DMSA Deutsche MarktScreening Agentur GmbH

**PRESS RELEASE**

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## RETAIL INVESTOR SCANDAL IN CHINA
## 71 million Chinese fear of losses of USD 4370 billion

**Evergrande and Kaisa investors already with defaults causing open protests. Therefore, China will not stand up for international debts of private companies like Evergrande and Kaisa.**

International investors cannot count on the support of the Chinese state. Rather, China is busy trying to control internal social tensions, caused by large losses suffered by Chinese retail investors in so-called wealth management products (WMP). At the end of September, outstanding financial claims in China's bank wealth management market totaled 27,950 billion yuan ($4,370 billion), with nearly 71 million individual investors holding such products (according to Chinawealth.com.cn). "This development has social consequences and the Chinese state will do everything it can to quell further protests and unrest, as it did in September and last week. International investors must be clear that they should not expect China to pay off the debts of private companies," explains Dr. Marco Metzler, DMSA senior analyst.

### WMP - Strong growth due to high promised returns

Chinese wealth management products are investment vehicles marketed to retail and corporate investors and sold by both banks and non-bank financial institutions (NBFIs). They often entice investors with capital and interest rate guarantees that range from 3 to 12 percent. China's economic growth has created a large investor class that has sought higher yields and found them in WMPs due to capital controls, limited onshore investment opportunities, and low deposit yields. While the government has tried to regulate these products from banks and asset managers in recent years, those from NBFIs, such as real estate developers like Evergrande or Kaisa, run "under the radar" because they are not included on balance sheets. They do not correlate with the "three red lines" of government regulation, and companies can de facto take on more debt than they are actually allowed to.

## Another domino in the meltdown of the global financial system

Most WMPs are not explicitly guaranteed by the issuing bank, so investors legally assume the risk of these products. They are unique off-balance-sheet sources of financing that construction companies such as Evergrande and Kaisa use to fund their projects. Some analysts say WMPs can resemble a Ponzi scheme, as real estate groups tend to pay off old investors with the capital of new investors when they run into liquidity problems. Insolvent China Evergrande Group, for example, sold $15 billion worth of products that promised annual returns of nearly 12%. These products were issued in the name of Evergrande suppliers, but guaranteed by Evergrande if the issuers were unable to repay.
Shenzhen-based developer Kaisa Group Holdings missed a payment on a WMP last week, the latest sign that cracks are widening in mainland China's real estate sector.
The WMPs, issued by Kaisa Finance, a unit of the property group, are reportedly worth 12.7 billion yuan ($2 billion). According to Reuters, Kaisa Finance met with more than 100 investors protesting outside the company's headquarters in Shenzhen on Thursday to explain the situation.

Dr. Marco Metzler considers the current situation extremely worrying: "If Evergrande files for bankruptcy on this scale of WMP defaults, it will impact the entire real estate sector and burst the US$4,370 billion bubble. Despite all the warning signs, however, the Chinese government seems intent on protecting the Chinese retail investor first in the event of defaulting WMPs before turning its attention to international bondholders," concludes DMSA expert Metzler. "Our latest study shows that WMPs are emerging as another building block in the meltdown of the global financial system."

Please find more information and the research report at [www.dmsa-agentur.de](http://www.dmsa-agentur.de)

**About DMSA Deutsche Markt Screening Agentur GmbH:**

DMSA Deutsche Markt Screening Agentur GmbH, is an independent data service that collects and evaluates market-relevant information on companies, products and services. DMSA sees itself as an advocate for consumers, private customers and intelligent investors. The claim: to always look at companies and providers, products and services through the eyes of the customers. The customers are the focus of DMSA's work. For them, important and decision-relevant information is bundled and presented as market screenings. The aim is to create more transparency for consumers when selecting products, investments and services.

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