China's Offshore Investment Boom
-QDII for Fund Management Companies-

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I. Fund management companies launch QDII

Investors from outside of China have long had a high degree of interest in investing in Chinese stocks, but it is now investment in the opposite direction that is starting to take off, i.e., offshore investments by China's domestic investors. Specifically, the QDII (Qualified Domestic Institutional Investors; "cue-dii") scheme announced by the Chinese government allows domestic investors (both individuals and corporations) to invest in offshore securities by using domestic financial institutions with the QDII designation. When restrictions on QDII were lifted in April 2006, fund management companies (asset management companies) began to establish and sell products (mutual funds), first in a trial run by Hua An Fund Management in September 2006, and then in earnest from September 2007, after the China Securities Regulatory Commission (CSRC) established a new set of rules[1].

II. QDII products focused on equity investments

1. Product overview

1) All sold out on day of launch

QDII fund management companies are licensed by the CSRC, and their invest limit is actually approved by the State Administration of Foreign Exchange (SAFE).

The first QDII product, established and sold on 12 September 2007 by China Southern Fund Management, was initially approved for a US$2 billion investment limit, but another US$2 billion was quickly added, bringing the total to US$4 billion, or roughly ¥460 billion (Figure 1)[2], in response to a surge of applications from investors. The second product, from China AMC, was initially approved at US$2.5

1 Although the lifting of restrictions on QDII in April 2006 also applied to banks and insurance companies, this paper will focus on the fund management companies and brokerage houses. For bank QDII, see Eiichi Sekine, *Ugokihajimeta Chugoku no Taigai Shouken Toushi* (China's outbound portfolio investment gains momentum), *Capital Market Quarterly*, Fall 2006 issue (in Japanese), and for insurance company QDII, see Eiichi Sekine, China's Insurance Companies Step Up Outbound Portfolio Investment, *Capital Market Review*, Winter 2007.

2 We use an exchange rate of ¥115=US$1 for currency conversions in this paper.

billion, and then had US$2.5 billion added for a total of US$5 billion (¥575 billion). The third and fourth products were both from foreign-invested fund management companies. The third, from Deutsche Bank affiliate Harvest Fund Management, was set at US$5 billion (¥575 billion). The fourth, from JP Morgan Asset Management affiliate China International Fund Management, was initially approved by the financial authorities for an investment of US$4 billion, but just as was the case with China Southern Fund Management and China AMC, a surge of applications from investors resulted in the fund quickly adding approval for another US$1 billion, bringing the total to US$5 billion (¥575 billion) . All four of the above products (two launched by Chinese firms and two by foreign-invested firms) sold out on the day of the launch.

Figure 1: Overview of type I QDII products issued by fund managers

Fund management company (Ownership)	**China Southern Fund Management** (Huatai Securities, 45%; Shenzhen Airport (Group), 30%; Xiamen International Trust Co., 15%; Industrial Securities, 10%)	**China AMC** (CITIC Securities, 60.725%; Southwest Securities, 35.725%; China Sci-Tech Securities, 3.55%)
Name of fund	Southern Global Enhanced Balanced Fund	China AMC Global Select Fund
Type	Contractual, open-end	Contractual, open-end
Domestic custodian	Industrial & Commercial Bank of China	China Construction Bank
Offshore custodian	Bank of New York	JPMorgan Chase
Offshore investment advisor	Mellon Global Investments	T. Rowe Price
Date of approval of investment amount	4 September 2007 -- USD2 billion 14 September 2007 -- USD2 billion (additional)	10 September 2007 -- USD2.5 billion 26 September 2007 -- USD2.5 billion (additional)
Offering amount	USD4 billion	USD5 billion
Offering period	12 to 28 September 2007 (sold out on first day)	27 September to 26 October 2007 (sold out on first day)
Target market	Individuals, corporations	Individuals, corporations
Currency denomination of offering	Yuan, RMB 1,000	Yuan, RMB 1,000
Target investment products	Allocation to mutual funds and equities of 95%, including at least 60% in mutual funds, no more than 40% in equities, and 0 to 40% in money market products	Focused on equities (at least 60%)
Target countries and regions	The 35 countries/regions with regulatory bodies that have signed agreements with the CSRC (at least 90%) Mature markets (60%): US, Japan, Hong Kong (20%), Switzerland, Italy Emerging markets (40%): Russia, India, Brazil, Malaysia, Korea	US, Europe, Japan, Hong Kong (although weighting in Hong Kong stocks and H shares cannot exceed 30%) Emerging markets
Index (es)	MSCI World; MSCI Emerging Markets	MSCI World
Fees (% of NAV)	Fund management fee (1.85%) Custodial fee (0.3%)	Fund management fee (1.85%) Custodial fee (0.35%)
Taxes	Per national tax rules	Per national tax rules
Manages assets for the NSSF	Yes	Yes
Manages investments for corporate pensions	Yes	Yes

