

China Emerging Affluent Financial Well-Being Index

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This presentation is solely for the "China Emerging Affluent Financial Well-Being Index" Launch Event to be held on June 15th, 2017. This is for information purposes only and is not to be construed as an offer to buy or sell financial instruments.

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The Schwab-SAIF “China Emerging Affluent Financial Well-Being Index” aims to track investors’ shifting perceptions of their own personal financial well-being

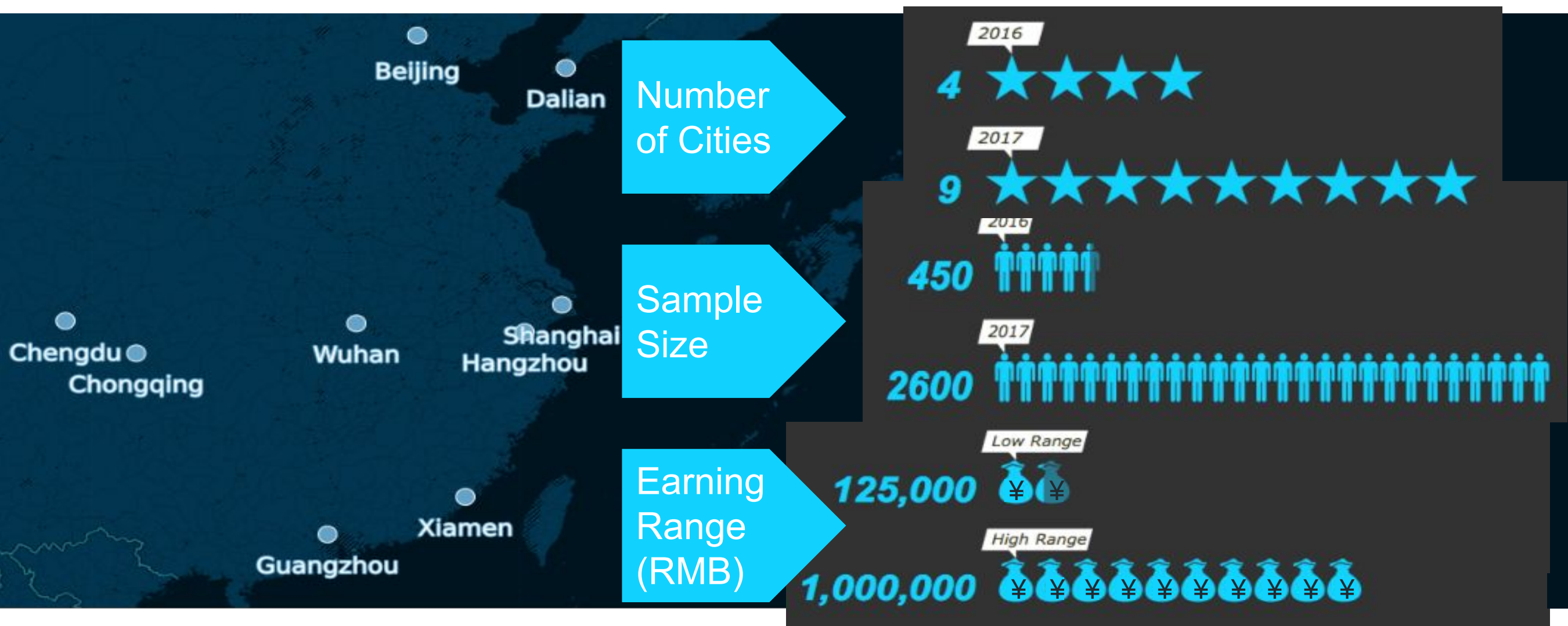
- **Premise:** The behavior and expectations of China’s emerging affluent are rapidly changing. This requires a routinely updated index capable of measuring and tracking their evolution.
- **Objective:** To measure how China’s emerging affluent investors perceive their own financial well-being.
- **Methodology:** Building on insights from a 2016 research paper, Shanghai Jiaotong University’s Shanghai Advanced Institute of Finance (SAIF), Schwab, and Nielsen have developed a 57-question quantitative research survey to measure emerging affluent perceptions of their own financial well-being. The survey was distributed across 9 major Chinese cities* with a sample size of 2,605 respondents. This booklet represents our interpretations based on this research.

** These major cities include: Beijing, Dalian, Shanghai, Hangzhou. Wuhan, Chengdu, Chongqing, Xiamen, and Guangzhou.*

China’s Emerging Affluent:

Investors earning between RMB 125,000 and 1 million per year.

SAIF and Schwab's nationwide survey offers the first comprehensive look at China's emerging affluent class and its sense of financial well-being





The Schwab-SAIF China Emerging Affluent Investor Well-Being Index

Members of China's emerging affluent class appear to be confident in their own financial well-being

Overall Index Score

66₁₀₀

Nevertheless, the headline index is informed by four sub-indices that reveal a more nuanced story



CONFIDENCE



PLANNING



MANAGEMENT



ENGAGEMENT

China's emerging affluent investors are largely satisfied with their personal financial status and growth prospects



Confidence Score

68.10
/100

Confidence Factors:

- Satisfaction with personal financial status
- Concern over issues capable of impacting personal financial status
- Confidence in personal financial growth prospects

However, they still face a variety of pressure points that correspond with age and income level.

However, most do not expect to achieve their future goals, and nearly all lack formal plans and realistic timelines



Planning Score

49.37_{/100}

Planning Factors

- Having a financial plan
- Consistently reviewing financial plan
- Having a clear timeline
- Having a high possibility of accomplishing financial goals within specified timeline

While most investors review their plans regularly, very few have a clear understanding of what a formal financial plan should consist of.

