



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

Fund Management Activities Survey 2010

July 2011



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Survey Summary

The Securities and Futures Commission (SFC) has conducted the Fund Management Activities Survey (FMAS) for the year ended 31 December 2010. 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 sustained its growth in 2010, with a year-on-year increase of 18.6% to \$10,091 billion* as at the end of the year.**

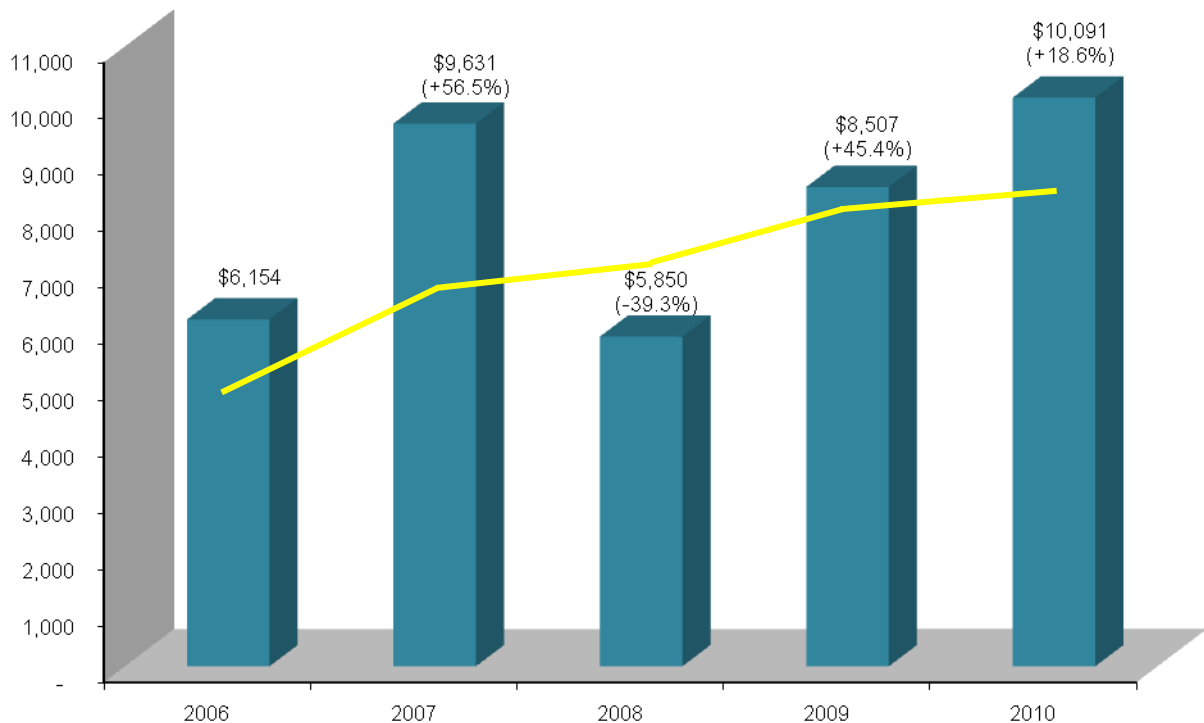
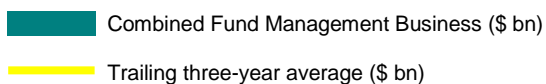


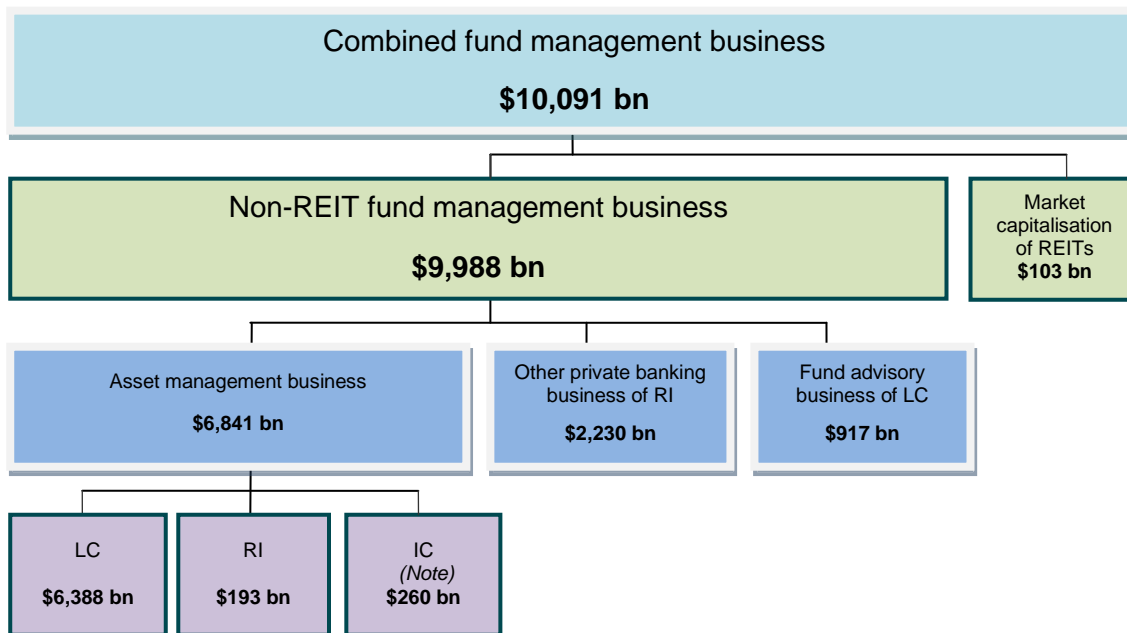
Chart 1: Combined Fund Management Business (\$ bn)



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

- The combined fund management business hit a record high of \$10,091 billion, which outperformed the previous record level in 2007 prior to the financial crisis, representing a growth of 18.6% from 2009. The increase in the combined fund management business suggests a return of investor confidence in global financial markets and continuing inflows of investment capital into the Asia Pacific region.
- According to the 2010 Market Highlights issued by the World Federation of Exchanges (WFE):
 - WFE member exchange broad equity market indices rose by 11% in US dollar terms in 2010.
 - The Asia-Pacific region outperformed the WFE average with its broad equity market index registering an increase of 12.8% during the year.
 - The total investment flows (comprising capital raised for initial public offerings and secondary equity issuance) around the world have shown an overall growth of 11.2% to US\$1,011.6 billion. According to the statistics, the investment flows into Asia Pacific grew by 21.3% year-on-year in 2010 to US\$436.2 billion. This compares with a 17.0% increase in investment flows into the Americas and a 9.5% decline in investment flows into the Europe-Africa-Middle East areas.



