

**China Private Securities Investment Fund  
Annual Industry Development Report**

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2016



**ASSET MANAGEMENT ASSOCIATION OF CHINA**

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## Chapter 1. Industry development analysis<sup>①</sup>

The China Securities Regulatory Commission (CSRC) began to regulate private funds after the revised *Securities Investment Fund Law* came into force in June 2013. In February 2014, the Asset Management Association of China (AMAC) began to register private fund managers and record private funds. As the manager, private fund management institutions registered with AMAC could establish Private Securities Investment Fund (PSIF). By the end of 2016, AMAC had registered 7,996 PSIF managers and 25,578 PSIF products with a product size of 2,549 billion yuan<sup>②</sup>.

### 1. Fund products

There are two types of PSIF products depending on the nature of the manager's participation: independent issuance and consultant management. Under the independent issuance model, the private fund management institution issues and manages the fund product as the fund manager. Under the consultant management model, a range of financial institutions, such as trust companies, securities companies and so on, issue fund products and private fund management institutions, for example, investment or research advisers, manage the funds by providing investment advice.

#### **1.1 Funds managed by fund managers**

##### 1.1.1 Growth in the number of funds

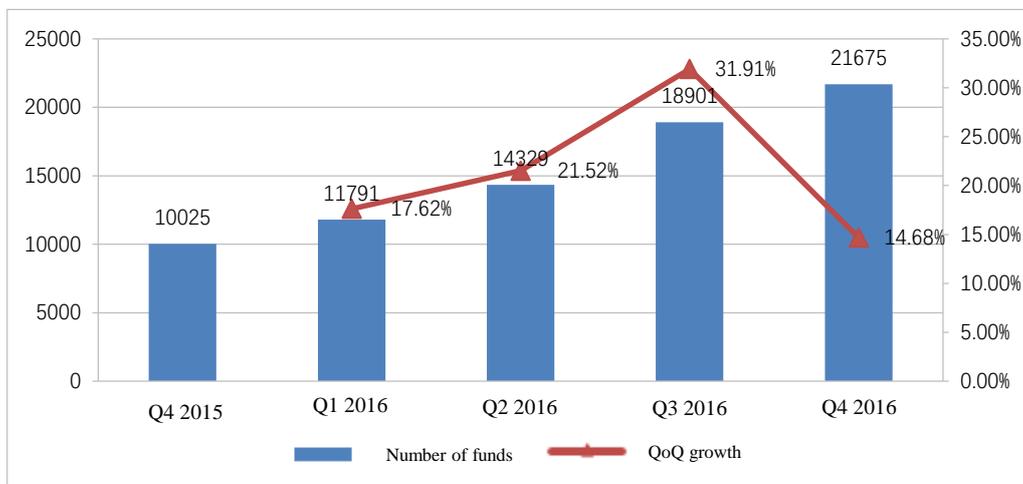
By the end of 2016, there were 21,675 PSIFs directly managed by PSIF managers, an increase of 11,650 from the end of 2015, representing a growth rate of 116.21%.

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① The charts and figures in this report are sourced by the Asset Management Association of China, unless otherwise specified.

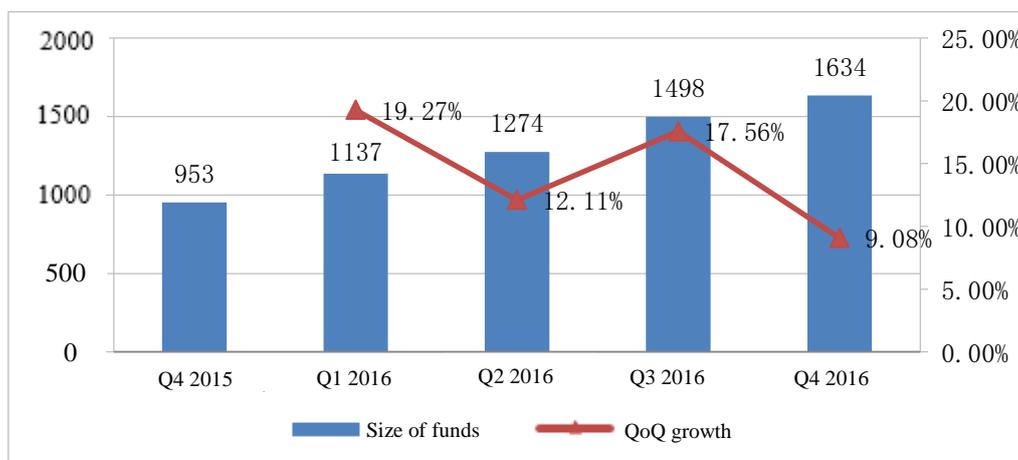
② The currency of the amount in the report is RMB, unless otherwise specified.

Figure 1-1-1: Growth in the number<sup>①</sup> of registered PSIFs recorded with AMAC



By the end of 2016, the size of the PSIFs recorded with AMAC was 1,634 billion yuan<sup>②</sup>, an increase of 681 billion yuan from the end of 2015, with a growth rate of 71.47%.

Figure 1-1-2: Growth of the scale of record-filing for PSIFs (billion yuan)



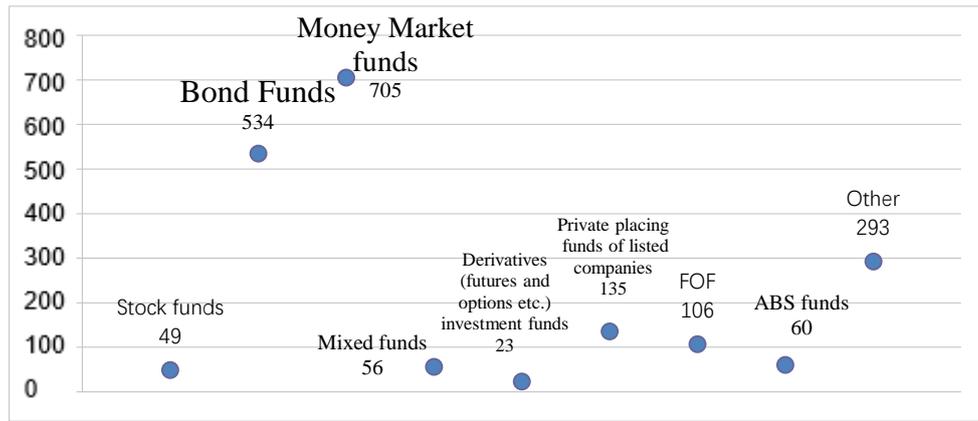
### 1.1.2 Average size of PSIFs of different investment types

By the end of 2016, the average size of a PSIF was 75.3937 million yuan, down 19.6723 million yuan compared to the same period in 2015, with the largest average PSIF being the money market fund, as shown in the figure below.

① The unit for number for all charts in this report is 1 unless otherwise defined.

② These statistics include only PSIFs independently issued by various private fund managers.

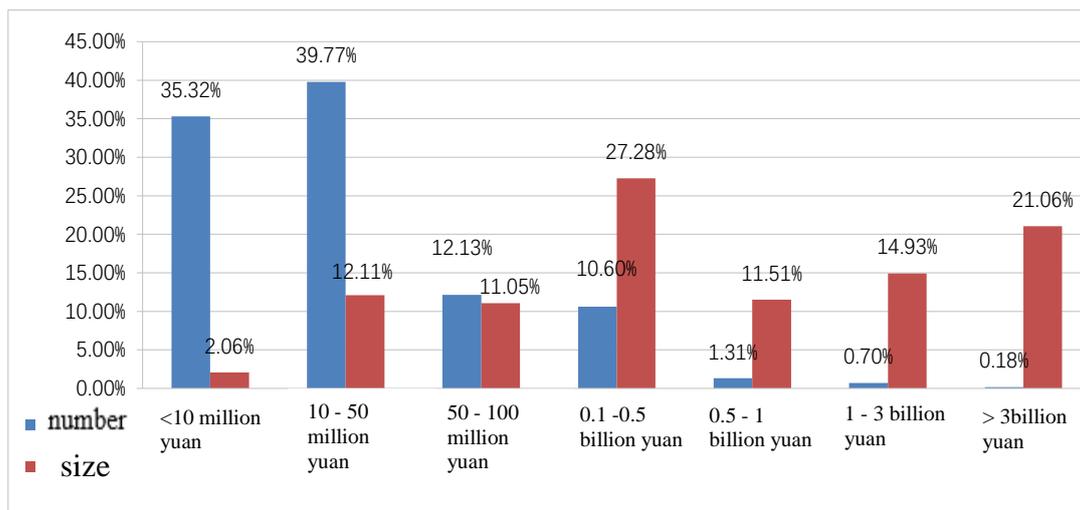
Figure 1-1-3: Average size of PSIFs of different investment types (million yuan)



### 1.1.3 Distribution of fund size

By the end of 2016, the distribution of number and assets of PSIFs by asset size were as follows:

Figure 1-1-4: Proportion of the number and assets of PSIFs by size



### 1.1.4 Types of fund investments

By the end of 2016, the number and size of different types of PSIFs and their proportions were as follows:

