



Fund Management Activities Survey 2012

July 2013

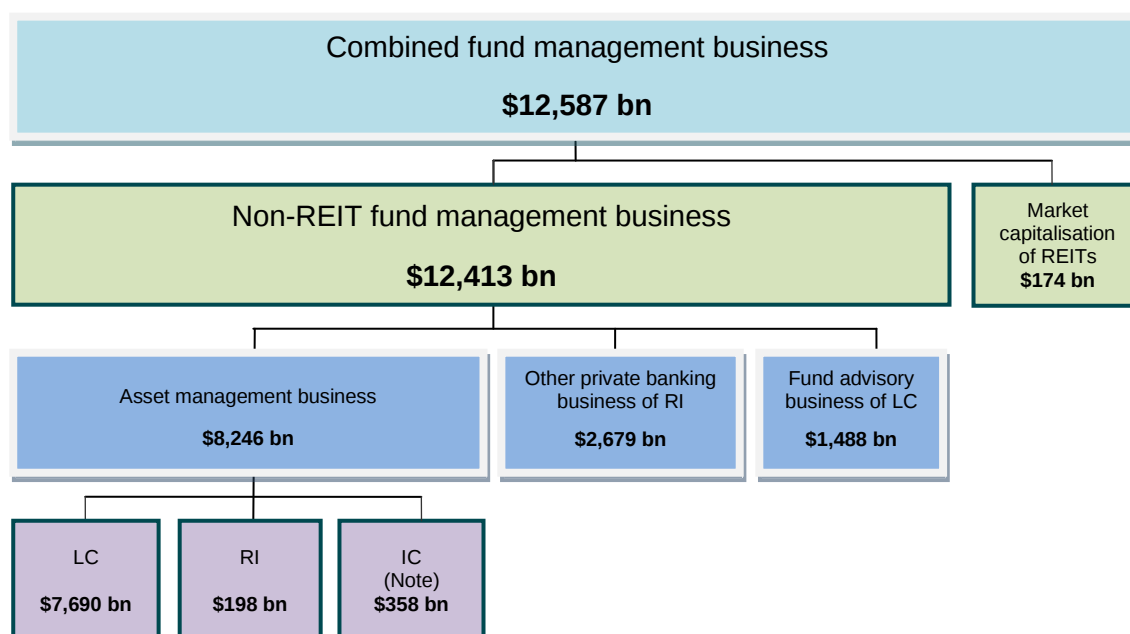


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Components in Combined Fund Management Business



Legend:

REITs: real estate investment trusts

LC: licensed corporations

RI: registered institutions

IC: insurance companies

Note:

The amount of assets under management by insurance companies has excluded those assets sub-contracted or delegated to other licensed corporations / registered institutions in Hong Kong for management.

- (a) The combined fund management business in Hong Kong achieved a record high of \$12,587 billion at the end of 2012, representing year-on-year growth of 39.3% from 2011. On a trailing three-year average basis, the combined fund management business continued on an uptrend and amounted to \$10,572 billion. There has been overall growth in different types of fund management business activities, attributable to various market players in Hong Kong during the year.
- (b) The stellar growth in 2012 was attributable to an increase in fund management business activities conducted by a combination of existing and new respondents. Apart from the general market growth, more licensed firms participated in the survey this year. Total respondents increased by 18.6% to 485 in 2012.
- (c) The growth of the combined fund management business in Hong Kong suggests:
 - (i) Favourable economic outlook of the Asia-Pacific region, in particular the Mainland, attracting more investment capital inflows into the region, and hence increases the demand for asset management activities and fund advisory services in Hong Kong.



