

Chinese Conglomerates Diversify by Buying U.S. Investment Firms

By Arjun Ghosh, J.D. Candidate 2019 | February 28, 2017

As the number of consumers in China continues to grow, some Chinese conglomerates are raking in cash and looking for ways to diversify their businesses. What are they doing with this money? Recently, [they](#) have been looking to buy U.S. investment firms. Specifically, Chinese businesses are attracted to firms that practice more passive investment strategies, like investing in “funds of funds.”

At the same time as Chinese companies have been looking to make investments, U.S. passive investment funds have been [hurting](#), and some fund managers have been looking to get out. Chinese conglomerates, flush with cash and happy to pay a premium for a business they want, make for great opportunities. For example, [HNA Group](#) is a Chinese aviation and shipping conglomerate on the Fortune Global 500 list. HNA Group is currently eyeing Anthony Scaramucci’s firm SkyBridge Capital, as Mr. Scaramucci looks toward a position in the Trump administration.

Moves like this worry some investors that see the proposed purchase as an attempt by the Chinese government to build closer relationships with the new Trump administration. Guang Yang, head of U.S. operations for HNA Group, [insists](#) that this claim has no merit, but the company’s founder and co-chairman is an avowed member of the Communist Party. Yang further insisted that investors should not be suspicious because HNA has worked with U.S. investors before. In the past, HNA worked with the Blackstone Group to acquire 25% of Hilton Worldwide. After building assets in the U.S. totaling \$145 billion, Yang maintains that this is a natural next step for HNA Group.

As Chinese conglomerates make significant U.S. investments, some Japanese companies are also making moves. Earlier this month, Softbank acquired Fortress Investments for \$3 billion. Softbank, primarily a technology and telecommunications conglomerate, paid a premium for the investment firm, with shareholders receiving [38% over the closing price](#) for their shares on February 13th. Fortress’ principles will remain in place and run day-to-day operations, and the fund will function as an independent business within Softbank.

One possible explanation for this recent trend of Asian-backed investments is [speculation](#) that the Trump administration may loosen financial regulation of investment funds or raise short term interest rates. There have already been meetings about eliminating an Obama-era labor department regulation, which would make it easier to sell passive investment products like funds of funds to individual investors.