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Zhodnocení výkonnosti podílových fondů v Číně

Performance Evaluation of Mutual Funds in China

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List of Annexes
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The declaration

"Herewith I declare that I elaborated the entire thesis, including all annexes, independently."

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1 Introduction

In this thesis, the objective of this work is to evaluate performance of five selected mutual funds which are famous in China from 2015 to 2016. In order to help people know the current performance of five selected mutual funds and select the mutual funds which suit themselves, so there will be only the newest data to be analyzed from 2015 to 2016. There will be mainly introduced the risk, liquidity, yield and net unit assets of selected mutual funds in this thesis.

This thesis is divided into five chapters, the first is introduction, the second is principles of collective investment, the third is overview of mutual funds industry in China, the fourth is performance comparison of selected mutual funds, and the last chapter is conclusion.

In second chapter, there will be described what it is the collective investment, because mutual fund is a way of collective investment, then there will be describes some basic theories and general characteristics about mutual fund, which is helpful for understanding the history, advantages, disadvantages, classification about mutual fund.

The third chapter is based on chapter two, which mainly introduce the mutual fund industry in China. At first, there is a specific history of mutual fund industry in China, because the starting of mutual fund industry in China is very late, there will be mainly introduced two stages of development. Due to the particularity of mutual fund industry in China, there are three classification of mutual fund, which are private offering fund, public offering fund and QDII fund.

Chapter four is specific comparison of five selected mutual funds in China. There are some data and statistics from 2015 to 2016, which are used to evaluate the performances of these five selected mutual funds. In the same time, these five selected mutual funds will be compared with the change of Shenzhen 300 index and Shanghai composite index. At last, there is a comparison about risk and yield of these five selected mutual funds.

2 Principles of Collective Investment

Investing in mutual funds can be considered as one way of collective investment, so in this chapter, the main principles of collective investment will be described at first, and the mutual fund industry in China will be described in the next chapter.

2.1 Definition of collective investment

In simple terms, the collective investment is the way of investing money with other investors in order to share the costs and risk.

Collective investment is the way that involves collecting money from different investors and then using the money collected to the investment. A collective investment is similar to a mutual fund, an institution provides almost absolute control of the investment to the company pooling and investing the money.

Mutual fund is the collective investment scheme of benefit sharing and risk sharing, that is, through the issuance of units of the fund, pooling investors' money together, and investing in stocks, bonds, foreign exchange, currency to obtain investment income and capital appreciation (Bogle, 2010).

In this chapter, mutual funds will be introduced as one way of collective investment.

2.2 History of mutual funds

Mutual funds originated in the United Kingdom, prevailed in the United States. Massachusetts investment Trust (MIT), which was established in Boston in March 21, 1924,[1] which is the first open fund company in the world, but also the first mutual fund of modern sense. In the next few years, mutual funds have experienced the first brilliant periods. To the end of the 1920s, the total assets of all closed-end funds amounted to

[1] Sources: http://baike.baidu.com/

$2.8 billion. Then, there was a stock market crash, which heavy beat the new mutual funds industry in the United States. After the crisis, in order to protect the interests of investors, the United States government settled the Securities Act in 1933, the securities and Exchange Act in 1934, the investment company act and the Investment Advisers Act in 1940. Among them, the "investment company law" detailed specific mutual fund of the management and combination of the legal elements, through the fully legal protection, it laid a good foundation for the rapid development of mutual funds. After the Second World War, the economy of the United States grew strongly, and investor confidence returned quickly. Until now, the investment fund has been favored by many institutional investors, including bank trust department, insurance companies. Pension funds and so on. The United States has become the country which is the world's most developed fund industry, the scope of the mutual fund assets have been more than bank assets.

Annex (1) will show that the heavy increase from 1940 through 2007 of mutual funds. Total assets invested in mutual fund grew from ＄0.5 billion in 1940 to ＄11,999.5 billion in 2007, and the number of mutual fund accounts increased from296,000 in 1940 to 292.6 million in 2007 (Saunders, Cornett, 2014).

2.3 Advantages and the disadvantages of mutual fund

Investing in mutual funds have many advantages, for example scattered investment risk, professional operation and management, liquidity is quite flexible, small amount of money to invest in the world and high security.

Scattered investment risk: Mutual fund assets are huger than average investor in generally, so mutual funds can make the money in different stocks, even different investment tools, in order to achieve the real risk dispersion, and it will not get a great loss because of a mistake investment. For example, because the mutual fund pool a huge money from many investors, and put the money to many different investment, every investors' money can be invested in different investment, and no matter which investment have loss, but the total investments get profit, then the investors who have invested mutual fund, they can also get profit, so that is maximum degree reduce their risk about investments.

Professional operation and management: Mutual fund companies employ professional managers and special research team to do market research, for domestic and foreign investment environment, and the situation of some companies, they have more information to understanding. For some investor who know nothing about investment, find a mutual fund which suit to themselves is a good way use their vacant money to get profit. Investors only need to pay a little fund management fees to the mutual fund companies and then they can enjoy the service of investment experts.

Liquidity is quite flexible: When investors do not want to continue to invest, ready to give up investment, put forward to apply to get back their money, they can usually get their own money in a short period of time investors, unlike other investment tools, they have risk of that maybe they can't get back their money.

Small amount of money to invest in the financial market: Mutual funds are to diversify their investments into different targets, and even different financial markets (regions or countries). As long as investors invest in a minimum amount of investment, they can share the results of global economic development.

High security: Mutual fund is the principle of separation of the custody and management. If the mutual fund company or the bank get failure, the creditors can't be on the request of the fund's assets to seize or exercise other rights, the interests of investors will not be affected. This greatly protect the investors' rights and interests.

At the same time, investing in mutual funds is not perfect, the risk of investing in mutual funds are similar to invest in stocks or bonds, such as fluctuations in the value, authorization control and limited flexibility.

Fluctuations in the value: When someone invest in the some mutual funds which invest in stocks or bonds, the value of these funds will be changed with the fluctuations of stock market. Most of mutual funds can't be guaranteed to get the exact earnings or return on capital, in most cases, regardless of fund performance, investors must pay sales charges, management fees and other expenses. If you as an investor who usually do investment very careful and you need to obtain an absolutely guaranteed return, then you may be more suited to invest in traditional banking products, which could provide guaranteed income.

Authorization control: If some investors want to invest in a particular stock or bond, the mutual funds may not be suitable for these investors. The successful reasons of mutual funds were that they usually make the cost of operating a portfolio to spread in many investors. As a result, they can't consider specific needs of each investors, at the same time, they will not let investors choose stocks or bonds which they want to buy.

Limited flexibility: For some rich men who have huge money to be used to invest, the mutual funds could not provide the enough flexibility which these rich men need. Many private banks will design the specific investment products for these rich men. Obviously, mutual funds do not have advantages for rich men who need enough flexibility (Bogle, 2010).

2.4 Open-ended funds and close-ended funds

Mutual funds have been mainly divided into open-ended funds and close-ended funds, it will be introduced in this part.

Open-ended funds: It means when the fund sponsors established the fund, the total size of fund units or shares were not fixed, considered to the needs of investors, open-ended funds could sell fund units or shares to investors, and they can satisfied the acquirements of investors to redeem the fund units or shares. At the same time, investors can buy the funds through the fund sale institution, which will make the increasing of fund assets and scale, similarly, investors can sell their own hold shares of funds to open-ended funds, which will make a decreasing of fund assets and fund scale.

Close-ended funds: Closed-end funds refers when the fund sponsor established the funds, they always had defined the total issuance of fund units, after they raised enough total amount, they would proclaim the establishment of this close-ended funds, then make this fund closed, and they would not accept new investment for a certain period.

Compared open-ended funds and close-ended funds, it shows that open-ended funds were more suited for some investors who wanted to have a good liquidity to sell and buy the funds, close-ended funds were more suited for some investors who did not want their invested funds to be easily influenced by the selling and buying of the funds (Saunders, Cornett, 2014), (Bodie, Kane, Marcus, 2011), (Bogle, 2010).

2.5 Different types of mutual funds

The mutual fund industry is often divided into:

- BOND FUND (contain fixed income securities with a maturity of over one year)；
- EQUITY FUNDS (contain common and preferred stock securities）；
- HYBRID FUNDS (contain both bond and stock securities)；
- MONEY MARKET MUTUAL FUNDS and tax-exempt money market mutual funds (Saunders, Cornett, 2014), (Bodie, Kane, Marcus, 2011).

2.5.1 Bond funds

The object of bond fund are bonds, it is through put a large number of investors' money together and then find a bond portfolio to invest, in order to seek more stable income. Bond is a debt obligation, when the government, financial institutions, industrial and commercial enterprises debt financing directly to the public, then they issue the debt obligation to investors, promised they will provide interest payments at certain interest rate and according to the agreed conditions to repay the principal. Typically, the bonds offer investors a fixed return and principal repayments, and the risk is lower than the stock, so compared to equity funds, bond funds have characteristics of stable income and low-risk.

According to the different category of investment bonds, bond funds are divided into the four part, government bond funds invest primarily in Treasuries and other bonds issued by the government (government bonds), municipal bond funds invest primarily in bonds issued by local governments (municipal bonds), corporate bond fund, which invests in bonds issued by various companies (corporate bonds) and international bond funds, it invests primarily in issuance of various bonds on the international market (international bonds).

According to investment objectives, table (2.1) shows that bond funds can be divided into national debt, credit debt and convertible bonds.

Table 2.1 Differences between several kinds of bonds

	Credit risk	Mobility	Changes in the scope of interest rate	Term
National debt	low	Good, can convertible or trading ahead	2.5%-4.5%	Short term: less than 1 year; medium: 1--10 years; long-term: 10 years
Credit debt	High	Well, partial weight illiquid	4%-8%	According to the contracts
Convertible bonds	low	Higher than corporate bonds, less than stocks	1%-3%	Not more than 5 years

Source: Author

Credit debt do not be issued by government, which includes corporate bonds, short-term financing bills, medium-term notes and others.

Credit debt means the bonds without guarantee of any company assets, which belongs to unsecured bonds. The risk is relatively large, but the higher rate of return. From the point of view of credit rating, it is divided into two major categories of senior and junior, in high-grade bonds (high-grade credit debt): refers to credit rating above AA level, a bond of smaller credit default rates, such as a large state-owned enterprises, multinational bonds issued, accordingly, the lower-rated credit debt default probability is large, such as the occurrence of the financial crisis, and the verge of bankruptcy corporate bonds.

The characteristic of high-grade credit debt are following:

- *Large capacity and good liquidity*: In the non-state credit bonds, high-grade bonds which above the AA level accounted for 90 percentage. For bond credit rating, the higher the bond, the more potential counterparties, and the liquidity is better;
- *Credit safety factor highly*: the development speeding of credit debt market and bonds liberalization will increase the possibility of outbreaks down credit debt crisis in the future. The high credit rating bonds will have a relatively high safety factor credit;
- Issue size has increased rapidly. Based on the huge market demand, high-grade credit bonds issued in rapid growth.

And then, there will be introduced the advantages and disadvantages of bond funds.

Advantages:

- Ordinary investors can easily participate in the inter-bank bonds, corporate bonds, convertible bonds and other investment products. These products have the restrictions of inconvenience on small funds, purchase the bond funds can break through this limit;
- In the stock market downturn the yield bond of funds remained very stable against market fluctuations. Because the yield of the bond funds product are stable, the corresponding fund income is also very stable, of course, this also determines its income subject to the bond interest rate is not too high.

Disadvantages:

- Only in the case of a long time hold that the investors can get a relatively satisfactory income;
- When the stock market price increase, the profit of bond fund still stable on average, but the profit is lower than the equity funds, even there is the risk of loss in the fluctuations of bond funds (Saunders, Cornett, 2014), (Bodie, Kane, Marcus, 2011), (Bogle, 2010).

2.5.2 Equity funds

The equity funds refers to a fund to invest in the stock market.

According to stock category, equity funds can be divided into different types that are common stock and preferred stock funds. Preferred stock fund is an equity fund to get a stable income and less risky, whose investments in preference shares issued by the companies, the revenue mainly from dividend income. The common stock of the Fund to seek long-term capital gains and capital appreciation of the investment objectives, their risk is higher than the preferred stock fund.

According to the degree of dispersion of the investment, equity fund can be divided into common stock funds and specialized funds, the former refers to the Fund's assets invested in all types of dispersion on the common stock, which refers to the Fund's assets invested in certain special industry stocks, risky, but may have better potential returns.

According to the degree of dispersion of the investment, equity fund can be divided into common stock funds and specialized funds, the former refers to the Fund's assets invested in all types of dispersion on the common stock, another one refers to the Fund's assets invested in some special industry stocks, the risk is high, but may have better potential returns.

According to the purpose of the Fund's investments, equity funds can be divided into capital appreciation funds, growth funds and income funds. The main purpose of capital appreciation fund is the pursuit of rapid growth of assets, in order to bring capital appreciation, the risk is high and the profit is high in the meanwhile. Growth funds invest in common stocks which have growth potential and can get generate revenue and at the same time there is a certain risk. Equity income funds invest in stock issued by companies which have stable development prospect, the pursuit of stable dividends and capital gains, this fund have lower risk and lower income (Saunders, Cornett, 2014), (Bodie, Kane, Marcus, 2011), (Bogle, 2010).

It will be introduced the characteristics of equity fund.

- Compared with other funds, equity fund investors have diversity, but also diversity of investment objectives.

- Compared investors invest directly in the stock market, the equity funds have spread risk, lower cost and so on. For general investors, private capital is limited after all, they are difficult to through the types of diversification investments to reduce investment risk. However, if they invested in stock funds, investors can not only share all types of stock returns, but also make the risk spread into all types of stocks by investing equity funds, significantly reducing investment risk. In addition. Investors invested in equity funds, they can enjoy a comparative advantage in term of costs by large investment funds, reduce investment costs, improve investment returns, and access to the benefits of economies of scale.
- From the liquidity point of view, the equity funds have features of strong liquidity and high liquidity. Equity fund investments is excellent mobility stocks, high-fund asset quality.
- For investors, equity funds operate in a stable, income considerable. In general, the risk of equity funds are lower than the stock investment risks, thus more stable earnings. Not only that, after the closed-end fund listed, investors can also get the sale price in exchange-traded, after expiration, investors have the right to allocate the remaining assets.
- Equity funds also has a financing function and features in the international market. On the stock market, its capital of degree of internationalization are lower than the foreign exchange market and the bond market is low. In general, national stock essentially trading in the domestic market, stock investors can only invest in stock which listed in their country or a small number of listed shares of foreign companies listed on the local stock market. In other countries, equity funds break this limitation, the investor can buy equity funds, invest in the stock markets which in other countries or regions, and thus it has a positive role in promoting to make securities market to be international. From the current situation of overseas stock markets, the equity fund investments objectives are a large part of foreign company shares.

