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Keywords: bank wealth management, non-affiliated distribution, fund performance, agency problem, external governance
JEL Classification: G21, G23, D82, L14

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Using *the Measures for the Administration of Bank Wealth Management Funds Sales* as an exogenous shock in fund distributions in Chinese BWM industry, we find that the increase in non-affiliated distribution brokers causally improves fund performance. The effect is more pronounced when the distribution broker possesses greater market power, when the fund issuer exhibits greater distribution dependence, and when horizontal competition is stronger between the distribution broker and fund issuer. Our findings indicate that non-affiliated distribution mitigates agency problems by providing both ex-ante effort-inducing and ex-post performance-monitoring, underscoring the role of non-affiliated distribution as an effective external governance mechanism.

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I. Introduction

Distribution channels play a central role in shaping investor choices by controlling the visibility and accessibility of financial products. Yet academic research often treats them as passive intermediaries rather than active market participants. For instance, in the asset management industry, distributed products are commonly viewed as targeting less sophisticated investors, with distribution primarily serving to expand reach rather than to improve quality (e.g., Bergstresser, Chalmers, and Tufano, 2009; Guercio and Reuter, 2014).

However, in highly intermediated environments--where shelf space is scarce, performance is observable, and underperforming products can be removed--distribution brokers may act as powerful gatekeepers that significantly shape market outcomes through two complementary mechanisms. First, by screening products before distribution relationships are established, they induce suppliers to exert greater ex-ante effort to secure shelf space. Second, by monitoring post-distribution performance, they can enforce ex-post discipline by terminating underperforming products. Together, these mechanisms not only improve product quality but also align supplier behavior with investor interests, effectively turning distribution channels into a form of external governance.[1]

Although recent work--particularly in the context of platform economics--has emphasized the governance potential of distribution (Huang et al., 2013; Li and Wu, 2018; Wu and Zhu, 2022; Qi et al., 2024), empirical evidence on whether and how distribution disciplines suppliers remains scarce in the asset management industry (Hong et al., 2024). A key challenge lies in disentangling the causal effect of distribution from endogenous product selection, as higher-quality products are more likely to be broadly distributed.

[1] This is analogous to how high-end retailers such as Sam's Club or Costco carefully select which products to place on their shelves to maintain customer trust. By limiting shelf access and monitoring product performance, they influence both ex-ante supplier behavior and ex-post product on-shelf survival. Our paper also resonates well with the classic financial intermediation literature which highlights the role of banks in mitigating moral hazard through delegated oversight (e.g., Diamond, 1984).

We study this question in the context of China's bank wealth management (BWM) industry, a setting uniquely suited for identifying the active role of distribution. First, the market is highly intermediated: distributed BWM funds account for 89.9% of total assets under management. While 92.3% of them are distributed by affiliated parent banks, a notable 42.2% are also distributed by non-affiliated banks[2], granting these third-party brokers substantial control over investor access and shaping the competitive dynamics among fund issuers. Second, the centralized and broker-driven structure of the market, combined with standardized product and observable performance, makes it ideal for assessing whether third-party non-affiliated distribution enforces discipline on the supply side.

To begin, we assemble a sample of all BWM products in China during the period of 2019-2022 and estimate a fixed effects panel regression. We find that non-affiliated distribution is positively associated with fund performance. Specifically, funds distributed through non-affiliated distribution brokers are associated with an average monthly return increase of 1.77 basis points, and each additional distribution broker is linked to a further increase of 0.04 basis points. While these correlations suggest a potential performance benefit from non-affiliated distribution, establishing causality requires more rigorous identification strategies.

To deal with potential endogeneity concerns, we exploit a regulatory reform introduced in 2021 by the China Banking and Insurance Regulatory Commission (CBIRC): *the Measures for the Administration of BWM Fund Sales* (henceforth, *the Measures*). The policy exogenously promoted the use of non-affiliated distribution and strengthened their oversight responsibilities. We show that non-state-owned (non-SOE) BWM companies responded to the reform by significantly increasing their use of non-affiliated distribution, whereas state-owned (SOE) BWM companies, with well-established affiliated distribution networks, was largely unaffected, creating a quasi-natural experiment for identifying the causal effect of non-affiliated distribution on fund performance.

[2] Throughout the paper, a distribution is classified as affiliated if the BWM company sells its products through its parent bank; otherwise, it is considered non-affiliated.

We employ a difference-in-differences (DID) approach to compare the performance of non-SOE BWM funds to that of SOE BWM funds before and after the implementation of *the Measures*. To better isolate the impact of *the Measures* from pure selection effects, our DID analysis focuses on funds that were continuously active both before and after the reform. This balanced sample design allows us to observe within-fund changes, thereby minimizing concerns that observed effects are driven by fund entry or exit rather than the reform itself.

We find that this shift toward non-affiliated distribution among non-SOE BWM funds is associated with an average performance improvement of 46.40 basis points relative to the change in performance of SOE BWM funds. Given that the average monthly return of non-SOE BWM funds is 0.97%, this translates into a relative gain of 48.08% in fund performance attributable, at least in part, to the expansion of non-affiliated distribution.

To provide direct evidence for the mechanism through which non-affiliated distribution brokers mitigate agency problems via both ex-ante effort-inducing and ex-post performance-monitoring, we examine fund manager behaviors and distribution contract dynamics. First, we find that, consistent with greater ex-ante effort-inducing, the investment research endeavor of fund managers, proxied by the number of site visits, the diversity of fund maturities, and the breadth of investment assets, significantly improved among non-SOE BWM companies following the implementation of *the Measures*. Second, regarding ex-post performance-monitoring, we show that BWM funds with longer distribution contract terms and renewable contracts outperform those with shorter or single-term agreements. This finding suggests that the effect of ex-post performance-monitoring is more pronounced when non-affiliated brokers have greater incentives and rights of termination.

We further explore cross-sectional heterogeneity to shed light on the mechanisms through which non-affiliated distribution improves fund performance. We find that the effect is more pronounced when distribution brokers possess greater market power. In particular, brokers with

extensive client networks are better positioned to impose discipline on fund issuers, enhancing performance through more effective monitoring. We also find that the effect is stronger when fund issuers are more reliant on non-affiliated distribution to reach investors, making them more responsive to broker incentives and oversight. Finally, we find that the performance gains are amplified when the broker and issuer compete in overlapping product markets. In such settings, distribution brokers are likely to apply more rigorous ex-ante approval standards for competing funds and can more precisely evaluate the funds they distribute, thereby reinforcing the incentives of fund managers to deliver strong performance.

Our study contributes to two strands of literature. First, we contribute to the growing literature on how distribution channels affect investment performance in the asset management industry. Existing studies, primarily based on the U.S. mutual fund industry, typically find that distribution is associated with underperformance, often due to misaligned incentives and weak monitoring by distribution channels (Bergstresser, Chalmers, and Tufano, 2009; Christoffersen, Evans and Musto, 2013; Guercio and Reuter, 2014; Gennaioli, Shleifer and Vishny, 2015; Oh, Parwada and Tan, 2017). In contrast, we provide novel and causal evidence that distribution, particularly through non-affiliated brokers, can improve fund performance in the context of China's bank wealth management (BWM) industry. This divergence suggests that the performance implications of distribution are context-dependent and shaped by institutional features[3]. In tightly intermediated markets, distribution brokers play an active role in shaping market outcomes rather than merely serving as passive placement channels. Specifically, they serve as an external governance mechanism by aligning issuers' behavior with investor interests and enforcing higher financial product quality.

[3] As will be discussed in the institutional background section, brokers in China play a central role in investor access, which enhances both their incentives and their ability to screen and discipline fund issuers. The regulatory framework further reinforces this role by adopting a tripartite accountability system that holds both brokers and issuers jointly responsible for product outcomes. In contrast, U.S. brokers have a smaller market share and operate primarily under suitability rules focused on investor protection. These structural and regulatory differences help explain the divergent effects of distribution across the two markets.

Second, our study contributes to the broader literature on agency problems in asset management, which arise from conflicting economic incentives between fund managers and investors (see Spatt (2020) for a comprehensive review). While investors seek to maximize risk-adjusted returns, fund managers are often rewarded for expanding assets under management, thereby increasing fee income. This divergence in objectives, coupled with information asymmetry, gives rise to classic principal-agent frictions[4]. Prior research has examined various mechanisms to address these frictions, including internal incentive alignment through compensation design (Ma, Tang, and Gomez, 2019; Ma and Tang, 2019) and external regulatory oversight such as mandatory disclosure rules imposed by the SEC (Agarwal, Mullally, Tang, and Yang, 2015). Our study highlights a complementary external governance mechanism: distribution channels that screen and curate financial products both before and after they reach investors. This form of market-based regulation not only mitigates agency frictions and better aligns incentives among fund managers, distribution brokers, and investors, but also reduces reliance on formal regulatory institutions. This insight is particularly timely in light of China's ongoing efforts to strengthen centralized regulatory oversight in the asset management industry. While such regulatory reforms play an important role, our findings suggest that decentralized and intermediary-driven governance can serve as an effective alternative or complement to top-down regulation, offering a more flexible and incentive-compatible approach to investor protection.

II. Institutional Background

In this section, we provide details of the historical development, distribution practices and regulatory framework of the BWM industry in China.

[4] Common manifestations of agency problems in the asset management industry include window dressing (Lakonishok et al., 1991), risk shifting (Brown et al., 1996), herding (Chevalier and Ellison, 1999), end-of-day price manipulation (Carhart et al., 2002), and cross-subsidization within fund families (Gaspar et al., 2006).

A. Bank Wealth Management Companies

Chinese regulatory authorities jointly issued the "New Wealth Management Rules" on April 27, 2018, requiring financial institutions not primarily engaged in wealth management to establish dedicated subsidiaries for such business. The regulatory framework was further refined by the "Measures for the Administration of Commercial Bank Wealth Management Business," issued on September 26, 2018, which specified that commercial banks must conduct wealth management through subsidiaries with independent legal entity status to enhance risk isolation from shadow banking. Following this reform, the first bank wealth management (BWM) company was established in May 2019. By the end of June 2024, a total of 31 BWM companies had been launched (Table I). As of December 2023, BWM funds managed 27.65 trillion RMB in assets, representing 23% of China's wealth management market.

Due to this institutional background, BWM companies possess distinctive characteristics in its ownership structures. The majority of BWM companies are wholly-owned subsidiaries of their parent banks. Based on their parent banks' ownership characteristics, BWM companies can be categorized into two groups: SOE BWM companies and non-SOE BWM companies. SOE BWM companies benefit from significant competitive advantages, particularly through access to broad customer networks stemming from their parent banks' dominant market positions. In contrast, non-SOE BWM companies face inherent disadvantages due to the more limited distribution capacity of their parent banks.

B. Distribution in BWM Industry

One of the defining features of China's BWM industry is its heavy reliance on distribution channels. These channels have proliferated because they generate mutually beneficial outcomes: BWM companies, constrained by limited in-house sales capacity, can expand investor reach and attract inflows, while commercial banks earn intermediary fees for fund

distribution. As a result, distribution has become the dominant sales channel in the industry, giving distribution brokers considerable influence over the allocation of BWM fund flows.