- The number of licensed corporations and individuals licensed for asset management (i.e. Type 9 regulated activity) grew by about 10%. At the end of 2010, 798 corporations and 5,483 individuals were licensed for asset management (compared to 728 corporations and 4,975 individuals at the end of 2009). For reference, the number of licensed corporations and individuals for asset management further increased to 814 and 5,694 respectively as of April 2011.
- With respect to renminbi products, Hong Kong achieved a new milestone with the initial public offering and listing of the world's first renminbi-denominated REIT in April 2011. The REIT is the first renminbi-denominated equity product listed and traded outside Mainland China. Units of this REIT are traded and settled in renminbi while the distributions will also be declared and paid in renminbi. The market capitalisation of the SFC-authorized REITs recorded a growth of approximately 39% to \$103 billion in 2010.
- By types of business activity:
 - Asset management business recorded a year-on-year 17.5% increase in total assets under management to \$6,841 billion in 2010.
 - Other private banking business grew 32.1% to \$2,230 billion.
 - Fund advisory business decreased by 0.4% to \$917 billion.
- By categorisation of market players:
 - Licensed corporations recorded a year-on-year increase of 13.3% in their aggregate asset management and fund advisory businesses to \$7,305 billion in 2010.
 - Registered institutions recorded a 33.8% increase in their aggregate asset management and other private banking businesses to \$2,423 billion.
 - Insurance companies reported a 48.6% increase in their assets under management to \$260 billion.



2. Hong Kong continued to be a preferred location for international investments. Of the total \$9,988 billion in non-REIT fund management business, 66.0% was sourced from non-Hong Kong investors.

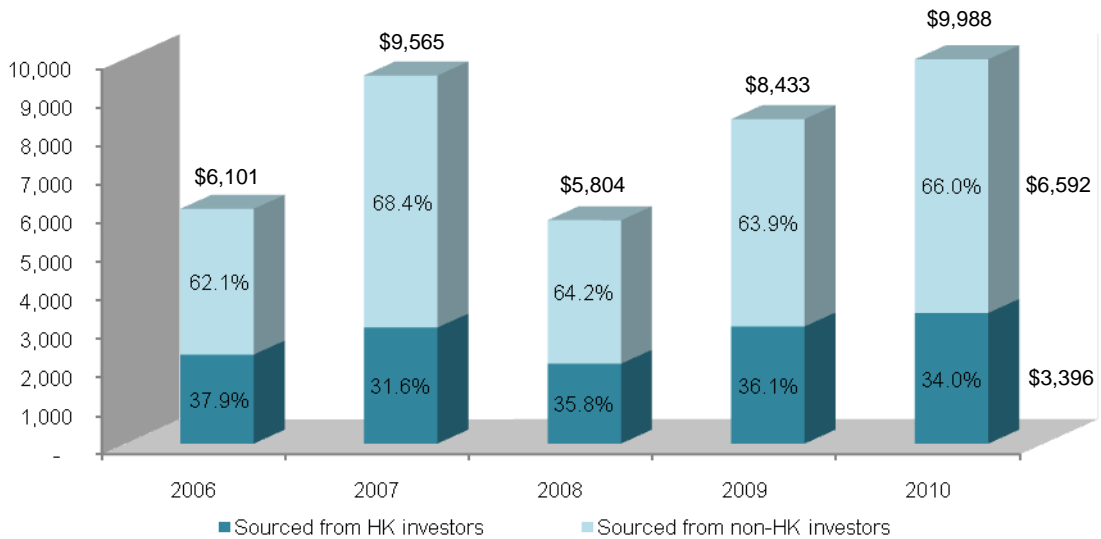


Chart 2: Non-REIT Fund Management Business: by Source of Funds (\$ bn)

- The amount of funds sourced from non-Hong Kong investors continued to account for over 60% of non-REIT fund management business. Funds sourced from non-Hong Kong investors grew by 22.3% to \$6,592 billion, which exceeded the overall growth of 18.4% of the non-REIT fund management business to \$9,988 billion.
- Hong Kong continued to maintain its position as an international asset management centre attracting international investors to select Hong Kong as an investment platform. This is attributable to Hong Kong's transparent regulatory regime, which strikes a balance between investor protection and market innovation, underpinned by a robust market infrastructure and a highly efficient financial market.



3. Of the total non-REIT assets under management of \$6,841 billion, 60.8% or \$4,161 billion was managed in Hong Kong.

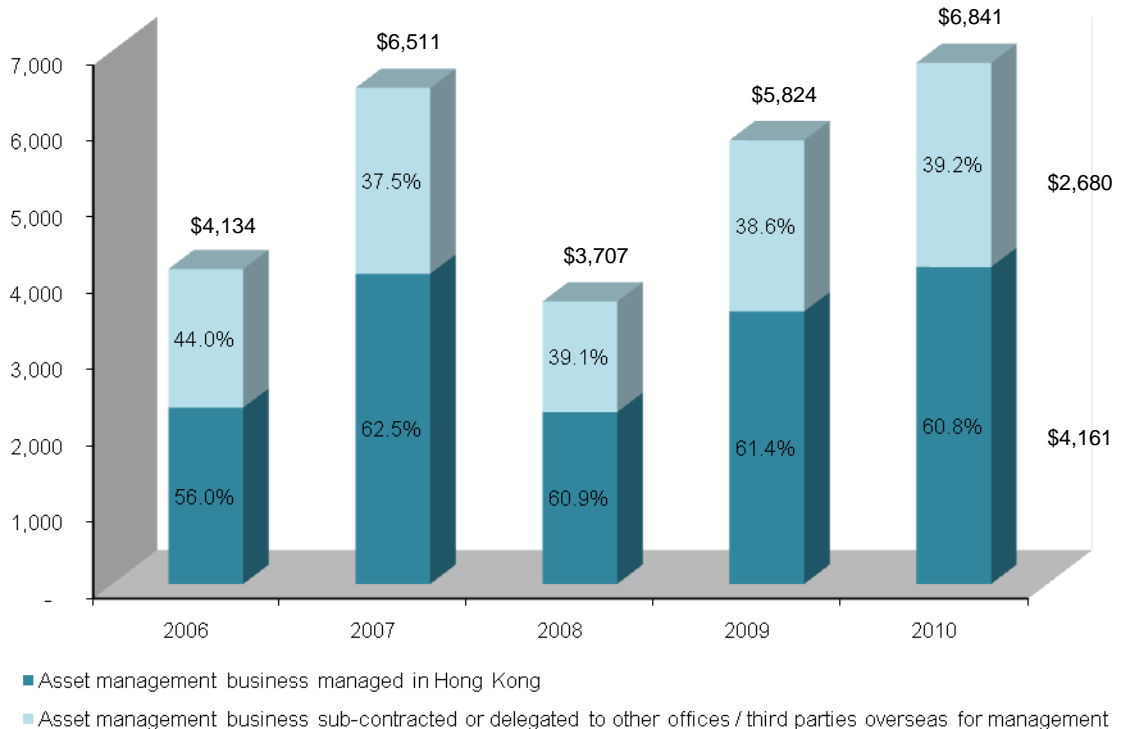


Chart 3: Assets Management Business: by Location of Management (\$ bn)

