



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

## Fund Management Activities Survey 2004

### 2004 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 the Fund Management Activities Survey (FMAS) for the year ended December 2004. The survey covered fund management activities among licensed corporations<sup>1</sup> and registered institutions<sup>2</sup>. The major findings are summarized as follows<sup>3,4</sup>:

- ❖ Hong Kong's combined fund management business<sup>5</sup> amounted to \$3,618 billion at the end of 2004. The figure represented a year-on-year growth of 23%. Of this total, \$2,896 billion was reported by licensed corporations, up 25% from 2003. The remaining \$722 billion was reported by registered institutions, up 15% from 2003. For comparison, the total market capitalization of companies listed in Hong Kong was \$6,696 billion at the end of 2004. The size of Hong Kong's fund management business was as much as 54% of Hong Kong's stock market capitalization as at end 2004.
- ❖ Employment in the fund management business grew by 12% during the year, with a total of 17,039 people being employed at the end of the year (15,195 people as at 31 December 2003). In percentage terms, the largest staff increase was seen in research and analysis activities (up 37% from 2003), followed by corporate planning and business management (up 20%), dealing and trading (up 14%) and sales and marketing (up 13%).
- ❖ Committed to positioning Hong Kong as an international financial centre, a regional hub for Asia and the capital market for the mainland, the SFC has consistently pursued a balanced approach in maintaining market integrity and investor protection while creating sufficient room and facilitation for market development and product innovation. The data before us today tells us that this has been the correct approach.

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<sup>1</sup> A "licensed corporation" means a corporation which is granted a licence under section 120 or 121 of the Securities and Futures Ordinance to carry on a regulated activity in Hong Kong.

<sup>2</sup> A "registered institution" means an authorized financial institution which is registered under section 119 of the Securities and Futures Ordinance. An "authorized financial institution" means an authorized institution as defined in section 2(1) of the Banking Ordinance (Cap. 155).

<sup>3</sup> All figures are in Hong Kong dollars unless otherwise specified.

<sup>4</sup> Beginning 2003, the asset management and other private banking businesses of registered institutions were included.

<sup>5</sup> "Combined fund management business" comprises asset management, advisory business and other private banking activities.

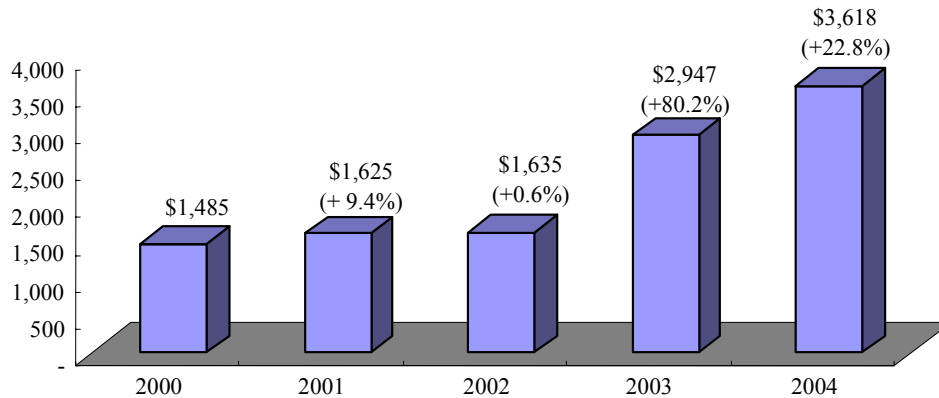
"Asset management" refers to the provision of services which constitutes type 9 regulated activity as defined in Schedule 5 of the Securities and Futures Ordinance carried out by licensed corporations and registered institutions.

"Advisory business" refers to the provision of pure investment advisory services on funds/portfolios and constitutes type 4 and/or type 5 regulated activities as defined in Schedule 5 of the Securities and Futures Ordinance carried out by licensed corporations.

"Other private banking activities" refers to the provision of financial services to private banking clients other than by means of type 9 regulated activity carried out by registered institutions. They include providing the service of managing clients' portfolio of securities and/or futures contracts wholly incidental to the carrying on of type 1 and/or type 2 regulated activity.

*Of the total of \$3,618 billion, \$2,896 billion was reported by licensed corporations, being \$2,655 billion asset management business and \$241 billion advisory business. The remaining \$722 billion was reported by registered institutions, being \$86 billion asset management business and \$636 billion other private banking business.*

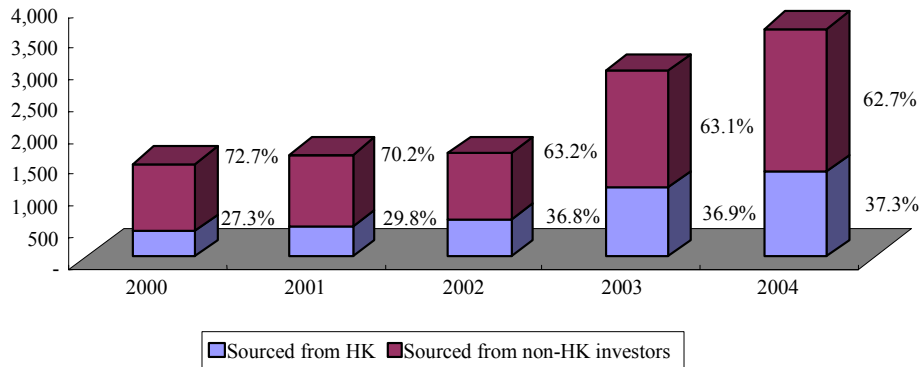
**Fund management business (HK\$ in billions)**



- The 23% increase in the fund management business not only reflects Hong Kong's pre-eminence as an international financial centre in the region and thus its ability to attract funds for management, but also investors' optimism towards the financial markets in the region. It is also the direct result of the introduction of new investment funds and products, and increased participation in fund investment among the general public.
- Licensed corporations remain the primary driver of growth, accounting for 86% of the increase in the combined fund management business in 2004. The predominance of the licensed corporations underscores the reputation and expertise of fund managers and advisers in Hong Kong.
- The growth of the combined fund management business also bears testimony to the increasing importance of the Hong Kong platform in attracting and managing wealth and assets.
- The number of licensed corporations and registered institutions that reported engagement in fund management activities also grew by 5% to 174 (2003: 166) and 13% to 34 (2003: 30) respectively.