Very few investors practice 'rebalancing', and most are sensitive to management and advisory fees



Management Score

40.12_{/100}

Management Factors

- Having a sense of risk
- Having a portfolio management strategy
- Sensitivity towards fees
- Reviewing investments regularly

Most investors are risk-averse, preferring safe investments with low returns.

Emerging affluent investors are highly engaged and depend on a small number of sources for investment advice



Engagement Score

71.31_{/100}

Engagement Factors

- Diversity of financial services used
- Perception of credibility and contributions of financial advisors and institutions
- Perception of credibility and contributions of online financial platforms

While investors trust professional advisors slightly more than online financial platforms and robo-advisors, they are increasingly open to investing through fintech.



Key Observations

Key observation #1: Age and income matter



Respondents reported a wide array of purposes for investing, which primarily varied across age and income levels.

Key observation #2: Children are a top priority



China's emerging affluent **prioritize investing in their children.** This means that **retirement takes second place**, with most starting to plan and invest for retirement only late in their careers.

Key observation #3: Investors are not setting realistic timelines for their financial goals



While investors' perception of their current financial well-being was positive, they tended to overlook the need to set **concrete goals and realistic timelines** to ensure long-term financial health.

Key observation #4: Having a formal financial plan leads to higher confidence and a more balanced portfolio



While only a small proportion of respondents had a formal financial plan, those who did were **more realistic about the time, resources, and portfolio strategy** needed to achieve their goals, leading to higher confidence overall.

Key observation #5: Financial advisors are seen as helpful, but also as perhaps unnecessary or inaccessible.



While emerging affluent investors believe that **professional financial advisory services** can help them achieve their investment goals, many view those services as **either unnecessary or inaccessible.**



Appendix A: Variations Across Age and Income Levels

Survey responses indicated a ‘hierarchy of investing’ that varied across age and income levels

- Respondents across the board considered it a top priority to have an **emergency fund**, usually stored in fixed-term deposits.
- **Caring for children** ranked a close second to creating an emergency fund. Providing funds for children’s education, housing needs, and career development was a clear priority for respondents over the age of 25.
- As respondents aged and children graduated, the priority placed on education shifted to helping children either **buy housing for marriage** or **start businesses**.
- **Consumer spending on luxury items**, including travel, was consistently listed as a key focus.
- **Preparing for retirement** only gained importance later in life.



Top issues were often related to family and health, evolving as respondents aged



High



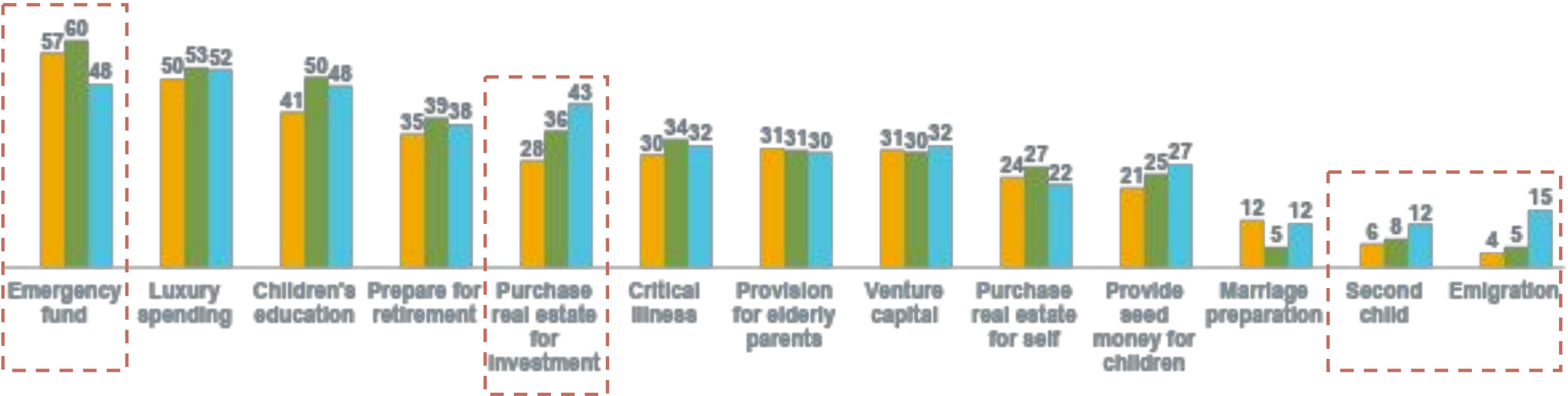
Low

Consumer spending	Emergency fund	Children's education	Emergency fund
Saving to start a business	Children's education	Emergency fund	Saving for retirement
Emergency fund	Consumer spending	Consumer spending	Consumer spending
Preparing for marriage	Provision for elderly parents	Saving for retirement	Money for children to buy housing or start a business
Buying a home to live in	Safeguarding against critical illness	Safeguarding against critical illness	Safeguarding against critical illness

Income level influenced the ways in which assets were allocated to cater to financial priorities