As of 2024, all 31 BWM companies had established partnerships with distribution brokers. In 2022, 53.59 trillion RMB of BWM funds were sold through distribution channels, compared to only 0.26 trillion RMB via direct channels. While most BWM companies primarily rely on affiliated distribution brokers due to ownership ties, 28 of the 31 BWM companies--representing approximately 42.2% of total fund offerings--also engage non-affiliated distribution brokers to compete for limited and valuable shelf space.

Distribution strategies among BWM companies vary significantly, largely reflecting differences in the sales capacity of affiliated brokers. In the early stages of development, firms primarily relied on affiliated distribution channels due to lower costs and reduced information asymmetry. Consequently, about 92.3% of BWM funds were distributed through affiliated brokers. However, this approach poses challenges for non-SOE BWM companies, whose affiliated networks have limited reach. To overcome this constraint, they actively expand non-affiliated distribution to attract fund inflows.

Fig.1. illustrates the evolution of non-affiliated distribution networks for BWM companies in 2019 and 2022 in a matrix format. The vertical axis represents issuers (i.e., BWM companies), while the horizontal axis represents distribution brokers (i.e., Banks). Solid squares indicate the presence of distribution relationships between two institutions. The density of horizontal squares reflects the number of distribution brokers associated with a BWM company. In 2019, during the industry's initial development phase, most BWM companies maintained simple and exclusive relationships with their affiliated brokers, who in turn distributed funds solely for their respective subsidiaries. By 2022, non-affiliated distribution networks had become significantly more complex. Large SOE BWM companies (e.g., ICBC BWM) remained on the periphery of the network, maintaining a “selective and exclusive”

strategy with minimal engagement beyond affiliated brokers. In contrast, non-SOE BWM companies (e.g., CEB BWM, CMB BWM, CIB BWM, and Hangzhou BWM) occupied the center of the network and actively expanded partnerships with non-affiliated brokers, reflecting a "broad and inclusive" distribution strategy.

In practice, the non-affiliated distribution of BWM funds involves in several steps. First, BWM companies select the distribution brokers they wish to cooperate with and conduct initial negotiations. Next, the two parties sign agreements on distribution fees, distribution channels, distribution duration, and other related terms. They execute separate contracts for each individual fund. Before the official fundraising begins, the BWM companies provide the non-affiliated distribution brokers with relevant materials, including fund prospectuses, investor suitability questionnaires as well as detailed risk assessments along with underlying methodologies. Subsequently, the non-affiliated distribution brokers set up separate bank accounts for each BWM fund and manage them independently. After the fundraising period ends, the raised capital is transferred to a designated account, and the BWM companies assume responsibility for fund management in accordance with the wealth management agreement. Upon fund maturity, the BWM companies transfers the principal, returns, and distribution fees to the distribution account, and the broker completes the redemption process with investors.

C. The Measures for the Administration of BWM Funds Sales

To regulate the growing non-affiliated distribution of BWM funds, the China Banking and Insurance Regulatory Commission (CBIRC) issued *the Measures for the Administration of BWM Funds Sales* on May 27, 2021. The impact of *the Measures* is twofold.

Firstly, *the Measures* legally formalize the regulation of non-affiliated distribution activities, reducing the associated legal costs to both fund issuers and distribution brokers. Before the official introduction of *the Measures*, distribution practices were primarily governed by the legacy regulatory rules applicable to commercial banks' wealth management product

sales. Banks used to act as both issuers and distribution brokers of BWM funds. However, following the establishment of BWM companies, the relevant legal entities have expanded to include the BWM companies, the distribution brokers, and investors. The legal roles, responsibilities, and risk expectations of each party have changed significantly, highlighting the need for clearer regulatory guidance. In response, *the Measures* establish a comprehensive framework that defines the duties, qualification standards, and operational protocols governing cooperation between fund issuers and distribution brokers.

Importantly, *the Measures* are largely consistent with previous practices in BWM distribution, especially in key areas such as investor suitability management. The primary objective of *the Measures* is to legalize prior practices and provide regulation guidance in terms of the respective rights and obligations of all participating entities. By reducing legal uncertainty and lowering compliance costs, *the Measures* help accelerate the development of non-affiliated distribution networks and promote the expansion of the BWM industry.

Secondly, *the Measures* exogenously strengthen supervisory obligations of non-affiliated distribution brokers. Specifically, non-affiliated distribution brokers are required to conduct due diligence on the BWM funds they intend to distribute. Moreover, they are prohibited from using only the materials or opinions provided by the BWM companies as the basis. They are encouraged to conduct independent research to form a distribution decision[5].

Taken together, *the Measures* can serve as an exogenous natural experiment that does not change any practice in distribution conduct but purely enhance the willingness of both fund issuer and distribution brokers to participate in the non-affiliated distribution process in the BWM market.

[5] The study by Huabao Securities Co., Ltd. (2023) find that, more than 30% of distribution brokers have assigned a risk rating different from that provided by the BWM companies. In particular, affiliated distribution brokers tend to maintain consistent risk ratings, while non-affiliated distribution brokers typically assign a higher risk rating.

BWM companies responded differently to *the Measures* based on their distribution capacities. Figure 2 illustrates changes in non-affiliated distribution patterns for SOE and non-SOE BWM companies around the policy implementation. SOE BWM companies, backed by affiliated brokers with broad sales networks and customer bases, had little incentive to adjust their strategies. Accordingly, the average number of their distribution brokers remained unchanged after *the Measures*. In contrast, non-SOE BWM companies, constrained by limited affiliated sales capacity, relied more heavily on non-affiliated distribution to expand AUM. By lowering the legal costs of such partnerships, *the Measures* significantly increased their engagement with non-affiliated brokers. This shift is evident in a sharp and immediate rise in the number of distribution relationships for non-SOE BWM funds, a pattern that persists even when restricting the sample to continuously active funds. Therefore, non-SOE and SOE BWM funds are naturally selected into the treated and control groups, respectively, where the changes in the level of non-affiliated distribution are exogenously different due to the implementation of *the Measure*.

D. Institutional Differences between China and the United States

Significant differences characterize the importance of distribution in the Chinese and U.S. asset management markets, as well as their respective regulatory regimes. These structural and regulatory differences help explain the divergent effects of distribution across the two markets.

First, a key difference lies in the nature of the products. Our study examines BWM products, which are unique to China and have no direct counterpart in the U.S. In contrast, existing U.S. studies focus on mutual funds. Despite sharing key economic attributes with U.S. mutual funds such as pooled investment, retail investor orientation, daily NAV disclosure etc., they differ sharply in distribution. BWM product are distributed almost exclusively through distribution brokers, whereas U.S. asset managers often use proprietary sales networks to reach investors directly. This structural difference results in stark contrasts in the reliance on

distribution: nearly 90% of BWM funds in China are sold through distribution channels, compared to only 41% of U.S. mutual funds (Guercio and Reuter, 2014). In China, this dependence grants distribution brokers considerable bargaining power to influence issuer behavior, including imposing listing standards, requiring additional disclosures, or delisting underperforming funds. U.S. brokers, by contrast, typically play a more passive role due to asset managers' in-house control over investor access. This asymmetry in product type, sales infrastructure, and broker power suggests that distribution in China may serve a more proactive governance function.

Second, China's regulatory framework further reinforces this active role by adopting a tripartite accountability system that holds both brokers and issuers jointly responsible for product outcomes. In particular, China adopts a shared responsibility framework that emphasizes shared obligations between distribution brokers and fund issuers, requiring closer compliance coordination throughout the distribution process. In contrast, the U.S. regulatory framework for fund distribution is primarily investor-centered, built around suitability rules that govern the broker-investor relationship.[6] This divergence reflects a deeper contrast in regulatory philosophy, while the U.S. approach prioritizes investor protection through broker accountability, the Chinese model stresses institutional coordination and joint responsibility as key mechanisms for maintaining market discipline.

Taken together, these structural divergences in distribution practice and regulatory philosophies elucidate the mechanisms through which distribution brokers differentially shape fund performance in China and the United States. Recognizing these institutional foundations is essential for interpreting empirical patterns and for drawing context-sensitive policy implications from cross-market comparisons.

[6] Its core legal foundations include Section 15 of the Securities Exchange Act of 1934, FINRA Rule 2111, and the SEC's Regulation Best Interest (Reg BI).

III. Data and Variable Construction

In this section, we provide details of our data collection and variable construction process.

A. Data

We obtain data on BWM funds directly from the Wind and Puyi Standard databases for over 20,000 BWM funds. Our sample period starts in 2019 when information on monthly fund returns became available and ends in 2022. Wind provides basic data on BWM funds and BWM companies, including fund names, fund performance, risk levels and other fund characteristics. The Puyi Standard database is one of the most widely used databases for studying the Chinese BWM industry. Based on publicly released announcements, the Puyi Standard database records information on the distribution, fees, and asset holding of BWM funds. For funds with multiple share classes, we compute fund-level variables by aggregating across different share classes. Specifically, we calculate fund size as the sum of assets across all share classes and compute the value-weighted average of other fund characteristics across share classes. To mitigate the impact of extreme returns, we excluded 2,319 observations of funds with return fluctuations exceeding six standard deviations. As a result, the final sample includes a total of 206,511 fund-month observations.

B. Variable Construction

Our key independent variable of interest is the level of non-affiliated distribution. We characterize the non-affiliated distribution behaviors of BWM companies through two indicators: (1) *Non-affiliated Distribution*: a dummy variable that takes the value of one if the fund is distributed by non-affiliated distribution brokers and zero otherwise. (2) #*Non-affiliated Distribution Brokers*: the total number of distribution brokers, excluding the parent bank, that distribute the BWM fund. Our dependent variable of interest is *Fund Performance*, which is computed using the formula:

$$Fund\ Performance_t = \frac{NAV_t + Dividend_t - NAV_{t-1}}{NAV_{t-1}}, \quad (1)$$

where NAV_t, NAV_{t-1} are the unit NAV at the end of period t and t-1, respectively, and $Dividend_t$ represents dividend payouts for the period. The dividend is assumed to be fully reinvested.

We include a set of additional variables to control for fund characteristics. *Fund Size* is the sum of assets under management across all share classes. *Fund Age* is the number of months that the oldest share class has been traded. *Fund Fee* is determined by dividing the fund's operating expenses by the average dollar value of its assets under management. *Maximum Drawdown* represents the greatest loss from a peak to a trough in the value of a fund, which provides insights into the potential downside risk of the investment. *Below Par is* a dummy variable that takes the value of one if the fund's net asset value has fallen below its initial investment value. *Closed-End Fund* indicates whether the fund is closed-end, accounting for the structural differences in funds that might influence their liquidity and investor behavior. *Invests in Stocks* indicates whether the fund invests in equities markets, which may affect fund's volatility and return potential. To control for the overall risk profile of the fund, we added a series of risk level dummy variables. Wind database classifies BWM funds into five risk levels, with *Risk Level 1* representing the lowest risk and *Risk Level 5* representing the highest risk. Funds labeled as *Risk Level 1* typically invest in cash and money markets, while those labeled as *Risk Level 5* primarily invest in equities markets. Funds labeled as *Risk Level 2*, *3*, and *4* invest in a mix of bonds, funds, stocks, and other assets.