*Testimony to Hong Kong's status as a major international financial centre, funds sourced from overseas continued to account for over 60% of the fund management business in Hong Kong, totaling \$2,269 billion, up 22% year-on-year.*

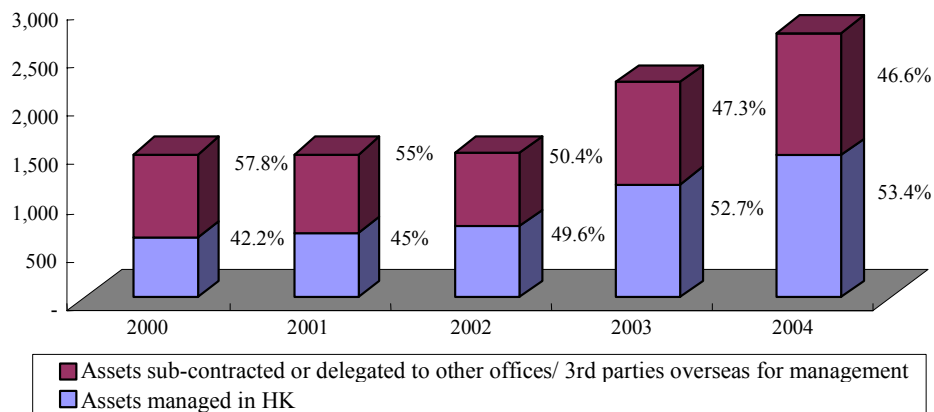
**Fund management business - by source of asset  
(HK\$ in billions)**



- Among the licensed corporations, funds sourced from overseas investors have consistently accounted for 60-70% of their asset management and advisory businesses for the last five years.
- Capitalizing on Hong Kong's position as a magnet for overseas funds, overseas companies continued to choose Hong Kong as their regional headquarters. Among the respondents in the FMAS 2004, 34 licensed corporations and 12 registered institutions stated that they have chosen Hong Kong as their regional headquarters.

***Of the total \$2,741 billion worth of assets under management by licensed corporations and registered institutions, 53% or \$1,466 billion were managed onshore.***

**Asset management business (HK\$ in billions)**



- Around half of the assets under management remained to be managed in Hong Kong. In value terms, the amount of assets managed in Hong Kong increased by 25% from 2003, in line with the overall increase in the combined fund management business.

- The percentage of assets managed outside Hong Kong has steadily declined to 46.6% in 2004 from 57.8% in 2000, reflecting Hong Kong fund management industry's ability to develop its expertise to manage assets locally.
- Of the \$1,466 billion assets managed in Hong Kong, 73% or \$1,066 billion were invested in Asia, including \$537 billion in Hong Kong and China. These figures not only indicated the geographical allocation of investments, but Hong Kong's niche in managing investments in Asia. Such skill has been and will continue to be vital to Hong Kong's ability to attract overseas funds for management.

#### ***Development in the retail fund industry in 2004***

- Supported by recovery in the financial markets and renewed interest in investments, the fund management industry augmented both the number and range of funds sold to the public in Hong Kong. During 2004, the SFC authorised 217 funds, taking the number of SFC-authorised funds to 1,933 at the end of 2004, compared with 1,862 in 2003. The net asset value of such funds totaled \$4,300 billion<sup>6</sup>, up 3% from the level seen in 2003.
- Among the funds authorised during the year, 81 were guaranteed funds which offered upside potential linked to the performance of market indices (such as the Hang Seng Index, Dow Jones Industrial Index or Euro Stoxx 50 Index), baskets of stocks, baskets of funds or baskets of commodities including gold, silver and crude oil.
- Aside from providing exposure to a variety of financial instruments or commodities, some SFC-authorised guaranteed funds also developed new features by offering the potential of early termination in the event of the achievement of certain performance parameters, for instance a guaranteed fund might be terminated if cumulative payouts reached a predetermined target.
- The introduction of various investment features has attracted investors' interest and resulted in substantial growth in SFC-authorised guaranteed funds. Compared with 73 such funds at the end of March 2002 and a total net asset value of \$45 billion at the end of 2001, there were a total of 295 SFC-authorised guaranteed funds with an aggregate net asset value of \$144 billion at the end of 2004. Interest in these funds appears to remain strong, with the number of guaranteed funds growing to 310 by the end of June 2005.
- Growth was also recorded in other specialized funds such as exchange traded funds and hedge funds. During the year, two exchange traded funds (including the first exchange traded fund that tracked an A-share index) and five hedge funds were authorised, bringing the total number of such authorised funds at the end of 2004 to five and 13 respectively.
- Beginning from 2004, a major policy initiative has been the processing of UCITS III funds. UCITS III is a new set of regulations issued by the European Union (EU) governing funds domiciled in the EU member states. Since many SFC-authorised

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<sup>6</sup> This data comprises all SFC-authorised funds, including those managed by overseas managers who were not covered by this survey.

collective investment schemes are domiciled in European jurisdictions, such as Luxembourg and Ireland, the SFC has been working closely with the fund industry with respect to UCITS III funds transition.

- In this regard, the SFC has issued interim measures to facilitate the processing of UCITS III funds, which included a fast track procedure for funds that did not significantly change their investment policies. As at the end of June 2005, the SFC had authorised 544 UCITS III funds, representing over 75% of the applications received.
- In order to help develop the expertise of the Hong Kong fund management industry in alternative investments and to attract a critical mass of well-regulated hedge fund managers to Hong Kong, the SFC established a dedicated team in October 2004 to deal with hedge fund managers' licence applications. Since then the SFC has received 24 licence applications from hedge fund managers, of which 16 were approved or approved in principle.

## **Introduction**

1. The FMAS is an annual survey conducted by the SFC since 1999 to collect information and data on the general state of affairs of the fund management industry in Hong Kong. It helps the SFC plan its policies and operations.
2. The survey covers the fund management activities of two types of firms in Hong Kong, namely:
  - (a) corporations which are licensed by the SFC and engage in asset management and fund advisory businesses (collectively “licensed corporations”); and
  - (b) banks which engage in asset management and other private banking activities (collectively referred to as “registered institutions”), and are subject to the same regulatory regime (i.e. the Securities and Futures Ordinance) as the licensed corporations in respect of their fund management activities.
3. With the assistance of the Hong Kong Monetary Authority, an 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.
4. In addition to information pertaining to fund management business, respondents were also invited to provide information on the distribution and/or marketing of collective investment schemes, the use of electronic means in their fund management business, and their criteria for asset allocation.

## **Responses**

### *Licensed corporations and registered institutions*

5. A total of 227 firms responded to the FMAS 2004 questionnaire, which comprised 178 licensed corporations and 49 registered institutions.
6. 174 licensed corporations and 34 registered institutions reported that they had conducted asset management, advisory business and/or other private banking activities.
7. Another 4 licensed corporations and 15 registered institutions reported that they had not engaged in asset management, advisory business, or other private banking businesses during the year, but they were distributors of collective investment schemes.

### *Licensed corporations*

8. An analysis of the activities of the 174 licensed corporations that had assets under management (AUM) and/or had engaged in providing advice on funds/portfolios is shown below:



Respondents with AUM only	100
Respondents with pure advisory assets only	38
Respondents with AUM and pure advisory assets	<u>36</u>
	<u>174</u>

*Registered institutions*

9. An analysis of the activities of the 34 registered institutions that had AUM and/or had engaged in other private banking activities is shown below:

Respondents with AUM only	12
Respondents with other private banking activities only	14
Respondents with AUM and other private banking activities	<u>8</u>
	<u>34</u>

**Findings<sup>7</sup>**

***Fund management business***

10. According to the results of the FMAS 2004, the aggregate amount of assets in the combined fund management business reported by licensed corporations and registered institutions amounted to \$3,618 billion at the end of 2004, an increase of 23% from that of 2003 (\$2,947 billion):

		\$ billion
Assets under management		
- licensed corporations	2,655	
- registered institutions	86	
		2,741
Funds/Portfolios on which advice was given		
- licensed corporations		241
Other private banking activities		
- registered institutions		636
Combined fund management business		<u>3,618</u>

11. Excluding registered institutions, assets management business and advisory business among licensed corporations grew by 25% from \$2,317 billion in 2003. The rates of growth in assets under management and advisory business were 26% and 15% respectively.
12. The aggregate amount of assets in asset management business and other private banking activities of the registered institutions was \$722 billion in 2004, up 15% from 2003. The

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<sup>7</sup> Respondents that reported that they only engaged in the distribution of collective investment schemes and did not engaged in asset management, advisory services or other private banking businesses were not included in the analysis of AUM.

figure comprised a 30% decline in AUM in asset management business and a 25% increase in other private banking activities.