Variations in Reasons for Investing Across Income Levels

Monthly income (RMB) 9-15K 15-30K 30K+





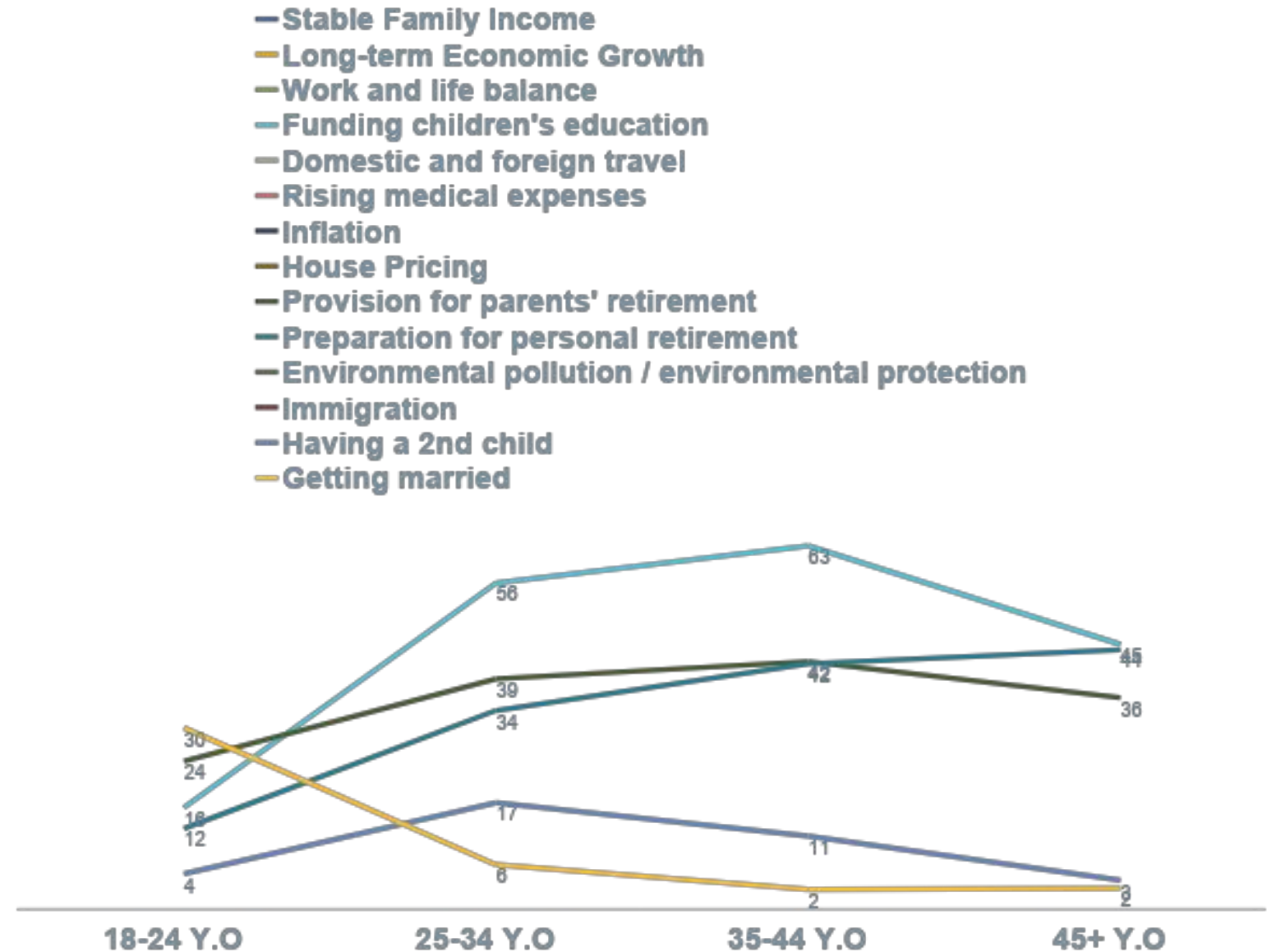
Appendix B: Children are a Top Priority

Caring for children is one of investors' top priorities

Children factor prominently into financial goals, with marriage, housing, education, and seed money for children to either buy housing or start their own business being key considerations.



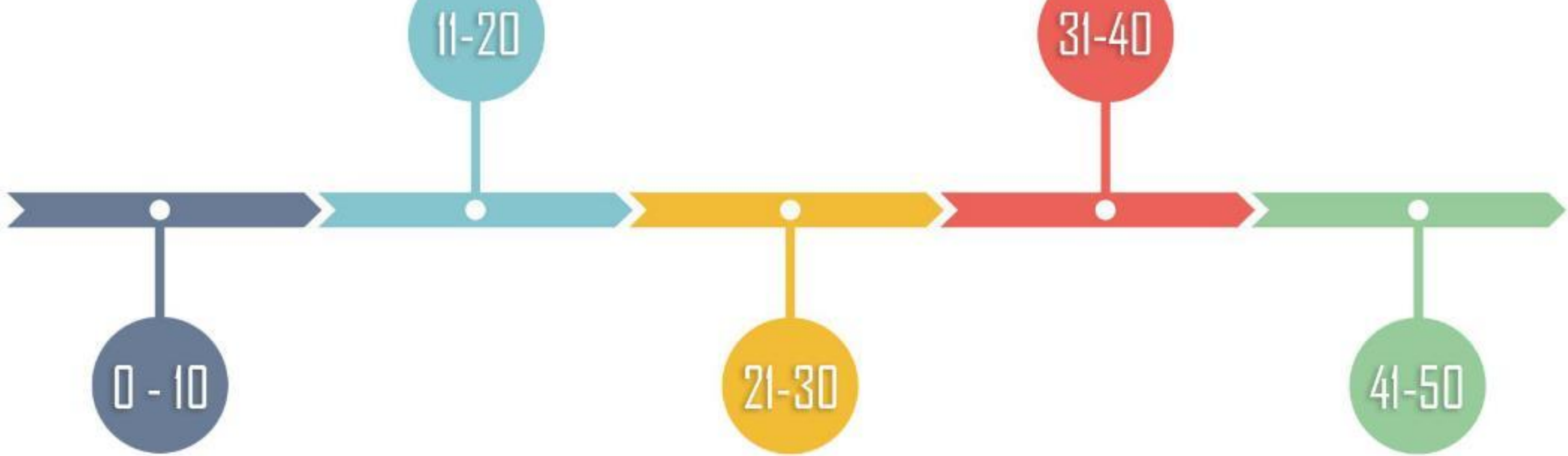
Key Investment Priorities by Age Group*



But prioritizing children comes with opportunity costs



- **Children could eventually be over-burdened** by their parents' post-retirement healthcare and living costs due to poor long-term financial planning.
- Low scores for planning and management could potentially indicate that the emerging affluent are a **'sandwich generation'** at risk of being forced to shoulder the dual burdens of caring for both children and parents, never becoming wealthy themselves.



