



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

Fund Management Activities Survey 2012

July 2013



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I. Survey Summary

The Securities and Futures Commission (SFC) has conducted the Fund Management Activities Survey (FMAS) for the year ended 31 December 2012. 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 significantly in 2012, with a year-on-year increase of 39.3% to hit a record high of \$12,587 billion* as of the end of the year.**

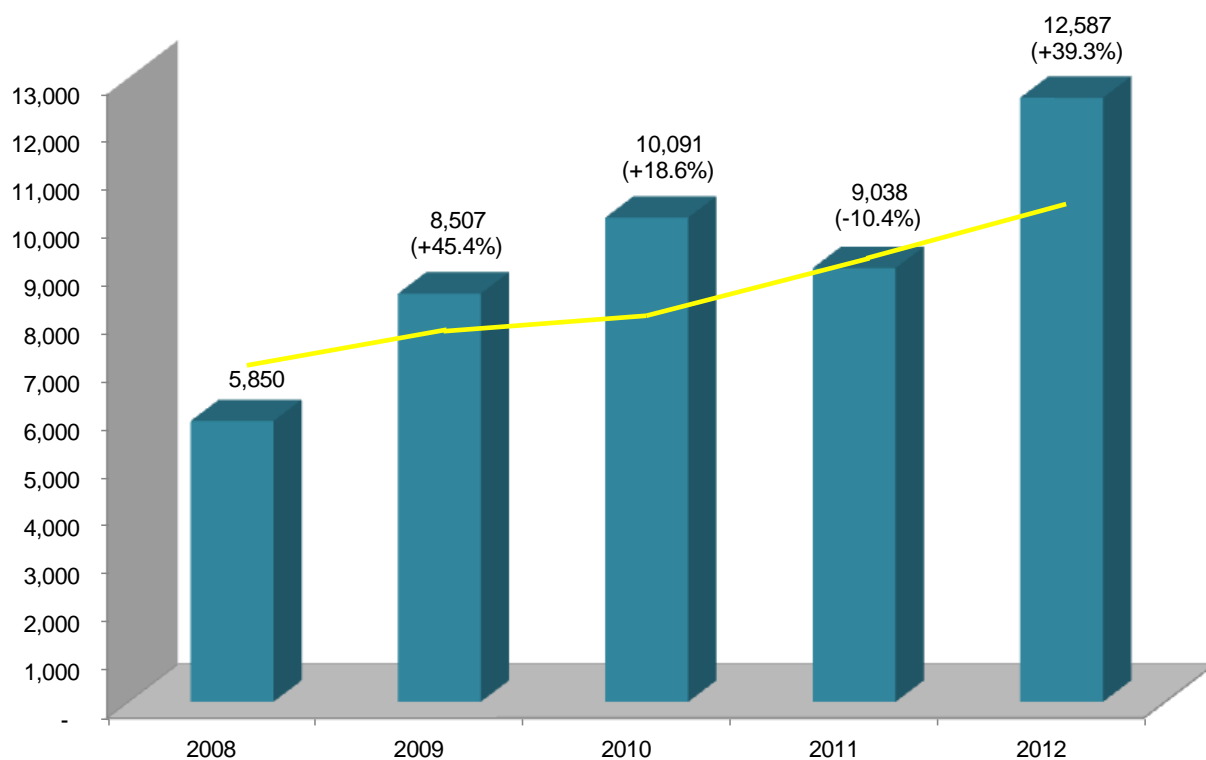
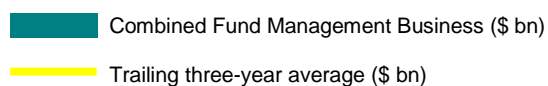


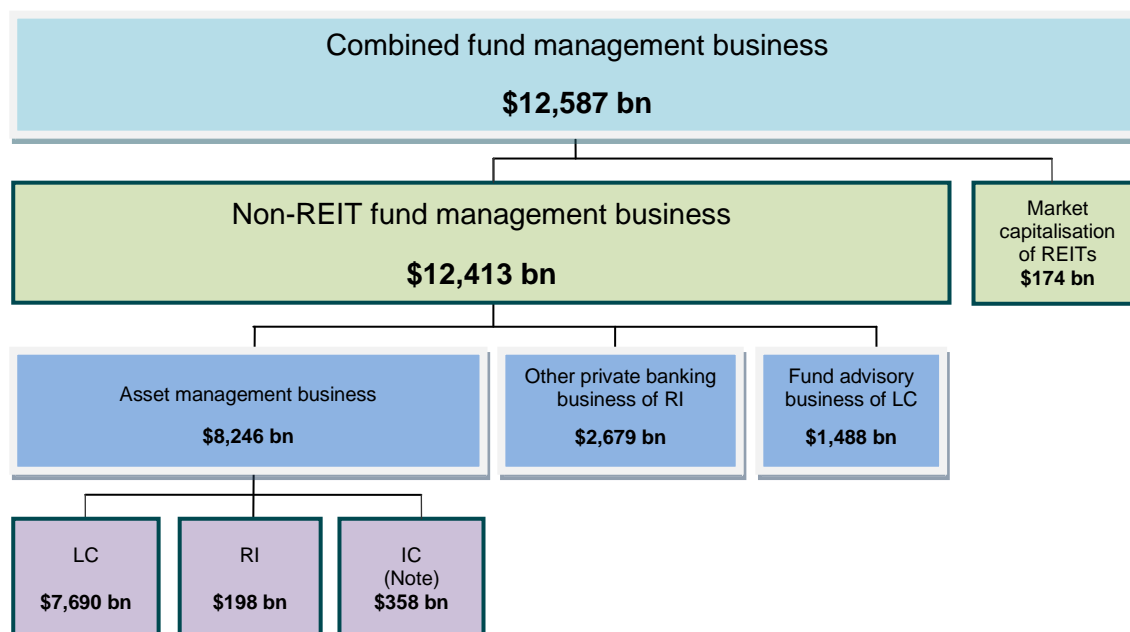
Chart 1: Combined Fund Management Business (\$ bn)



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



Components in Combined Fund Management Business



Legend:

REITs: real estate investment trusts

LC: licensed corporations

RI: registered institutions

IC: insurance companies

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.

- (a) The combined fund management business in Hong Kong achieved a record high of \$12,587 billion at the end of 2012, representing year-on-year growth of 39.3% from 2011. On a trailing three-year average basis, the combined fund management business continued on an uptrend and amounted to \$10,572 billion. There has been overall growth in different types of fund management business activities, attributable to various market players in Hong Kong during the year.
- (b) The stellar growth in 2012 was attributable to an increase in fund management business activities conducted by a combination of existing and new respondents. Apart from the general market growth, more licensed firms participated in the survey this year. Total respondents increased by 18.6% to 485 in 2012.
- (c) The growth of the combined fund management business in Hong Kong suggests:
 - (i) Favourable economic outlook of the Asia-Pacific region, in particular the Mainland, attracting more investment capital inflows into the region, and hence increases the demand for asset management activities and fund advisory services in Hong Kong.



- (ii) Growing popularity of the renminbi as a more internationally accepted and widely used currency driving the demand for renminbi products. Through close co-operation with and support from the Mainland authorities, Hong Kong continued to play an active role in broadening the scope of renminbi products available to the public (such as Renminbi Qualified Foreign Institutional Investor (RQFII) A-share exchange-traded funds (ETFs), renminbi-denominated bond ETF, renminbi-denominated money market funds and renminbi-denominated paper gold scheme). These developments enable Hong Kong to reinforce its position as a pre-eminent offshore renminbi centre.
 - (iii) Hong Kong has been widely recognised as an international asset management centre in Asia. Nevertheless, Hong Kong continues to work towards further developing its fund platform within the region with an aim to access a larger investor base. Aided by the local market participants' ability to innovate and understand investor needs, Hong Kong is becoming an increasingly popular domicile for investment funds.
- (d) The number of licensed corporations and individuals licensed for asset management (i.e. Type 9 regulated activity) grew by 5.9% and 8.0% respectively. At the end of 2012, 892 corporations and 6,677 individuals were licensed for asset management (compared with 842 corporations and 6,184 individuals at the end of 2011). For reference, the number of licensed corporations and individuals for asset management further increased to 906 and 6,791 respectively as of end April 2013.
- (e) By types of business activity:
- (i) Asset management business recorded a year-on-year increase of 43.1% in total assets under management to \$8,246 billion in 2012.
 - (ii) Other private banking business increased by 18.4% to \$2,679 billion.
 - (iii) Fund advisory business grew by 67.4% to \$1,488 billion.
- (f) By categorisation of market players:
- (i) Licensed corporations recorded a year-on-year increase of 47.9% in their aggregate asset management and fund advisory businesses to \$9,178 billion in 2012.
 - (ii) Registered institutions recorded an 18.8% increase in their aggregate asset management and other private banking businesses to \$2,877 billion.
 - (iii) Insurance companies reported a 24.7% increase in their assets under management to \$358 billion.