2.5.3 Hybrid funds

Hybrid funds means a tool which invest in stocks, bonds and money market instruments in the meanwhile, also is a fund that there is no clear direction of investment. Risk of hybrid funds are lower than equity funds, and higher expected earnings than bond funds. It is a tool which provides investors with a dispersed among different asset investment, it is more suitable for the more conservative investor.

Hybrid fund is a fund form which as partners with the legal form of a fund to make investors' money polymerization. For example, it will organize money by a bank or insurance company, with charging a fee. Typical partners include trust or retirement account, the portfolio is much larger than their own individual investors, but if independent management, the scale is still too small. Formally, hybrid funds and open funds are very similar, but it is not to fund shares as an investment vehicle, but to provide a unit of the Fund which can use the net assets price to be traded. Bank or insurance company will provide a wide variety of mixed fund to make trust fund or retirement account for selection (Saunders, Cornett, 2014), (Bodie, Kane, Marcus, 2011), (Bogle, 2010).

According to the proportion of investment assets and investment strategy that the hybrid fund further divided into partial stock funds (stock allocation ratio of 50% -70%, the proportion of bonds in the 20% -40%), partial debt funds (with the partial stock funds contrary), balanced funds (stocks, bonds, the proportion of relatively average, roughly 40% -60%) and allocation funds (share of debt in proportion to be adjusted by market conditions).[2]

2.5.4 Money market mutual funds

Money market mutual fund is an investment fund which invest in the money market short-term (less than one year, the average maturity of 120 days) securities. The fund

[2] Sources: http://baike.baidu.com/

assets are primarily invested in short-term monetary instruments such as treasury bills, commercial paper, bank certificates of deposit, bankers' acceptances, short-term government bonds, corporate bonds and other short-term securities. Money market mutual fund have only one way of dividend - Dividend reinvestment. Money Market mutual Fund per unit is always kept at one currency, the gains that to be more than one currency and then it will automatically translate into fund shares on time, with the number of fund shares mean that how much assets you had. And other open-end fund shares are fixed, cumulative Net Assets Value, investors rely on the annual dividends to get profit (Saunders, Cornett, 2014), (Bodie, Kane, Marcus, 2011), (Bogle, 2010).

Money market mutual fund set up a large number of small investors' funds together, to get market operations by specialized managers, and it is a financial form of organization after a certain period of time to earn income and shareholders will be allocated. As for mutual funds, which operate mainly in the money market, then known as money market mutual funds. Money market mutual funds are a special type of mutual fund, is a new type of investment and financial management tools which appeared in the United States in 1970s. Buyers purchase a number of fund shares at a fixed price, money market mutual fund manager use these funds to invest in profitable short-term money market instruments (such as treasury bills and commercial paper, etc.). In addition, buyers can also issue checks by using the money that is shares held in the form.

There are some advantages about money market mutual fund. In addition, money market funds not only have advantages about stable earnings, strong liquidity, limit purchase price is low, capital safety is high, but also there are other advantages, such as you can use the fund account to write checks, pay consumption bills, and it is often used as a temporary storage place for cash before carried out the new investment, these cash can obtain higher profit than demand deposits, and can be withdrawn for investment at any time. Some investors subscribe for a lot of money-market funds, then gradually redeem them to invest in stocks, bonds or other types of funds. Many investors will hold cash that prepare for emergency needs and make it in the form of money market mutual funds. Some money market mutual funds allowed investors to get money directly or through automatic teller machines.

Then, there are histories about money market mutual fund.

The first money market mutual funds as an alternative to bank deposits to be founded in United States in 1972, it is a prime example of financial innovation at a changing market environment. The United States offered "Q ordinances," to regulate deposit rates which be provided by commercial bank at the beginning in 1970s, and the money market instruments are floating interest rates, but many small investors can’t enter the money market (due to minimum turnover specified), money market mutual funds take advantage of this fact, set up the small amounts of money from many investors together and make it to be managed by expert operation, which also shows that profit-seeking businessman can discover the vulnerabilities form the un-strict government regulations design. However, due to the prevailing market interest rates always lower than that deposit rates cap which be provided by saving institutions, because of their income is not higher than bank deposit rates so that money market mutual fund had a difficult development, total shares is very limited in that period.

There were only four funds in 1973, with total assets are only 100 million dollars. But at the late 1970s, due to the continuous in inflation that led to market interest rates increased rapidly, money market instruments such as Treasury bills and commercial paper yields had been more than 10%, higher than interest rate ceiling of 5.5% of payments which be provided by banks and savings institutions as savings and time deposits. As customers from saving institutions continue to withdraw funds from savings and time deposits to invest in higher-yielding money market mutual funds, and make the total assets of money market mutual funds expanded rapidly, from less than 4 billion dollars in 1977 to surge to there are more than 200 funds to hold 240 billion dollars of assets in 1982, and total assets exceeded the stock and bond mutual funds. Thus, the rapid development of money market mutual funds is product which is the market interest rates to be higher than banks and other depository institutions regulated rate product. In the meanwhile, the reasons which make the money market mutual fund to be developed quickly and maintain vitality are the less control, money market mutual funds do not have statutory interest rate ceilings, and there is no fine for early withdrawal.

The rapid development of money market mutual funds, caused a strong reaction of commercial banks and savings institutions, they asked Congress to add reserve requirements and other restrictions to money market mutual fund, though congress did not approve the requirements by depository institutions finally, but congress give commercial banks and savings institutions issue a new type of financial instrument that is money market deposit accounts (MMDAS), it is similar to money market mutual funds, also provides limited checks issued and no reserve requirements, and yields almost as high as the money market mutual funds.

With the counterattack by banking and other depository institutions money market deposit accounts in late 1982 and early 1983, the total assets of money market mutual funds began to decline. These innovative financial instruments of commercial banks and depository institutions stop the flow of funds from banks to money market mutual funds temporarily. However, commercial banks and depository institutions can't afford the high cost of providing benefits, and soon after, they reducing the money market deposit accounts interest rates. As a result, the rapid development of money market mutual funds once again, it created a great earnings in the late 1980s and 1990s. The United States stock market crashed in 1987, resulting in a lot of money flowing into money market mutual funds, whose total assets exceeded 300 billion dollars, the commercial bank increase their deposit insurance suddenly to protect their deposits because of the savings and loan associations crisis in 1989 to 1990, while regulatory authorities pay more attention to high rates of deposit-taking institutions. All of these changes are conducive to the rapid development of the money market mutual fund, and then their assets had reached to 500 billion dollars in 1991, there are approximately 650 taxable funds, 250 tax-free funds in 1996 with total assets of approximately 750 billion dollars, and 80% of it is taxable assets. Its shares accounted for about 4% of all assets of financial intermediaries, and accounted for more than 25% of all mutual funds in total assets. Finally it reach 1 trillion dollars.[3]

Why there are so many people would like to invest the money market mutual fund, I will introduce some characteristics also some advantages about it.

The main difference between money market mutual funds and another fund which invest in stocks is the net asset value of fund units is fixed, usually 1 currency per fund unit. After investing in the fund, investors can use the proceeds reinvested, investment income will continue to accumulate, increasing the fund shares owned by investors. For example, an investor with 100 currency investing in a money market mutual fund, the fund may have 100 units, one years later, when the return on investment is 8%, then the investor will have eight more fund unit, a total of 108 fund units, the value of 108 currency.

Measure the quality standards performance of money market fund yields is profit rate, which are different with other funds added the net asset value to get profit.

Good liquidity, high capital safety. These features mainly due to the money market is a low-risk and highly liquid market. At the same time, investors may not be subject to restrictions from due date, they can according to need to have transfer of fund units at any time.

The risk is very low. Money market instruments maturity date is usually very short average maturity of money market fund portfolio is usually 4 to 6 months, and therefore it get less risky, their prices are usually only affected by market interest rates.

Low investment costs. Money market mutual funds usually do not charge redemption fees, and their management costs are lower than other investment, the annual management fee of money market mutual funds is about 0.25% to 1% of the fund's net asset value, the funds are lower than traditional annual management fees of 1% to 2.5%.

Money market mutual funds all are open-end funds. Money market mutual funds are generally regarded as risk-free or low-risk investment vehicle, it is suit for using the capital to short-term investment to get profit as a hedge, especially when the market become a situation that high interest rates, high inflation, securities decreased mobility,

[3] Sources: http://baike.baidu.com/

while less credible, the funds can make avoided principal away loss.

Finally, there is a table for comparing several investment ways.

From table (2.2), we can easily find the differences between bank savings, national debt, stock and money market mutual funds in risk, yield, liquidity and safety.

Table 2.2 Comparison of several investment ways.

	Risk	Yield	Liquidity	Safety
Bank savings	Low	Low	High	High
National debt	Lowest	Medium	Low	Highest
Stock	High	High	High	Lowest
Money market mutual funds	Low	Medium	High	High

Source: Author

2.6 Participants and organizational structure

As we know, the operating of mutual funds need cooperation of many participants, which were divided into:

- Sponsor；
- Shareholders；
- Board of Directors；
- Fund manager;
- Underwriters and Distributors.

Sponsor: Generally sponsor is a financial services company, such as mutual fund companies, brokers, banks or insurance companies. Sponsors of the fund invested initial capital and convene the third party that the operation of funds needed. In the United States, the sponsor must make the fund registered in the United States Securities and Exchange Commission. The registration documents will become the Fund's prospectus, in which should include the funds' promoters to explain the Fund's board of directors, investment objectives, the type of investment allowed, funds fees rates and risks. Registration fee of fund promoters and design company documents may reach several hundred thousand dollars. Operational funds also need the cost. Required expenditures include accounting charges, the Christian Democrats service fees, custodian fees, and transfer fees and regulatory fees.

Shareholder: The fund serve for investors who want to buy its shares. Investors learn more information about the Fund through prospectus, annual reports and other periodic reports. By studying these documents, shareholders can judge whether the Fund achieved its objectives and whether to comply with its investment strategy. Mutual fund shareholders have the right to vote for directors. Change the terms of the contract with the fund managers must also through their consent. To change the Fund's objectives and major policies usually require the consents of the majority of shareholders.

Board of Directors: Shareholders Election of the Board of Directors to oversee the work of fund's management and portfolio manager. Board ensure that the investment fund managers in line with the objectives of the fund, replacement of the fund manager's contract or any changes in the payment of their fees should be determined by ballot. Fund directors should provide specific instructions in the recruitment about their required payment.

Fund manager: Fund managers are also referred to as investment adviser. According to research target of investment funds, they select a specific securities, and make the assets of fund to invest. As a professional one in charge of money, fund managers have the knowledge and expertise than ordinary investors. This service allows small investors can enjoy as large institutions or wealthy research and expertise. Investment adviser is usually not an individual, but the promoters or affiliates independent investment management firm. Investment adviser to company’s organizational structure can take many forms. Some companies fund manager only manage one fund, some fund managers may need to manage only a few funds in the same field or have the same objectives. When the team to manage the fund, of which one or two people will be appointed as the company leader. Usually they lead the subordinate managers, researchers and analysts to work.

Underwriters and Distributors: When the investors purchase or redemption of fund shares they can directly operate their own or through a third party. Third party are called underwriter or distributor. Distributor critical to the success of the fund, it is because their responsibility is to attract investors to invest in the fund. As industry competition intensifies, the distributor’s roles become more importantly. In order to put fund to the market, distributors should prepare sales materials, brochures and counseling materials, in the meanwhile they need to design incentives to encourage a wide range of sales agents to promote sales. Distributors can sell fund shares directly or they can sell fund shares by brokers, financial planners, banks, insurance companies or mutual fund supermarket (Saunders, Cornett, 2014), (Bodie, Kane, Marcus, 2011), (Bogle, 2010)

3 Overview of Mutual Fund Industry in China

In recent years, the mutual funds industry have been rapidly developing in China. At the beginning of appearance of mutual fund industry in China, it was small scale and no order, but under the macro guidance of government vigorously develop the capital market, the mutual funds gradually developed into a tremendous force of social investment. Mutual fund is the investment vehicle with collective investment and professional management. Its development to promote the development of modern financial industry and the innovation of the financial system in China. The fund market is also an important part of China's capital market. The sound development of the fund industry plays an important role in the development of China’s financial industry.

3.1 History and development of mutual funds in China

The mutual fund started in China in 1991, and there was a symbol that “Investment Fund Management Interim Measures” promulgated in October 1997. The development of mutual funds were divided into two main stages.[4]

3.1.1 The development of mutual fund before October 1997

In October 1991, the stock market had started in China, "Wuhan Securities Investment Fund" and "Shenzhen Nanshan venture capital funds" were set up by the People's Bank of China branch in Wuhan and Shenzhen Nanshan government, becoming the first batch of mutual funds. Since then there were thirty-seven mutual funds approved by the People’s Bank of China or other institutions to issue only in 1992. In the November 1992, the first fairly standard mutual fund formally established, named “Zibo Ji Xin”. This fund was a close-end fund, raised 100 million yuan, and it listed in Shang Hai Stock Exchange, it was the first mutual fund traded in the exchange. The establishment of Zibo Ji Xin opened a prelude to the development of mutual funds

[4] Sources: www.finance.people.com.cn

industry, and it triggered a wave of short-term development of mutual fund in the first half of 1993. However, the irregularities and other accumulated problems gradually exposed in the process of mutual fund development, the majority of the fund's assets situations tended to deteriorate. Therefore, the development of China’s mutual fund industry stalled from the second half of 1993.

Up to October 1997, there were seventy-two mutual funds, raising funds which were accounted for 6.6 billion yuan.