C. Summary Statistics

Panel A of Table II provides descriptive statistics for the variables during the period of 2019 to 2022. There are two key observations about the Chinese BWM industry. First, compared to mutual funds with similar risk levels, the overall performance of BWM funds falls short of market expectation, with particularly poor returns from SOE BWM funds. From 2019 to 2022, the average return for BWM funds was 0.97%, with SOE BWM funds yielding 0.86%

and non-SOE BWM funds yielding 1.06% on average. Second, distribution is the dominant sales method for BWM companies, with 86.60% of the sample being distributed in terms of the number of funds. While the majority of BWM funds are still primarily distributed through the affiliated distribution brokers, a substantial portion of the observations involving non-affiliated distribution[7]. On average, each fund has 1.89 non-affiliated distribution brokers.

Panel B of Table II presents the differences in characteristics between SOE and Non-SOE BWM funds before and after the implementation of *the Measures*. The data suggest that non-SOE BWM funds have a significantly higher average number of non-affiliated distribution brokers compared to SOE BWM funds, with a more pronounced increase observed after *the Measures*. Moreover, based on winsorized returns that control for outliers, the performance gap between non-SOE and SOE BWM funds was negligible prior to the implementation of *the Measures*. However, following the implementation, non-SOE BWM funds exhibited noticeably higher returns than their SOE counterparts.

IV. The Impact of Non-affiliated distribution on the Performance of BWM Funds

In this section, we examine the impact of non-affiliated distribution on the performance of BWM funds.

A. Baseline Regressions

The central research question addressed in this study is whether non-affiliated distribution mitigates agency problems and enhances fund performance by introducing external governance. In this section, we will first argue that non-affiliated distribution positively affects the performance of BWM funds. We begin with a two-way fixed effects OLS model:

$$y_{it} = \alpha + \beta_1 X_{it} + \beta_2 Controls_{it} + \gamma_c + \delta_t + \varepsilon_{it}, \quad (2)$$

[7] The difference between the distribution ratio reported here and that mentioned in the institutional background section stems from the calculation methods. The former is weighted by AUM, whereas the figures in the table are weighted by the number of funds.

where i indexes funds, and t indexes months. The dependent variable, y_{it}, is the cumulative annualized return of the BWM fund. The key explanatory variables X_{it} are non-affiliated distribution indicators, including a dummy variable for non-affiliated distribution (*Non-affiliated Distribution*) and the number of non-affiliated distribution brokers (*# Non-affiliated Distribution Brokers*). The control variables, denoted as $Controls_{it}$, include fund characteristics such as risk level, fund age, stock investment, maximum drawdown, fund size, and fund fees, all measured as of the previous month-end. We control for time fixed effects δ_t and client type fixed effect γ_c, with standard errors clustered at the fund level.

We present the estimation results in Table III. In the odd-numbered columns, we include only fixed effects, while in the even-numbered columns, we further specify our regression model by adding control variables. Column (2) of Table III reports the estimated coefficient of *Non-affiliated Distribution* as 1.77 with a t-statistic of 1.99. This finding indicates that compared to the funds sold directly and those sold exclusively through affiliated distribution brokers, funds with non-affiliated distribution brokers have higher returns, averaging an increase of 1.77 basis points. The finding is consistent with our primary conjecture that non-affiliated distribution has a positive impact on BWM fund performance.

From the perspective of intensive margin, Column (4) of Table III reports the estimated coefficient of *# Non-affiliated Distribution Brokers* as 0.04 with a t-statistic of 3.51, indicating that funds with more non-affiliated distribution brokers tend to perform better. Specifically, each additional non-affiliated broker correlates with an average return increase of 0.04 basis points.

Overall, we interpret the results in Table III to imply that non-affiliated distribution has a positive impact on the performance of BWM funds. While these correlations suggest a potential performance benefit from non-affiliated distribution, establishing causality requires more rigorous identification strategies.

B. Causal Identification

The empirical results in Table III may suffer from endogeneity problems such as reverse causality. For example, managers may not be motivated by the ex-ante effort inducement at all and the observed relationship may reflect a pure selection effect. That is, rather than distribution channels driving fund performance, it is possible that funds with superior performance are more likely to attract non-affiliated distribution.

The implementation of *the Measures* provides a quasi-natural experiment to help identify the causal relationship between non-affiliated distribution and fund performance. As shown in Fig.2, after *the Measures*, there was a significant divergence in the distribution patterns between SOE and non-SOE BWM companies. This divergence is driven by an exogenous policy implementation rather than the endogenous fund performance.

If non-affiliated distribution has a significant positive impact on BWM fund performance, we should observe an improvement in the performance of non-SOE BWM funds compared to SOE BWM funds after *the Measures*. Fig.3 illustrates the changes in the performance of SOE BWM funds and non-SOE BWM funds around *the Measures*. A higher ranking indicates better performance among all funds in the same period. Prior to the implementation of *the Measures*, non-SOE BWM funds outperform from time to time relative to SOE BWM funds. However, after *the Measures* came into effect, non-SOE BWM funds showed substantial improvement, consistently outperforming SOE BWM funds. While this pattern provides preliminary evidence, a more rigorous empirical strategy is required to draw causal inferences.

B.1. Difference-in-differences Analysis

We use the implementation of *the Measures* as a natural experiment and applies a DID method to identify the causal relationship between non-affiliated distribution and BWM fund performance as follows:

$$y_{it} = \alpha + \beta_1 NonSOE_i \times Post_t + \theta Controls_{it} + \tau_i + \delta_t + \varepsilon_{it}, \quad (3)$$

where i indexes funds and t indexes months. $NonSOE_i$ indicates a dummy variable that takes the value of one if the BWM fund i is issued by a non-SOE BWM company. $Post_t$ indicates a dummy variable that takes the value of one after *the Measures* were implemented. To eliminate the influence of unobserved factors that do not vary over time at the fund level, the model controls for fund fixed effects (τ_i). In addition, to control for time-varying unobserved factors, such as macroeconomic conditions or other policy shocks, time fixed effects (δ_t) are included. $Controls_{it}$ represents fund level control variables, mainly including maximum drawdown, fund size, fund fee, etc. β_1 is the coefficient of interest for the DID estimator. All standard errors are clustered at the fund level. The sample period includes 12 months before and after *the Measures*. To better isolate the impact of *the Measures* from pure selection effects, our main analysis focuses on funds that were continuously active both before and after the reform, excluding entries and exits around the implementation.

Column (2) of Table IV reports the estimated coefficient of $NonSOE_i \times Post_t$ as 0.46 with a t-statistic of 9.82. This indicates that after the implementation of *the Measures*, compared to SOE BWM funds, non-SOE BWM funds experienced an average increase in returns by approximately 0.46 percentage points. Considering the average return of 0.97% across our sample, this indicates a relative increase in return of 48.08% (0.46%/0.97%) for non-SOE BWM funds. These findings indicate a positive causal relationship between non-affiliated distribution and fund performance, consistent with the results presented in Table III.

B.2. Parallel Trend Analysis

To partially eliminate the impact of pre-existing differences on the results in our DID analysis, we follow the approach of Jacobson et al. (1993) and Skrastins (2021) to conduct a parallel trend test. The specific regression equation is as follows:

$$y_{it} = \alpha + \sum_{k=-10}^{10} \beta_k D_{ik} + \theta Controls_{it} + \tau_i + \delta_t + \varepsilon_{it}, \quad (4)$$

where i indexes funds and k indexes the time distance from the implementation of *the Measures*. If fund i is issued by a non-SOE BWM company and the time is the month when *the Measures* were implemented, then D_{i0} equals 1; otherwise, it equals 0. D_{ik} is defined in the same fashion. Fig.4. presents the estimated values of parameter β_k and their 95% confidence intervals after controlling for fund and time fixed effects. Figure 4 illustrates that the estimated coefficients were largely insignificant before the implementation of *the Measures*, whereas they became positive and statistically significant afterward. These results imply that no significant difference in performance existed between SOE and Non-SOE BWM funds before the policy but Non-SOE BWM funds significantly outperform SOE ones afterwards.

C. Mechanism analysis

The previous empirical results have demonstrated that non-affiliated distribution has a positive impact on the performance of BWM funds. Building on these findings, we further explore the mechanisms through which non-affiliated distribution enhances fund performance. In this section, we will provide empirical evidence for both ex-ante effort-inducing and ex-post performance-monitoring.

C.1. Ex-ante Effort-inducing

Ex-ante effort-inducing occurs before the distribution relationship is established. Distribution brokers might pay close attention to the competence of fund managers when selecting which funds to distribute. Thus, to secure distribution opportunities, managers are incentivized to enhance their efforts and improve the fund performance.

To explore whether non-affiliated distribution increases managers' effort levels, we go beyond outcome-based measures and employ three complementary indicators as proxies for managers' proactive efforts: (1) *# Visits to Listed Companies,* (2) *Diversity of Fund Maturities*, and (3) *Breadth of Investment Assets*. These measures capture distinct but interrelated dimensions of research intensity. First, *# Visits to Listed Companies* serves as a direct proxy

for fundamental research activity (Chen et al, 2022; Zhang et al., 2025). Frequent site visits indicate stronger information-gathering efforts. Second, *Diversity of Fund Maturities* reflects the manager's efforts to design funds tailored to varying investor liquidity preferences. Greater maturity diversity reflects more granular market segmentation and customized product design, indicating substantial research effort in yield curve positioning and duration management. Third, *Breadth of Investment Assets* captures the breadth and complexity of the manager's asset allocation strategies. Higher asset diversity signals more sophisticated investment research, including exploration of alternative assets and advanced portfolio construction. Accordingly, these variables offer an empirical framework to capture variations in research intensity across BWM companies.

Column (2) of Table V shows the coefficient of $NonSOE_i \times Post_t$ as 4.45 with a t-statistic of 17.77. This indicates that non-SOE BWM companies significantly raised the frequency of their on-site visits to listed companies, with an average of 4.45 more visits compared to SOE BWM companies after *the Measures*. This finding suggests that as the number of non-affiliated distribution brokers increased, non-SOE BWM funds became more proactive in improving their efforts, which positively contributed to the improvement in fund performance.

Column (4) of Table V shows the coefficient of $NonSOE_i \times Post_t$ as 0.23 with a t-statistic of 11.17. This finding indicates that non-SOE BWM companies significantly increased the diversity of fund maturities following the implementation of *the Measures*. The result suggests that non-SOE BWM managers proactively tailored their product design by offering a wider range of maturity options to better align with investor preferences and to attract non-affiliated distribution brokers.

Column (6) of Table V shows the coefficient of $NonSOE_i \times Post_t$ as 0.54 with a t-statistic of 5.89. This finding indicates that following the implementation of *the Measures*, non-SOE BWM companies significantly expanded the diversity of investment assets compared to SOE

BWM companies. This expansion reflects enhanced research efforts and a stronger incentive to innovate in portfolio construction. This finding supports the ex-ante monitoring hypothesis, implying that non-SOE BWM managers actively broaden their investment scope to better differentiate their funds and meet diverse demands.

C.2 Ex-Post Performance-monitoring

Ex-post performance-monitoring takes place after the distribution relationship is established. Distribution brokers continue to track fund performance over time and may terminate the distribution relationship for underperformance, incentivizing fund managers to sustain strong performance. While the ex-ante effort-inducing aligns with economic intuition and has been widely studied (Kaplan and Strömberg, 2001; Ma, Stice, and Williams, 2019; Beatty, Liao, and Zhang, 2019), the effectiveness of the ex-post performance-monitoring is difficult to verify empirically. To examine whether the non-affiliated distribution brokers track fund performance overtime, we provide empirical evidence by comparing the performance differences between funds under different distribution contracts.