2. Hong Kong continued to be the preferred platform for investments by international investors. Of the total \$12,413 billion in non-REIT fund management business, 64.6% was sourced from non-Hong Kong investors.

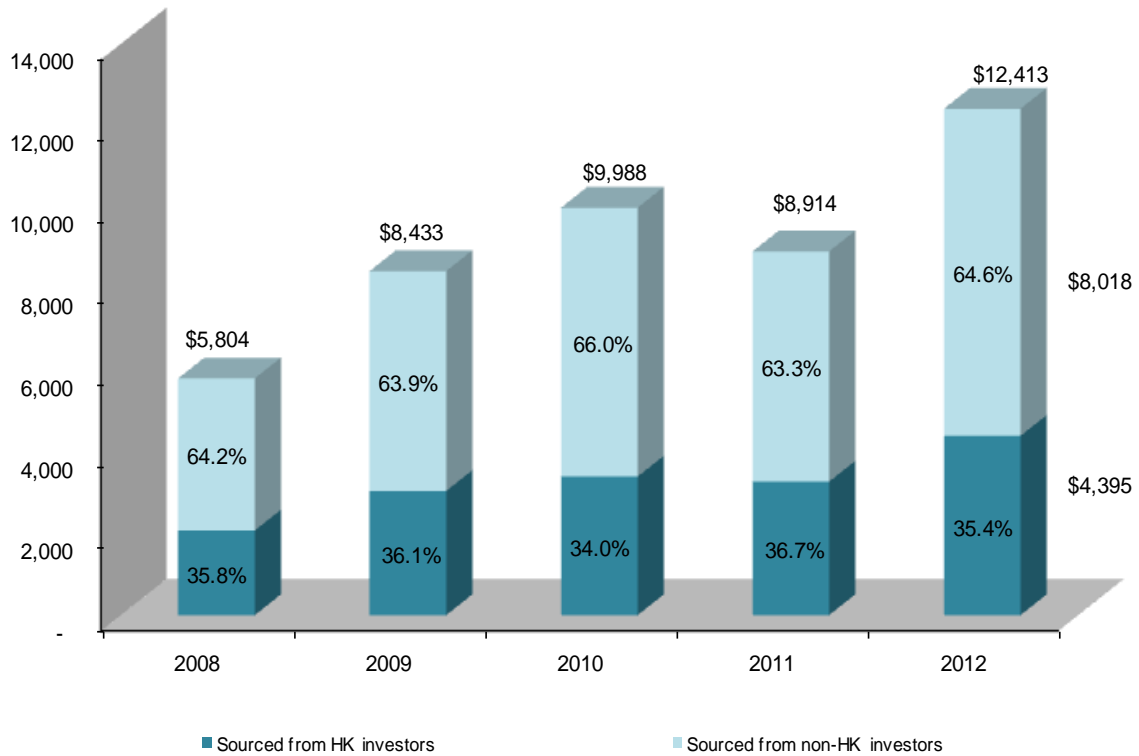


Chart 2: Non-REIT Fund Management Business: by Source of Funds (\$ bn)

- (a) Funds sourced from non-Hong Kong investors have consistently accounted for over 60% of the non-REIT fund management business in Hong Kong. In 2012, the amount of funds sourced from overseas investors grew by 42.1% to \$8,018 billion as compared to 2011. This diversity of investor base is important as Hong Kong aims to further develop and internationalise its fund management industry.
- (b) Overseas investors continued to perceive Hong Kong as an attractive investment platform. As a major international financial centre, Hong Kong has an integrated network of institutions, professionals with financial expertise and access to international markets that enable it to offer to investors a full range of financial products and services with a high degree of variety and competitiveness. Together with its commitment to a robust regulatory framework, Hong Kong remains an internationally recognised asset management centre.



3. Of the total non-REIT assets under management of \$8,246 billion, 69.2% or \$5,707 billion was managed in Hong Kong.

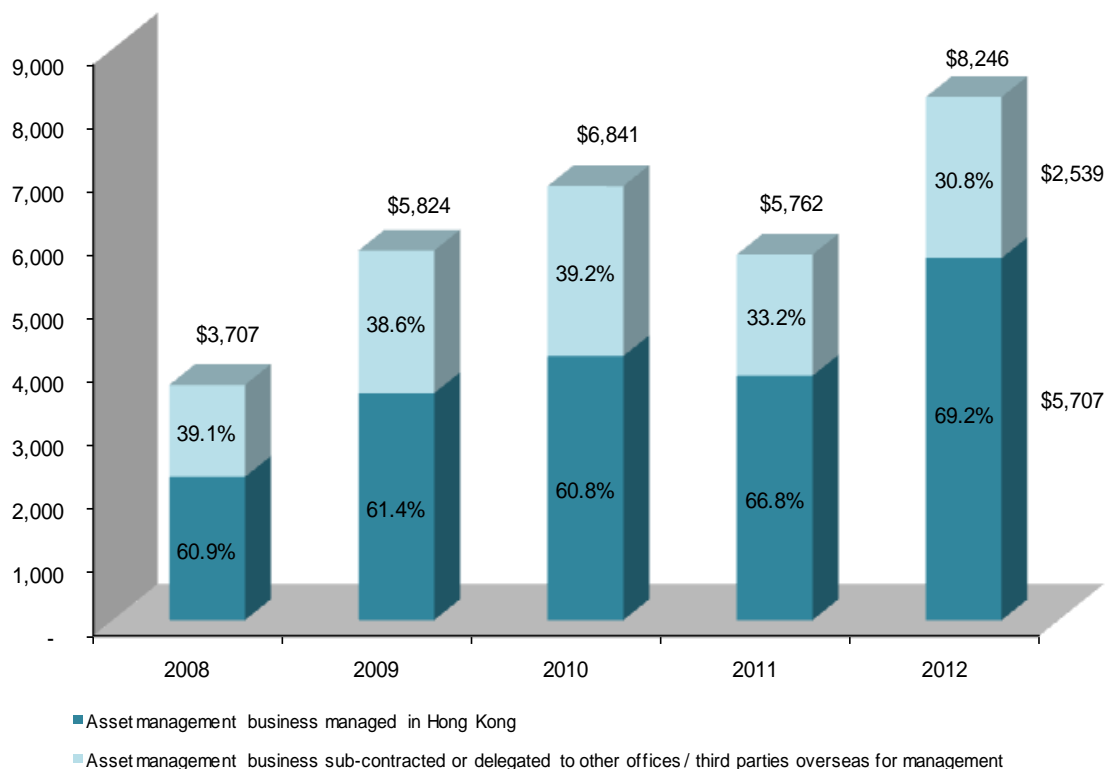


Chart 3: Assets Management Business: by Location of Management (\$ bn)

- (a) The amount of non-REIT assets managed in Hong Kong accounted for 69.2% of the overall non-REIT assets under management in 2012, and this represents a record-high level. In value terms, the amount of non-REIT assets managed in Hong Kong soared 48.2% year-on-year to \$5,707 billion in 2012.
- (b) The surge in the amount of assets managed in Hong Kong reinforces the growing importance of Hong Kong as a preferred location for conducting asset management business in the region. Its strategic position is enabled by a well-established investment platform with support from complementary fund-related service providers under a transparent regulatory regime. This in turn has attracted more professional talents to engage in asset management business in Hong Kong.
- (c) In March 2013, the Mainland authorities further expanded the RQFII scheme to allow non-Mainland related asset managers, which are registered and have major operations in Hong Kong, to participate in the RQFII scheme. This will increase the appeal of Hong Kong's asset management platform and will be an additional source of growth for the industry.
- (d) The close proximity to and continuing policy support from the Mainland have provided and will continue to provide Hong Kong with a competitive edge to serve as a platform for international asset managers and investors to access the Mainland market. This privileged role of Hong Kong continues to facilitate the development of an increasing variety of renminbi investment products which further contributed to the growth in assets managed in Hong Kong.