Fund management company (Ownership)	**Harvest Fund Management** (China Credit Trust, 48%; Lixin Investment Co., 32.5%; Deutsche Bank, 19.5%)	**China International Fund Management** (Shanghai International Trust Co., 51%; JPMorgan Asset Management, 49%)
Name of fund	Harvest Overseas Fund	CIFM Asia Pacific Advantage Fund
Type	Contractual, open-end	Contractual, open-end
Domestic custodian	Bank of China	Industrial & Commercial Bank of China
Offshore custodian	Bank of China (Hong Kong)	Bank of New York
Offshore investment advisor	DWS Financial Service	JF Asset Management
Date of approval of investment amount	26 September 2007 -- USD5 billion	12 October 2007 -- USD4 billion 18 October 2007 -- USD1 billion (additional)
Offering amount	USD5 billion	USD5 billion
Offering period	9 to 19 October 2007 (sold out on first day)	15 to 19 October 2007 (sold out on first day)
Target market	Individuals, corporations	Individuals, corporations
Currency denomination of offering	Yuan, RMB 5,000 (for retails sales by banks and securities firms), RMB 20,000 (for direct sales)	Yuan, RMB 10,000 (for retail and direct sales by banks and securities firms), RMB 500,000 (for VIP Asset Management Center investors)
Target investment products	Focused on equities (at least 60%)	Focused on equities (at least 60%)
Target countries and regions	Stocks listed on the Hong Kong Stock Exchange, and stocks listed on the Singapore Stock Exchange, NASDAQ, or New York Stock Exchange with at least 50% of their operating income or profit coming from China	Stock in Asian companies (with corporate registration in the Asia-Pacific region) that trade on stock exchanges in the Asia-Pacific region or other stock exchanges. Specifically, Australia, Korea, Hong Kong, India, and Singapore (excluding Japan)
Index (es)	MSCI China	MSCI Asia Pacific (ex-Japan)
Fees (% of NAV)	Fund management fee (1.8%) Custodial fee (0.3%)	Fund management fee (1.8%) Custodial fee (0.35%)
Taxes	Per national tax rules	Per national tax rules
Manages assets for the NSSF	Yes	No
Manages investments for corporate pensions	Yes	No

Note: T. Rowe Price, the offshore investment advisor for China AMC, took on management of the NSSF's Enhanced US Equity Index on 29 November 2006.

Source: Nomura Institute of Capital Markets Research, based on each fund's offering materials

2) Need for hedging domestic market risks one reason for brisk sales

Including that from Hua An Fund Management , the total approved investment for QDII fund management companies is now at US$19.5 billion (approximately ¥2.2 trillion), of which US$19 billion (approximately ¥2.1 trillion) was established and sold in only a 1-month time period starting in early September 2007. Considering that under the QFII program (Qualified Foreign Institutional Investors; "cue-fee"), which removed restrictions on investment in Chinese securities by non-resident investors starting in November 2002, authorized investments over the four-year period ending end-2006 totaled only US$9.995 billion (approximately ¥1.1 trillion), it is impressive that QDII fund management companies were able to obtain approval for, and actually make, such a large amount of investments over such a short period of time[3].

