



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

Fund Management Activities Survey 2009

July 2010



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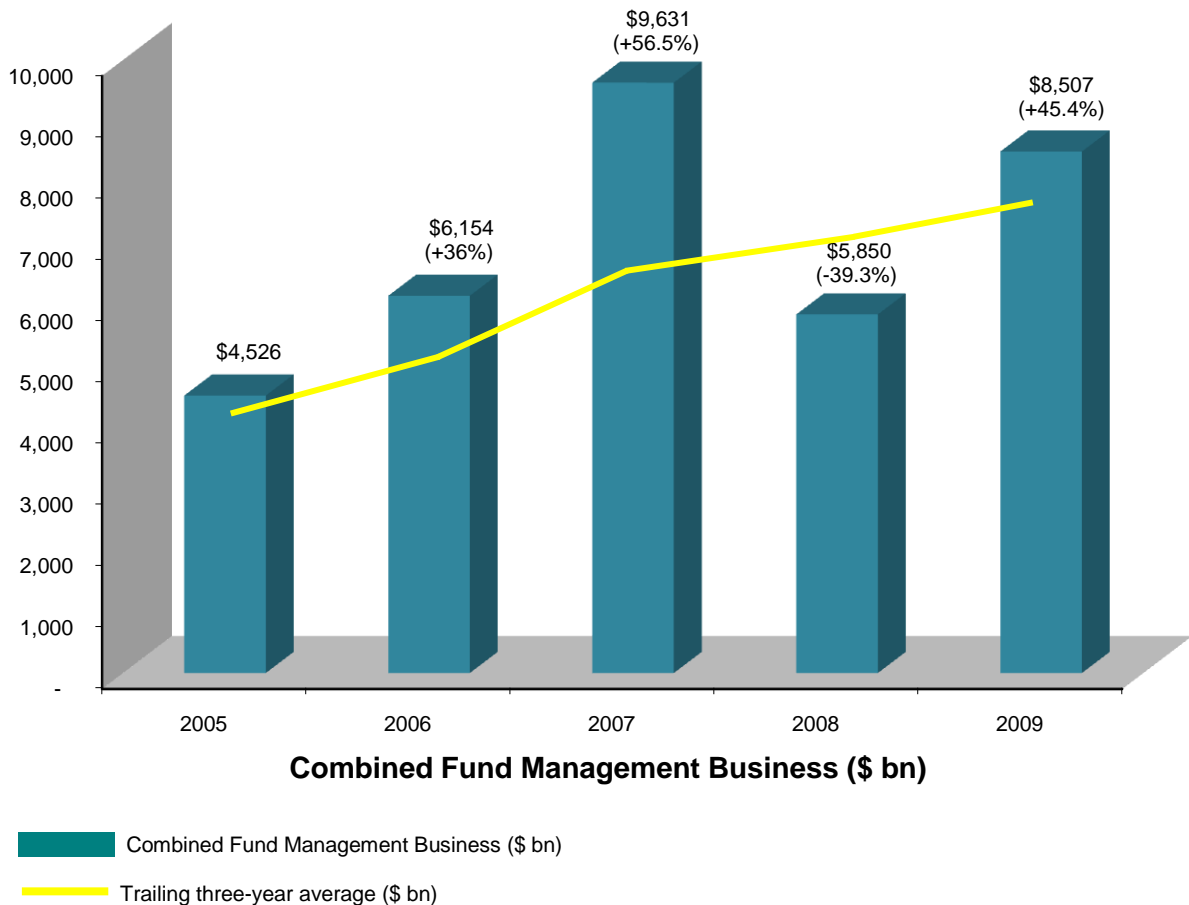


Survey Summary

The Securities and Futures Commission (SFC) has conducted the Fund Management Activities Survey (FMAS) for the year ended 31 December 2009. The survey covered asset management activities among licensed corporations¹, registered institutions² and insurance companies³.

The major findings of this year's FMAS are summarised below:

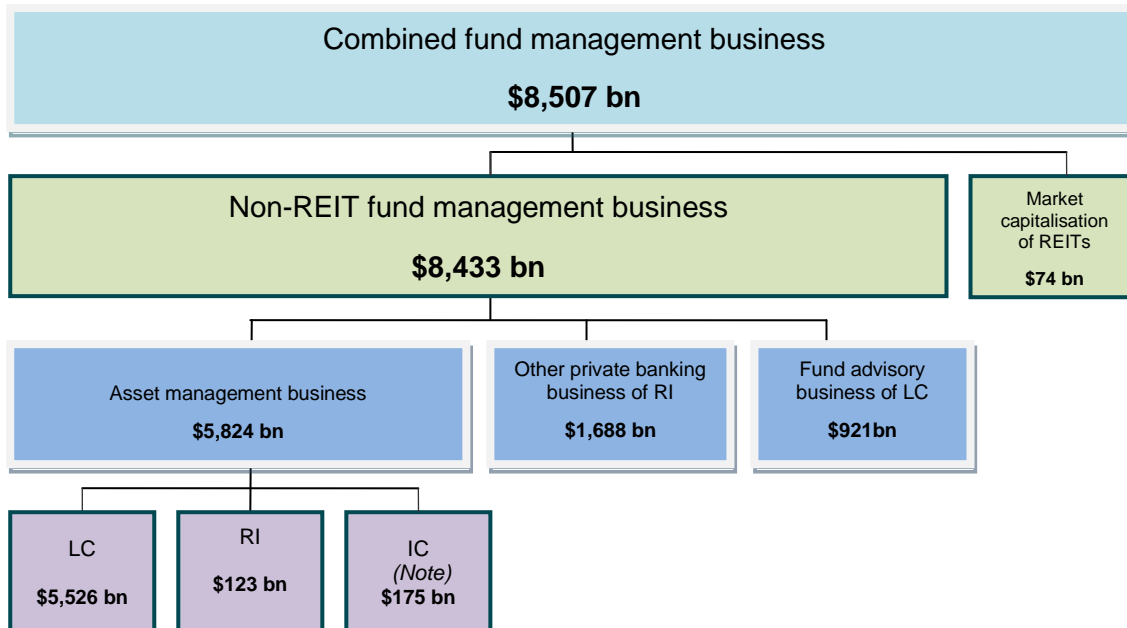
- 1. The combined fund management business⁴ of Hong Kong rebounded strongly in 2009, with a year-on-year increase of 45.4% to \$8,507 billion* as at the end of the year.**



* Unless stated otherwise, the values given are in HK dollars.



Components in Combined Fund Management Business



Legend:

RI: registered institutions

LC: licensed corporations

IC: insurance companies

REITs: real estate investment trusts

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. Assets under management reported by insurance companies that are also licensed by the SFC are included under the category of licensed corporations.