Characteristics of mutual funds before October 1997

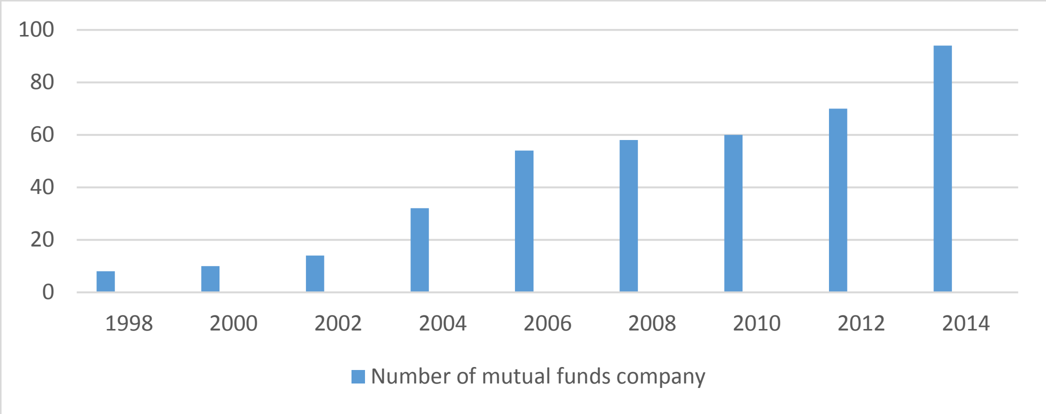
- *Single organization form*: The whole seventy-two mutual funds were close-end funds;
- *Small scale*: The largest single fund was Tian Ji fund of 5.8 billion, the lowest was the first phase of Wuhan fund, only 10 million yuan. The average size was 80 million yuan, the total size was only 6.6 billion yuan;
- *A wide range of investment, asset quality was low*: The assets of vast majority mutual funds consisted of the securities, real estate and financing, and the real estate occupied a large proportion with lower liquidity. The survey results showed that in the end of 1997, the investment range as follows that the proportion of money funds were 14.2 percent, the proportion of equities were 31 percent, the proportion of bonds were 3.5 percent, the proportion of real estate and other industrial investment were 28.2 percent, other investment accounted for 23.1 percent;
- *Wide range of fund sponsors*: The sponsor of mutual funds including banks, trust and investment companies, securities companies, insurance companies, government finance department and other enterprises, which initiated by investment trust companies accounted for 51 percent and securities companies sponsored were accounted for 20 percent;[5]
- *Income level disparities*: In 1997, the highest income level company was Tian Ji fund, the return rate was 67 percent, while the lowest Long Jiang fund yields were

[5] Sources: http://www.amac.org.cn/

only 2.4 percent.

In the following, it will be given a figure to show that the change of the amount of mutual fund companies in China.

Figure 3.1 Number of mutual funds in China from 1998 to 2014.



Sources: www.chinafund.cn

Problems of mutual funds in the initial stage

The establishment, management and custody of mutual funds were lack of clear and effective regulatory institutions and regulatory rules. For example, the majority of mutual funds' establishment were approved by the local branches of People's Bank of China or the local government, which was based on the "Shen Zhen Investment Trust Interim Provisions", other local laws and regulations, there was no uniform standard, and even there was big differences in their name. After the establishment of the Fund with approved, the approving authority did not achieve the implementation of regulatory obligations, meanwhile, the fund asset management, investment direction and other aspects were short of appropriate supervision and control mechanism.

- Operation and management of mutual funds were not standardized, the lack of adequate protection for the interests of investors. For example, in some mutual funds, their fund manager, the custodian, The sponsor of the Trinity, the mutual funds were only as a source of funds for fund managers, they made the fund assets and fund manager's own assets mixed up to use, lead to the disorder of accounts processing. Meanwhile, the fund custodian did not play a supervisory role, the behavior of fund managers had not been effectively monitored.

- Lower liquidity, the book value of the assets were higher than the actual value of the assets. The assets of mutual funds usually invested in illiquid assets, for example, real estate, projects and corporate shares, in the same time, there were some problems that the assets were overvalued. For example, in the mid of 1990s, some parts of the real estate bubble were eliminated gradually, the real estate assets were still calculated in accordance with the historical cost and did not follow the market price to adjust, so there was a result that in some mutual funds, their book value of assets higher than the actual value of the assets.

3.1.2 Development of mutual funds from 1997 to 2008

"Investment fund management Interim Measures" issued in October 1997, which marked the Chinese securities investment funds into the specification stage of development. This interim measures made a clear specification in establishment of mutual funds, raising and trading, the rights and obligations of fund managers and fund holders. In March 1998, the establishment of Jing Tai and Kai Yuan investment funds, marking that the normally securities investment fund started becoming the dominant direction of China's mutual fund industry. Huaan Innovation Fund as the first open-end fund set up in 2001, and it became a new symbol of the development of Chinese mutual fund industry. At the same time, the work of liquidation and restructuring to the original investment were constantly in progress, some of which had reached the standardized requirements for a new re-listed securities investment funds.

As at the end of November 2002, there were seventeen formally establishment with standardized operation of the mutual fund management company, they managed fifty-four contractual closed-end mutual funds and seventeen open-end mutual funds, which that closed-end mutual funds issue size reached 81.7 billion yuan, marketable worth about 77.3 billion yuan, and the total historical dividend more than 20 billion yuan, open-end mutual funds management scale reached 56.4 billion yuan.[6] At the same time, there were some legal provision as follows, "Interim Measures for Investment Funds",

[6] Sources: www.finace.people.com.cn

“Investment Funds Listing Rules”, and “Open-end Investment Fund Pilot Approach” and so on. With these relevant laws and regulations constantly improving, it laid a solid foundation for the development of standardized investment funds.

At this time, the main features of Chinese investment funds will be introduced as follows.

- Continue to improve the laws and regulations, strengthen the regulatory power to create a favorable external environment for the operation of the fund industry, and promote the rapid development of the fund industry. Multiple fund regulations were introduced, the Supervision Department of China Securities Regulatory Commission Fund as the main enforcement departments for funds supervision, they implement effective supervision in the fund management company and the fund's establishment, operation, hosting and other aspects, once the drafting of the "Investment Fund Law" was formally promulgated, it would become the core of the legal basis for the development of China's mutual fund industry.
- The increasing size of the fund, the impact on the market has become increasingly important, and the mutual funds were becoming an important institutional investors in the finance market. Which includes new release of close-end and open-end mutual fund, and also includes the original investment funds after liquidation and restructuring, they were formed by the standardized operation of investment funds. The sum of the current market value of investment funds which were regulated by the China Securities Regulatory Commission was close to 80 billion yuan, equivalent to the seven percent for circulation market capitalization of Shanghai and Shenzhen stock exchange.
- Fund products increasingly diverse, the investment style increasingly prominent. From 1998, the first mutual fund was based on balanced fund, with the development so far, there were emerged some different types of the funds, such as growth funds, complex funds, income funds and so on. Especially with the gradual introduction of open-end funds, the types of mutual funds became more distinctive, and they provided investors with a diversified investment options.
- Faced with competition pattern after WTO accession, the fund management

company started to carry out extensive cooperation with foreign countries, to learn advanced technology and management experience, promote the innovation of fund products and operational for the China to lay the foundation to join the international financial market competition.

3.2 Classification of mutual funds in China

According to different investors, mutual funds are divided into private funds and public offering funds in China. Public offering funds have a strict supervision by the China Securities Regulatory Commission, they are strictly limited in investment direction and investment ratio, most of them manage more than tens of billions of funds in China. Private funds do not have strict supervision and limitation in investment direction and investment ratio.[7]

Because public offering funds are regulated strictly by Chinese government, they usually choose low risk investment. For example, Da Cheng Fund, Jia Shi Fund and Hua Xia Fund, these public offering funds can only invest in stocks or bonds, they can't invest in shares of non-listed companies, real estate, risky companies and so on, but in China, private offering funds can invest in these risky investment.

3.2.1 Private offering funds

Private funds usually raise funds privately or directly to specific groups, it is a collective investment without public promotion. And private equity investment funds are the most active private offering funds in China, it usually invest in equity of non-listed companies, and withdraw their funds after the initial public offering of these companies, obtain the profits from share appreciation. There will be mainly introduced private equity funds.

Historical development of Private Offering Funds in China

Chinese exploration and development of private offering funds started from venture

[7] Source: www.chinafund.cn

capital. There was a first venture capital institutions, named China New Technology Venture Investment Company, which established by the Chinese National and Technology Commission, the Ministry of Finance and other departments. After the 1990s, a large number of overseas private equity funds began to enter Chinese financial market, set off a heat wave of private equity investment in China, which was the emerging economies. Because the system did not straighten out, the more serious administrative intervention, investment institutions was difficult to find a good project, which leads to the first investment fund ended in failure, and most of these funds went to withdraw or disband before 1997. In 1999, with the introduction of “Chinese Committee’s decision on strengthening technological innovation, developing high technology and realizing industrialization”, the government made institutional arrangements and greatly encouraged for development of private equity investments, and then it set off a second wave of short-term private offering funds. The introduction of “On the Establishment of Venture Investment Mechanism” in 2000, which was Chinese first strategic and programmatic document about development of venture capital, and it made a relevant principles for venture capital system. But at that time, there were not security market exchange board in China, most of private funds could not recover their investments. In 2004, there were the official launch of SME in Shenzhen. So there was the third wave of investment, and some successful cases of private offering funds began to appear.

Overall, the rapid development of private equity investment in China, the number of newly raised funds, amount of money raised and investment deals and amount which represents the basic data for investment and development will maintain growth in the state for a long time, which is investment opportunities brought by economic development of emerging markets and rapid development of Chinese enterprises.

Characteristic of Private Equity Funds in China

Private offering funds work as equity investment, it through the way of capital increase or transfer of shares to obtain shares of non-listed companies, and then they obtain profit by transferring of share appreciation.

- Equity investment income is very rich. It is different with debt investment, which obtain profit by the interest income, equity investment obtain dividends of companies' earnings, which depend on their ratio of contribution. Once this company got successfully listed, the profit of private offering funds would be several times.
- Equity investment accompanied by high risk. Equity investments usually need to go through several years of investment cycle, because investing in the development stage or growth stage companies, the development of the invested enterprise itself is very risky, if the invested enterprise end in bankrupt, private equity funds may lose everything.
- Equity investments can provide a full range of value-added services. Private equity investment not only injected into the target company's capital, but also into the advanced management experience and various value-added services, which is the key factor in attracting business. Meeting the financing needs of enterprises, meanwhile private equity fund help enterprises to enhance their management capacity, expand their purchasing or sales channels, at the same time, they make relations better between enterprises and local government, coordinate the relationship between enterprises and other enterprises in the industry. It is the highlight of a full range of value-added services and competitiveness of private equity funds.

Illegal areas of Private Offering Funds in China.

According to the Chinese Ministry of Public Security special management regulations and judicial interpretation of the Supreme Court of the People, illegal fund-raising is a very serious economic crime, punishable by death. There are differences between private offering funds and illegal fund-raising as follows.[8]

- Fundraising is a way for the public or for specific individuals. As this way of raising funds for the public, then this behavior will be delineated to illegal fund-raising category.

[8] Sources: http://www.mps.gov.cn

- Whether directed fund-raising target of more than 50 people. As the number of objects to raise funds more than 50 people, this behavior will be delineated to illegal fund-raising.
- In the term of trust management, whether there are some changing of financial ownership. If the transfer of funds from the client account to the trustee account, this behavior will be delineated to illegal fund-raising.
- Investors in private offering funds must meet the eligibility conditions for investors. As a eligibility investors, you should have the appropriate ability to identify risk and risk tolerance, amount of money in investing a single private offering funds can't less than one million, personal net worth can't less than 10 million, personal financial assets can't less than 3 million, and individual recent three-years average annual income can't lees than 500 thousand. Considering that charitable funds, pension funds as well as established by law and supervised by the State Council financial supervision institutions, which investment plans and other institutional investors that they all have relatively strong ability to identify risk and risk tolerance, and private offering funds managers and their employees fully understand the private offering funds which are managed by themselves, so they are also recognized as a qualified investor.

Regulation of Private Offering Funds in China

As a private offering funds company, which must operate according to the law and accept the supervision of the financial system of China, which be managed by the national financial system, to ensure the healthy operation of the national financial system. There could not be the financial system which outside the legal regulation system. China's financial supervision and securities regulation, and the China Banking Regulatory Commission, they have the rights in supervision and management, China's public security organs, the Audit and Statistics authorities shall have the rights to obtain or collect the company's management data of private offering funds company, and data confidentiality of information according to the law, private offering fund firms should actively corporate with legally authorized by the state management agency to ensure healthy operations and reduce the risk of operations. There is a prohibition in China, which strictly prohibit any company or individual private offering funds to do some illegal behaviors in any name. Otherwise, the private offering funds will be published with money laundering, state financial fraud and disrupting financial order. Private offering fund companies and the establishment, business, management operation, expansion, merger, reorganization, bankruptcy, transfer behavior and changing in key executives of private offering fund company, which are required to declare record approval to national authorities by law.

Table 3. 1 Ranking of Private Offering Funds in China (2015)

Ranking	Private Offering Fund Company	Date of Establishment	Number of Funds	Total Yield
1	Collin Assets	Year 2006	8	2473.82％
2	Pure Heart	Year 2009	4	1940.28％
3	Wen Ying Management	Year 2008	1	1111.34％
4	Zexi Investment	Year 2009	8	849.74％
5	Yongfeng Investment	Year 2012	22	804.83％
6	Pinpoint Funds	Year 1999	2	724.71％
7	Guli Funds	Year 2014	4	658.21％
8	Ganenzaixian Investment	Year 2006	7	642.90％
9	Raising-trend	Year 2009	14	634.58％
10	Kangteng	Year 2011	6	540.11％

Sources: www.chinafund.cn

From table (3.1), we can easily know that the ranking of private offering funds in China in 2015.

3.2.2 Public offering funds

Public offering funds raise money through a public offering of fund shares, which are managed and used by fund managers. It is a collective investment way of risk sharing and profit sharing which use the benefit of shareholders to invest in stock with assets portfolio. Usually, fund custodians are banks, fund managers are fund companies, shareholder of funds are individual investors or institutions. Public offering funds are regulated by government departments, which public offer beneficiary certificates of securities investment funds to investors who are not specific. These public offering funds should under the strict supervision of the law, with information disclosure, distribution of profits, operating restrictions and other industry specifications. For example, the close-end which operating in Chinese stock market, they should belong to public offering funds.