Figure 1-1-5: Number and size of PSIFs of different investment types

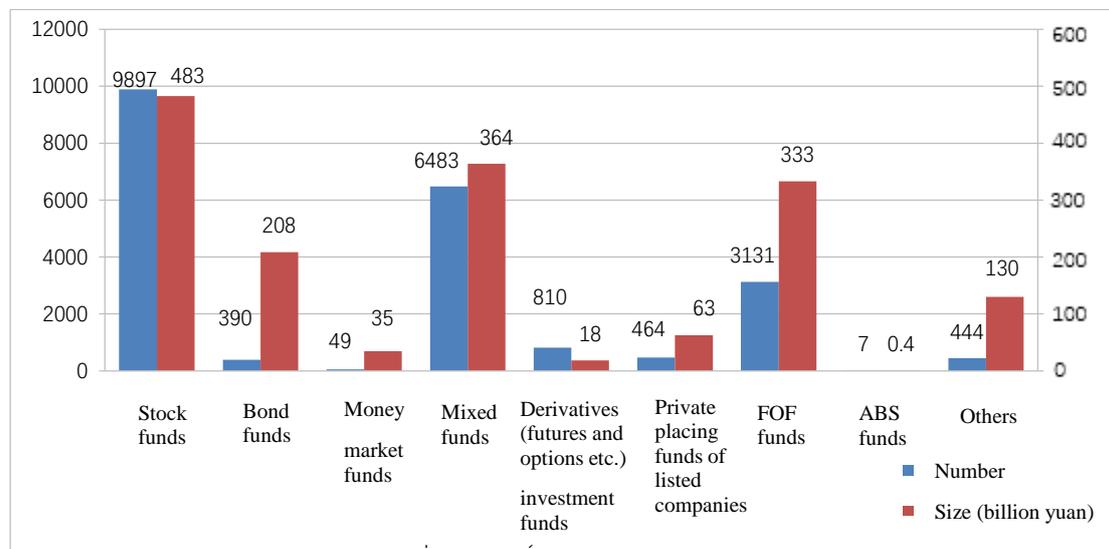
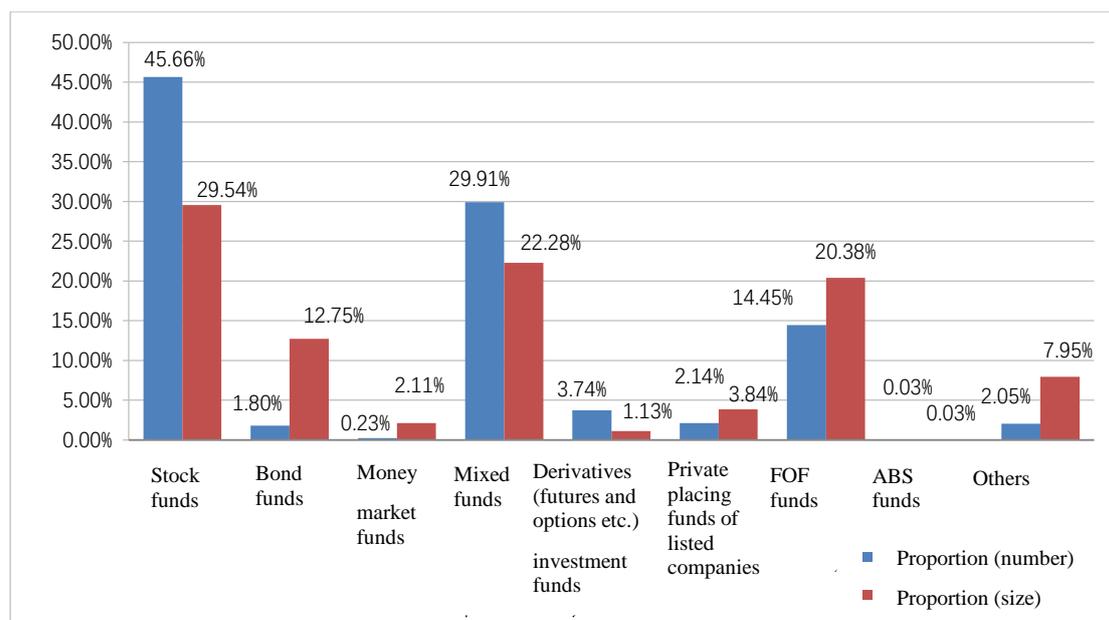


Figure 1-1-6: Proportion of the number and size of different types of PSIFs



## 1.2 Funds managed by investment advisers

By the end of 2016, there were 3,903 fund products with a total amount of 915 billion yuan under the management of private securities investment fund managers (as investment advisers). The number and management size of the different products are as follows:

Table 1-1-1: Number and management size of fund products under the management of investment advisers

<b>Products</b>	<b>Number</b>	<b>Size (billion yuan)</b>	<b>Proportion (number)</b>	<b>Proportion (size)</b>
Asset Management Scheme by a Securities Firm/a Subsidiary of the Securities Firm	165	53	4.23%	5.76%
Segregated Account Scheme by a Fund Management Company (FMC)/an FMC Subsidiary	1,533	428	39.28%	46.80%
Asset Management Scheme by a Futures Firm/a Subsidiary of the Futures Firm	531	49	13.60%	5.39%
Trust Scheme	1,596	359	40.89%	39.19%
Asset Management Scheme by an Insurance Company/a Subsidiary of the Insurance Company	18	13	0.46%	1.40%
Other	60	13	1.54%	1.46%
<b>Total</b>	<b>3,903</b>	<b>915</b>	<b>100%</b>	<b>100%</b>

### 1.3 Fund expenses

According to current industry practices, the expenses of PSIFs are mainly composed of the following parts:

**Management fee:** drawn from the fund's assets to pay remuneration to the managers, normally based on a fixed ratio of the fund assets.

**Performance fee:** drawn from the fund's assets and from the positive proceeds based on a fixed proportion. Generally speaking, the counting and drawing method contains both from the overall base and from the single fund unit base in the high-water mark method.

**Custodian fee:** drawn from the fund's assets to pay the custodian as remuneration.

**Fund service fee:** drawn from the fund's assets to pay the fund service providers as remuneration.

**Sales service fees:** Some funds draw from the fund's assets to cover the cost of fundraising work for some PSIFs, whilst other funds charge investors for subscription during and after the fundraising period and for redemption instead of drawing the sales service fees from the fund's assets.

#### **1.4 Information disclosure**

In February 2016, AMAC released *Administrative Measures for the Information Disclosure of Private Investment Funds* (hereinafter referred to as the “Information Disclosure Measures”), which, for the first time, sets out norms, especially in respect of information disclosure of private funds.

**Disclosing entities:** The entities that carry out information disclosure are Private Fund Manager/Private Fund Custodian and legal persons, and any other organization which complies with information disclosure obligations under laws, regulations, and the requirements of the CSRC and AMAC. For PSIFs that have custodians, the custodians should review and confirm relevant fund information to be disclosed by the managers.

**Disclosure method:** to disclose information to investors, disclosing entities may use a non-public method, such as letters, faxes, e-mails, or via official websites and third-party service agencies. Such information should also be filed to the private fund information disclosure backup platform.

**Information disclosure during the fund-raising period** should cover the following aspects: the basic information of the fund and fund managers, investments related to the funds, the fund-raising period, valuation policies, procedures and pricing models, principal terms in the fund contract, the purchase and redemption arrangement for the fund, social reputation documents of fund managers for the last three years, etc.

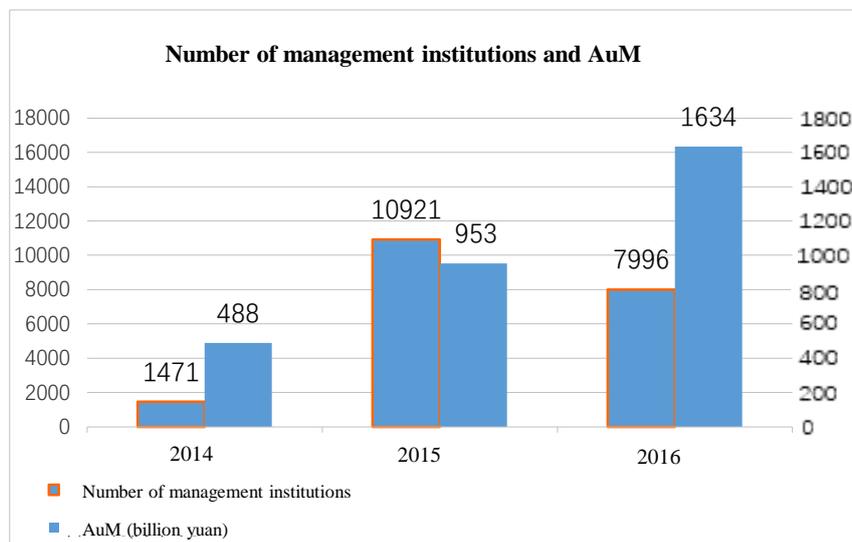
**Information disclosure during the operation period** stipulates that: (1) information disclosure entities should disclose the fund's net asset value, major financial indicators, and portfolio information to investors within 10 working days of the end of each quarter; (2) for a single PSIF where the asset under management exceeds 50 million yuan, the entity should disclose its net asset value to investors within five working days of the end of each month; (3) the Information Disclosure Measures have also made clear requirements for the contents of the annual reports and interim reports of funds.