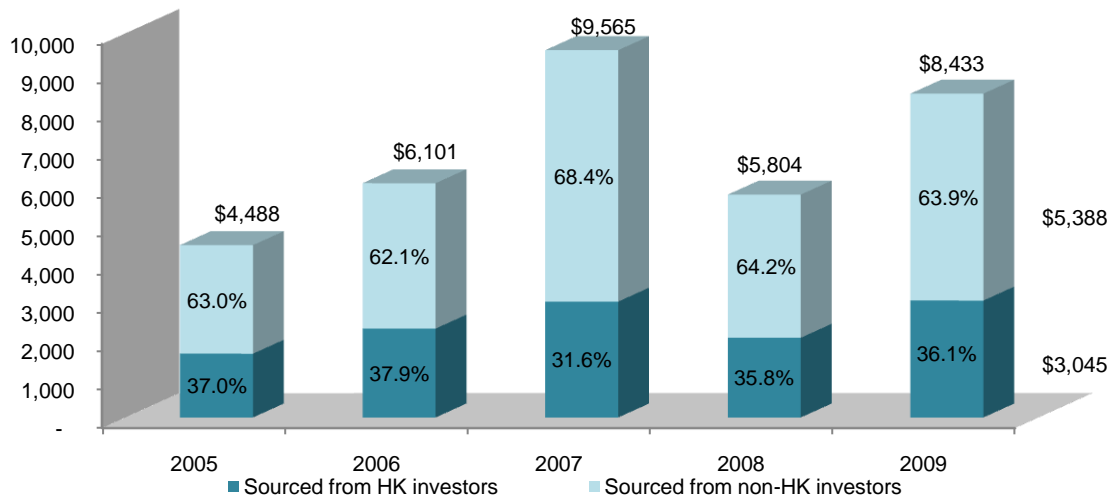
- The growth in the combined fund management business was driven by strong recovery in global financial markets, significant inflow of investment capital into the Asia Pacific region, as well as gains in the REIT market.
- According to the 2009 Market Highlights issued by the World Federation of Exchanges (WFE):
 - WFE member exchange broad equity market indexes rose by 44.9% in US dollar terms in 2009.
 - The Asia-Pacific region outperformed the WFE average with its broad equity market index registering an increase of 57.6% during the year.
 - Total investment flows (comprising capital raised for initial public offerings and secondary equity issuance) into Asia Pacific rose by 50.3% year-on-year in 2009 to US\$335.3 billion. This contrasts with an overall 11.7% decline in investment flows to US\$856.1 billion, with respective decline of 9.4% and 45.7% registered in Americas and Europe-Africa-Middle East.
- SFC-authorized REITs marked a new milestone with the first time dual listing of a REIT. The market capitalisation of the SFC-authorized REITs grew by 60% in 2009, exceeding the 53.6% gains recorded by the REIT Index. Given the development of REIT markets in Hong Kong and other parts of Asia and rising interests in mergers and acquisitions of



REITs, the SFC has also enhanced the regulatory regime of REITs to govern takeovers and mergers of REITs with a view to providing better protection for minority unitholders.

- By types of business activity:
 - Asset management business led the recovery with a year-on-year 57.1% increase in amount of assets under management to \$5,824 billion in 2009.
 - Other private banking business grew 31.2% to \$1,688 billion.
 - Fund advisory business rose 13.7% to \$921 billion.
- By categorisation of market players:
 - Licensed corporations posted the strongest year-on-year gain, with a 50.3% increase in their aggregate asset management and fund advisory businesses to \$6,447 billion in 2009.
 - Registered institutions recorded a 29.8% increase in their aggregate asset management and other private banking businesses to \$1,811 billion.
 - Insurance companies reported a 44.6% increase in their assets under management to \$175 billion.

2. Hong Kong continued to attract international investors to use Hong Kong as the platform for investing in the region. Of the total \$8,433 billion in non-REIT fund management business, 63.9% was sourced from non-Hong Kong investors.



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

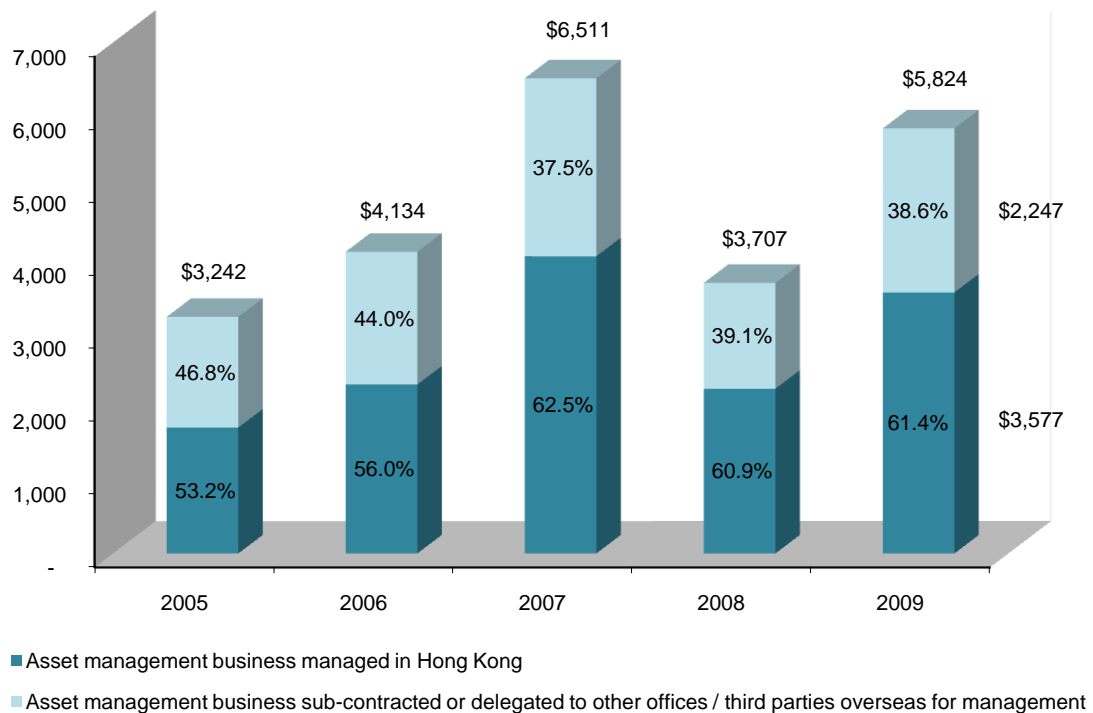
- In value terms, the amount of funds sourced from Hong Kong and non-Hong Kong investors grew at a fairly similar pace of around 45%. This perhaps reflected the general trend among investors to channel their funds for investment in the Asia Pacific



region, which has emerged relatively unscathed from the last financial turmoil and recovered faster than the rest of the major economies around the world.

- In the process, Hong Kong was a primary beneficiary given its strength in identifying and managing investments in the region.

3. An aggregate of \$3,577 billion, or 61.4% of the total non-REIT assets under management, was managed in Hong Kong as investors use Hong Kong as the platform to invest in the Asia-Pacific region, particularly in the Mainland.



Assets Management Business: by Location of Management (\$ bn)

- Investment professionals in Hong Kong have developed expertise in making investments in the Asia-Pacific region, in particular, on the Mainland. Therefore, Hong Kong serves as the gateway for overseas investors to invest in the Mainland, and at the same time, it also serves as the gateway for Mainland investors to invest in overseas markets. This unique strength enables Hong Kong to garner over 60% of the non-REIT assets for management in Hong Kong.
- Following a decline in the amount of Mainland assets managed in Hong Kong in 2008, recovery was recorded in 2009, with a year-on-year increase of 17.2% to \$75 billion in 2009, representing around 15% of the aggregate quota granted to the Qualified Domestic Institutional Investor (QDII) up to the end of March 2010. More than 50% of these Mainland assets were invested in Hong Kong, around 20% were invested in the Asia-Pacific region, and the remaining portion was invested in North America and Europe.
- Hong Kong also acts as the platform for Mainland firms to gain exposure to global financial practices. We have seen an increasing number of Mainland-related financial