4. Growing Mainland participation in the asset management business

Snapshot of Mainland-related companies responding to the survey

- (a) In 2012, an aggregate of \$414.7 billion (or 3.3%) of non-REIT fund management business was attributable to Mainland-related licensed firms, representing significant growth of 56.4% from \$265.1 billion in 2011. Such significant growth reflected more active engagement in Hong Kong's fund management business by the Mainland-related licensed firms through the launch of a range of renminbi investment products and provision of more advisory services, which is supported by the continued growth of the Mainland economy and the rise in global demand for Mainland-related investments and services.
- (b) The amount of Mainland assets managed in Hong Kong sourced from Qualified Domestic Institutional Investors experienced year-on-year growth of 29% to \$80 billion in 2012. Hong Kong remained one of the preferred locations for these Mainland assets. About 50% of the assets were invested in Hong Kong, about 30% were invested in other parts of the Asia-Pacific region, and the remaining 20% were invested in North America, Europe and other regions.
- (c) The launch of the RQFII funds has given the Hong Kong-licensed Mainland-related asset managers' access to international liquidity via Hong Kong's platform. This has allowed these Mainland-related asset managers to take advantage of Hong Kong's platform to increase their brand recognition outside the Mainland. As the RQFII scheme is set to expand, capital inflows into the Mainland are likely to increase, and more firms in Hong Kong are expected to become eligible to participate. Therefore, it is foreseeable that there will be increasing Mainland participation in the asset management business in Hong Kong which will mutually benefit both economies.

Overview of the Mainland-related companies licensed with the SFC

- (d) With the gradual and steady modernisation of financial infrastructure in the Mainland together with the success of the RQFII scheme, which underscores the appeal of the renminbi and the Mainland market, Hong Kong will continue to play an important role in the process of renminbi internationalisation.
- (e) The number of Mainland-related financial institutions establishing operations in Hong Kong continues to increase. At the end of May 2013, about 73 Mainland-related groups established a total of 196 licensed corporations or registered institutions in Hong Kong, as compared to 62 Mainland-related groups with a total of 168 licensed corporations or registered institutions at the end of May 2012. The number at the end of May 2013 is broken down as follows:
 - (i) 22 Mainland securities companies have established 85 licensed corporations;
 - (ii) six Mainland futures companies have established eight licensed corporations;
 - (iii) 16 Mainland fund management companies have established 16 licensed corporations;
 - (iv) seven Mainland insurance companies have established nine licensed corporations; and
 - (v) other types of Mainland companies, totalling 22, have established 63 licensed corporations and 15 registered institutions.



Statistics on SFC-authorized funds managed by Mainland-related companies

- (f) The number of Mainland-related fund groups managing SFC-authorized funds increased to 25 at the end of 2012 from 13 a year ago. The number of SFC-authorized funds managed by the Mainland-related fund groups increased to 161 in 2012, up from 106 in 2011. The net asset value of these funds significantly increased by 159.5% to \$135.7 billion at the end of 2012 from a year-ago level of \$52.3 billion. Such increase was mainly attributable to the launch of RQFII A-share ETFs and other retail funds by these Mainland-related fund groups in 2012. This is reflective of Hong Kong's role in the development and internationalisation of the Mainland asset management industry.



5. A substantial portion of the assets managed in Hong Kong was invested in Asia, accounting for 80.0% in 2012.

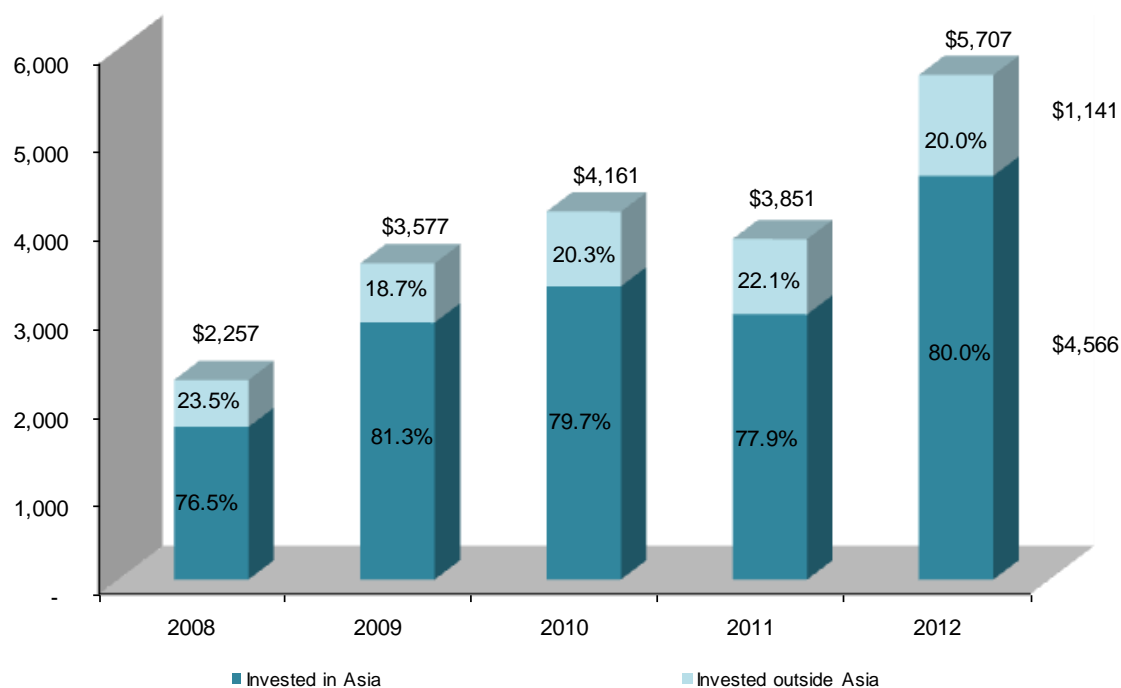


Chart 4: Assets Managed in Hong Kong: by Geographical Distribution of Investments (\$ bn)

- (a) A total of 80.0% of the assets managed in Hong Kong was invested in Asia, slightly higher than the level in 2011. In value terms, the assets managed amounted to \$4,566 billion, comprising \$3,061 billion invested in Hong Kong and the Mainland^o, \$313 billion invested in Japan and \$1,192 billion invested in the rest of the Asia-Pacific region. This pattern suggests that locally based expertise is experienced in managing capital invested in Asia, particularly Hong Kong and the Mainland.
- (b) The persistent concerns regarding the European debt crisis continued to weigh down global economic growth and cast uncertainties to the markets. Despite the uncertain outlook, it appears that investors were eager to seek exposure to the relatively favourable financial conditions in the Asian economies, as evidenced by the continuing capital inflows into the Asia-Pacific region. The amount of assets managed in Hong Kong that was invested in Asia rebounded strongly in 2012, with year-on-year growth of 52.3% to \$4,566 billion. This was significantly higher than the amount of assets invested outside of Asia, which totalled \$1,141 billion in 2012, representing a 33.9% increase from a year-ago level.
- (c) The Mainland recorded gross domestic product growth of 7.8% in 2012 and is expected to achieve growth of 7.75% in 2013, according to the latest available forecast by the International Monetary Fund. The expected economic growth and positive outlook of the Mainland will continue to attract inflows of capital that look for exposure to the Mainland.

^o No further breakdown between Hong Kong and the Mainland is available



II. Recent Developments and Industry Outlook

In 2012, the SFC worked closely with the industry to strengthen Hong Kong's position as a leading asset management centre.