Distribution contracts offer flexibility in duration--whether it is a full distribution covering the fund's entire lifecycle or a partial distribution ending before the fund matures. Funds with longer distribution contract terms foster a closer alignment of responsibilities between issuers and distribution brokers, indicating stronger monitoring incentives and obligations. After *the Measures* exogenously strengthened the supervisory responsibilities of distribution brokers, the proportion of full distribution increased significantly among non-SOE BWM funds (Fig.5). This trend highlights a marked shift in distribution brokers' monitoring following *the Measures*.

We proceed to examine whether stronger tendency of ex-post monitoring, as reflected in the adoption of full distribution, is associated with better fund performance. The results in Table VI show that, compared to funds with partial distribution, those with full distribution tend to have higher returns, with an average outperformance of about 7 basis points, with a t-statistic

of 13.06. These findings suggest that non-affiliated distribution brokers' monitoring of fund performance is effective. Distribution brokers' active monitoring of fund performance may lead them to discontinue relationships with underperforming funds earlier, thereby exerting discipline on fund managers and boosting overall fund performance.

Within full distributions, distribution contracts also offer flexibility in engagement models: single-term contracts (single game) or renewable contract (repeated game). Renewable contracts entail higher monitoring and transaction costs compared to one-time agreements. However, they provide greater flexibility to adjust distribution relationships based on fund performance. Consequently, managers who wish to maintain the distribution relationship face greater performance pressure. We find that funds with renewable contracts demonstrate superior returns (1.09) than those with one-time contracts (0.97), with a t-statistic of 8.51. This suggests that repeated interactions intensify managerial oversight and performance incentives, thereby encouraging managers to allocate more attention to fund management. It further indicates that the external governance role of non-affiliated distribution brokers is enhanced in a repeated game setting. However, the proportion of distribution involving renewable contract remains relatively small, accounting for only 3.80% of all distribution cases. This may be due to the high transaction costs associated with signing distribution contracts. Specifically, the costs associated with contract renewals appear to outweigh the potential benefits of enhanced performance monitoring.

D Heterogeneity Analysis

D.1. Governance Capacity

The external governance effects may vary according to non-affiliated distribution brokers' governance capacity. We define *Strong Governance* as a dummy variable equal to one if a fund is distributed by a large distribution brokers, where large distribution brokers are defined as those ranking among the top 20 in the BWM market by revenue. The accumulated wealth

management experience improves the efficiency of monitoring fund performance, whereas the sizable client base provides greater bargaining power. As a result, large distribution brokers demonstrate distinct external governance capabilities. In contrast, smaller distribution brokers tend to be under-resourced in terms of experience and capital flow, resulting in weaker external governance capabilities.

Column (2) of Table VII shows the coefficient of the $NonSOE_i \times Post_t \times Strong\ Governance_i$ as 0.75 with a t-statistics of 8.29. This finding indicates that when the non-affiliated distribution broker has strong governance capacity, the performance of non-SOE BWM funds increased by 0.75 percentage points relative to SOE BWM funds after *the Measures*. We can conclude from Table VII that non-affiliated distribution's performance incentive effect is concentrated among funds subject to stronger external governance. That is, when non-SOE BWM funds expand their distribution exclusively through small institutions, the external governance effect remains limited. However, when such distribution is conducted via large commercial banks, the performance-enhancing effect becomes substantially stronger. The findings in Table VII further corroborate the explanatory power of the external governance mechanism in driving the relationship between non-affiliated distribution and fund performance.

D.2.Distribution Dependence

The effect of external governance also varies with the distribution dependence of BWM companies. For BWM companies with affiliated distribution brokers possessing extensive sales channel, their pressure to seek non-affiliated distribution is relatively weak. In contrast, those with smaller affiliated brokers must actively expand non-affiliated distribution to secure fund inflow. We employ the size of the affiliated distribution broker as a proxy for the distribution dependence. BWM companies with smaller affiliated distribution brokers rely more heavily on broker support to reach investors and are thus more responsive to broker incentives and oversight, which is expected to result in relatively better fund performance.

Column (2) of Table VIII shows the coefficient of $NonSOE_i \times Post_t \times Distribution\ Dependence_i$ as 0.34 with a t-statistic of 4.53. This finding suggests that BWM companies with stronger distribution dependence (i.e., smaller affiliated distribution brokers) perform better compared to others after *the Measures*, which aligns with our expectation.

D.3. Competition Level

The extent to which distribution influences fund performance may depend on the competitive dynamics between distribution brokers and issuers, whose interactions are shaped by both cooperative and competitive forces. While distribution brokers earn distribution fees by selling funds from non-affiliated BWM companies, doing so may simultaneously divert capital away from their own affiliated funds. Greater similarity implies higher substitutability, which intensifies competition.

This intensified competition shapes distributions brokers' monitoring behavior in two key ways. On the one hand, distributions brokers are likely to apply more rigorous ex-ante approval standards and implement more responsive exit mechanisms for competing funds, thereby reinforcing the incentives of fund managers to deliver strong performance. On the other hand, greater similarity facilitates distribution brokers' more precise evaluation of the funds they distribute, which in turn boosts monitoring efficiency.

We define *High Competition* as a dummy variable that takes the value of one if the difference in the average risk level between funds issued by a BWM company and those issued by its distribution brokers' affiliated BWM companies is below the sample mean. The smaller the risk difference, the more intense the competition. We expect that the monitoring role of distribution is more pronounced in highly competitive segments, resulting in a stronger positive impact of distribution on fund performance.

Column (1) of Table IX shows the coefficient of $NonSOE_i \times Post_t \times High\ Competition_i$ as 0.65 with a t-statistics of 5.37. This finding suggests that funds facing higher competition,

indicated by smaller risk differences, exhibit superior performance following the implementation of *the Measures*, in line with our theoretical expectations. However, for funds operating in low-competition segments, distribution brokers demonstrate diminished incentives to engage in fund monitoring.

V. Further Analysis

In this section, we discuss alternative hypotheses in detail. We also conduct a series of robustness checks to ensure that our main findings are not driven by outliers or sample selection.

A. Pure Selection Effect

The major concern of the interpretation of our findings is that the positive correlation we observed may simply reflect a selection bias whereby distribution brokers tend to select funds with superior performance for distribution. In particular, we hypothesize that non-affiliated distribution exerts ex-ante effort-inducing, as the distribution brokers rigorously evaluate fund managers' competencies and fund performance during the selection process. Specifically, in order to secure distribution opportunities, fund managers need to exert more effort to improve performance. Consider a stylized example: a manager oversees 10 BWM funds, of which 7 underperform and 3 outperform. To attract non-affiliated brokers, the manager increases effort, improving performance so that 5 funds now outperform. This shift suggests that broker involvement helps mitigate agency problems arising from insufficient managerial oversight. In contrast, if the observed performance improvement were purely driven by selection, the distribution pattern would remain unchanged, 7 underperforming and 3 outperforming funds, despite broker involvement.

This hypothesis can be effectively dismissed based on the DID results. If the observed effect were purely driven by selection, the 3 outperforming funds should have received more non-affiliated distribution opportunities after *the Measures*. But their performance should have remained unchanged, as they are not subject to either ex-ante effort-inducing or ex-post

performance-monitoring. Likewise, the 7 underperforming funds would continue to perform poorly. In this case, we would expect no systematic change in fund performance following the policy. However, as shown in Table IV, non-SOE BWM funds experienced a significant improvement in relative performance after *the Measures*, suggesting that the effect is not merely the result of selection, but likely reflects real behavioral responses to expanded distribution access.

B. Internal Organizational Adjustment

While *the Measures* promote the expansion of non-affiliated distribution, they may also induce internal changes in the incentive structures of BWM companies. Specifically, by easing the constraint of a limited captive client base, the reform enables BWM companies to issue more products. This expansion in product supply may necessitate the scaling up of investment teams or the adoption of stronger internal incentive mechanisms. Such organizational adjustments could independently contribute to improved fund performance, in addition to the external governance effects introduced by non-affiliated distributors.

We assess the validity of the underlying assumption by examining whether non-SOE BWM companies experienced a relative increase in scale following the implementation of *the Measures*. As illustrated in Figure 6, both SOE and non-SOE BWM companies expanded their assets under management (AUM) amid the overall development of the BWM industry. However, SOE BWM companies exhibited significantly faster growth, thereby narrowing the AUM gap between the two groups. Given that AUM growth is the primary source of revenue, and hence the key enabler of internal organizational adjustments, this pattern suggests that increased internal competition and managerial incentives among non-SOE firms are unlikely to be the primary drivers of the observed improvements in fund performance.

Although this scale dynamic may appear paradoxical, it aligns with well-documented behavioral patterns among Chinese investors. The growth in BWM fund scale is influenced by

a range of complex factors and cannot be attributed solely to fund performance. Research in mutual fund literature indicates that fund flows are often shaped by irrational factors. Due to limited financial literacy, investors may struggle to accurately assess fund performance, with their investment decisions potentially swayed by advertisements (Jain and Wu, 2000; Reuter and Zitzewitz, 2006; Gil-Bazo and Imbet, 2020; Koehler and Mercer, 2009), third-party ranking (Del Guercio and Tkac, 2008; Reuter and Zitzewitz, 2021), or even the alphabetical order of fund names (Doellman, Itzkowitz, Itzkowitz, and Sardarli, 2018). In the Chinese context, individual investors exhibit stronger brand trust in SOE BWM companies and hold higher expectations of implicit guarantees. These preferences allow SOE BWM companies to maintain or expand AUM despite offering relatively lower returns. Absent the regulatory push for non-affiliated distribution, the growth of non-SOE BWM funds would likely have been significantly constrained.

C. Robustness

We examine the robustness of our results to concerns about extreme returns, fund fees, and potential outliers among specific BWM companies. First, to address the concerns regarding extreme values, we winsorize the fund performance at the 5th and 95th percentile. Column (2) of Table X shows the coefficient of $NonSOE_i \times Post_t$ as 0.18 with a t-statistic of 8.04, which is slightly smaller than the coefficient in column (2) of Table X but still statistically significant at the 1% level. This suggests that after excluding extreme values, the positive effect of non-affiliated distribution on the performance of BWM funds remains robust.

Second, we consider the impact of fees. The average fund fee for non-SOE BWM funds stands at approximately 0.45%, compared to roughly 0.41% for SOE BWM funds. Therefore, the relative increase in the returns of non-SOE BWM funds may not necessarily translate into net benefits for investors. We then use net-of-fee returns as the dependent variable and re-estimate the effect. Column (4) of Table X shows the coefficient of $NonSOE_i \times Post_t$ as 0.46

with a t-statistic of 9.82, indicating that even considering various fees, the net-of-fee returns of non-SOE BWM funds increased by 0.46 percentage points compared to SOE BWM funds after the implementation of *the Measures*. This suggests that investors have indeed benefited from the external governance introduced by non-affiliated distribution brokers.

