



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

Fund Management Activities Survey 2015

July 2016



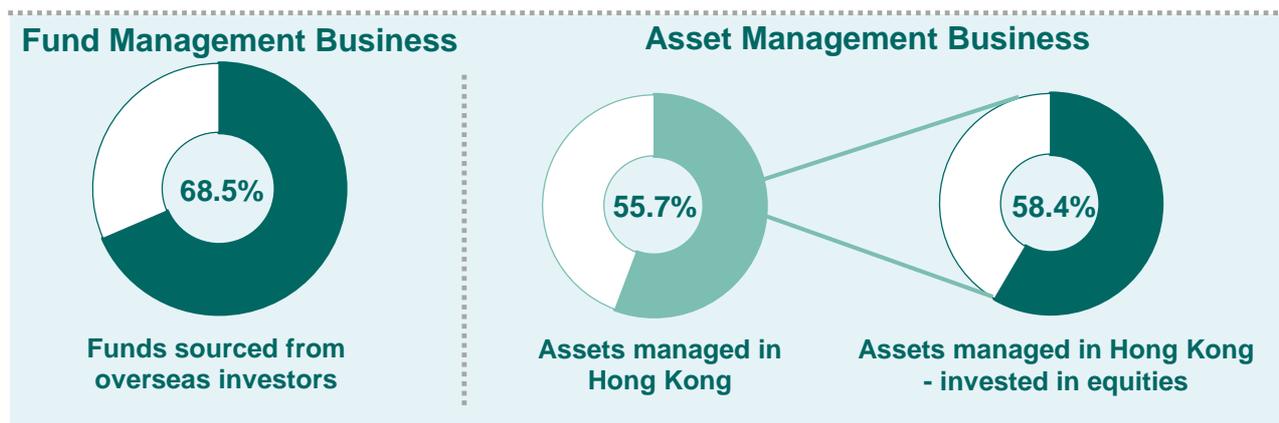
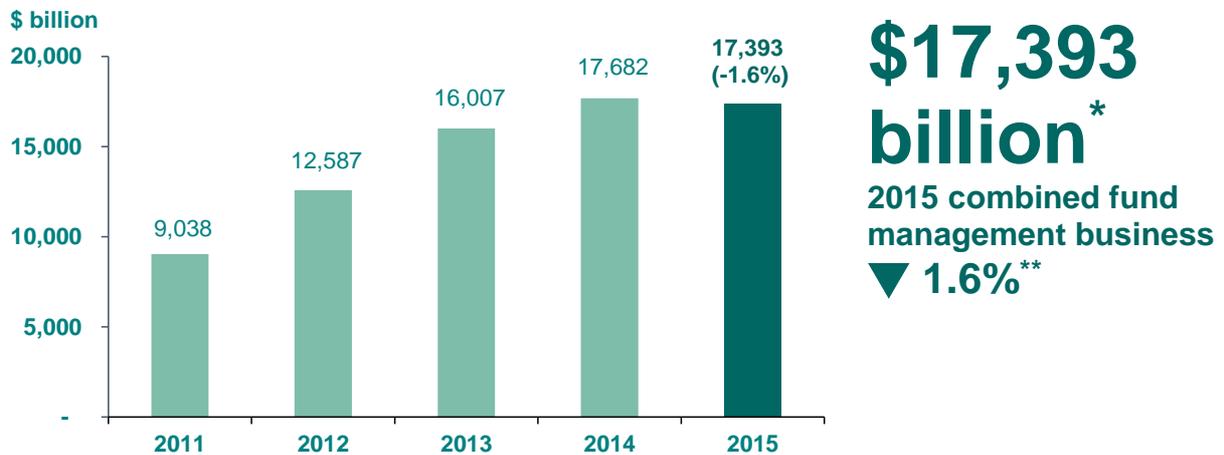
Table of Contents

I. Summary of Major Findings of FMAS 2015	1
II. Survey Report	3
Introduction	3
Responses	4
Executive Summary	5
Survey Findings	7
Combined Fund Management Business (\$17,393 billion)	7
Fund Management Business (excluding REITs) (\$17,193 billion)	
- By Category of Market Players	8
- By Source of Funds	9
Asset Management and Fund Advisory Business (\$13,527 billion) - By Type of Funds	10
Asset Management Business (\$12,259 billion) - By Location of Management	11
Assets Managed in Hong Kong (\$6,823 billion)	
- By Geographical Distribution of Investments	12
- By Asset Class in terms of Assets Being Invested	13
Funds Sourced from Private Wealth Management Business (\$4,775 billion)	14
SFC-authorized REITs (\$200 billion)	15
Fund Management Business Staff Profile	16
III. Hong Kong's Role as the Pre-eminent Offshore Renminbi Centre	17
IV. Recent Developments and Industry Outlook	19
Appendix - Breakdown of Combined Fund Management Business in 2015	22



I. Summary of Major Findings of Fund Management Activities Survey (FMAS) 2015

Combined Fund Management Business



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

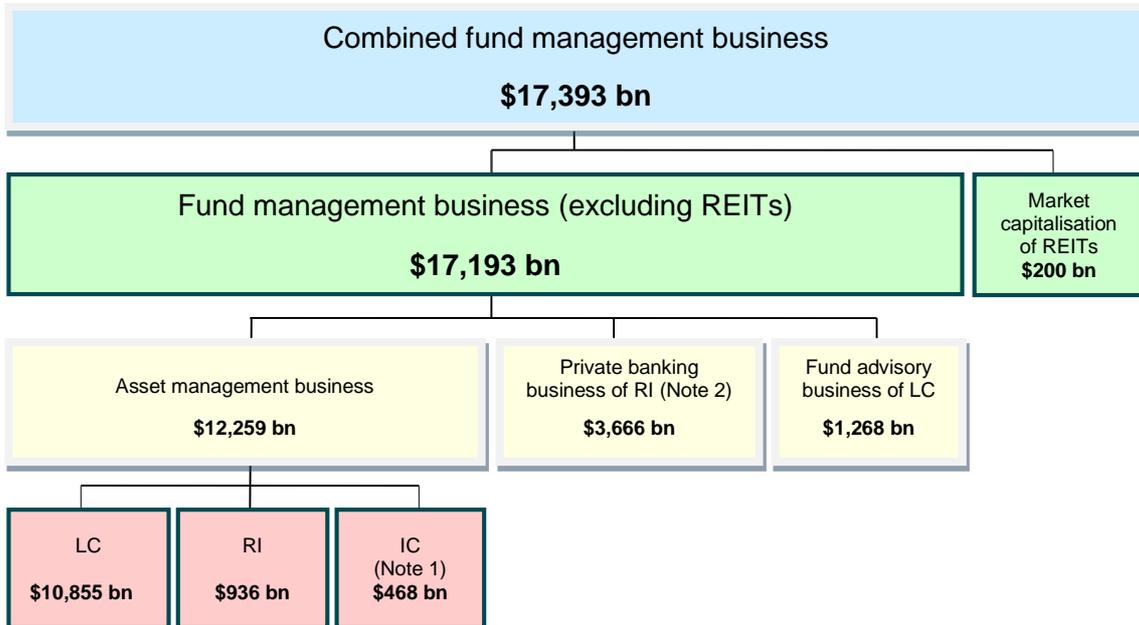
** Percentage change represents a comparison between figures in December 2015 and December 2014.

*** Percentage change represents a comparison between figures in March 2016 and March 2015.

**** Core asset management activities include asset management, research and dealing.



Components of Combined Fund Management Business



Legend:

REITs: real estate investment trusts

RI: registered institutions

LC: licensed corporations

IC: insurance companies

Notes:

- 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.
- The term "Other private banking business" used in previous reports is re-labelled as "Private banking business" to better reflect the nature of business activity.



II. 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 business (collectively “licensed corporations¹” or LCs);
 - (b) banks engaging in asset management and private banking business (collectively “registered institutions²” or RIs), 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 companies³ (ICs) 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 Hong Kong Monetary Authority and the Hong Kong Federation of Insurers, to registered institutions and relevant insurance companies respectively, to enquire about their fund management activities as at 31 December 2015. 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 business and operations.