13. The decrease in AUM in asset management was attributed to the fact that a registered institution did not have any funds under management as a result of its parent company withdrawing assets previously given to it to manage. Such assets were transferred to the share capital account of the registered institution as part of the capital injection of the parent company into the registered institution. Excluding this isolated incident, all other registered institutions in aggregate recorded a 39% increase in AUM during the year.

### **Major aggregate figures**

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

<b>Major Aggregate Figures of FMAS 2004</b>				
<b>(HK\$ in Millions)</b>	<b>(as of 31 December 2004)</b>	<b>LC</b>	<b>RI</b>	<b>LC+RI</b>
<b>Managing Funds or Portfolios</b>		<b>Total AUM</b>	<b>Total AUM</b>	<b>Total AUM</b>
Total asset under management by the company (A) = (B) + (C)		2,655,206	86,241	2,741,447
Amount of assets directly managed by the company in Hong Kong (B)		1,385,982	63,865	1,449,847
Amount of assets sub-contracted or delegated to other offices/third parties for management (C) = (D) + (E)		1,269,224	22,376	1,291,600
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for management (D)		11,575	4,830	16,405
Amount of assets sub-contracted or delegated to other offices/third parties overseas for management (E)		1,257,649	17,546	1,275,195
Total asset managed in Hong Kong (F) = (B) + (D)		1,397,557	68,695	1,466,252

<b>Giving advice on Funds/Portfolios<sup>8</sup></b>			
Total assets on which company advices (H) = (I) + (J)	240,942		
Amount of assets directly advised by the company in Hong Kong (I)	144,979		
Amount of assets sub-contracted or delegated to other offices/third parties for providing advisory services (J) = (K) + (L)	95,963		
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for providing advisory services (K)	6,093		
Amount of assets sub-contracted or delegated to other offices/third parties overseas for providing advisory services (L)	89,870		
Total assets on which advice is given in Hong Kong (M) = (I) + (K)	151,072		

<b>Other private banking activities</b>			
Total assets under other private banking activities		636,412	

<sup>8</sup> Only licensed corporations engaged in the advisory business.

***Total assets under management (AUM), which excludes pure advisory assets and other private banking activities (\$2,741 billion)***

*Licensed corporations and registered institutions*

15. Total AUM, which excluded pure advisory assets and other private banking activities, amounted to \$2,741 billion as at December 31, 2004.

*Licensed corporations*

16. 97% of the assets were contributed by licensed corporations, which were traditionally the active players in the fund management industry. In general, respondents attributed the growth in the AUM to the positive performance of the financial markets, the inflow of investment monies and the launch of new funds.

*Registered institutions*

17. In the conduct of the FMAS 2004, it was revealed that one registered institution erroneously reported its other private banking business as assets under management in FMAS 2003. As a result, the AUM of registered institutions in 2003 was subsequently revised to \$123 billion from \$142 billion, while other private banking business in 2003 was revised to \$507 billion from \$488 billion.
18. The AUM of registered institutions amounted to \$86 billion in 2004, representing a decline of 30% from the revised 2003 figure. This drop was primarily attributed to the transfer of funds under management to the share capital account of a registered institution, as explained in paragraph 13.

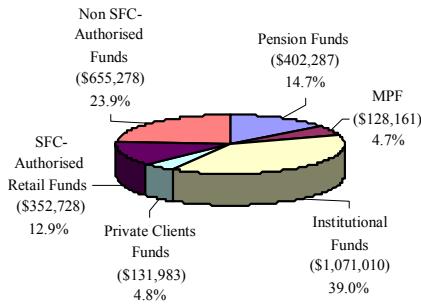
***AUM (\$2,741 billion) - by types of fund***

*Licensed corporations and registered institutions*

19. Institutional funds, non SFC-authorized funds, and pension funds remained the major types of funds, representing 39%, 24% and 15% of the total AUM of licensed corporations and registered institutions, respectively. SFC-authorized funds, private client funds and mandatory provident funds accounted for the remaining 22%.

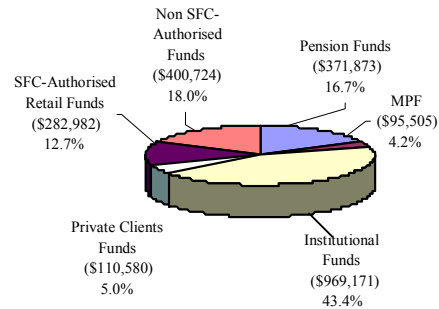
**AUM (LC+RI) - by types of Funds  
(HKS in Millions)**

**2004 - Total \$2,741,447**



**AUM (LC+RI) - by types of Funds  
(HKS in Millions)**

**2003 - Total \$ 2,230,835**

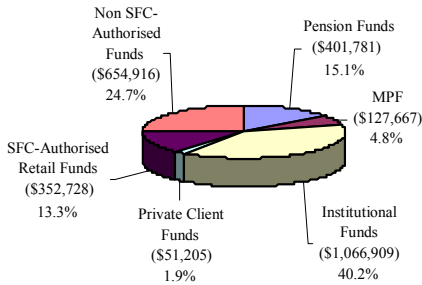


*Licensed corporations*

- Among the \$2,655 billion worth of AUM managed by licensed corporations, institutional funds ranked the largest type of funds, followed by non SFC-authorized funds, pension funds, and SFC-authorized funds.

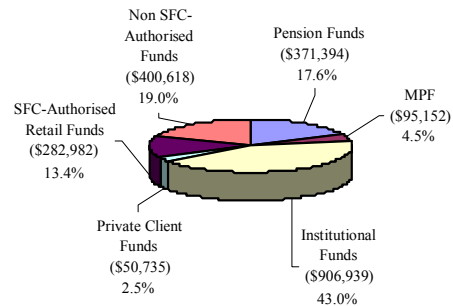
**AUM (LC) - by types of Funds  
(HKS in Millions)**

**2004 - Total \$2,655,206**



**AUM (LC) - by types of Funds  
(HKS in Millions)**

**2003 - Total \$ 2,107,820**



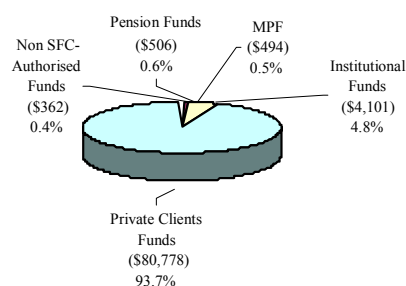
- In terms of growth, non SFC-authorized funds registered the largest year-on-year increase of 63%, followed by a 34% rise in mandatory provident funds, 25% in SFC-authorized funds, 18% in institutional funds and 8% in pension funds.
- Since the introduction of the mandatory provident funds scheme in December 2000, mandatory provident funds have grown to account for 5% 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 generated by the contributions.

