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How the Transfer of Wealth to the Second Generation is Reshaping China's Private Wealth Management Industry

EXECUTIVE SUMMARY

Over the 40-plus-year of reform and opening-up since 1978, China has been remarkably successful in many fronts, ranging from rapidly increasing goods and cultural exchanges with other countries, improving social benefits provided to its residents in terms of healthcare and old-age insurance coverage to bolstering its own economic development. In doing so, China has contributed significantly to the growth of the global economy and at the same time resulted in rising income and wealth of Chinese residents. From rural areas to cities, China has been launching economic restructuring and implementing comprehensive reform measures by rolling-out many pilot programs. Consequently, a group of first-generation entrepreneurs has been nurtured. **These entrepreneurs have amassed a fortune for themselves and their families and become high-net-worth individuals ("HNWIs") in China's wealth management market**.

China took the lead among major economies in the world in achieving robust economic recovery despite being afflicted by the COVID-19 pandemic and amid a complex and challenging international and domestic environment in recent years. Following the outbreak of the healthcare crisis in the beginning of 2020, China's 2021 GDP rebounded 8.1%, outperforming the 5.2% recovery experienced by advanced economies. However, the 2022 global economy was rattled by the lingering of novel coronavirus and the military conflicts between Russia and Ukraine, alongside the upward spiral of interest rates worldwide to contain inflation. **Despite the harsh international realities and weakening demand both at home and abroad, China managed to withstand these shocks and make progress persistently in high-quality economic development**. As a result, China's 2022 aggregate economic output rose another 3% Y/Y to about RMB121 trillion.

Total wealth of all Chinese residents reached RMB687 trillion in 2021, representing a compound annual growth rate ("CAGR") of 14.7% during the 2005-2021 period, much faster than their counterparts in the U.S. and Japan. Wealth per household was around RMB1.344 million, second only to the U.S. Structure-wise, financial assets make up a relatively low proportion of Chinese wealth. In contrast, physical assets accounted for as high as 69.3% of total wealth in China in 2021, with the majority of which being in real estate. In that year, market value of all residential properties in China amounted to RMB476 trillion, while the remaining RMB211 trillion of wealth was with investable assets.

China's economic recovery looks to persist in 2023 thought not at a complacent pace many had hoped for after the country removed the COVID-19 induced restrictions in December 2022. In our view, the modest growth target of 5% set for 2023 is achievable given the mounting evidence shown that **consumption has revitalized meaningfully nationwide during the latest eight-day holiday** (mid-Autumn festival on 29 September 2023 plus the week-long National Day holiday through 6 October). For instance, **China's domestic tourism market generated revenue roughly RMB753.4 billion** (about US$103.2 billion) during the long holiday, **up about 130% Y/Y and exceeded the 2019 level for the same period by 1.5%**. Correction in China's capital markets has been triggered by investors' de-risking move, turning their investments in equities, bonds and other risk assets into demand and fixed deposits offering pretty attractive rates for safe heaven purposes. We believe these funds will flow back in the heels of risk-appetite recovery amid stabilization of China's economy and turnaround of its capital markets. Most recent economic data like consumer price index, industrial output, and retail sales has suggested that China's economy has stabilized.

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