IGNITES ASIA

UBS, Credit Suisse deal raises 'unprecedented' questions for their China fund businesses

Acquisition of Credit Suisse leaves UBS as a minority partner in two China fund JVs while the Swiss firm is also applying to run a wholly owned retail business in the country

By Lisa Kim, John Sedgwick | March 21, 2023

As senior Swiss banking officials and regulators gathered for crisis talks in Zurich over the weekend to hammer out an agreement for UBS to buy Credit Suisse, the global banking giants' two China fund management joint ventures were probably low down the list of considerations.

The US$3.2 billion acquisition of the beleaguered bank by its long-time rival will leave UBS with two fund management joint ventures in China and an important strategic decision to make in a market that it has highlighted as a key priority in Asia.

While Credit Suisse's asset management arm does not reach as far across Asia as its banking and wealth management businesses, its Chinese fund management joint venture partner is one of the country's largest banks and a major part of its regional business.

ICBC Credit Suisse Asset Management was established in June 2005, with the Swiss bank owning a 20% shareholding.

It has Rmb787.4 billion (US$144.48 billion) in assets under management and is currently the 11th largest domestic retail manager in China. It is around four times larger than UBS's own joint venture, UBS SDIC Fund Management, which has assets of Rmb195.33 billion.

Stephanie Clarke, U.K.-based senior vice president for data and analytics at Broadridge, says there is no precedent for what might happen to Credit Suisse's asset management business in China.

"I think it would be the first time we are going to see a potential consolidation of a Chinese entity," Clarke says during an interview in Hong Kong.

"It is one of the many interesting things on the list, to see how this particular merger plays out," she adds.

She says while it is unclear at this stage how UBS's takeover deal will impact the two Swiss banks' China joint ventures, Chinese regulators may step in to direct proceedings.

Not only does UBS own a 49% stake in UBS SDIC FM, a joint venture it set up in 2005 with state-owned SDIC Taikang Trust, but it is also looking to set up a wholly owned retail fund management business in China.

UBS has engaged in informal talks with the China Securities Regulatory Commission regarding its intention to apply for a mutual fund licence and plans to submit its application as soon as possible, *Ignites Asia* reported last month.

New regulations introduced last year appear to allow UBS, in theory, to have ownership in three separate retail fund businesses onshore, though it is unprecedented.

In March last year, the CSRC revised rules to permit global financial firms that carry "an international renown" to take stakes in more than two fund houses. Until now, no company has tested out the expanded rules.

Given the rapid agreement of the deal, it is unlikely that senior management at UBS AM's headquarters would have made any final decisions about what to do with the two joint ventures in China.

If UBS chooses to sell one business, keeping ICBC Credit Suisse AM would be the more profitable option, but retaining its stake in UBS-SDIC FM would offer the Swiss bank more influence in management in exchange for a lower financial gain over the longer term.

Even during China's worst period for Covid outbreak in the first half of 2022, ICBC Credit Suisse AM earned net profits of Rmb1.5 billion, the second highest figure in the industry, only behind E Fund Management.

Related Content

March 9, 2023
Credit Suisse granted wealth management, investment consultancy licences in China

February 24, 2023
UBS to apply for licence to enter China's retail funds market

May 24, 2022
China allows 'renowned' foreign firms to own more onshore fund businesses

By comparison, UBS-SDIC FM earned just Rmb190 million over the same period.

Stewart Aldcroft, Hong Kong-based Asian fund management industry consultant and former Cititrust chairman, predicts that UBS will probably edge towards selling Credit Suisse's 20% stake in the joint venture, which he says could sell for 10 to 15 times its annual profitability.

"Here's the opportunity in a way for UBS to start earning back money from selling off assets of the business," he says.

"Most of the JVs in China are extremely profitable," he says. "It could be very difficult to find a global buyer, but it may be much easier to find a domestic buyer in China."

In contrast, Broadridge's Clarke says the emergency takeover of the embattled Swiss bank will have alerted many global asset managers and financial firms to parts of the business that UBS might offload.

"I think everyone is currently running their analysis on anything that is 'open' in the marketplace, so this would probably filter to the top of the pile," she says.

Other analysts suggest that UBS holding onto two joint ventures in China would be preferable for both the bank and the regulators.

Cyrus Daruwala, Singapore-based managing director of research and advisory firm IDC Financial Insights, says China will be receptive to UBS managing two asset management joint ventures as it will benefit the country without running into antitrust issues.

“China will be happy because they don’t want renminbi-denominated assets leaving China. This way, UBS will be able to build a very large China-specific book, which includes Hong Kong,” he says.

Daruwala adds that if UBS were to sell its stake in ICBC, it will happen at the insistence of the Chinese authorities, but he doubts that such a scenario will play out.

Another question UBS will have to answer is how to handle the two relatively small Hong Kong-based subsidiaries of its and Credit Suisse’s Chinese joint ventures.

ICBC Credit Suisse Asset Management (International) has three funds registered with Hong Kong's Securities and Futures Commission, including the ICBC Credit Suisse RMB Cash Fund incepted in 2016, with Rmb76.5 million in assets.

UBS SDIC Asset Management (Hong Kong) provides investment advice and acts as an investment manager to identify investment decisions for the parent company’s funds. It currently does not have any funds registered with the SFC, according to the regulator’s records.

Aldcroft says UBS will likely shut down Credit Suisse’s asset management business in Hong Kong as it has hardly been the bread and butter for the bank.

“It’s definitely going to be a difficult time,” he says.