- (ii) Growing popularity of the renminbi as a more internationally accepted and widely used currency driving the demand for renminbi products. Through close co-operation with and support from the Mainland authorities, Hong Kong continued to play an active role in broadening the scope of renminbi products available to the public



2. **Hong Kong continued to be the preferred platform for investments by international investors. Of the total \$12,413 billion in non-REIT fund management business, 64.6% was sourced from non-Hong Kong investors.**

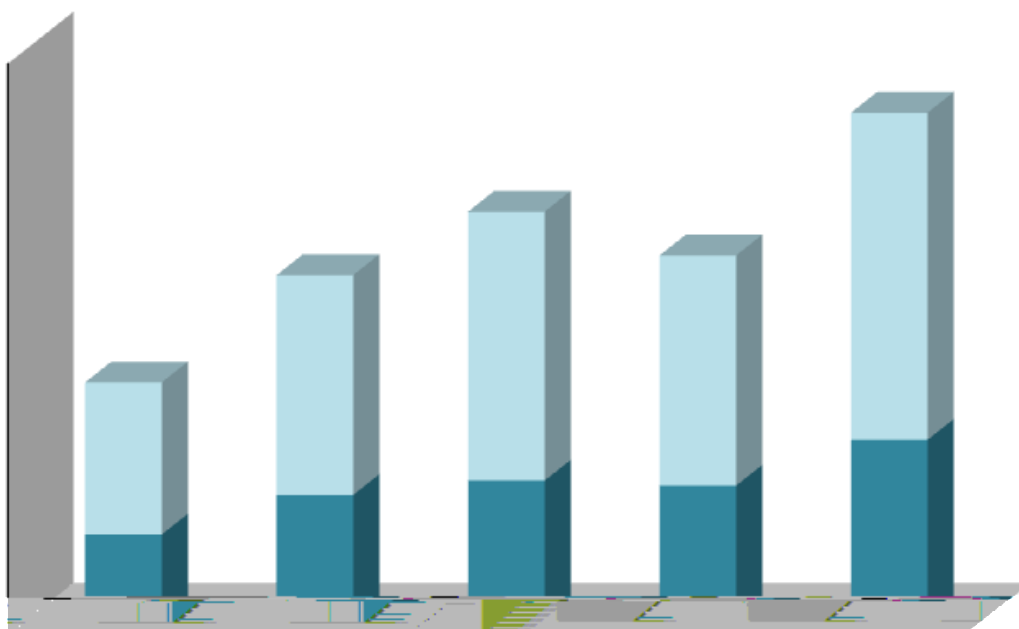
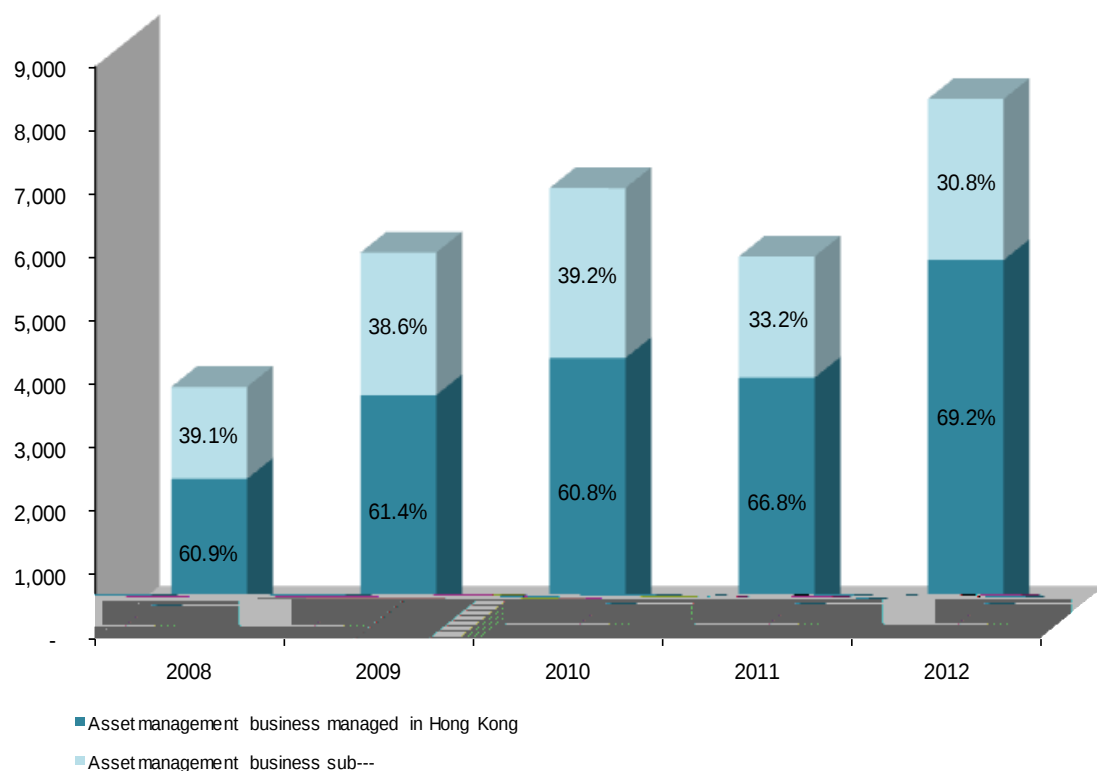