Third, post the implementation of *the Measures*, the average number of non-affiliated distribution brokers per fund issued by CIB BWM company increased from 25.75 to 31.81. The level of non-affiliated distribution and the increase post *the Measures* is abnormally greater than the average increase of other non-SOE BWM companies (i.e., from 0.35 to 1.39). To mitigate the concern that our causal inference is driven by the CIB anecdote, we remove the company from our sample and re-estimate our DID analysis in Table IV. Columns (6) of Table X shows the coefficient of $NonSOE_i \times Post_t$ as 0.46 with a t-statistic of 9.62. This confirms that our results are not sensitive to the inclusion of this special-case BWM company.

VI. Conclusion

Within the context of BWM industry in China, a setting uniquely suited to examining the active role of distribution, we explore the impact of non-affiliated distribution on the fund performance and its underlying mechanisms, uncovering the overlooked external governance role of non-affiliated distribution brokers for the first time. To identify the causal relationship, we use the introduction of *the Measures* as a natural experiment and applies the DID method. We find that the increase in non-affiliated distribution brokers significantly improves fund performance. Specifically, the non-SOE BWM funds which experienced increased non-affiliated distribution, saw a significant improvement in returns after *the Measures*, with an average increase of 46.40 basis points. This represents a 48.08% enhancement relative to the sample's average return of 0.97%. Our finding suggests an estimated increase in investor welfare of approximately 120 billion RMB. The effect is more pronounced when the distribution broker possesses greater market power, when the fund issuer exhibits greater

distribution dependence, and when horizontal competition exists between the distribution broker and fund issuer due to overlapping product offerings. We interpret our findings to indicate that non-affiliated distribution helps mitigate agency problems by providing both ex-ante effort-inducing and ex-post performance-monitoring.

While academic research often treats distribution brokers as passive intermediaries rather than active market participants, we are among the first to show that distribution brokers can serve as influential gatekeepers, enhancing product quality and aligning supplier behavior with investor interests, thereby transforming distribution channels into a form of external governance. Our study also offers valuable policy insights for mitigating agency problems in the asset management sector, especially for developing economies. Specifically, by fostering third-party market-based supervisors like non-affiliated distribution brokers, the asset management industry in developing economies could benefit from a more diversified and comprehensive regulatory framework.

Appendix: Variable Definitions

Variable Name	Definition
Fund Performance	Measured by cumulative annualized return (%), specifically as follows: $Fund\ Performance_t = \frac{NAV_t + Dividend_t - NAV_{t-1}}{NAV_{t-1}}$. The dividend is assumed to be fully reinvested.
Non-SOE	A dummy variable that takes the value of one if the parent bank of the BWM company is a non-state-owned commercial bank.
Distribution	A dummy variable that takes the value of one if the fund is distributed and 0 otherwise.
Non-affiliated Distribution	A dummy variable that takes the value of one if the fund is distributed by non-affiliated distribution brokers and 0 otherwise.
# *Non-affiliated Distribution Brokers*	The total number of distribution brokers, excluding the parent bank, that distribute the BWM fund.
Maximum Drawdown	The greatest loss from a peak to a trough in the value of a fund.
Below Par	A dummy variable that takes the value of one if the fund's net asset value has fallen below its initial investment value.
Risk Level	Wind classifies BWM funds into five risk levels, with *Risk Level 1* representing the lowest risk and *Risk Level 5* representing the highest risk.
Closed-End Fund	A dummy variable that takes the value of one if the fund is closed-end.
Invests in Stocks	A dummy variable that takes the value of one if the fund invests in equities markets.
Fund Age	The number of months that the oldest share class has been traded.
Fund Fee	Divide the fund's operating expenses by the average dollar value of its assets under management.
Fund Size	The sum of assets under management across all share classes.
Post	A dummy variable that takes the value of one after the Measure was implemented.
# *Visits to Listed Companies*	The number of on-site investigations conducted by BWM companies at listed firms
Diversity of Fund Maturities	Captures the range of maturity terms offered by a BWM company, measured by the number of distinct maturity buckets (e.g., 0 – 1 month to 5+ years).
Diversity of Investment Assets	Captures the breadth of asset allocation across a BWM company's product portfolio, measured by the variety of asset classes invested in.
Full Distribution	A dummy variable that takes the value of one if distribution relationship spans the entire life cycle of the fund.
Partial Distribution	A dummy variable that takes the value of one if distribution relationships cover only part of the fund's life cycle.
One-Time Contract	A dummy variable that takes the value of one if a single contract is used to maintain the distribution relationship.
Multiple Contract	A dummy variable that takes the value of one if multiple contracts are used to maintain the distribution relationship.
Strong Governance	A dummy variable that takes the value of one if funds that are distributed by large commercial banks, defined as one of the top 20 banks in the market by revenue.
High Competition	A dummy variable that takes the value of one if the difference in the average risk level between funds issued by a BWM company and those issued by the affiliated BWM companies of its distribution brokers is below the sample mean. The smaller the risk difference, the more intense the competition.
Distribution Dependence	A dummy variable that takes the value of one if the parent bank is not among the top 20 in the market by revenue. The smaller the size of the parent bank, the stronger the motivation for the BWM company to seek non-affiliated distribution channels.
Net of Fee Return	Fund return after deducting management fees, reflecting the actual return received by investors.

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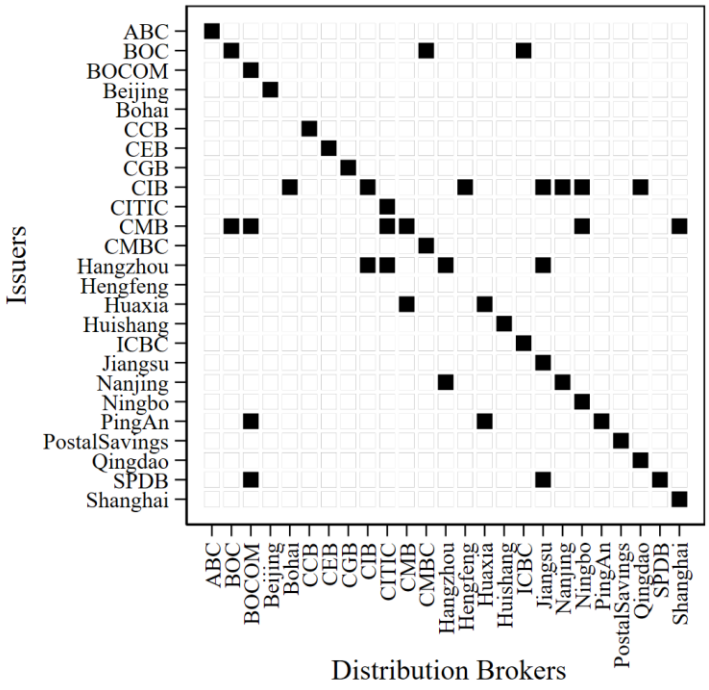
Fig.1. The Non-affiliated Distribution Matrix of BWM Companies in 2019 and 2022

This figure plots the distribution matrix of BWM companies in 2019 and 2022. The vertical axis represents the issuers (BWM companies), while the horizontal axis represents the distribution brokers.

Panel A. Distribution Matrix in 2019



Panel B. Distribution Matrix in 2022

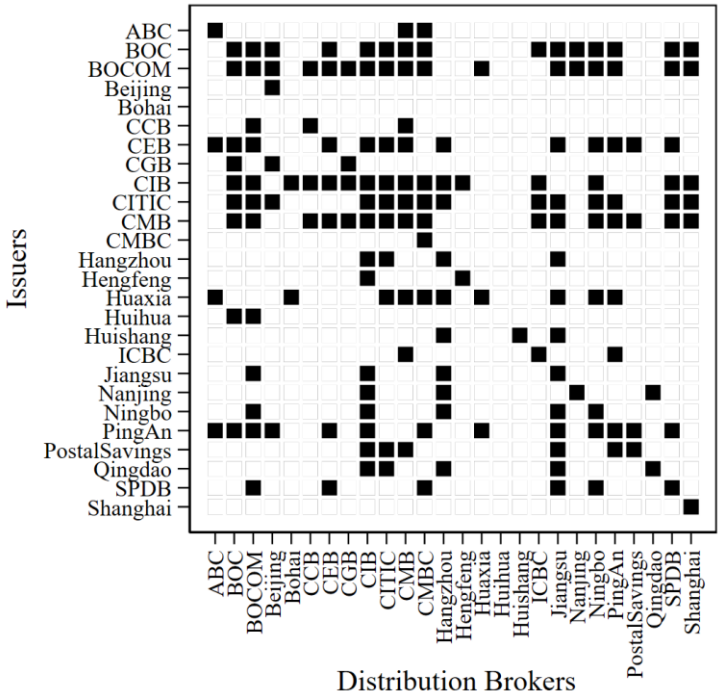
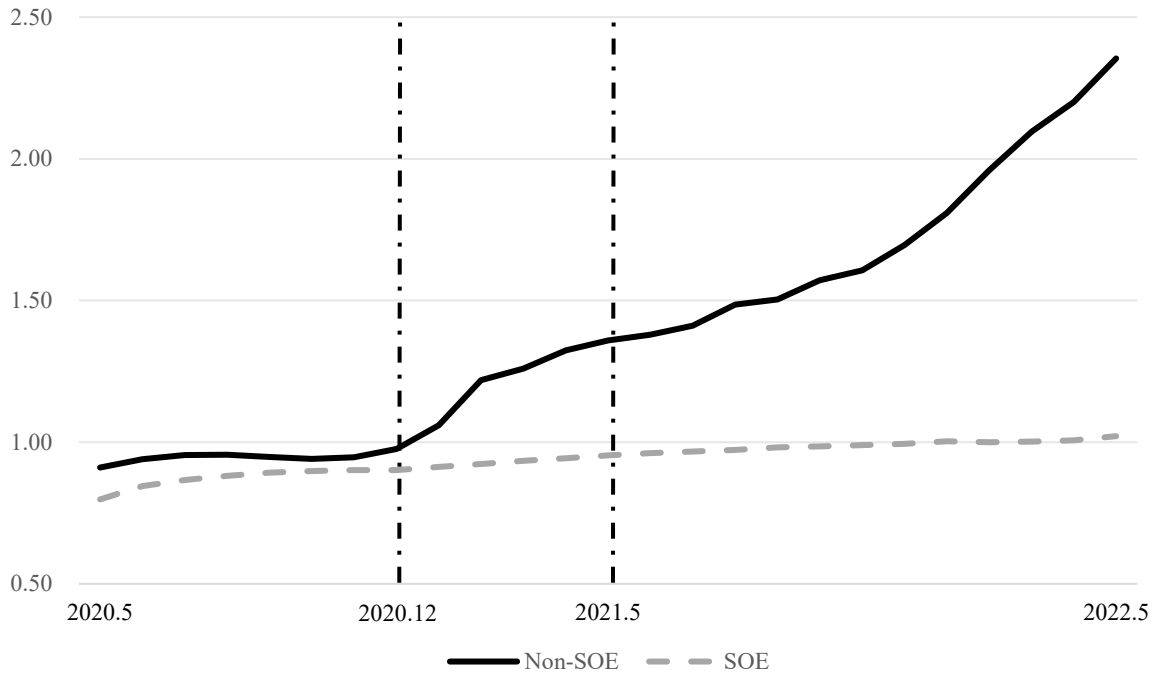


Fig. 2. The Distribution Pattern of SOE BWM and Non-SOE BWM Companies

This figure plots the change of the non-affiliated distribution pattern for BWM companies with different ownership types before and after the implementation of *the Measures*. The dashed horizontal line represents SOE BWM companies, and the solid line represents non-SOE BWM companies. The first dashed vertical line marks the time when *the Measures* were open for public consultation, and the second dashed vertical line indicates the official implementation time of *the Measures*. Panel A and Panel B present results based on the full sample and the surviving sample, respectively.

