



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Fund Management Activities Survey 2003

2003 年基金管理活動調查

Hong Kong
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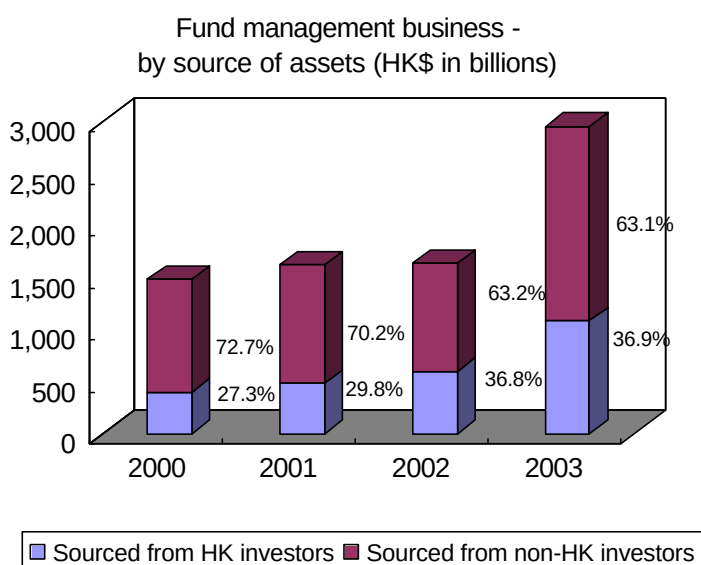
Executive Summary

The Securities and Futures Commission (SFC) has conducted a survey of fund management activities in Hong Kong as of 31 December 31, 2003. The scope and the major findings are summarized as follows:

Fund management business, which comprises of assets management¹, advisory business² and other private banking activities³, amounted to \$2,947 billion. Of this

- A total of 166 licensed corporations and 30 registered institutions responded that they had assets under management, had engaged in providing advice on portfolios, and/or had engaged in other private banking activities.
- Among the licensed corporations, asset management business was up 41% year-on-year, on the back of strong performance in the financial markets, inflows of investment funds and gain in investment mandates. Manpower was also strengthened substantially. The number of staff engaged in fund management activities increased 31% during the year to 3,763, driven by a threefold increase in sales and marketing staff.
- The assets in the asset management business were mostly sourced from overseas. 23% of these assets were invested in Hong Kong and the rest in overseas markets. Registered institutions, however, appeared to have invested more heavily in foreign markets (88% of the assets in their asset management business).

Hong Kong remains strong in attracting overseas funds for investment management. Funds sourced from overseas investors amounted to \$1,860 billion, representing 63% of the fund management business.



- In the last four years, funds sourced from overseas investors by licensed corporations have consistently accounted for 60-70% of the asset management and advisory businesses. In 2003, licensed corporations sourced \$1,536 billion or 66% of their asset management and advisory business (2002: \$1,034 billion or 63%) from overseas investors, representing a 49% increase from the level seen in 2002.
- Registered institutions sourced 51% of the asset management business and other private banking activities from overseas investors. In value terms, non-Hong Kong sourced funds totalled \$324 billion.

- 37 licensed corporations and 10 registered institutions responded that they

benchmarks that address the risk of such investments and protect the interest of the investors, a taskforce has already been commissioned to specifically examine the issues involved. It is expected that a set of proposed benchmarks will be concluded and the public will be consulted on the proposals.

- To further facilitate the development of hedge funds in Hong Kong, the SFC will also review its hedge fund guidelines this financial year, based on the experience gained in authorizing twelve hedge funds so far. Again, the public will be consulted on the proposals.

Introduction

1. The Fund Management Activities Survey (FMAS) for the year ended 31 December 2003 (FMAS 2003) was conducted to collect information pertaining to fund management activities in Hong Kong. With the implementation of the new licensing regime under the Securities and Futures Ordinance, all licensed corporations which have responded to FMAS 2002 or were engaged in asset management and/or giving advice on funds/portfolios in 2003 were invited to participate in the survey.
2. For the first time, FMAS 2003 expanded the coverage of the survey to invite authorised financial institutions to report on their asset management (whether discretionary or non-discretionary) and other private banking activities. With the assistance of the Hong Kong Monetary Authority, a set of FMAS questionnaire was devised and sent to registered institutions. The questionnaire was largely the same as that sent to licensed corporations, except for minor adjustments to cater for their different business nature and operations.
3. FMAS 2003 also commenced the collection from all participants in the survey of information on the distribution and/or marketing of collective investment schemes in order to gain an understanding of the means in which such schemes were sold to investors.