Chart 2: Non-REIT Fund Management Business: by Source of Funds (\$ bn)

- (a) Funds sourced from non-Hong Kong investors have consistently accounted for over 60% of the non-REIT fund management business in Hong Kong. In 2012, the amount of funds sourced from overseas investors grew by 42.1% to \$8,018 billion as compared to 2011. This diversity of investor base is important as Hong Kong aims to further develop and internationalise its fund management industry.
- (b) Overseas investors continued to perceive Hong Kong as an attractive investment platform. As a major international financial centre, Hong Kong has an integrated network of institutions



3. Of the total non-REIT assets under management of \$ 242 billion, 69.2% or \$5,707 billion was managed in Hong Kong.



- The amount of non-REIT assets managed in Hong Kong accounted for 69.2% of the overall non-REIT assets under management in 2012, and this represents a record-high level. In value terms, the amount of non-REIT assets managed in Hong Kong soared 48.2% year-on-year to \$5,707 billion in 2012.
- The surge in the amount of assets managed in Hong Kong reinforces the growing importance of Hong Kong as a preferred location for conducting asset management business in the region. Its strategic position is enabled by a well-established investment platform with support from complementary fund-related service providers under a transparent regulatory regime. This in turn has attracted more professional talents to engage in asset management business in Hong Kong.
- In March 2013, the Mainland authorities further expanded the RQFII scheme to allow non-Mainland related asset managers, which are registered and have major operations in Hong Kong, to participate in the RQFII scheme. This will increase the appeal of Hong Kong asset management platform and will be an additional source of growth for the industry.
- The close proximity to and continuing policy support from the Mainland have provided and will continue to provide Hong Kong with a competitive edge to serve as a platform for international asset managers and investors to access the Mainland market. This privileged role of Hong Kong continues to facilitate the development of an increasing variety of renminbi investment products which further contributed to the growth in assets managed in Hong Kong.



4. Growing Mainland participation in the asset management business

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Statistics on SFC-authorized funds managed by Mainland-related companies

- (f) The number of Mainland-related fund groups managing SFC-authorized funds increased to 25 at the end of 2012 from 13 a year ago. The number of SFC-authorized funds managed by the Mainland-related fund groups increased to 161 in 2012, up from 106 in 2011. The net asset value of these funds significantly increased by 159.5% to \$135.7 billion at the end of 2012 from a year-ago level of \$52.3 billion. Such increase was mainly attributable to the launch of RQFII A-share ETFs and other retail funds by these Mainland-related fund groups in 2012. This is the development and internationalisation of the Mainland asset management industry.



II. Recent Developments and Industry Outlook

In 2012, the SFC worked
leading asset management centre.

1. Maintaining high market standards to protect the investing public

Ongoing monitoring of investment products

- (a) As one of the measures to enhance protection for the investing public, the SFC has maintained close dialogues with the industry reminding them to ensure offering documents (including product key facts statement (KFS)) of SFC-authorized funds should continue to be up-to-date with adequate and prominent risk disclosures in light of changing economic conditions, and should contain sufficient information necessary for investors to make an informed decision regarding their investments.
- (b) In view of the growing



RQFII scheme

(d)

industry. Since the launch of the RQFII scheme by the Mainland authorities in December 2011 with an initial quota size of RMB20 billion, the Mainland authorities expanded the quota size by RMB50 billion in April 2012 and an additional RMB200 billion in November 2012.

(i) RQFII funds

As at 31 May 2013, the SFC authorized 21 unlisted RQFII funds with an aggregate RQFII quota size of RMB23.6 billion. The launch of unlisted RQFII funds is a proven success to use the Hong Kong asset management platform to bridge the offshore renminbi market and the Mainland capital market.