*Registered institutions*

23. The pattern differed in the context of registered institutions. Private client funds constituted the dominant type of funds, accounting for 94% of the AUM.

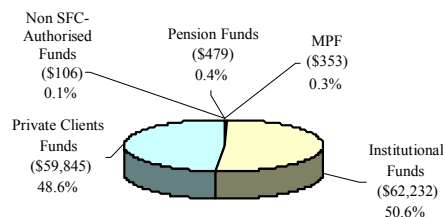
AUM (RI) - by types of Funds (HK\$ in Millions)

2004 - Total \$86,241



AUM (RI) - by types of Funds (HK\$ in Millions)

2003 - Total \$ 123,015



24. The pattern in 2004 differed significantly from that in 2003, which recorded two main types of funds, namely institutional funds and private client funds, accounting for 50.6% and 48.6% of the AUM respectively. The substantial decline of institutional funds was again attributed to the re-allocation of funds as explained in paragraph 13.
25. Mandatory provident funds accounted for 0.5% (0.3% in 2003) of the AUM, as banks generally played the role of intermediaries, selling and advising on mandatory provident fund schemes, rather than managing the funds. In terms of value, the amount of mandatory provident funds grew by 40% in 2004.

***AUM (\$2,741 billion) - source of funds***

*Licensed corporations and registered institutions*

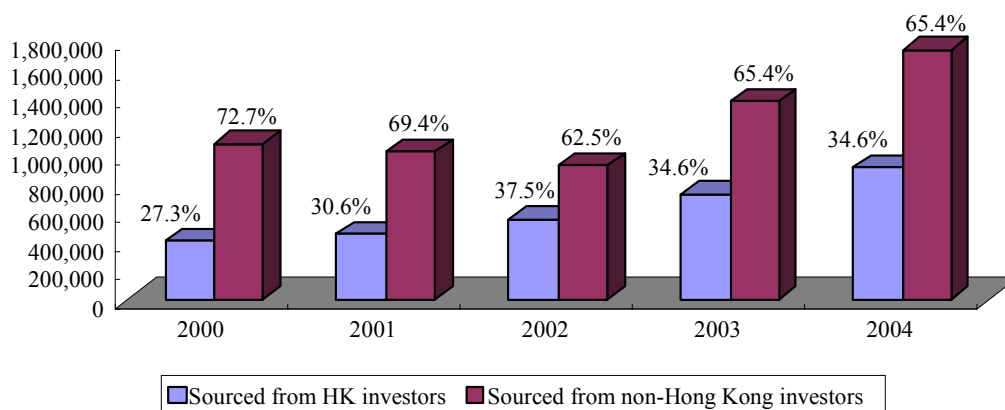
26. As a whole, \$1,802 billion or 66% of the AUM was sourced from overseas, and the remaining 34% from Hong Kong investors.

*Licensed corporations*

27. The percentage of AUM sourced from non-Hong Kong investors remained at 65% in 2004, as overseas investments were continued to be allocated to the Asian Pacific region as the economy in the region remained strong. 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.

28. The share of Hong Kong investors stabilised at 35% of the AUM of licensed corporations in 2004. In terms of value, the AUM sourced from Hong Kong investors grew in absolute terms by 26% to \$917 billion in 2004 from \$729 billion in 2003. 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.

**AUM - By sources of Funds (HK\$ in Millions)**



#### *Registered institutions*

29. 74% of the AUM was sourced from non-Hong Kong investors, and the remaining 26% from Hong Kong investors. In 2003, the breakdown was 86% and 14% for non-Hong Kong and Hong Kong investors respectively. The reliance on overseas funds could partly be attributed to the established global network of some registered institutions through which they could source funds on an international basis. However, the result also suggested that the percentage of AUM sourced from Hong Kong investors began to play a more important role for registered institutions.

#### ***AUM (\$2,741 billion) – allocation of investments***

##### *Licensed corporations and registered institutions*

30. In terms of geographical exposure, 23% of the AUM was invested in Hong Kong and 77% in overseas markets. Of the \$636 billion worth of assets invested in Hong Kong by licensed corporations and registered institutions, 62% were invested in equities and 30% in bonds. The remaining 8% was invested in derivative or structured products, cash, deposits, money market instruments or other investments.

### *Licensed corporations*

31. Licensed corporations invested \$630 billion (2003: \$511 billion) of their AUM in Hong Kong and \$2,025 billion (2003: \$1,597 billion) in overseas markets. 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 2003. By value, investments in Hong Kong rose by 23%, while investments outside of Hong Kong rose by 27%.
32. Where investments were made in Hong Kong, they were mainly invested in equities (63% in 2004, down from 65% in 2003). Investments in bonds rose from 28% in 2003 to 30% in 2004. Meanwhile, investments in cash, cash equivalents and other investment remained at 7% as in 2003.

### *Registered institutions*

33. Among registered institutions, a majority (93% in 2004, 97% in 2003) of their aggregate AUM was invested outside of Hong Kong. While the heavy exposure to overseas markets could reflect the investment strategy of the registered institutions, it could also be attributed to the preference of their clients or the investment mandates specified by their clients.
34. Equities became the major destination of the investments made in Hong Kong (44% in 2004, up from 30% in 2003), followed by cash, deposits and money market instruments (28% in 2004, down from 56% in 2003), and bonds and structured products (28% in 2004, up from 13% in 2003). The shift of investment preference from cash, deposits and money market instruments to equities and bonds reflected investors' positive sentiment on the equity and bond markets.

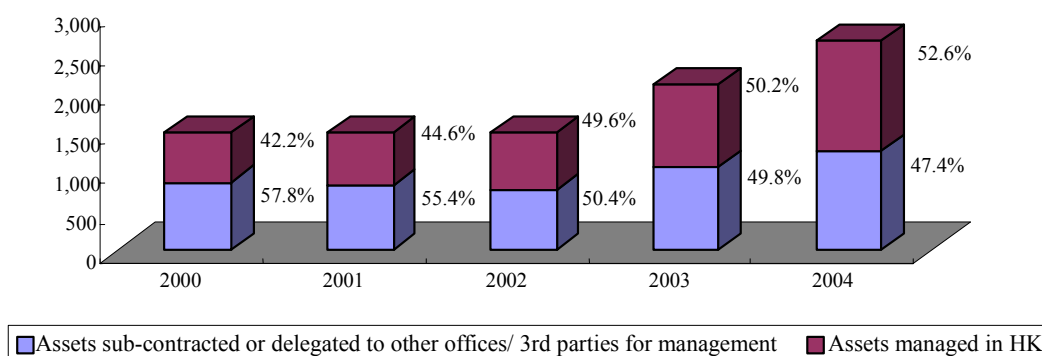
### ***Assets managed in Hong Kong (\$1,466 billion)***

#### *Licensed corporations and registered institutions*

35. Out of the total \$2,741 billion worth of AUM, 53% or \$1,466 billion was managed in Hong Kong and the rest was managed overseas.

## Licensed corporations

**AUM - by assets managed in HK & Overseas (HK\$ in billions)**



36. Among licensed corporations, the percentage of assets managed in Hong Kong increased to 53% in 2004. The rest was managed overseas. In value terms, AUM managed in Hong Kong increased by 32% in 2004 and stood at \$1,398 billion. AUM managed overseas increased by 20% and stood at \$1,257 billion. In line with the pattern observed in the previous years, only less than 1% of the assets (\$12 billion) managed in Hong Kong was sub-contracted or delegated to other offices or third parties for management. The remaining \$1,386 billion was directly managed by the licensed corporations.

