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

SFC
證監會

Fund Management Activities Survey 2014

July 2015

Table of Contents

I. Survey Summary

The Securities and Futures Commission (SFC) conducted the Fund Management Activities Survey (FMAS) for the year ended 31 December 2014. The survey covered asset management activities among licensed corporations[1], registered institutions[2] and insurance companies[3].

1. Summary of major findings of FMAS 2014

1.1 Hong Kong's combined fund management business[4] sustained another year-on-year increase to reach a record high of $17,682 billion[*] as of the end of 2014. This growth of 10.5% was attained amid a year of volatile global markets and a challenging investment climate.

1.2 Funds from overseas investors continued to increase, growing by 9% during 2014. They remained a major source for the fund management business in Hong Kong and accounted for over 70% of the fund management business. This underscored the fact that Hong Kong maintained its attraction as an international financial hub with ample and diversified investment opportunities.

1.3 During 2014, there is clear evidence of the continued growth in assets managed in Hong Kong, the development of innovative products, the rising number of Hong Kong-domiciled funds and the increasing diversity of investment professionals:

(a) Assets managed in Hong Kong increased by nearly 18% in 2014 to a record level of $6,856 billion. This robust growth was driven by Hong Kong's role as a leading offshore renminbi centre and an intermediary for capital between Mainland financial markets and the rest of the world.

(b) The number of products launched under the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme grew rapidly, resulting in the full allocation of the RMB270 billion quota. Direct access to the Shanghai Stock Exchange under the ground-breaking Shanghai-Hong Kong Stock Connect pilot programme (Stock Connect), launched in November 2014, also spawned new products and investments.

(c) The number of SFC-authorized Hong Kong-domiciled funds increased by 26.7% year-on-year to 594 as at 31 March 2015. The increase was partially spurred by the prospect of the launch of the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, which would allow eligible public funds authorized by the SFC to be cross-sold in the Mainland market and vice versa.

(d) The number of corporations licensed for asset management grew by 8.5% in 2014, surpassing the number of corporations licensed for all other types of regulated activity. During the same period, the number of individuals licensed for asset management also increased. Notably, the growth in the number of professionals involved in the core asset management functions (including asset management, research and dealing) outpaced the growth in the number in sales and marketing.

1.4 Hong Kong is committed to becoming a leading international asset management centre. With the implementation of MRF in July 2015, it is anticipated that Hong Kong's role as a domicile, investment management, distribution and sales centre for the asset management business will expand. The SFC will continue to work closely with Mainland and overseas regulators as well as stakeholders to maintain an effective and progressive regulatory framework for the benefit of both the financial industry and investing public.

[*] Unless stated otherwise, the values given are in Hong Kong dollars.

2. The combined fund management business in Hong Kong hit another record high of $17,682 billion at the end of 2014.

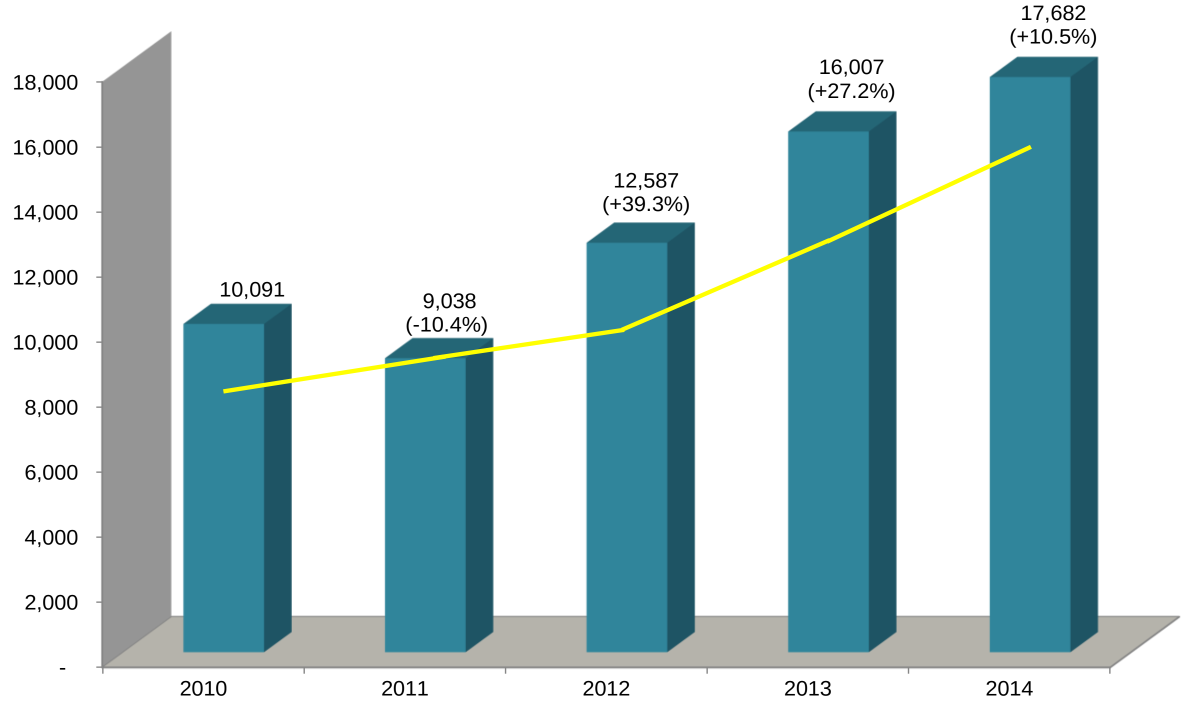
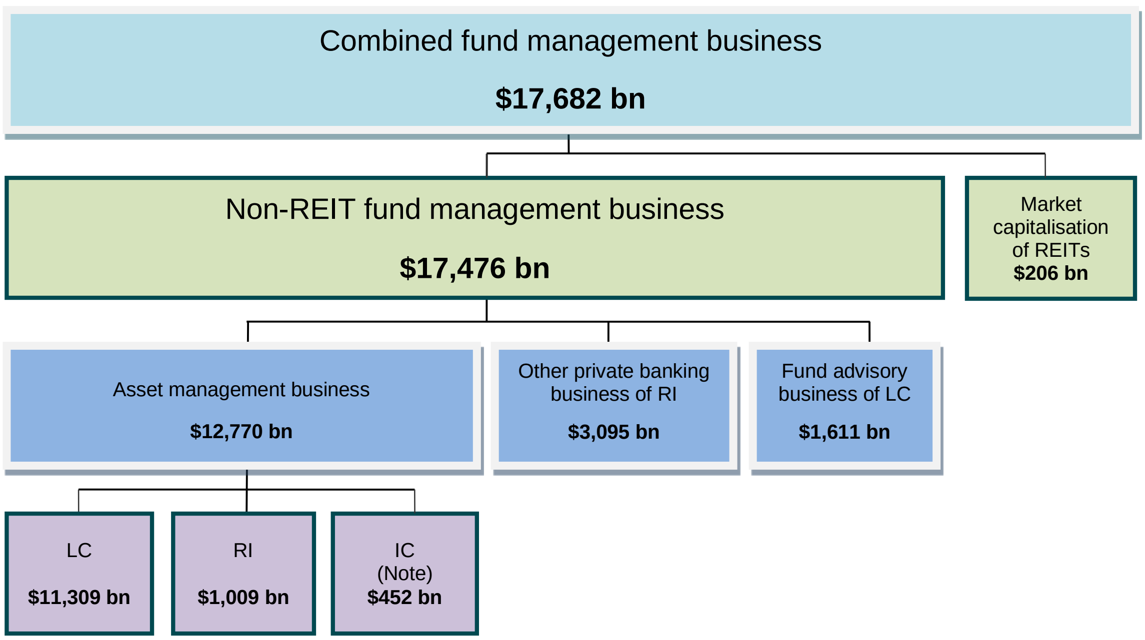


Chart 1: Combined Fund Management Business ($ bn)

Combined Fund Management Business ($ bn)   Trailing three-year average ($ bn)

Components of Combined Fund Management Business



Legend:
REITs: real estate investment trusts
RI: registered institutions
LC: licensed corporations
IC: insurance companies

Note:
Assets under management by insurance companies do not include those assets sub-contracted or delegated to other licensed corporations or registered institutions in Hong Kong for management.