Appendix C: Unrealistic Goals and Timelines

Respondents reported highly unrealistic timelines for achieving their financial goals

While investors identified clear reasons for investing, the timelines they identified for achieving their financial goals were highly unrealistic.



11.02 years to prepare for retirement



8.56 years to prepare to buy housing for children and invest in their business endeavors



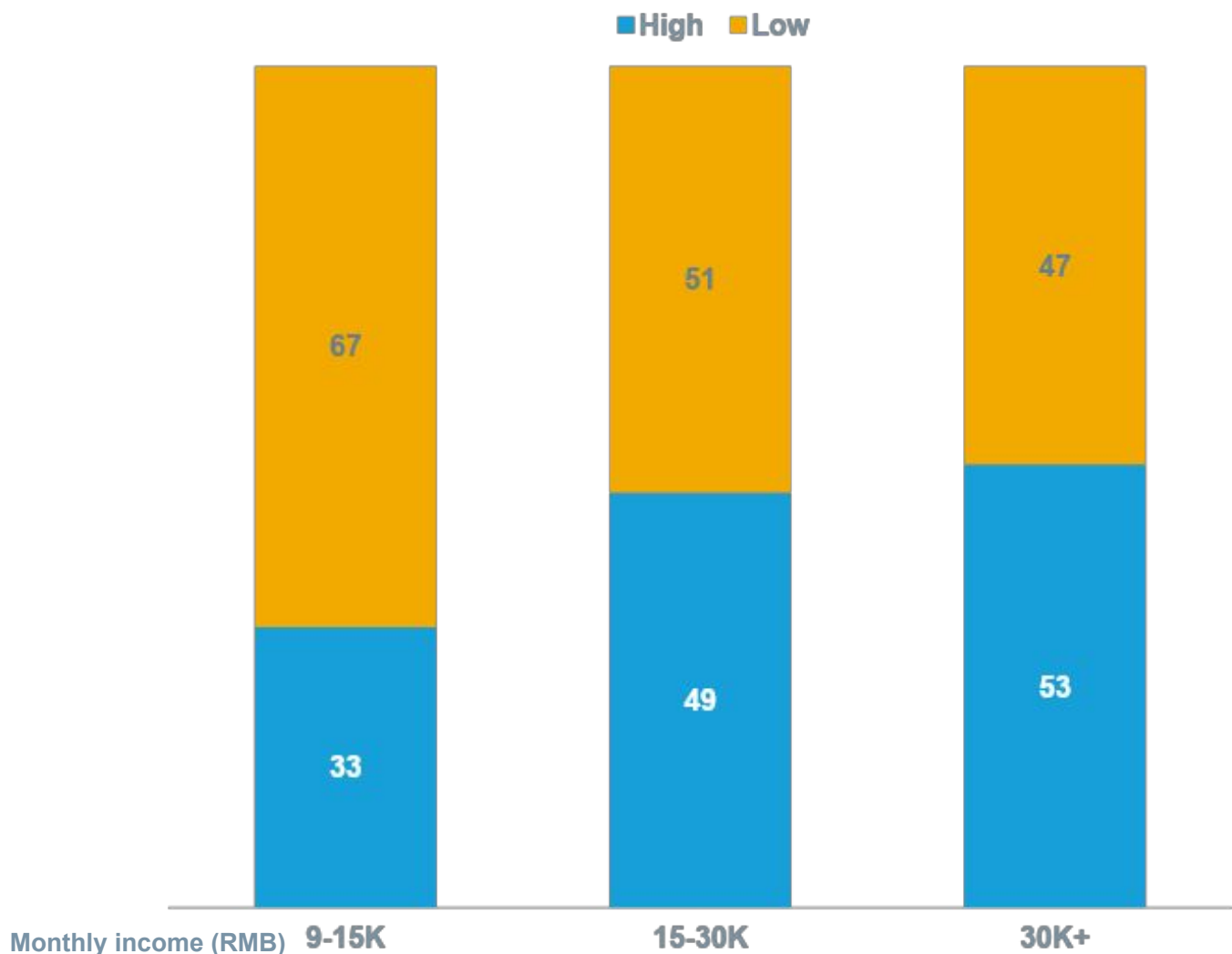
7.46 years to prepare for emigration



6.21 years to save enough for real estate purchases

And despite reporting that they had concrete objectives, respondents were pessimistic about reaching them

Likelihood of Reaching Goals by Income Level



Overall, only 41% of investors believed they had a high chance of reaching their financial goals. This indicates that respondents might have interpreted “goals” as “aspirations.” However, for those with formal financial plans, the percentage of those who believed they will achieve their goals rose to 75%, indicating higher confidence.

A black and white photograph of a hand holding a pencil, pointing at a bar chart on a clipboard. The chart has multiple bars of varying heights. The background is slightly blurred, showing more of the clipboard and the hand. A blue banner with white text is overlaid on the bottom half of the image.