Responses

Licensed corporations and registered institutions

4. A total of 166 licensed corporations and 30 registered institutions reported that they had assets under management, had provided advice on funds/portfolios, and/or had engaged in other private banking activities.
5. Another 6 licensed corporations and 12 registered institutions reported that they had not engaged in asset management, giving advice on funds/portfolio, or other private banking businesses during the year, but they were distributors of collective investment schemes.

Licensed corporations

6. An analysis of the activities of the 166 licensed corporations (including 25 new participants) that had assets under management (AUM) and/or had engaged in providing advice on funds/portfolios is shown below:

Respondents with AUM only	97
Respondents with pure advisory assets only	33
Respondents with AUM and pure advisory assets	36
	<u>166</u>

Registered institutions

7. An analysis of the activities of the 30 registered institutions that had AUM and/or had engaged in other private banking activities is shown below:

Respondents with AUM only	11
Respondents with other private banking activities only	11
Respondents with AUM and other private banking activities	8
	30

Findings

Major aggregate figures

11. The major aggregate figures are summarized in the following table.

Major Aggregate Figures of FMAS 2003				
(HK\$ in Millions)	(as of 31 December 2003)	LC	RI Total	LC + RI
<u>Managing Funds or Portfolios</u>		Total AUM	Total AUM	Total AUM
Total assets under management by the company		2,107,820	142,484	2,250,304
Amount of assets directly managed by the company in Hong Kong		1,046,506	133,661	1,180,167
Amount of assets sub-contracted or delegated to other offices/third parties for management		1,061,314	8,823	1,070,136
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for management		11,137	3,060	14,197
Amount of assets sub-contracted or delegated to other offices/third parties overseas for management		1,050,177	5,763	1,055,940
Total Assets managed in Hong Kong		1,057,643	136,721	1,194,364
<u>Giving advice on Funds/Portfolios</u>				
Total assets on which company advises		209,092		
Amount of assets directly advised by the company in Hong Kong		128,679		
Amount of assets sub-contracted or delegated to other offices/third parties for providing the advisory services		80,414		
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for providing the advisory services		65		
Amount of assets sub-contracted or delegated to other offices/third parties overseas for providing the advisory services		80,349		
Total Assets on which advice is given in Hong Kong		128,743		
<u>Other private banking activities</u>				
Total asset under other private banking activities			488,449	

Total assets under management (AUM), which excludes pure advisory assets and other private banking activities (\$2,250 billion)

Licensed corporations and registered institutions

12. Total AUM, which excluded pure advisory assets and other private banking activities, amounted to \$2,250 billion as at December 31, 2003.

Licensed corporations

13. 94% of the total AUM were contributed by licensed corporations, which were traditionally the active players in the fund management industry.
14. In general, respondents attributed the growth in the size of AUM to the positive performance of the financial markets, the inflow of investment money and the launching of new funds.

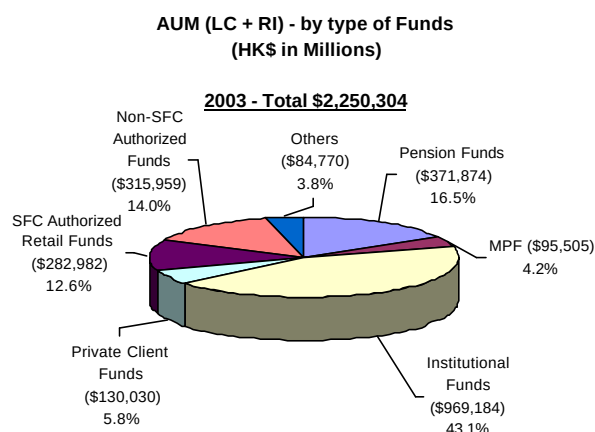
Registered institutions

15. The AUM of registered institutions consisted of two broad types, namely private client funds and institutional funds. By place of origin, the funds were primarily sourced from non-Hong Kong investors. Based on these characteristics, it might be deduced that banks capitalized on their existing network of banking and corporate clients to tap into the pool of assets available for management.

