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SEI Exports Multi-Manager Model to China

by Scott Johnson

Count SEI among the U.S. managers expanding their presence in mainland China, even as a stalling global economy weakens demand for overseas investment. The firm has signed a distribution deal with Beijing-based Yinhua Fund Management for what could be the first multi-manager product launched under the Qualified Domestic Institutional Investor (QDII) program.

The entrance of the multi-manager model into China could provide an easy gateway to the country for the underlying managers.

With Morgan Stanley signed on as an additional asset allocation advisor, SEI will select between 10 and 20 investment managers for an investment vehicle available to Chinese investors. Yinhua has yet to launch the product set, and at least one other partnership is readying its own multi-manager offering.

Adoption could be slow in the short-term, but SEI's Joe Ujobai, executive v.p. for private banking, based in London, says his firm is willing to wait out the current market cycle.

"QDIIs got off to a great start, and then the market struggled a bit," says Ujobai. "That doesn't help the reputation of QDII, and certainly the market conditions don't help investor sentiment, but I think one of the great things about working in China is that there's a long-term mentality."

Chinese regulators have approved more than a dozen local fund managers for overseas investment through the QDII program. While there are indications that restrictions will continue to loosen, many have partnered with foreign asset managers to tap into global markets. BNY Mellon and Franklin Templeton are among the handful of U.S. managers to announce deals in the last year.

But early interest from Chinese investors eager to diversify has chilled in recent months. State-run news agency Xinhua has reported losses in many QDII funds since the start of the year, citing a worldwide economic slowdown. And a market update from Shanghai-based consultancy Z-Ben Advisors reports "not much good news these days" coming out of QDII funds.

"Performance is weak, demand nonexistent and even a bank-sponsored product was recently liquidated," writes Z-Ben, referring to a China Minsheng Banking Corp. product that collapsed in March amid plummeting asset values.

Opportunities still abound for foreign managers despite short-term struggles, says Garry Hawker, Mercer's investment consulting business leader in Shanghai. Mercer is also gearing up to launch a multi-manager product in China.

"The timing of the original launches of many QDII products coinciding with difficult markets over the past nine months or so, aligned with the continued RMB appreciation, has resulted in disappointing returns to date for retail launches in the QDII area," says Hawker, in an e-mail.

“However, there remain opportunities for foreign managers at the institutional level, most recently with the China Investment Corporation’s planned funding of a variety of equity and bond mandates.”

Hong Kong-based Ping An Asset Management retained Mercer in November as an investment consultant for a multi-manager global equity fund for mainland China. That product will also be offered under the QDII program.

If SEI and Mercer’s offerings catch on, the big winners could also be small managers in the U.S. that might not have the scale to enter China on their own. SEI has seen “real enthusiasm” from potential underlying managers so far, says Ujobai.

A slowdown could potentially pique interest in multi-manager programs. As in the U.S., global multi-manager offerings have a risk advantage over single-manager products, says Benjamin Poor, a director with Boston-based research firm Cerulli Associates.

If Chinese domestic markets take on the same volatility that has characterized U.S. equities in recent months, that could boost demand for multi-manager products.

“I think the big challenge in the Chinese marketplace is that up until recently performance has been so strong that if you can double your money on the local stock exchange, why would you consider a product that is supposed to plod along conservatively?” says Poor.

A recent Cerulli report estimates the global market for traditional funds of funds and manager of managers products expanded by 33% in 2006 to roughly \$1.7 trillion in assets. Fund of hedge fund products would add \$953 billion to that total worldwide.

Whether SEI or Mercer is first out of the gate remains to be seen. Both firms are still progressing toward a launch.

SEI has begun to accompany Yinhua Fund Management on a “road show” with potential investors to raise awareness. A team of roughly 12 professionals based in Hong Kong will lead portfolio management and manager selection, but the product will also be serviced from SEI’s offices in London, New York and Toronto.

The details of the Yinhua offering have yet to materialize. SEI will draw from a smaller manager pool than is available to U.S. clients. That’s partly due to a smaller field of managers with mutual funds domiciled in countries that have signed agreements with Chinese regulators. Simplicity and risk tolerance also play a role.

“Part of this is trying to keep the solution simple and easy-to-explain,” says Ujobai. “This is a market that hasn’t had the opportunity to invest globally. We want to make sure that we enter with a solution that we can easily explain and that the market can understand.”