## Registered institutions

37. The total AUM (including discretionary and non-discretionary) managed by registered institutions amounted to \$86 billion in 2004. 80% (\$69 billion) of the AUM of registered institutions was managed in Hong Kong and the remaining 20% (\$17 billion) was subcontracted or delegated to other offices/third parties overseas for management. By category, where the AUM was managed on a discretionary basis, 88% was managed in Hong Kong; and where the AUM was managed on a non-discretionary basis, 13% was managed in Hong Kong.
38. 93% of the AUM managed in Hong Kong (\$64 billion) was directly managed by the registered institutions. Only 7% or \$5 billion was delegated to other offices or third parties in Hong Kong for management.

## Assets managed in Hong Kong (\$1,466 billion) – by types of funds

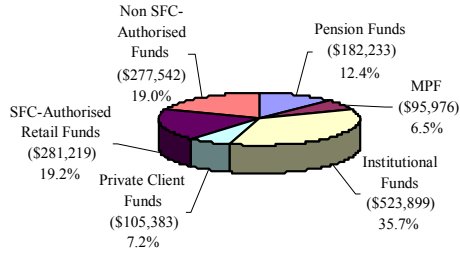
### Licensed corporations and registered institutions

39. Of the AUM managed in Hong Kong, 36% was derived from institutional funds and 19% from SFC-authorized funds. Pension funds and non SFC-authorized funds contributed 12% and 19% to the AUM respectively, while private client funds accounted for 7%, and mandatory provident scheme funds 7%.



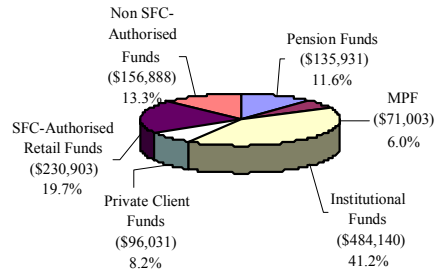
**Total Assets Managed in HK (LC+ RI)  
- by types of Funds (HK\$ in Millions)**

**2004 - Total \$1,466,252**



**Total Assets Managed in HK (LC + RI)  
- by types of Funds (HK\$ in Millions)**

**2003 - Total \$1,174,896**

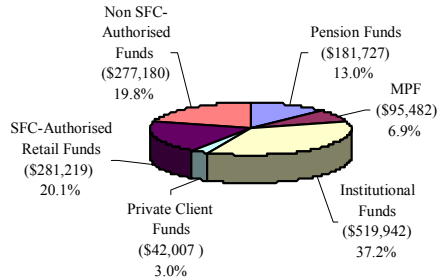


*Licensed corporations*

40. Among licensed corporations, institutional funds have remained the largest category of funds since 2002, accounting for 37% of the AUM managed in Hong Kong in 2004. Both SFC-authorized funds and non SFC-authorized funds ranked second, each representing another 20%. Pension funds carried weighting of 13%, mandatory provident funds accounted for 7%, while private client funds made up the remaining 3%.

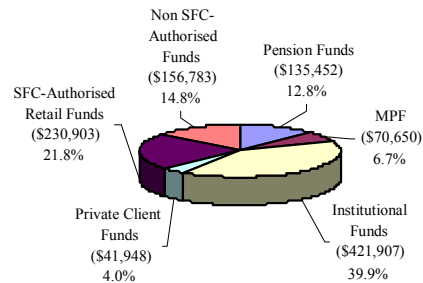
**Total Assets Managed in HK (LC) - by types of Funds  
(HK\$ in Millions)**

**2004 - Total \$ 1,397,557**



**Total Assets Managed in HK (LC) - by types of Funds  
(HK\$ in Millions)**

**2003 - Total \$ 1,057,643**



41. The strongest gain was seen in non SFC-authorized funds which rose by 77% during the year and accounted for 20% of the AUM managed in Hong Kong, up from 15% last year. Other major gains were recorded in institutional funds (up 23%), pension funds (up 34%), and mandatory provident funds (up 35%).

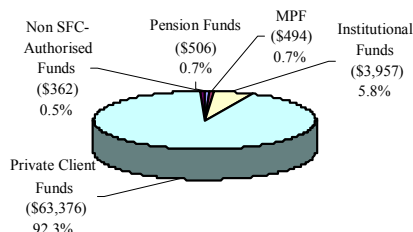
*Registered institutions*

42. For registered institutions, private client funds and institutional funds in 2004 accounted for 98% of the AUM managed in Hong Kong. Private client funds remained the primary fund type among the registered institutions, representing 92% of the AUM managed in Hong Kong. The predominance of this funds type could probably be attributed to the

banks' efforts to capitalize on their relationships with banking and corporate clients in the promotion of their asset management services.

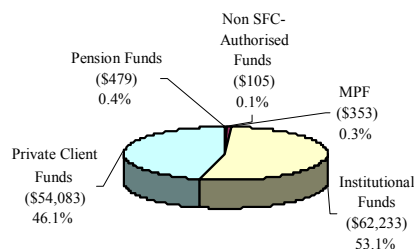
**Total Assets Managed in HK (RI) - by types of Funds  
(HKS in Millions)**

**2004 - Total \$ 68,695**



**Total Assets Managed in HK (RI) - by types of Funds  
(HKS in Millions)**

**2003 - Total \$ 117,253**



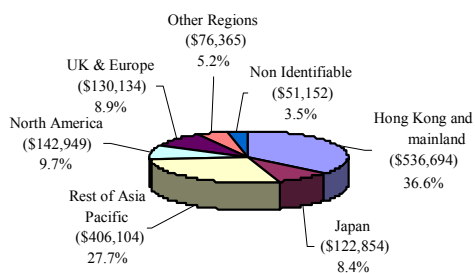
### ***Assets managed in Hong Kong (\$1,466 billion) – geographical spread***

#### *Licensed corporations and registered institutions*

43. In terms of geographical exposure, Asia remained the primary destination of the AUM managed in Hong Kong. 37% of the AUM was invested in markets in Hong Kong and the mainland, 8% in Japan and 28% in the rest of Asia.

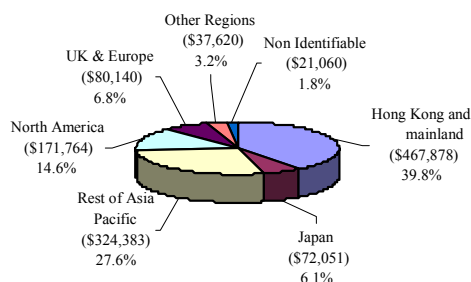
**Total Assets Managed in HK (LC + RI)  
- by regions (HKS in Millions)**

**2004 - Total \$ 1,466,252**



**Total Assets Managed in HK (LC + RI)  
- by regions (HKS in Millions)**

**2003 - Total \$ 1,174,896**

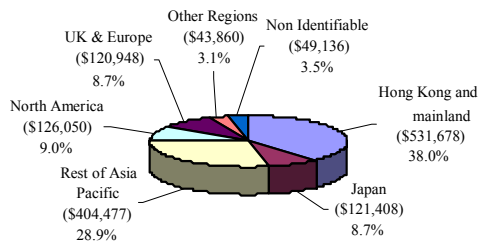


#### *Licensed corporations*

44. Investments in the Asian region were even higher among the licensed corporations and represented 76% of the AUM managed in Hong Kong in 2004, compared with 81% in 2003. While the concentration of AUM in the Asian region reflected asset allocation to a certain extent, it also demonstrated the expertise that the licensed corporations have developed with respect to investments in the Asian region.