(ii) RQFII A-share ETFs

With the first RQFII A-share ETF authorized by the SFC in June 2012, the SFC authorized a total of five RQFII A-share ETFs with an aggregate RQFII quota size of RMB49 billion as at 31 May 2013. Total market value of these RQFII A-share ETFs was RMB38.4 billion as at 31 May 2013. The significance of RQFII A-share ETFs is that it plays an important role in connecting the Mainland and Hong Kong markets, creating a new channel for two-way capital investment flows. These RQFII A-share ETFs offered local and international investors an alternative to directly invest in the A-share market and were the first listed products offering a dual-counter model with both renminbi and Hong Kong dollar secondary market trading counters on an exchange.

(iii) Further relaxation of RQFII rules

In March 2013, the Mainland authorities announced the expansion of the RQFII regime by extending the types of institutions eligible to apply for RQFII to cover Hong Kong subsidiaries of



(ii) In March 2013, the SFC authorized a renminbi-denominated paper gold scheme.

(iii) In May 2013, the SFC authorized the first dim sum bond ETF denominated in renminbi for listing on The Stock Exchange of Hong Kong Ltd (SEHK).

3. Gradual growth of the ETF market

- (a) Hong Kong remains one of the largest and most active ETF markets in Asia. The ETF market in Hong Kong continued to experience growth both in terms of market capitalisation and trading volume. As at 31 March 2013, there were a total of 100 ETFs, up from 77 as of the end of 2011. Total market value of ETFs listed in Hong Kong reached US\$103.7 billion as at 31 March 2013, up 6.5% from the year-ago level of US\$97.4 billion[#]. Total turnover for ETFs listed in Hong Kong in the 12 months ended 31 March 2013 amounted to US\$91.7 billion[#], representing growth of 42.4% from US\$64.4 billion in the 12 months ended 31 March 2012[^].
- (b) In addition to the growth in market capitalisation and trading volume of ETFs, we have also seen growth in ETF management expertise in Hong Kong. As at 31 May 2013, there were a total of 22 ETF managers in Hong Kong, compared to 15 at the end of 2011.
- (c) The range of physical commodity ETFs has also been expanded with the authorization of the first physical silver and platinum ETFs in November 2012 for listing on SEHK.





Responses

General

4. A total of 485 firms responded to the Questionnaires and reported that they had conducted asset management, fund advisory and/or other private banking businesses during the survey period. These included 417 licensed corporations, 46 registered institutions and 22 insurance companies.

Licensed corporations

5. An analysis of the activities of the 417 licensed corporations that had engaged in asset management and/or advisory business on funds or portfolios is shown below:

Respondents with asset management business only	250
Respondents with assets under fund advisory business only	51
Respondents with both of the above businesses	116
	417

Registered institutions

6. An analysis of the activities of the 46 registered institutions that had engaged in asset management and/or other private banking business is shown below:

Respondents with asset management business only	6
Respondents with other private banking business only	19
Respondents with both of the above businesses	21
	46

Insurance companies

7. Twenty-two insurance companies that provided services of long-term business covering wealth management, life and annuity and retirement planning products, but were not licensed by the SFC, responded to this survey.



Asset Management and Fund Advisory Business of Licensed Corporations, Registered Institutions and Insurance Companies (\$9,734 billion)

**Chart 6A: Asset Management and Fund Advisory Business
by Type of Funds (\$ mn)**



13. In 2012, SFC-authorized retail funds recorded year-on-year growth of 30.2%. According to statistics published by the Hong Kong Investment Funds Association (HKIFA), the gross sales of SFC-authorized funds by Hong Kong investors reached US\$54.9 billion in 2012, representing year-on-year increase of 46.4% from US\$37.5 billion in 2011. The HKIFA observed that robust inflows were recorded in the beginning of 2012 and the inflows persisted throughout the year. These were mainly driven by fixed-income products, particularly high-yield bond products amid the persistently low interest rate environment.
14. , which mainly comprised overseas retail funds, hedge funds, private equity funds and insurance portfolios, recorded an increase of 39.8% to \$2,956 billion in 2012.