## **2. Fund managers**

On 17<sup>th</sup> January 2014, AMAC issued the *Measures for the Registration of Private*

*Investment Fund Managers and Record-filing of Funds (for trial implementation)* which allowed private fund management institutions to register applications from 7<sup>th</sup> February 2014. Both 2014 and 2015 witnessed a surge in the number of registered managers. On 5<sup>th</sup> February 2016, AMAC issued the *Announcement on Several Issues for Further Regulating the Registration of Private Fund Managers* and gradually canceled the registrations of private fund managers that had not practiced fund management. In 2016, there were 7,996 PSIF managers, a decrease of 2,925 from 2015, representing a reduction of 26.78%. The assets under management (AuM) of PSIF managers continued to rise by 71.5%, from 953 billion yuan at the end of 2015 to 1,634 billion yuan by the end of 2016.

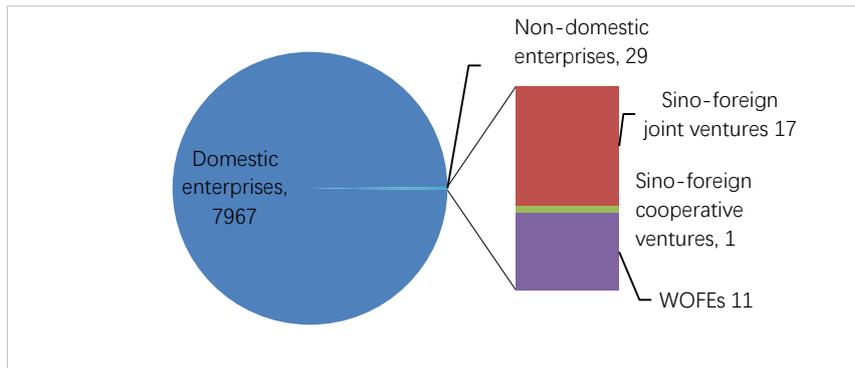
Figure 1-2-1 Changes in the number of PSIF managers and the AuM from 2014 to 2016



## 2.1 Investor structure

By the end of 2016, 7,967 of the 7,996 registered PSIF managers were domestic enterprises and only 29 were non domestic enterprises. All of the foreign-owned PSIF managers registered in 2016 were established according to the Qualified Domestic Limited Partnership (QDLP) policy. Since 30<sup>th</sup> June, 2016, the CSRC has allowed qualified wholly foreign-owned and sino-foreign joint enterprises to operate PSIF management business in China and thus, has canceled the 49%-shareholding ceiling for foreign institutions. Issued by AMAC, FAQs Regarding Registration and Record-Filing of Private Funds (No. 10) provides instructions and detailed requirements for wholly foreign-owned and sino-foreign joint PSIF managers. However, by the end of 2016, no wholly foreign-owned nor foreign holding fund management institutions engaged in PSIF businesses had been registered as fund managers.

Figure 1-2-2 Ownership structure of PSIF managers

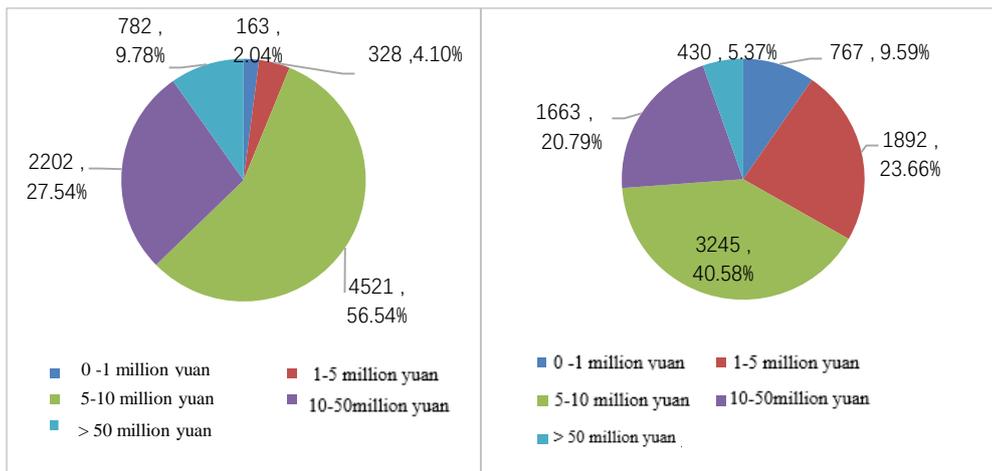


## 2.2 Registered capital and paid-in capital

### 2.2.1 The structure of registered and paid-in capital

Registered managers have mostly owned 5 to 10 million yuan of registered and paid-in capital, representing 56.54% and 40.58% respectively of the total registered managers.

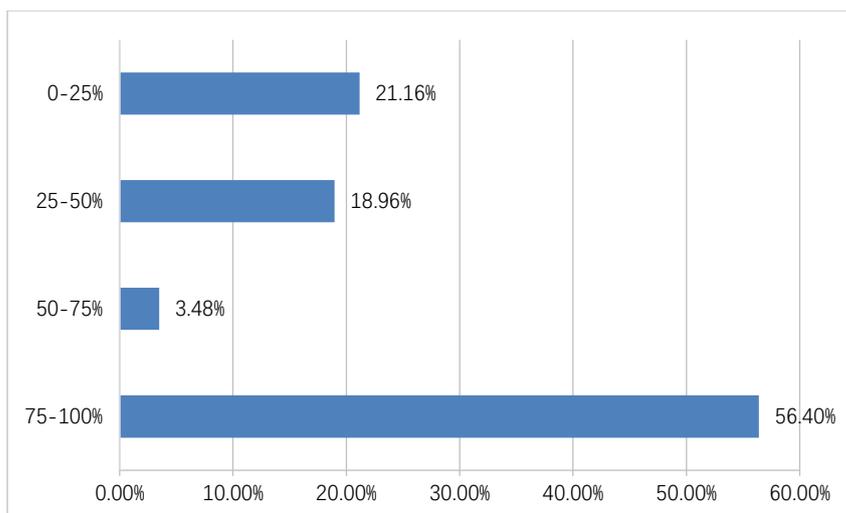
Figure 1-2-3 Structure of registered capital      Figure 1-2-4 Structure of paid-in capital



### 2.2.2 The proportion of paid-in to registered capital

Regarding the Ratio of Paid-in Capital against Registered Capital (paid-in capital/registered capital), 56.4% of total fund managers have a proportion from 75% to 100%, and 40.12% of total fund managers have a proportion of lower than 50%.

Figure 1-2-5 Paid-in proportion of registered capital of PSIF managers.



## 2.3 Regional distribution

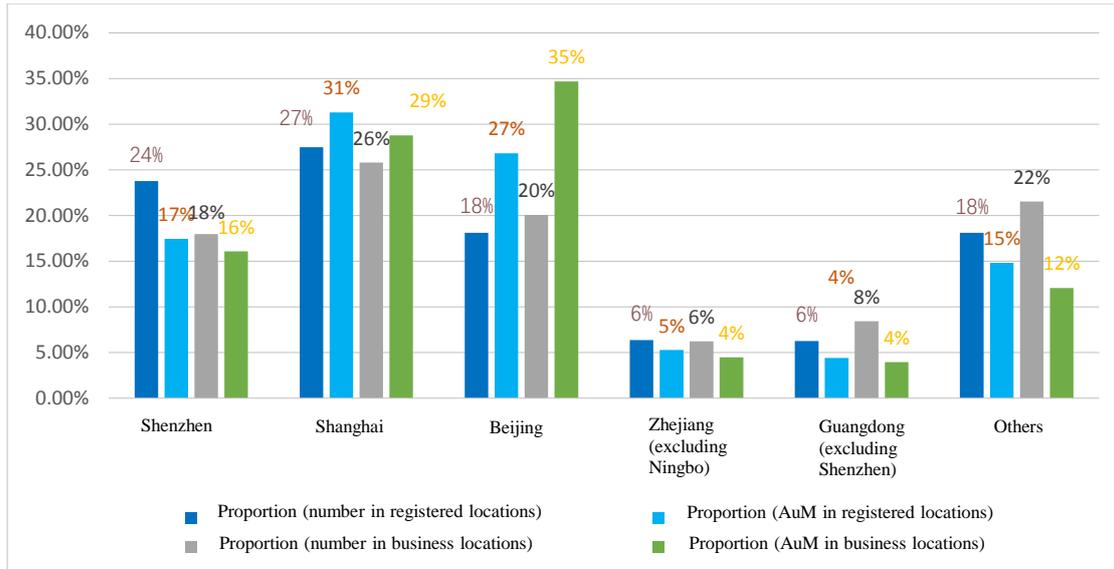
### 2.3.1 Distribution of registered location

When private fund managers are deciding on locations to register, they usually consider factors such as local economic development, tax incentives, talent concentration and convenience of transportation. As of the end of 2016, according to the jurisdiction of the 36 agencies of the CSRC, registered PSIF managers distribute in a variety of jurisdictions, but predominately in Shanghai, Shenzhen, and Beijing.

### 2.3.2 Distribution of business location

By the end of 2016, there were 5,105 PSIF managers in operation in Shanghai, Beijing, and Shenzhen, accounting for 63.84% of the total population of PSIF managers in China. The number of private funds under their management was 19,907, accounting for 73.68% of the national total number of funds under management. The value of AuM was 2.32 trillion yuan which accounted for 79.52% of the national total value of AuM.