AUM (\$2,250 billion) – by type of funds

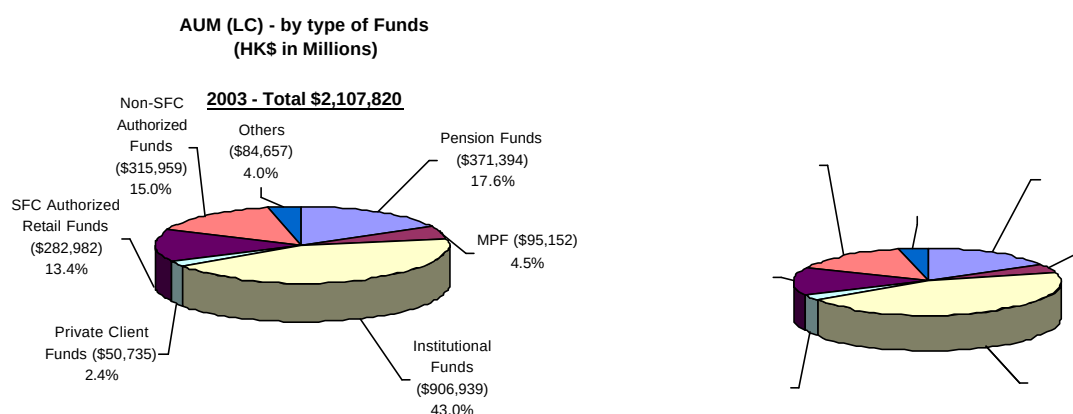
Licensed corporations and registered institutions

16. Institutional funds, pension funds and non-SFC authorised funds remained the major types of funds, representing 43%, 17% and 14% of the AUM of licensed corporations and registered institutions, respectively. SFC-authorized funds, private client funds, mandatory provident funds and other funds accounted for the remaining 26%.



Licensed corporations

17. The distribution of fund types differed if the licensed corporations and registered institutions were analyzed separately. Among licensed corporations, institutional funds ranked first, followed by pension funds, non-SFC authorised funds and SFC-authorized funds.



18. In terms of growth, pension funds and other funds registered the largest year-on-year increases of 56% and 54% respectively, followed by a 49% rise in mandatory provident funds, 47% in non-SFC authorised funds, 42% in SFC authorised funds, 35% in institutional funds and 2% in private client funds.

19. Since the introduction of the mandatory provident funds scheme in December 2000, mandatory provident funds have grown to account for 4% of the total AUM. This percentage is expected to rise in the coming years, on the back of continued contributions from existing mandatory provident fund scheme members, contributions from new scheme members as the local economy picks up further and the employment situation improves, and accumulation of investment returns generation by the contributions.

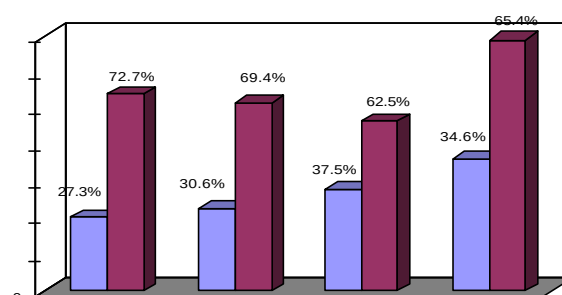
Registered institutions

20. The pattern differed in the context of registered institutions. There were only two main types of funds, namely institutional funds and private client funds, accounting for 43.7% and 55.7% of the assets under management respectively. The dominance of private client funds could be attributed to the banks' efforts to capitalize on their established banking relationships to sell fee-generating services, such as wealth management and private banking, to their banking clients.

21. Mandatory provident funds only accounted for 0.2% of the AUM, as banks
generating

Licensed corporations

23. The percentage of AUM sourced from overseas investors grew to 65% from 63% in 2002. Such growth could be attributed to increased allocation of overseas funds into the Asian Pacific region, as the Asian financial markets continued to recover. The expertise that licensed corporations have developed in investing in Asia was probably another major factor that encouraged overseas investors to direct funds ear-marked for Asian investments to Hong Kong for management.
24. While the share of Hong Kong investors fell to 35% of the AUM of licensed corporations in 2003 from 37% a year ago, it should be noted that assets sourced from Hong Kong investors grew in absolute terms by 30% to \$729 billion in 2003 from \$558 billion in 2002. Such growth could be attributed to the establishment of the mandatory provident fund schemes, which have helped the general public focused their attention on the attractions of funds for long-term savings and retirement planning, and to investors' move to fund investment given the low return offered by bank deposits in a low-interest rate environment. However, the growth of AUM sourced from Hong Kong investors was small when compared with the 48% gains seen in funds sourced from non-Hong Kong investors, which have traditionally represented the majority source of AUM.