2.1 The combined fund management business in Hong Kong continued to trend up in 2014 with year-on-year growth of 10.5%. Growth momentum was sustained over the past three years and the combined fund management business grew by 23% on a trailing three-year average basis to $15,425 billion.

2.2 By types of business activity:

(a) Asset management business recorded a year-on-year increase of 11.9% in total assets under management to $12,770 billion in 2014.

(b) Other private banking business increased by 12.5% to $3,095 billion.

(c) Fund advisory business decreased by 3% to $1,611 billion.

2.3 By category of market players:

(a) Licensed corporations registered a year-on-year increase of 9.6% in their aggregate asset management and fund advisory businesses to $12,920 billion in 2014.

(b) Registered institutions recorded an 11.6% increase in their aggregate asset management and other private banking businesses to $4,104 billion.

(c) Insurance companies reported a 24.2% increase in their assets under management to $452 billion.

2.4 At the end of 2014, the number of corporations licensed for asset management (ie, Type 9 regulated activity) grew by 8.5% to 1,031 corporations from 950 a year ago, surpassing the number of corporations licensed for all other types of regulated activity. During the same period, the number of individuals licensed for asset management grew by 7.6% to 7,729 at the end of 2014 from 7,181 a year earlier. As of end-March 2015, the number of corporations and individuals licensed for asset management further increased to 1,059 and 7,911, respectively.

3. Funds sourced from non-Hong Kong investors have consistently accounted for over 70% of the non-REIT fund management business, indicating that Hong Kong remained a preferred platform for international investors.

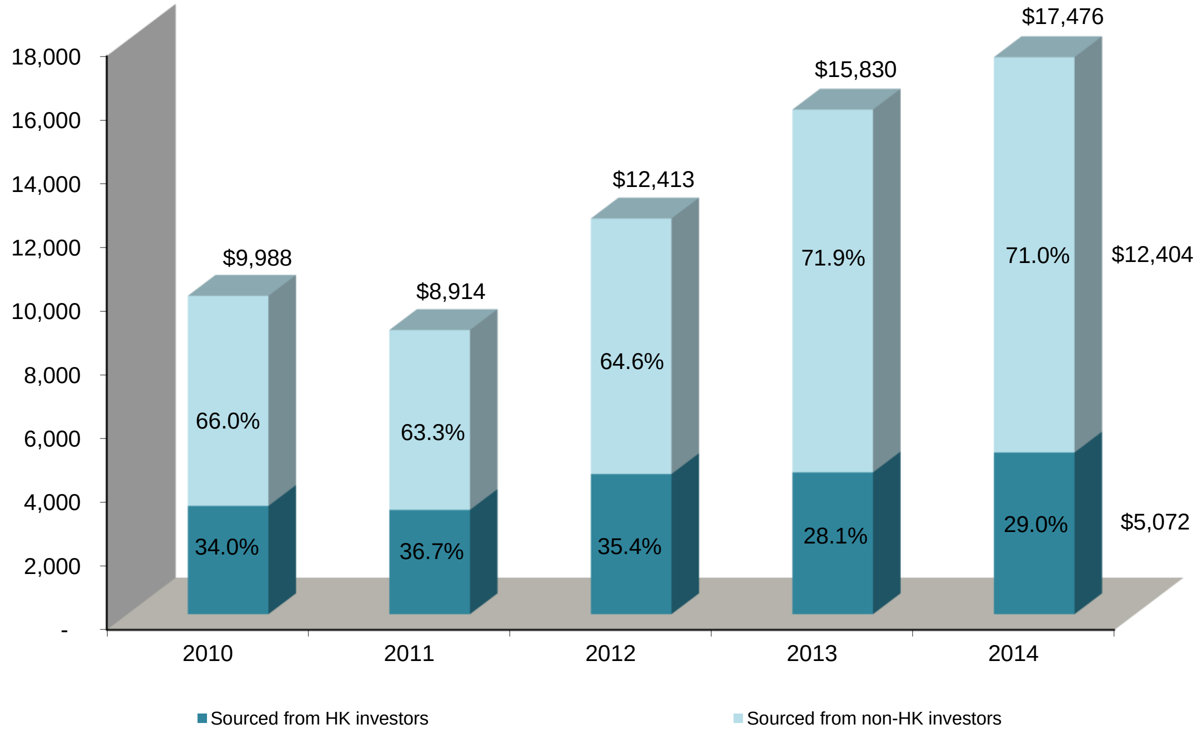


Chart 2: Non-REIT Fund Management Business: by Source of Funds ($ bn)

3.1 Hong Kong continued to have a strong appeal for foreign investment capital as funds sourced from overseas investors grew by 9% to reach $12,404 billion in 2014. Innovative policy initiatives resulting from the close working relationship between Mainland and Hong Kong authorities deepened the long-term investment prospects of the Hong Kong asset management business. The continued significance of overseas capital flowing into our markets reinforced Hong Kong's position as an international financial centre.

4. Of the total $12,770 billion of non-REIT assets under management, 53.7% ($6,856 billion) was managed in Hong Kong.

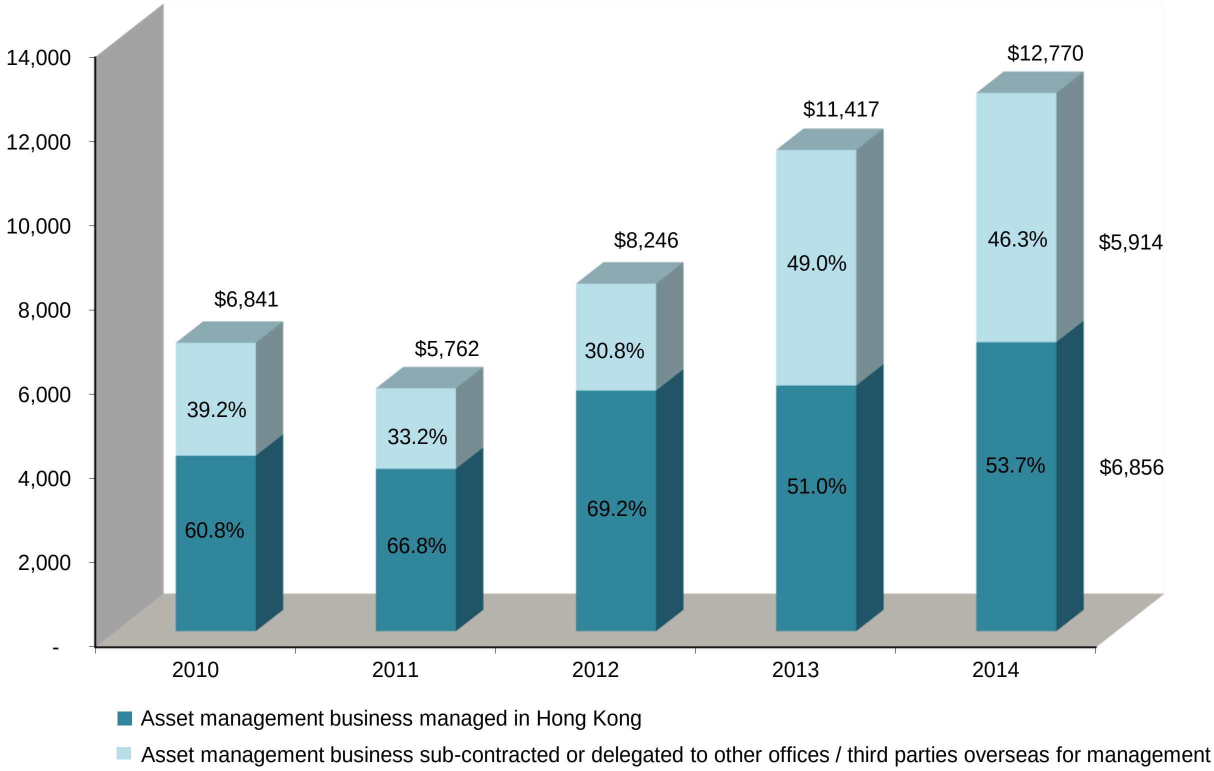


Chart 3: Asset Management Business: by Location of Management ($ bn)

4.1 Hong Kong's popularity as a location for conducting asset management business in the region continued to grow. In 2014, non-REIT assets managed in Hong Kong increased by 17.7% year-on-year to another record level of $6,856 billion and accounted for 53.7% of the overall non-REIT assets under management.