Panel A. Full Sample



Panel B. Surviving Sample

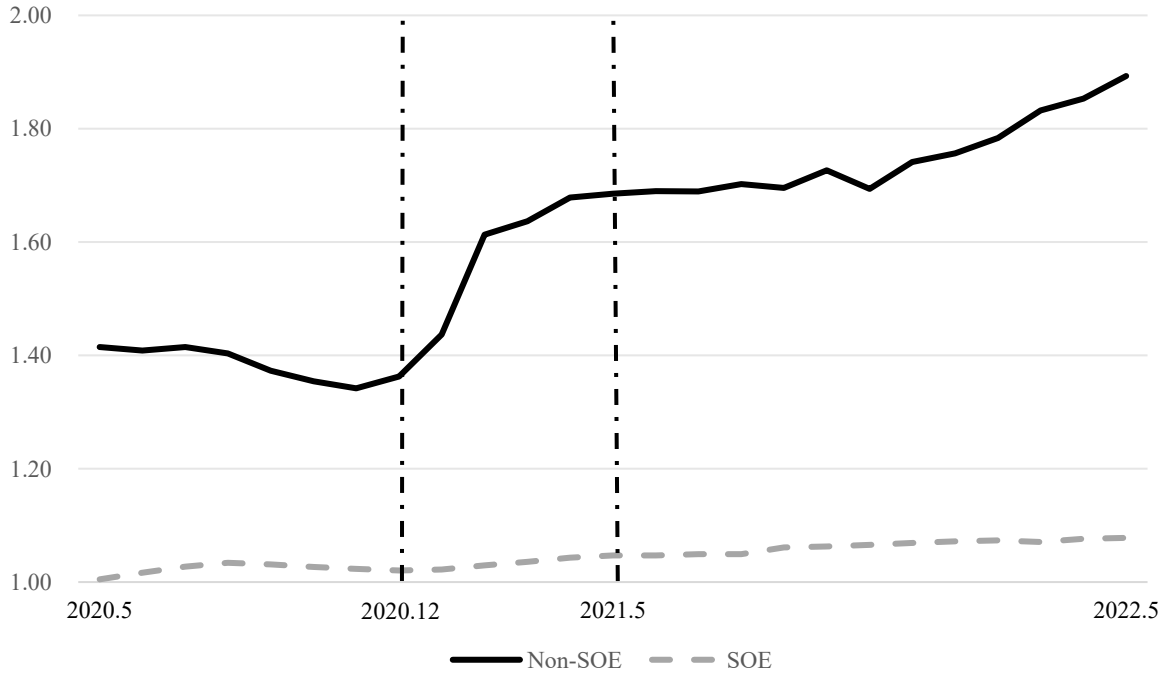


Fig. 3. The Performance Ranking of SOE BWM and Non-SOE BWM Companies

This figure plots the change of the performance ranking for BWM companies with different ownership types before and after the implementation of *the Measures*. A higher rank indicates better relative fund performance. The dashed horizontal line represents SOE BWM companies, and the solid line represents non-SOE BWM companies. The first dashed vertical line marks the time when *the Measures* were open for public consultation, and the second dashed vertical line indicates the official implementation time of *the Measures*. The bars represent the performance differences between non-SOE and SOE BWM funds.

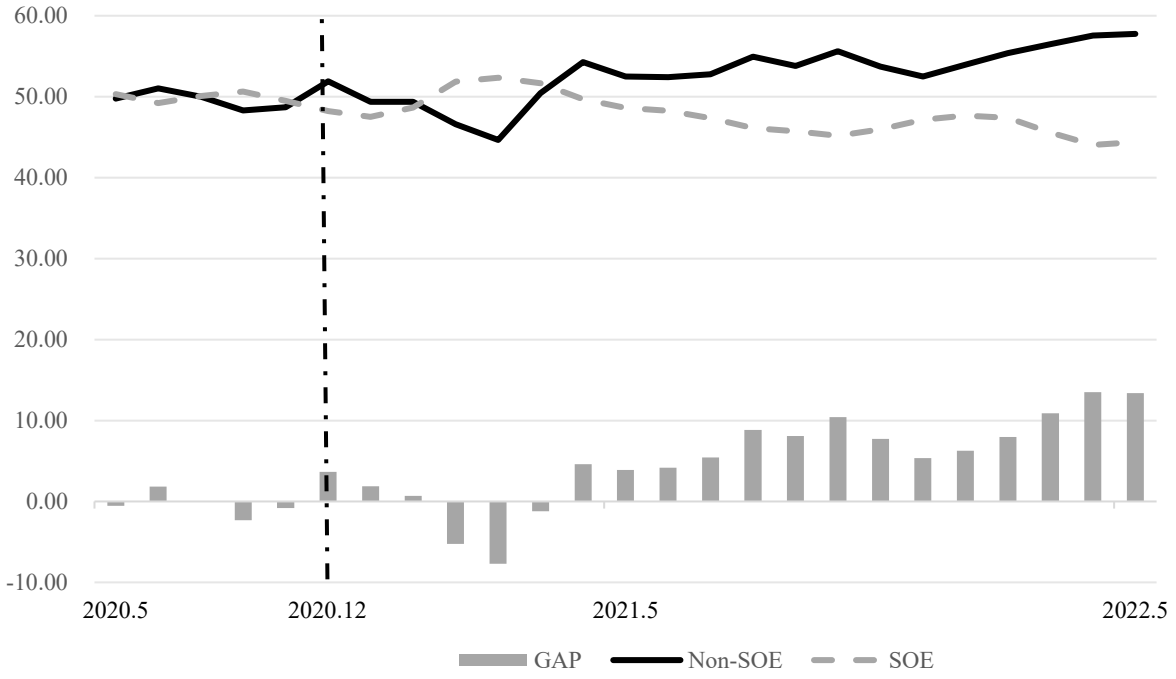


Fig. 4. Parallel Trend Analysis

This figure plots the estimated coefficients and the confidence interval at 95% level of D_{ik} in equation (4). The first vertical line marks the point in time that is one month before the official implementation of *the Measures*.

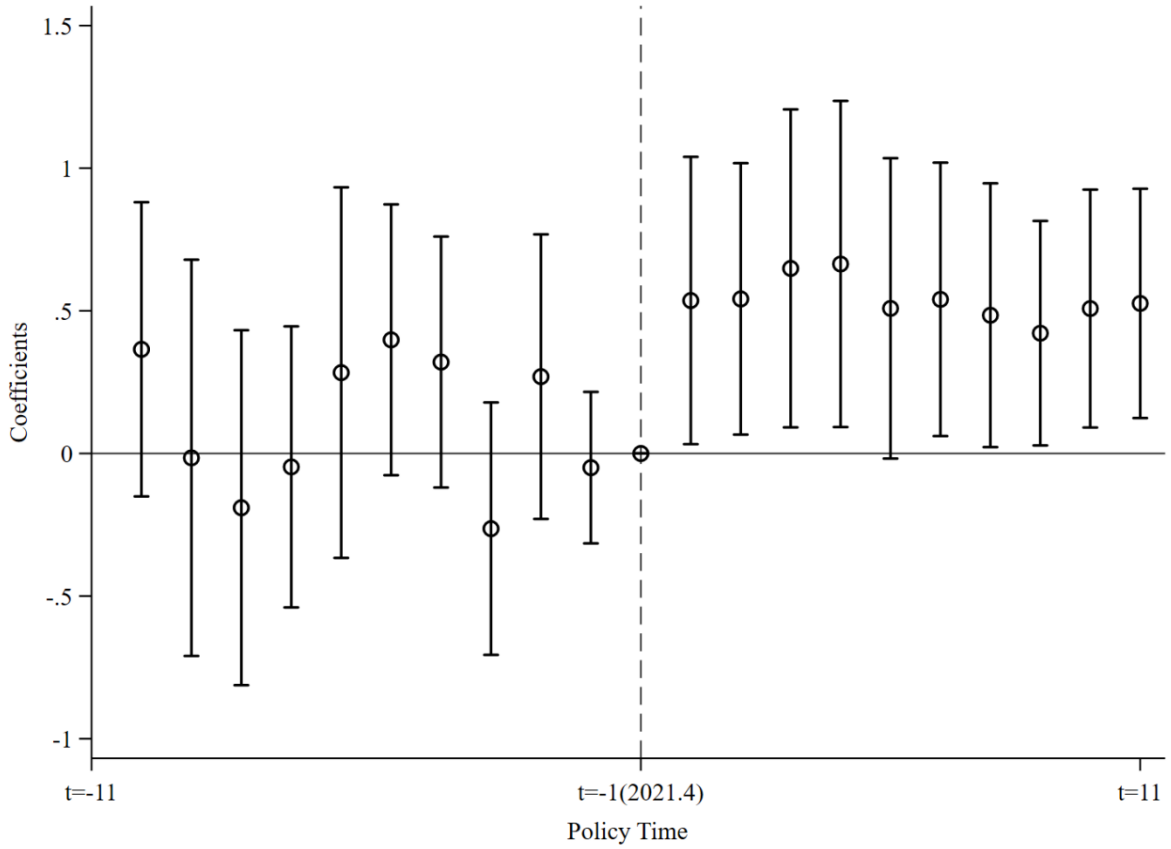


Fig.5. The Changes in Full Distributions Ratio of SOE and Non-SOE BWM Companies

This figure plots the change of the ratio of full distributions for BWM companies with different ownership types before and after the implementation of *the Measures*. The dashed horizontal represents SOE BWM companies, and the solid line represents non-SOE BWM companies. The first dashed vertical line marks the time when *the Measures* were open for public consultation, and the second dashed vertical line indicates the official implementation time of *the Measures*.