Registered institutions

25. 81% of the AUM was sourced from non-Hong Kong investors, and the remaining 19% from Hong Kong investors. The reliance on overseas funds could partly be attributed to the established global network of some registered institutions which allowed them to source funds on an international basis.

AUM (\$2,250 billion) – allocation of investments

Licensed corporations and registered institutions

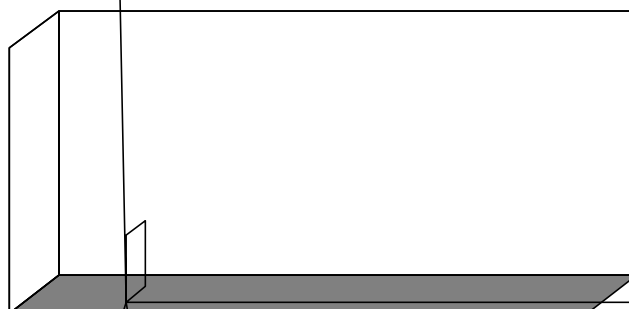
26. In terms of geographical exposure, 23% of the AUM was invested in Hong Kong and 77% in overseas markets. Of the assets (\$528 billion) invested in Hong Kong by licensed corporations and registered institutions, 64% were

invested in equities and 27% in bonds. The rest was invested in cash, deposits, money market instruments or other investments.

Licensed corporations

27. Licensed corporations invested \$511 billion (2002: \$363 billion) of their AUM in Hong Kong and \$1,597 billion (2002: \$1,127 billion) in overseas market. In percentage terms, the allocation of the AUM between Hong Kong and overseas markets stood at 24% and 76% respectively, maintaining the same weightings as those observed in 2002. By value, investments in Hong Kong

previous years, only 1% of the assets managed in Hong Kong was sub-contracted or delegated to other offices or third parties for management.



Registered institutions

- 33. In contrast, registered institutions nearly managed all of their AUM in Hong Kong. Statistically, 96% of the AUM of registered institutions was managed in Hong Kong.
- 34. However, as in the case of the licensed corporations, 98% of the AUM managed in Hong Kong was directly managed by the registered institutions. Only 2% was delegated to other offices or third parties in Hong Kong for management.

Assets managed in Hong Kong (\$1,194 billion) – by type of funds

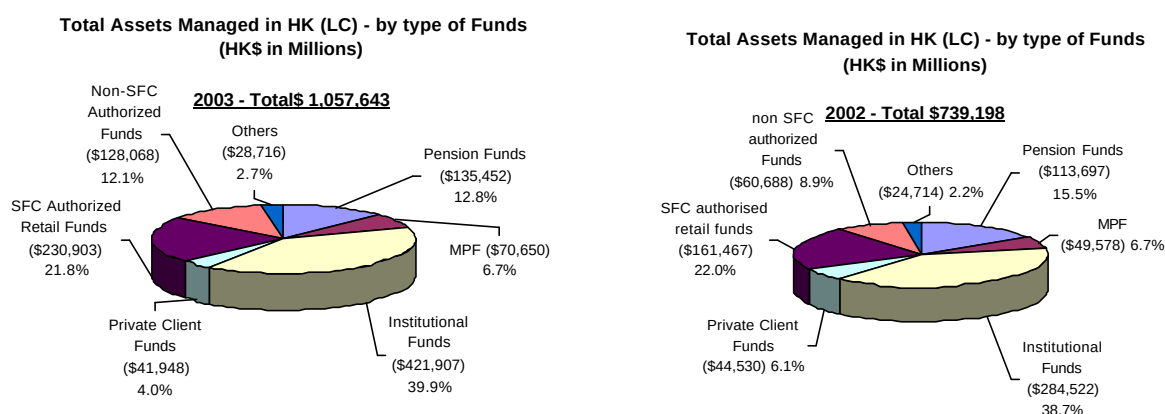
Licensed corporations and registered institutions

- 35. Of the AUM managed in Hong Kong, 41% was derived from institutional funds and 19% from SFC authorised funds. Pension funds and non-SFC authorised funds each contributed 11% to the AUM, while private client funds accounted for 10%, mandatory provident scheme funds 6%, and other funds the remaining 2%.