Figure 1-2-6 Top five operational regions in terms of number and AuM in 2016

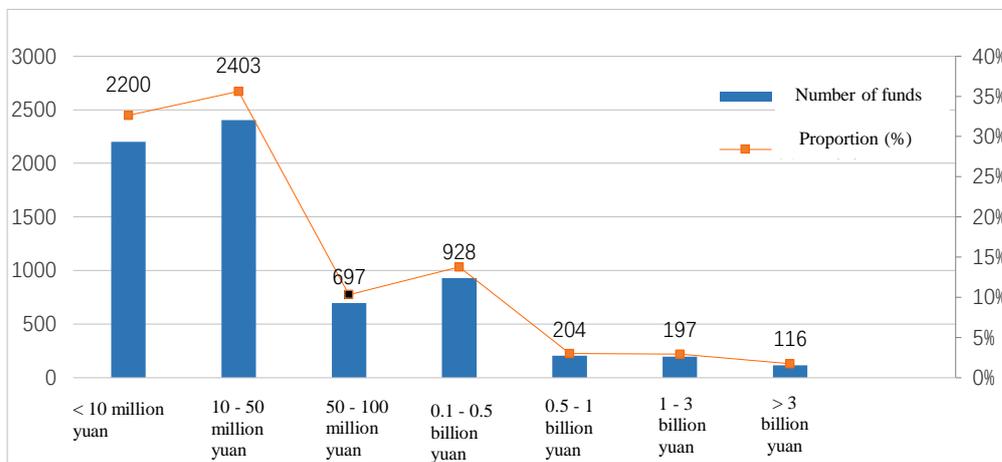


## 2.4 AuM and industry concentration

### 2.4.1 Asset under management

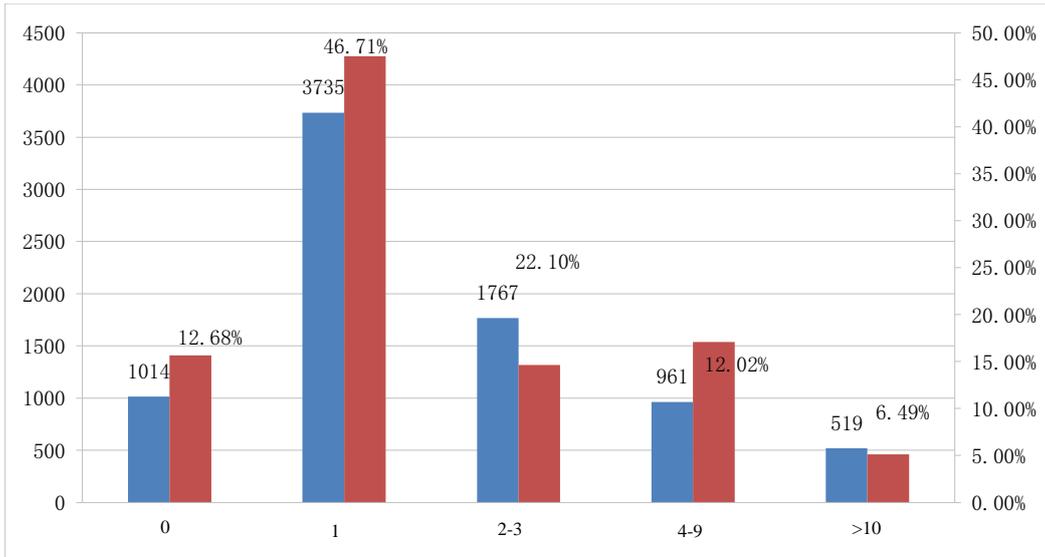
By the end of 2016, of the registered 7,996 PSIF managers, the number of managers engaged in practice was 6,982 (by whom at least one fund was managed), and the distribution of AuM was as follows:

Figure 1-2-7 Distribution of AuM of PSIF managers by the end of 2016



By the end of 2016, each of the 6,982 PSIF managers in operation managed 3.87 private funds on average. The number and proportion of funds managed by all 7,996 registered PSIF managers were as follows:

Figure 1-2-8 Distribution in number of funds under management by PSIF managers



### 2.4.2 Concentration in AuM

Comparing data from the end of 2015 against that from 2016, the concentration of the PSIF industry somewhat declined in 2016. The concentration structure was as follows:

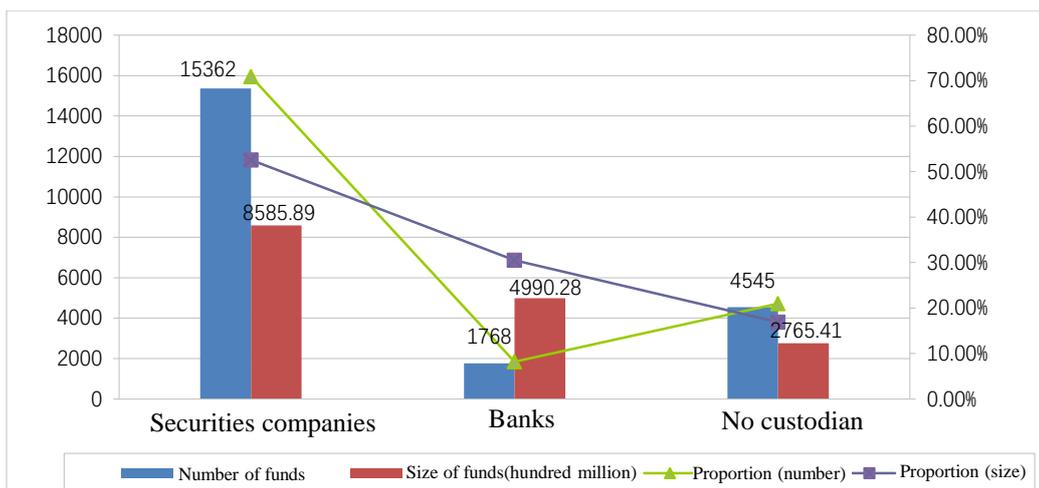
Figure 1-2-9 PSIF Industry concentration



### 3. Fund Custodian

According to the *Securities Investment Fund Law*, PSIFs should be kept custody by a fund custodian unless otherwise specified by the fund contract. According to *Securities Investment Fund Law*, only institutions holding custodian qualifications on securities investment funds are allowed to act as the custodian of PSIFs. By the end of 2016, there was a total of 42 licensed fund custodian, including 28 commercial banks and 14 securities companies.

Figure 1-3-1 Distribution of PSIFs kept under custody



## 4. Fund investors

### 4.1 Qualified investors

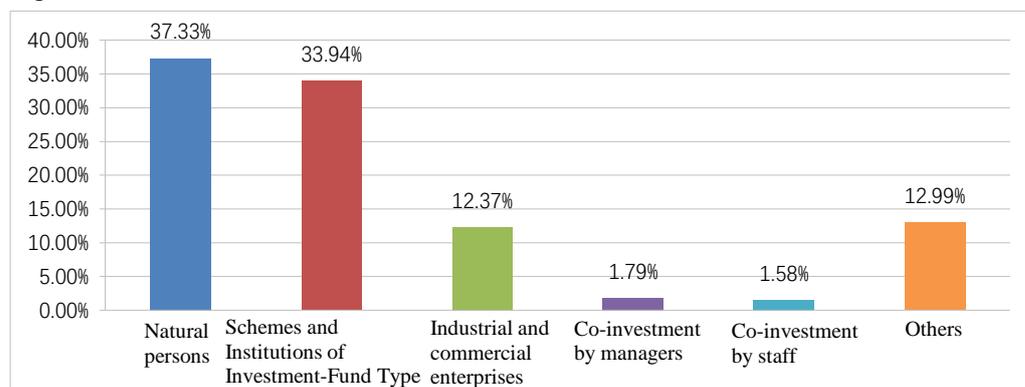
The *Securities Investment Fund Law* states that private funds should only raise funds from qualified investors through non-public offerings. According to the *Interim Measures for the Supervision and Administration of Private Investment Funds*, qualified investors should be able to recognize and bear risks; consequent investment on a single private fund should be no less than one million yuan. Additionally, a qualified institutional investor should own more than 10 million yuan in net assets; and a qualified individual investor should own no less than 3 million yuan in financial assets or on average have received an annual income of over 500 thousand yuan for the last three years.

### 4.2 Structure of investors

#### 4.2.1 Distribution of investors

By the end of 2016, the distribution of registered PSIF investors was as follows:

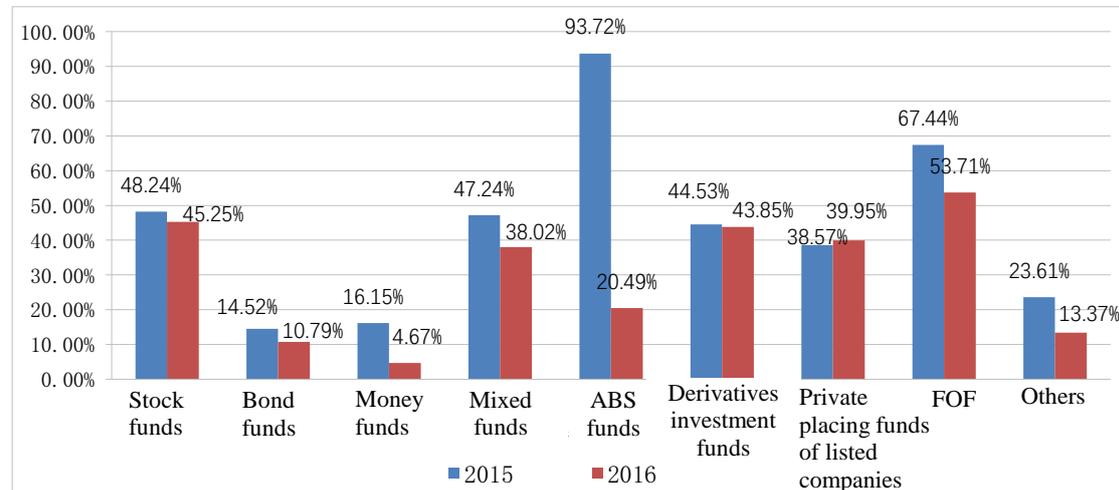
Figure 1-4-1 Distribution of PSIF investors