4.2 Hong Kong's strong sales and marketing capabilities within the region coupled with new investment opportunities and the increasing ease of access to capital combine to create an environment which is conducive to building up the asset management capabilities of local and international institutions. In addition, Hong Kong's close proximity to the Mainland and its position as the leading offshore renminbi centre allow it to develop and broaden the scope of offshore renminbi investment products to meet growing demand. A growing number of offshore renminbi products offered in other parts of the world are managed in Hong Kong.

4.3 Hong Kong continues to develop into a fund domicile for international fund managers. In the past year, there was a substantial increase in the number of SFC-authorized Hong Kong-domiciled funds, which grew by 26.7% to 594 as at 31 March 2015 from 469 a year ago.

5. 72.5% of assets managed in Hong Kong were invested in Asia in 2014.

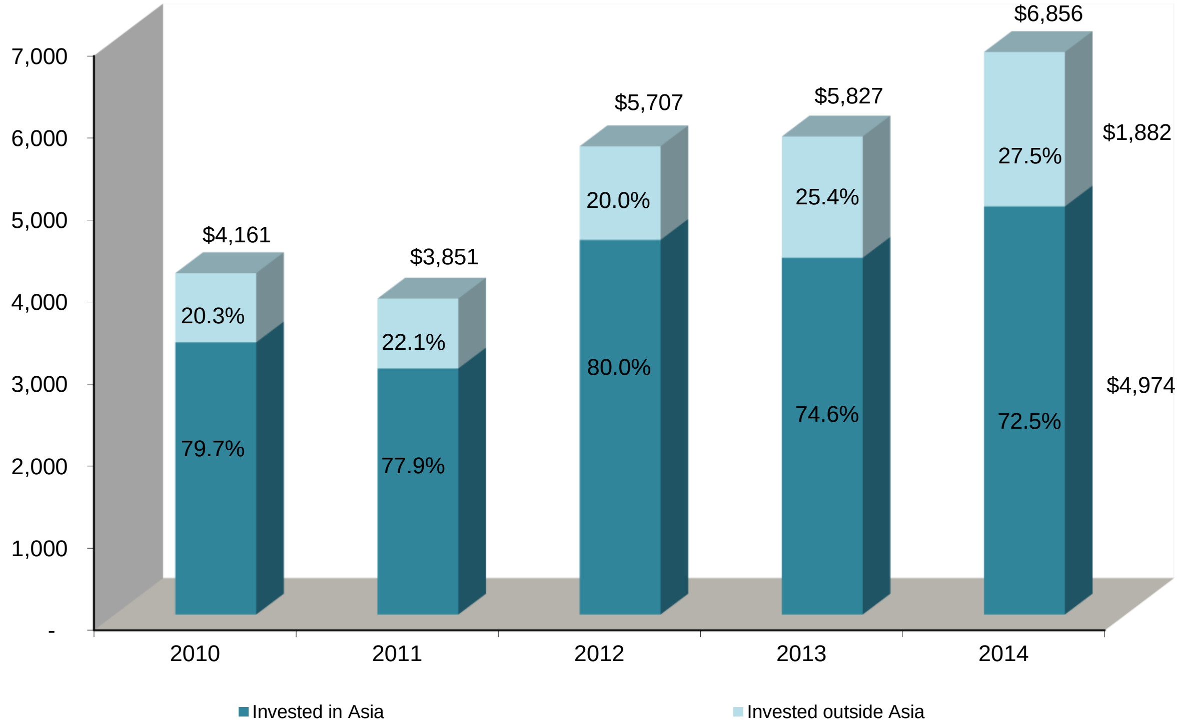


Chart 4: Assets Managed in Hong Kong: by Geographical Distribution of Investments ($ bn)

5.1 Most assets managed in Hong Kong continued to be invested in Asia. In 2014, assets invested in Asia grew by 14.4% to $4,974 billion. Consistent with previous years, a majority of these assets were invested in Hong Kong and the Mainland[∂] ($3,503 billion), while the remainder were invested in Japan ($410 billion) and the rest of the Asia-Pacific region ($1,061 billion). Assets invested outside Asia also increased by 27.2% to $1,882 billion in 2014.

5.2 Expansion in the geographical distribution of investments indicates Hong Kong's growing expertise in local, Mainland and international markets. Hong Kong serves as the platform for overseas investors to gain access to the Mainland market, and also provides a springboard for Mainland investors to invest outside Asia.

[∂] No further breakdown between Hong Kong and the Mainland is available.

6. Hong Kong's role as the pre-eminent offshore renminbi centre

6.1 Hong Kong has played a major role in the transformation of renminbi into an internationally accepted and widely-used currency. Hong Kong pioneered the offshore renminbi business in 2004 and is now the world's largest offshore renminbi centre with a vibrant market for a whole range of renminbi products and services. Renminbi activities in Hong Kong are supported by the largest renminbi liquidity pool outside the Mainland.

6.2 According to the Hong Kong Monetary Authority (HKMA), total outstanding renminbi customer deposits and certificates of deposit reached RMB1.1 trillion as of the end of 2014. This sizeable liquidity pool underpins the need for Hong Kong to innovate and to add greater depth and breadth to the renminbi product space.

6.3 Hong Kong's long history of economic integration with mainland China is unique. It has successfully positioned itself as the platform for launching many of the Mainland's financial reforms.

Stock Connect

6.4 Shanghai-Hong Kong Stock Connect commenced on 17 November 2014. This pioneering programme is a two-way arrangement under which Hong Kong and international investors can directly access the Mainland A-share market, and Mainland investors can directly access Hong Kong's stock market.

6.5 This arrangement facilitates the two-way flow of renminbi funds between onshore and offshore markets, and increases the liquidity of the offshore renminbi market in Hong Kong, which promotes the further development of innovative product offerings.

Retail renminbi-denominated and related products

6.6 Hong Kong continues to play a key role in the progressive opening up of the Mainland markets. The number of products launched under the RQFII scheme continued to grow in 2014. In addition, following the full allocation of Hong Kong's RQFII quotas, retail renminbi products started to use Stock Connect as an alternative means of accessing the Mainland A-share market. As at 31 May 2015, the SFC authorized a total of 91 RQFII/Renminbi Stock Connect funds[^] (including 70 unlisted funds and 21 exchange-traded funds (ETFs)), about two-thirds more than the number of SFC-authorized RQFII retail funds a year ago. The aggregate assets under management by these funds (including unlisted funds and ETFs) amounted to RMB69.6 billion as at 31 May 2015, up by about 30% from RMB54.7 billion a year ago.

6.7 RQFII/Renminbi Stock Connect ETFs are in high demand among retail renminbi products, seizing a sizeable market share in Hong Kong. As at 31 May 2015, RQFII/Renminbi Stock Connect ETFs accounted for 32% of the Hong Kong ETF[Δ] market in terms of average daily turnover, despite the fact that they only accounted for 15% of the total market capitalisation of all ETFs[Δ] in Hong Kong.

[^] RQFII/Renminbi Stock Connect unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities market through either RQFII, Stock Connect or both.

[Δ] Excluding SPDR Gold Trust.

6.8 For the 12 months ended 31 March 2015, the SFC authorized 91 unlisted structured investment products that can be denominated in renminbi, including a gold-linked deposit, or that can be linked to renminbi-denominated reference assets. The number of authorized renminbi-related structured products increased by 57% during the period.

Growing Mainland participation in the Hong Kong market

6.9 Alongside the rising demand for renminbi investment products, Mainland-related companies are increasingly participating in Hong Kong's asset management business:

(a) In 2014, an aggregate of $986.8 billion (or 5.6%) of non-REIT fund management business was attributable to Mainland-related licensed firms, representing significant growth of 81.6% from $543.4 billion in 2013.