Development of Public Offering Funds in China

Public offering fund was born in 1998, now it had developed for eighteen years. We roughly divide the development of public offering funds into four stages. The first stage was the early birth term from 1998 to 2000, the second stage was a slow process of development from 2001 to 2005, the third stage was explosive growth term from 2006 to 2007, and the last stage was sluggish decline stage from 2008.[9]

- The first stage. In 1997 the State Council issued the "Interim Measures for Investment Fund", marking the birth of the public offering fund industry. In 1998, two closed-end funds, which named Fund Kaiyuan and Jintai issued through the exchange system online. There were nearly 200 billion money flock to buy, but the issue size of each of these two funds was only 2 billion, the final average success rate of only 2.5 percent. There were over than ten public offering fund companies established in 1998 and 1999, which named Huaxia, Jiashi, Boshi, Nanfang and so on. At this stage, the market was limited that there were only exist close-end funds,

[9] Sources: http://www.chinafund.cn/

and the funds size were relatively small.

- The second stage. At the end of 2000, the total size of public offering fund industry was only 61 billion yuan. In September 2001, there was the establishment of first open-end fund that named Huaan Innovation, which marked China's public offering fund industry had entered the era of open-end funds. In 2001, the fund size had been expanded to reach 80.9 billion yuan. The size of open-end was rapidly expanded in 2002 and 2003. At the end of 2005, the public offering fund assets reached 469.1 billion yuan.
- The third stage. Public offering fund industry had explosive growth in this stage. By the end of 2007, there are nine fund companies to enter one hundred billion Legion. In December 2007, there were 58 assets which were managed by public offering funds reached 3.28 trillion yuan. Meanwhile, there was a notable feature of public offering fund industry that middle group of public offering funds were gradually increase and the vulnerable group of public offering funds were decreased, with a substantial decline in the degree of concentration of the industry.
- The last stage. From 2008, the Chinese stock market had entered a relatively long duration of the adjustment period. In 2008, the net assets value of public offering funds was the most significant decline, decreased by 41 percent over the previous year. Since 2009, the public offering fund industry entered a term of increasing of funds number and decreasing of size in China. In this term, the number of public offering funds were more than 1500, but the net assets only had 3 trillion yuan, average of each funds were less than 200 million yuan.

Development Plight and Thinking of Public Offering Funds

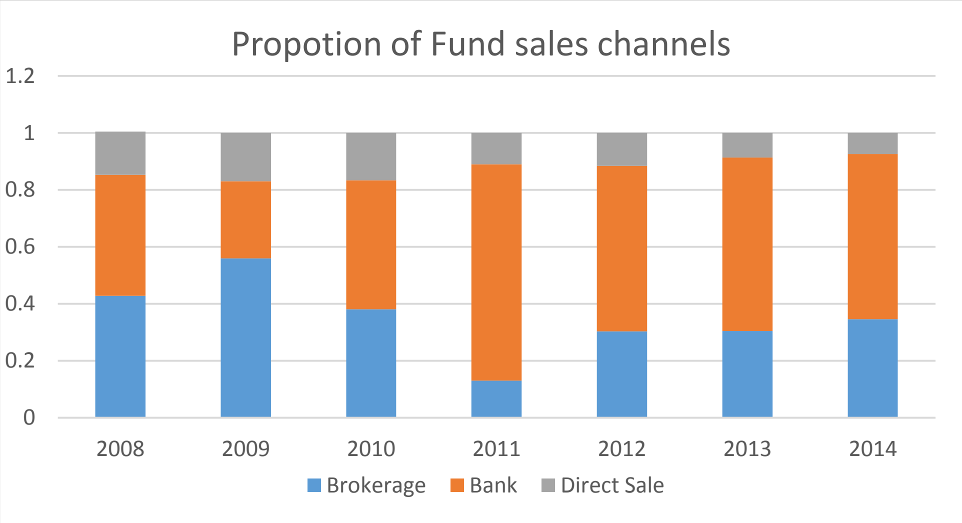
By the end of 2013, China's domestic total of 89 public offering fund management companies, where the joint venture were 47, and 42 pure domestic fund companies. The size of managed funds were 3 trillion yuan, including closed-end funds were 215 billion yuan, there were the vast majority of open-end funds, which reached 2.7869 trillion yuan. Among the public offering funds, the number of stock funds were 1.0958 trillion yuan, accounting for 36 percent, and then the number of money funds were 747.5 billion, accounting for 25 percent. Since 2008, public offering funds through a bottleneck period of the development. Because from the perspective of a large asset management, the size of trust was only 2 trillion yuan, the number of public offering fund companies reached 3.8 trillion yuan, and now, the assets of trust industry under had reached 11 trillion, while the public offering fund management companies was a shrinking state, it was only about 3 trillion yuan.[10]

- First, in terms of sales of the channel. The sources of assets of public offering funds were from banks, brokerages and these sales channels. The public offering funds had been at a disadvantage in the channel sales, banking channels occupy a leading position in fund sales, and it can't be shaken in the short term, half of managed fees of public offering fund management company will be paid to the banking channels, which greatly reduces the public offering fund company's profit margins, this problem became one of the great difficulties in the development of public offering fund industry. Of course, the public offering fund company were also developing their sales channels, they vigorously developed the marketing capabilities of investment advisory bodies (third-party sales organization), which would help to improve the marketing dilemma that the public offering fund companies were facing. Meanwhile, in this era of big data, the public offering fund companies also asked for the help of the information advantages of Internet data, finding the resources of customers. Such as, the cooperation of Tianhong Funds and Alibaba, which was a try to do online marketing.

  In the following, there will be given a figure (3.2) to describe several main sale channels of public offering funds, and their proportion.

[10] Source: www.chinafund.cn

Figure 3.2 Proportion of fund sales channels



Sources: www.amac.org.cn

- Second, the products were limited. Under strict supervision, and the limitation of liquidity risk and kinds of investing products, resulting in product design seriously homogeneity, lack of innovation. And the lack of innovation resulting in insufficient in characteristics, then attractiveness of public offering funds to investors became more and more weak. But now, there are some new products, like index funds, exchange traded funds and so on. For the point of view of these product, the passive funds had been an exploring way of development of public offering funds.
- The third important issue, investment ways had also been a limitation of development of public offering fund industry. Because in the past, there were lack of hedging tools in Chinese stock market, which will have influence in benefit of investors. But now, the restriction of fund investment channels had been relaxed in term of policy, public offering funds can invest in index futures, commodity futures, these hedging tools had increased the ways of investment, which are solving this problem gradually.
- The last aspect, the lack of governance. In public offering fund industry, talent is the cornerstone of this industry. In recent years, the brain drain of public offering fund industry had become the norm, there were a lot of assets and fund products rested in the hands of young manager, which are criticized. Because the funds were

lack of talent binding mechanism, the governance structure and governance model of existing funds had become a bottleneck in the development of public offering fund companies, fund managers were facing shareholder pressure, they usually were exhausted during their tenure, in order to pursuit of scale and increasing of ranking, they were always mainly to sales, which were easily lead to short-term investment performance. At present, the public offering fund company's shareholders are actually layman, fund managers and employees are actually lack of decision making power, and their rights to speak were difficult to effectively play, but shareholders had absolute power, which resulted that shareholders were leading roles in development of fund companies, they lead the companies to operate around the benefits of shareholders rather than the benefits of fund holders, there were clearly problems of benefits and risks imbalance. Restructuring and development of public offering funds were necessary to change this reality of the situation.

Regulation of Public Offering Funds in China

In terms of the Chinese regulatory framework, Chinese public offering funds had established the legal and regulation system with “fund law” as the core, which were mainly made up of fund operation, sales management, information disclosure, custodian banks, fund companies, and the departmental rules that were managed by executives of fund companies. According to this rule, the public offering fund industry established a regulatory framework with three mainly pillars, which were portfolio investment, trust custodian and information disclosure. Recently, the regulatory department adjusted their supervision idea to public offering funds, which relaxed the part of approval at the beginning, and increased the intensity of regulatory penalties afterwards.

Public offering fund companies have three types of regulatory authority, the first one is the China Securities Regulatory Commission, which regulate on public offering fund company licenses, business qualifications of fund companies, product approvals, they are not only responsible for the daily supervision of public offering funds, and also manage the executives, fund managers and other employees of the public offering fund companies. The second is the local securities regulatory bureau, which have a triennial routine inspection, site inspection and off-site inspection to the public offering fund companies. Not only this, the fund participants need to report stock and funds traded to the local securities regulatory bureau. The third is the industry association, which were established in 2012, named China Investment Fund Association (formerly the Securities Association of China), they were not only stipulate the laws and regulations of fund industry, but also they manage in continuing education of fund employees, personnel training, and professional qualification annual inspection.

Table 3. 2 Ranking of Public Offering Fund's Managed Assets

Ranking	Name of Fund company	Managed Assets(Billion)	Rate of Yield in 2015			Date of Establishment
			0%	<20%	<50%	
1	Tianhong	598.45	1	25	0	11.8.2004
2	Efunds	417.34	23	64	2	4.17.2001
3	Huaxia	356.62	13	48	0	4.9.1998
4	Ruixin	332.55	15	59	0	6.21.2005
5	Jiashi	324.39	20	61	0	6.15.2005
6	Nanfang	321.63	15	63	0	3.6.1998
7	Zhongyin	263.17	8	49	0	8.12.2004
8	Zhaoshang	235.26	16	50	0	12.27.2002
9	Guangfa	180.49	11	64	0	3.5.2003
10	Shangtoumogen	176.12	15	37	0	5.12.2004

Sources: www.chinafund.cn

From table (3.2), we can easily know that the ranking of public offering funds in China in 2015.

3.2.3 Differences between public and private offering funds

The differences between public and private offering funds will be introduced into four parts. At first, they have different target of raising funds. The raising target of public offering funds are the majority of the public, which are not specific to the investors. And the raising object of private offering fund are a few specific investors, including institutions and individuals. Secondly, they have different ways to raise funds. Public offering funds through the way of public offering to raise funds, and private offering funds through the way of non-public offering to raise funds, which is the main difference between private offering funds and public offering funds. Thirdly, their requirements of information disclosure are different. Public offering fund have very strict requirements of information disclosure, and their investment objectives, investment portfolio and other information need to be disclosed. The private offering fund requirements of information disclosure are lax, with strong confidentiality. The fourth point, they have different investment restrictions. Public offering fund have strict restrictions on the investment products, investment ratio, and the matching in the types of investment and funds, they can’t invest in derivatives and do short selling trading. But the restriction of private offering funds are entirely decided by the agreements, and they can invest in derivatives and do short selling trading. Last point, they have different performance rewards. Public offering fund does not charge performance rewards, they only charge management fees, but private offering funds would rather charge a performance rewards which are 20 percent of performance profit than charge management fees. For public offering funds, their performance of business are just the honor of ranking, but for private offering funds, performance are the basis of remunerations. And in other hands, the scale of public offering funds are bigger than the scale of private offering funds, the former are usually several billion yuan, and the latter are usually several hundred million, there are a little private offering funds whose scale are over than one billion in China.

From annex (2), there will be given a table to describe the differences between the private offering funds and public offering funds.

3.3 Qualified domestic institutional investor funds

Qualified domestic institutional investor funds are the one of close-end fund whose issued units are foreign currencies, which invest in overseas markets. Qualified domestic institutional investor funds broaden the investment channels for domestic investors, so investors can realize their assets to be configured on a global scale, and they have not only diversification of risk in a further, but also they can full enjoy the benefits of development of global capital markets.

3.3.1 Development of qualified domestic institutional investor funds

In November 2006, the first qualified domestic institutional investor fund of foreign currency which was named Hua An International Fund was formally established, it also means the birth of China's first qualified domestic institutional investor fund on the Chinese financial market. The investment objects of this fund covered stocks, bonds, trust certificates of real estate and other financial products in New York, London, Tokyo, Hong Kong and other international capital markets. The net effective subscription amount of Huaan International Fund were 197 million dollar. The birth of the first qualified domestic institutional investor fund also marked the first time that Chinese domestic investors would truly participate in the global capital markets, which had multiple positive for Chinese domestic fund industry to become international. For the majority of investors, this kind of funds had expand the financial channels and the scope of investment, which make them had the opportunity to share the fruits of global economic growth, to seek stable income. For fund managers, it will be available through asset allocation and portfolio management in mature markets to reduce risk of portfolio creation, and averse the systemic risk for investing a single country. And for the mutual fund industry, which can design new fund products that invest in domestic and international capital markets, such as the global equity funds, global bond funds and so on, which can greatly broaden the space of innovation for fund products. In the second half of 2006, there were bull markets of Shanghai and Shenzhen stock markets, which made the entire country at a term of excitement, it indirectly led to the qualified domestic institutional investor funds came out, the kind of this fund had become a way to curb excess liquidity and lead a lot of excess money out of domestic financial market to spread the domestic over-abundant money. Qualified domestic institutional investor appeared in the best time of China's stock markets.

3.3.2 Advantages of qualified domestic institutional investor funds

First, qualified domestic institutional investor fund is a tool to diversify investment risks, for the investor from the perspective of their own asset allocation, they hope that they can through indirect investment in overseas markets to avoid the risk of a single stock. Choices of diversified asset allocation lead investors to spread their investment risks across the globe.

Second, for example, when Chinese stock market was a bear market, the European stock markets may be bull market, because investors who were in China can't invest in European stock market directly, but qualified domestic institutional investor funds can give these investors only one of legitimate way until now, which can help domestic investors to invest in European stock markets.

In addition, qualified domestic institutional investor funds can also invest in global multi-currency market, this investment can not only effectively reduce the exchange rate risk of investing in the single market investment, but also investors can share the benefits of foreign currencies whose trend are better than RMB. Qualified domestic institutional investor funds can also do currency hedging by using some derivatives which are foreign exchange forward contracts and currency exchange.