#### 4.2.2 Contribution of individual investors

By the end of 2016, the contribution structure of individual PSIF investors was as follows:

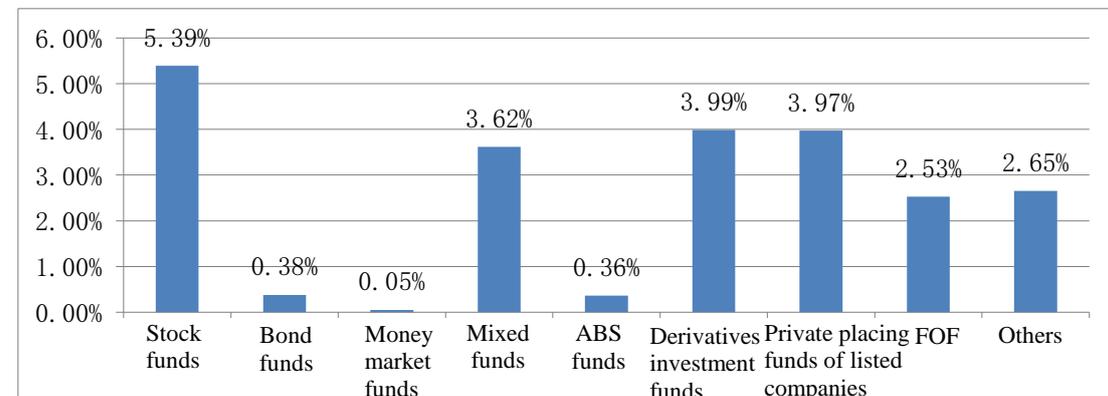
Figure 1-4-2 Contribution structure of individual PSIF investors



#### 4.2.3 The proportion of co-investment by managers and employees

By the end of 2016, the structures of co-investment by PSIF managers and employees were as follows:

Figure 1-4-3 Investment structures of PSIF managers and employees



### 5. Fundraising Institutions and Fund Service Institutions

#### 5.1 Fundraising institutions and their sales business

PSIFs can be raised through both 'direct sales', whereby managers will raise funds alone, and 'commissioned sales' by which managers may authorize other qualified institutions to raise funds. According to the *Administrative Measures for the Fundraising of Private Investment Funds* by AMAC, authorized fundraising institutions should be equipped

with securities investment funds sales qualifications.

According to the CSRC, by the end of September 2016 there were 380 institutions qualified to conduct securities investment funds sales, among which 141 were commercial banks, 99 were securities companies, 18 were futures companies, nine were insurance companies, six were securities investment advisers and 107 were independent fund sales agencies.

## 5.2 Fund service providers and professional services

PSIF service providers primarily provide back-office services such as product valuation and registration. There are a number of managers who choose to authorize fund service institutions to be responsible for fund operation issues such as registration, valuation and accounting, and the service of IT systems.

By the end of 2016, 44 fund service providers were registered with AMAC, composed of 21 securities companies, eight fund management companies, seven commercial banks, three independent service providers and five IT companies. Services offered included fund unit registration, valuation and accounting, and the operation of IT systems.

Table 1-5-1 Number and size of PSIFs managed by fund service providers

Business type	Number of funds	Total amount (billion yuan)
Fund unit registration	2,134	97
Valuation and accounting	2,140	97
IT systems	277	14

Table 1-5-2 Number of PSIFs and their service providers

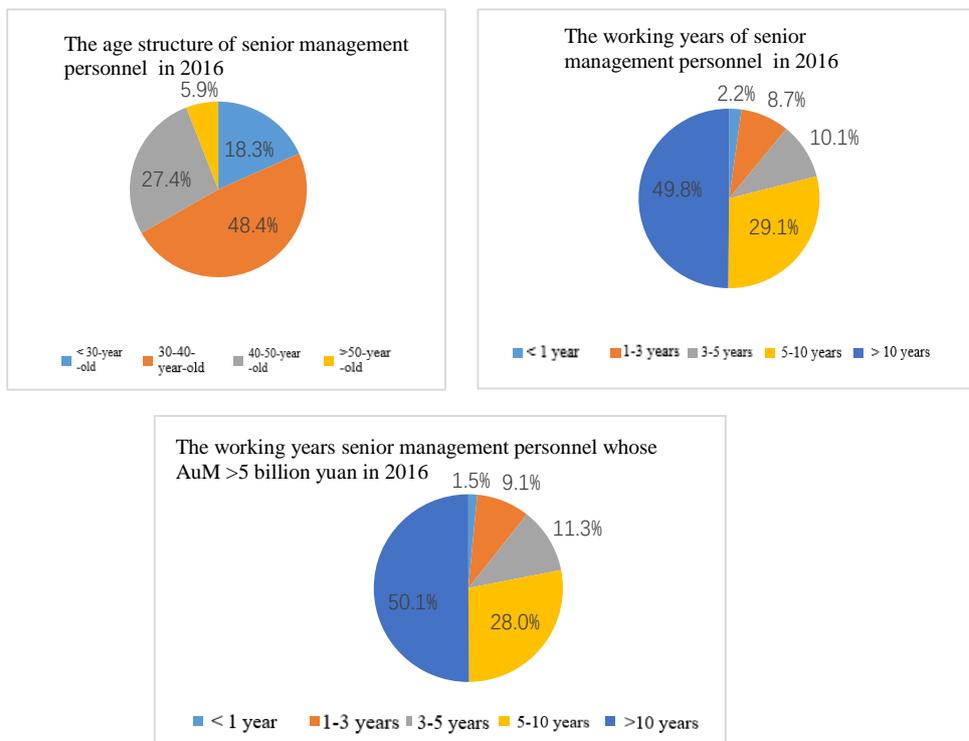
Size of private funds	Number of commissioned fund service institutions	Proportion among all funds of commissioned fund service institutions	Total number of funds
<10 million yuan	1,332	41.61	7,650
10 - 50 million yuan	1,272	39.74	8,625

50 - 100 million yuan	369	11.53	2,629
100 500 million yuan	212	6.62	2,298
0.5- 1 billion yuan	12	0.37	283
1 – 3 billion yuan	3	0.09	151
> 3 billion yuan	1	0.03	39
Total	3,201	100	21,675

## 6. Fund practitioners

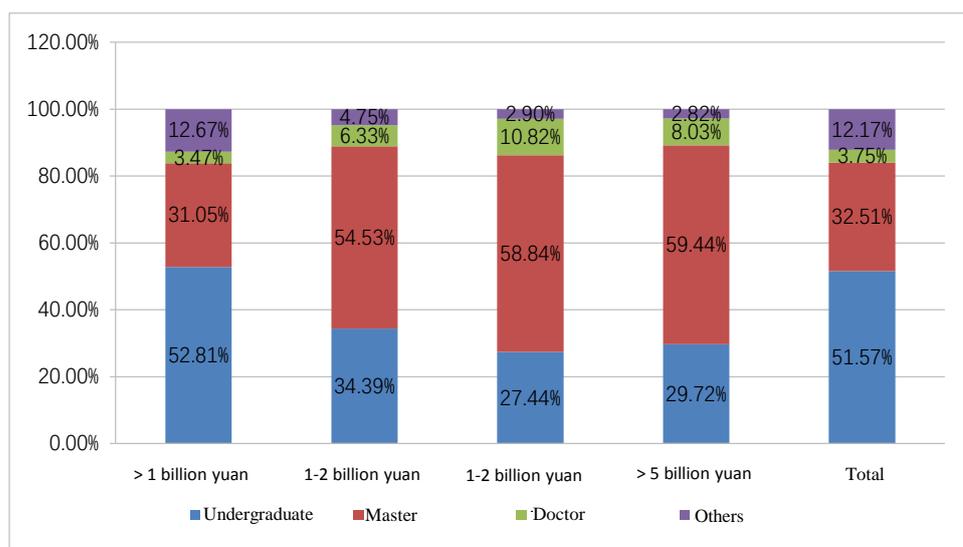
By the end of 2014, 2015 and 2016, there were 24,359, 213,434, and 100,320 registered PSIF practitioners nationwide respectively. The proportion of PSIF practitioners among the entire population of private fund practitioners has been rising year-on-year, and currently totals more than 50%. By the end of 2016, there were 32,530 senior management personnel working in the PSIF industry. The construction of executives' age and years of experience were as follows:

Figure 1-6-1 Age structure and working years of senior management personnel in PSIF managers by the end of 2016



The education background of senior management personnel and the value of assets under their management were as follows:

Figure 1-6-2 Education background of senior management personnel and the value of AuM