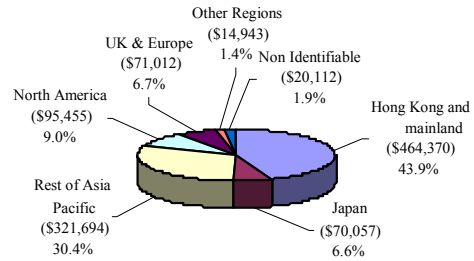
**Total Assets Managed in HK (LC)  
- by regions (HK\$ in Millions)**

**2004 - Total \$ 1,397,557**



**Total Assets Managed in HK (LC)  
- by regions (HK\$ in Millions)**

**2003 - Total \$ 1,057,643**

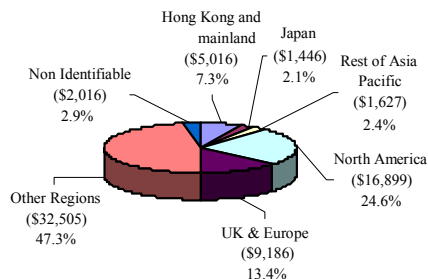


*Registered institutions*

45. In contrast, only 12% of the AUM managed by registered institutions was invested in Asia. 25% of the AUM was invested in North America, 13% in the UK and Europe, and the rest in other regions.

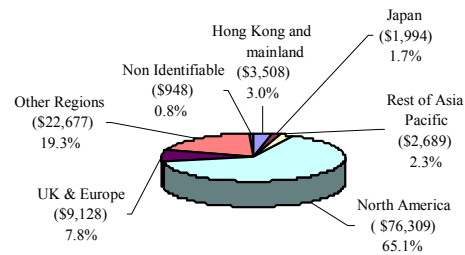
**Total Assets Managed in HK (RI)  
- by regions (HK\$ in Millions)**

**2004 - Total \$ 68,695**



**Total Assets Managed in HK (RI)  
- by regions (HK\$ in Millions)**

**2003 - Total \$ 117,253**

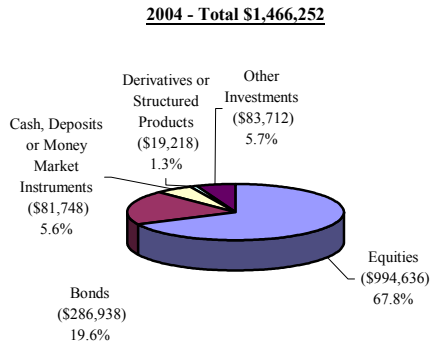


**Assets managed in Hong Kong (\$1,466 billion) – asset class**

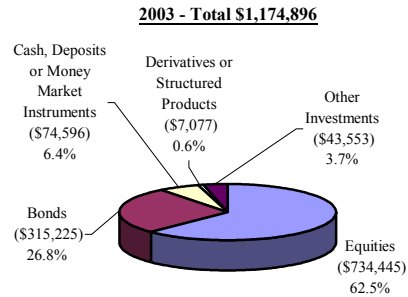
*Licensed corporations and registered institutions*

46. 68% of the AUM managed in Hong Kong was invested in equities, and close to 20% in bonds. Derivatives, structured products, cash or cash equivalent and other investments accounted for the remaining 12%. The results showed there were an increase in allocation to equities (up 35% year-on-year) and a decrease in allocation to bonds (down 9% year-on-year) which reflected investors' positive sentiment on equity markets. Cash, deposits or money market instruments had a growth of 10%.

**Total Assets Managed in HK (LC+RI)**  
- by Assets class (HK\$ in Millions)



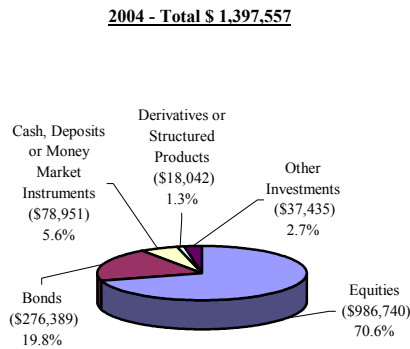
**Total Assets Managed in HK (LC+RI)**  
- by Assets class (HK\$ in Millions)



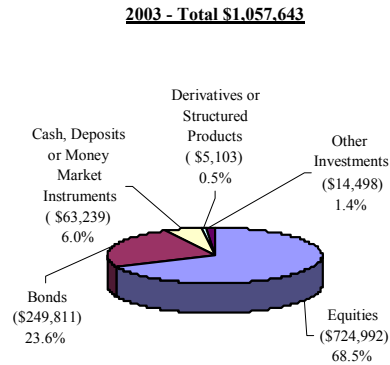
*Licensed corporations*

47. By and large, the above weightings were also observed in the AUM managed in Hong Kong by licensed corporations in 2004 as more funds were allocated to equities and less into bonds. Investments in equities were up 36% in 2004.

**Total Assets Managed in HK (LC)**  
- by Assets class (HK\$ in Millions)



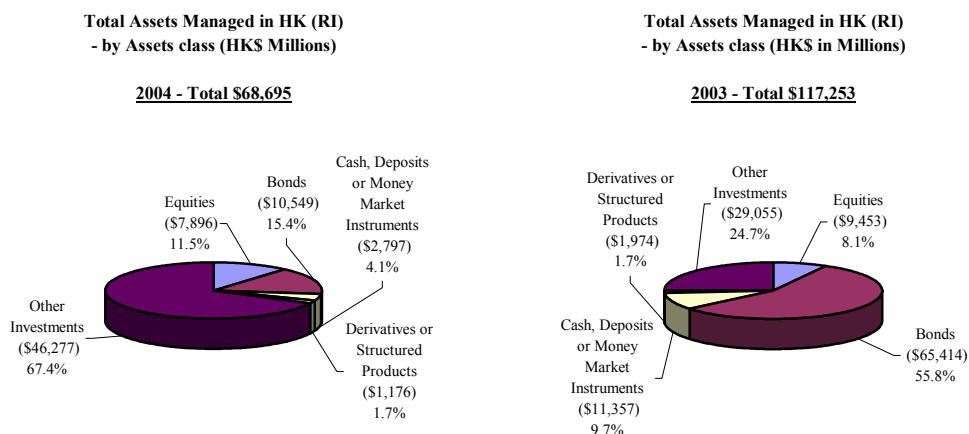
**Total Assets Managed in HK (LC)**  
- by Assets class (HK\$ in Millions)