1. Maintaining high market standards to protect the investing public

Ongoing monitoring of investment products

- (a) As one of the measures to enhance protection for the investing public, the SFC has maintained close dialogues with the industry reminding them to ensure offering documents (including product key facts statement (KFS)) of SFC-authorized funds should continue to be up-to-date with adequate and prominent risk disclosures in light of changing economic conditions, and should contain sufficient information necessary for investors to make an informed decision regarding their investments.
- (b) In view of the growing concern over the European debt crisis and other new market risks that may have emerged, the SFC published a circular to the management companies of SFC-authorized funds in December 2012. The circular sets out the disclosure and other requirements related to SFC-authorized funds which may have investments of more than 10% of the fund's net asset value in securities issued and/or guaranteed by a single sovereign issuer which is below investment grade. The SFC has also been closely monitoring the SFC-authorized investment products' exposure to Europe and sovereign issuers by maintaining regular dialogues with and requesting additional data periodically from the management companies of SFC-authorized investment products.
- (c) In response to a growing trend of Hong Kong investors seeking investment products which may provide regular income or distributions in the persistently low interest rate environment, the SFC published a set of frequently asked questions (FAQ) in June 2012 regarding the various requirements applicable to funds which may make distributions out of the fund's capital. The SFC also conducted a briefing session for around 140 industry participants in December 2012 to provide further guidance and respond to queries on the disclosure requirements as set out in the FAQ.
- (d) Given the increasingly complex features and charging structures of Investment-Linked Assurance Schemes (ILAS) and in the spirit of investor protection, the SFC has worked closely with other local financial regulators and The Hong Kong Federation of Insurers to develop effective enhancement measures in the form of enhanced disclosure requirements (EDR) which are integrated into the ILAS KFS. In this connection, the SFC published the revised KFS illustrative template and issued a circular to issuers of SFC-authorized ILAS in May 2013 to set out the EDR and the implementation and compliance procedures.
- (e) In February 2013, the SFC issued a new FAQ to clarify the eligibility requirements applicable to the management companies of RQFII A-share ETFs, which do not have a parent company with the required Mainland physical A-share ETFs experience. These requirements are designed for the purpose of maintaining investor protection and market order in light of the growing demand for these products.



Investor education

(f) Renminbi products

The SFC further explained the key risks of dual-counter RQFII A-share ETFs to investors in October 2012 by updating a list of FAQs on the Investor Education Centre** (IEC) website. In addition, an article was published to explain how the RQFII A-share ETFs differ from other A-share ETFs and unlisted RQFII retail funds.

(g) Other investment products with special features

During the year, the SFC, through a series of FAQs published on the IEC website, explained the key features and risks of various investment products such as high-yield bond funds and precious metal ETFs and funds which may make regular dividend payments to investors in view of the increasing demand for these products.

(h) ILAS

A radio segment was produced by the SFC in January 2013 and an article was published in September 2012 to help investors understand the investment and insurance aspects of ILAS.

2. Strengthening cross-border collaboration with the Mainland to support renminbi internationalisation

Cross-border developments

- (a) Since June 2012, the Mainland government has announced a series of initiatives to bolster the growth of the renminbi market in Hong Kong, including expansion of various investment quotas, further relaxation of RQFII rules and issuance of renminbi bonds by the Ministry of Finance of the People's Republic of China and by Mainland enterprises (including financial institutions and corporates). These measures support further development of a more diversified range of renminbi investment and financial products, and broaden the use of the renminbi outside the Mainland, and hence fortify Hong Kong's role as a premier offshore renminbi centre.
- (b) According to the Hong Kong Monetary Authority (HKMA), renminbi deposits in Hong Kong reached approximately RMB603 billion as of the end of 2012. This amount represented an increase of around 860% from the deposit size as of the end of 2009, during which renminbi cross-border trade settlement has been launched and renminbi deposits had since experienced phenomenal growth. This sizeable liquidity pool is expected to add new depth and richness to our renminbi product pool.
- (c) The SFC has worked intensively with the Mainland regulators and played a crucial role in further expanding the range of renminbi products offered in Hong Kong. A number of landmark developments have taken place during the year.

** Investor Education Centre was established in November 2012.



RQFII scheme

- (d) The RQFII regime marks an important chapter in the history of Hong Kong's fund industry. Since the launch of the RQFII scheme by the Mainland authorities in December 2011 with an initial quota size of RMB20 billion, the Mainland authorities expanded the quota size by RMB50 billion in April 2012 and an additional RMB200 billion in November 2012.

(i) RQFII funds

As at 31 May 2013, the SFC authorized 21 unlisted RQFII funds with an aggregate RQFII quota size of RMB23.6 billion. The launch of unlisted RQFII funds is a proven success to use the Hong Kong asset management platform to bridge the offshore renminbi market and the Mainland capital market.

(ii) RQFII A-share ETFs

With the first RQFII A-share ETF authorized by the SFC in June 2012, the SFC authorized a total of five RQFII A-share ETFs with an aggregate RQFII quota size of RMB49 billion as at 31 May 2013. Total market value of these RQFII A-share ETFs was RMB38.4 billion as at 31 May 2013. The significance of RQFII A-share ETFs is that it plays an important role in connecting the Mainland and Hong Kong markets, creating a new channel for two-way capital investment flows. These RQFII A-share ETFs offered local and international investors an alternative to directly invest in the A-share market and were the world's first listed products offering a dual-counter model with both renminbi and Hong Kong dollar secondary market trading counters on an exchange.

(iii) Further relaxation of RQFII rules

In March 2013, the Mainland authorities announced the expansion of the RQFII regime by extending the types of institutions eligible to apply for RQFII to cover Hong Kong subsidiaries of Mainland commercial banks, insurance companies and financial institutions which are registered and have major operations in Hong Kong. The Mainland authorities also relaxed the investment restrictions of RQFII products to allow institutions to design the types of products in accordance with market conditions. These new measures will allow more market players to participate in the RQFII scheme and thus promote the development of a broader range of renminbi investment products available in Hong Kong.

Other retail renminbi-denominated products

- (e) There has been growing demands for dim sum bonds and retail renminbi offshore dim sum bond/fixed income funds in Hong Kong. According to HKMA, the total issuance of dim sum bonds in 2012 amounted to RMB112.2 billion, bringing the outstanding amount of dim sum bonds to RMB237.2 billion at the end of 2012, which represented an increase of 62% as compared to the end of 2011. A total of 13 unlisted renminbi offshore dim sum bond/fixed income funds were authorized as of the end of May 2013.
- (f) The types of retail renminbi-denominated products continued to broaden:
- (i) In January 2013, the SFC authorized the first renminbi-denominated money market fund which is also available for investment by mandatory provident fund schemes in Hong Kong.



- (ii) In March 2013, the SFC authorized a renminbi-denominated paper gold scheme.
- (iii) In May 2013, the SFC authorized the first dim sum bond ETF denominated in renminbi for listing on The Stock Exchange of Hong Kong Ltd (SEHK).

3. Gradual growth of the ETF market

- (a) Hong Kong remains one of the largest and most active ETF markets in Asia. The ETF market in Hong Kong continued to experience growth both in terms of market capitalisation and trading volume. As at 31 March 2013, there were a total of 100 ETFs, up from 77 as of the end of 2011. Total market value of ETFs listed in Hong Kong reached US\$103.7 billion as at 31 March 2013, up 6.5% from the year-ago level of US\$97.4 billion[#]. Total turnover for ETFs listed in Hong Kong in the 12 months ended 31 March 2013 amounted to US\$91.7 billion[#], representing growth of 42.4% from US\$64.4 billion in the 12 months ended 31 March 2012[^].
- (b) In addition to the growth in market capitalisation and trading volume of ETFs, we have also seen growth in ETF management expertise in Hong Kong. As at 31 May 2013, there were a total of 22 ETF managers in Hong Kong, compared to 15 at the end of 2011.
- (c) The range of physical commodity ETFs has also been expanded with the SFC's authorization of the first physical silver and platinum ETFs in November 2012 for listing on SEHK.

[#] See *Securities and Derivatives Markets Quarterly Report* (1st Quarter 2013) issued by Hong Kong Exchanges and Clearing Ltd (HKEx).

