



Jeffy A Schoenfeld of BBH (left) leads the debate on next generation QDII strategies

QDII makes a swift turn

Leading players in fund management, custody and law debate QDII developments in *AsianInvestor's* second institutional investment conference in Beijing.

By Liz Mak

It's too early to call the QDII program a success or a failure. But overall, the program is not entirely without its merits, leading players in fund management, law and custody agreed at *AsianInvestor's* second institutional investment conference in China on 22 September, which drew a crowd of 175 from the Chinese institutional and fund management world in Beijing.

According to the State Administration of Foreign Exchange, the scale of the program has extended to a total of \$60 billion. Fund QDIIs have managed to raise up to \$1.2 billion, but not all QDII funds are equal, given their remarkable dispersion of investment returns.

Jeff Schoenfeld, partner and co-head of institutional fixed-income at Brown Brothers Harriman, which partners with ICBC on QDII fund services, attributes variance to the timing of product launches and the currency management decisions undertaken – or neglected – by the portfolio managers. It's notable that the only two QDII funds to return positive numbers are those launched during the middle of the bear market.

While most QDII funds are marketed as

active global strategy products, in reality the first generation of funds mainly invested in Hong Kong-listed H shares and red chips. This is set to change, says Hubert Tse, head of international business from Yuantai PRC Lawyers, which has advised four QDII managers. Tse says another 10-15 QDII products have been approved by the China Securities Regulatory Commission and are waiting for Safe's forex quota, while 12 more are requesting CSRC's go-ahead.

The next generation of strategies will include funds of funds, balanced portfolios and pure fixed-income plays. In the equities space, they will feature sector and market niches, as well as indexed offerings. But the rebound in sentiment regarding A shares means QDII funds face an uphill battle to attract investor interest.

Another trend: the QDII managers are starting to manage these products by themselves. China Southern and ICBC Credit Suisse have both ditched their overseas sub-advisors, and the larger firms are building internal resources, often in Hong Kong. For the small and mid-sized managers, however, foreign sub-advisors remain necessary. Indeed, the CSRC has encouraged local and foreign joint ventures

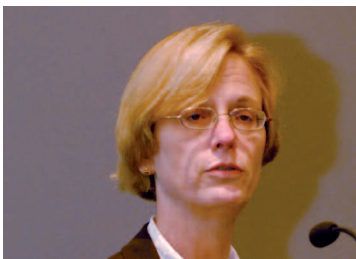
to look for sub-advisors beyond the foreign shareholder, to get best of breed.

CSRC is supporting QDII in other ways. For example, it has recently allowed fund houses to make available to investors segregated accounts for QDII strategies, says Zhang Houyi, deputy general manager at China Asset Management.

To make QDII a success requires fund managers to improve their technology platforms, their research skills, and their portfolio construction techniques. It will also require Chinese banks to provide better service, often in partnership with global custody banks. Although this isn't easy, China does have precedents to follow.

Cui Yan, director for the overseas custody business at ICBC, notes that Taiwan also gradually opened to overseas investments from 1988, but it wasn't until 2003 that local investor demand became entrenched, going from \$20 billion that year to \$50 billion in 2006. Cui reckons China's experience will be similar.

Yet as more of these products become available, Chinese banks are tasked with the dilemma of handling new issues that include hedging, cash and liquidity management new to the industry, which is



Deborah Fuhr,
Barclays Global Investors



Charles Wong,
Coventry Capital



Vincent Kwan,
Hang Seng Indexes



Zhang Hao, Ministry of Human Resources and Social Security



John Lau,
SEI Investments



Roy Diao,
FFTW



William Rosensweig,
Brown Brothers Harriman



Kerry Ann James,
Robeco Investment Management

why global partners will have a role.

The rest of the conference involved an exploration of asset classes of interest to QDII investors, notably fixed income and passive strategies.

Roy Diao, managing director from FFTW, part of BNP Paribas Investment Partners, outlined the case for global inflation-linked strategies; Patrick Chia, global head of fixed income for Asia from Credit Agricole, briefed investors on the recovery of Asian and global yield and currency.

Dow Jones and Hang Seng Index's Vincent Kwan showcased the two houses' respective indexing technologies.

A panel with Deborah Fuhr, managing director and global head of ETF research & implementation strategy at Barclays Global Investors; Kevin Hardy, regional head at Northern Trust Global Investments; and

Ho Ho, a quantitative portfolio manager at US pension fund CalPERS, discussed the experience of active and passive strategies during the financial crisis.

A second group discussed alternative investments for institutional investors, comprising Peter Douglas, Asia representative of hedge-fund group Aimal; Ho Ho; John Tsui, adjunct assistant professor at Columbia University and principal at Interactive Development; and Alisher Ali Djumanov, managing partner at Eurasia Capital Management.

Qiao Yu, professor of economics from Tsinghua University, spoke on his outlook for global markets and the rationale of various investment strategies for Chinese investors. Kerry Ann James, principal at Robeco Investment Management, briefed investors on the direction of US equities.

John Lau, head of investment from SEI in Hong Kong, explained how the multi-manager approach can benefit from inefficiencies in global markets.

The conference included a discussion outlining the growth of domestic institutions and pension funds, led by Sun Fan, a consultant from Hewitt Associates; Hang Hao, deputy director-general from the department of Social Insurance Fund Supervision under the Ministry of Human Resource and Social Security; and Guo Jie, a general director for management department of non-public stock offering at Fortis Haitong.

Lee Kha Loon, head of Asia Pacific at the CFA Institute Centre for Financial Market Integrity, drawing on lessons of the financial crisis, called for stronger ethics in the Chinese investment market. ■

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