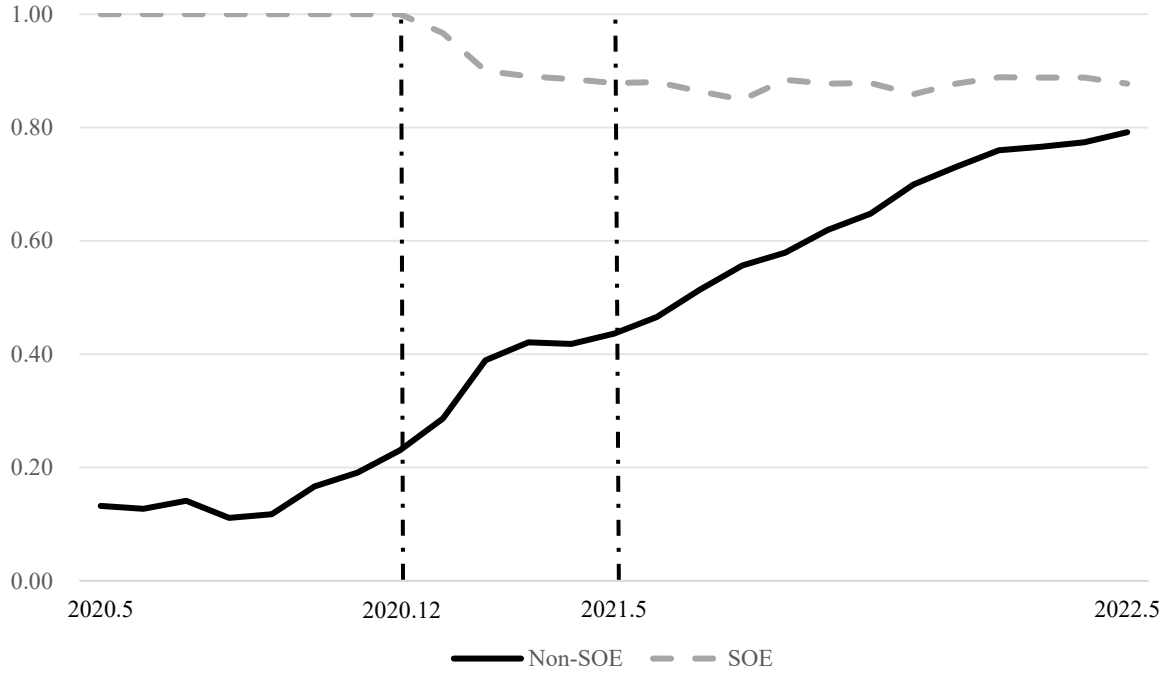


Fig.6. The Changes in the AUM of SOE BWM and Non-SOE BWM Companies

This figure plots the change of AUM for BWM companies with different ownership types before and after the implementation of *the Measures*. The dashed horizontal represents SOE BWM companies, and the solid line represents non-SOE BWM companies. The dashed vertical line indicates the official implementation time of *the Measures*. The bars represent the AUM differences between non-SOE and SOE BWM funds.

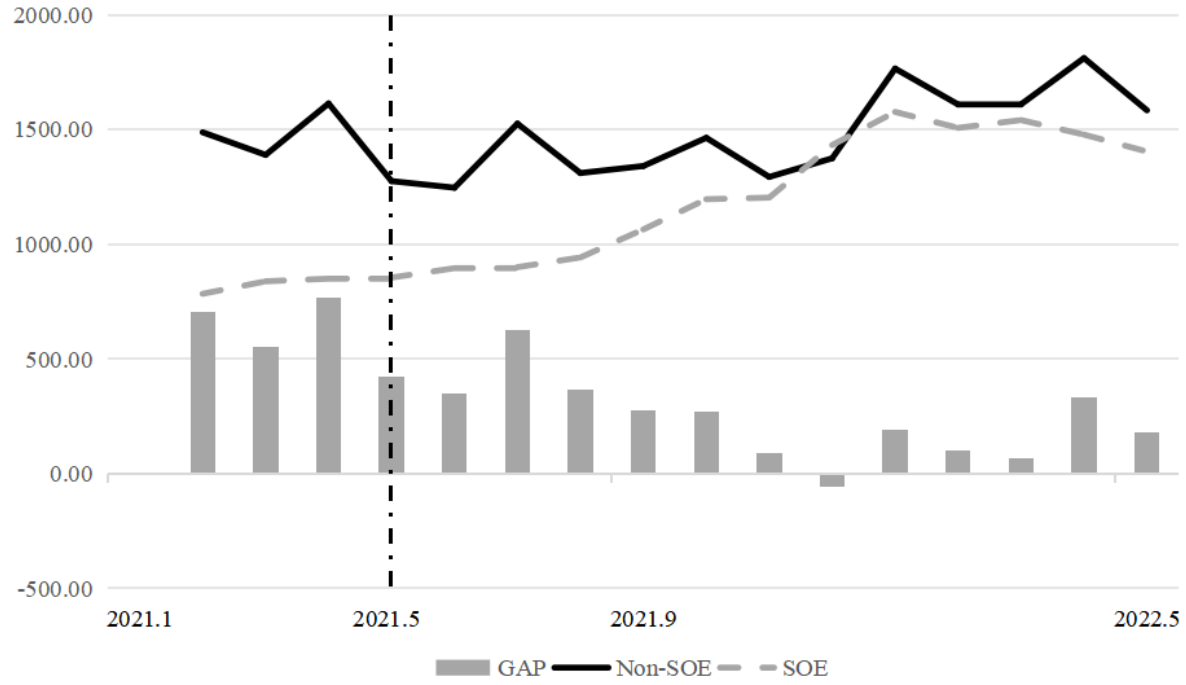


Table I. Establishment and Shareholding Structure of BWM Companies

This table shows the shareholding structure of all established Chinese BWM companies as of December 2024. Based on the nature of ownership, BWM companies' shareholders are classified into four categories: state-owned commercial bank, joint-stock commercial bank, urban commercial bank, sino-foreign joint venture.

Company Name	Establishment Time	Shareholder	Type of Shareholder
CCB	May 2019	China Construction Bank: 100%	State-owned commercial bank
ICBC	May 2019	Industrial and Commercial Bank of China: 100%	State-owned commercial bank
BOCOM	Jun 2019	Bank of Communications: 100%	State-owned commercial bank
BOC	Jul 2019	Bank of China: 100%	State-owned commercial bank
ABC	Jul 2019	Agricultural Bank of China: 100%	State-owned commercial bank
CEB	Sep 2019	China Everbright Bank: 100%	Joint-stock commercial bank
CMB	Nov 2019	China Merchants Bank: 90%, JPMorgan (Asia Pacific): 10%	Joint-stock commercial bank
CIB	Dec 2019	Industrial Bank: 100%	Joint-stock commercial bank
Postal Savings	Dec 2019	Postal Savings Bank of China: 100%	State-owned commercial bank
Hangzhou	Dec 2019	Bank of Hangzhou: 100%	Urban commercial bank
Ningbo	Dec 2019	Bank of Ningbo: 100%	Urban commercial bank
Huishang	Apr 2020	Huishang Bank: 100%	Urban commercial bank
Chongqing Rural	Jun 2020	Chongqing Rural Commercial Bank: 100%	Urban commercial bank
CITIC	Jul 2020	CITIC Bank: 100%	Joint-stock commercial bank
Nanjing	Aug 2020	Bank of Nanjing: 100%	Urban commercial bank
Jiangsu	Aug 2020	Bank of Jiangsu: 100%	Urban commercial bank
Ping An	Aug 2020	Ping An Bank: 100%	Joint-stock commercial bank
Qingdao	Sep 2020	Qingdao Bank: 100%	Urban commercial bank
Huaxia	Sep 2020	Huaxia Bank: 100%	Joint-stock commercial bank
Huihua	Sep 2020	AMUNDI: 55%, BOC BWM: 45%	Sino-foreign joint venture
BlackRock CCB	May 2021	BlackRock Financial Management: 50.1%, CCB BWM: 40%, Fudeng Management: 9.9%	Sino-foreign joint venture
CGB	Dec 2021	Guangfa Bank: 100%	Joint-stock commercial bank
SPDB	Jan 2022	Shanghai Pudong Development Bank: 100%	Joint-stock commercial bank
Schroders BOCOM	Feb 2022	Schroders Investment Management: 51%, BOCOM BWM: 49%	Sino-foreign joint venture
Shanghai	Mar 2022	Shanghai Bank: 100%	Urban commercial bank
CMBC	Jun 2022	China Minsheng Bank: 100%	Joint-stock commercial bank
Goldman Sachs ICBC	Aug 2022	Goldman Sachs Wealth management: 51%, ICBC BWM: 49%	Sino-foreign joint venture
Hengfeng	Aug 2022	Hengfeng Bank: 100%	Joint-stock commercial bank
Bohai	Sep 2022	Bohai Bank: 100%	Joint-stock commercial bank
Beijing	Nov 2022	Beijing Bank: 100%	Urban commercial bank
BNP Paribas ABC	Jul 2023	BNP Paribas Wealth management: 51%, ABC BWM: 49%	Sino-foreign joint venture

Table II. Descriptive Statistics

This table presents the descriptive statistics for the main variables in the empirical analysis. All variables are defined in the Appendix. The sample period spans from 2019 to 2022. We report the number of observations (N), mean, standard deviation (SD), the 25th percentile (P25), median (P50), and the 75th percentile (P75) for fund characteristics for the full sample in Panel A. We compare the characteristics of SOE and Non-SOE BWM funds before and after the implementation of *the Measures* in Panel B.

Panel A. Full Sample

Variables	N	Mean	SD	Min	P25	P75	Max
Fund Performance (%)	*206,511*	*0.97*	*2.61*	*-50.84*	*0.33*	*1.76*	*109.20*
Non-SOE	*206,511*	*0.53*	*0.50*	*0.00*	*0.00*	*1.00*	*1.00*
Distribution	*206,511*	*0.87*	*0.34*	*0.00*	*1.00*	*1.00*	*1.00*
Non-affiliated Distribution	*206,511*	*0.29*	*0.45*	*0.00*	*0.00*	*1.00*	*1.00*
# Non-affiliated Distribution Brokers	*206,511*	*1.89*	*15.58*	*0.00*	*0.00*	*0.00*	*291.00*
Maximum Drawdown(%)	*178,838*	*0.20*	*0.47*	*0.00*	*0.00*	*0.22*	*16.20*
Below Par	*206,511*	*0.06*	*0.24*	*0.00*	*0.00*	*0.00*	*1.00*
Risk Level 1	*161,760*	*0.00*	*0.07*	*0.00*	*0.00*	*0.00*	*1.00*
Risk Level 2	*205,762*	*0.58*	*0.49*	*0.00*	*0.00*	*1.00*	*1.00*
Risk Level 3	*205,762*	*0.41*	*0.49*	*0.00*	*0.00*	*1.00*	*1.00*
Risk Level 4	*205,762*	*0.01*	*0.08*	*0.00*	*0.00*	*0.00*	*1.00*
Closed-End Fund	*206,511*	*0.45*	*0.50*	*0.00*	*0.00*	*1.00*	*1.00*
Invests in Stocks	*206,511*	*0.45*	*0.50*	*0.00*	*0.00*	*1.00*	*1.00*
Fund Age (Months)	*206,511*	*11.24*	*7.80*	*1.00*	*5.00*	*16.00*	*48.00*
Fund Fee (%)	*192,509*	*0.43*	*0.21*	*0.00*	*0.30*	*0.53*	*4.05*
Log(Fund Size)	*169,786*	*10.61*	*1.60*	*-4.61*	*9.63*	*11.59*	*17.11*

Panel B. Comparison of SOE and Non-SOE

Variables	SOE		Non-SOE	
	(1)	(2)	(3)	(4)
	Pre	*Post*	*Pre*	*Post*
Fund Performance (%)	*1.82*	*0.59*	*1.66*	*0.94*
Distribution	*0.84*	*0.91*	*0.65*	*0.88*
Non-affiliated Distribution	*0.19*	*0.17*	*0.48*	*0.38*
# Non-affiliated Distribution Brokers	*0.02*	*0.12*	*2.44*	*3.68*
Maximum Drawdown (%)	*0.19*	*0.25*	*0.10*	*0.18*
Below Par	*0.02*	*0.09*	*0.01*	*0.05*
Risk Level 1	*0.00*	*0.01*	*0.01*	*0.00*
Risk Level 2	*0.39*	*0.40*	*0.75*	*0.74*
Risk Level 3	*0.61*	*0.59*	*0.22*	*0.25*
Risk Level 4	*0.00*	*0.00*	*0.02*	*0.01*
Closed-End Fund	*0.33*	*0.36*	*0.70*	*0.51*
Invests in Stocks	*0.39*	*0.57*	*0.28*	*0.39*
Fund Age (Months)	*7.53*	*13.24*	*7.72*	*10.86*
Fund Fee (%)	*0.41*	*0.41*	*0.52*	*0.44*
Log (Fund Size)	*10.54*	*10.60*	*10.65*	*10.63*