[^] See *Securities and Derivatives Markets Quarterly Report* (1st Quarter 2012) issued by HKEx.



Market opportunities and challenges

- (a) Leveraging on the success of the RQFII scheme and aiming to further cultivate the asset management industry in Hong Kong, the SFC has formed a working group with the Mainland authorities to study the implementation of mutual recognition and cross-border offering of funds between Hong Kong and the Mainland. This initiative will bring about a wider investment platform for both jurisdictions in terms of more product offerings and a bigger investor base benefiting the fund management industry in Hong Kong.
- (b) To further promote Hong Kong as an international asset management centre and a fund centre, the SFC is working with and providing technical support to the Hong Kong Special Administrative Region Government on the regulatory issues relating to the feasibility of introducing an open-ended investment company framework as another investment fund vehicle option in Hong Kong.
- (c) The economic outlook and recovery of the global economy may still be unclear, resulting in potentially volatile markets. Also, taking into account the changing political and economic circumstances, the SFC will continue to work closely with overseas regulators and remain vigilant of any possible spillover effect on the Hong Kong market.
- (d) The SFC will continue to maintain regular dialogues with the industry and overseas regulators to monitor the latest development of new overseas regulatory requirements, expected to be implemented in the near future, which may impact the fund management business in Hong Kong, for example the Alternative Investment Fund Managers Directive and the United States Foreign Account Tax Compliance Act.



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 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 (i.e., the Securities and Futures Ordinance (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 HKMA 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 2012. 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 485 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 417 licensed corporations, 46 registered institutions and 22 insurance companies.

Licensed corporations

5. An analysis of the activities of the 417 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	250
Respondents with assets under fund advisory business only	51
Respondents with both of the above businesses	116
	<hr/>
	417

Registered institutions

6. An analysis of the activities of the 46 registered institutions that had engaged in asset management and/or other private banking business is shown below:

Respondents with asset management business only	6
Respondents with other private banking business only	19
Respondents with both of the above businesses	21
	<hr/>
	46

Insurance companies

7. Twenty-two 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 (\$12,587 billion)

8. Hong Kong's combined fund management business amounted to \$12,587 billion, representing a year-on-year increase of 39.3% as of the end of 2012.

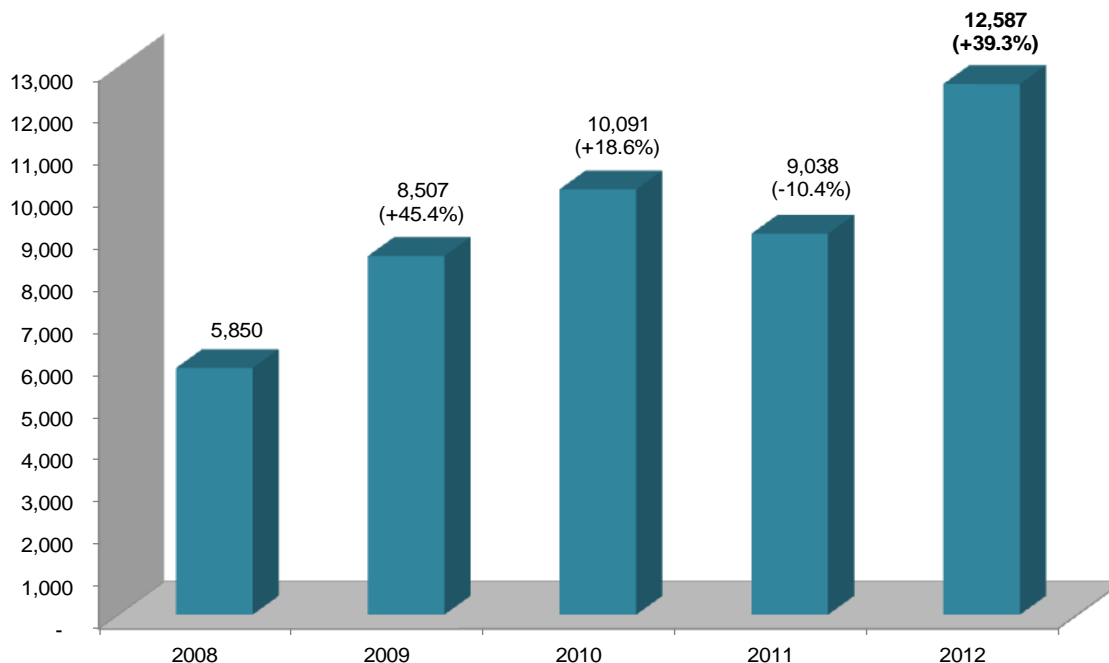


Chart 5: Combined Fund Management Business (\$ bn)

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

(\$ billion)	Licensed corporations	Registered institutions	Insurance companies	Total
Asset management business	7,690	198	358	8,246
Fund advisory business	1,488	-	-	1,488
Other private banking business	-	2,679	-	2,679
Non-REIT fund management business	9,178	2,877	358	12,413
SFC-authorized REITs	174	-	-	174
Combined fund management business	9,352	2,877	358	12,587

For major aggregate figures of FMAS 2012, see the Appendix on page 26.



10. Licensed corporations reported year-on-year growth of 47.9% in their non-REIT fund management business to \$9,178 billion at the end of 2012. Average non-REIT fund management business per licensed corporation responded to the survey increased 24.5% in 2012. The increase was mainly contributed by net inflows of funds. Many respondents reported that they launched new portfolios and secured new client mandates in 2012. The positive market performance also led to an overall appreciation of assets and enhancement of investment returns in 2012.
11. Registered institutions reported a year-on-year increase of 18.8% in their non-REIT fund management business to \$2,877 billion at the end of 2012. This increase was mainly due to the overall positive market performance and business growth of some international banks or their branches in Hong Kong in 2012.
12. Insurance companies reported a total of \$358 billion of assets under management as of the end of 2012, representing a year-on-year increase of 24.7%. Such increase was mainly due to three new respondents participating in this year's survey (which together accounted for over 50% of the increase in the assets under management in 2012) as well as normal business growth as reported by the insurance companies.



Asset Management and Fund Advisory Business of Licensed Corporations, Registered Institutions and Insurance Companies (\$9,734 billion)

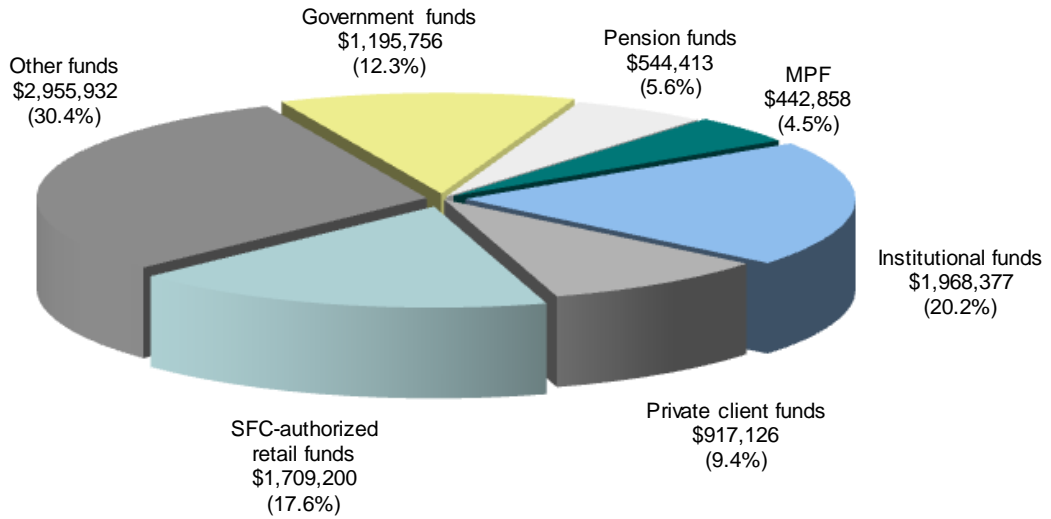


Chart 6A: Asset Management and Fund Advisory Business by Type of Funds (\$ mn)