- In 2010, the asset management business in Hong Kong continued to experience growth. Hong Kong's free economy, robust regulatory framework, local expertise, proximity to the Mainland and the presence of a diverse population of asset management expertise together contributed to the sustainable appeal of Hong Kong as a leading asset management centre in Asia. Hong Kong's pre-eminent position as an international financial centre gained clear policy support from the Mainland. For the first time, explicit support for the development of Hong Kong into an offshore renminbi centre and an international asset management centre was clearly set out in the Mainland's Twelfth Five-year Plan.
- The amount of Mainland assets managed in Hong Kong registered a year-on-year increase of 2.6% to about \$77 billion in 2010. More than 50% of these Mainland assets were invested in Hong Kong, around 25% were invested in the Asia-Pacific region, and the remaining portion was invested in North America, Europe and other regions.
- Not only is Hong Kong recognised as the testing ground to promote globalisation of renminbi, it is also a gateway and a bridge connecting the Mainland economy to the world's financial markets. The number of Mainland-related financial institutions establishing operations in Hong Kong is increasing. As at the end of April 2011, around 51 Mainland-related groups established a total of 152 licensed corporations or registered institutions in Hong Kong, broken down as follows:



- 14 Mainland securities companies have established 56 licensed corporations.
 - Six Mainland futures companies have established six licensed corporations.
 - Nine Mainland fund management companies have established nine licensed corporations.
 - Six Mainland insurance companies have established seven licensed corporations.
 - Other types of Mainland companies, totalling 16, have established 60 licensed corporations and 14 registered institutions.
- The number of Mainland-related licensed firms managing SFC-authorized funds has increased from seven in 2009 to 10 by the end of June 2011. The number of SFC-authorized funds managed by these firms increased from 65 in 2009 to 81 in 2010, and the net asset value of these funds increased 16.2% from \$45.8 billion to \$53.2 billion during this period.
 - In 2010, a total of \$234.5 billion of non-REIT fund management business was attributable to Mainland-related licensed firms, representing a growth of 51.6% from \$154.7 billion in 2009. This growth however is attributable in part to the fact that more Mainland-related licensed firms participated in the survey this year (34 licensed firms participated in 2010, as compared to 20 in 2009).
 - The presence of Mainland-related licensed firms is expected to become more significant in view of the following developments:
 - Renminbi internationalisation is gathering momentum: Following the signing of the Supplementary Memorandum of Co-operation on the expansion of the renminbi trade settlement scheme between the Hong Kong Monetary Authority (HKMA) and the People's Bank of China (PBoC) in July 2010, PBoC introduced a pilot scheme in August 2010 for eligible institutions to invest in the Mainland's interbank bond market. This opens up an additional channel to invest in the Mainland onshore market which in turn will support the continuous growth of the pool of renminbi liquidity in Hong Kong.
 - Hong Kong continues to play a key role in promoting the wider use of renminbi in the international markets and Hong Kong's role as an offshore renminbi centre is recognised in the Mainland's Twelfth Five-year Plan. The amount of renminbi deposits in Hong Kong reached RMB549 billion as of end May 2011, representing an increase of around 800% from the amount as at the end of 2009. With this significant amount of renminbi pool, it is expected that more varieties of renminbi-denominated investment products will be developed and launched in the near future and that Mainland-related licensed firms will play a significant role in this area, given their natural connectivity with the Mainland.
 - According to the statistics released by the State Administration of Foreign Exchange (SAFE), up to the end of 2010, SAFE has granted a total investment quota of US\$40.6 billion to 29 Mainland fund management companies and six securities firms, as well as an aggregate investment quota of US\$8.26 billion to 25



Mainland commercial banks pursuant to the QDII programme, allowing them to invest overseas.

4. Majority of the assets managed in Hong Kong was invested in Asia, accounting for 79.7% in 2010.

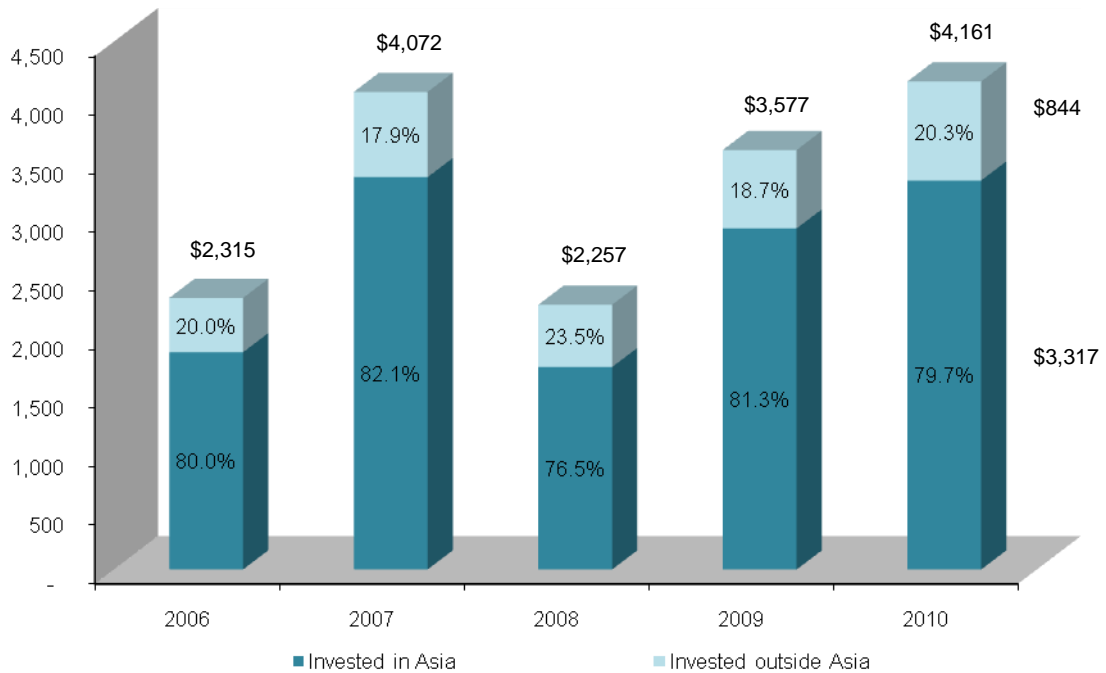


Chart 4: Assets Managed in Hong Kong: by Geographical Distribution of Investments (\$ bn)

- The level of assets managed in Hong Kong and invested in Asia was at 79.7%, similar to the level in 2009. In value terms, this amounted to \$3,317 billion, comprising \$2,086 billion in Hong Kong and the Mainland*, \$258 billion in Japan and \$973 billion in the rest of Asia Pacific.