Asset Management Business of Licensed Corporations, Registered Institutions and Insurance Companies (\$8,246 billion)

15. As of the end of 2012, the total asset management business of licensed corporations, registered institutions and insurance companies amounted to \$8,246 billion, representing growth of 43.1% from \$5,762 billion as of the end of 2011. The majority of such growth was attributable to licensed corporations, which recorded an increase of \$2,374 billion to \$7,690 billion. EMC /P #MCID 1492.11 Tm -0.138 Tc[of]TJET EMC /P K0 1 120.5 456.91 T%6 EMC /P

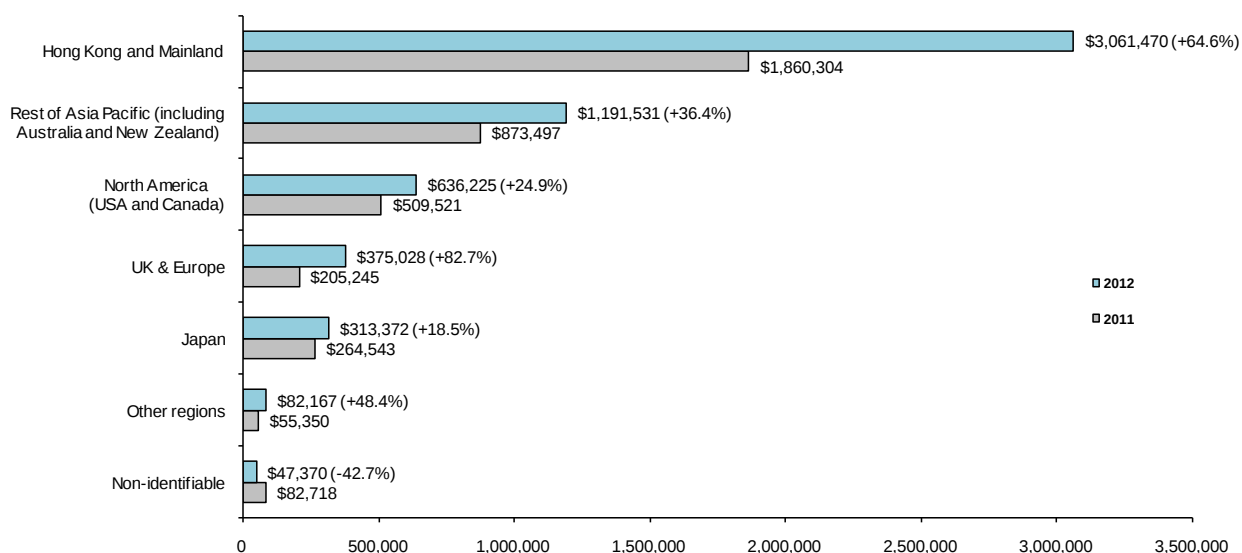


Asset Management Business (\$8,246 billion): by Geographica46



Assets Managed in Hong Kong (\$5,707 billion): by Geographical Distribution of Investments

Chart 7A: Asset Managed in Hong Kong: by Geographical Distribution of Investments (\$ mn)



19. In terms of geographical distribution of assets managed in Hong Kong, Hong Kong and the Mainland continued to be the



Fund Advisory Business of Licensed Corporations (\$1,488 billion)

Chart 8: Fund Advisory Business (\$ bn)

20. As compared to 2011, the fund advisory business recorded robust growth of 67.4% to \$1,488 billion. Many respondents reported



Staff Profile in Fund Management Business (Total number: 32,188)