*Registered institutions*

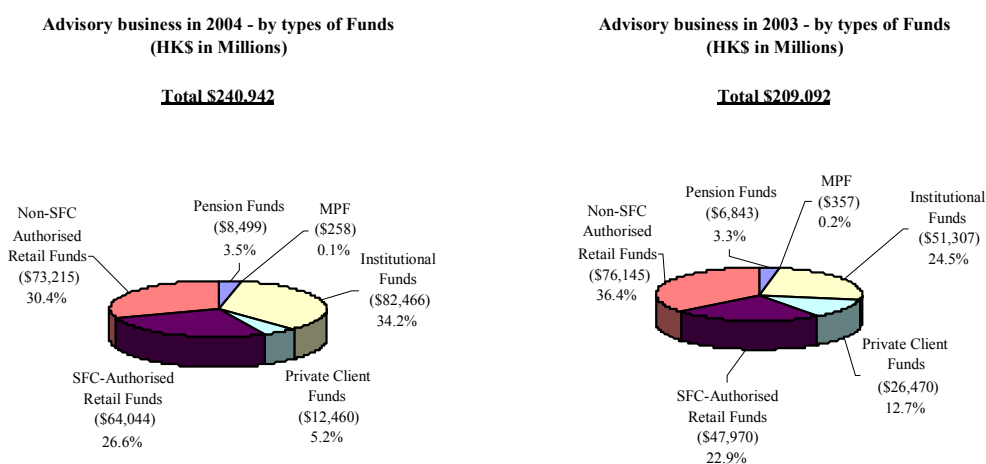
48. Among registered institutions, the asset allocation in 2004 was different from that in 2003. 15% of the AUM managed in Hong Kong was invested in bonds in 2004, compared with 56% in 2003. Equities accounted for 12% of the investments in 2004, up from 8% in 2003. Other investments accounted for 67%, up from 25% in 2003, while cash, deposits or money market instruments fell to 4% from 10% in 2003. In value terms, investments in all asset classes have declined except for other investments: equities were down 16% year-on-year, bonds were down 84% year-on-year, cash, deposits or money market instruments were down 75%, and derivative and structured products were down 40% year-on-year.

49. The results showed a significant shift of funds from bonds to other investments. This could be attributed to the increasing trend of interest rates and the potential downside of bond prices.



**Total assets under pure advice (\$241 billion)**

50. Aside from asset management, some licensed corporations 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 \$241 billion, up from \$209 billion in 2003.
51. The largest gain was seen in institutional funds, which rose by 61% during the year and became the largest type of funds in the advisory business. Meanwhile, non SFC-authorized funds and SFC-authorized funds remained the second and third largest fund types, accounting for 30% and 27% of the advisory business respectively. By geographical origin, non-Hong Kong investors remained the major source of funds, accounting for 83% of the advisory business.



52. The amount of assets advised in Hong Kong accounted for 63% of the total advisory business in 2004. The breakdown of the amount of assets advised in Hong Kong and overseas was similar to that of 2003.

Advisory - By assets advised in HK and Overseas (HK\$ in Millions)								
	2004		2003		2002		2001	
	\$	%	\$	%	\$	%	\$	%
Assets advised in HK	151,072	62.7%	128,743	61.6%	82,973	57.5%	72,524	51.6%
Assets advised Overseas	89,870	37.3%	80,349	38.4%	61,328	42.5%	67,956	48.4%
Total	240,942	100%	209,092	100%	144,301	100%	140,480	100%

53. Out of the total \$151 billion worth of assets advised in Hong Kong, 96% (\$145 billion) was directly advised by the respondents in Hong Kong and the remaining 4% (\$6 billion) was sub-contracted or delegated to other offices/third parties.

### ***Criteria for market selection***

54. 120 licensed corporations and 20 registered institutions reported that they had overseas investments. In terms of the importance of the following criteria for market selection, their responses were as follow:

	LC and RI
Exchange rate risk	92%
Law enforcement	94%
Liquidity	96%
Macro-economic stability	96%
Political Risk	96%
Transaction costs	81%
Transparency and disclosure requirement	95%
Corporate governance	94%
i. Shareholders' rights	94%
ii. Responsibilities of the board	89%

55. They indicated that liquidity, macro-economic stability and political risk were the most important criteria and transaction costs was a less important criterion for market selection.

### ***Other private banking activities***

56. 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 increased to \$636 billion in 2004 from \$507 billion in 2003.
57. 58% of these funds were sourced from Hong Kong investors and the rest from non-Hong Kong investors.

## ***Distribution of collective investment schemes***

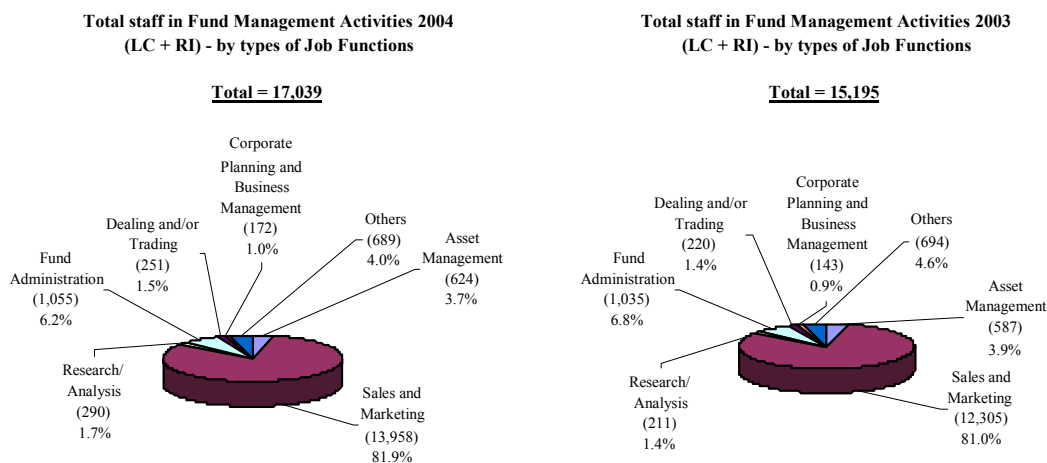
### *Licensed corporations and registered institutions*

58. 34 licensed corporations and 34 registered institutions reported that they had engaged in the distribution of collective investment schemes in 2004.
59. While the number of licensed corporations that engaged in the distribution of collective investment schemes was largely unchanged from that in 2003, the number of registered institutions that distributed collective investment schemes increased to 34 in 2004 from 28 in 2003. The results manifested banks' efforts to diversify their earnings base into fee generating businesses, such as fund distribution. To the licensed corporations, they derived synergy from engaging banks as their distributors as this would not only allow them to tap into the strong retail network of banks for public funds, but would also enable them to dedicate their resources to their traditional business of asset management.