**No further breakdown between Hong Kong and the Mainland is available*

- The amount of assets managed in Hong Kong that was invested in Asia recorded a year-on-year increase of 14.1% at \$3,317 billion, significantly higher than the amount of asset invested outside of Asia, which reported a total of \$844 billion in 2010. Such increase in investments in Asia suggests that Asia was capable of providing investment opportunities to investors around the world in 2010 despite the on-going sovereign debt crisis in the Euro zone and the relatively slow recovery in the US economy.
- The buoyant economic performance of the Mainland, which recorded a gross domestic product growth of 10.3% in 2010 and is expected to demonstrate growth of over 9% in 2011 according to the forecasts of the World Bank and International Monetary Fund, has also contributed to the flow of funds to Hong Kong for investment management.



Recent Developments and Industry Outlook

In the year 2010, the SFC focused on three key aspects in strengthening the status of Hong Kong as a leading asset management centre, namely:

1. Strengthening the regulatory framework for public offers of investment products

Collective investment schemes

In June 2010, the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products (the Handbook) was introduced as one of the measures to enhance protection for the investing public. With the launch of the Handbook, the codes relating to collective investment schemes were also revised and updated with new regulatory requirements. Following the introduction of the Handbook, the SFC has taken various steps to help the industry to implement the measures in the Handbook smoothly.

- A total of 12 briefing sessions attended by over 1,000 industry practitioners were held and five circulars/letters were issued to the industry to help industry practitioners better understand the requirements under the Handbook and to provide them with guidance regarding the adoption and application of the Handbook to ensure smooth transition into the new regulatory regime.
- Guidance was given to industry practitioners on how to prepare the Product Key Facts Statements (KFS) in order to ensure a smooth roll-out of the measure by 25 June 2011. The SFC has given directional comments on more than 150 draft KFS submitted by more than 65 fund houses and authorized the KFS of more than 100 investment linked assurance schemes.
- More than a dozen of frequently asked questions pertaining to the interpretation and application of the new requirements introduced in the Handbook were published to provide guidance to industry practitioners.

Unlisted structured investment products

In May 2011, the Securities and Futures Companies Legislation (Structured Products Amendment) Ordinance 2011 (the Amendment Ordinance) was gazetted and became effective. The Amendment Ordinance transfers the regulation of public offers of structured products in the form of shares or debentures from the prospectus regime of Companies Ordinance to the regime for public offers of investments under the Securities and Futures Ordinance.

Products Advisory Committee

In August 2010, the Products Advisory Committee (PAC) was established. The PAC comprises representatives from the industry, professionals, academics and other stakeholders with market knowledge and expertise. The PAC is advisory in nature. It may be consulted on a wide range of matters pertaining to the Handbook, the SFC Code on MPF Products and the Code on Pooled Retirement Funds, overall market environment, industry practices and novel product features.



Investor education

- A series of investor education activities was conducted to help investors understand the KFS and the cooling-off requirements, the two new measures in protecting investors. These activities included the publication of various investor education materials, broadcasts of infomercials on TV and radio and videos on the SFC's InvestEd website.
- In view of increasing market attention and media coverage regarding the development of renminbi products, the SFC has published investor education materials on the InvestEd website and in various newspapers to help investors understand the key features and risks of renminbi products.

2. Contributing to the process of renminbi internationalisation and fostering closer ties with the Mainland market

- Renminbi internationalisation is a key strategic objective of the Central Government. As an international financial centre, Hong Kong plays an important role in this process. One of Hong Kong's crucial functions is to provide a platform on which a diverse range of offshore renminbi financial and investment products could be structured and offered, to meet global and local investors' investment needs. The availability of such products creates added incentives for international investors to hold renminbi offshore, thereby increasing international circulation of the currency and facilitating its internationalisation process.
- In keeping with the Mainland's approach to reform and open up, a gradual and balanced approach has been adopted in developing Hong Kong's renminbi business, with particular attention paid to the need to manage the attendant risks.
- The first major type of renminbi products launched in Hong Kong was renminbi bonds, which are generally seen as less complex. The first renminbi bond was issued in Hong Kong in 2007. According to market data, a total of about RMB106 billion of renminbi bonds were issued between July 2007 and the end of May 2011.
- A number of landmark developments took place in Hong Kong's renminbi investment products market since the revision of the Settlement Agreement on the Clearing of Renminbi Business in July 2010. Not only did both global and local corporations issue a record volume of new offshore renminbi bonds, we also saw the launch of two new categories of renminbi products, with the SFC playing a pivotal role in the process:

Retail renminbi-denominated bond funds

- In August 2010, we authorized the first fund denominated in renminbi which invests primarily in renminbi-denominated fixed rate or floating rate debt instruments and/or renminbi bank deposits which are issued outside the Mainland. Subscription and redemption of this fund was carried out in renminbi. As of 30 June 2011, there is a total of five renminbi-denominated funds investing primarily in renminbi-denominated debt instruments issued outside the Mainland.



Listed renminbi equity product – REIT

- In April 2011, we authorized the first renminbi-denominated REIT, a monumental step forward in opening up avenues for trading and investment in renminbi and in further strengthening Hong Kong's position as the premier offshore renminbi centre of China. In order to prepare the market and participants for the historical launch of this first renminbi-denominated, listed and traded equity product, the SFC coordinated and worked closely with both the Hong Kong Exchanges and Clearing Limited (HKEx) and the HKMA to resolve issues relating to infrastructure and market readiness. A huge amount of preparatory work was undertaken before the initial public offering of this product. These included investor education campaigns via various media channels, industry briefings and testing of intermediaries' operational readiness for dealing in renminbi securities.
- The successful launch of the above offshore renminbi products has proven the robustness of the financial infrastructure underpinning the development of renminbi investment products in Hong Kong. As well, it has established Hong Kong's dominant position as an offshore renminbi market where the international financial community can use renminbi as a currency for direct trading, settlement and value storage.