Appendix D: Having a Formal Financial Plan Significantly Changes Behavior and Outlook

The proportion of respondents who have a formal financial plan is low

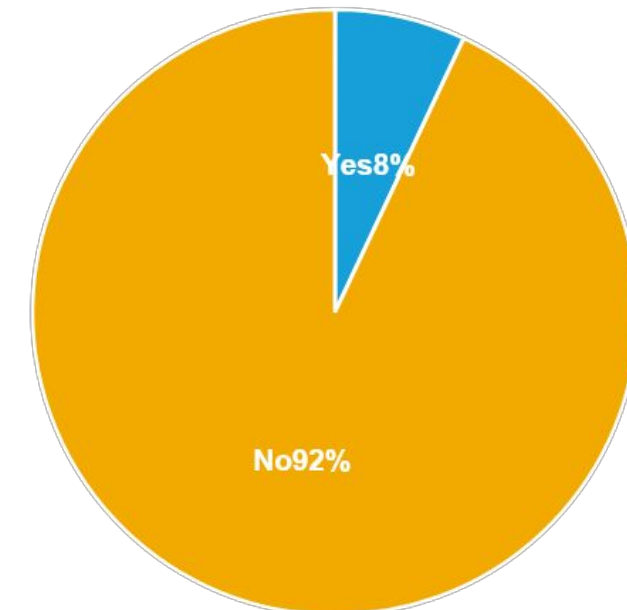
While many respondents believed they had clear plans, only a small proportion had what a professional advisor would consider to be a formal financial plan.