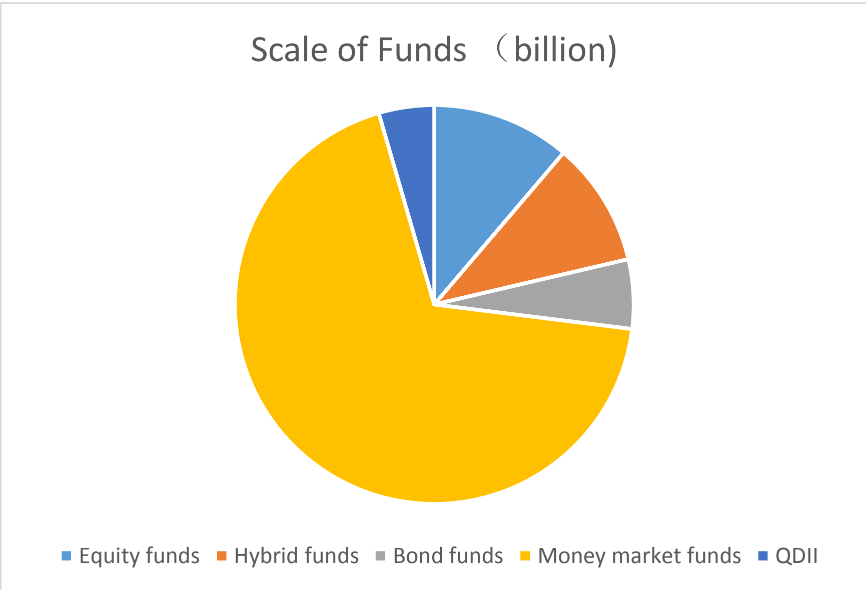
3.3.3 Prospects of qualified domestic institutional investor funds

Qualified domestic institutional investor funds are a new kind of mutual funds in

China, although they had loss because of United States subprime mortgage crisis in 2007, they are still profitable now. In the long term, investing in global capital markets could get profits, therefore QDII (qualified domestic institutional investor) products continued to be good. After all, QDII funds are a new thing, domestic investors are poorly understood on the international capital markets, the investment strategy of institutional investors also have period of adjustment, so the risks and benefits of this fund remain to be the test time. Attitude of investors should also be a rational treatment, they can't blind hope of high yield of short-term but ignore the fundamental asset allocation of qualified domestic institutional investor. At the same time, the subsequent design and issuing of qualified domestic institutional investor funds would also become more cautious.

I think the most thing is that the stable income and risk diversification of funds are the most important features what people need, they are just immature. But with the development of global economic integration, qualified domestic institutional investor funds would be one important role of mutual funds.

Figure 3. 2 Scale of different funds in China



Source: Report by GJTA Allianz Funds in 2014

Table 3. 3 Market data of Mutual Funds in China

Category	Number of Funds	Shares (billion)	Net Value (billion)
Close-end Funds	168	188.56	205.77
Open-end Funds	2654	7411.94	7498.5
Equity Funds	601	595.07	583.34
Hybrid Funds	1247	1646.68	1665.67
Money Market Funds	224	4427.49	4434.21
Bond Funds	480	650.86	749.26
QDII	102	91.84	66.03
Total	2822	7600.49	7704.27

Source: www.amac.org.cn , data as of February 2016

From figure (3.2) and table (3.3), we can easily find that the proportion of equity funds, hybrid funds, bond funds, money market funds and QDII. These four kinds of mutual funds were the most popular funds in China.

4. Performance Comparison of Selected Mutual Funds

It will be mainly introduced five selected mutual funds:

- Yuebao as money market fund;
- Guangfa NASDAQ-100 index fund as QDII fund;
- Haifutong bond fund as bond fund;
- Yifangda equity fund as equity fund;
- Guli private fund as private fund.

These five fund products are very famous in China. It will be introduced why I choose these fund products.

Yuebao: it is a part of Alipay, which is very popular in China, especially in the group of students, most of Chinese use Alipay for online-shopping payment, which is similar to Ebay. It is very conveniently for out daily online payment. Users of Alipay can easily put their money in Yuebao to obtain income, and they can move their money out whenever, which was promised by Alipay. With these reasons, Yuebao has the most amount of users in China, which compared with other money market fund.

Guangfa NASDAQ-100 index fund: it ranked first QDII fund in 2015 in China.[11] It provided the most profits with lowest risk, in this chapter, it will be introduced how did it operated and its performance in last year.

Haifutong bond fund: From the report by Baidu[12], we can find that Haifutong bond fund did best in last year, and this fund mainly invested in low risk bond which were compared with other bond in China. Though analyzing this bond fund, we can summarize the general situation about bond fund in China.

Yifangda equity fund: Yifangda fund manage company is a veteran of well-known company in China, it has a strong representative in Chinese fund industry. Through analyzing this equity fund which was managed by Yifangda fund manage company, we could get a general situation about equity fund in China.

Guli private fund: It was managed by Guli fund manage company. From the report

[11] Sources: www.chinafund.cn
[12] Sources: http://caifu.baidu.com/

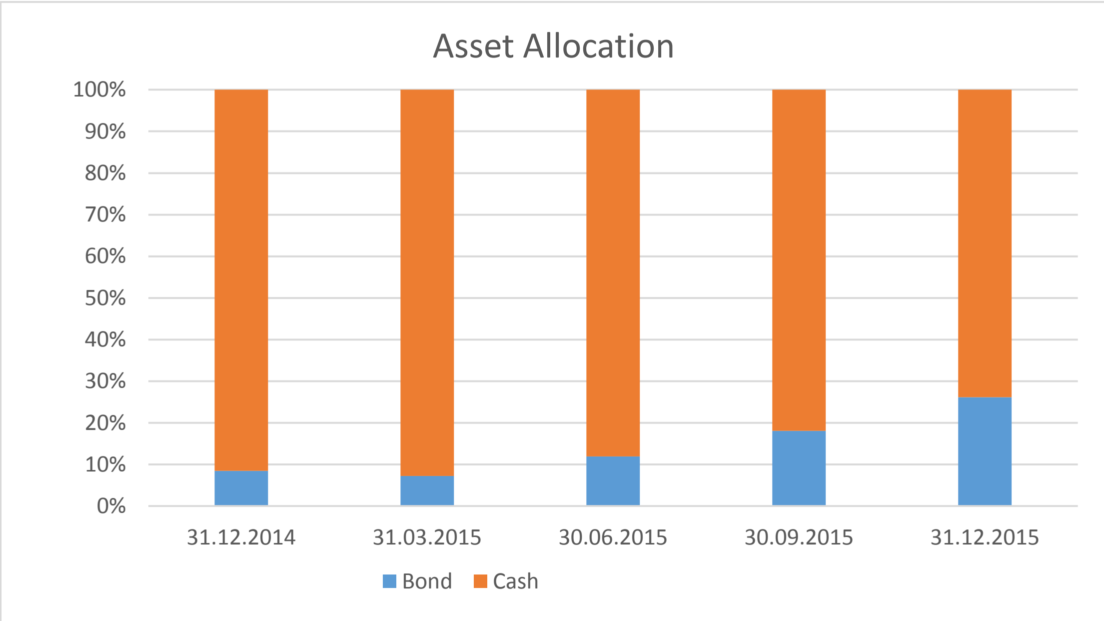
by Eastmoeny, it had introduced that Guli fund ranked first in private funds[13]. Obviously, Guli private fund has a strong representation of private funds in China.

4.1 Yuebao

Yuebao, whose full name is Tianhong Yuebao money market funds, it is managed by Tianhong fund manage company, and its issued fund code is 000198.[14]

It will be introduced the mainly investment of Yuebao by the following figure (4.1).

Figure 4.1 Asset allocation of Yuebao



Sources: http://fund.eastmoney.com

From figure (4.1), we can know that Yuebao money market fund is similar to other money market funds, it mainly invest in short-term monetary instruments such as treasury bonds, central bank note, bank certificates of deposit, treasury bills, corporate bonds or interbank deposits. The only one of sales institution is Tianhong funds, and the only one of underwriting and direct marketing is Alipay, Alipay users can buy fund products through the Yuebao, they can move in or out their money whenever, and they have daily income settlement.

Usually, because of the market demand, there will be an appearance of a new fund

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13 Sources: http://simu.eastmoney.com/data/smranklist.aspx

14 Sources: www.thfund.com.cn

product. And, there are some people who are not satisfied with the bank ordinary financial products, in terms of this situation, there was an establishment of Yuebao. Then, it will be introduced the comparison between Yuebao and other bank financial products by the following table (4.1).

Table 4.1 Comparison between Yuebao and other bank financial products

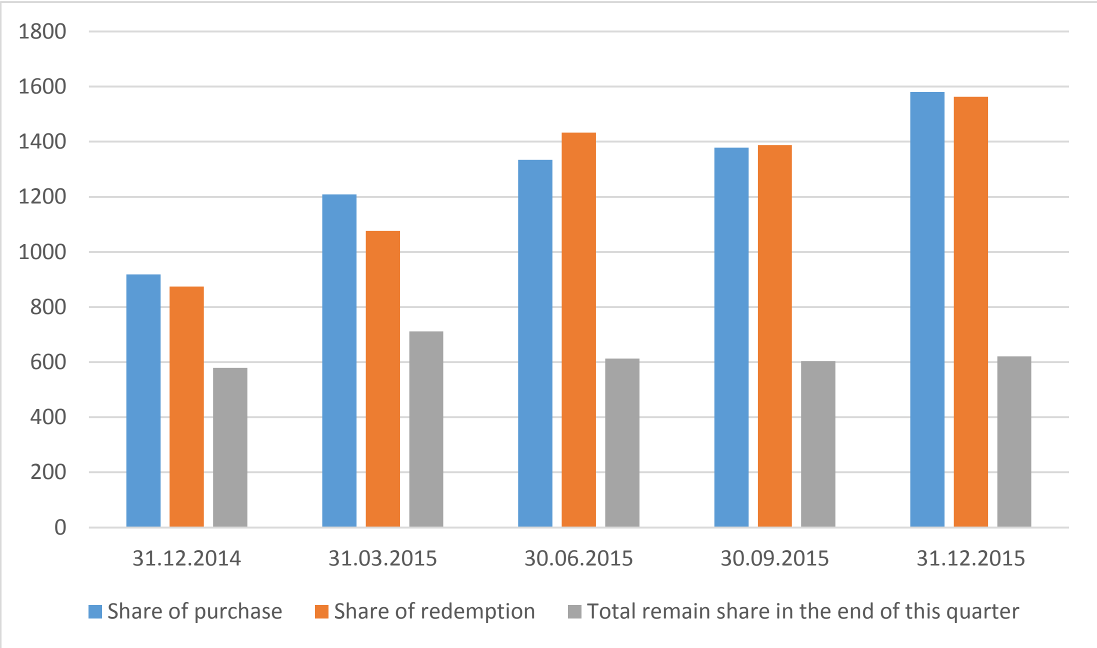
	Redemption	Withdraw Time	Rate of Yield	Minimum Investment Amount
Yuebao	Whenever	Within 24 hours	From 2% to 5%	1 yuan
Bank Demand Deposit	Whenever	Immediately	0.35%	0.01 yuan
Bank Time Deposit (1 year)	Whenever	Immediately	From 3% to 5%	50 yuan

Sources: Author

As we know, the main competitors of Yuebao are bank deposits and other money market funds. From table (4.1), compared with bank demand deposits, the rate of yield of Yuebao are more than the rate of yield of bank demand deposits, but in another hand, in terms of withdrawing, the bank demand deposits are more conveniently than Yuebao, for some people who want high rate of yield and do not care about the liquidity of their money, they have a strong possibility to invest in Yuebao to obtain income. In China, there are an increasing of retirement population, these people only have one way to obtain money, which is pension, and they do not need to move their money frequently, in case of obtaining more income, they would rather invest in Yuebao than invest in bank demand deposits. And compared with bank time deposits, rate of yield of Yuebao is similar to rate of yield of bank time deposits, but in terms of convenience, Yuebao is better than bank time deposits. For some people like students in China, they always receive money from their parents monthly, at the beginning of every month, they do not need much money to pay their daily expenses, and they usually have some idle funds which could be invested in some financial tools to obtain income, but later in the month, they need to withdraw these money to pay their daily expenses, because of this reason, most of these people would rather invest in Yuebao than invest in bank time deposits.

Next, there will introduce the change of net assets of Yuebao in 2015 by the following table (4.2).

Figure 4.2 Change in the number of shares of Yuebao.



Sources: http://fund.eastmoney.com

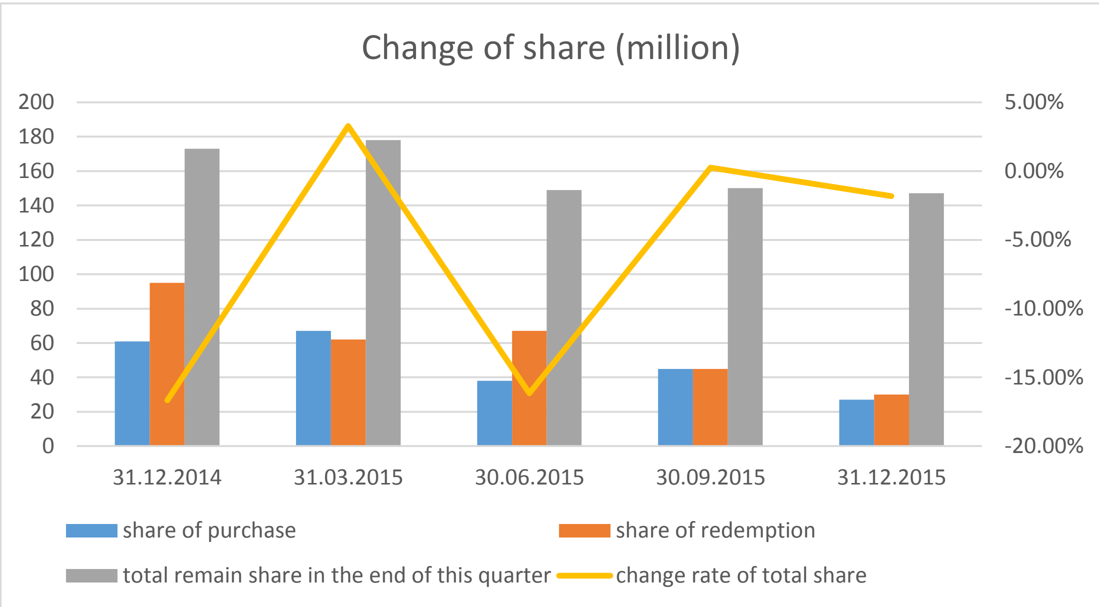
From the figure (4.2), we can easily know that over the last year, the share of purchase and redemption became more and more, which showed that more and more people would like to invest in Yuebao as their daily financial management tool. But if we look it closely, we could find that the numerical difference between share of purchase and share of redemption were small in every quarter, which illustrated that most of the investors who invested in Yuebao wanted to have a short-term investment, they might need to move out their money from mutual funds in an unexpected time, but, once they got some idle money, they would put their money to invest in Yuebao again. And, compared with the numerical difference between share of purchase and share of redemption, and the total remain share in the end of the quarter, which could find that the numerical difference between share of purchase and share of redemption did not have a big influence in the total remain share in the end of the quarter, which showed that although most of investors who invested in Yuebao would like to have a short-term investment, there were still some investors who wanted low risk and stable profits put their money in the Yuebao to obtain the income for a long time.