This is in contrast to the trial run by Hua An Fund Management one year prior to the market being fully opened to the QDII fund management companies. Its sales totaled only US$197 million, versus an initial authorized limit of US$500 million, which suggests there was a significant change in domestic investors' attitude toward offshore investments. Local securities firms explain this as being a consequence of domestic investors seeking to hedge the risks of their having concentrated investment on A shares (domestic stocks denominated in Chinese yuan), which have continued to post record highs, by investing in offshore securities markets.

3) Expectations for high returns

After the QDII trial run by Hua An Fund Management in 2006, the newly established Experimental Measures Governing Regulation of Investments in Offshore Securities by Qualified Domestic Institutional Investors (QDII Offshore Measures)[4], along with the related circular[5], made it possible for not only fund management companies (as under the trial run), but also securities firms, to make QDII investments in a wide range of products, including money market products, bonds, stocks, publicly offered mutual funds, structured products, and financial derivatives (Figure 2). Although there are investment restrictions on the amount invested in individual issues, it is possible to weight portfolios as high as 100% in equities. Investment is allowed in 35 countries and regions that have regulatory bodies with which the CSRC has signed a memorandum of understanding (Figure 3)[6].

3 According to SAFE, total approved QDII investment as of end-September 2007 was US$42.17 billion, including US$16.1 billion for 21 banks, US$19.5 billion for five fund management companies, and US$6.57 billion for 14 insurance companies, of which US$10.86 billion (about 26%) has actually been invested.

4 Promulgated on 18 June 2007 and implemented from 5 July 2007 (Ref: Decree No. 46 of the China Securities Regulatory Commission Directive).

5 The official name for this is the Notice Regarding Issues Relating to Implementation of the "Experimental Measures Governing Regulation of Investments in Offshore Securities by Qualified Domestic Institutional Investors." It was promulgated on 18 June 2007 and implemented on 5 July of that year.

6 The circular promulgated with the QDII Offshore Measures prohibits investing any more that 10% of net assets in securities that trade in countries and regions without a regulatory authority that has signed memorandum of understanding with the CSRC.

Figure 2: QDII investments by fund management companies and securities firms

Eligible offshore investments	Specific products	Notes
Money market products	Bank deposits CDs Bank funded Bank acceptances Commercial bills Repos Treasury bills	
Bonds	Government bonds Corporate bonds Convertible bonds MBS ABS Bonds issued by international financial institutions	Bonds issued by international financial institutions limited to bonds approved by the SCRC, including those issued by the World Bank and the Asian Development Bank.
Stocks	Common stock Preferred stock GDRs & ADRs REITs	Limited to issues listed and traded on stock exchanges in countries and regions with regulatory bodies that have signed agreements with the CSRC.
Publicly offered mutual funds	No	Limited to publicly offered mutual funds registered in countries and regions with regulatory authorities that have signed agreements with the CSRC.
Structured products	No	Structured products linked to fixed income products, private equity, credit, commodity indices, and funds.
Financial derivatives	Forward contracts Swaps Warrants Options Futures	Financial derivatives limited to those used for hedging. Warrants, options, and futures limited to issues listed and traded on offshore stock exchanges approved by the CSRC.

Source: Nomura Institute of Capital Markets Research, based on Experimental Measures Governing Regulation of Investments in Offshore Securities by Qualified Domestic Institutional Investors and the related circular

Figure 3: Countries and regions with regulatory bodies that have signed agreements with the CSRC

Region	Country/region
North America	US, Canada
South America	Brazil, Argentina
Asia	Hong Kong, Singapore, Japan, Malaysia, South Korea, Indonesia, Vietnam, India, Jordan, UAE, Thailand, Mongolia
Europe	UK, France, Luxemborg, Germany, Italy, the Netherlands, Belgium, Switzerland, Turkey, Portugal, Norway, Romania, Ukraine, Liechtenstien
Africa	Egypt, South Africa, Nigeria
Pacific	Australia, New Zealand