% of respondents stating they had a financial plan

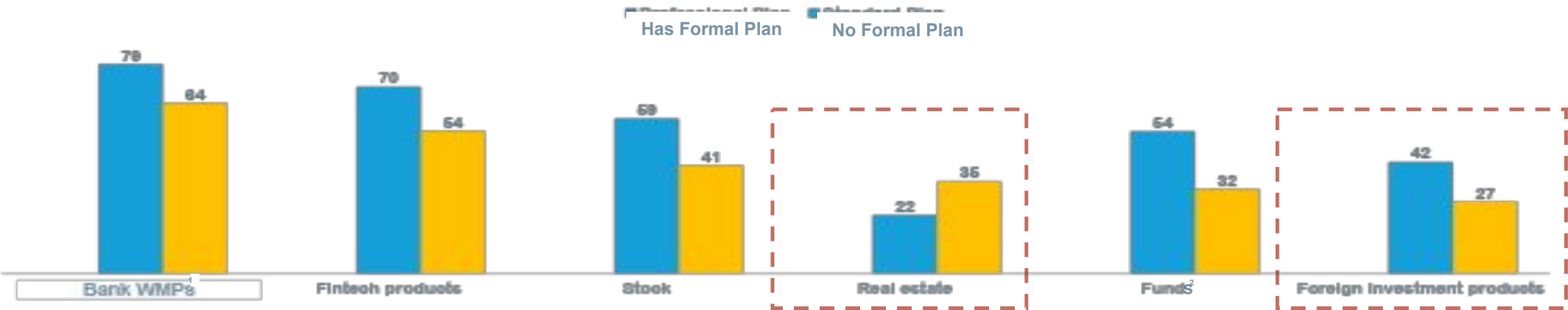


% of respondents who actually had a formal financial plan

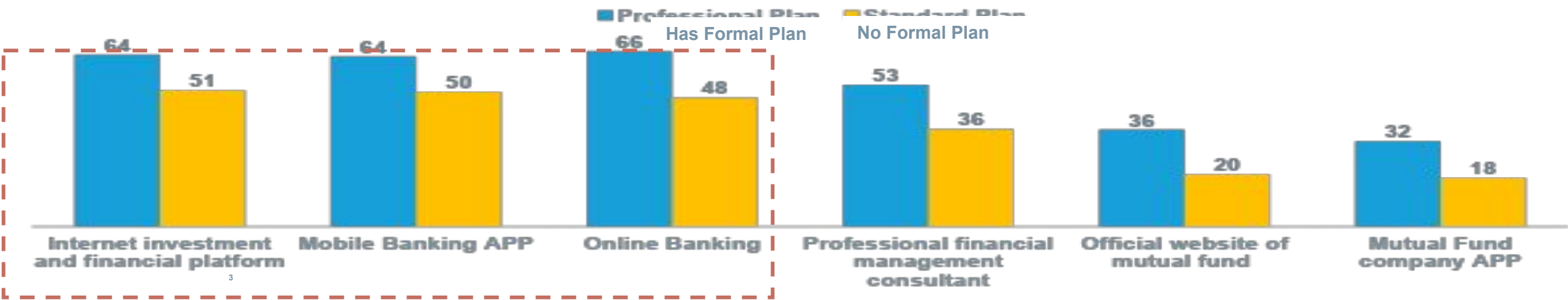


But having a formal plan changes behavior considerably

Percentage of Respondents Invested in Various Assets



Key Variations in Financial Advisory Services Sought

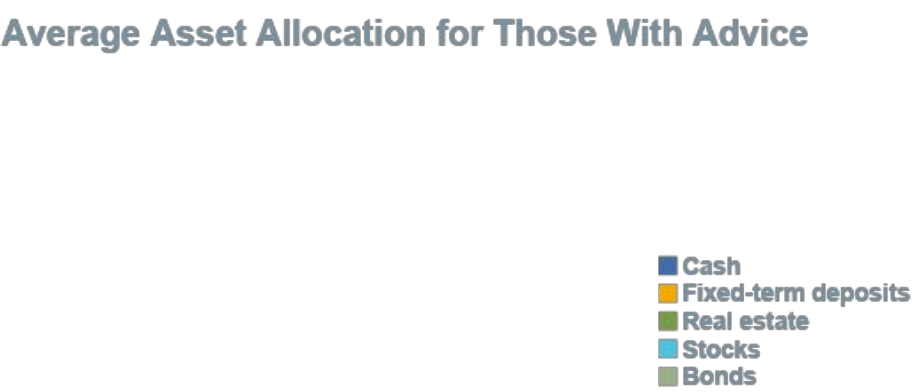
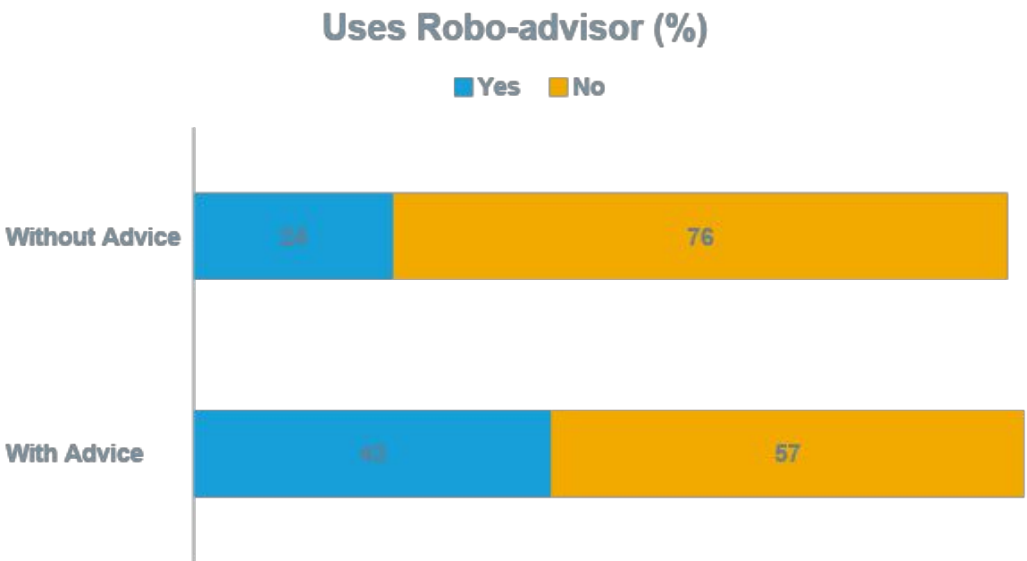
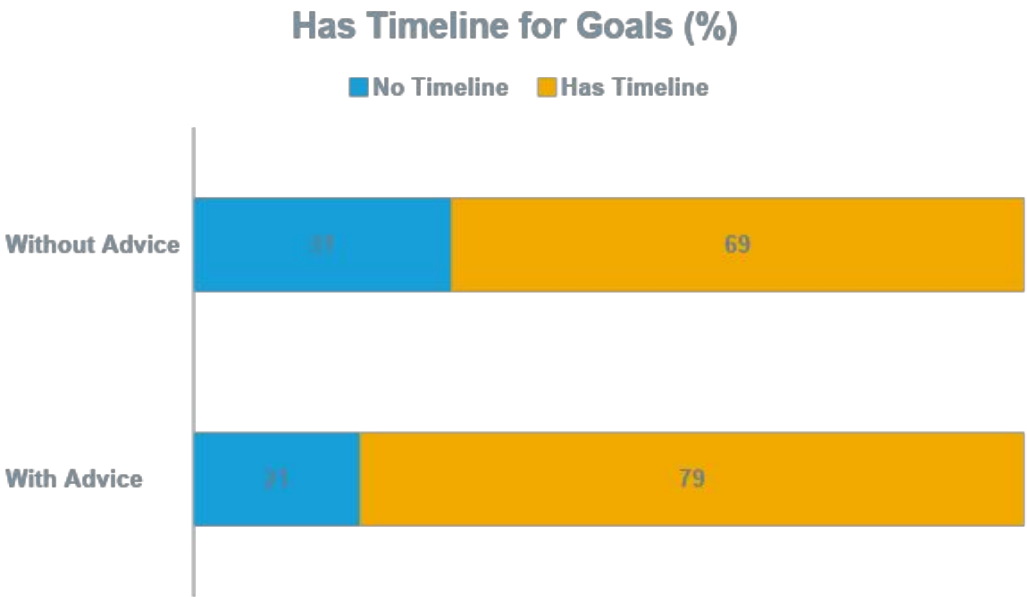
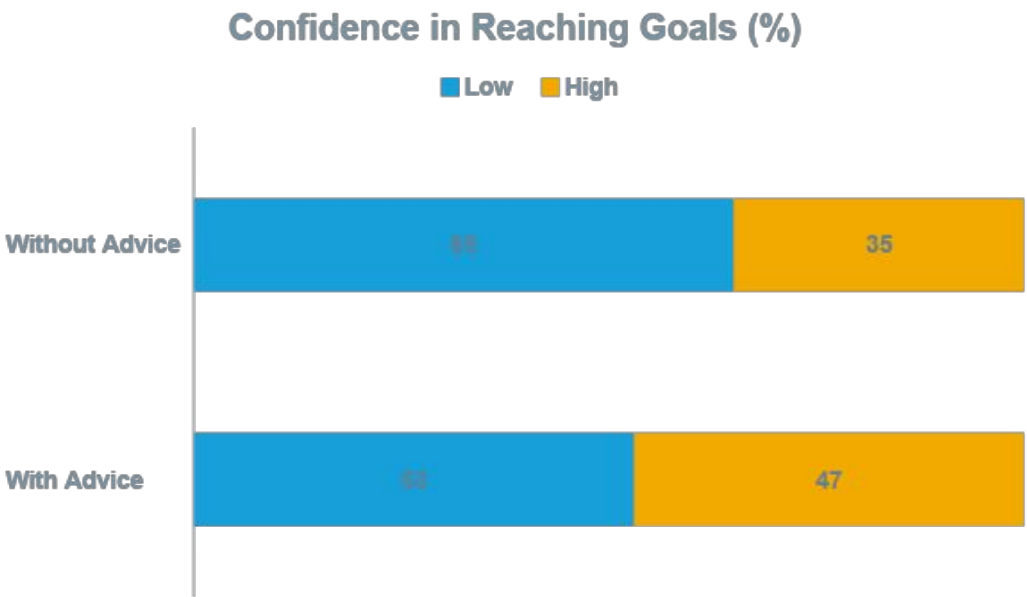


1. Wealth management products (WMPs) are financial products sold in China by banks and other financial institutions. They are uninsured and tend to offer high rates of interest.

