply of asset management products

With the arrival of virtual assets in Web 3.0 and the metaverse, which are increasingly regarded by global investors as investable assets, bring huge opportunities to the asset management industry. To fully grasp the opportunities brought by virtual assets to Hong Kong's economy and asset management industry, Hong Kong is committed to leading the sustainable and responsible development of the virtual asset industry. In October 2022, the Financial Services and the Treasury Bureau of Hong Kong officially issued the Development of Technological Innovation in Hong Kong and the Policy Statement on the Development of Virtual Assets in Hong Kong (hereinafter referred to as the Declaration), formally proposing to develop Hong Kong into an international virtual asset hub.

Clear regulation is an important safeguard for the sustainable development of Hong Kong's virtual asset industry. In order to prevent risks related to virtual assets and protect the legitimate

rights and interests of investors, Hong Kong has strengthened the supervision of virtual assets. Among them, the most important is the introduction of a licensing regime for virtual asset trading platforms. Since 1 June 2024, central virtual asset trading platforms operating in Hong Kong or marketing services to Hong Kong investors must be licensed and regulated by the Securities and Futures Commission (SFC) of Hong Kong. As of 9 July 2024, there are 2 licensed virtual asset trading platforms in Hong Kong, and another 13 are in the process of applying for corresponding licenses.

Table 3-7 Licensing of virtual asset trading platforms

Operator of virtual asset trading platforms	Virtual asset trading platform	Licensed status	Date of application
OSL Digital Securities Limited	OSL Exchange	Licensed	December 2020
Hash Blockchain Limited	HashKey Exchange	Licensed	November 2022
Panthertrade (Hong Kong) Limited	PantherTrade	Applying	November 2023
Accumulus GBA Technology (Hongkong) Co.,Limited	Accumulus	Applying	December 2023
DFX Labs Company Limited	DFX Labs	Applying	December 2023
NewBX Limited	Bixin.com	Applying	January 2024
Thousand Whales Technology (BVI) Limited	EX. IO	Applying	January 2024
HighBlock Limited	bitV	Applying	February 2024
YAX (Hong Kong) Limited	YAX	Applying	February 2024
Bullish (GI) Limited	Bullish	Applying	February 2024
Foris DAX HK Limited	Crypto.com	Applying	February 2024
Whalefin Markets Limited	WhaleFin	Applying	February 2024
Flying Hippo Technologies Limited	Matrixport HK	Applying	February 2024
hi5 (Hong Kong) Limited	HKX	Applying	February 2024
Bitcoin World Technology Limited	bitcoinworld	Applying	May 2024

Note: As of 9 July 2024, the dates of OSL Exchange and HashKey Exchange refer to the date of licensing.
Source: SFC

The development of an international virtual asset center has provided Hong Kong with abundant asset management products, making Hong Kong a leading virtual asset ETF issuer in Asia. Following the issuance of the Declaration, Hong Kong took the lead in listing the first batch of virtual asset futures ETFs in Asia. On December 16, 2022, CSOP Asset Management Limited listed CSOP Bitcoin Futures ETF and CSOP Ethereum Futures ETF in Hong Kong, becoming

the first virtual asset futures ETF in Asia and the first Ethereum futures ETF in the world. The listing of these ETF products allows global investors to allocate virtual assets in a regulated environment in the Asian time zone. On April 30, 2024, ChinaAMC (Hong Kong) Co., Ltd., Bosera Fund (International) Co., Ltd. and Harvest International Asset Management Co., Ltd. listed six virtual asset spot ETFs on the Hong Kong Stock Exchange, becoming the first batch of virtual asset spot ETF products in the Asian market.