Responses

General

1. A total of 621 firms responded to the Questionnaires and reported that they conducted asset management, fund advisory and/or private banking business during the survey period. These included 555 licensed corporations, 45 registered institutions and 21 insurance companies.

Licensed corporations

2. A breakdown of the activities of the 555 licensed corporations which engaged in asset management and/or advisory business on funds or portfolios is shown below:

Respondents with asset management business only	359
Respondents with assets under fund advisory business only	56
Respondents with both of the above	140
	<hr/>
	555

Registered institutions

3. A breakdown of the activities of the 45 registered institutions which engaged in asset management and/or private banking business is shown below:

Respondents with asset management business only	4
Respondents with private banking business only	20
Respondents with both of the above	21
	<hr/>
	45

Insurance companies

4. Twenty-one insurance companies with long term business providing services covering wealth management, life and annuity and retirement planning products, but which were not licensed by the SFC, responded to the survey.



Executive Summary

1. Amid a tumultuous year for global stocks, commodities, bonds and currencies, Hong Kong's combined fund management business⁴ decreased slightly by 1.6% year-on-year to \$17,393 billion as of 31 December 2015.
2. This decrease is the result of a drop in asset prices which contributed to a reduction in assets under management as well as organisational adjustments reported by a few respondents in the fund advisory segment.
3. Private banking business grew by over 18% to \$3,666 billion in 2015. Aggregate private wealth management business including both the private banking business and private client funds which form part of the asset management and fund advisory business increased 4.3% to \$4,775 billion as Hong Kong continued to capture growing Asian wealth.
4. Despite the slight drop in the combined fund management business, the number of corporations licensed for asset management in Hong Kong increased by 10.1% in 2015. The number of staff engaged in core asset management activities increased by 4.3% in 2015.
5. During 2015, Hong Kong remained committed to maintaining its status as a leading international fund management centre:
 - (a) Overseas investors remained a main source of funding for Hong Kong's fund management business, accounting for 68.5%. Hong Kong's robust regulatory framework and innovative products continued to attract international investors.
 - (b) The proportion of assets managed in Hong Kong increased consistently over the past three years and reached 55.7% of the asset management business. This shows that Hong Kong is increasingly a preferred location for asset management activities as asset managers are able to leverage expertise in Asia Pacific markets, particularly in the Mainland and Hong Kong.

\$17,393 bn

2015 combined fund management business

\$4,775 bn

Private wealth management business

▲ 10.1%

LCs – Type 9 Regulated Activity

▲ 4.3%

Staff engaged in core asset management activities

68.5%

Funds sourced from overseas investors

55.7%

Assets managed in Hong Kong



(c) Hong Kong is one of the world's leading equity funding centres. More than 58% of the assets managed in Hong Kong were invested in equities.

58.4%

**Assets managed in Hong Kong
– invested in equities**

(d) A sustained trend in 2015 was the growing presence of Mainland companies in the Hong Kong market. The number of licensed corporations and registered institutions established by Mainland-related groups in Hong Kong increased by 15.4% year-on-year as at 31 March 2016.

▲ 15.4%

**No. of Mainland-related LC
and RI**

(e) The total number of SFC-authorized unit trusts and mutual funds increased by 4.3%, with the number of Hong Kong-domiciled unit trusts and mutual funds increasing by 10.4% year-on-year to 656 as at 31 March 2016. Hong Kong remained a major exchange-traded funds (ETF) centre and was the second-largest ETF market in Asia in terms of market capitalisation[‡] as at 31 March 2016.

▲ 10.4%

**Hong Kong-domiciled
funds**

6. Going forward, the SFC will continue to facilitate Hong Kong's development as a global, full-service asset management centre. To this end, the SFC is actively pursuing strategies to enhance the market infrastructure for the asset management business in Hong Kong. Following on the successful implementation of the groundbreaking Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, the SFC will continue to explore similar cooperation arrangements with other jurisdictions. Other initiatives include introducing a new legal and regulatory framework for open-ended fund companies and developing online and alternative fund distribution platforms. In addition, the SFC is working closely with the industry to broaden the types of fund products offered to local and international investors. Recent examples include leveraged and inverse products and crude oil futures ETFs.

[‡] Excluding the SPDR Gold Trust.



Survey Findings

Combined Fund Management Business (\$17,393 billion)

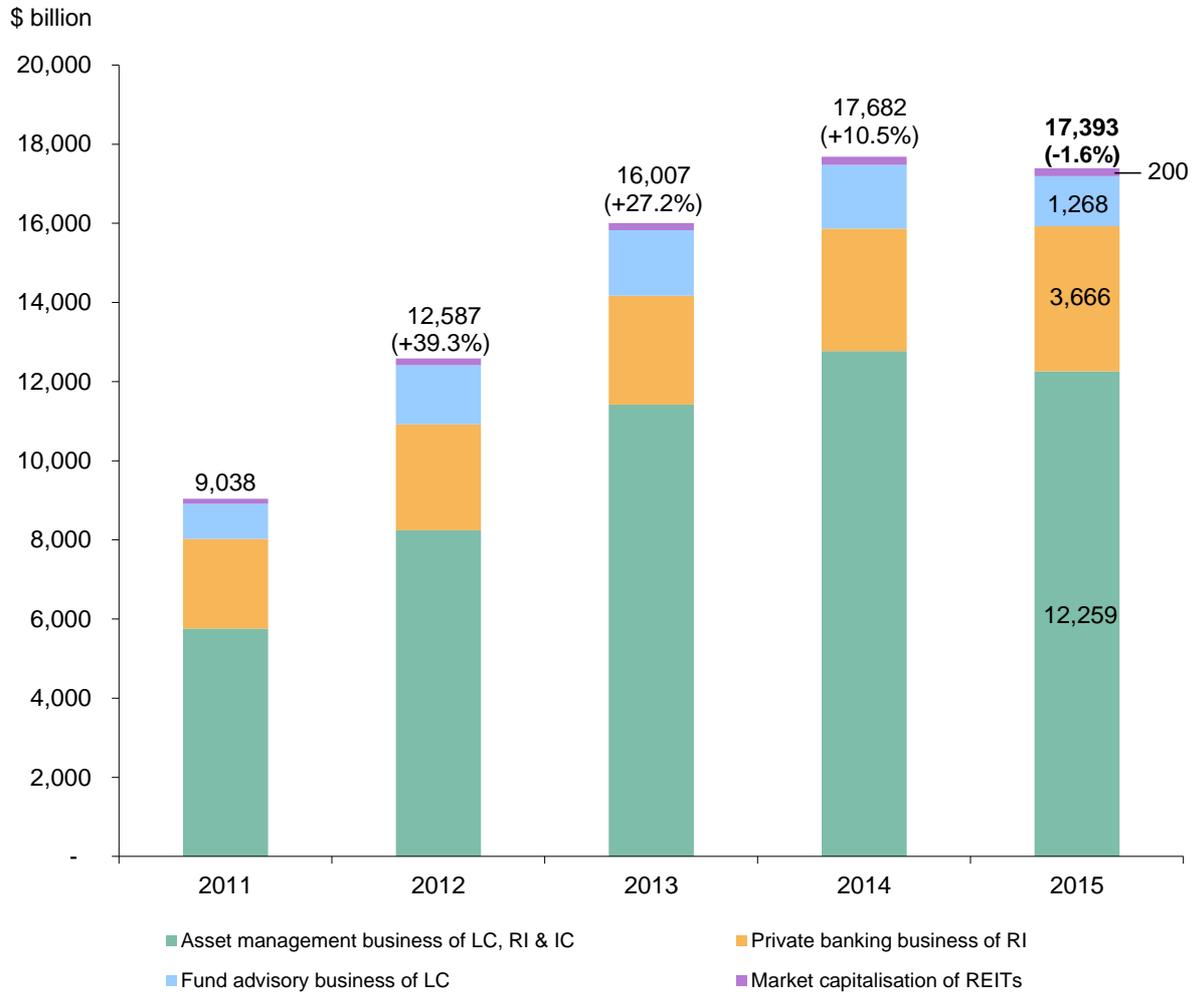


Chart 1: Combined Fund Management Business

The combined fund management business in Hong Kong reported a year-on-year decrease of 1.6% in 2015.

Asset management business decreased by 4% to \$12,259 billion.