Note: As of 31 January 2008.
Source: Nomura Institute of Capital Markets Research, based on materials from the CSRC

Although all four of the QDII products described above invest primarily in equities based on these rules (and are equivalent to offshore equity mutual funds), there are differences in the specific investment policies of each fund. The domestic fund managers, China Southern Fund Management and China AMC, primarily target their investments in Japan, the US, Europe, Hong Kong, and emerging markets. The foreign-capitalized Harvest Fund Management targets stocks listed on the Hong Kong Stock Exchange as well as China-related stocks listed on the Singapore Stock Exchange, NASDAQ, and the New York Stock Exchange, while the other foreign-invested fund, China International Fund Management, targets its investments on the stock of Asian companies listed on stock exchanges in the Asia-Pacific region and elsewhere . Although there are differences in the targeted countries and regions, China's domestic investors appear to be attracted by the prospect of earning high returns through such a focus on equity investments. This provides some differentiation for investors from the QDII products established by the commercial banks, which are limited by the China Banking Regulatory Commission (CBRC) to a maximum equity weighting (based on net assets) of 50%.

2. Investment personnel and the investment decision process

1) Fund manager is key

For the fund management companies to steadily realize the investment objectives of their QDII products, it is imperative that they hire and retain skilled fund managers with offshore investment experience and expertise. In this regard, as well, differences have emerged in the investment policies of each fund.

Whereas China Southern Fund Management, China AMC, and China International Fund Management have focused on fund managers who are either from Taiwan or have offshore investment experience in Taiwan, Harvest Fund Management, because it is a joint venture with Deutsch Bank, has targeted fund managers with work experience at foreign financial institutions, particularly at Germany-affiliated institutions, (Figure 4) . According to the prospectus, the fund manager at China Southern Fund Management also gained experience investing in Japan funds while at Shinkong Securities in Taiwan, which suggests a high likelihood that Japanese stocks will be included in the portfolio.

Figure 4: Fund manager snapshots

Southern Global Enhanced Balanced Fund		
Name	Xie Weihong (native of Taiwan)	
Year of birth	not available	
Title	Managing director, Department of International Business TN	
Education	Masters in Financial Management TN, University of Illinois	
Work experience	July 1994 to June 1999	Fubon Insurance Co., Ltd. (Taiwan), Investments Division TN
	October 2000 to April 2002	Chinatrust Bank (Taiwan), Financial Affairs Department TN
	April 2002 to January 2004	CDIB Partners Investment Holding Corporation (Taiwan), manager, Research Department TN
	February 2004 to May 2007	Shinkong Securities (Taiwan), Manager, Offshore Investments Division TN
	May 2007	Joined China Southern Fund Management
Notes	12 years experience in offshore investing, including responsibility for managing Japanese fund when at Shinkong Securities	
China AMC Global Select Fund		
Name	Yang Chonghong (native of Taiwan)	
Year of birth	not available	
Title	Director, Offshore investments TN	
Education	Masters in Finance TN, University of Tennessee	
Work experience	Over 10 years in securities business, working since 1990 at mutual fund and securities firms in Taiwan	
	January 2005	Joined China AMC
Harvest Overseas Fund		
Name	Li Kai	
Year of birth	1971	
Title	Assistant General Manager TN, Harvest Fund Management	
Education	Masters in Economics, Ph.D. in Finance, New York University	
Work experience	Over 8 years in the securities business at Deutsche Bank, Ziff Brothers Investments, Dresdner Kleinwort, and UBS Paine Weber	
	April 2007	Joined Harvest Fund Management
CIFM Asia Pacific Advantage Fund		
Name	Yang Yifeng (native of Taiwan)	
Year of birth	not available	
Title	Fund manager	
Education	not available	
Work experience	Over 13 years in the securities business in Asia (ex-Japan) at Nan Shan Life Insurance (Taiwan) and JPMorgan Fleming	

Source: Nomura Institute of Capital Markets Research, based on materials from the respective companies.