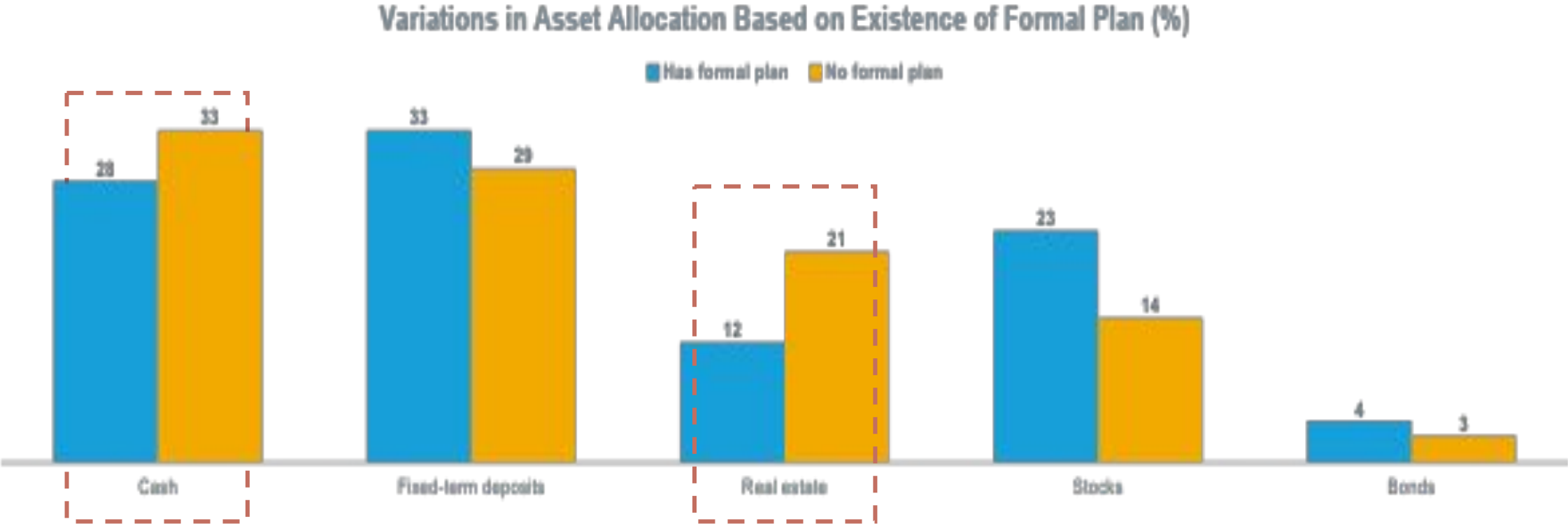
2. Funds here encompasses mutual funds, exchange-traded funds, money market funds, and hedge funds.

3. Internet investment and financial platforms are online platforms used for investing purposes that are usually accessed through personal computers or mobile phones. In China, such platforms frequently offer investment advice by using programs to recommend financial products to investors with certain profiles.

