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What are the challenges and problems facing china’s outward portfolio Investment? evidence from the qualified domestic institutional investor scheme

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Abstract

Since their inception in late 2007, the Qualified Domestic Institutional Investor (QDII) funds, which help Chinese investors to invest in foreign capital markets, have experienced significant portfolio losses and persistent fund outflows. While these losses are large in absolute terms, QDII funds, on average, performed better than Chinese A-share funds, but slightly worse than a group of foreign mutual funds. Our study focuses on the QDII industry, and asks three interrelated questions: (1) why have there been large fund outflows from the industry? (2) what explains QDII funds’ poor performance? and (3) why have QDII funds been so heavily exposed to the Hong Kong market? Our empirical analysis shows that the persistent capital outflows were primarily a result of disappointing fund performance. This poor performance can, in turn, be explained by the deficiency of knowledge required of QDII fund managers to successfully invest in foreign capital markets and manage global portfolios. Finally, our study goes some way to explain the phenomenon of QDII funds’ large asset allocation in the Hong Kong market. This ‘Hong Kong bias’ is shown to be consistent with the well-documented ‘home bias’ behaviour in cross-border portfolio investment, but is greatly exacerbated by the lack of global investing experience of QDII managers.

Keywords

[China economy](#) [Capital account liberalisation](#)

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