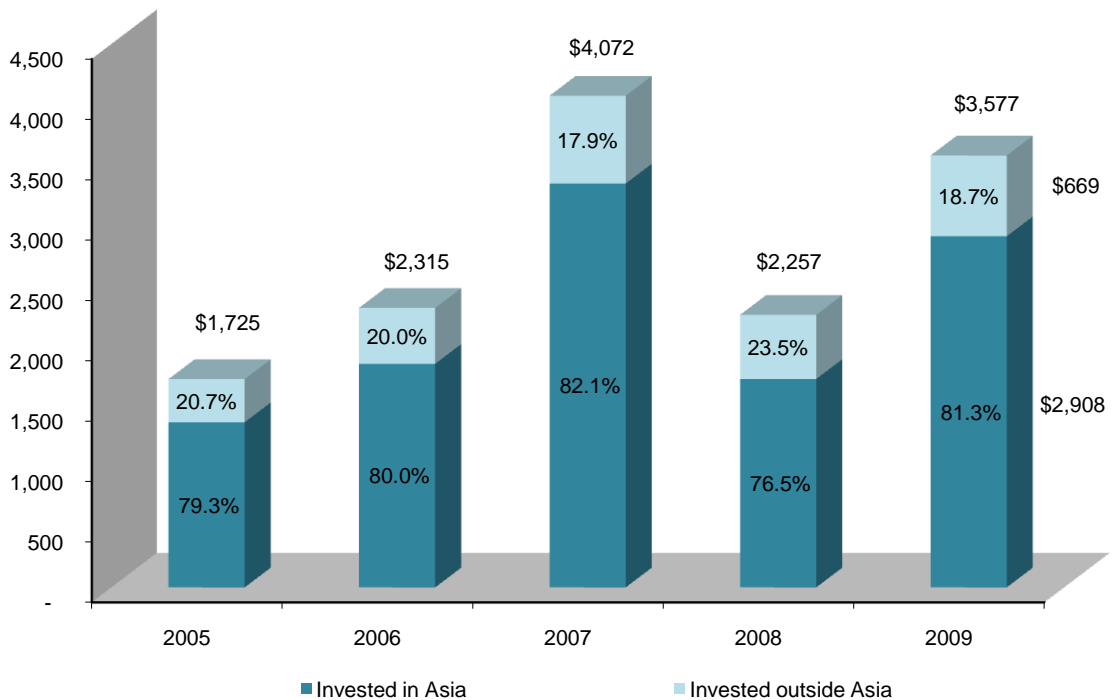
institutions establishing operations in Hong Kong. As at the end of March 2010, around 43 Mainland companies have established a total of 127 licensed corporations or registered institutions in Hong Kong, broken down as follows:

- 13 Mainland securities companies have established 44 licensed corporations.
 - Six Mainland futures companies have established six licensed corporations.
 - Six Mainland fund management companies have established six licensed corporations.
 - Four Mainland insurance companies have established five licensed corporations.
 - Other types of Mainland companies, totalling 14, have established 52 licensed corporations and 14 registered institutions.
- The number of Mainland-related companies managing SFC-authorized funds has increased from two in 2008 to eight by the end of June 2010. The number of such funds managed by these companies increased from 46 in 2008 to 65 in 2009, and the net asset value of these funds increased from \$29.6 billion to \$45.8 billion during this period, up 54.7%.
 - Among the Mainland-related companies that participated in this survey, their total asset management and fund advisory businesses grew by 70.1% in 2009 to \$154.7 billion. These firms mainly engage in the management of institutional funds and SFC-authorized funds.
 - In the meantime, we continue to see encouraging developments on the following fronts:
 - In June 2010, the People's Bank of China, the Ministry of Finance, Ministry of Commerce, the General Administration of Customs, the State Administration of Taxation and the China Banking Regulatory Commission jointly issued a circular to expand the pilot implementation of cross-border trade-related renminbi settlements. This will increase the scope for renminbi financial transactions, and promote the volume and velocity of renminbi in Hong Kong.
 - On 19 July 2010, the Hong Kong Monetary Authority and the People's Bank of China signed a Supplementary Memorandum of Co-operation on the expansion of the renminbi trade settlement scheme in order to liberalise current controls on the opening of renminbi accounts in Hong Kong and to facilitate inter-account renminbi transfers, and this will pave the way for the launch of renminbi-denominated fund products.
 - According to statistics published by the China Insurance Regulatory Commission (CIRC), as at the end of March 2010, the largest group of QDII investor, namely the Mainland insurance companies, have accumulated total assets amounting to approximately RMB 4.3 trillion. Under the provisional rules issued by the CIRC, as much as 15% of such assets may be invested overseas, thus presenting an immense opportunity to Hong Kong to act as a platform to manage these assets that seek overseas investment.



- The State Administration of Foreign Exchange (SAFE) has resumed the granting of QDII quota in October 2009, after a hiatus since May 2008. According to the statistics released by SAFE, up to the end of March 2010, SAFE has granted a total investment quota of US\$39.73 billion to 26 Mainland fund management companies and two securities firms, as well as granted an aggregate investment quota of US\$7.96 billion to 22 Mainland commercial banks pursuant to the QDII programme, thus allowing them to invest overseas.
- According to the statistics and regulation published by the National Council for Social Security Fund, the total assets of China's National Social Security Fund have grown from RMB 562.4 billion as of end of 2008 to around RMB 776.5 billion at the end of 2009. Up to 20% of these assets may be invested overseas including Hong Kong.

4. A significant portion of the assets managed in Hong Kong is invested in Asia, accounting for 81.3% in 2009, as compared to 76.5% in 2008.



Assets Managed in Hong Kong : by Geographical Distribution (\$ bn)



- The level of assets managed in Hong Kong and invested in Asia has recovered to above 80%, similar to the level in 2007 prior to the financial turmoil. In value terms, this amounted to \$2,908 billion, comprising \$1,860 billion in Hong Kong and the Mainland, \$122 billion in Japan and \$926 billion in the rest of Asia Pacific.
- In growth terms, the amount of assets managed in Hong Kong that invested in Asia increased by 68.5% year-on-year, significantly higher than the amount of assets invested outside of Asia, which increased by 26.0% to \$669 billion.
- The sharply higher gains in investments in Asia exemplified the relatively strong preference for Asia investments among investors, in light of the strength among Asian economies to emerge from the global financial crisis, vis-à-vis the uncertain pace of recovery in other leading economies, accentuated by the sovereign-debt crisis in economies such as Greece, Spain and Portugal.
- The buoyant economic performance of the Mainland, which recorded a gross domestic product growth of 8.7% in 2009 and is expected to demonstrate growth of 9-10% in 2010, has also contributed to the flow of funds to Hong Kong for investment management.
- At the same time, the strong economic growth of the Mainland has generated substantial wealth and created strong demand for overseas investment opportunities. During 2009, the investment quota granted by SAFE pursuant to the Qualified Foreign Institutional Investors (QFII) programme amounted to an estimate of US\$3.3 billion, bringing the QFII quota to an accumulated amount of US\$16.67 billion at the end of 2009.



Recent Developments and Industry Outlook

Both the fund management industry and financial regulators in major jurisdictions have undertaken major initiatives in 2009 to address issues identified in the financial turmoil and to promote the further development of the industry. Among industry practitioners, we have seen rationalization and consolidation of activities to better focus and utilize resources. On the policy front, both the SFC and financial regulators in jurisdictions such as the US and EU have introduced regulatory reforms to enhance the regulatory framework to meet the new challenges ahead.

1. Enhancing the regulatory regime for the fund industry

- In September 2009, the SFC issued the Consultation Paper on Proposals to Enhance Protection for the Investing Public, which include proposals that follow from the SFC's report to the Financial Secretary in December 2008. The consultation ended in December 2009 and the conclusion to the consultation was issued in May 2010, incorporating amendments in response to comments received during the consultation process.

The salient features achieved under the regulatory reform are:

- a consolidated products handbook to regulate different investment products on the basis of a common set of overarching principles. To provide for the differences among different products, the products handbook also contains product codes for specific categories of products, namely the revised Code on Unit Trusts and Mutual Funds, the revised Code on Investment-Linked Assurance Schemes, and the new Code on Unlisted Structured Investment Products.
 - Product Key Facts Statements introduced for all investment products regulated under the consolidated products handbook in order to provide investors with concise product summaries written in plain language and presented in a uniform manner to facilitate understanding and comparison.
 - cooling-off period for structured investment products that have a scheduled tenor of over one year in order to give investors a window to exit these investments.
 - enhanced conduct requirements for intermediaries in their selling practices relating to the sale of investment products.
- In October 2009, the SFC issued a consultation paper to transfer the regulation of public offers of structured products from the Companies Ordinance (CO) prospectus regime to the offers of investments regime in Part IV of the Securities and Futures Ordinance (SFO), with an aim to enhance disclosure and improve product transparency of unlisted structured products under the new Code on Unlisted Structured Investment Products. The conclusion was issued in April 2010 and announced that the SFC would proceed with the proposal to transfer the regulation of public offers of structured products from the CO prospectus regime to the offers of investments regime in Part IV of the SFO. The transfer would enable public offers of all unlisted structured products, regardless of their legal form, to be regulated under the SFO.