Table III. Non-affiliated Distribution and BWM Fund Performance

This table presents results of the panel regression analysis of BWM fund performance (in basis points) against non-affiliated distribution over the period of 2019 through 2022. All variables are defined in the Appendix. Regressions in Column (2), Column (4) add control variables. All Columns control for year-month fixed effects and client type fixed effects. All standard errors are clustered at the fund level. The coefficients of the constant are omitted for brevity. The t-statistics are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Dependent Variable	*Fund Performance*			
	(1)	(2)	(3)	(4)
Non-affiliated Distribution	2.851***	1.771**		
	(3.19)	(1.99)		
# Non-affiliated Distribution Brokers			0.176***	0.038***
			(11.86)	(3.50)
Risk Level 1		-388.504***		-396.866***
		(-4.08)		(-3.89)
Risk Level 2		-415.244***		-422.506***
		(-4.37)		(-4.15)
Risk Level 3		-418.878***		-426.146***
		(-4.41)		(-4.19)
Risk Level 4		-133.049		-122.025
		(-1.29)		(-1.10)
Closed-End Fund		-8.698***		-9.008***
		(-9.68)		(-9.90)
Invests in Stocks		-6.534***		-6.762***
		(-8.19)		(-8.24)
Fund Age		-0.314***		-0.258***
		(-6.34)		(-5.54)
Maximum Drawdown		-174.425***		-176.799***
		(-26.22)		(-25.99)
Below Par		-46.376***		-34.964***
		(-15.32)		(-10.84)
Fund Fee		5.815*		6.437*
		(1.65)		(1.77)
Log (Fund Size)		-1.526***		-1.502***
		(-5.76)		(-5.36)
Year-month Fixed Effects	Yes	Yes	Yes	Yes
Client Type Fixed Effects	Yes	Yes	Yes	Yes
Nobs.	206,510	143,997	189,931	133,454
Adjusted R^2	0.348	0.577	0.358	0.584

Table IV. The Impact of the Measures on BWM Fund Performance

This table presents results of the difference-in-differences regression analysis for the impact of *the Measures* on BWM fund performance over 12 months before and after the implementation of *the Measures* based on surviving samples. $NonSOE_i$ indicates a dummy variable that takes the value of one if the parent bank of the BWM company is a non-state-owned commercial bank. $Post_t$ indicates a dummy variable that takes the value of one after the Measure was implemented. All variables are defined in the Appendix. Regressions in Column (2) add control variables. All Columns control for year-month fixed effects and fund fixed effects. All standard errors are clustered at the fund level. The coefficients of the constant are omitted for brevity. The t-statistics are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Dependent Variable	*Fund Performance*	
	(1)	(2)
$NonSOE_i \times Post_t$	0.868***	0.462***
	(17.28)	(9.82)
Controls	No	Yes
Year-month Fixed Effects	Yes	Yes
Fund Fixed Effects	Yes	Yes
Nobs.	122,663	78,736
Adjusted R^2	0.236	0.601

Table V. The Impact of the Measures on BWM Managers' Effort Level – Ex-ante Effort-inducing

This table presents results of the difference-in-differences regression analysis for the impact of *the Measures* on BWM managers' effort level over 12 months before and after the implementation of *the Measures*. This paper employs three proxies to capture the manager's effort: *# Visits to Listed Companies, Diversity of Fund Maturities, Diversity of Investment Assets*. $NonSOE_i$ indicates a dummy variable that takes the value of one if the parent bank of the BWM company is a non-state-owned commercial bank. $Post_t$ indicates a dummy variable that takes the value of one after the Measure was implemented. All variables are defined in the Appendix. All Columns control for year-month fixed effects and fund fixed effects. All standard errors are clustered at the fund level. The coefficients of the constant are omitted for brevity. The t-statistics are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Dependent Variable	*# Visits to Listed Companies*		*Diversity of Fund Maturities*		*Diversity of Investment Assets*	
	(1)	(2)	(3)	(4)	(5)	(6)
$NonSOE_i \times Post_t$	4.751***	4.447***	0.061***	0.227***	0.685***	0.541***
	(16.47)	(17.76)	(2.77)	(11.17)	(7.99)	(5.89)
Controls	No	Yes	No	Yes	No	Yes
Year-month Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Fund Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Nobs.	77,085	54,940	77,085	54,940	75,086	54,923
Adjusted R^2	0.721	0.754	0.878	0.890	0.698	0.729

Table VI. The Impact of the Measures on BWM Fund Performance – Ex-post Performance-monitoring

This table presents the comparison of returns of funds with different distribution contracts. Column (1) shows the returns of funds with distribution relationships covering the full life cycle. Column (2) shows the returns of funds with distribution relationships that only cover part of the life cycle. Column (3) shows the difference between Column (1) and Column (2). The different rows of the table represent another dimension of contract characteristics: using a single-term or renewable contracts to maintain the distribution relationship. All variables are defined in the Appendix. The t-statistics are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Dependent Variable	*Fund Performance*		
	(1) Full Distribution	(2) Partial Distribution	(3) Full- Partial
Full Sample	0.946	0.873	0.072***
	(2.56)	(2.54)	(13.06)
One-Time Contract (Single Game)	0.966	0.867	0.099***
	(2.59)	(2.55)	(12.70)
Multiple Contract (Repeated Game)	1.088	1.066	0.022
	(1.34)	(2.08)	(1.38)
Multiple- Single	0.122***	0.199***	
	(8.51)	(2.82)	

Table VII. The Impact of the Measures on BWM Fund Performance – Heterogeneity in Governance Capacity

This table presents results of the difference-in-differences regression analysis for the impact of *the Measures* on BWM fund performance over 12 months before and after the implementation of *the Measures*. *Strong Governance*$_i$ indicates a dummy variable that takes the value of one if funds that are distributed by large commercial banks, defined as one of the top 20 banks in the market by revenue. *NonSOE*$_i$ indicates a dummy variable that takes the value of one if the parent bank of the BWM company is a non-state-owned commercial bank. *Post*$_t$ indicates a dummy variable that takes the value of one after the Measure was implemented. All variables are defined in the Appendix. All Columns control for year-month fixed effects and fund fixed effects. All standard errors are clustered at the fund level. The coefficients of the constant are omitted for brevity. The t-statistics are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Dependent Variable	*Fund Performance*	
	(1)	(2)
NonSOE$_i$×*Post*$_t$×*Strong Governance*$_i$	1.172***	0.753***
	(15.05)	(8.29)
NonSOE$_i$×*Post*$_t$	-0.282***	-0.307***
	(-5.09)	(-4.13)
Controls	No	Yes
Year-month Fixed Effects	Yes	Yes
Nobs.	77,085	54,940
Adjusted R^2	0.234	0.553

Table VIII. The Impact of the Measures on BWM Fund Performance – Heterogeneity in Distribution Dependence
This table presents results of the difference-in-differences regression analysis for the impact of *the Measures* on BWM fund performance over 12 months before and after the implementation of *the Measures*. *Distribution Dependence*$_i$ indicates a dummy variable that takes the value of one if the parent bank is not among the top 20 in the market by revenue. The smaller the size of the parent bank, the stronger the motivation for the BWM company to seek non-affiliated distribution channels. *NonSOE*$_i$ indicates a dummy variable that takes the value of one if the parent bank of the BWM company is a non-state-owned commercial bank. *Post*$_t$ indicates a dummy variable that takes the value of one after the Measure was implemented. All variables are defined in the Appendix. All Columns control for year-month fixed effects and fund fixed effects. All standard errors are clustered at the fund level. The coefficients of the constant are omitted for brevity. The t-statistics are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Dependent Variable	*Fund Performance*	
	(1)	(2)
NonSOE$_i$×*Post*$_t$×*Distribution Dependence*$_i$	-0.071	0.335***
	(-1.20)	(4.53)
NonSOE$_i$×*Post*$_t$	0.810***	0.742***
	(13.52)	(11.12)
Controls	No	Yes
Year-month Fixed Effects	Yes	Yes
Fund Fixed Effects	Yes	Yes
Nobs.	77,085	54,940
Adjusted R^2	0.234	0.553

Table IX. The Impact of the Measures on BWM Fund Performance – Heterogeneity in Competition Level

This table presents results of the difference-in-differences regression analysis for the impact of *the Measures* on BWM fund performance over 12 months before and after the implementation of *the Measures*. *High Competition*$_i$ indicates a dummy variable that takes the value of one if the difference in the average risk level between funds issued by a BWM company and those issued by the affiliated BWM companies of its distribution brokers is below the sample mean. The smaller the risk difference, the more intense the competition. *NonSOE*$_i$ indicates a dummy variable that takes the value of one if the parent bank of the BWM company is a non-state-owned commercial bank. *Post*$_t$ indicates a dummy variable that takes the value of one after the Measure was implemented. All variables are defined in the Appendix. All Columns control for year-month fixed effects and fund fixed effects. All standard errors are clustered at the fund level. The coefficients of the constant are omitted for brevity. The t-statistics are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Dependent Variable	*Fund Performance*	
	(1)	(2)
NonSOE$_i$×*Post*$_t$×*High Competition*$_i$	0.566***	0.649***
	(3.80)	(5.37)
NonSOE$_i$×*Post*$_t$	0.257***	-0.154**
	(3.08)	(-2.04)
Controls	No	Yes
Year-month Fixed Effects	Yes	Yes
Fund Fixed Effects	Yes	Yes
Nobs.	35,170	23,664
Adjusted R^2	0.111	0.394

Table X. The Impact of the Measures on BWM Fund Performance – Robustness

This table presents results of the difference-in-differences regression analysis for the impact of *the Measures* on BWM fund performance over 12 months before and after the implementation of *the Measures*. $NonSOE_i$ indicates a dummy variable that takes the value of one if the parent bank of the BWM company is a non-state-owned commercial bank. $Post_t$ indicates a dummy variable that takes the value of one after the Measure was implemented. Columns (1) and (2) show the results after winsorizing the return data at 5% and 95% level. Columns (3) and (4) show the results of replacing return with net-of-fee return. CIB BWM has very unique distribution characteristics, so Columns (5) and (6) show the results after removing this particular sample. All variables are defined in the Appendix. All Columns control for year-month fixed effects and fund fixed effects. All standard errors are clustered at the fund level. The coefficients of the constant are omitted for brevity. The t-statistics are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Dependent Variable	*Fund Performance*					
	(1)	(2)	(3)	(4)	(5)	(6)
	Winsor 5%		Net-of-Fee Return		Excluding CIB	
$NonSOE_i \times Post_t$	0.416***	0.183***	0.895***	0.462***	0.870***	0.464***
	(17.86)	(8.04)	(16.97)	(9.82)	(17.21)	(9.62)
Controls	No	Yes	No	Yes	No	Yes
Year-month Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Fund Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Nobs.	77,085	54,940	72,561	54,940	75,264	53,828
Adjusted R^2	0.332	0.526	0.253	0.562	0.235	0.553