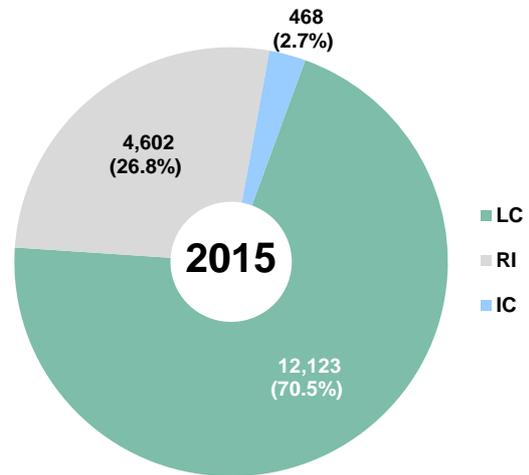
For a breakdown of the combined fund management business in 2015, please refer to the Appendix on page 22.



Fund Management Business (excluding REITs) (\$17,193 billion)

1. By category of market players:

(a) Licensed corporations registered a year-on-year decrease of 6.2% in their aggregate asset management and fund advisory business to \$12,123 billion in 2015. Their asset management business decreased slightly by 4% to \$10,855 billion while their fund advisory business dropped by 21.3% to \$1,268 billion. Respondents reported that the decreases were principally attributable to fund outflows, market volatility, lower market value of assets and organisational adjustments. However, respondents who expanded their business in Asia, in particular in the Mainland, reported fund inflows from this region which partially offset the decreases.



(b) Registered institutions recorded a 12.1% increase in their aggregate asset management and private banking business to \$4,602 billion. Of this amount, asset management business decreased by 7.2% to \$936 billion. However, private banking business, the main component, increased by 18.4% to \$3,666 billion, primarily due to sustained capital inflows from private banking clients and the expansion of private banking operations in Hong Kong.

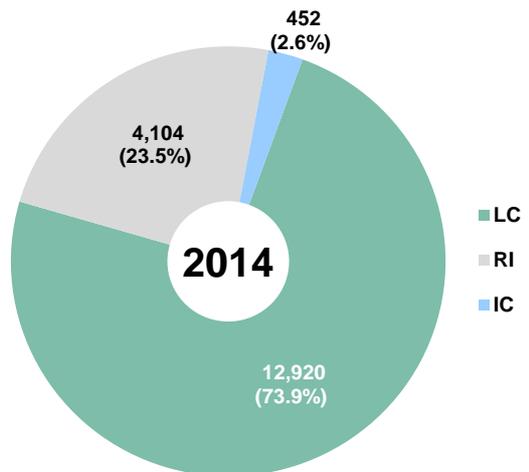


Chart 2A: Fund Management Business (excluding REITs) - by Category of Market Players (2015 vs 2014)

(c) Insurance companies reported a 3.5% increase in assets under management to \$468 billion. The increase was mainly attributable to normal growth in the traditional life insurance and retirement scheme business which was partially offset by a decrease in linked long term business in 2015.

2. At the end of 2015, the number of corporations licensed for asset management (ie, Type 9 regulated activity) grew by 10.1% to 1,135 corporations from 1,031 a year ago, surpassing the number of corporations licensed for all other types of regulated activity. Among the 104 corporations newly licensed for asset management, 19.2% were from the Mainland and 7.7% were from overseas. During the year, the number of individuals licensed for asset management grew by 10.9% to 8,572 from 7,729 a year earlier. As of end-March 2016, the number of corporations and individuals licensed for asset management further increased to 1,153 and 8,714, respectively.



Fund Management Business (excluding REITs) (\$17,193 billion) (cont'd)

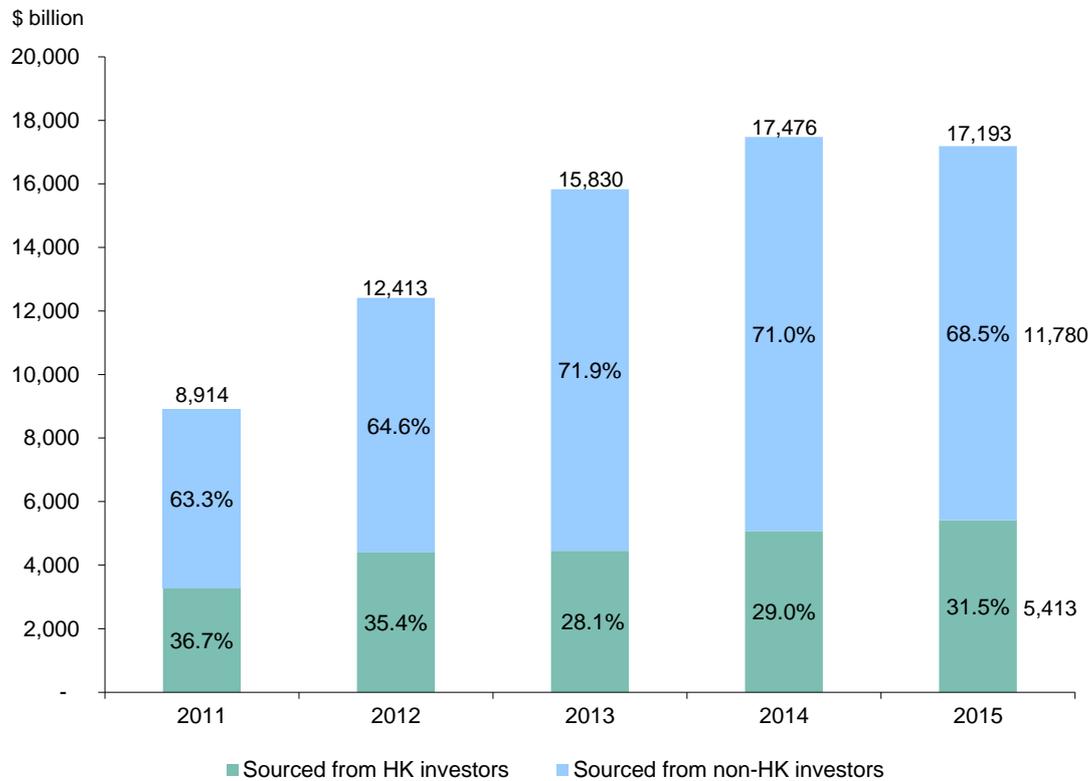


Chart 2B: Fund Management Business (excluding REITs) - by Source of Funds

3. Despite a drop of about 5% to \$11,780 billion in 2015 from \$12,404 billion in the previous year, overseas investors remained a main source of funding for Hong Kong's fund management business, accounting for 68.5%, demonstrating that Hong Kong maintains its position as a key sales and distribution centre in Asia.



Asset Management and Fund Advisory Business (\$13,527 billion)

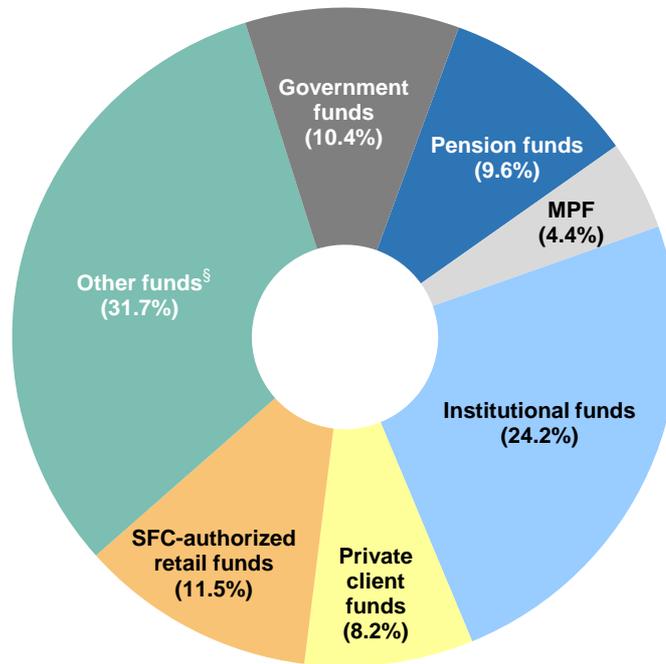


Chart 3A: Asset Management and Fund Advisory Business - by Type of Funds (2015)