- In January 2010, the SFC issued a consultation paper on proposals in relation to mergers and acquisitions of REITs and market conduct regulation of listed collective investment schemes. The proposals aim to provide better protection for minority shareholders and assist the further development of Hong Kong's REIT market. The conclusion was issued in June 2010 and the Codes on Takeovers and Mergers and Share Repurchases were made applicable to SFC-authorized REITs with immediate effect. As a result, a set of REIT Guidance Notes have been introduced and the Code on REITS has also been amended to align the control structure of REITS with that of listed companies.

2. Strengthening and expanding regulatory ties with Mainland authorities and overseas regulators

Mainland

- In May 2009, the Supplementary Agreement VI to the closer Economic Partnership Agreement (CEPA VI) was signed to provide the framework for Hong Kong securities brokers to form joint ventures in Guangdong with Mainland firms to carry out securities investment advisory business.
- In January 2010, the China Securities Regulatory Commission (CSRC) promulgated the administrative rules regarding the joint venture securities investment advisory companies as formulated under CEPA VI.
- In May 2010, CEPA VII was signed paving the way for the launch of exchange-traded funds (ETFs) tracking Hong Kong-listed stocks in the Mainland in the near term, thus further strengthening closer ties between Hong Kong and Mainland entities.
- The SFC provided support to the Government regarding the Framework Agreement on Hong Kong/Guangdong Cooperation which was signed in April 2010 designed to enhance Hong Kong's position as an international financial centre. It marks a new stage of cooperation between Hong Kong and Guangdong.

Overseas

- In May 2009, the SFC and the Taiwan Financial Supervisory Commission (FSC) signed and exchanged a Side Letter to a bilateral Memorandum of Understanding to enable cross listing of ETFs in the two markets. It also aims to strengthen regulatory co-operation between the SFC and the FSC, in particular arrangements relating to information sharing and confidentiality regarding management of ETFs.
- In November 2009, a Declaration on Mutual Cooperation on Development of Islamic Capital Market and Islamic Collective Investment Schemes was signed with the Securities Commission of Malaysia to provide for the mutual recognition of Islamic collective investment schemes between Hong Kong and Malaysia, to foster the further development of Islamic fund management in Hong Kong and to strengthen co-operation between the two regulators.



3. Continued growth of Hong Kong's exchange-traded-fund industry

- The ETFs market in Hong Kong has demonstrated remarkable growth:
 - The number of ETFs stood at 43 as at end of December 2009, up from 24 in 2008.
 - Another 19 ETFs were listed in the six-month period up to end of June 2010, bringing the total number of ETFs currently listed in Hong Kong to 62.
 - Amongst these listed ETFs, 21 track the A-share indices.
 - The average daily turnover of ETFs in 2009 accounted for 3.2% of the total average daily turnover of the Hong Kong stock market, compared to 2.5% in 2008.
- Hong Kong is the second largest ETF market in Asia in terms of turnover and market capitalisation:
 - The average daily turnover of ETFs in Hong Kong amounted to US\$252 million in the first six months of 2010, representing an increase of 12.5% year-on-year.
 - The market capitalisation of ETFs listed in Hong Kong amounted to US\$23,118 million at end of June 2010, excluding the gold ETF, or US\$67,775 million, including the gold ETF, representing respective year-on-year increases of 29.7% and 30.9%.
- A number of milestones were achieved in 2009 and 2010 to date:

2009:

 - Authorised the first series of China A-share sector ETFs;
 - Authorised the first Hong Kong equity-value-based ETF managed by a Hong Kong-based fund manager;
 - Cross-listed for the first time a Taiwan ETF in Hong Kong;
 - Cross-listed for the first time three Hong Kong ETFs in Taiwan.

2010:

 - Authorised the first ETF that tracks a Shenzhen Stock Index (also the first ETF managed by the Hong Kong subsidiary of a Mainland financial institution).
 - Authorised the first ETF managed by the Hong Kong asset management subsidiary of a major insurance group in the Mainland.
- In addition to a broader ETF product range, we have also seen growth in ETF management expertise in Hong Kong. As at July 2010, there were a total of 14 ETF managers in Hong Kong, compared to 8 at the end of 2008.
- Hong Kong's ETF market is expected to continue its strong growth for the following reasons:



- Policy support from Mainland authorities for ETF development, as evidenced by CEPA VII which provides that ETFs constituted by Hong Kong-listed stocks be launched in the Mainland at an appropriate time.
- Increase in the pool of ETF management expertise in Hong Kong.
- Proven success of ETF cross-listing, as demonstrated in the case of Taiwan-Hong Kong cross-listing.

4. Market opportunities and challenges

- With the staged implementation of the new measures to enhance investor protection in the second half of 2009, the SFC will work closely with industry practitioners to bring about a smooth transition into the new regulatory regime. In this regard, the SFC conducted a series of dedicated briefing sessions to provide clear guidance to industry players on specific product and conduct requirements. At the same time, the SFC has committed to an extensive investor education campaign to keep the public well-informed of our regulatory initiatives and the impact it would have on them.
- Concurrently, the SFC will closely monitor overseas development as various regulatory reforms are conducted in major financial centres.
- Apart from the regulatory aspect, the SFC will proactively monitor the development in the global financial market, as economies around the world are now at different stages of their economic cycles:
 - The granting of QDII quota appeared to have gathered pace, as the quota granted during the first three months in 2010 already accounted for more than 50% of the QDII quota granted in 2009. Since Hong Kong is generally the preferred location for managing such funds, we foresee increased investment management business derived from this aspect.
 - However, the Mainland government is also adopting various measures to prevent the property market from becoming overheated. The development of government policies and their impact on the financial sector and the overall economy of the Mainland have yet to unfold.
 - The sovereign debt crisis in the European region will continue to pose uncertainty to the financial markets, thus calling for continued vigilance and co-operation among regulators around the world, including the SFC.
 - Economic recovery in the US is gathering pace but there remain sporadic signs of uncertainty. This, together with the move by the US government to withdraw its economic stimulus measures, will have implications on the stability of the US economy and its financial market, and to some extent, on the global economy and financial markets. Close monitoring of the development is warranted.



Survey Report

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 three types of firms in Hong Kong, namely:
 - (a) corporations licensed by the SFC that engage in asset management and fund advisory business (collectively “licensed corporations”¹);
 - (b) banks engaging in asset management and other private banking business (collectively “registered institutions”²), and are subject to the same regulatory regime (ie, the Securities and Futures Ordinance or SFO) as the licensed corporations in respect of their fund management activities; and
 - (c) insurance companies³ registered under the Insurance Companies Ordinance (ICO) but not licensed with the SFC, which provide services constituting classes of long-term business as defined in Part 2 of Schedule 1 of the ICO and have had gross operating income derived from asset management.
3. The FMAS Questionnaires (Questionnaires) were sent to the licensed corporations and, with the assistance of the Hong Kong Monetary Authority and the Hong Kong Federation of Insurers, to registered institutions and relevant insurance companies respectively, to enquire about their fund management activities as at 31 December 2009. The Questionnaires sent to the registered institutions and insurance companies were largely the same as those sent to the licensed corporations, except for minor adjustments to cater for their different business nature and operations.



Responses

General

4. A total of 328 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 276 licensed corporations, 37 registered institutions and 15 insurance companies.