3. Developing exchange-traded fund (ETF) market and enhancing greater product transparency

During the year under survey and in 2011, the ETF market continued to experience growth. At the same time, additional regulatory measures have been introduced to monitor the rapid development of the ETF market and enhance ETF transparency.

Hong Kong continues to be an ETF market leader

- The ETF market in Hong Kong has demonstrated remarkable growth:
 - The number of ETFs stood at 69 as at end of December 2010, up from 43 in 2009.
 - Another seven ETFs were listed in the six-month period up to the end of June 2011, bringing the total number of ETFs currently listed in Hong Kong to 76.
 - Amongst these listed ETFs, 24 track the performance of A-share indices.
- According to market research as at February 2011, Hong Kong was the largest ETF market in Asia in turnover and the second largest market in assets under management:
 - The total turnover for ETFs listed in Hong Kong in the year ended 31 March 2011 amounted to US\$83.9 billion, up 29% from the year-ago level of US\$ 64.8 billion.
 - Total market capitalisation reached US\$88.6 billion as at 31 March 2011, up 38% from the year-ago level of US\$64.3 billion.

Continuous internationalisation of ETF market

- With the ETF market in Hong Kong becoming more mature, we saw a number of new milestones achieved in 2010. We have:



- authorized the first ETF managed by a Hong Kong asset management subsidiary of a Korean investment and securities group, which is also the third ETF in Hong Kong with exposure to South Korea's equities market;
- authorized the first gold ETF managed by a Hong Kong-based asset management company with a physical gold vault located locally;
- cross-listed the fourth Hong Kong ETF on the Taiwan Stock Exchange.

New measures to enhance transparency of synthetic ETFs

- In view of the market trend of the development of synthetic ETFs, the SFC and the HKEx have worked jointly to put in place various measures to enhance transparency of ETFs that primarily adopt a synthetic replication strategy:
 - With effect from 22 November 2010, synthetic ETFs are required to add a marker (X) to their stock short names to make them more visible on the stock pages of HKEx's securities trading system and on the HKEx website and the HKEx news website.
 - By 16 January 2011, managers of synthetic ETFs are required to put an asterisk (*) and an annotation stating "This is a synthetic ETF" immediately after the name of a synthetic ETF with an aim to enable investors to easily identify synthetic ETFs from other ETFs before making any investment decisions.
 - The SFC and the HKEx have issued a circular jointly setting out a list of potential events that may trigger disclosure obligations under the Code on Unit Trusts and Mutual Funds and/or Listing Agreement.
 - For greater transparency, synthetic ETF managers are required to publish and update on their website information on collateral/invested assets on a monthly basis effective from the end of March 2011. This is in addition to the existing requirement to publish the gross and net counterparty exposure on the synthetic ETFs' websites on a daily basis.
- For better counterparty risk management, synthetic ETFs have stated that they will not engage in stock lending activities for the purpose of enhancing the performance of the ETFs.
- With the robust development of the local ETF market, we have seen growth in ETF management expertise in Hong Kong. As at March 2011, there were a total of 14 ETF managers in Hong Kong, compared to 10 at the end of 2009.

Market opportunities and challenges

- With the successful implementation of the new measures to enhance investor protection in 2011, the SFC will continue to maintain close dialogues with industry practitioners with an aim to properly monitor the adoption and development of the new regulatory regime. To help investors stay abreast of our regulatory initiatives, the SFC will continue to step up its investor education efforts and conduct a variety of investor education programmes to raise investors' awareness of the new investor protection measures in relation to the regulation and sale of investment products.



- To solidify Hong Kong's status as an offshore renminbi centre, the SFC will continue to work closely with the Hong Kong SAR Government, the HKMA and other relevant regulators as well as Mainland regulatory authorities with a view to promoting the development of offshore renminbi business and offshore renminbi-denominated investment products in Hong Kong.
- Given the growing inter-connectedness of financial markets worldwide and the impact of cross-border financial activities, the SFC will continue to maintain close relationships with overseas regulators in order to understand their regulatory philosophy and practices pertaining to various regulatory reforms expected to be implemented in the near future:
 - The introduction of a revised UCITS regime (i.e. the European funds regulations framework) by the European Commission in mid-2011 may lead to a broader investment universe in the European fund industry and the SFC will continue to be vigilant and cooperate closely with other regulators in this new era.
 - As the sovereign debt crisis in the European region and the relatively slow pace of recovery of the US economy continue to weigh on financial markets, this may pose uncertainty in sustaining the global economic recovery. The SFC will continue to monitor the development in the global financial markets and be watchful about any potential issues.



Survey Report

Introduction

1. The FMAS is an annual survey conducted by the SFC since 1999 to collect information and data on the general state of affairs of the fund management industry in Hong Kong. It helps the SFC plan its policies and operations.
2. The survey covers the fund management activities of three types of firms in Hong Kong, namely:
 - (a) corporations licensed by the SFC that engage in asset management and fund advisory business (collectively “licensed corporations”¹);
 - (b) banks engaging in asset management and other private banking business (collectively “registered institutions”²), and are subject to the same regulatory regime (ie, the Securities and Futures Ordinance (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 2010. 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 398 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 342 licensed corporations, 40 registered institutions and 16 insurance companies.

Licensed corporations

5. An analysis of the activities of the 342 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	207
Respondents with assets under fund advisory business only	46
Respondents with both of the above businesses	89
	<hr/>
	342

Registered institutions

6. An analysis of the activities of the 40 registered institutions that had engaged in asset management and/or other private banking business is shown below:

Respondents with asset management business only	9
Respondents with other private banking business only	18
Respondents with both of the above businesses	13
	<hr/>
	40

Insurance companies

7. Sixteen 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 (\$10,091 billion)

8. Hong Kong's combined fund management business amounted to \$10,091 billion, representing an increase of 18.6% during 2010.