In conclusion, there are two kinds of investors who invested in Yuebao. The first was who wanted to withdraw their own money at any time, and in the same time, they wanted a higher income than bank demand deposits. The second was who did not have enough knowledge of investment, they wanted to have an investment which was similar to bank time deposits, but in the same time, they wanted to have a right to withdraw their money at any time.

4.2 Guangfa NASDAQ-100 index fund

Guangfa NASDAQ-100 index fund is QDII fund which mainly invest in stock exchange of NASDAQ and it is managed by Guangfa Fund manage company. Its issued fund code is 277042 in China.[15]

Figure 4.3 Change of share.



Sources: http://fund.eastmoney.com/

From the figure (4.3), we can easily know that the most of investors who invested in

[15] Sources: www.gffunds.com.cn

Guangfa NASDAQ-100 index fund wanted to have a long-term investment. Although there were a few people who redeemed their money from Guangfa NASADQ-100 index fund, it would have a significant impact in this fund, the share number of this fund had been approaching stability around 150 million shares.

Table 4.2 Main share of companies held by Guangfa NASDAQ-100 Index Fund.

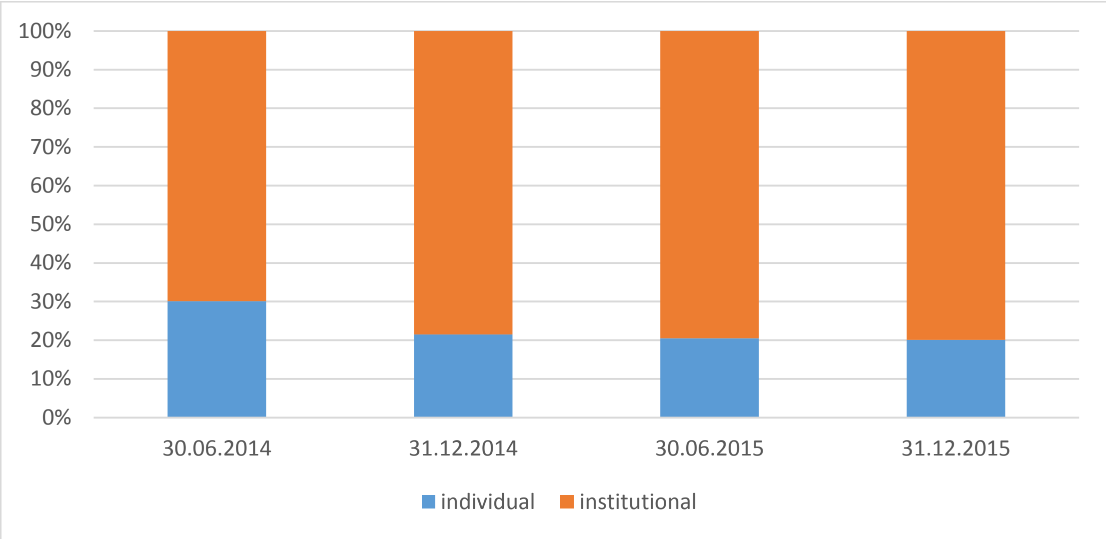
	Name of the companies	Proportion of fund net value	Amount of shares (thousand)	Market capitalization (1000 yuan)
1	Apple	8.89%	32.3	22049.6
2	Microsoft	6.78%	46.2	16651.1
3	Amazon	4.85%	2.7	11902.9
4	Alphabet	4.01%	2	9850.8
5	Facebook	3.64%	13.1	8928.2
6	Google	3.47%	1.7	8517.8
7	Intel	2.49%	27.3	6108.3
8	Gilead Sciences	2.23%	8.3	5479.5
9	Cisco	2.11%	29.4	5179.1
10	Comcast	2.11%	14.1	5177.3

Sources: http://fund.eastmoney.com/f10/ccmx_270042.html

From table (4.2), we can find most money of Guangfa NASDAQ-100 index fund were used to invest in stock market which was NASDAQ, and this fund preferred to invest in well-known technology companies, which showed that they would like to avoid risk, because these companies are the biggest technology companies in America. As we know, the companies are more famous and bigger, the chance of their loss are fewer, so, holding some shares of these companies, you would have a stable income with low risk.

As a QDII fund, this fund is very cautious, they provide an opportunity for Chinese domestic investors to obtain a stable income, which provides a low risk in the same time. And we know the purpose of the creation of QDII funds in China, which was to help Chinese domestic investors to share the world financial market benefits.

Figure 4.4 Holder structure



Sources: http://fund.eastmoney.com/

From figure (4.4), it shows that there are more institutional investors than individual investors who invest in Guangfa NASDAQ-100 index fund. QDII funds are a kind of newly mutual funds in China, most of people do not know much about it, although QDII funds are another good way to share the benefits around the world, but there are risks obviously. So there are more institutional investors invest in Guangfa NASDAQ-100 index fund than individual investors.

4.3 Haifutong bond fund

Haifutong bond fund was established in April 2nd 2014, which main invest in a wide variety of bonds in China, and it was managed by Haifutong fund manage company. Its fund issued code is 519061.[16]

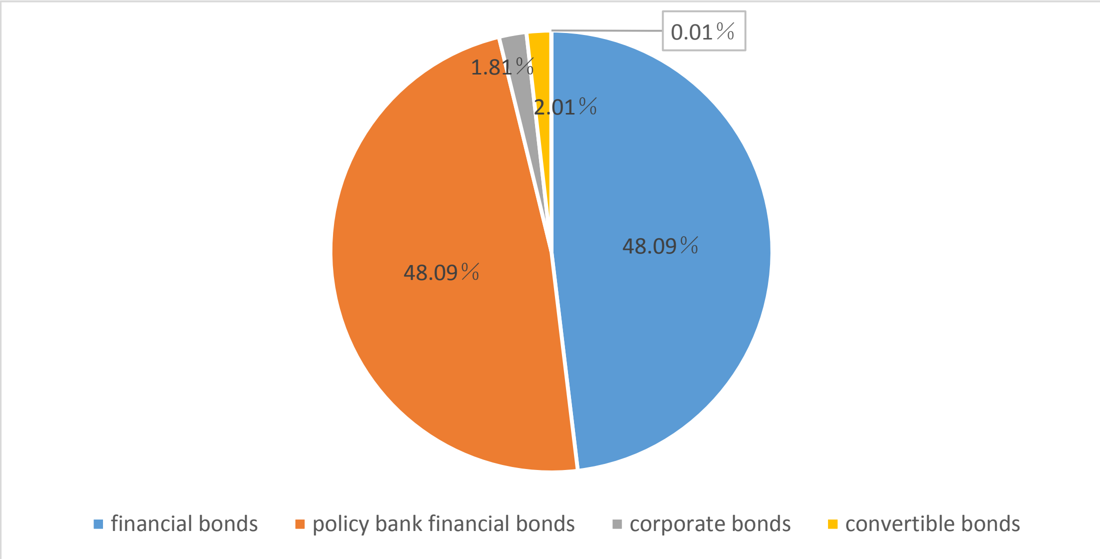
The Fund invests mainly in fixed income financial instruments with good liquidity, and this fund can't buy equity assets such as stocks and warrants from secondary market, in the same time, it also can't participate in issuance and subscription of new shares in the primary market. For the stocks which were the formation of convertible bonds,

[16] Sources: http://www.hftfund.com/

Haifutong bond fund should sell them within six months. Held bonds of Haifutong bond fund cannot less than eighty percent of whole assets, the sum of cash and treasury bills cannot less than five percent of assets.

Next, it will be introduced some performance of Haifutong bond fund in 2015.

Figure 4.4 Bond portfolio

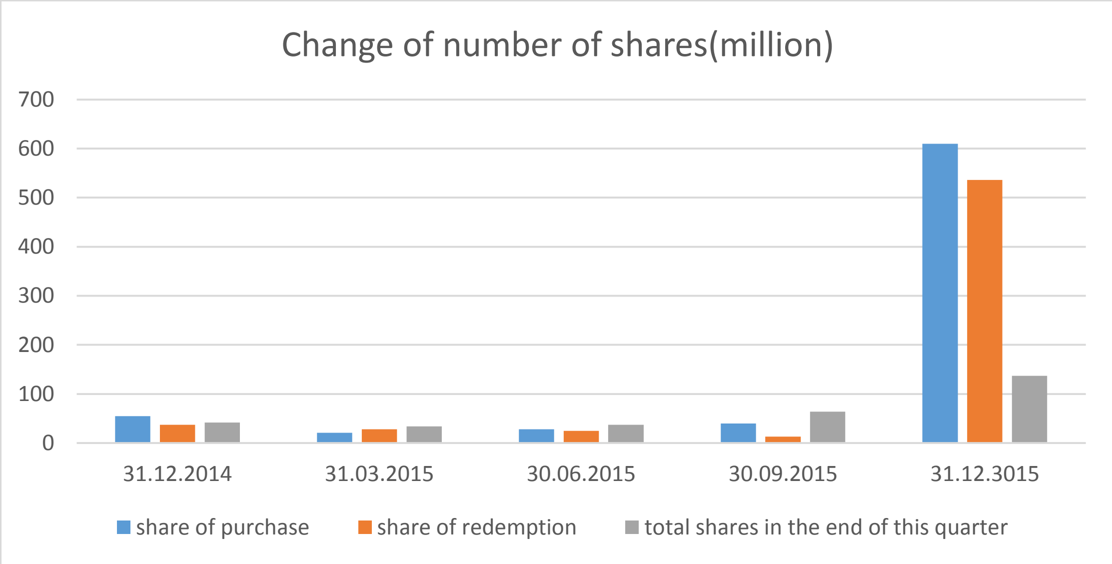


Sources: http://www.howbuy.com/

There was a difference between China and Europe about financial bonds. In China, the bonds which were issued by banks or financial institutions, they are collectively called financial bonds, but in Europe, the bond which were issued by financial institutions, it will be called corporate bonds. And for policy bank financial bonds, there is an explanation in China that the bonds which were issued by Chinese policy banks, such as China State Development Bank, Agricultural Development Bank of China and The Export-Import Bank of China, it will be called policy bank financial bonds.

From figure (4.4), Haifutong bond fund mainly invested in some bonds like financial bonds and policy bank financial bonds, which had lower risk. Meanwhile, it also tried to find some opportunities to obtain higher profits, so it invested small portions bonds in corporate bonds and convertible bonds, which had higher income and higher risks. This figure shows that Haifutong bond fund was consistent with its investment objectives, which was in the basis of strict control of risk, in the same time, it also wanted the long-term stable appreciation value of fund assets, and strive to achieve the higher income.

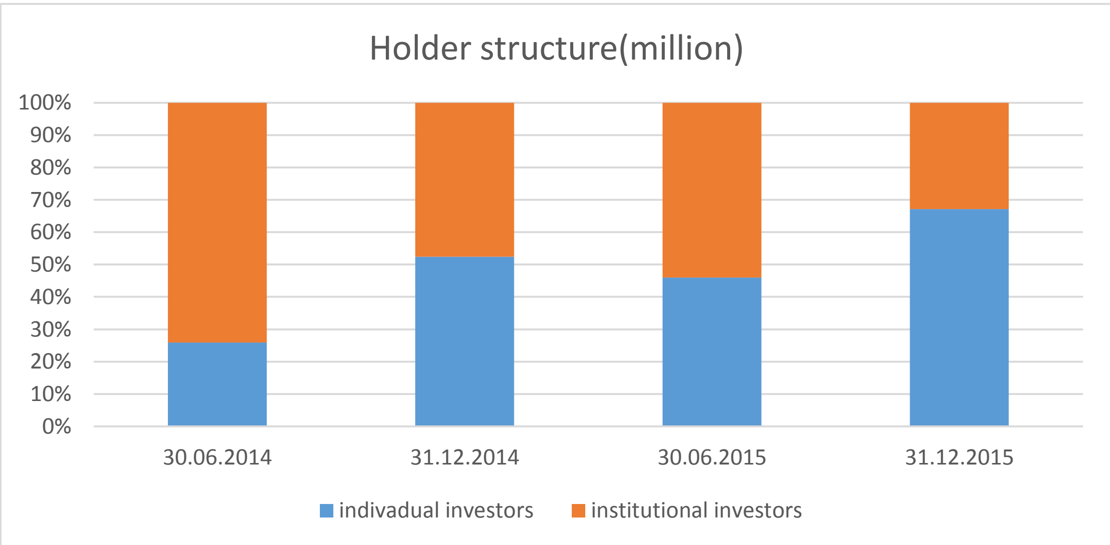
Figure 4.5 Change of shares



Sources: http://fund.eastmoney.com/

From figure (4.5), we can easily find that in the end of 2015, there was significant growth of share of purchase and redemption, and total shares in the end of quarter. Because there was a financial crisis in Chinese stock market in the end of 2015, most of investors got huge loss who invested in Chinese stock market, these investors were afraid of the risk and investing in Chinese stock market, they turned to find another kind of mutual fund to obtain income which had lower risk and stable income.