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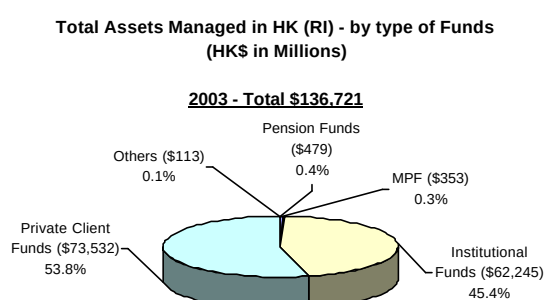
Licensed corporations

36. Among licensed corporations, institutional funds have remained the largest category of funds since the inception of this survey in 2000, accounting for 40% of the AUM managed in Hong Kong in 2003. SFC authorised funds ranked second and represented another 22%. Both pension funds and non-SFC authorised funds carried weightings of 13% and 12% respectively. Mandatory provident funds accounted for 7% while private client funds and other funds made up the remaining 6%.



Registered institutions

37. The situation was slightly different in the context of registered institutions. Private client funds and institutional funds were the primary fund types among the registered institutions, representing 54% and 45% of the AUM managed in Hong Kong respectively. The predominance of these two funds types could probably be attributed to the banks' effort to capitalize on their relationships with banking and corporate clients in the promotion of their asset management services.



Assets managed in Hong Kong (\$1,194 billion) – geographical spread

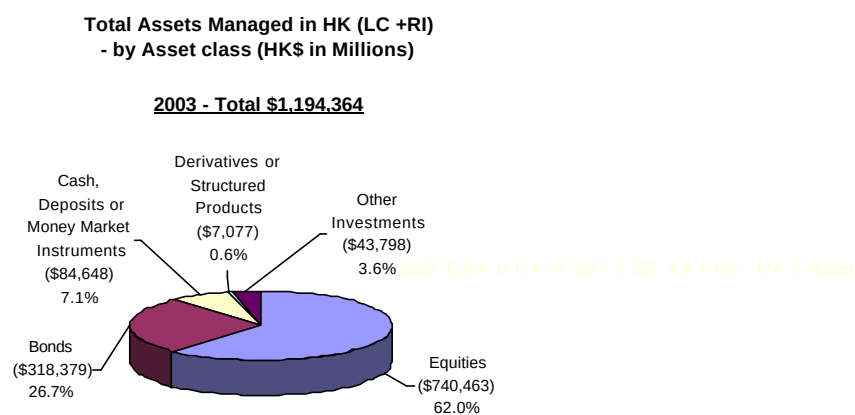
Licensed corporations and registered institutions

38. In terms of geographical exposure, Asia remained the primary destination of the AUM managed in Hong Kong. 40% of the AUM was invested in markets in Hong Kong or China, 6% in Japan and 27% in the rest of Asia.

Assets managed in Hong Kong (\$1,194 billion) – asset class

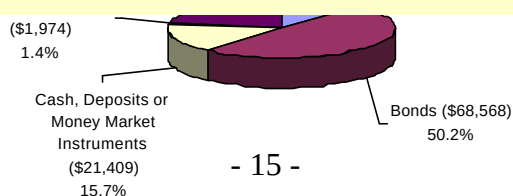
Licensed corporations and registered institutions

41. Over 60% of the AUM managed in Hong Kong was invested in equities, and close to 30% in bonds. Derivatives, structured products, cash or cash equivalent and other investments accounted for the remaining 10%.



Licensed corporations

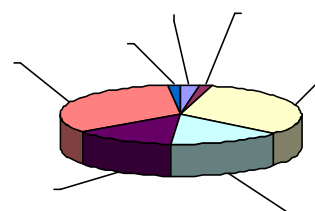
42. By and large, the above weightings were also observed in the AUM managed in Hong Kong by licensed corporations in this year and last year as well.