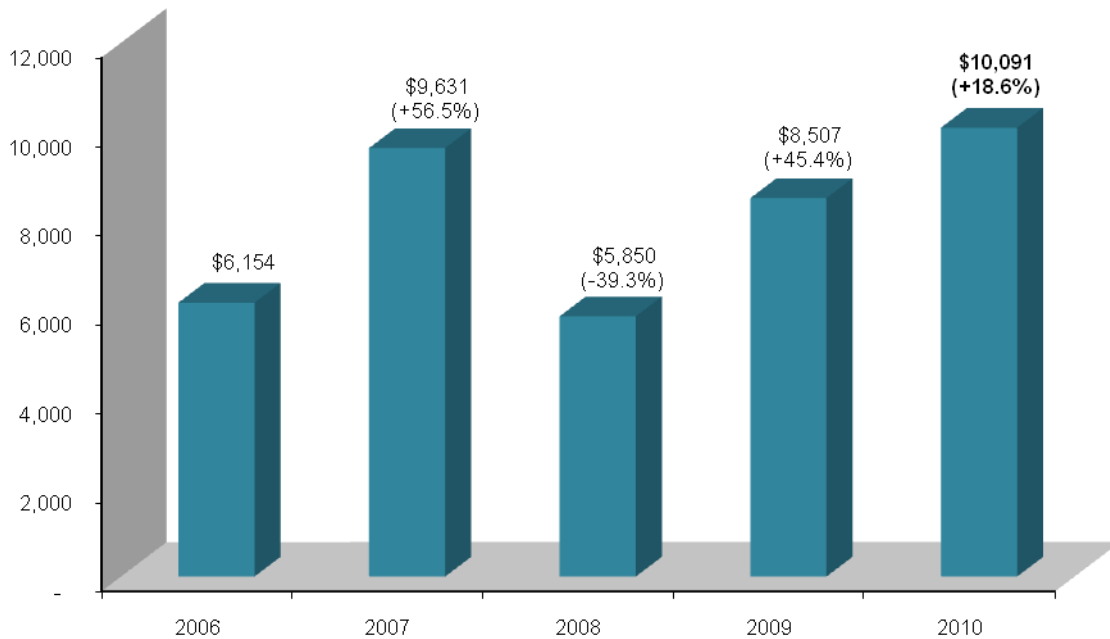


Chart 5: Combined Fund Management Business (\$ bn)

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

(\$ billion)	Licensed corporations	Registered institutions	Insurance companies	Total
Asset management business	6,388	193	260	6,841
Fund advisory business	917	-	-	917
Other private banking business	-	2,230	-	2,230
Non-REIT fund management business	7,305	2,423	260	9,988
SFC-authorized REITs	103	-	-	103
Combined fund management business	7,408	2,423	260	10,091

For major aggregate figures of FMAS 2010, see the Appendix on page 25.



10. Licensed corporations reported an aggregate increase of 13.3% in their non-REIT fund management business to \$7,305 billion. By category, their asset management business rose by 15.6% to \$6,388 billion while the fund advisory business decreased by 0.4% to \$917 billion during the year. The slight decrease in the fund advisory business was mainly due to internal restructuring of business operations and changes in the client mandates of a number of respondents.
11. Registered institutions reported an aggregate 33.8% increase in their non-REIT fund management business to \$2,423 billion at the end of 2010. Their asset management business increased by 56.9% while other private banking business increased by 32.1%.
12. The significant increase in the non-REIT fund management business reported by the registered institutions was mainly due to improved market performance and business expansion. A number of additional international banks or their Hong Kong branches responded in 2010 and they accounted for over 50% of the increase in the non-REIT fund management business of the registered institutions. In addition, several large private banks experienced significant growth in the non-REIT fund management business due to better market performance and business growth.
13. Insurance companies reported a total of \$260 billion of assets under management as at the end of 2010, representing a substantial increase of 48.6%. Such significant increase was mainly due to a new respondent which accounted for over 75% of the increase of the assets under management in 2010.



Asset Management and Fund Advisory Business of Licensed Corporations, Registered Institutions and Insurance Companies (\$7,758 billion)

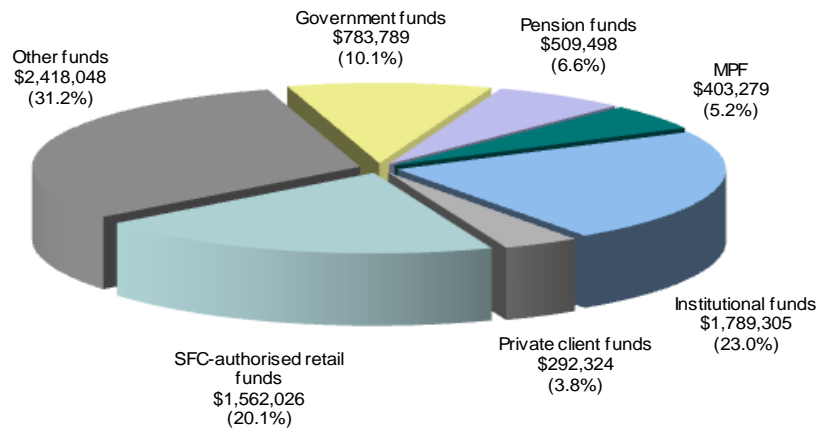


Chart 6A: Asset Management and Fund Advisory Business by Type of Funds (\$ mn)

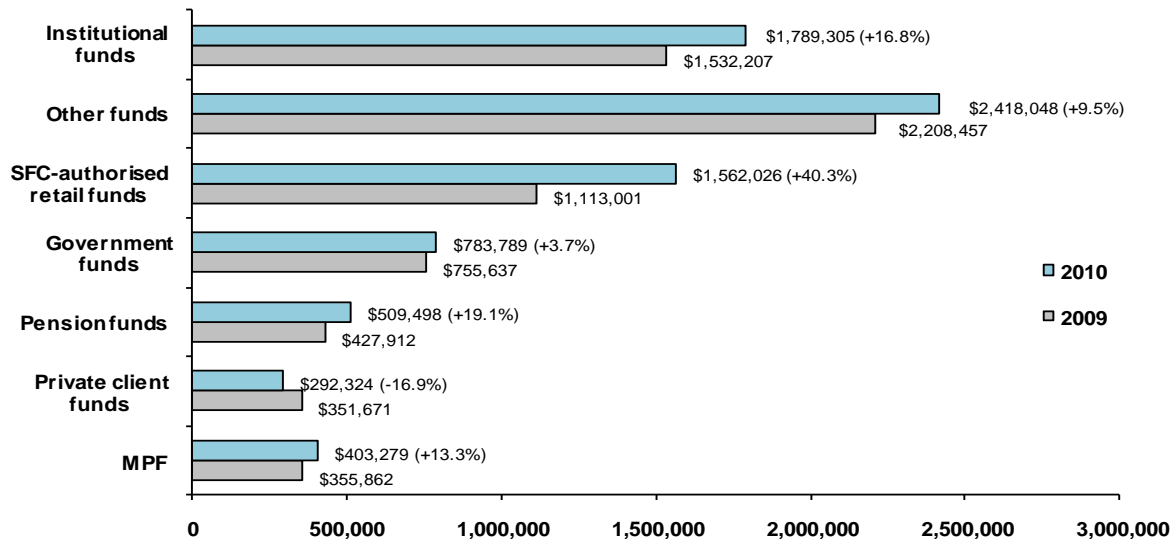


Chart 6B: Asset Management and Fund Advisory Business: by Type of Funds 2010 vs 2009 (\$ mn)

14. In 2010, SFC-authorized retail funds recorded the largest increase of 40.3% in terms of year-on-year growth rate. It could be explained by the continuous recovery in the global economy, strong market performance during this period and the return of retail investors' confidence in portfolios managed by fund managers. According to the statistics issued by



the Hong Kong Investment Funds Association, the net retail sales of SFC-authorized funds amounted to US\$6,239 million in 2010, representing a significant growth of 145%, as compared to 2009.