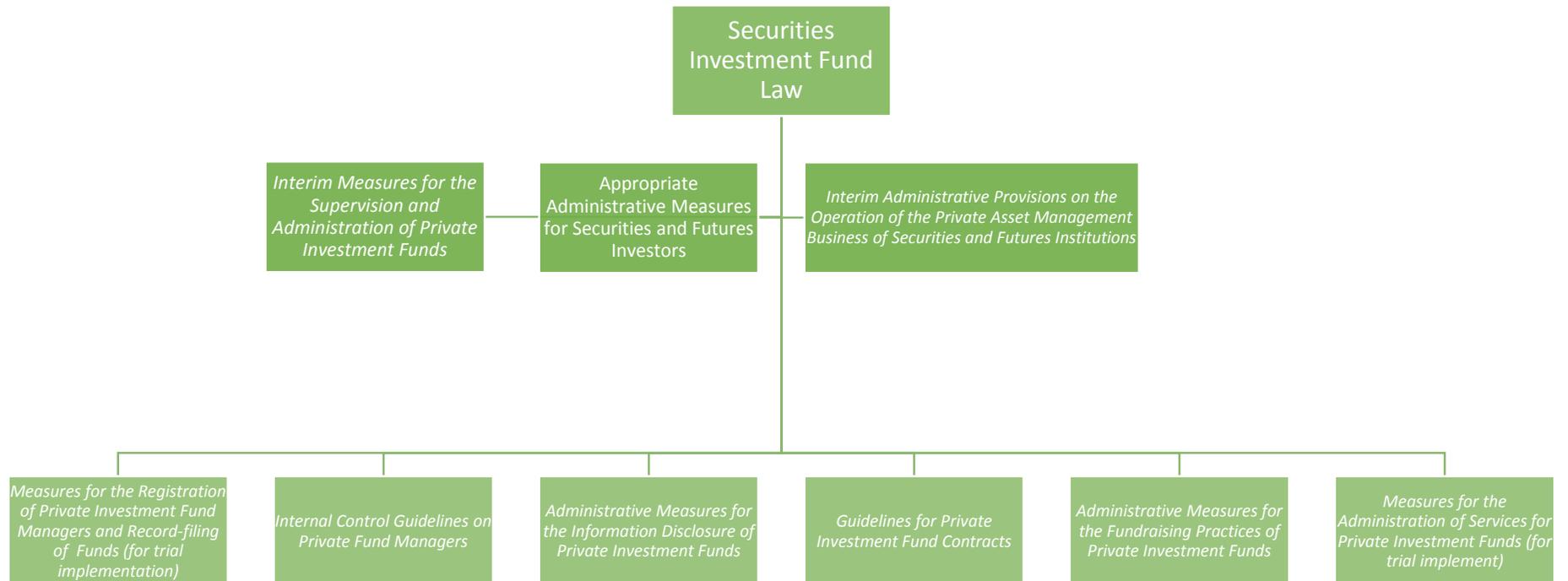


## Chapter 2. Regulation and regulatory system

In 2016, China further improved its legislative efforts surrounding the PSIF industry, and based on the CSRC's existing departmental rules, a self-disciplinary system within AMAC gradually formed. Under the regulation of the CSRC and the self-disciplinary system within AMAC, the PSIF community continued to improve its regulatory and organizational systems. The CSRC and AMAC have made a series of effective regulatory and self-disciplinary efforts to effectively protect PSIF investors and ensure the standard operation of the PSIF industry.

### 1. Regulation

Since February 2014, according to the *Securities Investment Fund Law* (the amended version of which came into force on 1<sup>st</sup> June 2013) and authorized by the CSRC, AMAC has taken proactive action to record private funds and conduct self-disciplinary management by establishing and improving a registration and record-filing system, and by accelerating the development of a self-disciplinary system. As a result, a regulatory framework combining “laws, departmental rules and self-disciplinary rules” is taking shape.



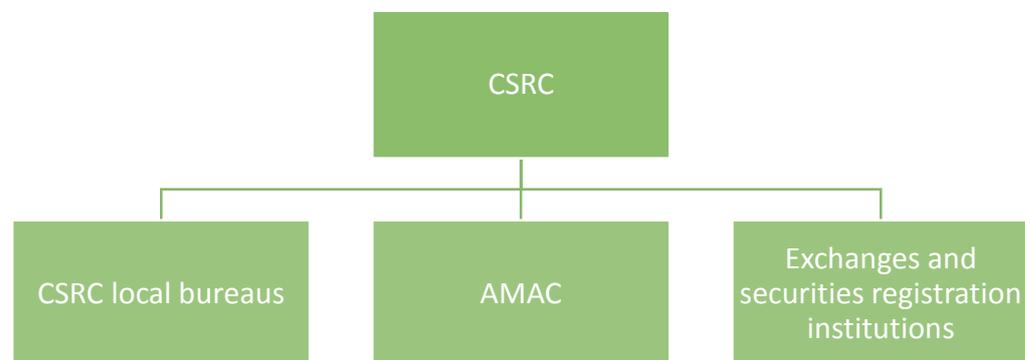
At the departmental rules level of the CSRC, two important measures closely related to the PSIF industry were released in 2016 in addition to the *Interim Measures for the Supervision and Administration of Private Investment Funds* (Order No. 105 of the CSRC). The *Interim Administrative Provisions on the Operation of the Private Asset Management Business of Securities and Futures Business Institutions*, which was issued in July 2016, put in place requirements surrounding illegal marketing and selling behaviors, structured asset management products, third-party institutions providing investment advice, the development of participation in “fund pools” and offering excessive incentives to staff. The *Appropriate Administrative Measures for Securities and Futures Investor Suitability*, issued in December 2016, established an appropriate working system for highly professional investor suitability in the PSIF industry, through product risk rating, ordinary investor and professional investor categorization, and ordinary investor protection.

At the self-disciplinary rules level of AMAC, since February 2015, AMAC - as the legal self-disciplinary organization - has begun to develop a self-disciplinary rules system for private funds, with the aim of integrating principles and rules of the *Securities Investment Fund Law* and the *Interim Measures for the Supervision and Administration of Private Investment Funds* into nine self-disciplinary rules - the so-called “7+2” self-disciplinary rules. The system will be comprised of seven "Measures" and two "Guidelines", including *Measures for the Registration of Private Securities Investment Fund Managers and Record-filing of Funds* (2014), *Internal Control Guidelines on Private Fund Managers* (February 2016), *Administrative Measures for the Information Disclosure of Private Investment Funds* (February 2016), *Administrative Measures for Fundraising Practices of Private Investment Funds* (April 2016), *Guidelines for Private Investment Fund Contracts* (April 2016), *Measures for the Administration of Services for Private Investment Funds* (developed in 2016, and promulgated in 2017), *Administrative Measures for Investment Advisers, Custodians and Practitioners* (not yet launched by the end of 2016).

In addition, the State Council has also planned the *Interim Ordinance on the Administration of Private Investment Funds* in the legislation, which, as the first administrative law focusing on private funds, will provide a legal guarantee for the development of the private fund industry in China.

## 2. Regulatory organizations

According to the *Securities Investment Fund Law* which was implemented on 1<sup>st</sup> June 2013 and the regulations by CSRC thereafter, private funds should operate under the administrative regulations of the CSRC and the self-disciplinary management of AMAC. By the end of 2016, a comprehensive regulatory organizational system for the private fund industry had been established, led by the CSRC. This system is a cooperation between the CSRC's local bureaus, AMAC, securities and futures exchanges and China Securities Depository and Clearing Co., Ltd.



The effectiveness of the regulatory system relies on proactive, well-organized regulation and self-disciplinary management. In the first half of 2016, CSRC local bureaus conducted special inspections of 305 private fund management institutions, looking at their fund raising compliance, asset safety and timeliness of information disclosure, and covering 2,462 fund products with 0.9 trillion yuan AuM (14% of the whole industry). Suspected violations by private fund management institutions were discovered by AMAC by means of investors' whistle-blowing, media coverage, reports forwarded by regulators, and self-disciplinary inspections, and would be disposed according to the Rules for Conducting Self-disciplinary Inspection (for Trial Implementation) and the Measures for Disciplinary Sanction (for Trial Implementation). In 2016, AMAC received and disposed 620 complaints, 47% of which were PSIF-related issues.

## Chapter 3. Challenges faced by industry development

In 2016, thanks to the improved legislation and supervision, the PSIF business environment was further optimized inside and outside of the industry and conditions were created for development in legal, regulation, operational policies, the opening-up and such other aspects. However, we should not ignore the challenges in industry development. Management institutions inside the industry are of varying quality levels and the compliance level and awareness of institutions requires improvement. Moreover, the legal, regulation and policies environment outside of the industry should be further developed.

### 1. Legal environment

The *Securities Law* in force has too narrow a definition for securities. It has become a hurdle that impedes the regulatory development of the PSIF industry and requires adjustment. The *Securities Investment Fund Law* prescribes the *Securities Law* as its parent law which only applies to listed tradable securities funds. Compared with the broad definition of “securities” in most developed markets overseas, the aforementioned definition could be too narrow due to the exclusion of unlisted fund units or units of collective investment plans, and such other private funds that symbolize tradable equal property right, inconsistency between their basic norms (in establishment and transaction) and other securities that have the property rights nature but are not included in the current definition of “securities”, creating a blind spot for law enforcement. It is difficult for securities regulators to rely on unified rules at the Securities Law level to crack down upon illegal fund raising and trading disguised as “securities” investment.