Figure 4.6 Holder structure



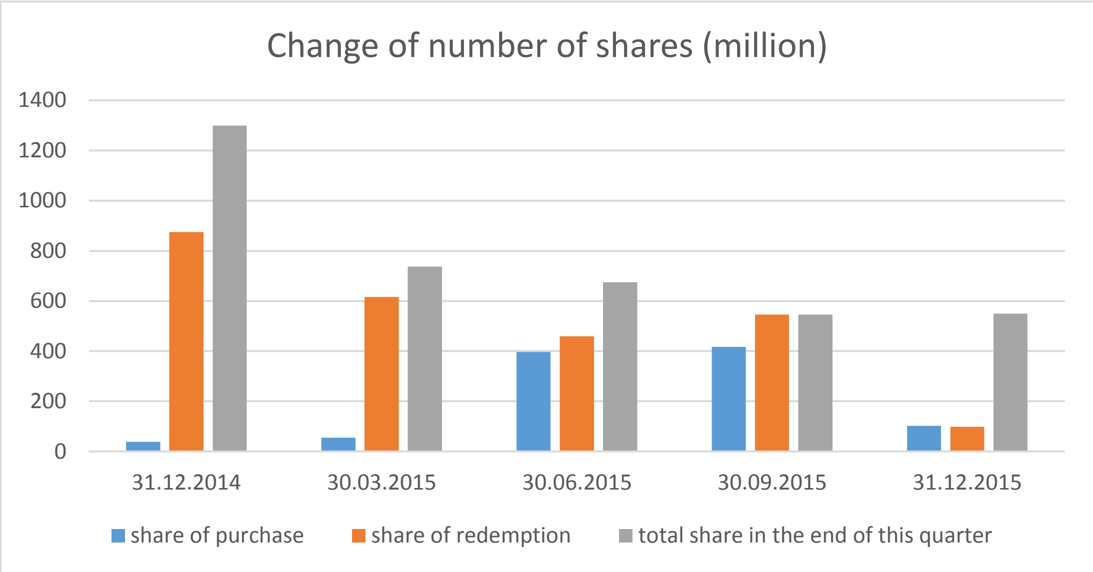
Sources: http://www.howbuy.com/

From figure (4.6), we can get a same conclusion. Because there was a financial crisis in the last year, more and more individual investors turned to invest in bond fund, and Haifutong bond fund was a better choice for them. Meanwhile, it shows another conclusion, which was that in generally, most of individual investors preferred to invest in some investment with high income, and most of institutional investors preferred to have a stable income with low risk.

4.4 Yifangda equity fund

Yifangda equity fund was established in august 20th 2010, which is managed by Yifangda fund manage company. Its fund issued code is 110022.[17]

Figure 4.7 Change of number of shares



Sources: http://fund.eastmoney.com/

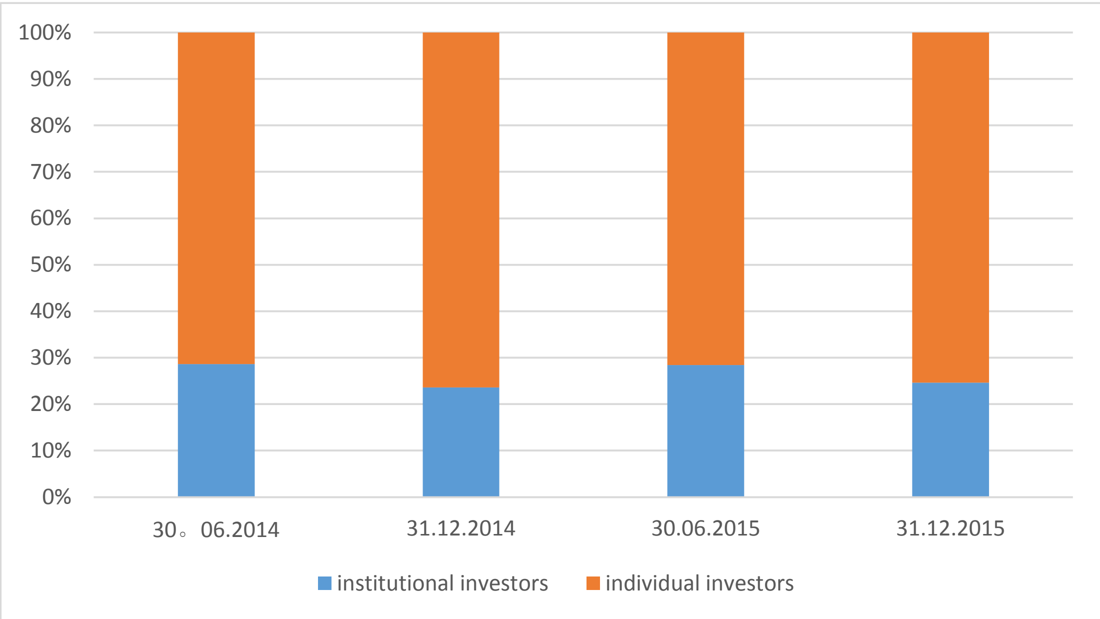
From figure (4.7), we can easily find that there were much redemption of shares which more than purchase of shares in the whole last year. As it had been introduced above, there was a financial crisis in Chinese stock market, most of people lost their confidence in stock market. Obviously, there were many investors lost their confidence in stock market, so they tried to give up investing in equity funds. But, as we know, most of investors have gamblers psychology, they thought there must were a reviving

[17] Sources: http://www.efunds.com.cn/

of stock market, so they turned to purchase equity funds again. In general terms, there was a significant decrease of total shares, which showed that there still were some conscious investors, they gave up investing in equity funds.

Compared with figure (4.5), it shows that there were more invertors preferred to obtain higher profits in China, so the investors who invested in equity funds were more than investors who invested in bond funds. There was a reason that collective investment was a new way of earning money in China, most of Chinese investors did not understand what are the risks, they only wanted to obtain more profits, without more attention to risk.

Figure 4.8 Holder structure



Sources: http://fund.eastmoney.com/

From figure (4.8), we can easily know that most of shareholders of Yifangda equity fund were individual investors, which illustrated that individual investors more concentrated on higher yield than institutional investors. And, regardless of whether there was financial crisis in Chinese stock market, the proportion of individual investors and institutional investors who invested in equity funds would remain roughly constant.

Compared with figure (4.6), most of investors would rather invest in equity funds that invest in bond funds in China. As it had been introduced in chapter 2, risk of equity funds are more than risk of bond funds, and yield of equity funds are more than bond funds. Obviously, there were a situation that individual investors preferred to invest in equity funds than institutional investors.

Table 4.3 Main share of companies hold by Yifangda equity fund

	Name of the companies	Proportion of fund net value	Amount of shares (thousand)	Market capitalization (1000 yuan)
1	Wuliangye	8.27	2200	60016
2	Gree	8.01	2600	58110
3	Maotai	6.62	220	48001.8
4	Wushang	4.72	1600	34240
5	Midea	4.52	1000	32818.3
6	Yutong	4.34	1400	31486
7	Longping	4.26	1300	30872.2
8	Yanghe	4.25	450	30843
9	Yili	3.62	1600	26288
10	SAIC	2.93	1000	21220

Sources: http://fund.eastmoney.com/

From table (4.3), we can easily find that the most share of companies hold by Yifangda equity funds belong to manufacturing industry. As we know, there were some investment objectives in a wide variety of industries, investors always concentrated on one or several kinds of industries, and then, they would only buy some shares whose companies belong to this industry. Obviously, most of investors who invested in Yifangda equity fund would like to concentrate on manufacturing industry.

Compared with table (4.2), we can find that there was a common point between Guangfa NASDAQ-100 index fund and Yifangda equity fund, both of them preferred to invest in bigger and well-known companies to reduce the risk of loss, and seek a stable profits.

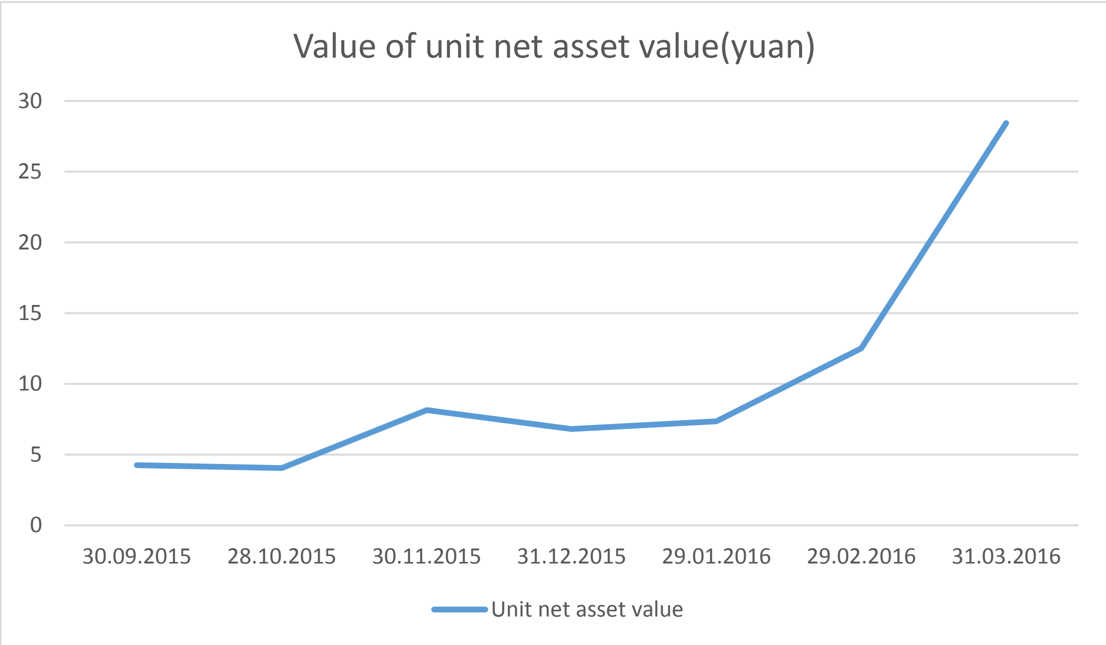
4.5 Guli private fund

Guli private fund mainly seek for higher yield, at the same time, and tried their best to reduce risk. It was established in March 16^{th} 2015[18]. From their performance point of view, they did well and they got ranking first in private funds last year in China.

Guli private fund issued their fund directly to the qualified investors, they do not have any issued code like above.

As a private fund, their disclosed information were very limited. So, Guli fund will be mainly introduced into two parts.

Figure 4.9 Value of unit net asset value



Sources: http://simu.eastmoney.com/

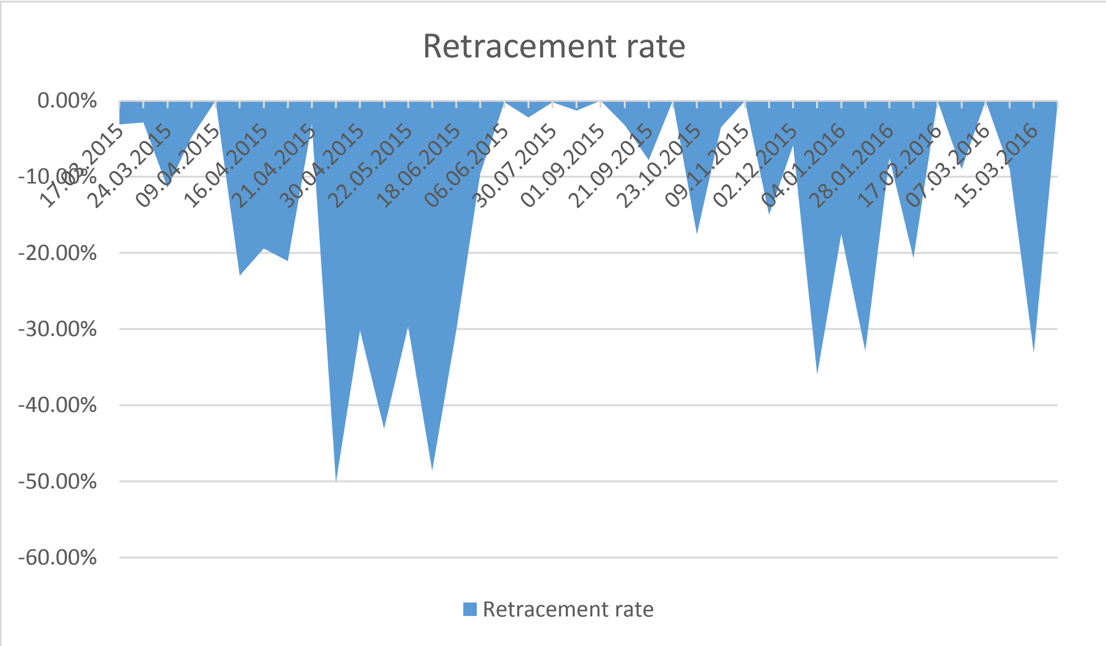
From figure (4.9), we can easily find that there was a huge increasing of unit net asset value of Guli private fund, which was consistent with its purpose that they wanted to obtain higher yield than others. As a leader of private fund, it did a very good score in last several months, and did their commitment as above. At the same time, it was in line with the original intention of establishment of private funds. Although, there were several short-term decline with their unit net asset value, they did not have any impact with that, they had controlled the downward trend, and then, they got rebound.

[18] Sources: http://gulifund.com/

Obviously, they achieved a satisfactory performance. For some qualified investors, which would rather get higher yield than care about the risk, they could continue to invest in private funds, it is a good choice for them.

As we know, high-yield usually was accompanied with high risk. In the next, there will introduce their risks.

Figure 4.10 Change of retracement rate



Sources: http://simu.howbuy.com, Author

It will be introduced about retracement rate. Max retracement rate is an important risk index, which was used to describe the worst possible scenarios after buying the funds. There is a formula to describe it.

$$\text{drawdown} = \max(D_i - D_j) \div D_i \quad [19] \qquad (4.1)$$

In this formula, D means the net value of one day, i means this day, j means the day after this day, D_i means the net value of fund in the day of i, D_j means the net value of fund in the day of j.

From this formula and figure (4.10), we can easily find that there was a huge fluctuations in Guli private fund, which mean a high risk. Anyway, we can find that the manager of Guli private fund had tried to control the risk of Guli private funds, when

[19] Sources: http://baike.baidu.com/

there was a high rate of retracement, the manager of Guli private fund usually did something to make retracement rate to decrease, and they did it obviously.

Linked to Figure (4.9), we can find when the retracement rate of Guli private fund were low, they usually got increasing of their funds, when the retracement rate of Guli private fund were high, they usually had been stopping increasing of their funds.