2) Acquiring expertise from offshore investment advisors

Under the QDII Offshore Measures, QDII-designated institutions are authorized to utilize offshore investment advisors when establishing and managing QDII products[7].

China Southern Fund Management uses Mellon Global Investments as its offshore investment advisor, and receives (1) advice on asset allocation, (2) advice related to the investment portfolio, (3) assistance with executing trades, (4) assistance with evaluating the performance of fund managers (those who establish and manage QDII products), and (5) assistance with managing asset risk for fund managers. The division of duties between fund managers and offshore investment advisors at China Southern Fund Management, with respect to asset allocation, trade execution,

7 Article 13 of the QDII Offshore Measures stipulates the requirements that must be met by asset management companies and investment advisors in order to qualify as offshore investment advisors. Numerical criteria include at five years experience managing assets and at least US$10 billion in securities assets under management the prior fiscal year.

performance reviews, and the investment decision-making process, including risk management, is shown in Figure 5. The key point here is that based on the investment management process of Plan, Do, and See, the fund management company is following a unified investment decision-making process that mixes fund managers hired from the outside with offshore investment advisors, as a way to build up in-house experience and expertise in the area of offshore investments. This is a challenge that is common to all of the fund management companies that establish and manage QDII products.

Figure 5: China Southern's process for making QDII investment decisions

Stage	Primary person responsible	Details
(1) Asset allocation	Fund manager	The fund manager determines asset allocations using the following procedures. •The fund manager and offshore investment advisor hold a monthly asset allocation meeting. •The offshore investment advisor submits each month to the fund manager a proposal regarding regional selections and asset allocations. •The fund manager adjusts asset allocations, referencing the offshore investment advisor's proposal.
(2) Trade execution	Fund manager	The fund manager obtains prior approval from the fund management company's internal investment committee. The fund manager gives instructions to the trading department, and the trading department passes on the trading instructions to the offshore broker. The trading department passes on trading information received from the offshore broker to the fund manager.
(3) Performance assessment	Fund manager	Factors contributing to performance are assessed using regression analysis.
(4) Risk management	Fund manager and Offshore investment advisor	The two establish a joint risk management group, establish risk managment rules, and effectively manage risk.

Source: Nomura Institute of Capital Markets Research, based on materials from China Southern

3. Other offshore providers of outsourced services

1) Offshore custodians

Article 18 of the QDII Offshore Measures stipulates that, in addition to domestic custodians, offshore custodians that provide custodial services outside of China can also be used[8].

China Southern Fund Management has chosen the Bank of New York (BONY) as its offshore custodian, and BONY is responsible for ensuring the safe storage of the fund management company's entrusted property (Figure 6).

[8] Article 19 of the QDII Offshore Measures stipulates the requirements that must be met to qualify as offshore custodians. Numerical criteria include either actual capital of over US$1 billion and or least US$100 billion in assets under management.

Figure 6: Role of offshore custodian for China Southern's QDII products

(1) Keep secure custody of entrusted property
(2) Calculate net assets of entrusted offshore assets
(3) Clear and settle entrusted assets
(4) Open cash and securities accounts for entrusted assets
(5) Provide accounting registration and trading information related to custody services
(6) Keep custody of registrations, ledgers, and other documentation related to custodial services for entrusted assets
(7) Other items not handled by the domestic custodian

Note: The Bank of New York was chosen as the offshore custodian.
Source: Nomura Institute of Capital Markets Research, based on materials from China Southern

2) Offshore brokers

When making trades based on advice from offshore investment advisors and on decisions made by internal investment committee, the trades may be executed using an offshore broker (Article 3 of the QDII Offshore Measures).

Although China AMC has not disclosed who they use, we note their criteria for selecting an offshore broker is (1) ability to execute trades, (2) research support services, (3) financial strength, (4) the convenience and reliability of back-office services, and (5) organizational structure and composition of services (Figure 7).