Table 3-8 HKEX Virtual Asset ETF

Virtual asset ETFs	Asset managers	Underlying Asset	Listing date
CSOP Bitcoin Futures ETF	CSOP Asset Management	CME Bitcoin Futures	December 2022
CSOP Ethereum Futures ETF	CSOP Asset Management	CME Ethereum Futures	December 2022
Samsung Bitcoin Futures ETF	Samsung Asset Management (Hong Kong)	CME Bitcoin Futures	January 2023
ChinaAMC Bitcoin Spot ETF	Huaxia (Hong Kong)	CME CF Bitcoin Index	April 2024
ChinaAMC Ethereum Spot ETF	Huaxia (Hong Kong)	CME CF Ethereum Index	April 2024
BOSERA HASHKEY BITCOIN ETF	Bosera International	CME CF Bitcoin Index	April 2024
BOSERA HASHKEY ETHEREUM ETF	Bosera International	CME CF Ethereum Index	April 2024
Harvest Bitcoin Spot ETF	Harvest International	CME CF Bitcoin Index	April 2024
Harvest Ethereum Spot ETF	Harvest International	CME CF Ethereum Index	April 2024

Source: HKEX

Virtual asset ETFs provide a convenient and secure way for investors to participate in virtual asset trading. Firstly, because ETF products are strictly regulated, and ETF fund managers can effectively reduce the volatility of virtual asset ETFs through active management, investors do not need to face large fluctuations in virtual asset prices. Secondly, ETFs can help investors allocate virtual assets while minimizing the risk of investors setting the wrong password, losing their keys, or becoming a victim of cryptocurrency theft. Thirdly, the trading design of virtual asset exchanges is complex, and ETFs based on virtual asset futures or spot can be traded through broker accounts, which can provide investors with a convenient and relatively low-cost trading method due to their similarity to stock trading. Fourthly, compared with virtual asset futures, virtual asset ETFs do not require margin, and can be included in the virtual asset portfolio to diversify and reduce the risk of the portfolio. However, at the same time, virtual asset ETFs can only be traded during the opening hours of the stock exchange, which restricts the participation of some professional investors to a certain extent compared with the round-the-clock trading of virtual asset exchanges.

Table 3-9 Advantages and disadvantages of virtual asset ETFs, futures, and direct participation

	Virtual asset ETFs	Virtual asset futures	Virtual assets spots
Advantage	•Regulated •Safe •Convenient - similar to stock trading •Portfolio diversification reduces risk	•Regulated •Cost-effectiveness is achieved with leverage	•Round-the-clock trading •It can be bought and sold in different fiat currencies •Can be used for digital payments
Disadvantage	•Trading is only available when the stock exchange is open •Regulatory Restriction Options	•High concentration risk •An account needs to be set up •Margin deposits are required	•High concentration risk •An account needs to be set up •Withdrawals usually require a service fee

Source: HKEX

The deepening co-operation between the capital markets of the Chinese mainland and Hong Kong has brought more allocation options to both sides

Expanding and optimizing the cross-border connect mechanism of the capital market is an important starting point for promoting the high-level institutional opening of the capital market, which will help enhance the competitiveness and influence of Shanghai as an international financial center and consolidate and enhance Hong Kong's status as an international financial center. To further deepen financial co-operation between the Chinese mainland and Hong Kong and promote the coordinated development of the capital markets of both sides, the China Securities Regulatory Commission (CSRC) announced five measures for capital market co-operation in Hong Kong on 19 April 2024. The cooperation mainly includes five aspects, the first is to lend the scope of eligible products of equity ETFs under the Stock Connect. The second is to include REITs in the Stock Connect. The third is to support the inclusion of RMB stock trading counters in the Hong Kong Stock Connect. The fourth is to optimize the mutual recognition of funds arrangement, and the fifth is to support the listing of Chinese mainland industry leaders in Hong Kong. In the long run, it will directly help enrich the supply of financial products in the two places, broaden the investment options in the market, and facilitate the development of the asset management industry, thereby enhancing the status of the two places as international financial centers.

First of all, the relaxation of the scope of eligible products of equity ETFs under Stock Connect has effectively contributed to the development of asset management centers in the two places. Under the guidance of the regulators of both sides, the Shanghai Stock Exchange, Shenzhen Stock Exchange and the Hong Kong Stock Exchange will relax the requirements on the average AuM of eligible equity ETFs, the requirements for the weighting of local stocks in the tracking

index, and the adjustment threshold for ETF products. Specifically, on April 19, the Shanghai, Shenzhen and Hong Kong Stock Exchanges announced the latest ETF inclusion criteria, on July 12, the latest list of eligible ETFs was announced, and on July 22, the expansion of eligible ETFs officially took effect.