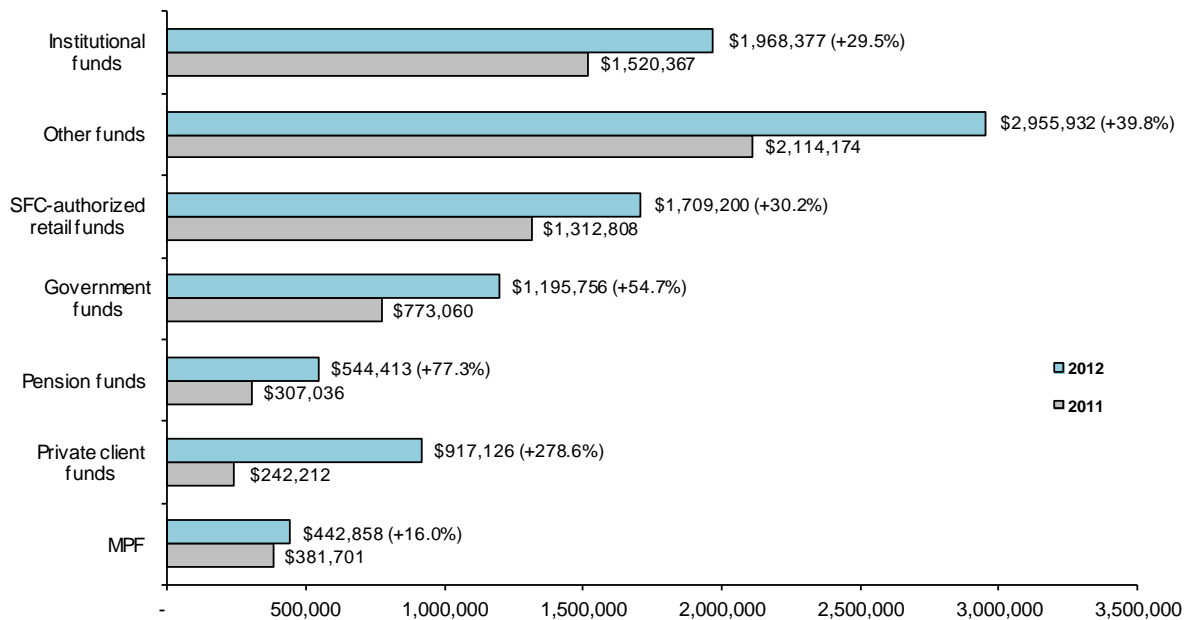


Chart 6B: Asset Management and Fund Advisory Business: by Type of Funds 2012 vs 2011 (\$ mn)



13. In 2012, SFC-authorized retail funds recorded year-on-year growth of 30.2%. According to statistics published by the Hong Kong Investment Funds Association (HKIFA), the gross sales of SFC-authorized funds by Hong Kong investors reached US\$54.9 billion in 2012, representing year-on-year increase of 46.4% from US\$37.5 billion in 2011. The HKIFA observed that robust inflows were recorded in the beginning of 2012 and the inflows persisted throughout the year. These were mainly driven by investors' interest in fixed-income products, particularly high-yield bond products amid the persistently low interest rate environment.
14. The value of "Other funds", which mainly comprised overseas retail funds, hedge funds, private equity funds and insurance portfolios, recorded an increase of 39.8% to \$2,956 billion in 2012.

Asset Management Business of Licensed Corporations, Registered Institutions and Insurance Companies (\$8,246 billion)

15. As of the end of 2012, the total asset management business of licensed corporations, registered institutions and insurance companies amounted to \$8,246 billion, representing growth of 43.1% from \$5,762 billion as of the end of 2011. The majority of such growth was attributable to licensed corporations, which recorded an increase of \$2,374 billion to \$7,690 billion. Registered institutions and insurance companies reported year-on-year increases of \$39 billion and \$71 billion respectively.

Asset Management Business (\$8,246 billion): by Source of Funds

<i>(\$ million)</i>	Licensed corporations	Registered institutions	Insurance companies	Total
Hong Kong investors (% of total)	2,592,907 (33.7%)	79,654 (40.2%)	298,800 (83.4%)	2,971,361 (36.0%)
Non-Hong Kong investors (% of total)	5,096,511 (66.3%)	118,607 (59.8%)	59,462 (16.6%)	5,274,580 (64.0%)
Total (100%)	<u>7,689,418</u> (100%)	<u>198,261</u> (100%)	<u>358,262</u> (100%)	<u>8,245,941</u> (100%)

16. Funds from non-Hong Kong investors accounted for more than 60% of the asset management business. In terms of value, the amount of funds sourced from overseas investors increased by 45.4% to \$5,275 billion in 2012.



Asset Management Business (\$8,246 billion): by Geographical Distribution of Investments

(\$ million)	Licensed corporations	Registered institutions	Insurance companies	Total
Invested in Hong Kong (% of total)	2,662,516 (34.6%)	56,563 (28.5%)	67,500 (18.8%)	2,786,579 (33.8%)
Invested overseas (% of total)	5,026,902 (65.4%)	141,698 (71.5%)	290,762 (81.2%)	5,459,362 (66.2%)
Total (100%)	<u>7,689,418</u> (100%)	<u>198,261</u> (100%)	<u>358,262</u> (100%)	<u>8,245,941</u> (100%)

17. The percentage of assets invested in Hong Kong remained on an uptrend, with the proportion increased to 33.8% in 2012 from 29.1% in 2011.

Asset Management Business (\$8,246 billion): by Location of Management

(\$ million)	Licensed corporations	Registered institutions	Insurance companies	Total
Managed in Hong Kong (% of total) (See Charts 7A & 7B)	5,459,812 (71.0%)	169,605 (85.5%)	77,746 (21.7%)	5,707,163 (69.2%)
Managed overseas ⁵ (% of total)	2,229,606 (29.0%)	28,656 (14.5%)	280,516 (78.3%)	2,538,778 (30.8%)
Total (100%)	<u>7,689,418</u> (100%)	<u>198,261</u> (100%)	<u>358,262</u> (100%)	<u>8,245,941</u> 100%

18. The proportion of assets managed in Hong Kong increased to 69.2% in 2012 from 66.8% in 2011, indicating that Hong Kong continues to be a preferred location for conducting asset management business in the region.



Assets Managed in Hong Kong (\$5,707 billion): by Geographical Distribution of Investments

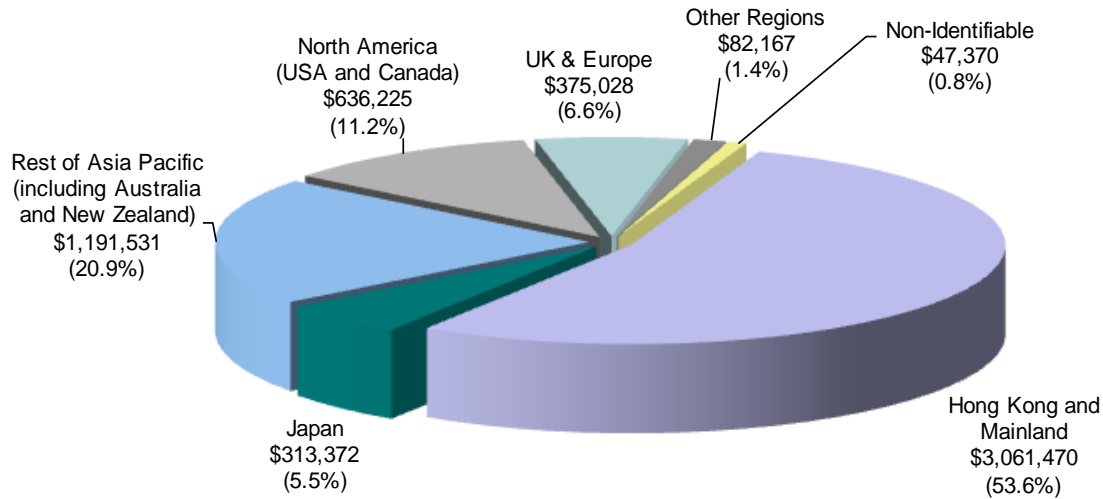


Chart 7A: Asset Managed in Hong Kong: by Geographical Distribution of Investments (\$ mn)

