

Active Stewardship in Driving the New Paradigm for Hong Kong as Asset and Wealth Management Hub

Keynote speech at HKIFA 19th Annual Conference

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Distinguished guests, industry leaders, friends and robots, good morning.

Two months ago, at Hong Kong Investment Funds Association's (HKIFA) 40th Anniversary Cocktail Reception, I spoke about stewardship: the fiduciary duty of every asset manager to act as a guardian of capital across generations, rather than merely a conduit for returns — encompassing purposeful engagement, prudent governance, and the obligation to escalate concerns when dialogue with companies falls short.

Today, I want to build on that foundation and ask a harder question. Are our market's structural conditions enabling stewardship to be practised in its fullest form and substance? That question, I believe, sits at the very heart of the new paradigm this conference is convened to explore.

From Hub to Steward: Our Unfinished Agenda

Let us start with what we are all entitled to celebrate. According to the Boston Consulting Group's Global Wealth Report published last month, Hong Kong overtook Switzerland in 2025 to become the world's largest cross-border wealth management hub.

But being the world's largest hub is not the same as being the world's most *impactful* hub. Volume is not the same as value. If we are serious about propelling a new paradigm, we must look beyond how much capital flows through Hong Kong, and ask how much disciplinary influence that capital exerts on the companies in which it is invested. This is our industry's unfinished work.

The Passive Paradox

The explosive growth of passive investing — exchange-traded funds (ETFs) and index-tracking beta funds — has brought genuine public benefits: lower costs, wider access, and democratise portfolios for ordinary savers. I do not understate these gains.

Yet, the passive revolution carries an unresolved structural paradox. A landmark 2019 study in the *Columbia Law Review*¹ identifies the flaw: index fund managers face inherent disincentives to invest in stewardship, and tend to defer excessively to corporate management. The logic is simple — any passive fund that improves governance lifts every rival fund tracking the same benchmark, creating a free-rider dynamic built into the business

¹ Bebchuk, Lucian A., and Scott Hirst. "Index Funds and the Future of Corporate Governance: Theory, Evidence, and Policy." *Columbia Law Review* 119, no. 8 (December 2019): 2029–2146.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

model. And when divestment is removed as a tool — because you must hold every index constituent — engagement becomes the only lever. Yet, fee compression across passive mandates shrinks precisely the resources needed for rigorous engagement.

The UN Principles for Responsible Investment (UNPRI)² has explicitly recognised this tension: passive investors cannot use divestment as a governance lever the way active managers can, and has warned that collective stewardship risks failing to deliver the long-term returns beneficiaries are entitled to expect.

The empirical evidence is cautionary. Recent studies³ show that when passive fund growth crowds out active funds, governance deteriorates: board independence weakens, pay-for-performance alignment fades, and management accountability erodes. Passive vehicles deliver market access and efficiency — but at scale, they create structural headwinds that dilute stewardship capacity across our entire market.

The Market for Corporate Control: A Hong Kong Perspective

First defined by Professors Jensen and Ruback⁴ four decades ago, the market for corporate control is the competitive arena where management teams compete for the right to deploy corporate resources — imposing discipline on leadership and aligning decisions with shareholders' long-term interests. This disciplinary force is what makes capital markets genuine capital allocators, rather than mere transaction platforms.

In Western markets, this force is visible: institutional investors contest board composition, scrutinise audit committees, and publicly challenge corporate strategy. In Hong Kong, I observe a marked reluctance to engage at Annual General Meetings (AGMs) — even when companies deliver weak results or pursue strategies that demand open debate.

Some cite Hong Kong's concentrated ownership as justification: if a controlling shareholder holds majority equity, what leverage does an asset manager have? I acknowledge the challenge, but I reject the defeatism. Empirical research⁵ tracking Hong Kong shareholder activism from 2003 to 2017 shows that activist interventions generated an average 8% uplift in target company valuations, with over one-third of affected firms implementing strategic or financial improvements. Concentrated ownership may create hurdles — but they are not insurmountable.

The CFA Institute's March 2026 report⁶ *Unlocking AGMs: From Votes to Voice in Asia-Pacific* reinforces this: Hong Kong's largest shareholders hold on average 58% of equity, pushing

² UN Principles for Responsible Investment. *Active Ownership 2.0: The Evolution Stewardship Urgently Needs*. PRI, 2019 (updated 2024). Available at: <https://www.unpri.org/investment-tools/stewardship/active-ownership-20>

³ Corum, Adrian Aycan, Andrey Malenko, and Nadya Malenko. "Corporate Governance in the Presence of Active and Passive Delegated Investment." Working Paper, November 2023. Available at: https://www.ecgi.global/sites/default/files/working_papers/documents/corummalenkomalenkofinal_8.pdf

⁴ Jensen, Michael C., and Richard S. Ruback. "The Market for Corporate Control: The Scientific Evidence." *Journal of Financial Economics*, Vol. 11, No. 1–4, April 1983, pp. 5–50. Available at: https://econpapers.repec.org/article/eeejfinec/v_3a11_3ay_3a1983_3ai_3a1-4_3ap_3a5-50.htm

⁵ Wong, Frank. "Shareholder Engagement and Activism Under the Radar: Empirical Evidence From Hong Kong (2003–15) — Rethinking Disclosure of Interests Regime." SSRN Working Paper, last revised 28 February 2019. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2725318

⁶ CFA Institute Research and Policy Center. *Unlocking AGMs: From Votes to Voice in Asia-Pacific*. 11 March 2026. DOI: 10.56227/26.1.5. Available at: <https://rpc.cfainstitute.org/research/reports/2026/unlocking-agms-asia-pacific>



many AGMs toward compliance exercises rather than genuine accountability forums. The report calls on asset managers to reframe AGMs as core engagement opportunities — not mechanical voting tasks. I add my voice to that call today.

To every asset manager in this room: passive investing is a business choice. Stewardship, however, is a professional duty. The two are not incompatible — but reconciling them requires deliberate investment in dedicated teams, robust process, and the courage to ask difficult questions in public forums.

Quality: The Guiding Principle for the Decade Ahead

This brings me back to our conference theme. The north star for our next decade is a deliberate shift from quantity to quality across four dimensions.

First, innovation embedded as organisational culture, not a one-off product launch.

Second, our fixed income and RMB markets: the Fixed Income and Currency Market Roadmap of the Securities and Futures Commission and the Hong Kong Monetary Authority, and the upcoming launch of the China Treasury Bond futures in August open new avenues for diversification and risk management.

Third, Mainland-Hong Kong connectivity — treat Mutual Recognition of Funds, ETF Connect and Wealth Management Connect as engines of portfolio innovation, not distribution pipelines.

Fourth, and above all: active stewardships, practised with the full conviction of the UNPRI's Active Ownership standard.

A Charge to This Room

We have built a world-leading wealth management hub — a foundation to be proud of. But a hub that channels capital without disciplining the companies in which that capital is invested has not yet realised its full potential. The passive revolution risks hollowing out the very market for corporate control that makes capital allocation meaningful and company valuation fair. Hong Kong's concentrated ownership structure cannot become a permanent alibi for institutional silence.

I leave you today with a sincere question — carry it into every session today, and back to your offices tomorrow: What will Hong Kong's asset and wealth management industry look like in 2036? Not by size, but by quality. And what concrete decision will you make in the next twelve months to make that future real?

The answer begins with stewardship — and your professional conviction.

Thank you.