Licensed corporations

5. An analysis of the activities of the 276 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	149
Respondents with assets under fund advisory business only	44
Respondents with both of the above businesses	83
	<hr/>
	276

Registered institutions

6. An analysis of the activities of the 37 registered institutions that had engaged in asset management and/or other private banking business is shown below:

Respondents with asset management business only	10
Respondents with other private banking business only	14
Respondents with both of the above businesses	13
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	37

Insurance companies

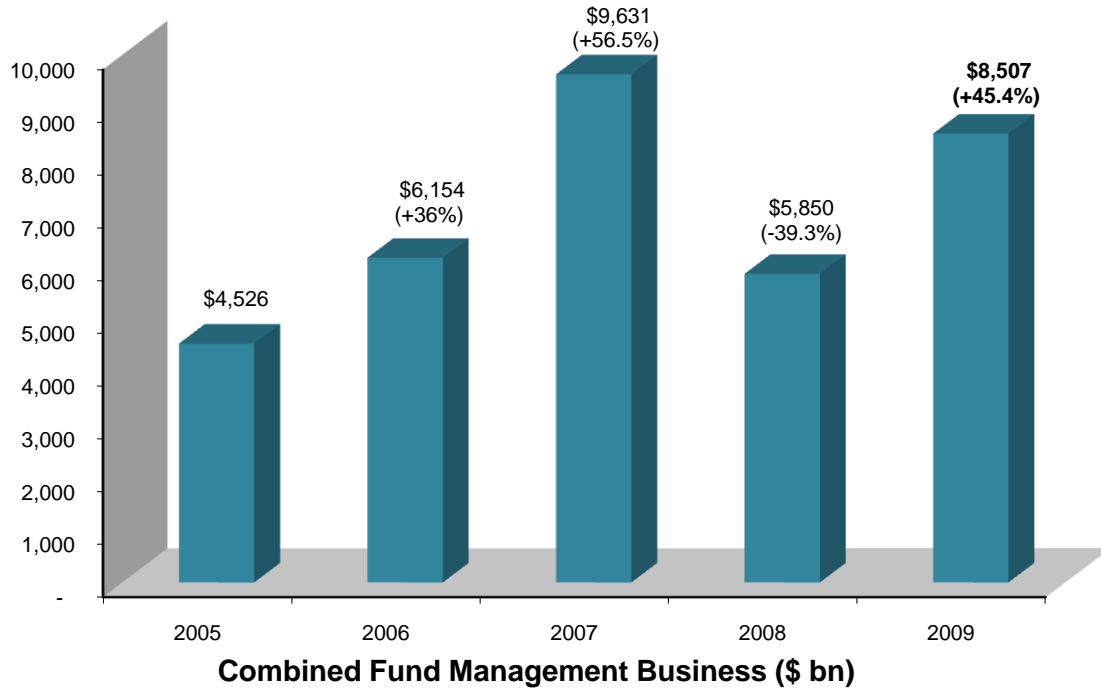
7. 15 insurance companies that provided services of long-term business covering wealth management, life and annuity and retirement planning products, but were not licensed by the SFC responded to this survey.



Findings

Combined Fund Management Business (\$8,507 billion)

8. Hong Kong's combined fund management business amounted to \$8,507 billion, representing an increase of 45.4% during 2009.



9. The combined fund management business can be analysed as follows:

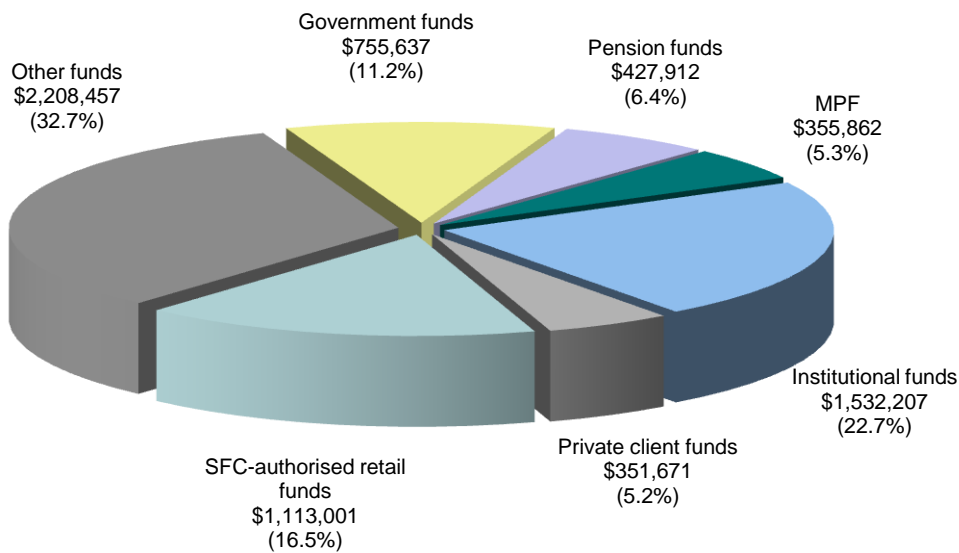
(\$ billion)	Licensed corporations	Registered institutions	Insurance companies	Total
Asset management business	5,526	123	175	5,824
Fund advisory business	921	-	-	921
Other private banking business	-	1,688	-	1,688
Non-REIT fund management business	6,447	1,811	175	8,433
SFC-authorized REITs	74	-	-	74
Combined fund management business	6,521	1,811	175	8,507

For major aggregate figures of FMAS 2009, see the Appendix on page 24.

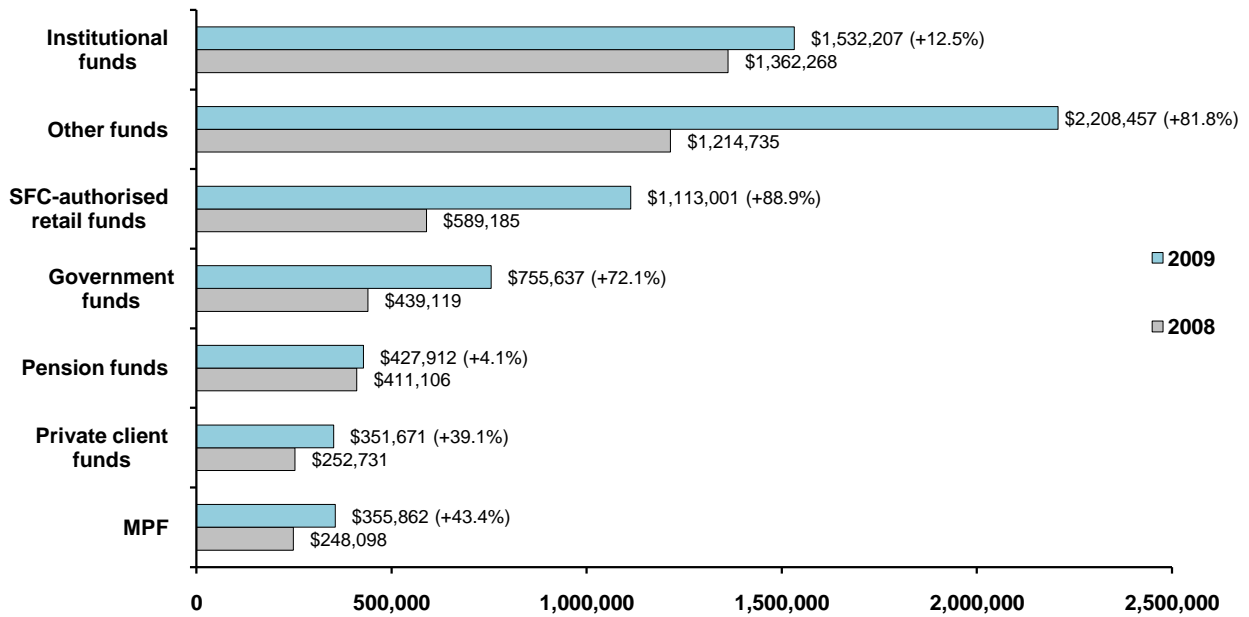


10. Licensed corporations reported an aggregate increase of 50.3% in their non-REIT fund management business to \$6,447 billion. By category, their asset management business rose by 58.9% to \$5,526 billion while the fund advisory business also increased by 13.7% to \$921 billion during the year.
11. Registered institutions reported an aggregate increase of 29.8% in their non-REIT fund management business to \$1,811 billion at the end of 2009. Their asset management business increased by 13.9% while other private banking business increased by 31.2%.
12. Insurance companies reported a total of \$175 billion of assets under management as at the end of 2009, representing a substantial increase of 44.6%.