(b) The number of Mainland-related financial institutions establishing operations in Hong Kong continued to increase. At the end of May 2015, a total of 93 Mainland-related groups (May 2014: 82) had established 239 licensed corporations or registered institutions (May 2014: 222) in Hong Kong:

- 25 Mainland securities companies have established 97 licensed corporations;
- six Mainland futures companies have established 10 licensed corporations;
- 21 Mainland fund management companies have established 21 licensed corporations;
- 10 Mainland insurance companies have established 13 licensed corporations; and
- a total of 31 other types of Mainland companies have established 81 licensed corporations and 17 registered institutions.

(c) The number of Mainland-related fund groups managing SFC-authorized funds increased to 34 at the end of 2014 (from 28 a year ago). The number of SFC-authorized funds managed by these Mainland-related fund groups increased to 253, with an aggregated net asset value of $189.1 billion at the end of 2014, up from 194 with an aggregated net asset value of $145.1 billion at the end of 2013.

6.10 Hong Kong's status as a base for managing Mainland assets also became increasingly important. Mainland assets managed in Hong Kong and sourced from Qualified Domestic Institutional Investors (QDII) recorded year-on-year growth of 11.6% to $125 billion in 2014. Over 50% of these QDII assets were invested in the Asia-Pacific region: about 39% were invested in Hong Kong, 17% in other parts of the Asia-Pacific region, and the remaining 44% in North America, Europe and other regions.

II. Recent Developments and Industry Outlook

In 2014, the SFC collaborated closely with the industry as well as both local and overseas regulators to promote Hong Kong as an asset management platform where market participants can continue to flourish while ensuring that investor protection is not compromised. The SFC has an active role in the International Organization of Securities Commissions in maintaining international standards and also participates in cross-jurisdictional discussions to promote alliances and recognition. The SFC constantly reviews its regulatory framework to maintain Hong Kong's competitiveness, and in doing so engages with public and industry bodies. It is also committed to working with the Investor Education Centre (IEC)[Ω] to raise the public's awareness and knowledge of topical asset management-related issues.

1. Maintaining an effective regulatory framework which protects investors

Strengthening the regulatory framework for investment-linked assurance schemes (ILAS)

1.1 Given the global regulatory focus on product governance responsibilities of issuers throughout the product life-cycle, the SFC introduced in April 2014 guidance on the process for internal product design and approval. This was aligned with existing principles in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products. After the introduction of this guidance, and in conjunction with the "Guidance Note on Underwriting Class C Business" issued by the Insurance Authority (IA) in July 2014 with an effective date of 1 January 2015, all then-existing SFC-authorized ILAS which were intended to be continuously offered to the public had to be amended to meet the new regulatory requirements. The joint-regulator efforts in 2014 on reforming the ILAS product have fostered significant disclosure and structural enhancements to the new SFC-authorized ILAS currently marketed to the public.

1.2 In addition, further to the enhanced disclosure requirements for SFC-authorized ILAS implemented in 2013, which included a mandatory disclosure on the total fees and charges as a percentage of the total premiums paid by a policyholder under the ILAS, the SFC issued a revised ILAS product key facts statement (KFS) template in October 2014 to strengthen the disclosure of intermediaries' remuneration so as to correspond with the new point-of-sale requirements mandated by the IA. In addition, under the new technical requirements instituted by the Hong Kong Federation of Insurers (HKFI), which took effect from 1 January 2015, ILAS issuers must, among other things, show a no-growth scenario in their personalised ILAS illustration documents in respect of the policy value so that the direct impact of fees and charges on the death benefit and surrender value of a specific ILAS is clearly shown to the investor.

Enhancing product disclosure

1.3 To enhance product transparency, the SFC published two circulars in July 2014 setting out its new disclosure requirements. One relates to the disclosure of ongoing charges and past performance information for all SFC-authorized funds, and the other relates to the disclosure of tracking difference and tracking error for SFC-authorized ETFs and unlisted index funds.

[Ω] The IEC is a wholly-owned SFC subsidiary dedicated to providing financial education to the public.

Facilitating market development

1.4 The Code on Real Estate Investment Trusts (REIT Code) was revised to introduce greater flexibility for REITs to invest in property development activities and financial instruments. The revised REIT Code came into effect on 29 August 2014.

1.5 Noting the developments in information technology and the availability of multiple channels for the dissemination of information, the SFC amended the Code on Unit Trusts and Mutual Funds to allow managers of SFC-authorized funds greater flexibility in determining the appropriate means of making public their offer and redemption prices, net asset values and notices of dealing suspension. The amendments took effect on 30 January 2015.

Investor education

1.6 The SFC worked with the IEC to publish investor education materials throughout the year. These included information and explanations about investment products with special features (such as futures-based ETFs and stock lending activities for ETFs), as well as the total fees and charges disclosure figures in ILAS KFS.

2. Reinforcing Hong Kong's position as an international asset management centre

2.1 Mainland China's opening up and reform policies create significant opportunities for Hong Kong's asset management industry. The widely anticipated MRF scheme between the Mainland and Hong Kong became operational on 1 July 2015. It is envisaged that this ground-breaking initiative will further promote Hong Kong's development as a fund management hub and fund domicile. MRF is also expected to lay the foundation for the SFC and the China Securities Regulatory Commission to jointly develop a common regulatory standard for funds.

2.2 To further strengthen Hong Kong's standing as a premier international asset management centre, the SFC is working closely with the industry to encourage the development and use of alternative distribution platforms. It is anticipated that the broadening of Hong Kong's distribution platforms would introduce greater competition in the retail fund distribution chain, which would in turn lead to more competitive fees and more investor choices.

2.3 The SFC is committed to facilitating a more efficient authorization process without compromising investor interest and protection. Following the 2014 initiative to shorten the application lapse time from 12 to six months, the SFC is formulating enhancement measures with an aim to further shortening the overall processing time for new fund applications. New measures being considered include the introduction of a two-stream approach for processing applications whereby standard applications will be fast-tracked. Under the new process, the SFC aims to authorize standard applications between one and two months, and the target processing time for non-standard applications could be shortened to about two to three months from the date of application submission. The SFC is working with the industry to facilitate the smooth launch of this initiative, tentatively under a pilot arrangement in the fourth quarter of 2015.

2.4 A robust regulatory regime is fundamental to Hong Kong's development and growth as an international asset management centre. It is important to keep Hong Kong's regulatory regime in line with international standards and best practices. The global financial crisis has led to significant regulatory reform, with profound implications for the asset management industry in relation to issues such as systemic risks, liquidity and risk management, enhanced custody requirements, securities lending and repos, conflicts of interest and product design. The SFC is looking at some of these issues closely with a view to enhancing the regulation of the Hong Kong asset management industry.

III. 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 which engage in asset management and fund advisory businesses (collectively "licensed corporations"[1]);

   (b) banks engaging in asset management and other private banking businesses (collectively "registered institutions"[2]), and which are subject to the same regulatory regime (ie, the Securities and Futures Ordinance (SFO)) as the licensed corporations in respect of their fund management activities; and

   (c) insurance companies[3] 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 gross operating income derived from asset management.

3. The FMAS Questionnaires (Questionnaires) were sent to the licensed corporations and, with the assistance of the HKMA and the HKFI, to registered institutions and relevant insurance companies respectively, to enquire about their fund management activities as at 31 December 2014. 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 differences in the nature of their businesses and operations.

Responses

General

4. A total of 587 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 519 licensed corporations, 47 registered institutions and 21 insurance companies.

Licensed corporations

5. An analysis of the activities of the 519 licensed corporations which had engaged in asset management and/or advisory businesses on funds or portfolios is shown below:

Respondents with asset management business only	333
Respondents with assets under fund advisory business only	50
Respondents with both of the above	136
	519

Registered institutions

6. An analysis of the activities of the 47 registered institutions which had engaged in asset management and/or other private banking businesses is shown below:

Respondents with asset management business only	5
Respondents with other private banking business only	21
Respondents with both of the above	21
	47

Insurance companies

7. Twenty-one insurance companies which 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 the survey.

Findings

Combined Fund Management Business ($17,682 billion)

8. Hong Kong's combined fund management business amounted to $17,682 billion, representing a year-on-year increase of 10.5% as of end 2014.