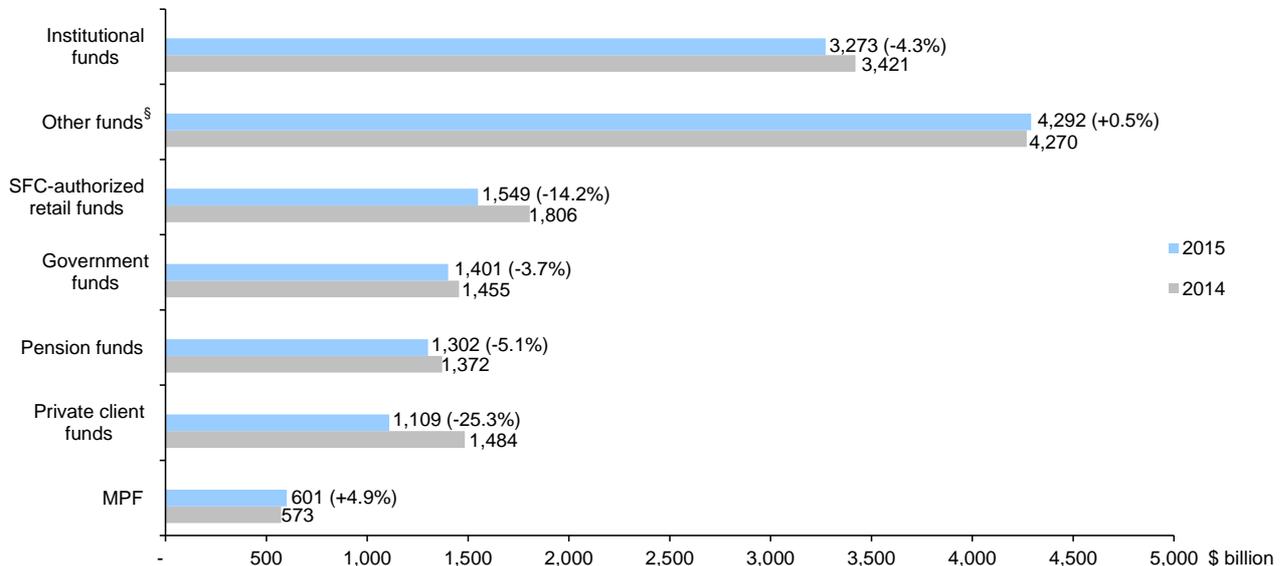


Chart 3B: Asset Management and Fund Advisory Business - by Type of Funds (2015 vs 2014)

- Institutional funds, SFC-authorized retail funds and other funds[§] continued to account for more than 60% of the aggregate asset management and fund advisory business. Despite net cash outflows amid market fluctuations and an uncertain economic outlook, other funds and mandatory provident funds (MPF) recorded slight increases of 0.5% and 4.9% respectively in 2015.

[§] Other funds mainly comprise overseas retail funds, hedge funds, private equity funds and insurance portfolios.



Asset Management Business (\$12,259 billion)

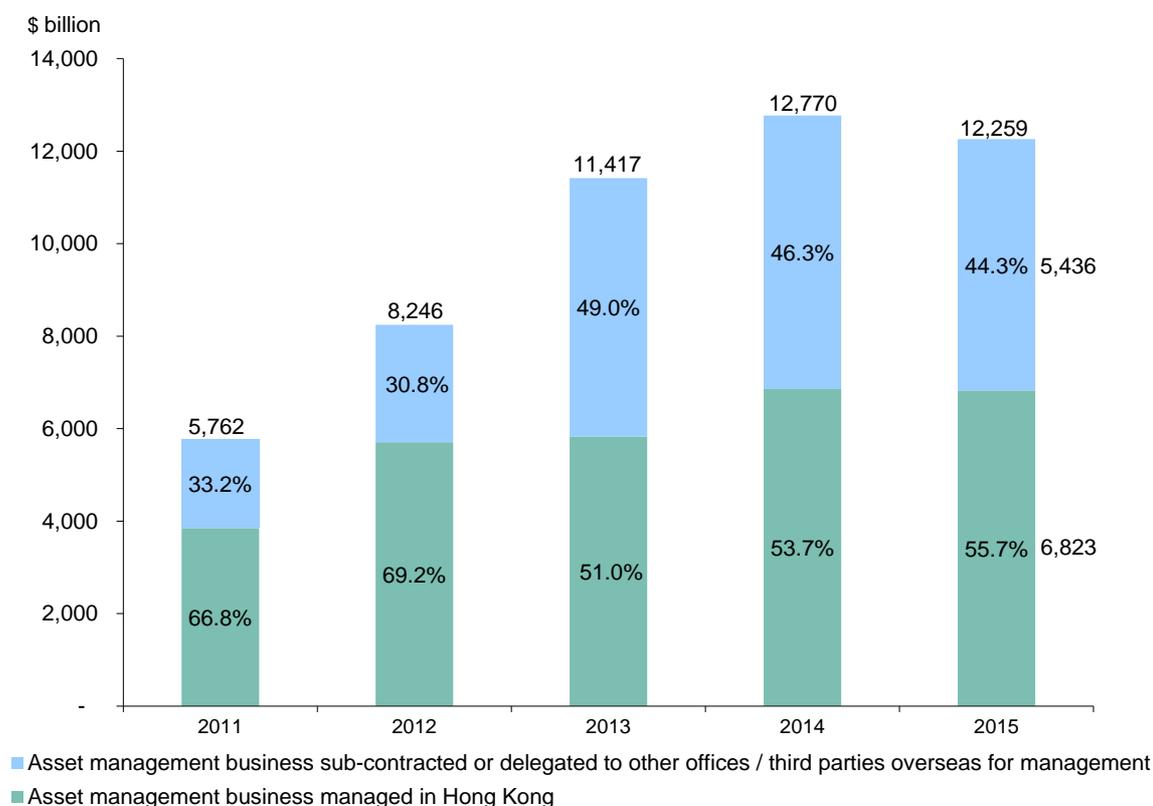


Chart 4: Asset Management Business - by Location of Management

5. The infrastructure and services necessary for the asset management industry remained in demand in Hong Kong. The proportion of overall assets being managed in Hong Kong increased in the past three years, reaching 55.7% in 2015. The amount of assets managed in Hong Kong decreased slightly by 0.5% year-on-year to \$6,823 billion from \$6,856 billion in 2014.
6. Hong Kong's prominence as a fund domicile centre is growing. The number of SFC-authorized Hong Kong-domiciled funds grew by 10.4% to 656 as at 31 March 2016 from 594 a year ago, whereas the total number of SFC-authorized unit trusts and mutual funds increased by 4.3% to 2,133 from 2,045 during the same period. The successful implementation of the Mainland-Hong Kong MRF scheme provided an incentive for fund managers to domicile their funds in Hong Kong, allowing them to access both Mainland and Hong Kong markets.



Assets Managed in Hong Kong (\$6,823 billion)