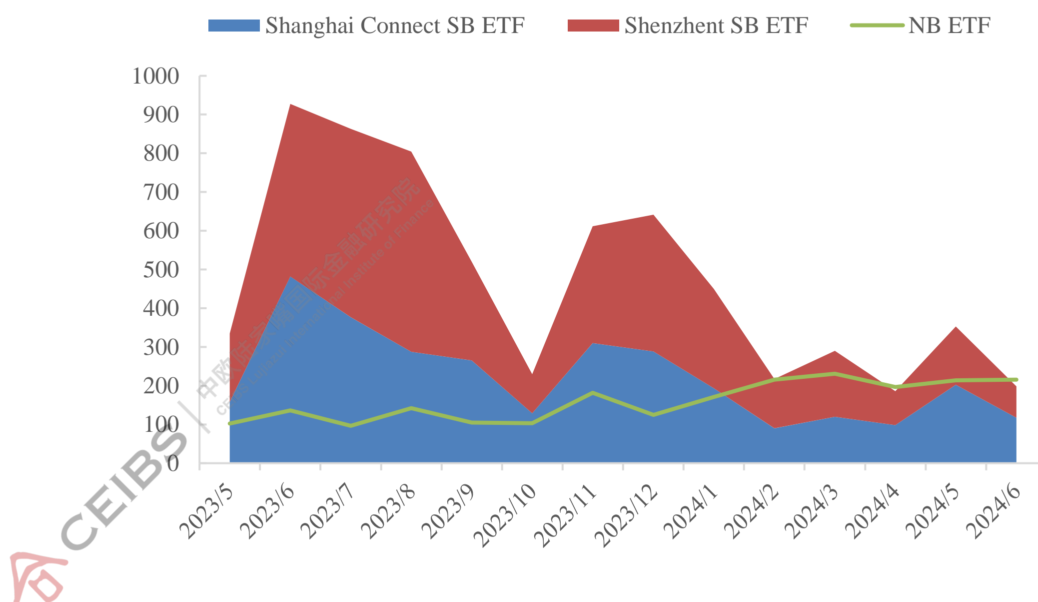
Table 3-10 Adjustments to the range of eligible products of equity ETFs under Stock Connect

	The scope of eligible ETFs before the relaxation	The scope of eligible ETFs after the relaxation
Southbound ETF	•The average daily asset size in the first six months was not less than 1.5 billion yuan •The weighting of Shanghai and Shenzhen in the tracking index is not less than 90% •The threshold for transfer is 1 billion yuan per day in the first six months	•The average daily asset size in the first six months was not less than 600 million yuan •The weight of Shanghai and Shenzhen in the tracking index is not less than 60% •The threshold for transfer is 400 million yuan per day in the first six months
Northbound ETF	•The inclusion threshold shall not be less than HK$1.7 billion •The equity weight of China and Hong Kong in the tracking index is not less than 90% •The threshold for redeployment is less than HK$1.2 billion	•The inclusion threshold shall not be less than HK$550 million •The equity weight of China and Hong Kong in the tracking index is not less than 60% •The call-out threshold is less than HK$450 million

Source: Securities & Futures Commission of Hong Kong

With the official entry into force of the expansion of eligible ETFs under Stock Connect, international investors will further influx of allocated funds. In recent years, the scale of foreign investors' investment in domestic ETFs through Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect has steadily increased. In May 2023, the trading value of northbound ETFs totaled 10.2 billion yuan. in June 2024, it has increased to 21.5 billion yuan, with an increase of 111%.

Figure 3-15 ETF turnover under Stock Connect (HK$ billion, RMB 100 million, 2023.05-2024.06)