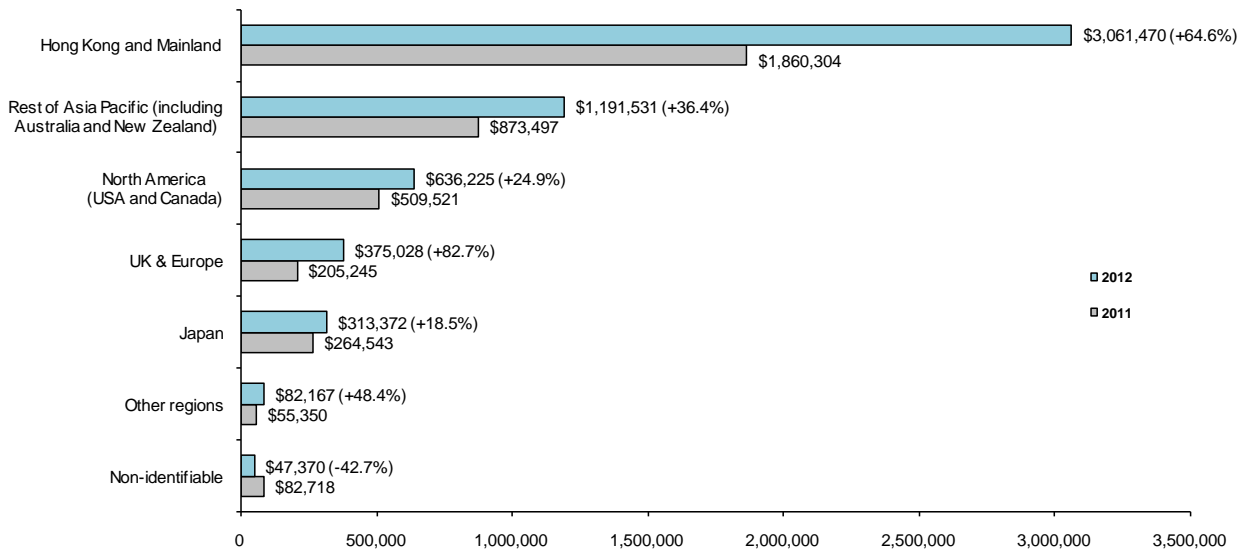


Chart 7B: Asset Managed in Hong Kong: by Geographical Distribution of Investments 2012 vs 2011 (\$ mn)

19. In terms of geographical distribution of assets managed in Hong Kong, Hong Kong and the Mainland continued to be the most favourable location for investment, accounting for 53.6% of the assets managed in Hong Kong in 2012, up from 48.3% in 2011.



Fund Advisory Business of Licensed Corporations (\$1,488 billion)

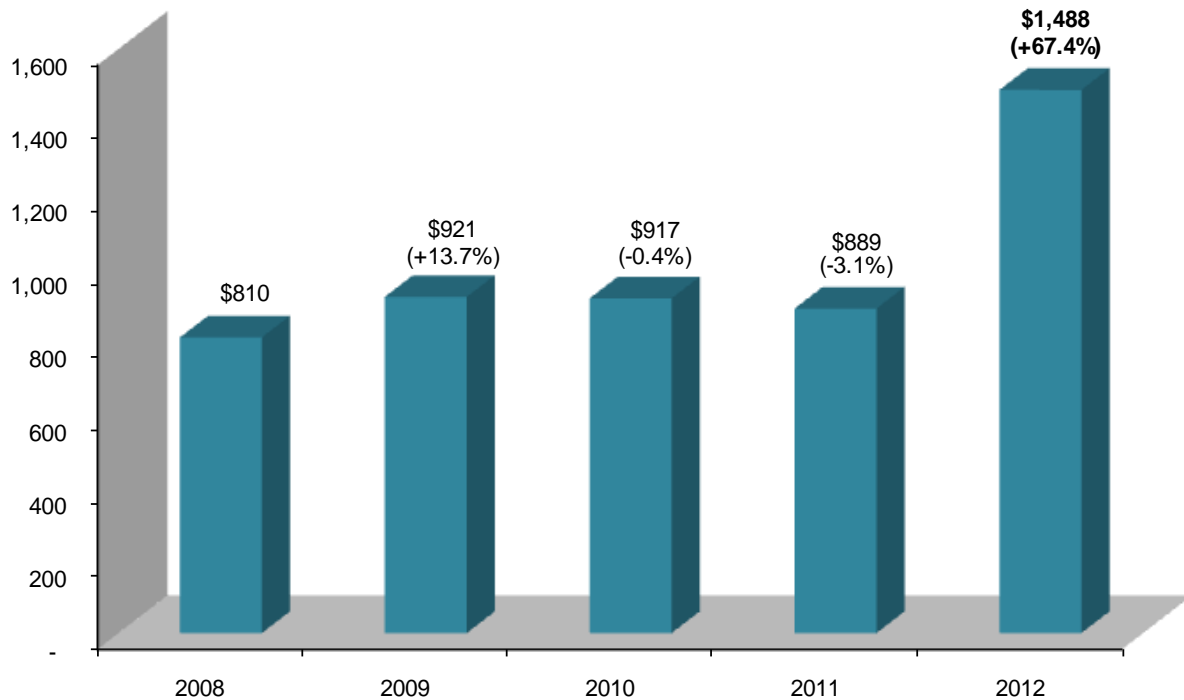


Chart 8: Fund Advisory Business (\$ bn)

20. As compared to 2011, the fund advisory business recorded robust growth of 67.4% to \$1,488 billion. Many respondents reported this was mainly attributable to net inflows of funds, launching of new portfolios and signing up of new client mandates in 2012. Of the total fund advisory business, 91.7% (2011: 87.1%) or \$1,365 billion was directly advised by licensed corporations in Hong Kong while the remaining was sub-contracted or delegated to other offices/third parties.
21. The percentage of assets under advice that were derived from overseas maintained a steady level of 87.6% in 2012. In value terms, these assets amounted to \$1,303 billion, up 63.5% from \$797 billion in 2011.



Other Private Banking Business (\$2,679 billion)

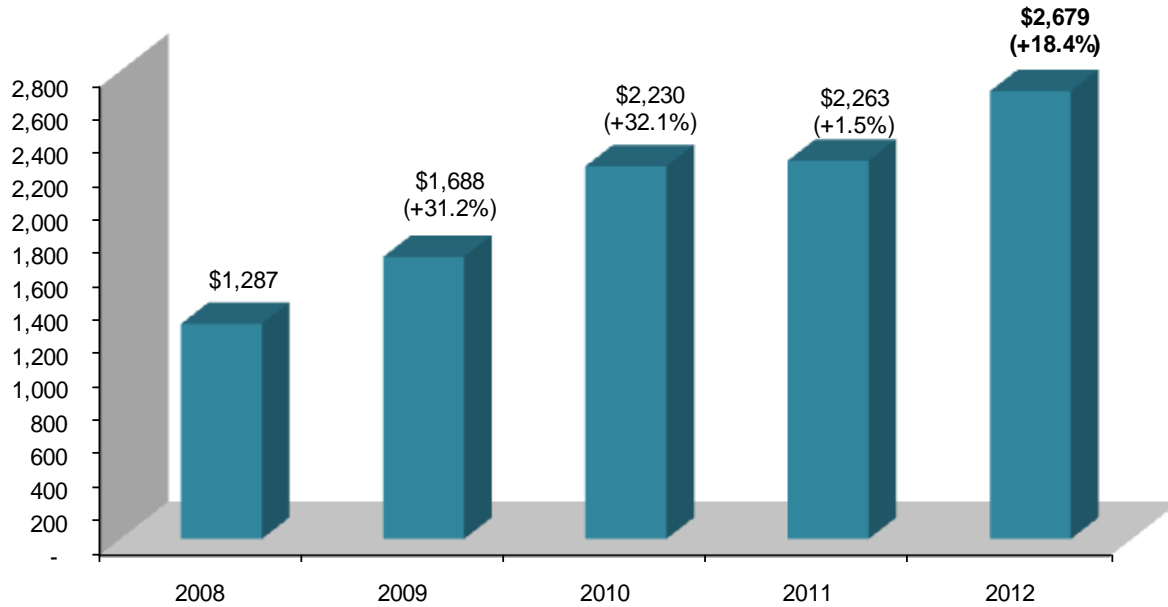


Chart 9: Other Private Banking Business (\$ bn)

22. Other private banking business recorded an increase of 18.4% to \$2,679 billion in 2012. Respondents attributed the increase mainly to positive market performance, fund inflows into private banking activities and growth of the private banking business division during the year.