Asset Management and Fund Advisory Business of Licensed Corporations, Registered Institutions and Insurance Companies (\$6,745 billion)



Asset Management and Fund Advisory Business by Type of Funds (\$ mn)



**Asset Management and Fund Advisory Business: by Type of Funds
2009 vs 2008 (\$ mn)**

13. In terms of year-on-year growth rate, SFC-authorized retail funds experienced the largest gain of 88.9%. It was mainly attributable to the recovery of the global financial markets after the financial turmoil. According to the statistics published by the Hong Kong Investment Funds Association, the sale of SFC-authorized funds has been recovering significantly since May 2009.
14. In terms of increase in value terms, "Other funds" which mainly comprise of overseas retail funds, hedge funds, private equity funds and insurance portfolios, showed the strongest recovery, increasing by 81.8% to \$2,208 billion in 2009.



Asset Management Business of Licensed Corporations, Registered Institutions and Insurance Companies (\$5,824 billion)

15. As at end of 2009, the total asset management business of licensed corporations, registered institutions and insurance companies amounted to \$5,824 billion, representing an increase of 57.1% from \$3,707 billion as at the end of 2008. The majority of the increment is attributable to the licensed corporations which recorded a remarkable growth of 58.9%. Registered institutions and insurance companies reported year-on-year increase of 13.9% and 44.6% respectively.

Asset Management Business (\$5,824 billion): by Source of Funds

(\$ mn)	Licensed corporations	Registered institutions	Insurance companies	Total
Hong Kong investors (% of total)	1,860,496 (33.7%)	51,895 (42.1%)	173,212 (99.1%)	2,085,603 (35.8%)
Non-Hong Kong investors (% of total)	3,665,331 (66.3%)	71,471 (57.9%)	1,617 (0.9%)	3,738,419 (64.2%)
Total (100%)	<u>5,525,827</u> (100%)	<u>123,366</u> (100%)	<u>174,829</u> (100%)	<u>5,824,022</u> <u>(100%)</u>

16. The strength of funds flow into Hong Kong was seen across the board, with both the source of funds derived from Hong Kong investors and that from non-Hong Kong investors recording a year-on-year growth of around 57% in 2009. The inflow of investment capital indicates the strong investment appetite for exposure to the Asian economies, particularly the Mainland, which have emerged as the preferred destination for investment following the financial turmoil in 2008 and uncertainties surrounding economic development in the Western countries.
17. Assets sourced from QDII increased by 17.2% to \$75 billion in 2009. This relatively slow growth rate could be attributed to the fact that granting of QDII quota by SAFE only resumed in October 2009.



Asset Management Business (\$5,824 billion): by Allocation of Investments

(\$ million)	Licensed corporations	Registered institutions	Insurance companies	Total
Invested in Hong Kong (% of total)	1,618,883 (29.3%)	14,274 (11.6%)	43,469 (24.9%)	1,676,626 (28.8%)
Invested overseas (% of total)	3,906,944 (70.7%)	109,092 (88.4%)	131,360 (75.1%)	4,147,396 (71.2%)
Total (100%)	<u>5,525,827</u> (100%)	<u>123,366</u> (100%)	<u>174,829</u> (100%)	<u>5,824,022</u> (100%)

18. The percentage of assets invested in Hong Kong edged up to 28.8% from 26.4% in 2008, while that invested overseas declined slightly to 71.2% in 2009 from 73.6% in 2008.

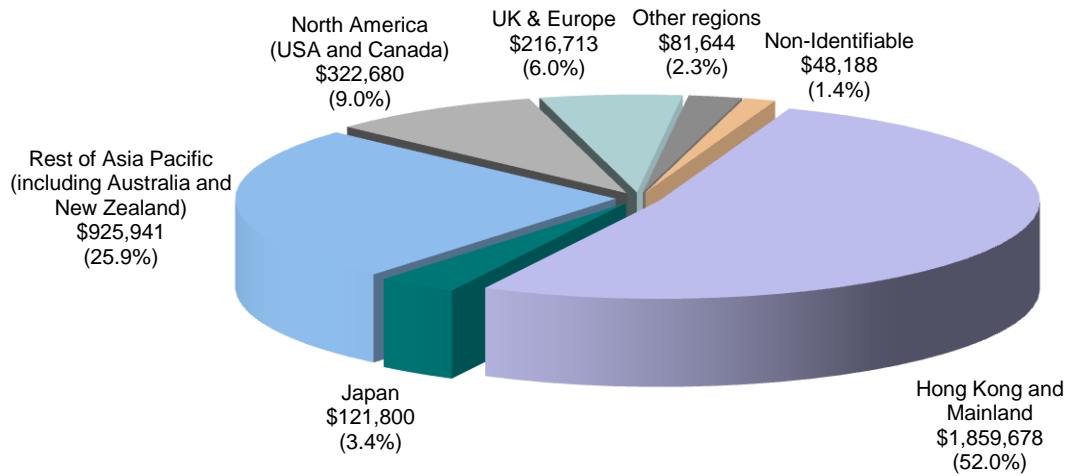
Asset Management Business (\$5,824 billion): by Location of Management

(\$ million)	Licensed corporations	Registered institutions	Insurance companies	Total
Managed in Hong Kong (% of total)	3,419,411 (61.9%)	105,523 (85.5%)	51,710 (29.6%)	3,576,644 (61.4%)
Managed overseas (% of total)	2,106,416 (38.1%)	17,843 (14.5%)	123,119 (70.4%)	2,247,378 (38.6%)
Total (100%)	<u>5,525,827</u> (100%)	<u>123,366</u> (100%)	<u>174,829</u> (100%)	<u>5,824,022</u> 100%

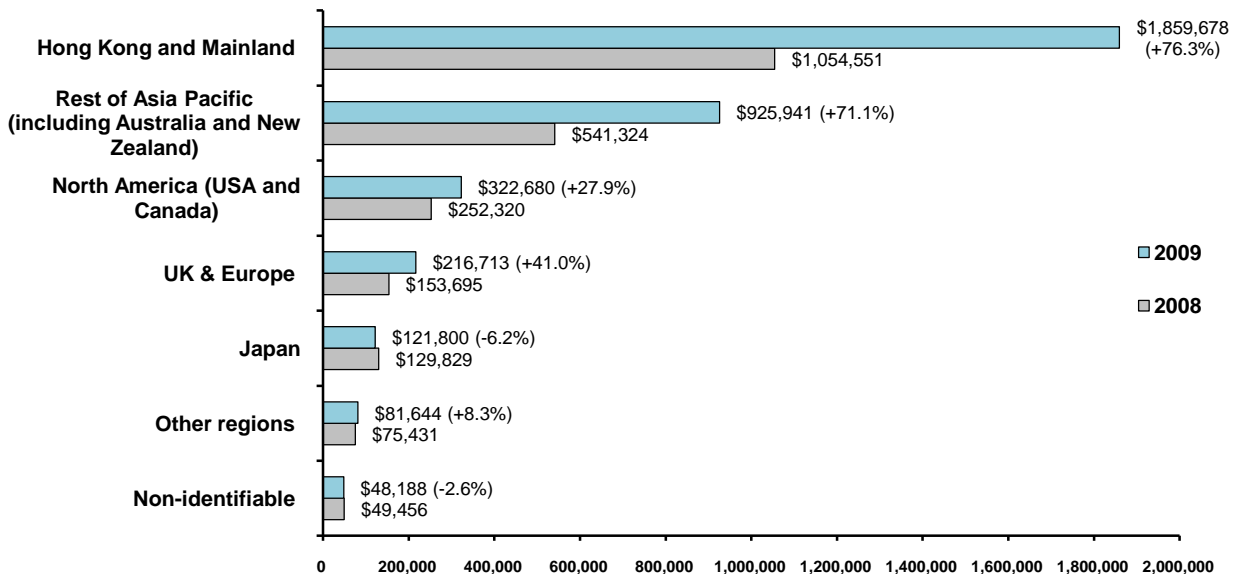
19. The proportion of assets managed in Hong Kong remained steady at 61.4% in 2009, reinforcing Hong Kong as the preferred location for asset management in terms of its strategic position and proximity to China.