Source: HKEX

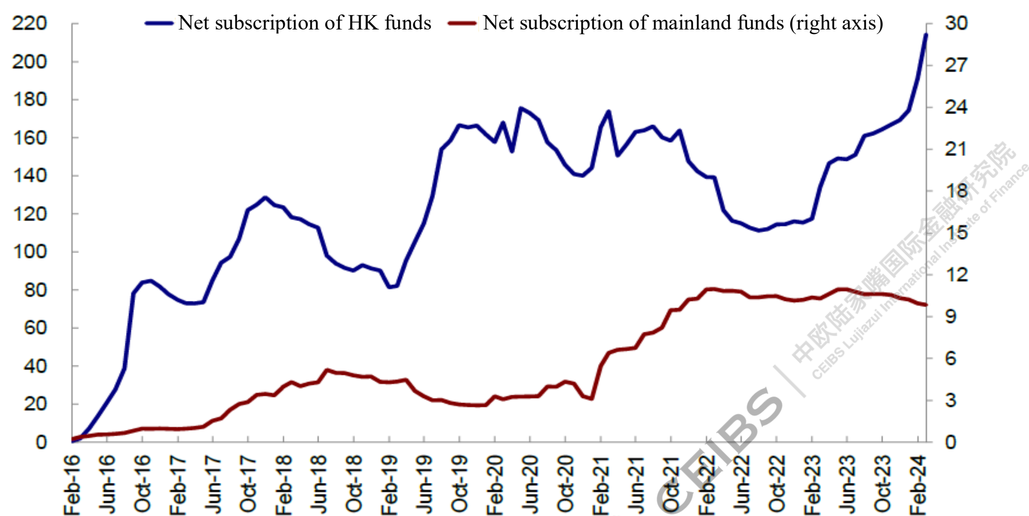
Secondly, the inclusion of REITs in Stock Connect will further enrich the supply of underlying financial products. The increase in the number of investment targets available for allocation can enhance the ability to serve the real economy and better meet the investment needs of the market. On the one hand, the inclusion of REITs in the Stock Connect expands the investor group, directly improves the market liquidity of the corresponding products, and the active trading in the secondary market can be transmitted to the primary market, which in turn drives the development of REITs in new infrastructure such as data centers, and scientific and technological innovation industrial parks, and broadens the source of incremental funds. On the other hand, REITs, as a typical stable dividend-paying alternative asset, have a low correlation with traditional financial products such as stocks and bonds, which can better help investors and asset managers build diversified portfolios.

Thirdly, the inclusion of the RMB stock trading counter in the Stock Connect will facilitate domestic participation, strengthen Hong Kong's status as an offshore RMB center and promote the internationalization of RMB. In June 2023, the Hong Kong Stock Exchange (HKEX) launched the Hong Kong and RMB Dual Counter model, which allows investors to trade and settle the underlying securities in both HKD and RMB. Firstly, the inclusion of RMB stock trading counters can save exchange costs and reduce exchange rate risks, thereby greatly enhancing the convenience for domestic investors to participate in Hong Kong's capital market. Secondly, this move increases the number of scenarios for asset allocation in some offshore Renminbi, which will help cement Hong Kong's position as an offshore Renminbi center. Thirdly, the increase in RMB-denominated products and the expansion of offshore RMB

repatriation channels can increase the recognition and frequency of use of offshore RMB, thereby further promoting the internationalization of RMB.

In addition, the enhancement of the MRF arrangement can facilitate the cross-border distribution and asset allocation of fund products. On 14 June 2024, the China Securities Regulatory Commission (CSRC) amended the Interim Provisions on the Administration of Recognized Hong Kong Funds and issued the Administrative Provisions on Recognized Hong Kong Funds (Draft Amendments for Comments), and the SFC has accordingly relaxed the relevant restrictions on the certification of funds in the Chinese mainland based on the principle of reciprocity. The optimization of the MRF is mainly focused on the relaxation of sales restrictions and the decentralization of investment management functions. In terms of sales restrictions, the restriction on the proportion of mutual recognition funds sold to clients will be relaxed from 50% to 80%. In terms of investment management functions, the investment management functions of MRF are allowed to be delegated to the overseas asset management institutions of the same group as the manager. The enhancement of the MRF arrangement will greatly facilitate the cross-border distribution and asset allocation of asset managemers, and promote the sustainable development of the asset management industry in both places.