Figure 7: Standards for selecting offshore brokers (example for China AMC's QDII products)

Item	Requirements
(1) Ability to execute orders	Able to deal with all customers equally and execute orders properly, reliably, and faithfully at the best price. Provide sufficient liquidity and have minimal trading errors.
(2) Research support services	Provide high-quality research reports to meet demand for basic services. This includes recommending names, making company visits, providing market price references, engaging in specialized research, and assisting in valuing transactions.
(3) Financial strength	Rank among industry leaders in indicators of net assets, market capitalization, and assets under management, or provide a sufficient level of security.
(4) Convenience and reliability of back office services	Be capable of providing assistance with a large number of ideas related to trades and settlements, have strong capabilities in software redevelopment, and have stable and secure systems.
(5) Organizational structure and composition of services	Be well-positioned in terms of abiding by rules, aggressively promote cooperation across diverse businesses, and be capable of maximizing all resources aimed at ensuring profits for the fund.
(6) Other	Have elements in business base that are advantageous to fund holders.

Source: Nomura Institute of Capital Markets Research, based on materials from China AMC

III. Outlook for new approvals

1. List of new approvals for the future

In August 2007, prior to the establishment and sale of QDII products by fund management companies, the Securities Association of China (SAC) held a two-day seminar (30 to 31 August) on QDII Operations. The seminar covered such practical topics as QDII-related investment, marketing and sales, product design, trading, settlement, the transfer agent (TA), and calculating net asset value, as well as regulatory issues, including GIPS (global investment performance standards) and domestic laws concerning QDII.

Only 20 fund management companies and four brokerage houses were invited to the seminar (Figure 8), and these companies appear to have been singled out for fast track status in obtaining a QDII license and approval for an investment maximum. In fact, 13 companies have already obtained a license[9]. As the number of fund management companies and brokerage houses with the QDII designation increases, we expect finding fund managers with offshore investment experience and expertise, as well as building a research organization to cover offshore securities markets, will become an even bigger challenge moving forward.

Figure 8: Participants in the Securities Association of China QDII seminar

1. Fund management companies (20 companies)

Chinese firms	Authorized investment	Foreign-invested firms	Authorized investment
Hua An Fund Management	USD500 million	Harvest Fund Management	USD5 billion
China Southern Fund Management	USD4 billion	China International Fund Management	USD5 billion
China AMC	USD5 billion	ICBC Credit Suisse Asset Management	USD3 billion
Bosera Funds		Fortune SGAM Fund Management	Has obtained license
Da Cheng Fund		Fortis Haitong Investment Management	Has obtained license
Yinhua Fund Management		Penghua Fund Management	
GF Fund Management		Changsheng Fund Management	
China Universal Asset Management		Fullgoal Fund Management	
Guotai AMC		UBS SDIC	
		CCB Principal Asset Management	
		Bank of Communications Schroder Fund Management	Has obtained license

2. Securities firms (4 firms)

Chinese firms	Authorized investment	Foreign-invested firms	Authorized investment
CITIC Securities	Has obtained license	China International Capital	Has obtained license
China Merchants Securities	Has obtained license		
Guotai Junan Securities	Has obtained license		

Note: Held in Beijing on 30-31 August 2007
Source: Nomura Institute of Capital Markets Research, based on materials from the Securities Association of China, www.chinafund.cn, and the respective companies.

9 As of 11 December 2007.

2. Linkage with other investment-related qualifications

Of the four fund management companies that were first to offer QDII products, three of them, China Southern Fund Management, China AMC, and Harvest Fund Management, are investing on behalf of the National Social Security Fund (NSSF), which was established to fund social insurance benefits, and the three have also obtained qualification as asset managers under the new defined-contribution corporate pension rules introduced in 2004. In addition, T. Rowe Price, which was selected as an offshore investment advisor for China AMC, took on management of the NSSF's enhanced index of US equities in November 2006.

We therefore think that experience in managing China's main domestic pension plans, the NSSF and corporate pensions, may be a factor that is taken into consideration when approving QDII status for fund management companies.

