

Fund Management Activities Survey 2000 Summary Report

Investment Products Department
Securities and Futures Commission
June 2001

Executive Summary

The Securities and Futures Commission (SFC) has conducted a survey of fund management activities in Hong Kong as of 31 December 2000. The major findings are:

- Total assets under management amounted to HK\$1,485 billion, a decrease of 57%

Responses

4. The FMAS was conducted together with the annual Licensing surveys of registrants and exempt persons. A total of 203 registrants or exempt persons whose primary investment advisory business was fund management – managing funds or portfolios, and/or giving advice on investment – had responded to the Licensing surveys⁴. This represents an increase of 20 respondents from the 183 a year ago.
5. SFC registrants and exempt persons were asked to respond to the FMAS if they were engaged primarily in managing funds or portfolios⁵.

Findings⁶

6. Some main aggregate figures are in the following table⁷.

Some main aggregate figures of FMAS 2000 (as of 31 December 2000)	
	\$'000
Total assets under management by the company = (A) Where $A = B + C$	1,485,179,586
Amount of assets directly managed by the company in Hong Kong = (B)	622,920,042
Amount of assets sub-contracted or delegated to other offices/third parties for management = (C) Where $C = D + E$	862,259,544
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for management = (D)	3,536,222
Amount of assets sub-contracted or delegated to other offices/third parties overseas for management = (E)	858,723,322
Total assets managed in Hong Kong = (F) Where $F = B + D$	626,456,264

⁴ Figures as of 8 June 2001. The figures are subject to further confirmation and the full results of the Licensing surveys will be published soon.

⁵ Assets managed by registrants or exempt persons who did not declare advisory or management of funds as their primary business (e.g. banks) were not included in the results. According to the Hong Kong Monetary Authority, the aggregate size of discretionary portfolios handled by Authorised Institutions for private banking clients was \$22 billion as at the end of 2000, while that of non-discretionary portfolios was \$351 billion.

⁶

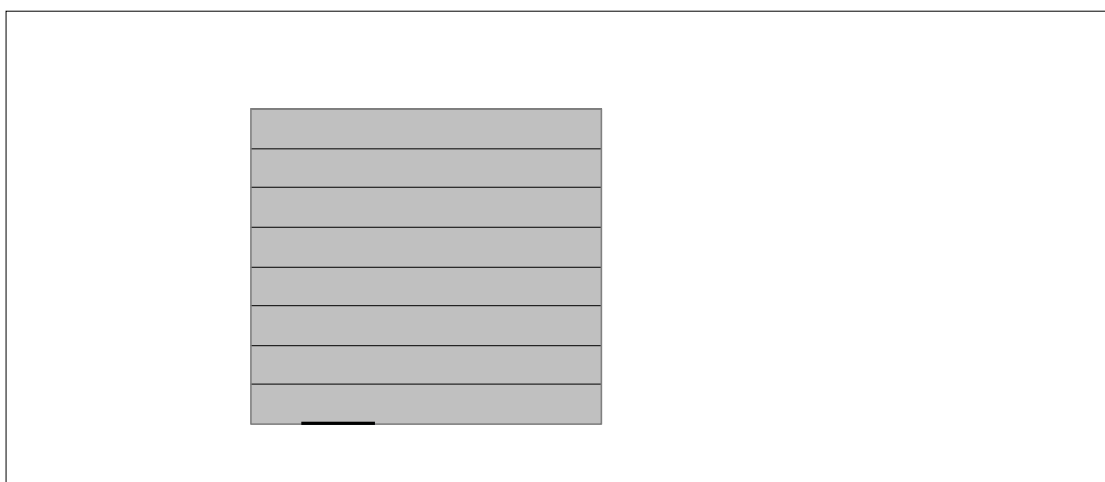
Total assets under management by the respondents

7.

11. Despite the lower AUM, there are still encouraging signs that Hong Kong's status as a leading assets management centre in the region is not eroded.
12. Firstly, there was an increase of 20 firms engaging primarily in fund management to 203 firms, compared to 183 a year ago. On the retail funds side, eight more international or local firms had become approved management companies under the Code on Unit Trusts and Mutual Funds since the beginning of 2000. The total number of such approved management groups or companies was 97 as of 31 May 2001, with eight more applications awaiting approval.
13. Secondly, the drop in total assets managed in Hong Kong at the end of 2000, which will be discussed below, was much more moderate than that of the total AUM and in line with stock market falls in this region.
14. Thirdly, the number of SFC authorised unit trusts and other collective investment schemes reached a record 2,267 as of 31 March 2001, 26% higher than that of a year earlier. Among the authorised products were 263 master trust schemes and pooled investment funds for the purpose of Mandatory Provident Fund (MPF). The industry is expected to grow with the increasing contributions to MPF schemes and increased awareness of investment funds following the implementation of MPF.

Total assets managed in Hong Kong

15. Total assets managed in Hong Kong amounted to \$626 billion, a decrease of 18% from a year ago (see Chart 2). This compared to the decline of 57% for total AUM. It should be noted that the domestication event mentioned before did not affect the total assets managed in Hong Kong because the assets originally managed by the ex-registrant's Hong Kong branch were essentially transferred to the new company, which is a current SFC registrant.
16. Notwithstanding the drop in AUM, it is noted that a significantly larger proportion of the assets was managed in Hong Kong – doubling to 42% at the end of 2000 (see Chart 1).