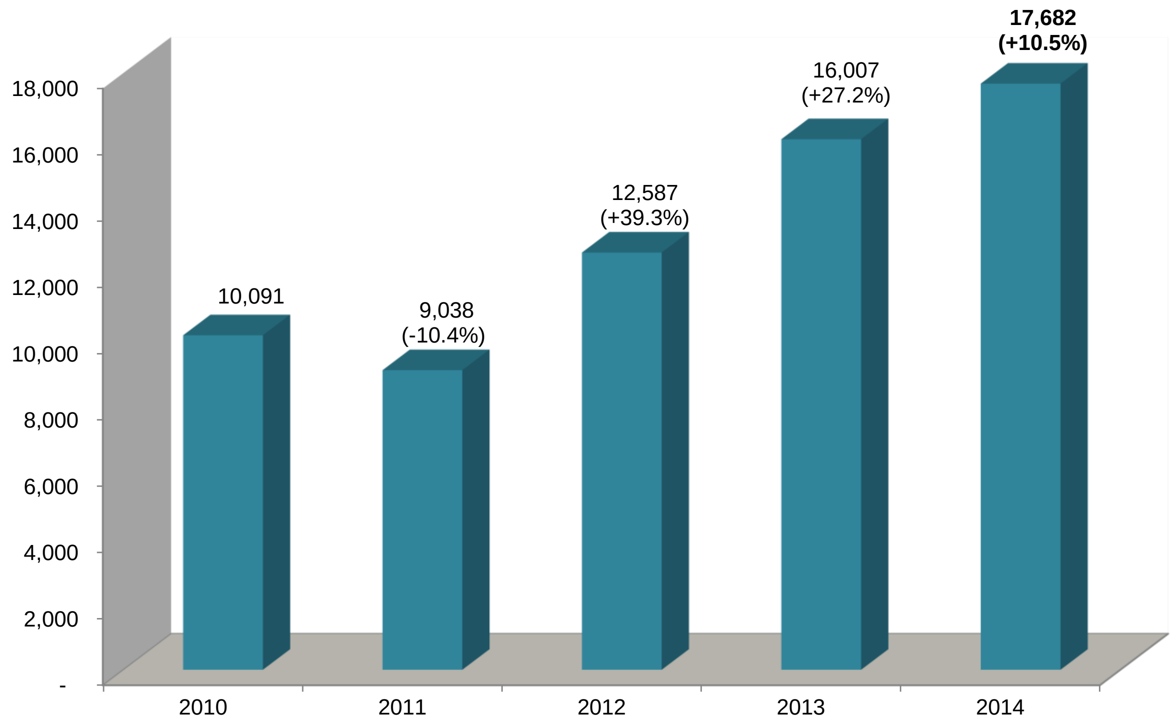


Chart 5: Combined Fund Management Business ($ bn)

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

($ billion)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Asset management business	11,309	1,009	452	**12,770**
Fund advisory business	1,611	-	-	**1,611**
Other private banking business	-	3,095	-	**3,095**
Non-REIT fund management business	12,920	4,104	452	**17,476**
SFC-authorized REITs	206	-	-	**206**
Combined fund management business	13,126	4,104	452	**17,682**

For major aggregate figures of FMAS 2014, see the Appendix on page 24.

10. Licensed corporations reported year-on-year growth of 9.6% in their non-REIT fund management business which totalled $12,920 billion at the end of 2014. Of this amount, asset management business increased by 11.7% to $11,309 billion while fund advisory business decreased by 3% to $1,611 billion. Respondents reported that the growth in asset management business was principally attributable to net inflow of capital, new mandates mainly with institutional clients, expansion of Mainland-related business (such as RQFII), and appreciation of assets as a result of positive market performance, particularly in the Mainland. The slight decrease in fund advisory business was primarily due to a number of respondents restructuring their business operations and diversifying into other business functions.

11. Registered institutions reported a year-on-year increase of 11.6% in their non-REIT fund management business to $4,104 billion at the end of 2014. Many respondents reported that they secured new mandates and recorded positive cash inflows in 2014. In addition, some respondents reported rapid expansion of their private banking business in 2014.

12. Insurance companies reported a total of $452 billion of assets under management as of the end of 2014, representing a year-on-year increase of 24.2%. Such increase was mainly attributable to normal traditional life insurance business growth as reported by the insurance companies.

Asset Management and Fund Advisory Business of Licensed Corporations, Registered Institutions and Insurance Companies ($14,381 billion)

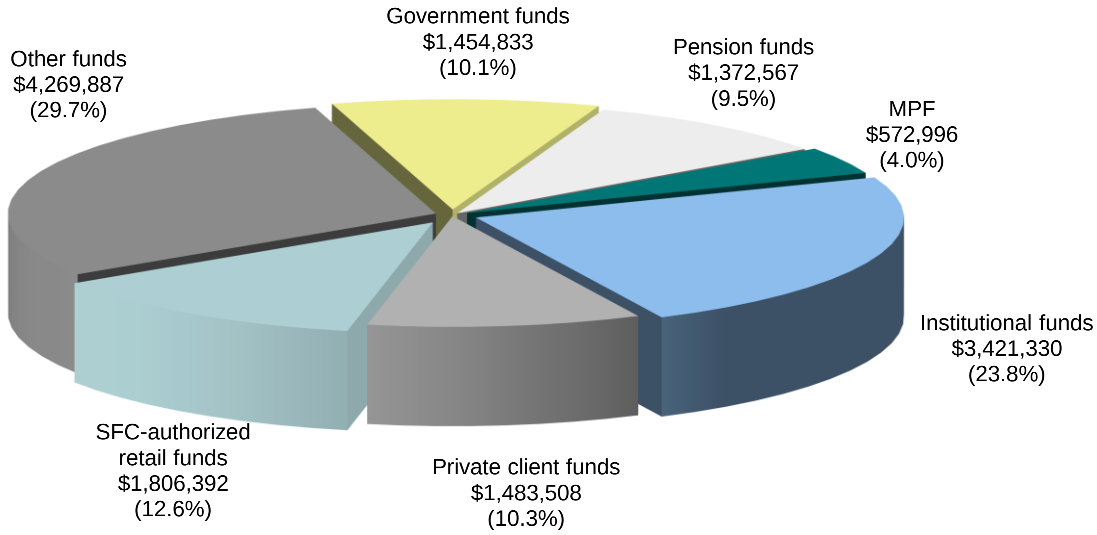


Chart 6A: Asset Management and Fund Advisory Business by Type of Funds ($ mn)

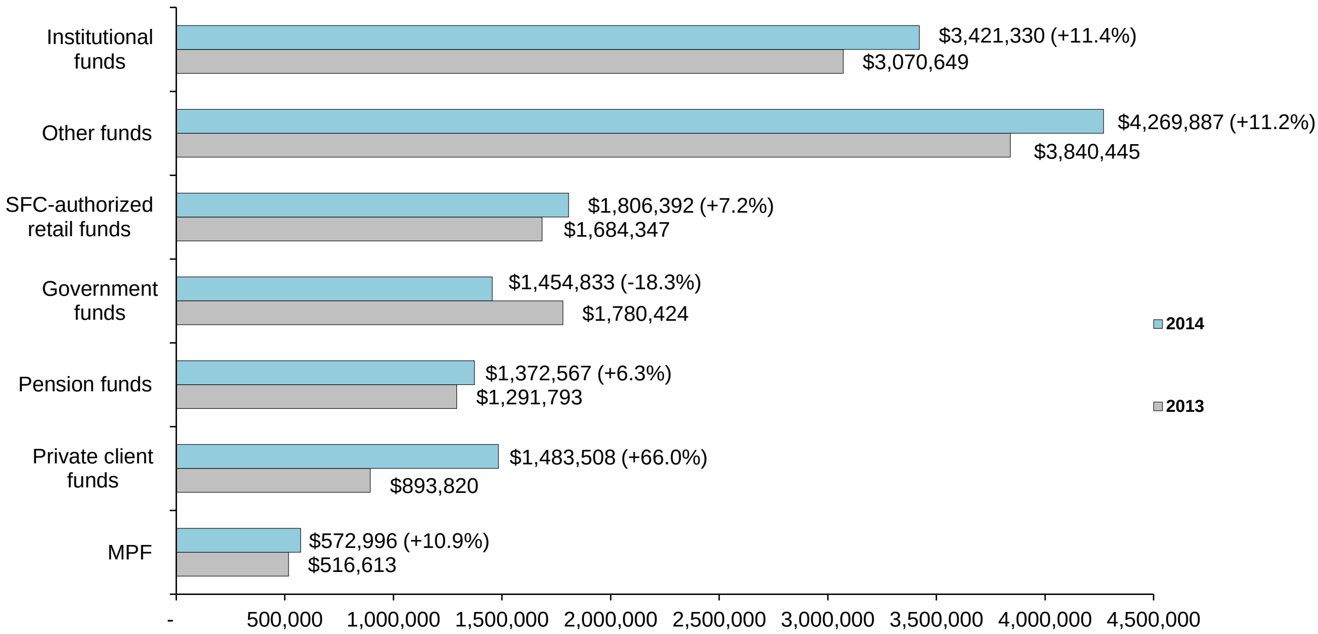


Chart 6B: Asset Management and Fund Advisory Business: by Type of Funds 2014 vs 2013 ($ mn)