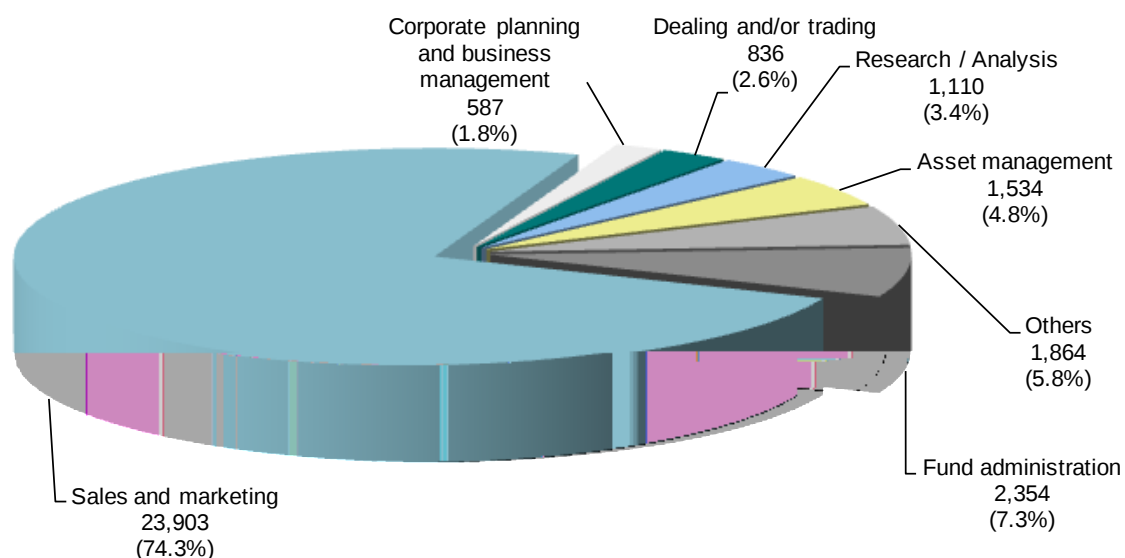
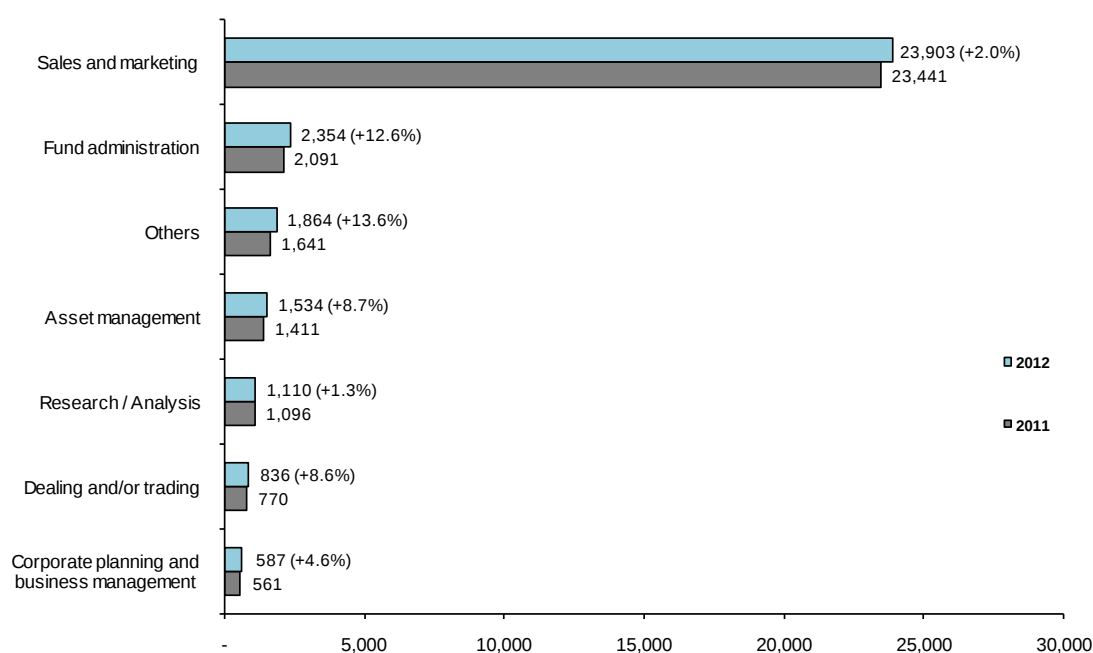


Chart 10A: Staff in Fund Management Business: by Job Function



**Chart 10B: Staff in Fund Management Business: by Job Function
2012 vs 2011**

25. The number of staff engaged in fund management business recorded a slight increase of 3.8% from 31,011 in 2011 to 32,188 in 2012. The number of staff engaged in sales and marketing activities recorded an increase of 2.0% to 23,903 during the year, with 22,233 staff in aggregate employed by registered institutions and insurance companies.

