

China Southern & Omgeo

Leaders in process improvement for international investments.

Following the launch of its first investment fund into international markets, Chinese investment manager China Southern pioneered the introduction of automated cross-border trading in China by adopting Omgeo Central Trade ManagerSM (Omgeo CTM).



Wenge Bao, Assitant General Manager of China Southern, discusses the operational challenges the company faced after launching the fund and how Omgeo solutions have helped address them.

In 2007 China Southern, based in the rapidly developing city of Shenzhen (a short distance from Hong Kong) launched its Global Selection Fund under the Chinese government’s fledgling Qualified Domestic Institutional Investor (QDII) programme. The QDII programme exists to enable Chinese fund management companies to invest in foreign markets.

This launch was China Southern’s first foray into international markets, targeting mainly US, Hong Kong and other global investments. It highlighted some critical differences faced by China investors when trading outside of their own borders. In order to manage these differences, China Southern became the first QDII fund to implement Omgeo CTM.

“Implementing Omgeo CTM has helped us to achieve our goals in regard to reducing operational risk”

Wenge Bao, Assistant General Manager, China Southern

China Southern manages assets of 180 billion renminbi (RMB) which is equivalent to USD 28 billion. In 2009 China Southern’s domestic and cross-border trades had a cumulative face value in excess of RMB 400 billion (USD 58 billion) of which around 65% related to equity transactions and the remainder fixed income. The company has a relationship with over 50 broker/dealers and around 14 custodians and sub-custodians.

A Whole New World

After the launch of the Global Selection Fund, China Southern’s operations department discovered that there were a number of differences between trade processes in China and those of globally traded funds. In the China market, trades between investment managers and brokers are matched by the local stock exchange before they move to the post-trade part of the trade life cycle. This is in contrast to international markets where fund managers themselves must ensure trades are matched before they can be settled. China Southern faced a steep learning curve. Faxes received from counterparties were often unclear and many trades had to be double-checked in order to ensure they moved through to settlement effectively.

This problem was exacerbated by the twelve hour time difference between China and North America. If the operations team identified an exception between their record of a trade and that of their US broker, there was no one working on the broker side to whom they could reach out to resolve the problem.

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Benchmarks

Central Trade Manager

Connect

OASYS

OASYS-TradeMatch

ProtoColl

TradeHub

TradeSuite ID



China Southern also found that data between their order management system and their internal fund accounting system did not always match and they had to resolve these differences manually.

All of these issues necessitated a large number of manual processes in order to ensure that trades were matched and Net Asset Value (NAV) calculations were aligned between their different systems. (In China, investment managers are required to complete accurate NAV calculations on T+1 - the day after a trade is executed.) As a result, the operations department was putting in very long hours.

“Operational risk management is not complicated when compared with investment or market risk management, but it is an extremely important function that focuses on critical procedures to ensure accuracy and encourage confidence in our company.”

Wenge Bao, Assistant General Manager, China Southern

China Southern knew it would face even greater operational challenges if the Global Selection Fund continued to grow. The implementation of a proprietary interface to upload excel files from their brokers to a custom built local matching engine helped alleviate the problems to a certain extent, but the manual nature of their post-trade processes continued to weigh heavily on the company's operational efficiency.

Switch to Automation

In 2008, China Southern resolved to use technology rather than manpower to address the challenges they faced with cross-border trade processing. In order to turn this resolution into a reality, China Southern made the decision to adopt Omgeo CTM for their international trade processing.

“When investors ask us to take on more volume, because we know Omgeo CTM can handle the workload, we have the confidence to say yes.”

Wenge Bao, Assistant General Manager, China Southern

China Southern was the first Chinese Investment Manger to adopt Omgeo CTM, a platform for the central matching of cross-border and non-U.S. domestic equity and fixed income transactions. The implementation of Omgeo CTM and the integration with China Southern's existing Bloomberg OMS and other internal accounting systems took around 3 months. China Southern soon found that Omgeo CTM delivered the solution they were looking for.

Operations staff now have improved visibility into the status of trades, manual matching of trades has been eliminated and operational risk management processes have been significantly improved. In addition, Omgeo CTM has assisted China Southern in adhering to regulatory requirements on NAV calculations — a key component of reputational risk management in the local market.

With a small team of only four people in their international business perations function, China Southern now has the capability to handle increased volume. The scalability provided by Omgeo CTM will enable them to expand their business. This is timely for China Southern as they recently launched their second QDII fund (investing in BRIC countries) and are investigating the potential for an index-linked fund.

Having led the way in automating cross-border trades, China Southern is happy to spread the word about the positive changes brought about by the adoption of Omgeo CTM, thereby encouraging greater levels of automation among the Chinese investment manager community.

“China is a developing market and Omgeo CTM a world class solution. All asset managers in China face the same problems investing offshore. When our peers ask us, we are willing to share our positive experience. The overall efficiency gains help the entire China market.”

Wenge Bao, Assistant General Manager, China Southern

About China Southern

Founded on the 6th of March 1998, China Southern Fund Management Co., Ltd is one of the first CSRC-approved fund management companies, which become a milestone of “New Funds Era” in China.

The head office of China Southern Fund is in Shenzhen China with registered capital of \$150million RMB. The shareholders structure consisted of Huatai Securities Co., Ltd. (45%), Shenzhen Investment Holding Co., Ltd. (30%), Xiamen International Trust Co., Ltd. (15%), and Industrial Securities Co., Ltd. (10%). Currently, our company has branches in Beijing, Shanghai, Hefei etc cities and has a subsidiary in Hong Kong named CSOP Asset Management Limited. This is also the first domestically approved and established overseas subsidiary.

Our company consists of a highly qualified and experienced professional team. We now have over 350 employees, with more than 55% of them with educational levels of Masters or higher and nearly 70% have over 7 years of working experience in the securities and funds industries. Within our team, the investment researchers have an average of 8 years of working experience, while 40% of them has either studied or worked overseas.

Our company has experienced long-term testing of multiple bull-bear market changing. We won the approval and trust of our many clients through sustaining high investment performance and always improving and thoughtful customer service. Our clientele includes a wide range of funds investors, social security boards, corporate pension funds and special accounts clients. Until the end of 2010, our company managed assets near \$190 billion RMB ranking among the forefront of the company. With our 26 different funds, we ranked first in products in our industry. It consists of 24 open- funds and 2 closed funds. Public fund assets under management approximately \$120billion RMB, while distributions to fund holders of about 110million, totaling \$44.2billion RMB. The scale of private business management of more than \$70billion RMB maintains our first position in the industry. China Southern Fund has already become the most abundant in product categories, business of the most comprehensive, excellent operating performance, asset management and the largest fund management company.

About Omgeo

At Omgeo, we are the operations experts, automating trade lifecycle events between investment managers, broker/dealers and custodian banks. We enable 6,500 clients and 80 technology partners in 52 countries around the world to seamlessly connect and interoperate. By automating and streamlining post-trade operations, we enable clients to accelerate the clearing and settlement of trades, and better manage and reduce their counterparty and credit risk. Our strength lies with our global community and our ability to adapt our solutions to enable clients to realize clear returns on their investment strategies, while responding to changing market and regulatory conditions. Across borders, asset classes, and trade lifecycles, Omgeo is the global standard for operational efficiency across the investment industry. Formed in 2001, Omgeo is jointly owned by the DTCC and Thomson Reuters. For more information, please visit www.omgeo.com.

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