

**POTENTIAL BREAKTHROUGH FOR FOREIGN INVESTMENT  
IN CHINESE RMB FUNDS: PILOT PROGRAM FOR  
CONVERSION OF FOREIGN CURRENCY INTO RMB FOR  
FUND CONTRIBUTIONS**

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To Our Clients and Friends:

We have learned from a source in Shanghai that the Shanghai Municipal Government is on the verge of instituting a pilot program that would remove an important obstacle to significant foreign participation in general purpose domestic Chinese RMB funds—namely, the practical impossibility of converting foreign currency into RMB for purposes of funding capital contributions. Domestic Chinese RMB funds are attractive because they may enjoy a streamlined investment process compared to offshore funds, and they are also able to access domestic Chinese investors, which offshore funds are not. If promulgated by the Shanghai Municipal Government, this pilot program would represent by far the most important development to date for foreign investors in the Chinese private equity market.

Under the proposed terms of the pilot program, foreign investors meeting certain experience and capital-under-management criteria would be able to obtain foreign exchange “quotas” for their general partner and limited partner investments in domestic RMB funds organized in Shanghai Pudong. Each quota would be expressed as an amount of foreign currency that an approved person is pre-approved to convert into RMB. The pilot program would allow up to 50% of any RMB fund’s capital to be general partner and limited partner foreign-exchanged capital, in all cases subject to these quotas. Any foreign-exchanged general partner capital would need both to be within this 50% aggregate limit for the RMB fund as a whole as well as to be itself subject to a separate 5% limit.

Please feel free to contact us with any questions.

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