17. More than 99% of the assets managed in Hong Kong were directly managed by the respondents, with the remainder sub-contracted or delegated to other offices/third parties in Hong Kong for management.

Assets under management (by types of funds)

18. Chart 3 shows the proportions of assets under management by types of funds. The largest share was institutional funds (64.81%), followed by pension funds (19.53%), SFC authorised retail funds (13.40%) and private client funds (2%).
19. Similarly, Chart 4 shows the proportions of total assets managed in Hong Kong

20. Chart 5 and Table 1 give more details and comparisons.

Table 1

21.



Table 2: Types of funds (by pooled funds and non-pooled funds)

	Pension funds		Institutional funds		Private client funds		SFC authorised retail funds		Other funds	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Non-pooled funds (\$million)	231,630 (79.85)	401,015 (76.67)	402,393 (41.80)	1,996,281 (74.26)	24,571 (82.70)	33,334 (78.72)	0 (0)	0 (0)	3,851 (99.79)	20 (28.42)
Pooled funds (\$million)	58,447 (20.15)	122,026 (23.33)	560,172 (58.20)	692,096 (25.74)	5,138 (17.30)	9,011 (21.28)	198,969 (100)	238,607 (100)	8 (0.21)	50 (71.58)
Total assets under management (\$million)	290,077 (100)	523,042 (100)	962,565 (100)	2,688,377 (100)	29,710 (100)	42,344 (100)	198,969 (100)	238,607 (100)	3,860 (100)	70 (100)

Figures in brackets represent % of assets under management

Assets sourced from Hong Kong investors

28. For the first time, respondents were asked to state how much of the assets under management was attributable to Hong Kong investors¹². Of the \$1,485 billion of total assets under management, \$405 billion¹³ or 27.28% was sourced from Hong Kong investors (see Chart 7).

¹² Assets attributable to Hong Kong investors include assets sourced from investors with a Hong Kong registered address, and assets which were otherwise known to the respondents to have been sourced from Hong Kong although the investors might not have a Hong Kong registered address.

¹³ On a per capita basis, the amount sourced from Hong Kong investors was \$59,668, which is equal to 32% of the per capita GDP (\$187,105) of Hong Kong in 2000. As reference, the per capita annual turnover on the Stock Exchange of Hong Kong in 2000 was \$448,831 (240% of the per capita GDP).

Internet activities

29. For the first time, respondents were asked if they conducted any business activities on the Internet or through other electronic means. The survey found that 23 respondents had carried out advertising or marketing activities on the Internet. Thirteen of these companies managed SFC authorised retail funds¹⁴. Two of the respondents further stated that they provided dealing facilities (subscription, redemption and switching) of SFC authorised funds on the

Conclusion

32. The survey has provided a snapshot of the state of the fund management industry in Hong Kong. It also offers an overview of the circumstances of the individual respondents, and their changes from a year ago. As evidenced by the decline in assets under management, 2000 had been a challenging year for practitioners. It is important that the Commission strengthens its efforts to understand the needs of the industry and take appropriate actions to ensure that Hong Kong maintains its status as a leading fund centre in the region.
33. In this regard, the Commission will ensure that it keeps an open and active dialogue with the industry. The industry will continue to be consulted on important policy proposals, which in turn will be implemented in a pragmatic manner.
34. However, certain factors contributing to the fall in AUM were not directly related to the competitiveness of the Hong Kong market. For example, the drop in equity prices in the leading markets had adversely affected all fund managers – not only SFC registrants or exempt persons – who had held stocks. The “domestication” exercise was by no means insignificant, but it did not represent a vote of no confidence in the Hong Kong market.
35. The Commission has made a lot of efforts to try and anticipate issues faced by the industry and respond to them. It aims to foster a friendly regulatory environment for local fund practitioners and to attract international businesses to Hong Kong, while ensuring that investor protection is not compromised. It is hoped that investors will benefit from a greater choice of investment products and high quality asset management services.

Notes:

- Aggregate figures in various categories represent the total assets managed by respondents who reported business in the respective categories only. Respondents might be engaged in one or some of the businesses only.
- The meanings of some of the terms used in the survey are as follows:

“Managing funds or portfolios”	Management of clients’ funds or portfolios through making discretionary investment decisions or, if management is on a non-discretionary basis, this would involve provision of other services such as order execution or other administrative services i.e. not pure advisory.
“Total assets under management by the company”	All those assets being the subject of contracts entered into by the respondent company and its “clients” for management by the respondent or its delegates, i.e. all assets sub-contracted or delegated to other offices/ third parties for advisory or management purpose should be included. To avoid double counting, where a “client” is another investment management company (being a SFC registrant or exempt person), the assets concerned should not be included.
“Total assets managed in Hong Kong”	Assets for which management activities are carried out in Hong Kong. These include assets directly contracted with clients by the company and managed in Hong Kong, and those which are delegated to other offices/ third parties in Hong Kong for management.
“Pension Funds”	Client funds that are designated as pension or retirement funds.
“Institutional Funds”	Client funds that are non-pension, non-retail in nature, e.g. funds from shareholders, associated companies, fund houses (including an investment management company of an offshore retail fund which has contracted the respondent to manage the fund assets), insurance companies, large corporate clients. Where funds authorised by the SFC are offered to institutional clients only, these should be classified under “Institutional Funds”.
“Private Client Funds”	Client funds that are non-institutional, non-retail, non-pension in nature, e.g. individual high net worth clients (average personal net worth