Total assets under pure advice (\$209 billion)

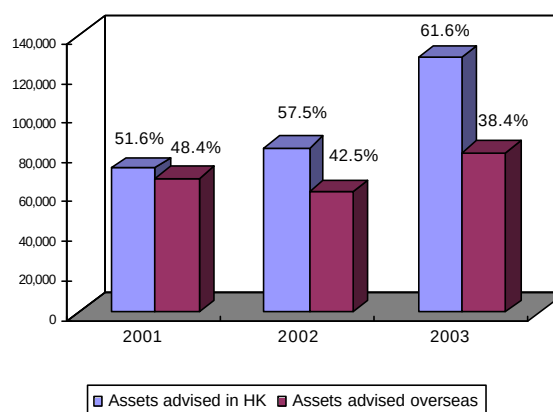
44. Aside from asset management, some licensed corporations were also engaged in the business of giving advice on funds or portfolios. The value of assets which were the subject matter in respect of which advisory services were given amounted to \$209 billion, up from \$144 billion in 2002.

**Advisory business in 2002 (LC) - by type of Funds
(HK\$ in Millions)**



45. By geographical origin, non-Hong Kong investors remained the major source of funds, growing by 55% during the year to account for 75% of the advisory business. Funds sourced from Hong Kong investors were up 21% to account for the remaining 25% of the business.
46. The amount of assets advised in Hong Kong rose to 62% in 2003 from 52% in 2001. This increase may be attributed to the rise in investment in the Asian markets which licensed corporations have developed an investment expertise.

**Advisory - By assets advised in HK and Overseas
(HK\$ in Millions)**



Other private banking activities

47. In addition to asset management, registered institutions also provided the service of managing clients' portfolios of securities and/or futures contracts wholly incidental to the dealing of securities or futures for their clients. Such other private banking activities amounted to \$488 billion in 2003.

48. 57% of the funds were sourced from Hong Kong investors and the rest from non-Hong Kong investors.

Distribution of collective investment schemes

Licensed corporations and registered institutions

49. For the first time, the survey collected information on the distribution of collective investment schemes. Respondents were enquired as to whether they have engaged in such distribution activity and how they distributed their collective investment schemes.

Licensed corporations

50. 35 licensed corporations reported that they have acted as distributors of collective investment schemes during the year.
51. It should be noted that the number of licensed corporations involved in distribution of collective investment schemes as revealed by this survey did not present the aggregate number of all licensed corporations which were engaged in the distribution of collective investment schemes. This is because FMAS only included licensed corporations that were licensed to perform the regulated activities of Type 4, 5 and 9 stipulated under the Securities and Futures Ordinance, and therefore did not cover all licensed corporations that were licensed to carry out Type 1 regulated activity, which included the distribution of collective investment scheme, stipulated under the same Ordinance. While some of the licensed corporations in the survey were also licensed to carry out Type 1 regulated activity, most of them were not.

Registered institutions

52. Registered institutions appeared to be more active in the distribution of collective investment schemes, probably due to their strong retail presence and the potential for their cross-selling of financial products. 28 respondents indicated that they were distributors of funds. Of these, 12 were involved in collective investment schemes only in the capacity of distributors and did not have any asset under management nor engaged in any other private banking activities.
53. The results again manifested banks' efforts to diversify their earnings base into fee generating businesses, such as fund distribution. To those licensed corporations which aimed to source funds from the general public, they derived synergy from engaging banks as their distributors as this not only allowed them to tap into the strong retail network of the banks for public funds, but also enabled them to dedicate their resources to their traditional business of asset management.

Profile of staff

Licensed corporations and registered institutions

54. The respondents reported that a total of 15,195 staff was engaged in fund management activities. Among them, 81% was responsible for sales and marketing, 7% for fund administration and 5% for asset management and research. Hong Kong was the primary focus of the marketing effort, while the

managing alternative investment products and eventually enable the development of REIT investment expertise in Hong Kong.

65. The SFC appreciates the importance of diversification into overseas properties for the longer-term development of REITs. In order to devise a set of benchmarks that REITs should set for themselves if and when they invest in overseas properties, the SFC has already set up a taskforce to specifically deal with this issue. The taskforce is comprised of representatives from various disciplines such as legal, investment management, trusteeship and valuation. It is expected that members will propose a set of benchmarks, after completing cross-jurisdictional studies and examining the practical issues. The SFC will consult the public on the proposed benchmarks.
66. Since the introduction of the hedge fund guidelines, the SFC has authorised twelve hedge funds for public offering in Hong Kong. As a result of the experience gained in the process of authorising the hedge funds, the SFC will elined in thecurrmentfintanicalyear, (withan ai-) Tj 578 0 TD -02264 Tc 112e S30.0me to