### 2. Regulatory environment

The rules applicable to the operation of PSIF business by financial institutions should accord with the PSIF industry. The *Securities Investment Fund Law* shall be applicable to all funds invested in securities for the interest of fund unit holders, whether publicly offered or privately raised, managed by managers and kept under the custody of custodians. However, in current practices within China, trust companies, securities companies, futures companies, insurance asset management companies and other financial institutions may engage in business with the same nature of PSIF business, but under different regulatory standards by different regulators. The unfairness in the regulatory environment among these institutions and the PSIF industry might easily cause regulatory arbitrage such as “product nesting”, violation of restrictions on the number of investors and investment size in a disguised manner, benefiting from law enforcement blind spots. Therefore, to deal with all of these problems, there should be a unified regulation policy for coordination.

### 3. Tax environment

PSIF tax policy needs to be further clarified. At present, individual investors for public securities investment funds would not be levied personal income tax from their price difference income. For the interest incomes and dividend incomes from the distribution of stock dividends of a public fund and the interest incomes from corporate bonds, listed companies and bond issuers will have to withhold 20% of them as personal income tax when they pay dividends or make interest payments to the funds, and the funds will not withhold personal income tax again when making such payments to investors. The aforesaid preferential tax policy was announced long ago and only benefits public funds. Considering the similarity between PSIFs and public funds in legal relationship, investment scope, and operational rules, PSIFs should also be entitled to the preferential tax treatment given to public securities investment funds.

### 4. Policy environment

The PSIF industry is expecting “access” to qualifications of investment managers of funds such as social security funds, enterprise annuities, insurance funds and Bank Wealth Management Product (WMPs). In the PSIF industry, there are a number of outstanding managers who have earned their reputation among commercial banks, overseas pension funds and other institutional investors. By the end of 2016, national social security funds, corporate annuities and pension funds, insurance and WMPs funds could only be invested in public securities investment funds, and not in PSIFs. This could be reflected as financial regulators and relevant ministries and commissions having prejudice against PSIFs. In terms of policies, authorities have failed to treat PSIFs and public securities investment funds in a fair manner. In mature markets overseas, PSIFs have been an important allocation for the portfolio of long-term funds such as pensions. Improving these policies and enlisting qualified private fund management institutions will provide high quality investment management services, not only for pensions and insurance funds, but also for more investors, bringing long-term benefits.

### 5. Operational environment

The regulatory policy related to the trading system of PSIFs requires further discussion and rationalization. In 2015, regulators banned external information systems from accessing securities companies' trading systems, thus, PSIFs, similar to ordinary investors, have to use prime brokerage business systems (PBs) of securities companies. However, other financial institutions such as fund management institutions with public fund management qualifications may use the external information systems. Such restriction brings numerous challenges to PSIFs' day-to-day operations, for example, managers are unable to meet the needs of centralized and fair trading, increasing operational risk and management costs, impeding the implementation of investment strategies, etc. As such, the industry is now in urgent need for qualified PSIF managers'

to gain access to securities companies' trading systems to meet the requirements of compliance risk control and investment management, and to promote industry development.

## Chapter 4. Social responsibility

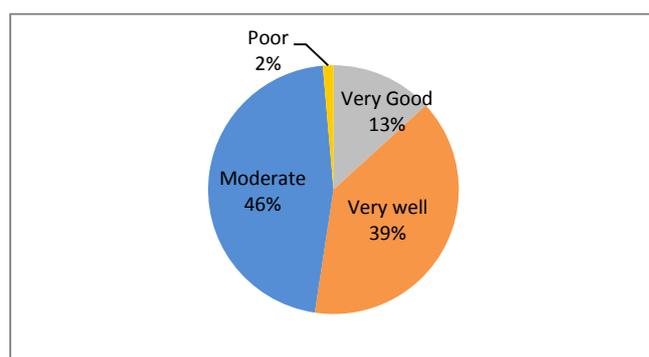
Under the advocacy of AMAC, PSIFs have proactively fulfilled their social responsibilities and made contributions to the development of the capital markets, serving the real economy and the creation of a harmonious society in China.

### 1. Embrace ESG investment philosophy, and give play to the professional functions of institutional investors

AMAC has been a proactive advocate for the ESG investment philosophy in the fund industry. According to incomplete statistics, the total market value of securities held by private funds (including private securities investment funds, private equity funds and venture capital funds) accounts for approximately two percent of the total tradable securities market cap, and market share of the total trading volume in the NEEQ (National Equities Exchange and Quotations) accounts for approximately sixteen percent. The massive market volumes have laid a foundation for promoting the improvement of governance regulations for listed companies, improving the efficiency of market pricing and giving play to institutional shareholders' role in governance.

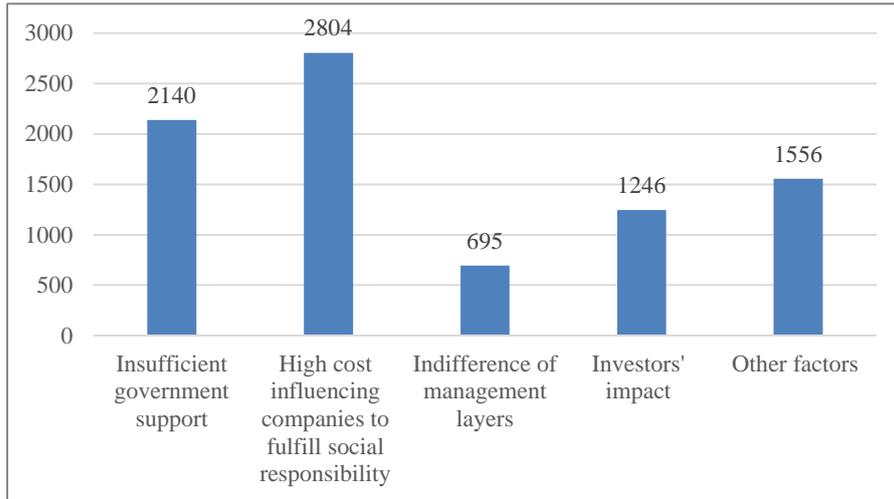
AMAC conducted a questionnaire survey on the performance of social responsibility of PSIF managers. Fifty-two percent of respondents consider they are performing well.

Figure 4-1-1 How managers think they are performing concerning social responsibility of the PSIF industry



Meanwhile, the survey found that key factors influencing the PSIF industry to fulfil social responsibilities are primarily related to soaring costs and insufficient government support.

Figure 4-1-2 Factors influencing PSIF industry to fulfill social responsibility

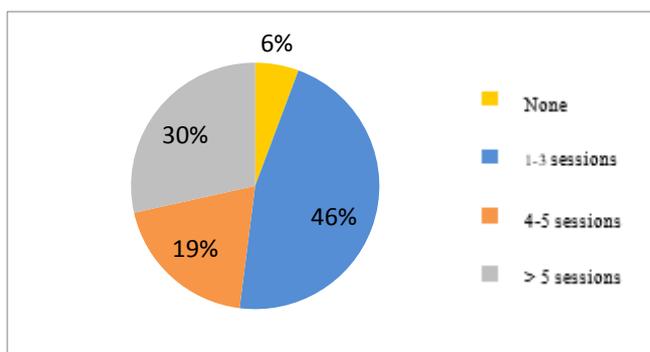


## 2. Investors' interest must come first

PSIF managers should actively be responsible for their investors and clients, creating a good internal control and compliance environment, paying attention to investor education and making efforts to improve customer information protection systems.

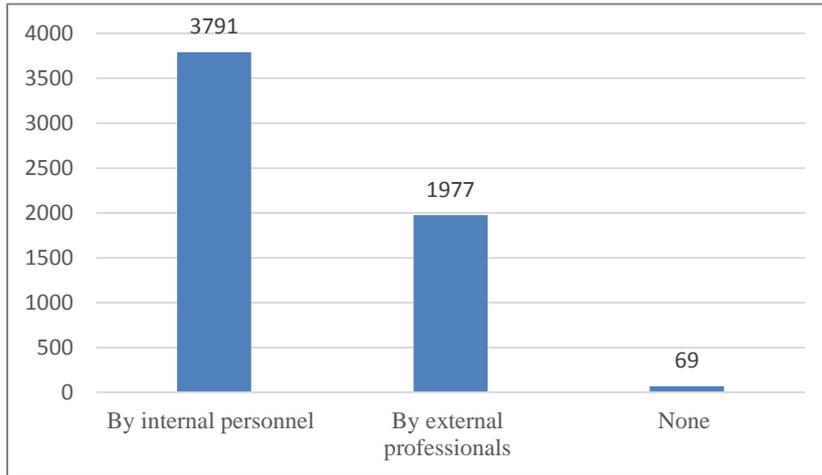
With the continuous release of relevant laws and regulations of private funds, PSIF managers' compliance awareness has been constantly enhanced, internal control efforts are generally regarded as the focus of building core competitiveness and risk control has been rooted into the whole company management. Compliance training provided by PSIF managers for sales staff in 2016 is shown below.

Figure 4-2-1 Number of compliance training sessions for sales staff of PSIF managers in 2016



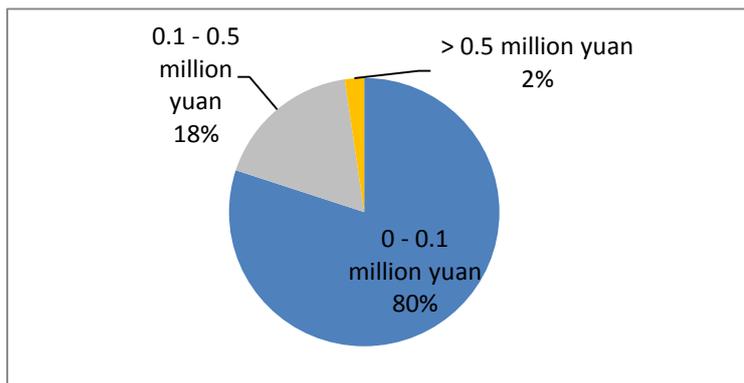
In addition to training for sales staff, PSIF managers have increased their efforts in conducting general compliance training: almost all PSIF managers have provided training sessions for their employees - mainly in the form of lectures given by internal personnel and supplemented by those from external professionals.