As does having professional financial advice



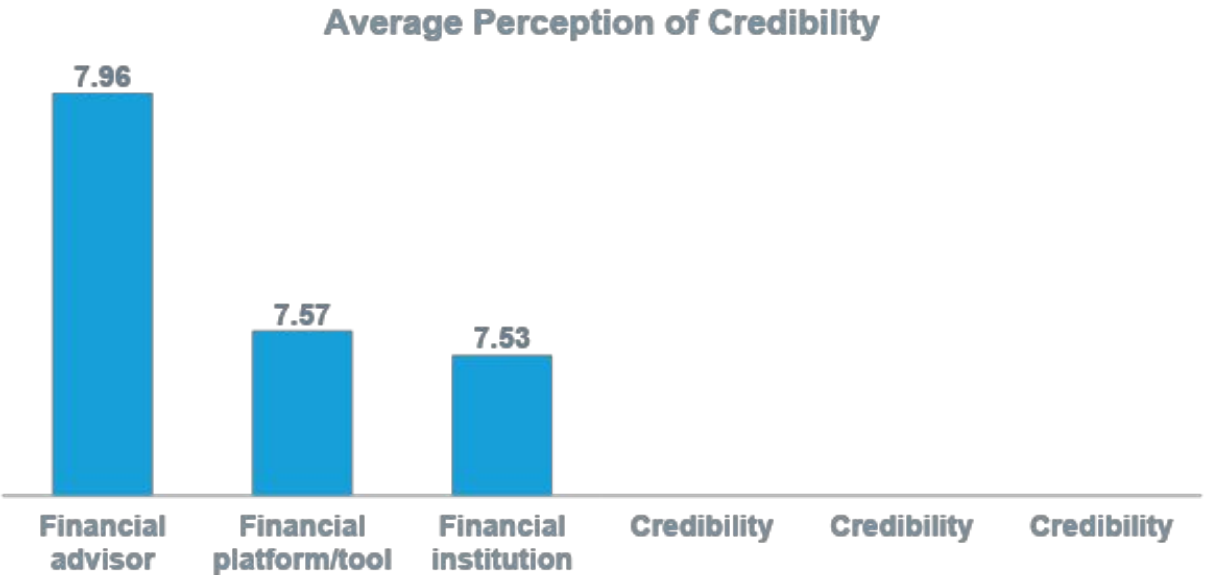
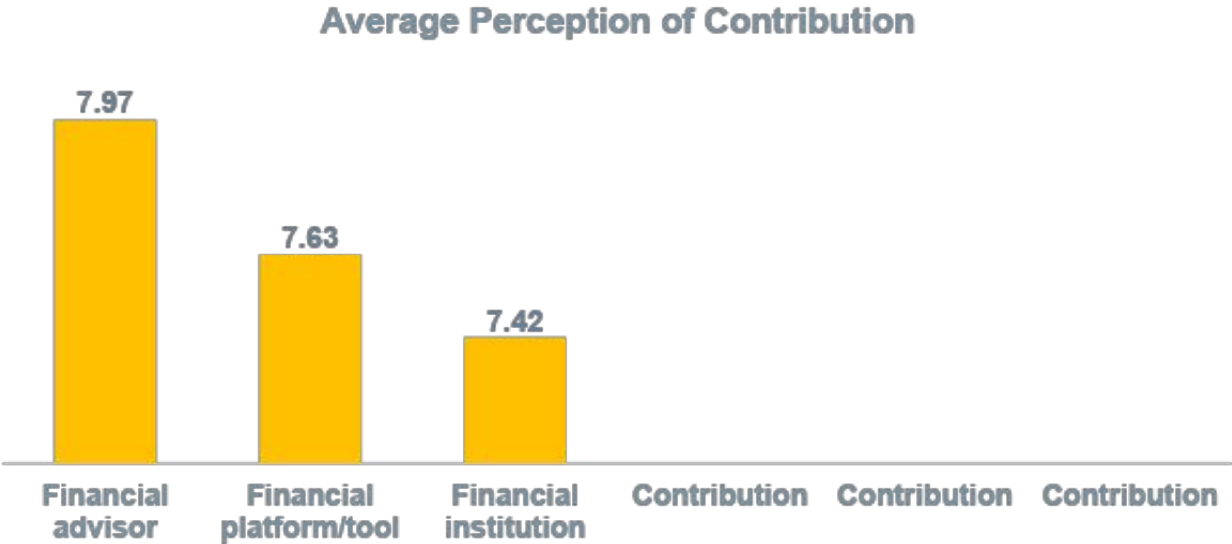
Investors with formal financial plans also have more balanced portfolios with less allocated to cash and real estate





Appendix E: Investors Seem to Trust Financial Advisors, but Barriers to Engagement Remain

Trust in advisors and the belief that they make a positive contribution to financial well-being is very high



Perceptions of the credibility of financial advisors and their ability to contribute to personal financial well-being received the highest scores out of all financial advisory options. This indicates that face-to-face advice is highly valued in China.



But while advisors are viewed as helpful, many investors still perceived barriers to further engagement

Reasons for Having an Advisor

A financial advisor can provide more professional investment recommendations

50%

Financial advisors can help me save time and become more efficient

47%

I would like to get more financial investment information

46%

Reasons for Not Having an Advisor

I have few investments and do not need to consult a financial advisor

33%

I do not know which channels will allow me to find a reliable financial advisor

26%

The investment threshold is too high; I am not qualified to use a financial advisor

24%

As income grows, higher earners become more willing to seek out professional advice

Source of Investment Information	Average (%)	High Earners (30K+ per month)
Financial management companies & platforms	57	61
Professional financial advisors	45	56
Family and friends	43	36



As earnings go up, professional financial advisory services become more preferred. Significantly, human advisors are deemed to be slightly more credible than fintech software.

The use of fintech is becoming ubiquitous



- **Fintech** is quickly becoming a popular investment method, with 55% of respondents choosing to invest on various online platforms.
- The growth of fintech is driven by the **ubiquity of investments conducted on mobile platforms**. Products are marketed with little explanation of risk, but they promise higher growth rates that investors may be seeking to help alleviate the impact of poor planning.
- Among respondents with monthly incomes of 9-30K RMB, mobile banking is particularly popular, with **53% using mobile banking apps** of some form.

Important Disclosures

In 2016, the Shanghai Advanced Institute of Finance (SAIF) and Charles Schwab released a white paper examining investment behaviors and aspirations among China's emerging affluent—defined as those with earnings of RMB 125,000 to 1 million per year. Building on this framework, in 2017 SAIF and Charles Schwab have joined forces with Nielsen to delve deeper into the minds of this influential economic group, conducting a quantitative research survey with a sample size of 2,600 across 9 major Chinese cities. The resulting “China Emerging Affluent Financial Well-Being Index” aims to track shifting perceptions of personal financial well-being among China's emerging affluent class.

This presentation is solely for the 2017 “China Emerging Affluent Financial Well-Being Index” Launch Event. The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision.

About the Shanghai Advanced Institute of Finance (SAIF)

SAIF was established at Shanghai Jiao Tong University in April 2009, with strategic and financial support from the Shanghai Municipal Government. As a member of Shanghai's financial community, it strives to contribute to the development of Shanghai as a global financial center. SAIF's mission is to become a world class institution of research and advanced learning in finance and management. SAIF is committed to developing top talent and cutting-edge knowledge, with a focus on Chinese markets and their global connections.

About Nielsen Holdings PLC

Nielsen Holdings PLC is a global information, data, and measurement company with headquarters in the United States. Nielsen operates in over 100 countries and employs approximately 44,000 people worldwide.

About Charles Schwab & Co., Inc.

Charles Schwab & Co., Inc. (“Schwab”), member SIPC, is a US leading provider of investment services and products to individual investors around the world.

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