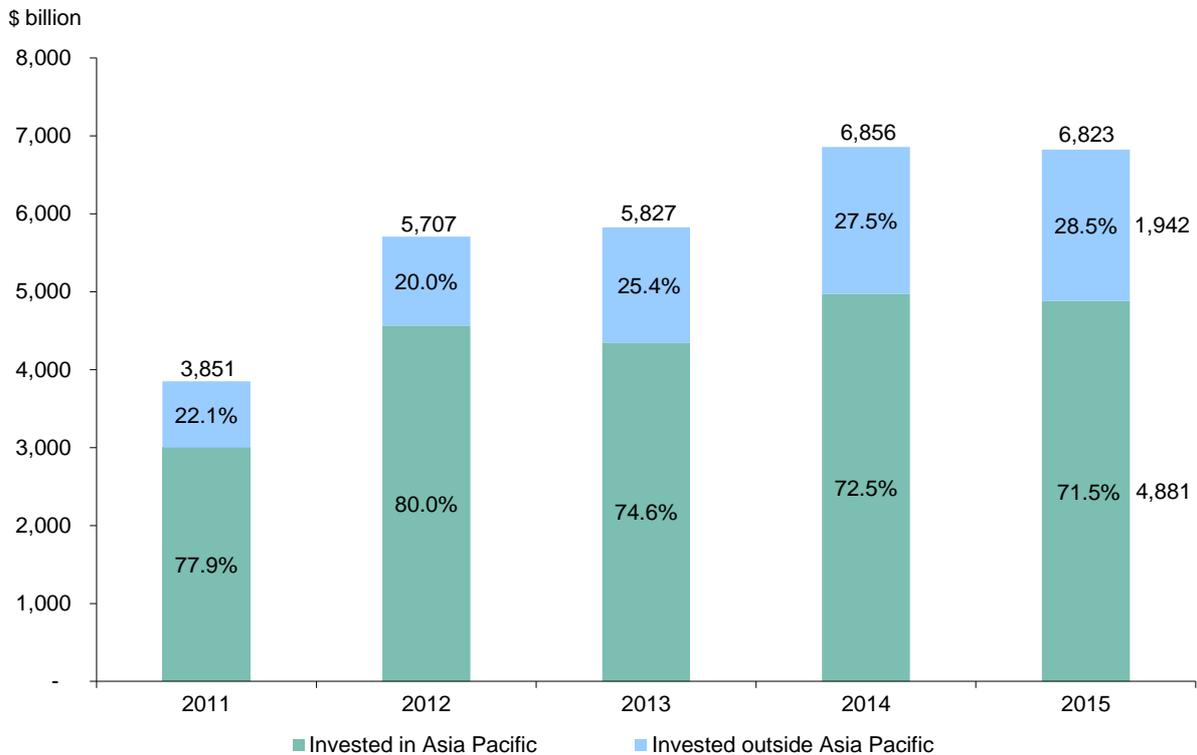


Chart 5A: Assets Managed in Hong Kong - by Geographical Distribution of Investments

7. Over 70% of assets managed in Hong Kong continued to be invested in Asia Pacific in 2015.
8. For assets managed in Hong Kong, the Mainland and Hong Kong[∂] remained the preferred locations for investment, which at \$3,427 billion accounted for 50.2% of all assets managed in Hong Kong in 2015.
9. Hong Kong's fund managers continued to diversify their investments outside of Asia Pacific, with assets increasing by 3.2% to \$1,942 billion in 2015 from \$1,882 billion a year ago, notably with more allocations made in the US and European markets.

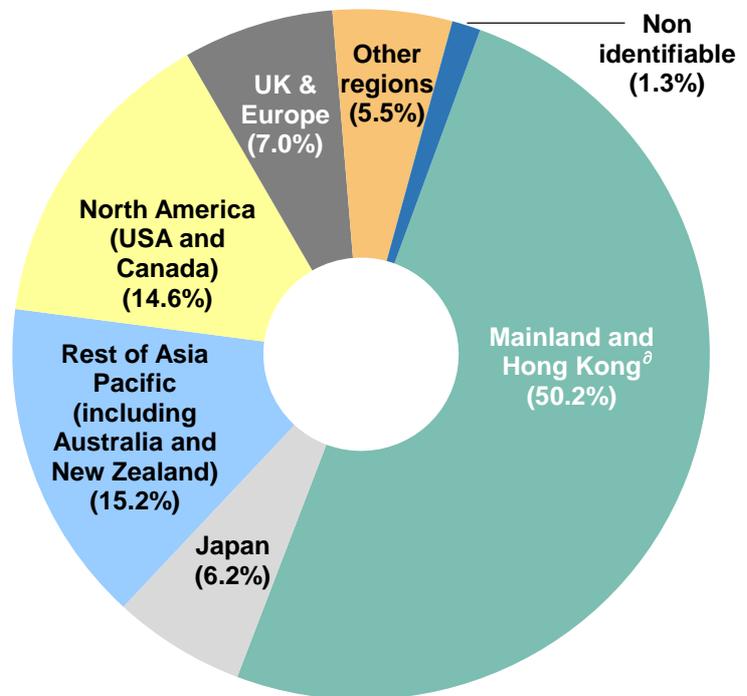


Chart 5B: Assets Managed in Hong Kong - by Geographical Distribution of Investments (2015)

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



Assets Managed in Hong Kong (\$6,823 billion) (cont'd)

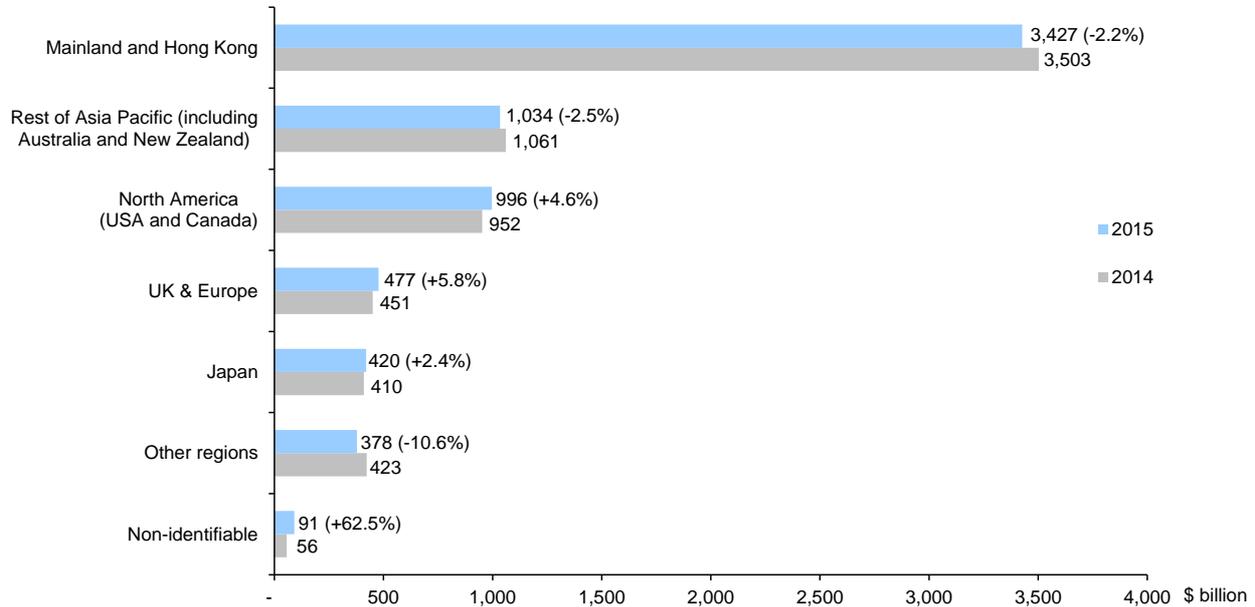


Chart 5C: Assets Managed in Hong Kong - by Geographical Distribution of Investments (2015 vs 2014)

10. Hong Kong is one of the world's leading equity funding centres. In 2015, the total funds raised through initial public offerings (IPOs) in Hong Kong amounted to \$261.3 billion. This, coupled with the groundbreaking Shanghai-Hong Kong Stock Connect pilot programme (Stock Connect), enabled asset managers in Hong Kong to enhance their capabilities in managing equity investments. Out of the assets managed in Hong Kong in 2015, 58.4% were invested in equities, while 19.3% were invested in bonds.

11. As at 31 March 2016, the majority of SFC-authorized unit trusts and mutual funds were equity funds, accounting for 47.7% of the total net asset value, whereas 33.2% and 19.1% were bond funds and other funds, respectively.