Assets Managed in Hong Kong (\$3,577 billion): by Geographical Distribution



Asset Managed in Hong Kong: by Geographical Distribution (\$ mn)

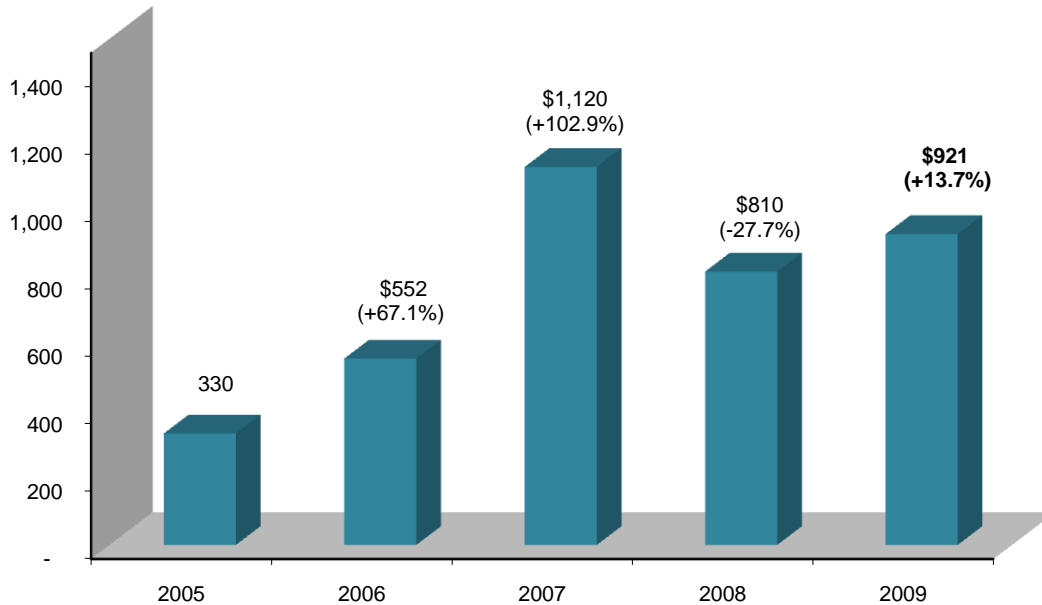


Asset Managed in Hong Kong: by Geographical Distribution 2009 vs 2008 (\$ mn)

20. The geographical distribution of assets managed in Hong Kong remained largely unchanged with Hong Kong and Mainland continuing to be the principal geographical region designated for investment. The amount of assets invested in this region recorded the largest increase of 76.3% compared to 2008. The rest of Asia Pacific trailed closely with an increase of 71.1% during the year.



Fund Advisory Business of Licensed Corporations (\$921 billion)

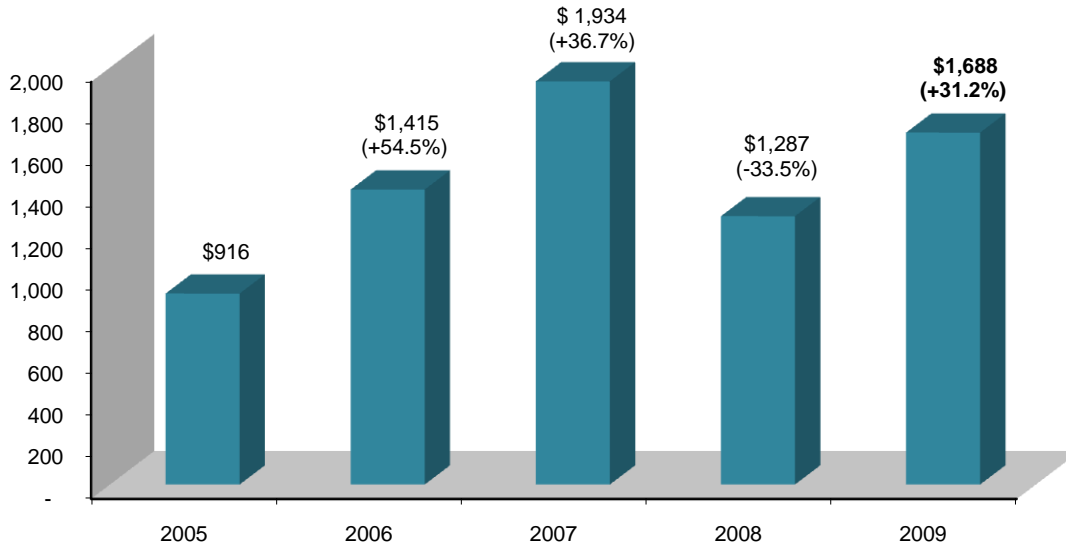


Fund Advisory Business (\$ bn)

21. The fund advisory business also benefitted from renewed investment confidence and funds flow, and recorded a year-on-year increase of 13.7% to \$921 billion. Of this amount, 90.2% (2008: 88.8%) or \$831 billion was directly advised by licensed corporations in Hong Kong while the remaining was sub-contracted or delegated to other offices / third parties.
22. The percentage of assets under advice that were derived from overseas maintained a steady level of 83.4%. In value terms, these assets amounted to \$768 billion, as compared with \$687 billion in 2008.



Other Private Banking Business (\$1,688 billion)



Other Private Banking Business (\$ bn)

23. Strong growth was also seen in other private banking business provided by registered institutions, as accumulated wealth sought alternative investment opportunities to deposits, which were previously identified as the safe haven for parking capital in the wake of the financial turmoil. Other private banking business thus recorded an increase of 31.2% to \$1,688 billion.

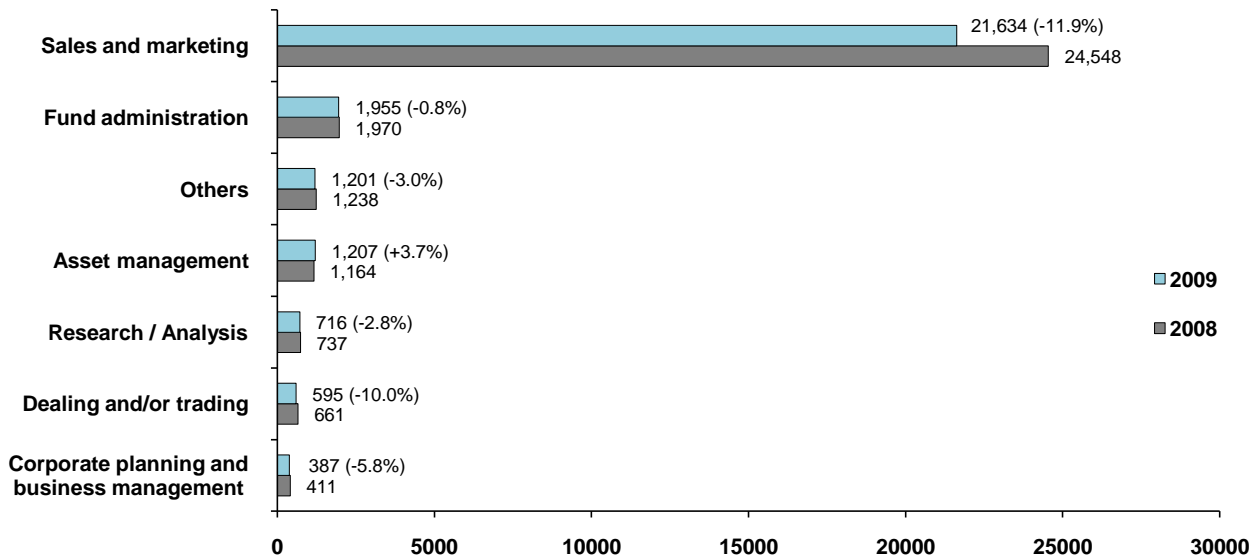
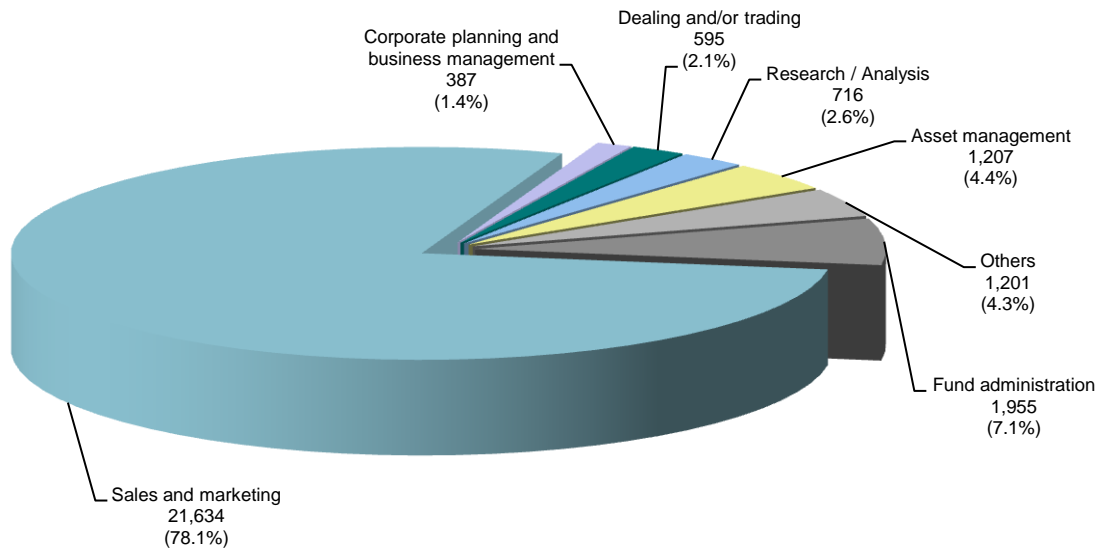