Figure 3-16 Cumulative subscription of Chinese Mainland-Hong Kong Mutual Recognition Funds (100 million yuan, 2016-2024)

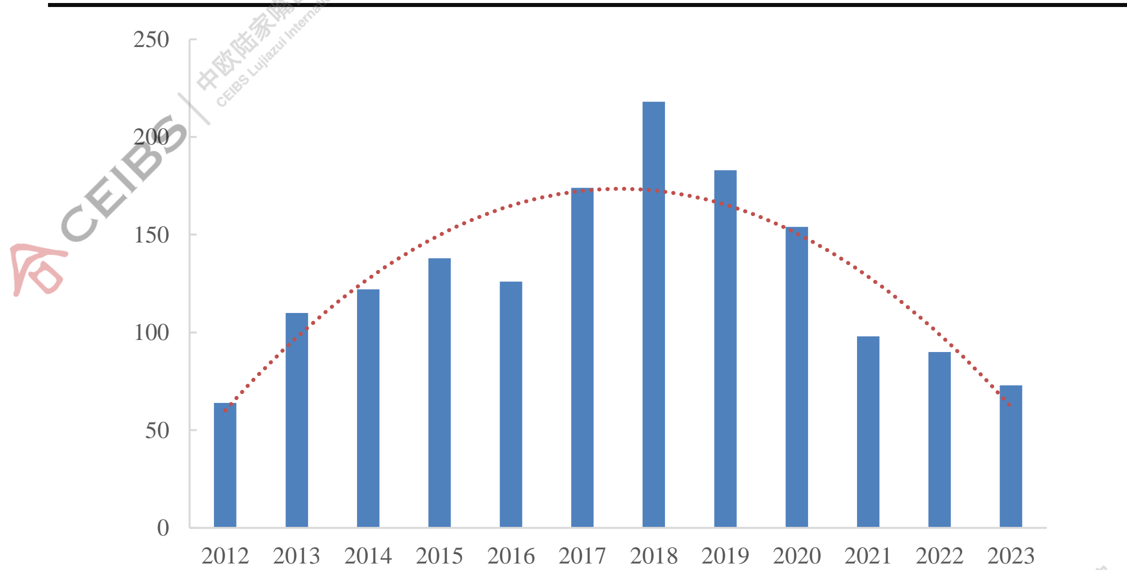


Source: Wind

Finally, supporting the listing of leading Chinese mainland enterprises in Hong Kong can better serve the development of the the real economy and consolidate Hong Kong's status as an international financial center. Affected by the global environment, economy and financial market performance, the number of IPOs in Hong Kong has continued to decline in recent years. Mainland companies have been an important source of IPOs in Hong Kong, with 56% of the

2617 listed companies coming from the mainland. [①]From the implementation of the overseas listing filing management system in March 2023 to the end of June 2024, 90 companies have completed IPOs in Hong Kong. With the introduction of supportive policies, more high-quality enterprises will list in Hong Kong, which will help share the dividends of China's economic development, improve the structure of Hong Kong's stock market and consolidate Hong Kong's status as an international financial center. At the same time, the expansion of financing channels in Hong Kong will help mainland enterprises make full use of the two markets and two resources, thereby better contributing to the development of the real economy.

Figure 3-17 Number of IPOs on the Hong Kong Stock Exchange (2012-2023)



Source: Wind

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① The data is sourced from the Hong Kong Stock Exchange and is dated to the end of June 2024.

OUTLOOK

Looking ahead, the global asset management industry will face new opportunities and challenges in an ever-changing macroeconomic environment. Firstly, as global monetary policies gradually shift towards easing, interest rates in major economies are expected to decline further. This will prompt asset management institutions to adjust their fixed-income investments, particularly in short- and medium-term bonds, to capture opportunities for price appreciation. Additionally, they will place greater emphasis on growth stocks and technology stocks to leverage the market momentum brought about by interest rate cuts, while diversifying their portfolios to spread risk. Moreover, asset management firms will closely monitor market liquidity to ensure they maintain sufficient defensive assets in times of increased volatility.

Secondly, the development of financial technology, especially the application of artificial intelligence and blockchain technology, will continue to reshape the operating models and competitive landscape of the asset management industry. Asset management institutions will increasingly rely on technological tools to enhance operational efficiency, optimize portfolios, and achieve more precise asset allocation on a global scale. In the future, the deep integration of technology and asset management will become a key driving force for industry growth, and leading asset management centers will further enhance their global competitiveness through technological innovation.

Finally, as ESG (Environmental, Social, and Governance) principles gain widespread acceptance globally, the asset management industry's focus on sustainable development will continue to rise. Over the coming years, demand for ESG-related products and alternative assets is expected to grow, leading asset management institutions to invest more in green finance and socially responsible investments. The performance of major asset management centers in promoting sustainable investment will become a critical benchmark for measuring their future competitiveness.