15. The value of “Other funds,” which mainly comprised overseas retail funds, hedge funds, private equity funds and insurance portfolios, showed a moderate increase of 9.5% to \$2,418 billion in 2010.

Asset Management Business of Licensed Corporations, Registered Institutions and Insurance Companies (\$6,841 billion)

16. As at the end of 2010, the total asset management business of licensed corporations, registered institutions and insurance companies amounted to \$6,841 billion, representing an increase of 17.5% from \$5,824 billion as at the end of 2009. The majority of the increment is attributable to the licensed corporations which recorded an increase of \$862 billion to \$6,388 billion. Registered institutions and insurance companies reported year-on-year increase of \$70 billion and \$85 billion respectively.

Asset Management Business (\$6,841 billion): by Source of Funds

<i>(\$ million)</i>	Licensed corporations	Registered institutions	Insurance companies	Total
Hong Kong investors (% of total)	1,941,987 (30.4%)	62,768 (32.5%)	211,482 (81.3%)	2,216,237 (32.4%)
Non-Hong Kong investors (% of total)	4,446,277 (69.6%)	130,332 (67.5%)	48,742 (18.7%)	4,625,351 (67.6%)
Total (100%)	<u>6,388,264</u> (100%)	<u>193,100</u> (100%)	<u>260,224</u> (100%)	<u>6,841,588</u> (100%)

17. Funds from non-Hong Kong investors have consistently accounted for more than 60% of the asset management business. In terms of value, the amount of funds sourced from overseas investors increased by 23.7% to \$4,625 billion in 2010.



Asset Management Business (\$6,841 billion): by Geographical Distribution of Investments

(\$ million)	Licensed corporations	Registered institutions	Insurance companies	Total
Invested in Hong Kong (% of total)	1,703,088 (26.7%)	75,428 (39.1%)	46,766 (18.0%)	1,825,282 (26.7%)
Invested overseas (% of total)	4,685,176 (73.3%)	117,672 (60.9%)	213,458 (82.0%)	5,016,306 (73.3%)
Total (100%)	<u>6,388,264</u> (100%)	<u>193,100</u> (100%)	<u>260,224</u> (100%)	<u>6,841,588</u> (100%)

18. Comparing to 2009, the percentage of assets invested in Hong Kong and invested overseas maintained at similar proportion at 26.7% and 73.3% respectively in 2010.

Asset Management Business (\$6,841 billion): by Location of Management

(\$ million)	Licensed corporations	Registered institutions	Insurance companies	Total
Managed in Hong Kong (% of total) (See Charts 7A & 7B)	3,937,698 (61.6%)	174,638 (90.4%)	49,523 (19.0%)	4,161,859 (60.8%)
Managed overseas ⁵ (% of total)	2,450,566 (38.4%)	18,462 (9.6%)	210,701 (81.0%)	2,679,729 (39.2%)
Total (100%)	<u>6,388,264</u> (100%)	<u>193,100</u> (100%)	<u>260,224</u> (100%)	<u>6,841,588</u> 100%

19. The proportion of assets managed in Hong Kong remained steady at 60.8% in 2010, reinforcing Hong Kong's role as an international asset management centre.



Assets Managed in Hong Kong (\$4,161 billion): by Geographical Distribution of Investments

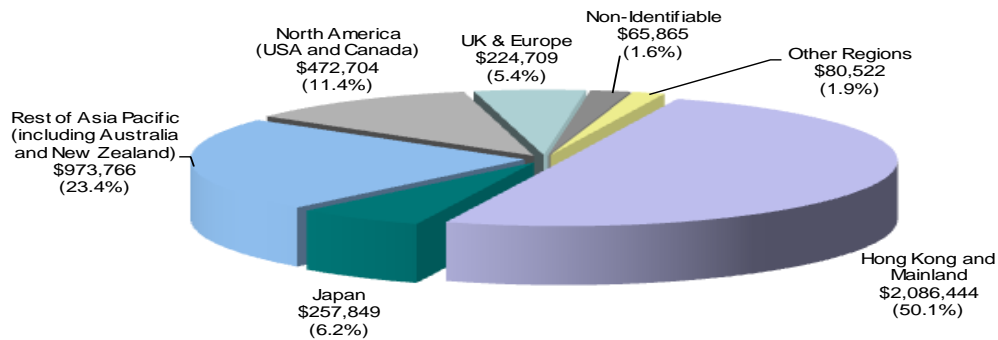


Chart 7A: Asset Managed in Hong Kong: by Geographical Distribution of Investments (\$ mn)

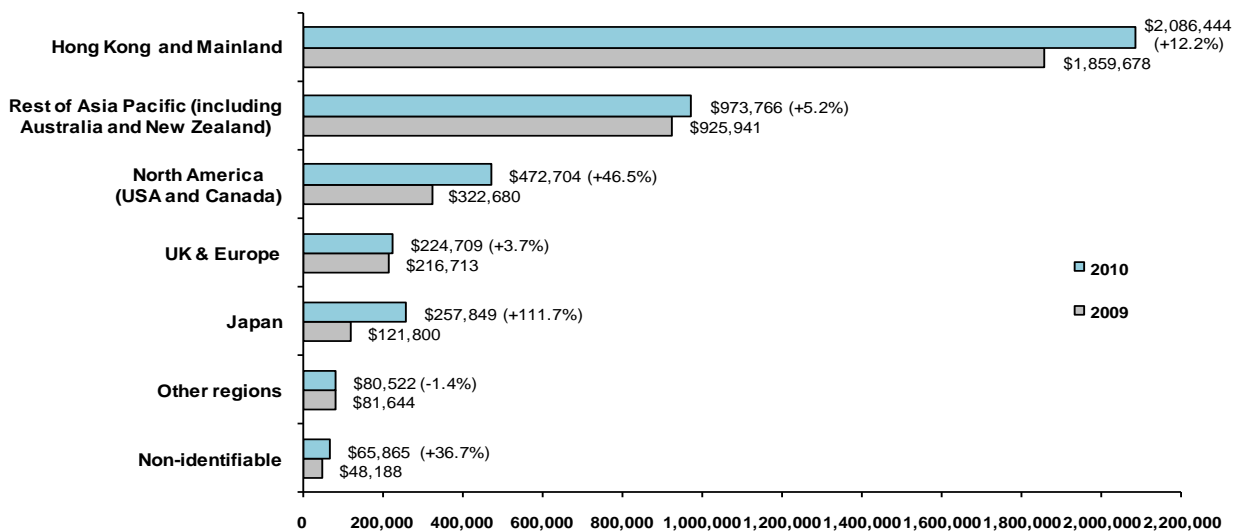


Chart 7B: Asset Managed in Hong Kong: by Geographical Distribution of Investments 2010 vs 2009 (\$ mn)

20. In terms of geographical distribution of assets managed in Hong Kong, Hong Kong and Mainland continued to be the primary geographical region designated for investment. The amount of assets invested in this region recorded an increase of 12.2% compared to 2009. The rest of Asia Pacific also recorded a moderate increase of 5.2% during the year.