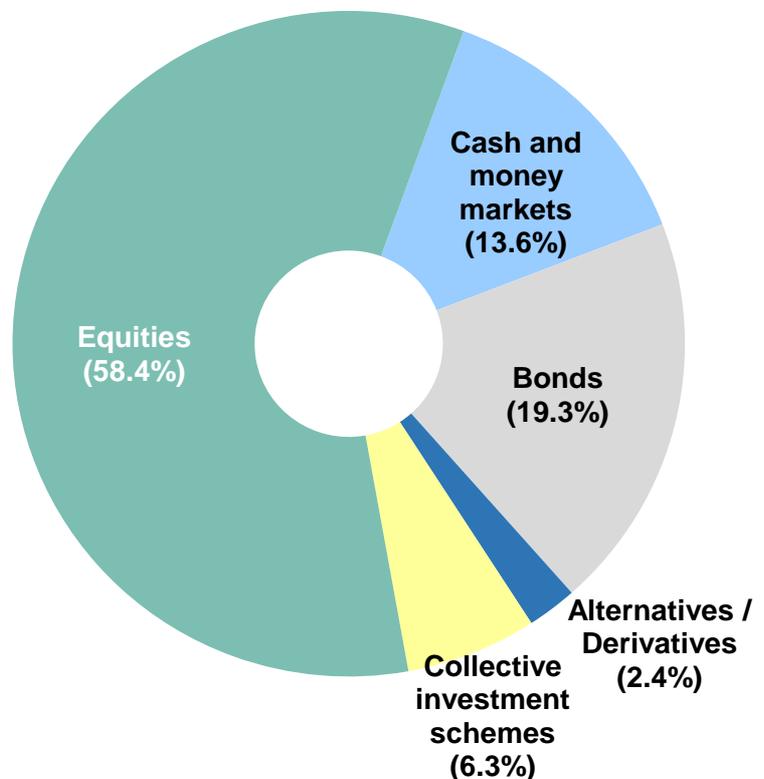


Chart 5D: Assets Managed in Hong Kong - by Asset Class in terms of Assets Being Invested (2015)



Funds Sourced from Private Wealth Management Business (\$4,775 billion)

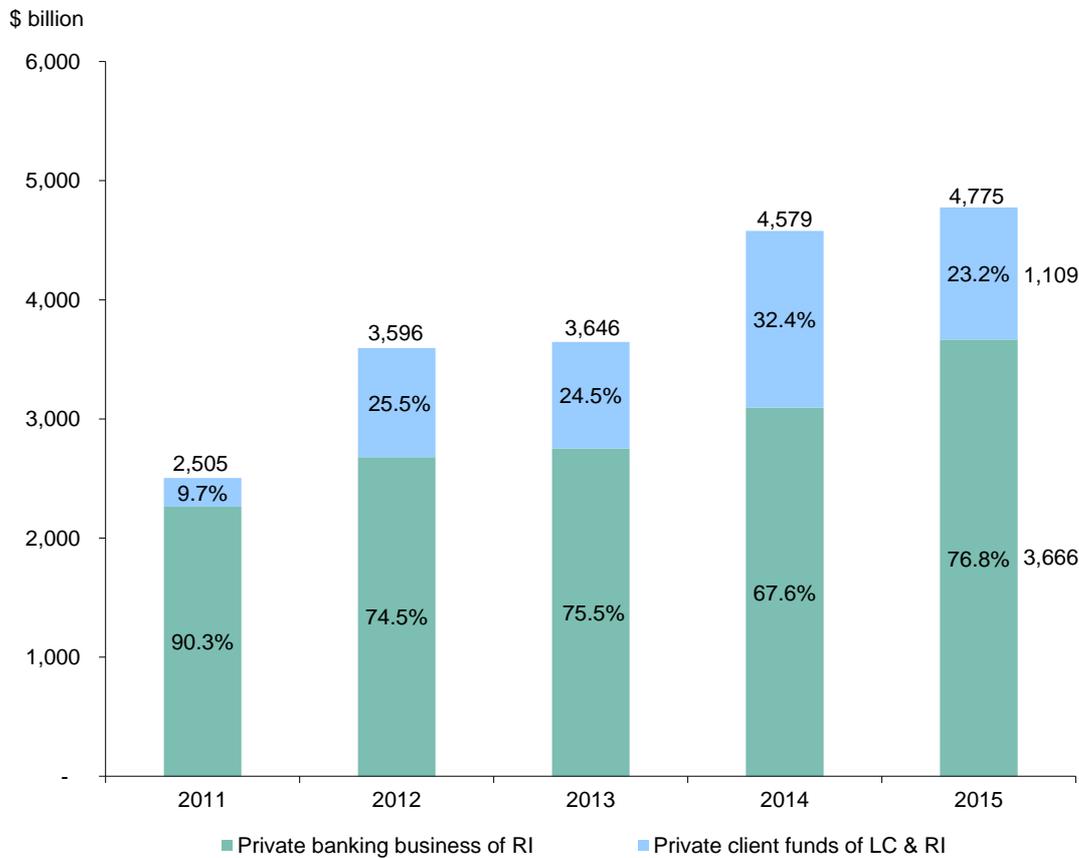


Chart 6: Funds Sourced from Private Wealth Management Business

12. To provide a more comprehensive analysis, the private wealth management business includes both the private banking business of registered institutions and private client funds of licensed corporations and registered institutions.
13. The number of high net worth individuals in Asia continued to grow significantly. In 2015, funds sourced from private clients, including the private banking business (\$3,666 billion) and private client funds (\$1,109 billion), amounted to \$4,775 billion, which was 4.3% higher than the previous year.
14. Hong Kong remained a preferred location to manage Asian wealth. The fundamental attributes conducive to making Hong Kong an Asian private wealth management hub and an attractive and preferred location for high net worth clients, private banks and family offices include the availability of experienced and knowledgeable sales and marketing professionals, innovative products, a robust regulatory regime and a reliable judicial system, as well as a simple and transparent taxation system.



SFC-authorized REITs (\$200 billion)

15. Hong Kong's REIT market continued to develop in 2015. A number of acquisitions and development activities were made by listed REITs during the year involving an aggregate consideration of over \$24 billion. The Hang Seng REIT Total Return Index also recorded a gain of over 7% for the year ended 31 December 2015.
16. The market capitalisation of all SFC-authorized REITs remained steady in 2015.

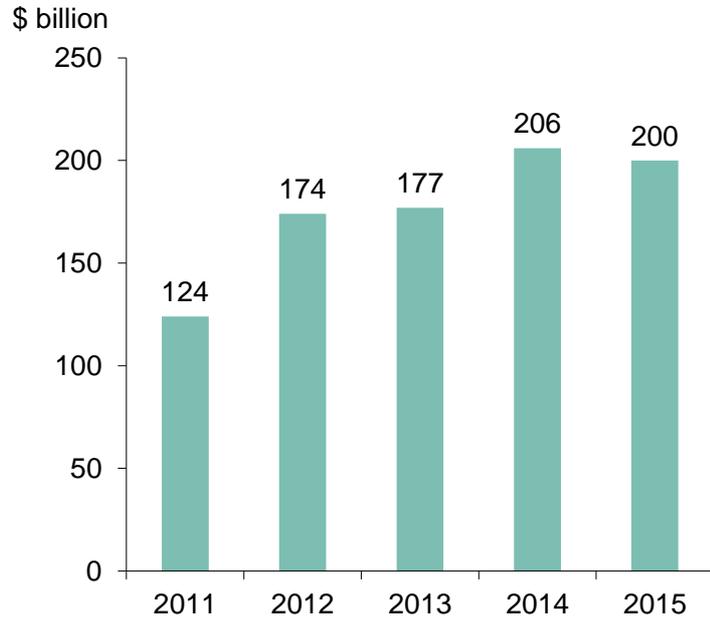


Chart 7: Market capitalisation of SFC-authorized REITs



Fund Management Business Staff Profile (Total number: 34,921)

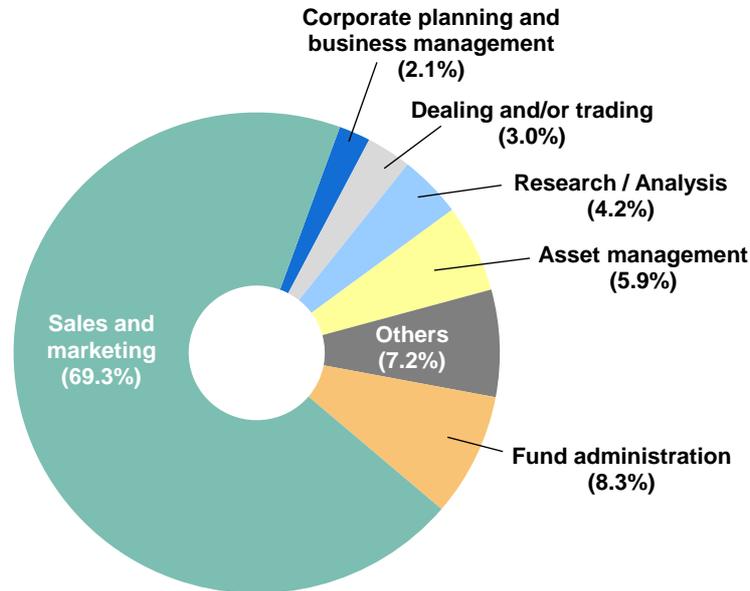


Chart 8A: Fund Management Business Staff Profile - by Job Function (2015)