13. Similar to last year, institutional funds and other funds (comprising mainly overseas retail funds, hedge funds, private equity funds and insurance portfolios) accounted for more than 50% of the aggregate asset management and fund advisory business and they recorded respective growth of 11.4% and 11.2% in 2014. Some respondents reported that the growth in institutional funds was attributed to net cash inflows supporting the expansion of their RQFII business, whilst the growth in other funds was mainly due to certain respondents relocating their hedge funds investment teams to Hong Kong during the year as they identified more investment opportunities.

14. In 2014, the value of asset management and fund advisory business in relation to SFC-authorized retail funds increased by 7.2%. According to statistics published by the Hong Kong Investment Funds Association (HKIFA), gross sales of SFC-authorized funds to Hong Kong investors reached a record high of US$77.7 billion in 2014, up 9.3% from US$71.1 billion in 2013, whereas net sales rose by 21.4% to US$12.5 billion, the second highest on record. The HKIFA observed that robust inflows were recorded in the first three quarters of 2014 whilst there was a slowdown in gross sales towards the end of 2014.

Asset Management Business of Licensed Corporations, Registered Institutions and Insurance Companies ($12,770 billion)

15. As of the end of 2014, the total asset management business of licensed corporations, registered institutions and insurance companies amounted to $12,770 billion, representing growth of 11.9% from $11,417 billion as of the end of 2013. Overall growth was registered across all three categories, in particular licensed corporations which recorded an increase of $1,182 billion to $11,309 billion. Registered institutions and insurance companies reported year-on-year increases of $83 billion and $88 billion, respectively.

Asset Management Business ($12,770 billion): by Source of Funds

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Hong Kong investors (% of total)	2,862,058 (25.3%)	389,549 (38.6%)	385,488 (85.2%)	**3,637,095 (28.5%)**
Non-Hong Kong investors (% of total)	8,446,727 (74.7%)	619,517 (61.4%)	66,944 (14.8%)	**9,133,188 (71.5%)**
Total (100%)	11,308,785 (100%)	1,009,066 (100%)	452,432 (100%)	**12,770,283 (100%)**

16. Funds from non-Hong Kong investors accounted for more than 70% of the asset management business and increased by 9.3% to $9,133 billion in 2014.

Asset Management Business ($12,770 billion): by Geographical Distribution of Investments

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Invested in Hong Kong (% of total)	2,127,731 (18.8%)	385,585 (38.2%)	92,130 (20.4%)	**2,605,446** **(20.4%)**
Invested overseas (% of total)	9,181,054 (81.2%)	623,481 (61.8%)	360,302 (79.6%)	**10,164,837** **(79.6%)**
Total (100%)	11,308,785 (100%)	1,009,066 (100%)	452,432 (100%)	**12,770,283** **(100%)**

17. About 20% of the asset management business was invested in Hong Kong in 2014. In value terms, assets invested in Hong Kong grew by 6.5% to $2,605 billion at the end of the year. Given the relatively better performance of other markets (including the Mainland), more funds were invested outside Hong Kong.

Asset Management Business ($12,770 billion): by Location of Management

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Managed in Hong Kong (% of total) (See Charts 7A &7B)	6,062,482 (53.6%)	684,954 (67.9%)	108,276 (23.9%)	**6,855,712** **(53.7%)**
Managed overseas[5] (% of total)	5,246,303 (46.4%)	324,112 (32.1%)	344,156 (76.1%)	**5,914,571** **(46.3%)**
Total (100%)	11,308,785 (100%)	1,009,066 (100%)	452,432 (100%)	**12,770,283** **(100%)**

18. The proportion of assets managed in Hong Kong accounted for 53.7% of the asset management business in 2014. In terms of value, assets managed in Hong Kong increased by 17.7% to a record level of $6,856 billion.

Assets Managed in Hong Kong ($6,856 billion): by Geographical Distribution of Investments

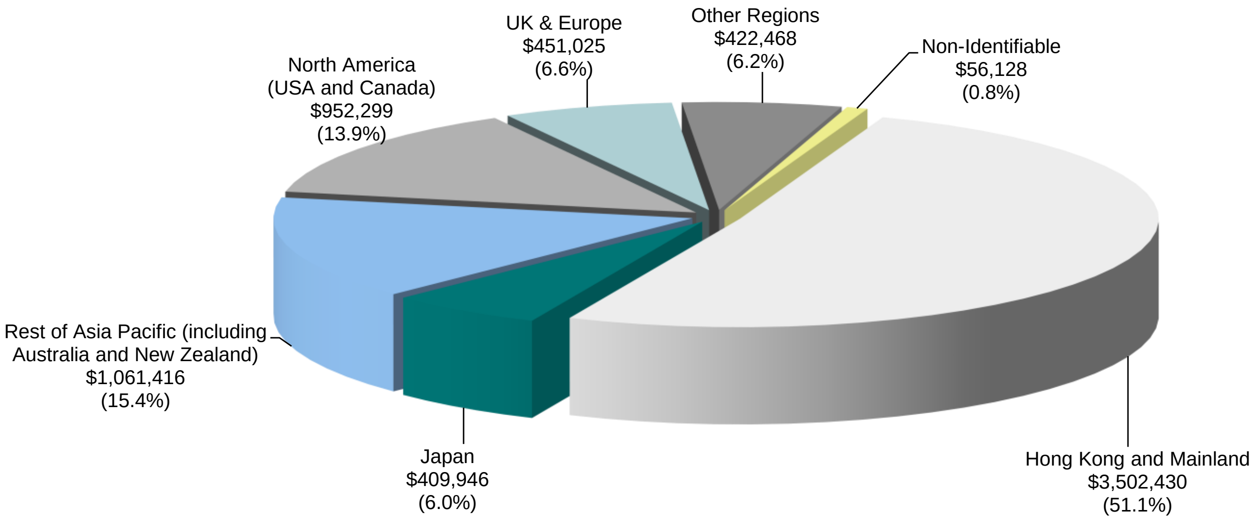


Chart 7A: Asset Managed in Hong Kong: by Geographical Distribution of Investments ($ mn)