SFC-authorized REITs (\$174 billion)

23. With a continuous thriving property market in Hong Kong in 2012, the local REIT market continued to expand. The Hang Seng REIT Index which tracks the performance of Hong Kong REITs increased by 35.9% from 4,077 as of end December 2011 to 5,542 as of end December 2012.
24. The market capitalisation of all SFC-authorized REITs increased by approximately 40.3% from \$124 billion in 2011 to \$174 billion in 2012. The growth was mainly attributable to a general increase in the REITs' trading prices and the acquisitions made by a number of listed REITs in 2012, including a very substantial acquisition of a landmark building in the Mainland with an aggregate consideration of RMB8.85 billion.



Staff Profile in Fund Management Business (Total number: 32,188)

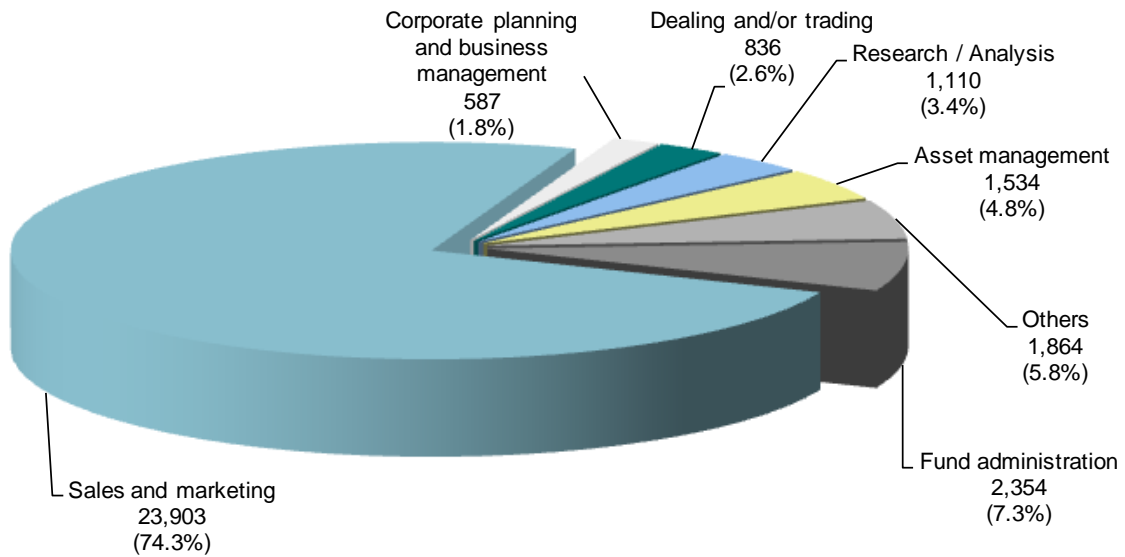
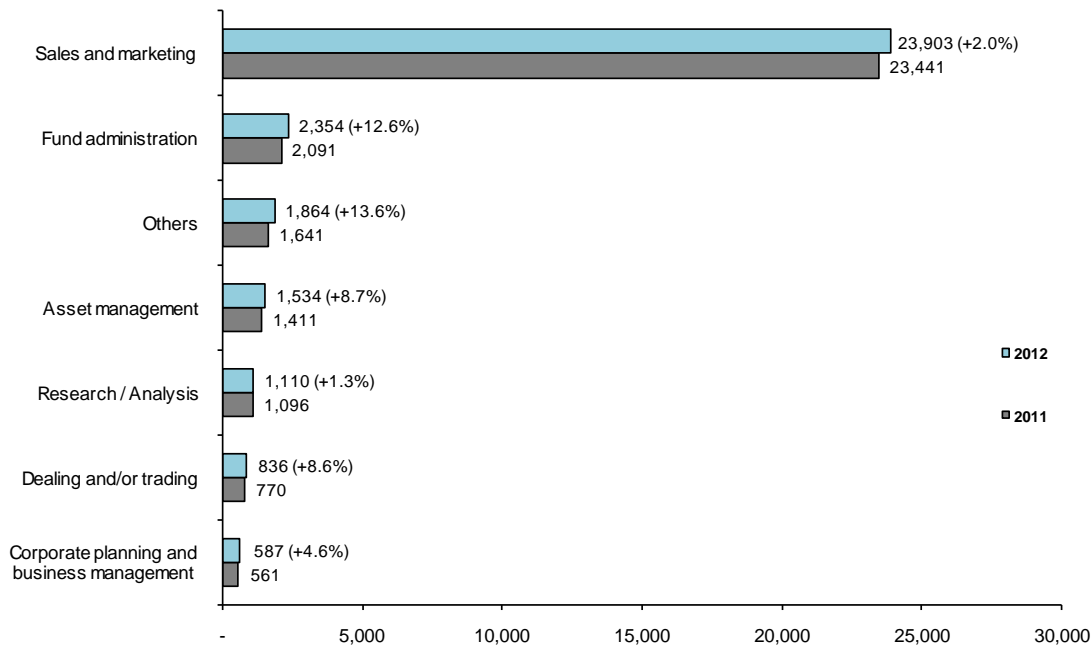


Chart 10A: Staff in Fund Management Business: by Job Function



**Chart 10B: Staff in Fund Management Business: by Job Function
2012 vs 2011**

25. The number of staff engaged in fund management business recorded a slight increase of 3.8% from 31,011 in 2011 to 32,188 in 2012. The number of staff engaged in sales and marketing activities recorded an increase of 2.0% to 23,903 during the year, with 22,233 staff in aggregate employed by registered institutions and insurance companies.



Appendix

Major Aggregate Figures

The major aggregate figures are summarised in the following table.

(\$ million)	Aggregate asset size as at 31 December 2012			
	Licensed Corporations	Registered Institutions	Insurance Companies	Total
Asset management of funds / portfolios				
Total assets managed by the firm (A) = (B) + (C)	7,689,418	198,261	358,262	8,245,941
Total assets directly managed by the firm in Hong Kong (B)	5,263,518	168,676	77,746	5,509,940
Total assets sub-contracted or delegated to other offices / third parties for management (C) = (D) + (E)	2,425,900	29,585	280,516	2,736,001
Total assets sub-contracted or delegated to other offices / third parties in Hong Kong for management (D)	196,294	929	-	197,223
Total assets sub-contracted or delegated to overseas offices / third parties for management (E)	2,229,606	28,656	280,516	2,538,778
Total assets managed in Hong Kong (F) = (B) + (D)	5,459,812	169,605	77,746	5,707,163
Giving advice on funds / portfolios				
Total assets under advisory business of the firm (H) = (I) + (J)	1,487,721	-	-	1,487,721
Assets directly advised by the firm in Hong Kong (I)	1,364,723	-	-	1,364,723
Assets sub-contracted or delegated to other offices / third parties for providing advisory services (J) = (K) + (L)	122,998	-	-	122,998
Assets sub-contracted or delegated to other offices / third parties in Hong Kong for providing advisory services (K)	7,500	-	-	7,500
Assets sub-contracted or delegated to overseas offices / third parties for providing advisory services (L)	115,498	-	-	115,498
Assets on which advice is given in Hong Kong (M) = (I) + (K)	1,372,223	-	-	1,372,223
Other private banking business				
Total assets under other private banking activities	-	2,678,728	-	2,678,728
SFC-authorized REITs				
Total market capitalisation of SFC-authorized REITs	174,124	-	-	174,124



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. 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 Asset Management Business managed overseas refers to amounts of assets sub-contracted or delegated to other offices / third parties overseas for asset management.