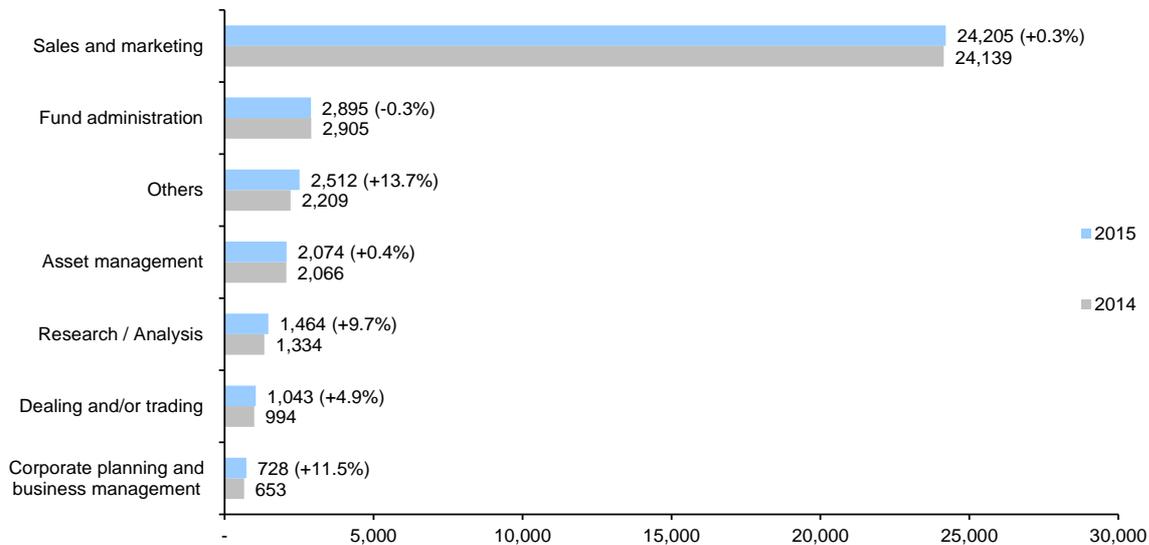


Chart 8B: Fund Management Business Staff Profile - by Job Function (2015 vs 2014)

17. Hong Kong remained a key fund distribution centre within the region. A diversity of professionals in the asset management business supports Hong Kong's development as a global, full-service asset management centre. The total number of staff engaged in the fund management business increased by 1.8% to 34,921 in 2015 from 34,300 in 2014, while those engaged in sales and marketing activities accounted for 69.3% of all staff engaged in the fund management business. Taking advantage of new and groundbreaking initiatives such as Stock Connect and the Mainland-Hong Kong MRF scheme, the talent pool for core asset management activities (including asset management, research and dealing) continued to grow. In aggregate, the number of staff engaged in core asset management activities increased by 4.3% in 2015.

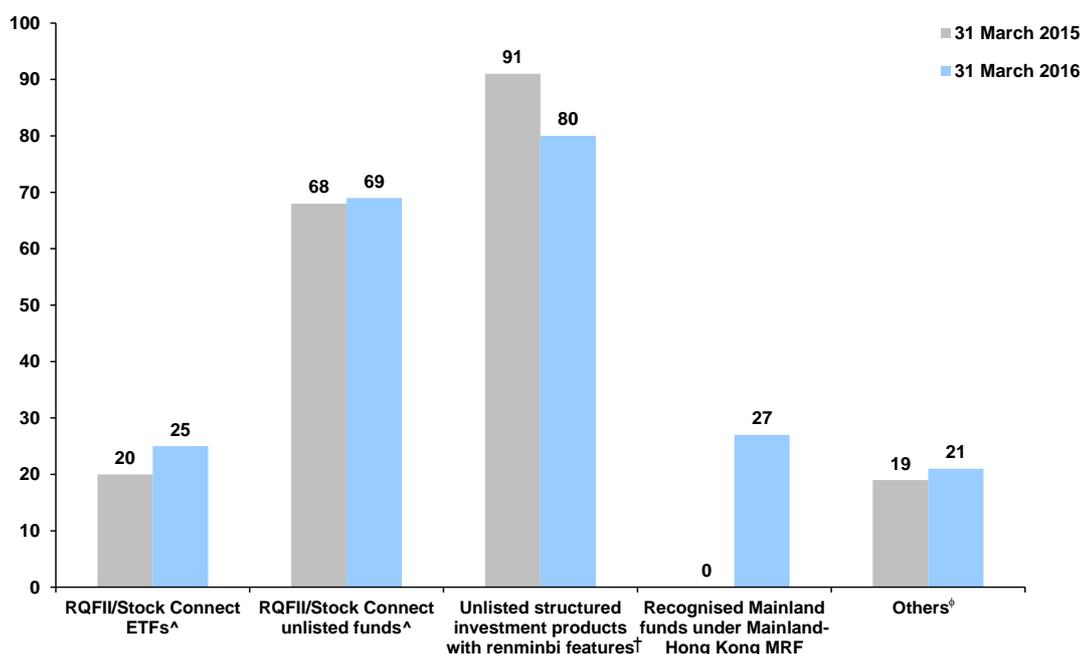


III. Hong Kong's Role as the Pre-eminent Offshore Renminbi Centre

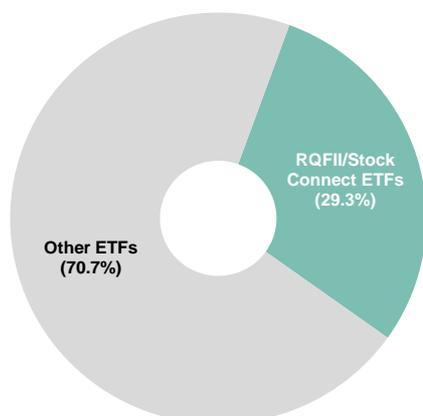
- Hong Kong has played a major role in the transformation of the renminbi into an internationally accepted and widely-used currency. Hong Kong pioneered the offshore renminbi business in 2004 and has since become the world's largest offshore renminbi centre with a vibrant market for a whole range of renminbi products and services.

Retail renminbi-denominated and related products

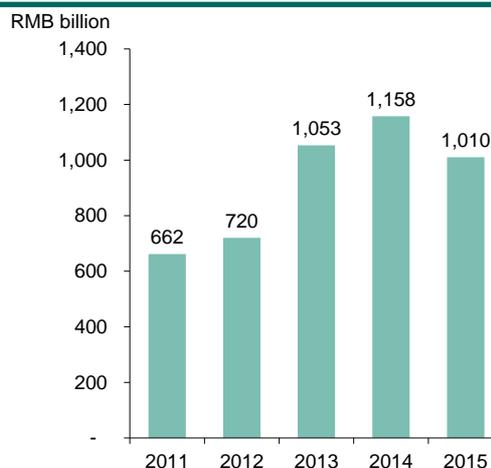
**Number of SFC-authorized renminbi investment products
(31 March 2015 vs 31 March 2016)**



Hong Kong ETF market in terms of average daily turnover as at 31 March 2016



Total outstanding renminbi customer deposits and certificates of deposit



Source: HKMA Annual report

[^] Renminbi Qualified Foreign Institutional Investor (RQFII)/Stock Connect unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities market through either the RQFII quota, Stock Connect or both.