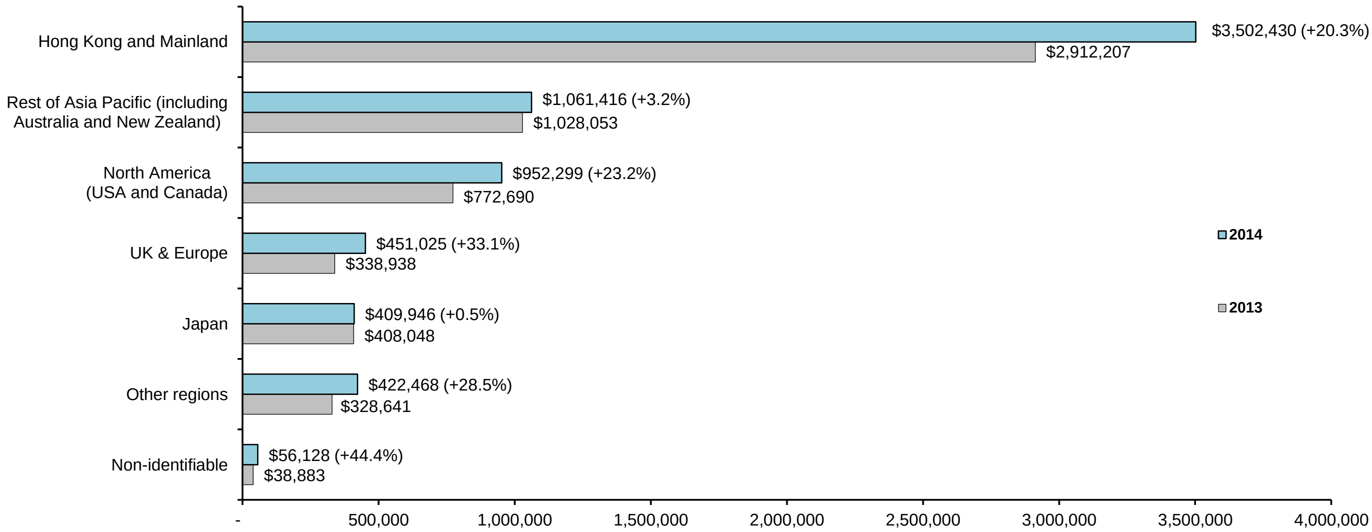


Chart 7B: Asset Managed in Hong Kong: by Geographical Distribution of Investments 2014 vs 2013 ($ mn)

19. For assets managed in Hong Kong, the most favourable location for investment remained the Mainland and Hong Kong, which accounted for 51.1% of assets managed in Hong Kong in 2014. However, Hong Kong-based managers also increased their investment allocations globally.

Fund Advisory Business of Licensed Corporations ($1,611 billion)

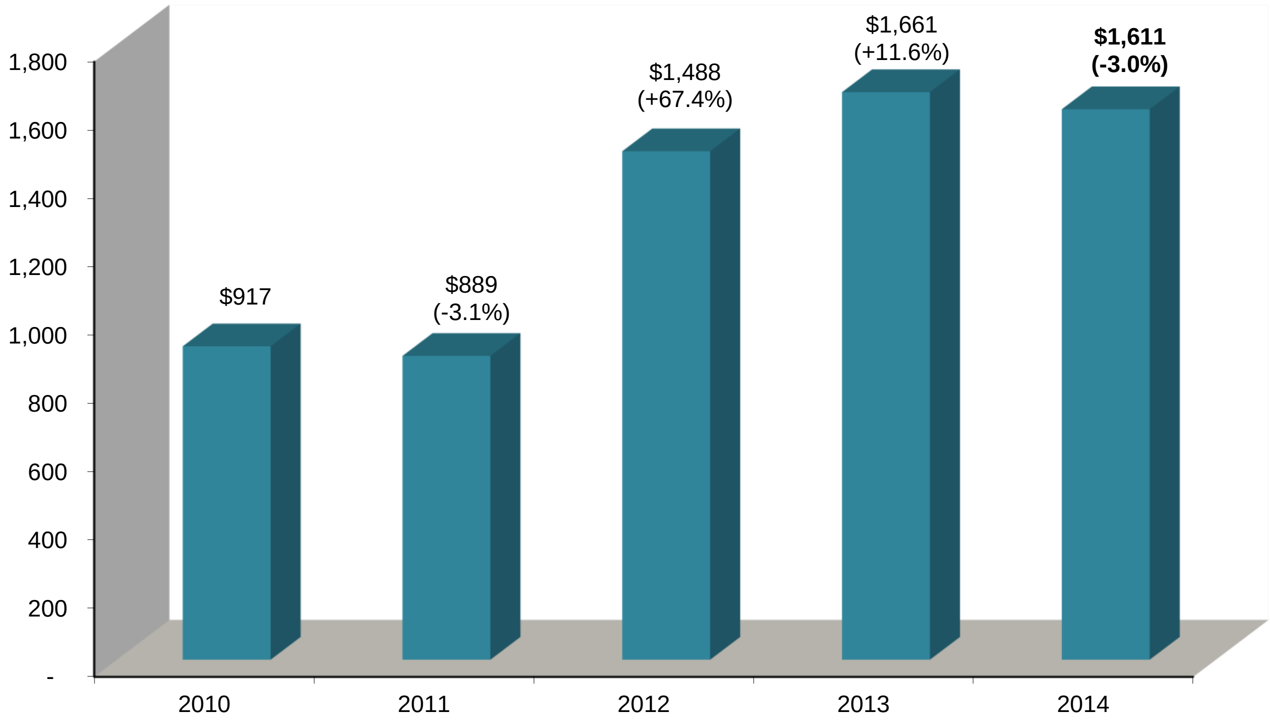


Chart 8: Fund Advisory Business ($ bn)

20. In 2014, the fund advisory business recorded a slight decrease of 3% to $1,611 billion. While some respondents, including a number of new market participants, reported growth in their fund advisory business as a result of new mandates and net inflows of funds, certain respondents scaled down their fund advisory business significantly due to a restructuring of business operations away from advisory and a shift in focus to other areas of the asset management business. Of the total fund advisory business, 92.7% (2013: 91.7%) or $1,494 billion was directly advised by licensed corporations in Hong Kong, while the remaining was sub-contracted or delegated to other offices or third parties.

21. The percentage of assets under advice derived from overseas markets increased to 94.2% in 2014 (2013: 88.9%). In value terms, these assets amounted to $1,517 billion, up 2.8% from $1,476 billion in 2013.

Other Private Banking Business ($3,095 billion)

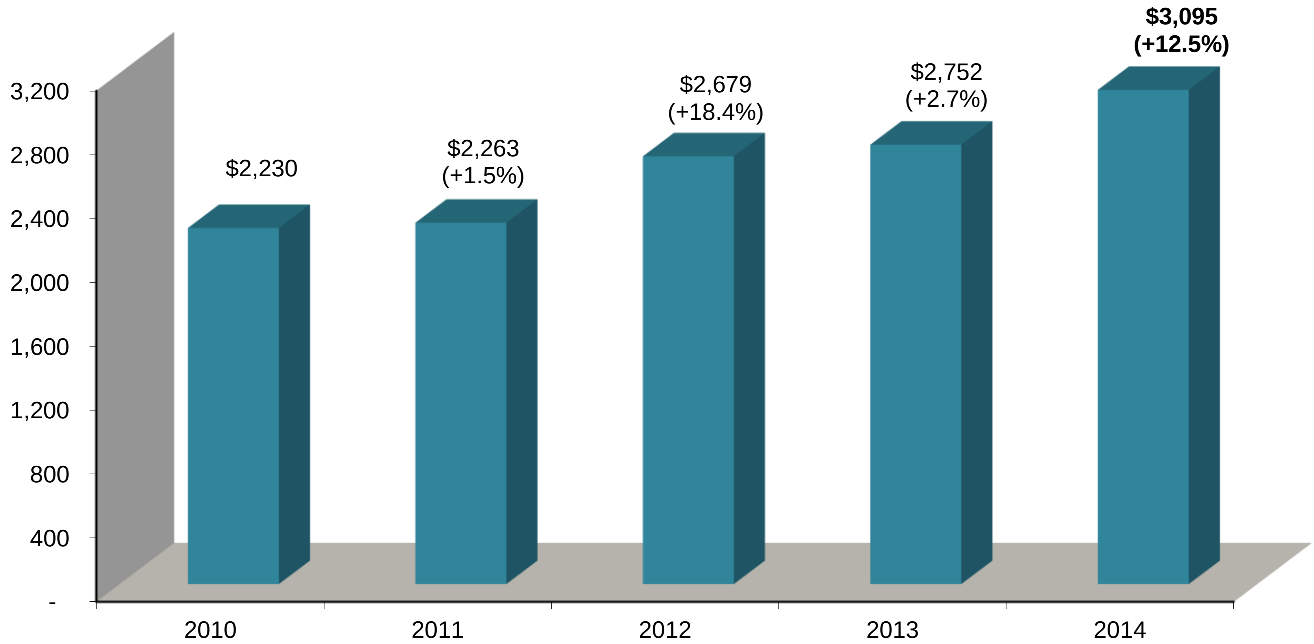


Chart 9: Other Private Banking Business ($ bn)

22. Other private banking business, which is also an important part of asset management activity in Hong Kong, recorded an increase of 12.5% to $3,095 billion in 2014. Respondents mainly attributed the increase to expansion of the private banking business, strong fund inflows from both existing and new clients as well as positive market performance. Innovative products, free capital flows and market depth are conducive to this growth. It is anticipated that private banking will continue to flourish given imminent developments related to the fund business in Hong Kong.