Figure 4-2-2 Methods taken in compliance training of PSIF managers in 2016



It is common practice for PSIF managers to provide education for investors, however, the funding for such education has shown a trend of differentiation. Of the PSIF managers surveyed, eighty percent have invested less than 100 thousand yuan in investor education.

Figure 4-2-3 Funding for investor education by PSIF managers in 2016



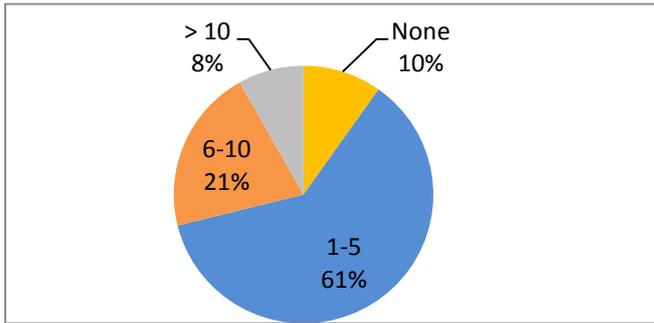
In this new media era, PSIF managers have more choices when carrying out investor education: in addition to the traditional paper prints, PSIF managers can utilize websites, WeChat and other digital media. Of the PSIF managers surveyed, ninety-three percent have established or plan to establish new media marketing strategies.

PSIF managers have also paid attention to the protection of client information: of the 4,130 PSIF managers surveyed, ninety-seven percent have established a client information protection system.

### 3. Employee growth

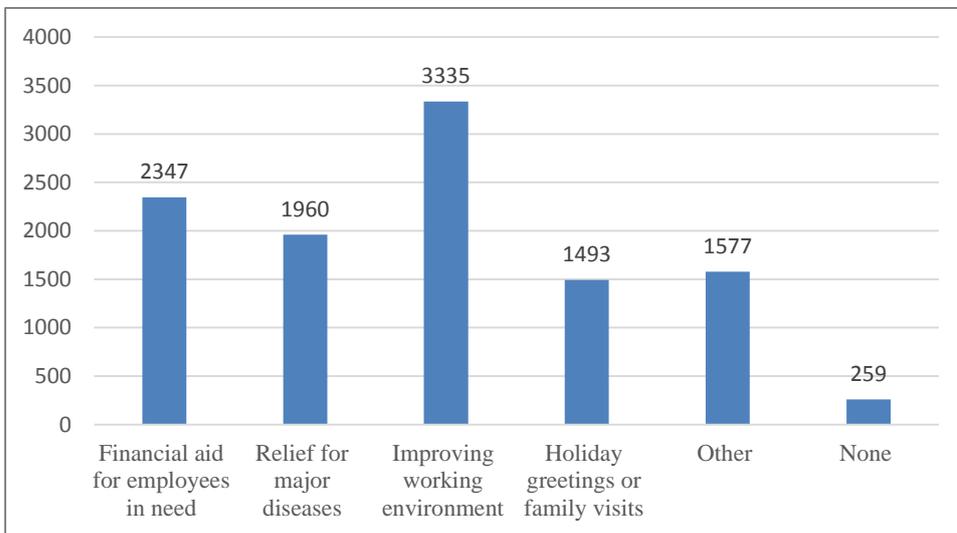
The PSIF industry, a talent-intensive industry, has made constant efforts to attract talent. The distribution of employment in PSIF managers in 2016 is shown as below.

Figure 4-3-1 Employment distribution in PSIF managers in 2016



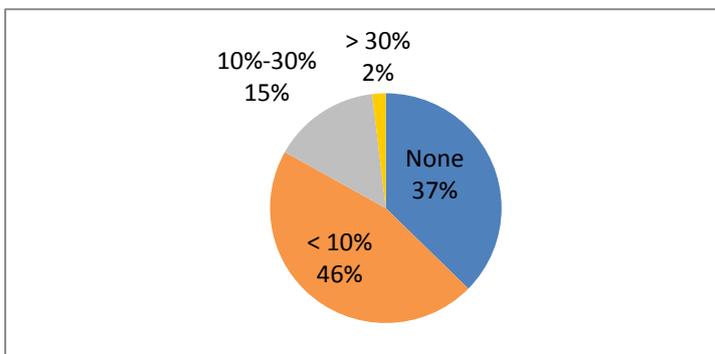
It is common practice for PSIF managers to focus on employee welfare, through supporting staff in need, providing health benefits, and improving the working environment.

Figure 4-3-2 Construction of caring and mutual-aid system for employees in the PSIF industry in 2016



Overall, the workforce in PSIF managers is relatively stable with a moderate staff churn rate: eighty-three percent of the PSIF managers surveyed have a churn rate of less than 10%.

Figure 4-3-3 Distribution of churn rates in PSIF managers in 2016

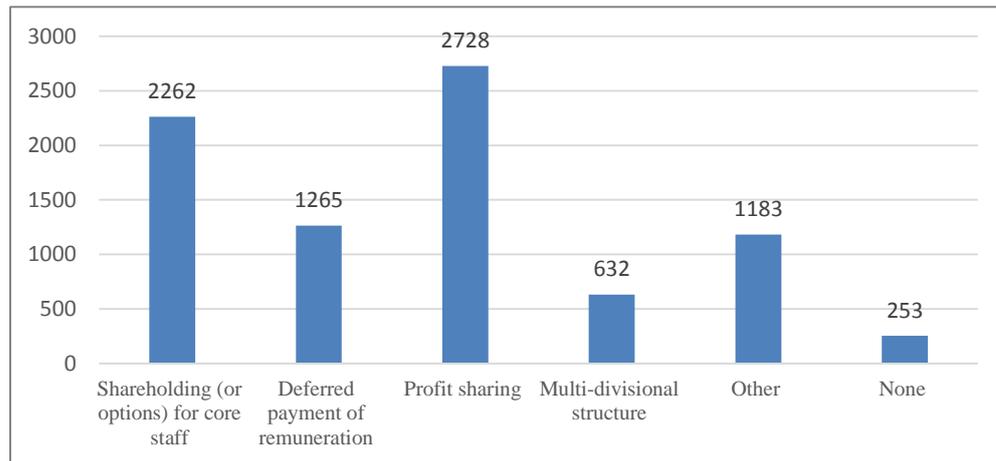


PSIF managers have actively moved towards implementing a paid-leave system, and ninety-two percent of those surveyed have established a system. At the same time, managers have paid great attention to the physical and mental health of their employees and have worked to enhance their occupational health protection: more than seventy

percent of institutions provide a physical health examination for their employees at least once a year.

PSIF managers have more diversified employee incentive policies, including core staff shareholding, deferred payment of remuneration, profit sharing and other approaches.

Figure 4-3-4 Construction of incentive mechanisms in PSIF managers in 2016

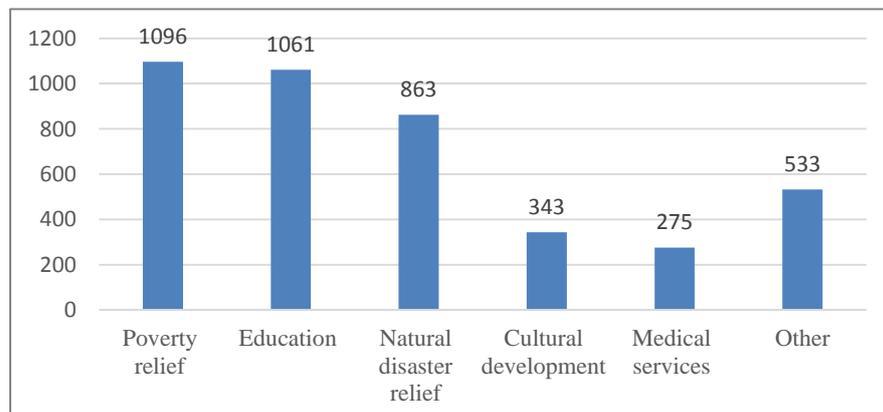


In addition, more than ninety-nine percent of PSIF managers experienced no labor disputes in 2016, meaning, to some extent, the PSIF industry has fulfilled its employer responsibility well and the legitimate rights and interests of their employees are under comprehensive protection.

#### 4. Roles in social public welfare

According to the surveyed 4,130 PSIF managers, 1,568 managers participated in public welfare, charity and other donation activities, accounting for thirty-eight percent of the total number of PSIF managers surveyed. From the aspect of the participation in public welfare charity, institutions have mainly focused on poverty relief, education and natural disaster relief.

Figure 4-4-1 Structure of social welfare activities of PSIF managers in 2016



According to the surveyed 4,130 PSIF managers, 138 managers have established charity foundations to manage and operate charitable business and public welfare undertakings, accounting for three percent of the total number of PSIF managers surveyed. Although the proportion is small, it has a certain demonstrative effect.