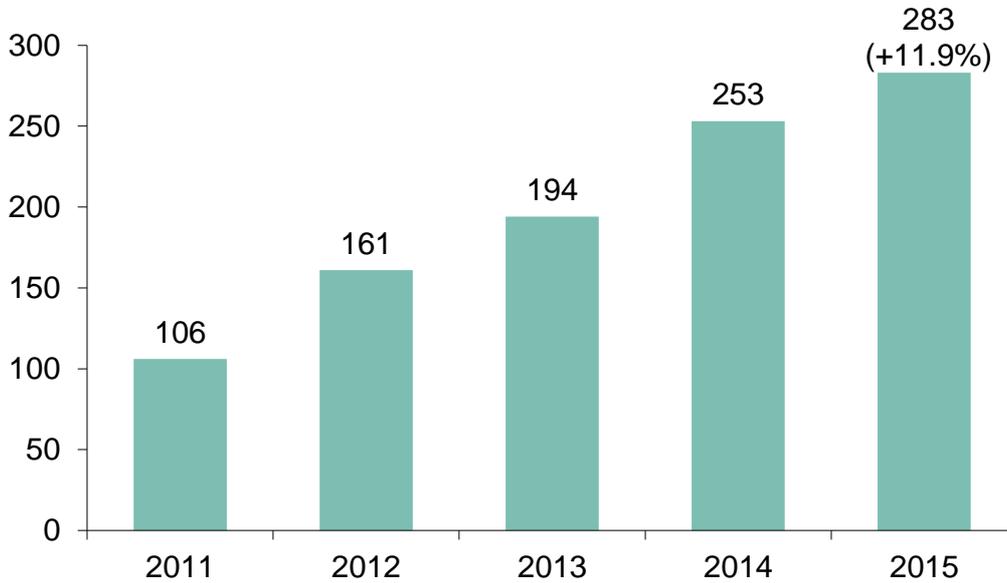
[†] The number is on a "one product per key facts statement" basis.

[‡] Other SFC-authorized renminbi investment products include renminbi offshore dim sum bonds/fixed income unlisted funds, renminbi offshore dim sum bond ETFs, renminbi gold ETFs, paper gold scheme with renminbi features and renminbi REITs.



Growing Mainland participation in the Hong Kong market

Number of SFC-authorized funds managed by Mainland-related fund groups

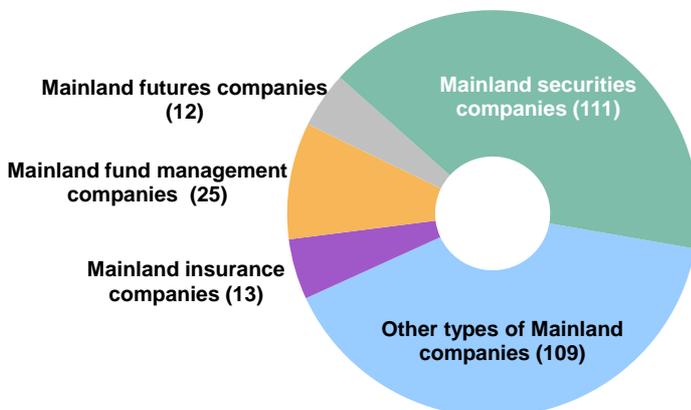


Number of licensed corporations or registered institutions established by Mainland-related groups in Hong Kong as at 31 March 2016 (270 entities)

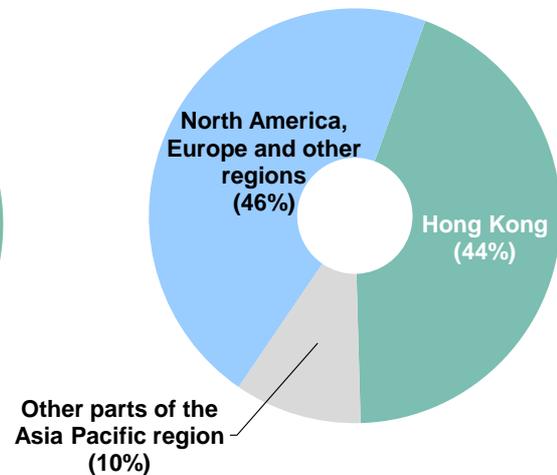
Mainland assets managed in Hong Kong and sourced from Qualified Domestic Institutional Investors (QDII) as of end-2015 (\$145 billion)

– by Geographical Distribution of Investments

▲ 15.4%



▲ 16%





IV. Recent Developments and Industry Outlook

In 2015, the SFC introduced a new strategy for developing Hong Kong as a global asset management centre, with the groundbreaking Mainland-Hong Kong MRF scheme at its core. The goal is for Hong Kong to become a global, full-service asset management centre, complete with a full range of ancillary services.

Developing Hong Kong as an onshore fund management hub and a domicile for investment funds

MRF with the Mainland and other jurisdictions

The MRF scheme between the Mainland and Hong Kong forms a core part of the SFC's strategy to enhance Hong Kong's position as an international asset management centre and a preferred domicile for investment funds. The MRF scheme became operational on 1 July 2015, creating significant opportunities for Hong Kong's asset management industry. The MRF scheme has operated smoothly and will pave the way for greater market integration and connectivity between the Mainland and Hong Kong. As at 30 June 2016, the SFC authorized 37 Mainland funds and the China Securities Regulatory Commission approved six Hong Kong funds under the MRF scheme.

Following the successful implementation of MRF with the Mainland, the SFC will further explore cooperation arrangements in asset management with other overseas authorities.

Open-ended fund companies (OFCs)

In June 2016, the Legislative Council passed the Securities and Futures (Amendment) Bill 2016 which introduced a new OFC structure in Hong Kong. This will provide an extra option for open-ended investment funds to be structured in corporate form in addition to the unit trust form, enabling more flexible choices of investment fund vehicles for fund managers. This is expected to increase Hong Kong's attractiveness as an international asset management centre. As the primary regulator responsible for registering and regulating OFCs, the SFC will continue to assist the Government in establishing the OFC regime by introducing relevant subsidiary legislation and regulations.



Tackling structural issues, enhancing fund authorization process and facilitating product innovation and development

Revamped fund authorization process

The SFC regularly reviews and seeks to improve its fund authorization process wherever practicable, with a view to promoting fund providers' compliance and reducing the overall processing time for new fund applications without compromising investor protection. A new initiative to further enhance the authorization process for new fund applications (Revamped Process) was implemented on 9 November 2015 for a six-month pilot period.

During the pilot period, the overall processing time was shortened, with a general improvement in the quality of fund applications and more timely responses from applicants. The Revamped Process has received broad industry support. Following the successful pilot period, the Revamped Process was formally adopted on 9 May 2016, and was extended to applications made by Mainland funds seeking authorization under the MRF scheme.

Diversifying fund distribution channels

The SFC is working with the industry to encourage the development and use of alternative fund distribution platforms. For instance, the SFC and the Government are exploring with Hong Kong Exchanges and Clearing Limited the possibility of creating an exchange-based platform for fund distribution. The SFC is also reviewing the suitability obligations in the context of online fund distribution platforms and intends to issue further guidance to the industry.

It is anticipated that the broadening of Hong Kong's distribution platforms could introduce greater competition to the retail fund distribution chain, which may in turn lead to more competitive fees and more choices for investors.



*Leveraged and
inverse
products, crude
oil futures
ETFs*

On product innovation, the SFC issued a circular in February 2016 to set out the requirements under which the SFC would consider authorizing leveraged and inverse products structured as ETFs. These requirements are designed to protect the interests of the investing public and to maintain the integrity of the Hong Kong market.

The SFC authorized the first batch of leveraged and inverse products in June 2016. In addition, the SFC authorized the first crude oil futures ETF and the first batch of ETFs with multiple trading counters in April and June 2016, respectively. These products add diversity and offer more choices to investors and mark an important milestone in Hong Kong's ETF market development.

Maintaining an effective regulatory framework which protects investors

*Enhance
existing
regulation of
the asset
management
industry*

To keep pace with international regulatory developments, the SFC is now focusing on enhancing the regulation of the asset management industry, including the conduct of asset managers and intermediaries in relation to commissions and independent advice, safe custody of fund assets and liquidity management. The SFC plans to launch public consultations later this year.



Appendix

Breakdown of Combined Fund Management Business in 2015

<i>(\$ billion)</i>	Licensed corporations	Registered institutions	Insurance companies	Total
Asset management business	10,855	936	468	12,259
Fund advisory business	1,268	-	-	1,268
Private banking business	-	3,666	-	3,666
Fund management business (excluding REITs)	12,123	4,602	468	17,193
SFC-authorized REITs	200	-	-	200
Combined fund management business	12,323	4,602	468	17,393



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 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 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.
 - “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.