IV. Conclusion

The net asset value (NAV) of QDII products sold by fund management companies since September 2007 has been below their initial NAV of Rmb1 since November (Figure 9). All of the companies apparently started out in the familiar territory of Hong Kong shares, and thus have been hurt by the decline in the Hong Kong stock market[10]. Consequently, the offshore equity mutual fund that ICBC Credit Suisse Asset Management began selling on 3 January 2008 did not sell out on the day of launch[11]. The sale of QDII products by fund management companies is just getting started, and the local newspapers are starting to report that the fund management companies are weaning themselves off of the "incubator" provided by the domestic market and gaining investment experience in offshore markets, albeit while having to pay a tuition of sorts[12]. Although the QDII products from the fund management companies are breaking new investment ground by investing in offshore securities, attracting skilled fund managers with offshore investment experience and know-how is still the key issue, as noted above, and this means that the fund management companies and the Chinese government must start focusing more on taking steps to acquire their own offshore investment expertise.

It was not until 1970 that Japan first allowed the inclusion of offshore securities within investment trust portfolios. Japan's first step toward liberalizing offshore security investments was to authorize investment trusts established and sold domestically to start adding offshore securities to their portfolios, up to a maximum of US$100 million. Then in 1972, it became possible to start selling in Japan offshore mutual funds that were established under the laws of a foreign country. Although the

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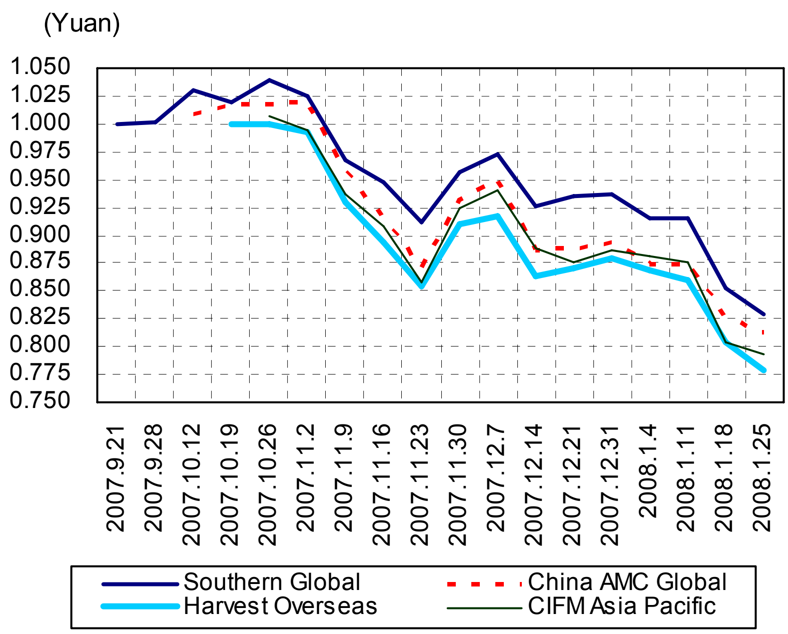
10 *Nikkei Kin'yu Shimbun*, 5 December 2007 edition.

11 This asset management company is a joint venture between the Industrial & Commercial Bank of China and Credit Suisse First Boston. The enrollment period ends on 1 February 2008. The planned portfolio is a mix of Chinese stocks listed on offshore stock exchanges and stock in foreign companies that generate earnings on China's economic growth.

12 *China Securities Journal*, dated 3 December 2007.

deregulation of QDII products offered by China's fund management companies is the next necessary step, we think that China, like Japan, will also probably start looking at allowing the domestic sale of offshore mutual funds. QDII trends at the fund management companies should continue to attract interest.

Figure 9: NAV of QDII products from fund management companies



Note: For CIFM Asia Pacific's 31 December 2007 NAV, we use NAV as of 28 December 2007.
For China AMC Global's 11 January 2008 NAV, we use NAV as of 10 January 2008.

Source: Nomura Institute of Capital Markets Research, based on materials from the respective companies.