SFC-authorised REITs (\$74 billion)

24. In April 2010, we saw the first dual primary listing of a REIT in Hong Kong, with the listing of a Singapore-listed REIT on the Hong Kong Stock Exchange by way of introduction.
25. Since the launch of the Hang Seng REIT Index (the REIT Index) in October 2008, which tracks the performance of Hong Kong REITs, the REIT Index has demonstrated an upward trend, rising from 2,216 as at end of 2008 to 3,403 as at end of 2009, representing a growth of 53.6%.
26. The Hong Kong REIT market has benefited from the significant boom of the property market in Hong Kong in 2009. The growth of the market capitalisation of the seven listed REITs authorised by the SFC has outperformed the REIT Index and increased by 60% in 2009.
27. With the gradual development of the Hong Kong REIT market, and taking into account the developing international practice, SFC believes that the time has come for a review of the regulatory regime governing takeovers and mergers of REITs. As set out in the consultation conclusions in relation to applying a takeover-and-merger framework to REITs and market conduct regulation of listed collective investment schemes published in June 2010, the Codes on Takeovers and Mergers and Share Repurchases were made applicable to SFC-authorised REITs with immediate effect. As a result, a set of REIT Guidance Notes have been introduced in the relevant Codes and the Code on REITs has also been amended in order to align the control structure of REITs with that of listed companies.
28. In addition, the SFC will also seek to strengthen market conduct regulation of listed collective investment schemes (including REITs) by applying the market misconduct and disclosure of interests⁵ provisions set out in the Securities and Futures Ordinance.



Profile of Staff in the Fund Management Business (Total number: 27,695)



Staff in Fund Management Business: by Job Function

29. Staff involved in the fund management business decreased from 30,729 in 2008 to 27,695 in 2009 as companies consolidated their operations or range of activities in the aftermath of the financial turmoil. The number of staff engaged in fund management activities at licensed corporations and registered institutions experienced a moderate decrease of 4.4% from 10,775 in 2008 to 10,306 in 2009, while the sales and marketing staff at these entities recorded a drop of 7.5% during the year.



Appendix

Major Aggregate Figures

The major aggregate figures are summarised in the following table.

(\$ million)	Aggregate asset size as at 31 December 2009			
	Licensed Corporations	Registered Institutions	Insurance Companies	Total
Asset management of funds / portfolios				
Total assets managed by the firm (A) = (B) + (C)	5,525,827	123,366	174,829	5,824,022
Total assets directly managed by the firm in Hong Kong (B)	3,113,581	103,358	51,710	3,268,649
Total assets sub-contracted or delegated to other offices / third parties for management (C) = (D) + (E)	2,412,246	20,008	123,119	2,555,373
Total assets sub-contracted or delegated to other offices / third parties in Hong Kong for management (D)	305,830	2,165	-	307,995
Total assets sub-contracted or delegated to overseas offices / third parties for management (E)	2,106,416	17,843	123,119	2,247,378
Total assets managed in Hong Kong (F) = (B) + (D)	3,419,411	105,523	51,710	3,576,644
Giving advice on funds / portfolios				
Total assets under advisory business of the firm (H) = (I) + (J)	920,725	-	-	920,725
Assets directly advised by the firm in Hong Kong (I)	830,881	-	-	830,881
Assets sub-contracted or delegated to other offices / third parties for providing advisory services (J) = (K) + (L)	89,844	-	-	89,844
Assets sub-contracted or delegated to other offices / third parties in Hong Kong for providing advisory services (K)	8,482	-	-	8,482
Assets sub-contracted or delegated to overseas offices / third parties for providing advisory services (L)	81,362	-	-	81,362
Assets on which advice is given in Hong Kong (M) = (I) + (K)	839,363	-	-	839,363
Other private banking business				
Total assets under other private banking activities	-	1,688,250	-	1,688,250
SFC-authorized REITs				
Total market capitalisation of SFC-authorized REITs	73,818	-	-	73,818



Footnotes

- ¹ A “licensed corporation” means a corporation granted a licence under section 116 or 117 of the SFO to carry on a regulated activity in Hong Kong.
- ² A “registered institution” means an authorised financial institution registered under section 119 of the SFO. An “authorised financial institution” means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155).
- ³ An “insurance company” means an insurance company registered under the Insurance Companies Ordinance (Chapter 41) and provides services that constitutes classes of long-term business as defined in Part 2 of the First Schedule of the Insurance Companies Ordinance. The insurance company is not licensed by the SFC. For those insurance companies which are also licensed by the SFC, their reported assets under management are included in the category of licensed corporations.
- ⁴ “Combined fund management business” comprises fund management business and SFC-authorised real estate investment trusts (REITs) management business.
- “Fund management business” comprises asset management, fund advisory business and other private banking business.
 - “Asset management” refers to
 - (i) the provision of services that constitute type 9 regulated activity as defined in Schedule 5 of the SFO carried out by licensed corporations and registered institutions (excluding assets from clients who are also licensed by or registered with the SFC); and
 - (ii) the management of financial assets arising from the provision of services that constitutes classes of long-term business as defined in Part 2 of the First Schedule of the Insurance Companies Ordinance (Chapter 41) (excluding assets sub-contracted or delegated to other licensed corporations / registered institutions in Hong Kong for management), but excludes REIT management, fund advisory business and other private banking business, and “assets managed” shall be construed in the same manner.
 - “Fund advisory business” refers to the provision of pure investment advisory services on funds/portfolios and does not include the provision of research. It constitutes type 4 and/or type 5 regulated activities as defined in Schedule 5 of the SFO. Such service is generally provided to overseas managers who manage a global or regional portfolio and need expert advice from a manager in Hong Kong or its delegate with respect to the Hong Kong portion or a specific geographic segment of the global or regional portfolio.
 - “Other private banking business” 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 activities.
- ⁵ Under the current proposal, listed open-ended collective investment schemes will be exempted from the disclosure of interests provisions in the Securities and Futures Ordinance.