## ***Profile of staff***

### *Licensed corporations and registered institutions*

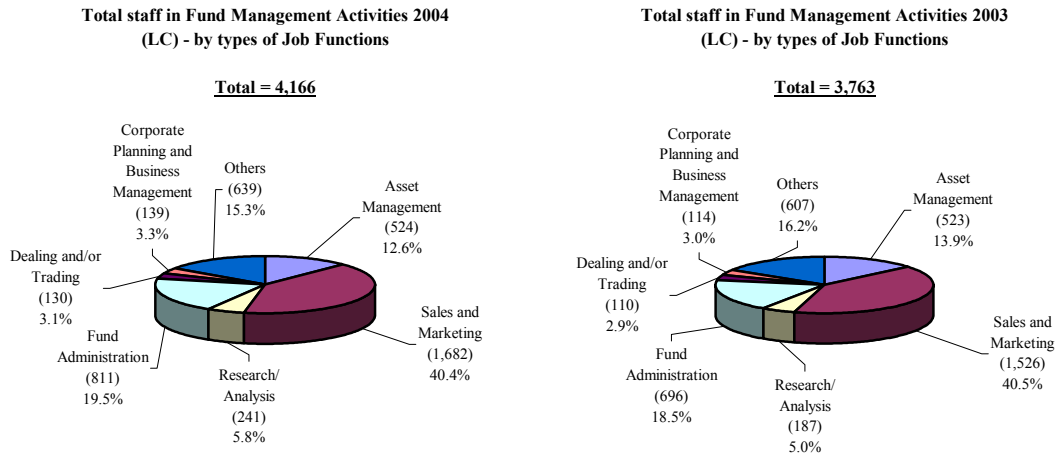
60. Respondents reported that a total of 17,039 (an increase of 12% from 2003) staff was engaged in fund management activities. Among them, 82% was responsible for sales and marketing, 6% for fund administration and 5% for asset management and research/analysis. Hong Kong was the primary focus of the marketing effort, while the rest was spread among the rest of the Asia Pacific region.



### *Licensed corporations*

61. The number of staff engaged in fund management activities increased 11% during the year to 4,166. There was a substantial increase of 29% in the number of staff engaged in research and analysis. This showed the licensed corporations' attempt to hire more staff in research and analysis in order to enhance the technical support provided to the sales and marketing staff. Of the 765 staff engaged in asset management and research, 66% or

502 staff engaged in equities, 10% or 80 in bonds, 4% or 33 in cash, deposits and money market instruments, 4% or 29 in derivatives or structured products and 16% or 121 in other investments.



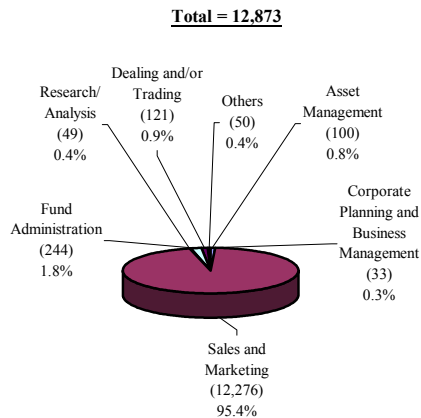
62. The number of staff in sales and marketing grew by 10% (threefold in 2003) in 2004. Among such staff, 1,543 (or 92%) served the Hong Kong market, 55 (3%) served the mainland/Taiwan, 40 (2%) served the rest of Asia and 44 (3%) served other regions.

*Registered institutions*

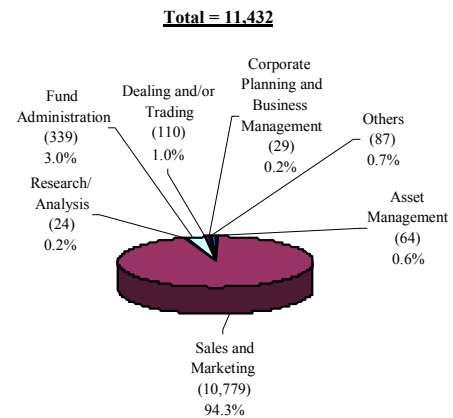
63. Registered institutions reported that they had 12,873 staff engaged in fund management activities, increased 13% from 2003. Among them, 12,276 staff performed sales and marketing functions, 244 fund administration, 121 dealing and/or trading, 100 asset management, and 49 research/analysis. The remaining 83 staff were engaged in corporate planning and other activities.
64. Among the 149 staff in asset management and research, 39 staff (or 26%) engaged in equities, 25 staff (or 17%) in bonds, 22 staff (or 15%) in cash, deposits and money market instruments, and 25 staff (or 17%) in derivatives or structured products. Among the 12,276 sales and marketing staff, 11,907 staff (or 97%) served the Hong Kong market, 205 staff (or 1.7%) served the mainland/Taiwan market, and 164 staff (or 1.3%) served the rest of Asia.



**Total staff in Fund Management Activities 2004  
(RI) - by types of Job Functions**



**Total staff in Fund Management Activities 2003  
(RI) - by types of Job Functions**



65. The predominance of sales and marketing personnel could be attributed to the staffing needs arising from the spread of the retail network of the registered institutions. Such sales staff played the multiple roles of responding to clients' general enquiries and requests, introducing clients to the various financial services or instruments offered by the registered institutions, as well as marketing investment products offered by third parties.

### ***Internet activities***

#### *Licensed corporations*

66. Fifteen of the respondents indicated that they conducted certain activities through electronic means. This represented a threefold increase in the number of licensed corporations in providing fund information and dealing facilities through electronic means from 2003. The services provided through the internet included investment fund information, net asset values of funds or portfolios, investment/risk management tools, and client portfolio reports. In addition, three reported that they provided dealing facilities, such as subscription, redemption and/or switching, in respect of SFC-authorized retail funds on the internet.

#### *Registered institutions*

67. Six of the respondents (the same number as recorded in 2003) indicated that they provided dealing facilities in respect of SFC-authorized retail funds through electronic means. Five reported that they offered subscription and redemption facilities and one also offered switching facilities in respect of SFC-authorized retail funds through the internet. In addition to information on investment funds, net asset values of funds, investment/risk management tools, and client portfolio reports, a few of these respondents also provided on their internet services such as price alert and tools for performance calculation.

## **Development in the retail fund industry in 2004**

- Supported by recovery in the financial markets and renewed interest in investments, the fund management industry augmented both the number and range of funds sold to the public in Hong Kong. During 2004, the SFC authorised 217 funds, resulting in a total of 1,933 SFC-authorised funds at the end of 2004, compared with 1,862 in 2003. The net asset value of such funds totalled \$4,300 billion, up 3% from the level seen in 2003.
- Among the funds authorised during the year, 81 were guaranteed funds. The introduction of various investment features has attracted investors' interest and resulted in substantial growth in SFC-authorised guaranteed funds. Compared with 73 such funds at the end of March 2002 and a total net asset value of \$45 billion at the end of 2001, there were a total of 295 SFC-authorised guaranteed funds with an aggregate net asset value of \$144 billion at the end of 2004. Interest in these funds appears to remain strong, with the number of guaranteed funds growing to 310 by the end of June 2005.
- Growth was also recorded in other specialized funds such as exchange traded funds and hedge funds. During the year, two exchange traded funds (including the first exchange traded fund that tracked an A-share index) and five hedge funds were authorised, bringing the total number of such authorised funds at the end of 2004 to five and thirteen respectively.
- Beginning from 2004, a major policy initiative has been the processing of UCITS III funds. UCITS III is a new set of regulations issued by the European Union (EU) governing funds domiciled in the EU member states. Since many SFC-authorised collective investment schemes are domiciled in European jurisdictions, such as Luxembourg and Ireland, the SFC has been working closely with the fund industry with respect to UCITS III funds transition.
- In this regard, the SFC has issued interim measures to facilitate the processing of UCITS III funds, which included a fast track procedure for funds that did not significantly change their investment policies. As at the end of June 2005, the SFC had authorised 544 UCIT III funds, representing over 75% of the applications received.
- Since the establishment of the dedicated team in October 2004 to deal with hedge fund managers' applications, the SFC has received 24 licence applications from hedge fund managers, of which 16 were approved or approved in principle.