4.6 Comparison of the selected mutual fund

In this part, there will be introduce some comparison of selected mutual funds, which includes the risk and yield, meanwhile, there will be discussed with the change of Shanghai composite index and Shenzhen 300 index.

As following, it will be some figures to help to describe the comparison. There should be some figures or tables about the change of selected mutual funds, at the same time, it will be described the performance of selected mutual funds with the change of Shanghai composite index and Shenzhen 300 index.

First, there are figures (4.11), (4.12) about Shanghai composite index and Shenzhen 300 index.

Figure 4.11 Change of Shanghai composite index

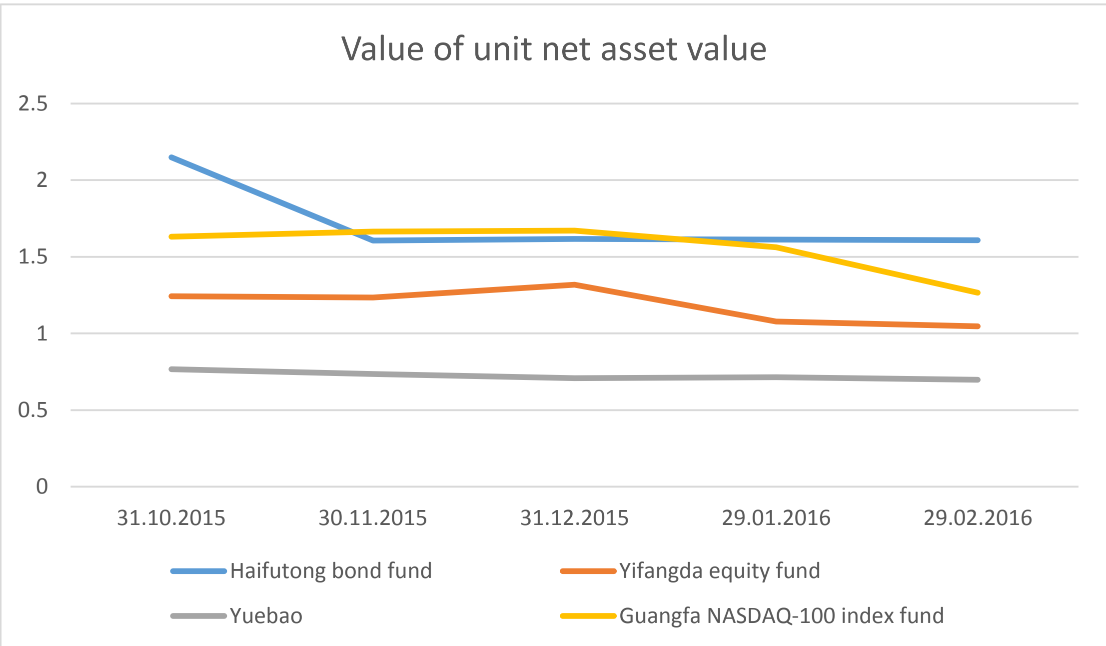
Sources: http://gupiao.baidu.com/

Figure 4.12 Change of Shenzhen 300 index

Sources: http://gupiao.baidu.com/

From figures (4.11), (4.12), it shows that there was a reduction of Shanghai composite index and Shenzhen 300 index since October 2015, and it reached the lowest point in January 2016, but after that, it got rebound.

Figure 4.13 Comparison of four public offering funds



Sources: http://fund.eastmoney.com/, Author

Notes: Data of Yuebao mean the yield per ten thousand units.

According to figures (4.11), (4.12), (4.13), we can easily find that Shanghai stock exchange and Shenzhen stock exchange had been decreasing in the end of last year, although there was a rebound at the begging of 2016, in generally terms, there still had a significantly decreasing about Shanghai stock exchange and Shenzhen stock exchange, which were influenced by the Chinese stock crisis in 2015.

With the decreasing of Shanghai stock exchange and Shenzhen stock exchange, we can find a change about some mutual fund products in China from figure (4.13), the all four mutual fund products got a decreasing as well.

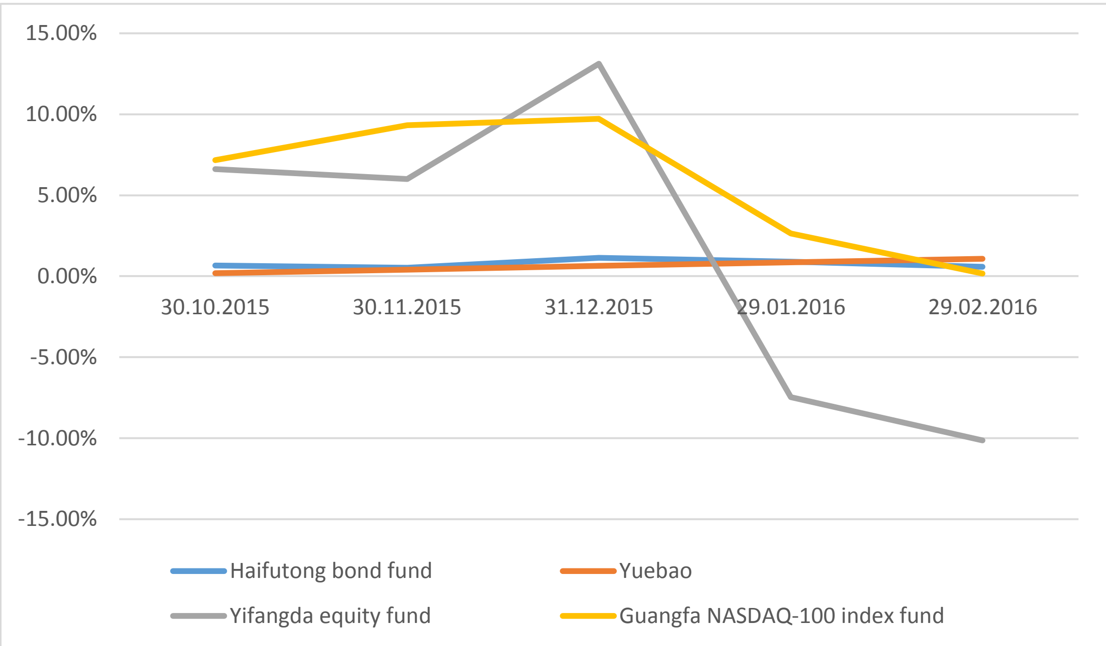
Haifutong bond fund as a bond fund, it had a maximum degree of decline of its unit asset value. As it had been introduced above, there was a financial crisis in Chinese stock market, without a doubt, there were many companies got loss because of the financial crisis, and then, these companies would decrease their coupon of newly issued corporate bonds. At the same time, when there was a financial crisis in Chines stock market, the Chinese government also could not escape from loss, they would decrease their coupon of newly issued bonds. And there was a most important point, there were many companies went bankrupt because of the financial crisis, which led that some companies even could not pay their debt, they do not have any cash for payment. But at the begging of 2016, impact of financial crisis had been controlled, so that the Haifutong bond fund had stopped decreased as well.

Yuebao as a money market fund, it has a minimum degree of decline of its unit asset value. Its performance what it did in the last year was really good, which conformed the definition of money market funds. Yuebao as a money market fund, because of its high liquidity and low risk, it did not get a huge loss, it even had a stable income in the period of financial crisis. For some investors who afraid of risk, Yuebao is really a good choice for them.

Yifangda equity fund and Guangfa NASDAQ-100 index fund, they all mainly invested in stock market, the differences were that the former mainly invested in Chinese stock market and the latter mainly invested in NASDAQ stock market. When there were decreasing of Shanghai stock exchange and Shenzhen stock exchange, Yifangda equity fund got a significant loss immediately, due to Yifangda equity fund was best equity fund in China, it had an enough experience and ability to solve this problem, and they did it, they controlled the trend of decline. When there were some problems with Chinese domestic stock market, some investors would turn to find some opportunities to obtain income in other stock exchange. But now is a time of globalization, so Guangfa NASDAQ-100 index fund could not escape from the loss.

Compared with figure (4.9), we can find that Guli private fund did not have any influence by the financial crisis. Due to the managers of Guli private fund had an absolutely control in their fund, through the experiences and knowledge of their managers, when they find that there were some problems in stock market, they would change their investment objectives to other aspects immediately, which could have a huge degree of reducing their losses. But objectively speaking, this decision of changing investment objectives to other aspects immediately have a huge hidden risk. If the manager did a wrong decision, the investors who invested in this private offering fund would get more loss.

Figure 4.14 Change of cumulative rate of yield



Sources: http://fund.eastmoney.com/

The cumulative rate of yield means that the total rate of yield which include appreciation of units and dividends since the establishment of mutual funds until now. For example, someone hold shares of Yuebao in the whole period, which means that from the establishment of Yuebao until now, he did not redeem any shares or purchase more shares. He invested 1 yuan for 1 unit, and the value of 1 unit become 2 yuan now, during the investment period, he got 1 yuan as dividend, so the cumulative rate of yield is 200 percent.

From figure (4.14), we can directly find that the real change of their income, which shows the essences of these mutual funds, Haifutong bond fund and Yuebao as bond fund and money market fund, they really had lower risk of loss, Yifangda equity fund as an equity fund, it had a higher risk than formers, for Guangfa NASDAQ-100 index fund as a QDII fund in China, but it also mainly invested in stock market, so the same, it had a higher risk than bond fund and money market fund.

4.7 Summary

In this chapter, it had been focused on performance comparison of selected mutual funds. At first, there were specific analysis about every five selected mutual funds, which were Haifutong bond fund as bond fund, Yuebao as money market fund, Yifangda equity fund as equity fund, Guangfa NASDAQ-100 index fund as one kind of newly and popular mutual fund in China, and Guli private fund as a private offering fund. At last, these five mutual funds were put together for a joint analysis about their performance of risk and yield.

5 Conclusion

Mutual fund is a good way which is very helpful for people who want to use their idle funds to obtain more income. Nowadays, most of Chinese have solved their problem of food and clothing, and everyone want to be richer, then the mutual funds became a good choice for them. But, there are majority of people who do not know much knowledge about mutual funds, so before they decide to invest in mutual funds, they need some knowledge about mutual funds. In this thesis, we have described what it is mutual fund, mutual fund industry in China and some performance comparison of selected mutual funds, which is very helpful for people to know mutual funds.

Although China's mutual fund industry has a short development history, Chinese government attached great importance to mutual fund industry, they issued many polices to make Chinese mutual fund industry to be more complete. In fact, Chinese mutual fund industry has a little different with other countries into mainly types of mutual funds, but it suits China.

After some analysis for risk, yield, liquidity and net unit assets of selected mutual funds in this thesis, we can know what kinds of mutual funds suit some people who have special demand. For some people who only want to obtain income and less risks, they can invest in money market fund and bond fund, if you do not care about risks, and want higher income, you can invest in QDII fund, private fund and equity fund.

To summarize, mutual funds is really a good way to obtain more income, but there are some risks meanwhile. If someone want to invest in mutual funds, they need to get some knowledge about yield and risks of collective investment. Every kind of mutual funds all have their advantages and disadvantages, they also have chance of loss, these people who want to invest in mutual funds need to find one of mutual funds which suits for themselves.

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List of Abbreviations

QDII: Qualified Domestic Institutional Investors

NASDAQ: National Association of Securities Dealers Automated Quotations

MIT: Massachusetts Investment Trust

MMDAS: Money Market Deposit Accounts

WTO: World Trade Organization

Declaration of Utilization of Results from a Bachelor Thesis

Herewith I declare that

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许仕尧 Shiyao Xu

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Shiyao Xu

List of Annexes

Annex 1 Growth of mutual fund industry in the world, 1940-2009

Year	Total Net Assets(billions)	Gross Sales(billions)	Redemptions(billions)	Net Sales (billions)	Accounts(thousands)	Number of funds
2009	$ 11,126.4	$ 20,681.9	$ 20,681.9	$ 0.0	270,949	7,691
2008	9,601.1	26,466.2	25,846.5	619.7	264,499	8,022
2007	11,999.5	23,471.1	22,353.7	1,117.4	292,624	8,024
2006	10,396.5	17,409.6	16,752.2	657.4	288,596	8,117
2005	8,904.8	14,042.5	13,648.4	394.1	275,479	7,975
2002	6,390.4	13,195.8	13,038.8	157.0	251,125	8,244
2001	6,974.9	12,866.2	12,242.3	623.9	248,701	8,305
2000	6,964.6	11,109.4	10,586.6	522.8	244,706	8,155
1995	2,811.3	3,600.6	3,314.9	285.7	131,219	5,725
1990	1,065.2	1,564.8	1,470.8	94.0	61,948	3,079
1980	134.8	247.4	216.1	31.3	12,088	564
1970	47.6	4.6	3.0	1.6	10,690	361
1960	17.0	2.1	0.8	1.3	4,898	161
1950	2.5	0.5	0.3	0.2	939	98
1940	0.5	N/A	N/A	N/A	296	68

Source: Investment Company Institute, 2006 Investment Company Fact Book (Washington, DC: Investment Company Institute, May 2006) and Trends in Mutual Fund Investing, various issues, www.ici.org

Notes: Data include money market funds, Institute "gross sales" figures include the proceeds of initial fund underwriting prior to 1970

Annex 2 Comparison with Public Offering Funds and Private Offering Funds

Comparison Projects	Public Offering Funds	Private Offering Funds
Manager	Fund companies	Generally based on experienced person as the core, a small team operation
Issue Objects and Sale Channels	For the public Public offering	For specific investors Non-public offering
Number of Investors and Investment Amount	Over 200 person Over 100 yuan per person	Less than 50 person Over 1 million yuan per person
Scale	Several billion yuan	Several hundred million
Restriction	Strictly restriction, it can't invest in derivatives and do short selling trading	Lax restriction, it can invest in derivatives and do short selling trading
Investment Objects	Exceed performance benchmark, pursuit performance rankings	Pursuit absolute returns and excess returns.
Profit Model	Charge management fees daily which decided on fixed rate and the net value of funds.	Charge 20 percent of income as a performance reward.
Information Disclosure	Investment objectives, investment portfolio and other information must be disclosed.	Lower disclosure requirements with strong confidentiality.

Risks and Benefits	Risk and yield are relatively low (investors who prefer risk-averse)	Risk and yield are relatively high （investors who prefer risk appetite）

Source: www.chinafund.cn