SFC-authorized REITs ($206 billion)

23. The Hong Kong REIT market continued to expand in 2014. The market capitalisation of all SFC-authorized REITs increased by approximately 16.4% to $206 billion at the end of 2014 from $177 billion at the end of 2013.

24. A number of major acquisitions were made by listed REITs in 2014 involving an aggregate consideration of nearly $9 billion. There was also a general increase in the valuation of properties held by listed REITs during the year.

Fund Management Business Staff Profile (Total number: 34,300)

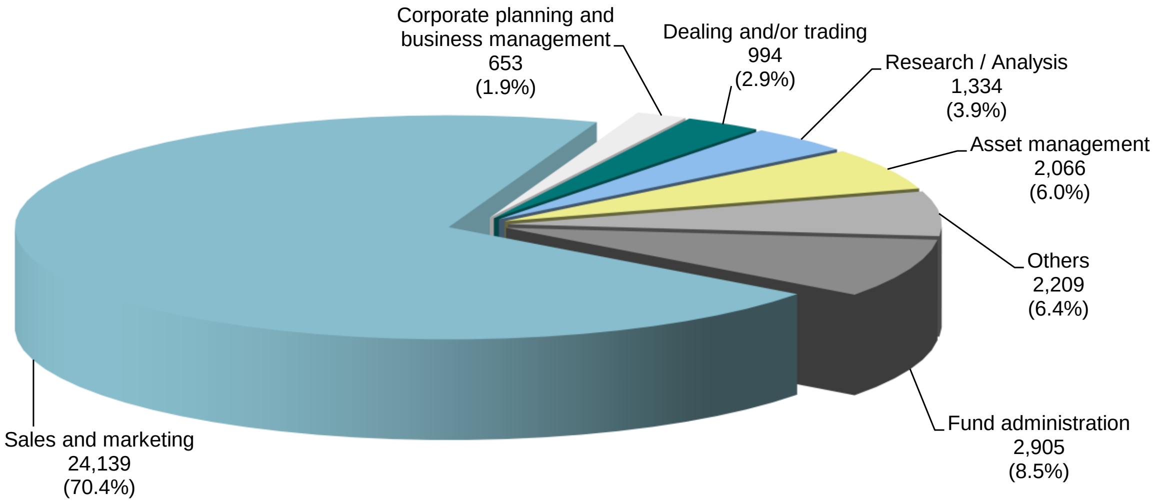


Chart 10A: Fund Management Business Staff by Job Function

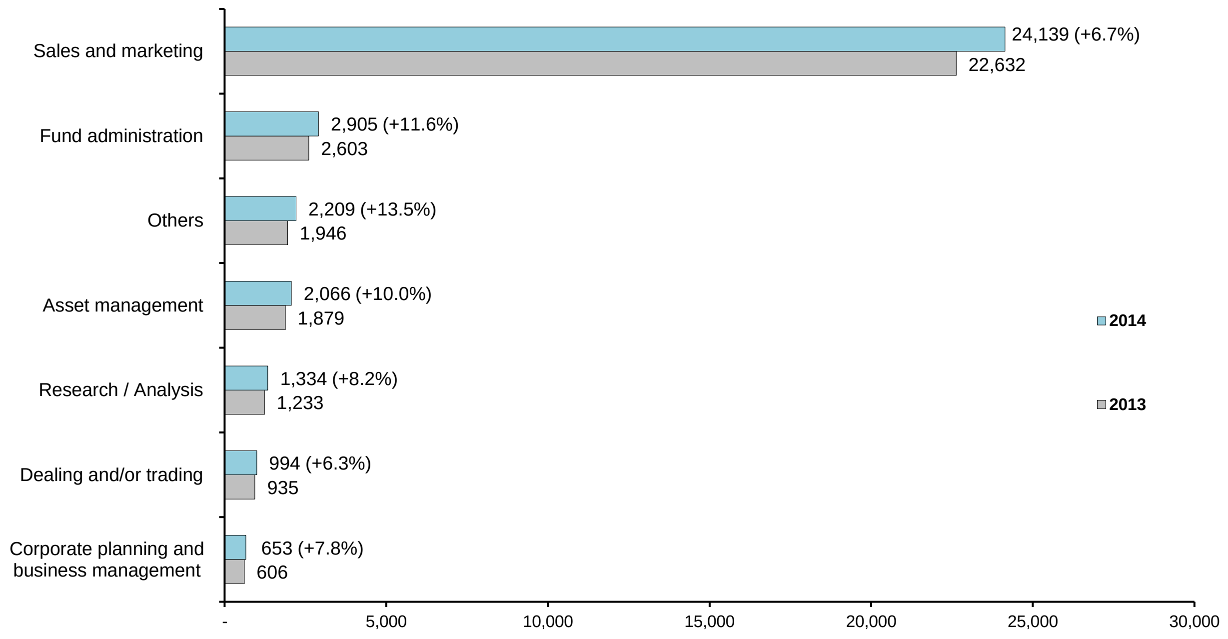


Chart 10B: Fund Management Business Staff by Job Function 2014 vs 2013

25. The total number of staff engaged in the fund management business increased to 34,300 in 2014 from 31,834 in 2013. Insurance companies, which accounted for approximately 60% of total staff, reported growth of 7.3% in the number of staff engaged in sales and marketing activities in 2014. For licensed corporations and registered institutions, the talent pool continued to shift towards core asset management activities (including asset management, research and dealing) which in aggregate increased by 9% in 2014. Hong Kong remains a key sales and marketing base within the region, but the increasing diversity of professionals in the asset management business is very important for it to move up the value curve and further strengthen its role as a growing global financial hub.

Appendix

Major Aggregate Figures

The major aggregate figures are summarised in the following table.

($ million)	Aggregate asset size as at 31 December 2014			
	Licensed Corporations	**Registered Institutions**	**Insurance Companies**	**Total**
Asset management of funds/portfolios				
Total assets managed by the firm (A) = (B) + (C)	11,308,785	1,009,066	452,432	**12,770,283**
Total assets directly managed by the firm in Hong Kong (B)	5,976,050	679,576	108,276	**6,763,902**
Total assets sub-contracted or delegated to other offices/third parties for management (C) = (D) + (E)	5,332,735	329,490	344,156	**6,006,381**
Total assets sub-contracted or delegated to other offices/third parties in Hong Kong for management (D)	86,432	5,378	-	**91,810**
Total assets sub-contracted or delegated to overseas offices/third parties for management (E)	5,246,303	324,112	344,156	**5,914,571**
Total assets managed in Hong Kong (F) = (B) + (D)	6,062,482	684,954	108,276	**6,855,712**
Giving advice on funds/portfolios				
Total assets under advisory business of the firm (H) = (I) + (J)	1,611,230	-	-	**1,611,230**
Assets directly advised by the firm in Hong Kong (I)	1,493,593	-	-	**1,493,593**
Assets sub-contracted or delegated to other offices/third parties for providing advisory services (J) = (K) + (L)	117,637	-	-	**117,637**
Assets sub-contracted or delegated to other offices/third parties in Hong Kong for providing advisory services (K)	802	-	-	**802**
Assets sub-contracted or delegated to overseas offices/third parties for providing advisory services (L)	116,835	-	-	**116,835**
Assets on which advice is given in Hong Kong (M) = (I) + (K)	1,494,395	-	-	**1,494,395**
Other private banking business				
Total assets under other private banking activities	-	3,095,394	-	**3,095,394**
SFC-authorized REITs				
Total market capitalisation of SFC-authorized REITs	205,637	-	-	**205,637**

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 authorized financial institution registered under section 119 of the SFO. An “authorized financial institution” means an authorized 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 constitute 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-authorized 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 constitute 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. This includes 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] Asset Management Business managed overseas refers to assets sub-contracted or delegated to other offices/third parties overseas for asset management.