Fund Advisory Business of Licensed Corporations (\$917 billion)

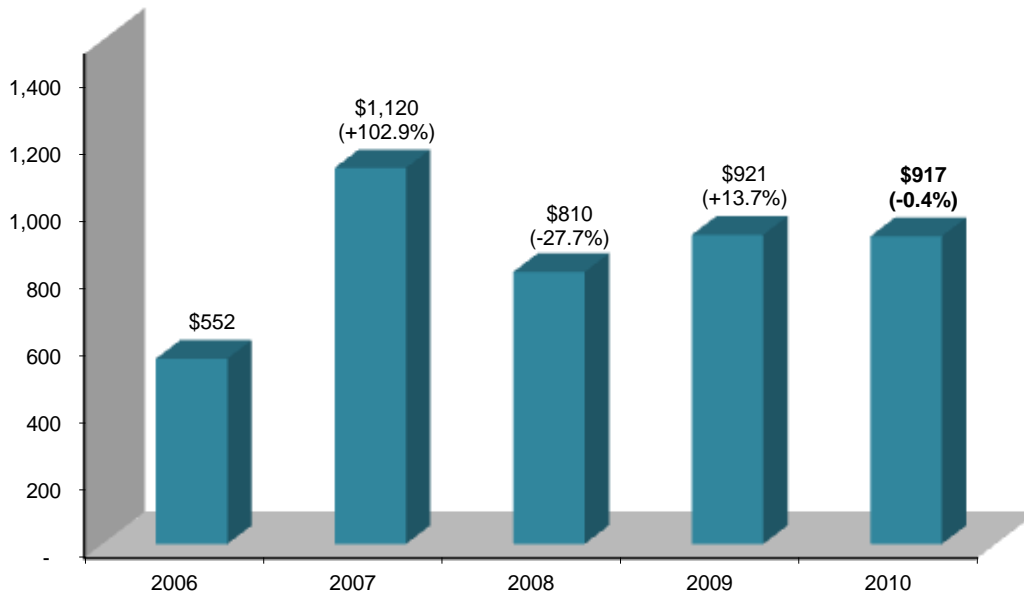


Chart 8: Fund Advisory Business (\$ bn)

21. As compared to 2009, the fund advisory business recorded a slight decrease of 0.4% to \$917 billion and this is mainly due to internal restructuring of business operation and changes in the client mandates of a number of respondents. Of this amount, 92.4% (2009: 90.2%) or \$847 billion was directly advised by licensed corporations in Hong Kong while the remaining was sub-contracted or delegated to other offices/third parties.
22. The percentage of assets under advice that were derived from overseas maintained a steady level of 89.4%. In value terms, these assets amounted to \$820 billion, as compared with \$768 billion in 2009.



Other Private Banking Business (\$2,230 billion)

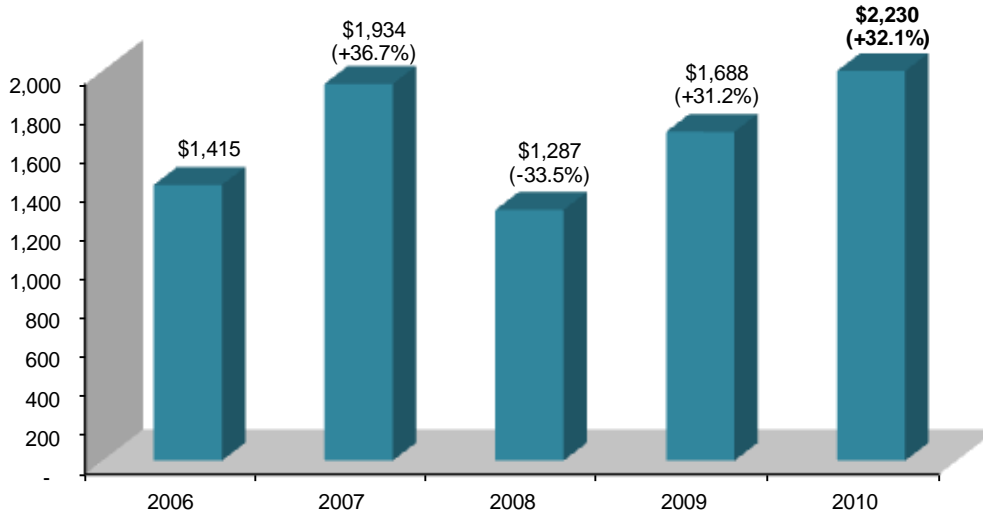


Chart 9: Other Private Banking Business (\$ bn)

23. In the midst of the low interest rate environment, other private banking business was able to capture wealth seeking investment opportunities other than deposits. Other private banking business continued its growth in 2010 and recorded an increase of 32.1% to \$2,230 billion.



SFC-authorized REITs (\$103 billion)

24. In April 2011, we authorized the first renminbi-denominated REIT in the world, which is also the first renminbi-denominated, listed and traded equity product outside Mainland China. The REIT invests in a single composite property complex in Beijing, raising a total of RMB10.48 billion.
25. With a continuous thriving property market in Hong Kong in 2010, the Hong Kong REIT market also continued its robust growth in 2010. The Hang Seng REIT Index which tracks the performance of Hong Kong REITs increased by 37.2% from 3,403, as at the end of 2009, to 4,669 at the end of 2010.
26. The market capitalisation of the eight listed REITs authorized by the SFC increased from \$74 billion to \$103 billion in 2010, representing a growth of approximately 39%.
27. In view of the gradual development of the Hong Kong REIT market, the SFC has also published investor education materials explaining the key features and risks related to the latest REIT products, including REITs investing in real estate located in Mainland China and REITs denominated and traded in renminbi.



Staff Profile in Fund Management Business (Total number: 29,303)

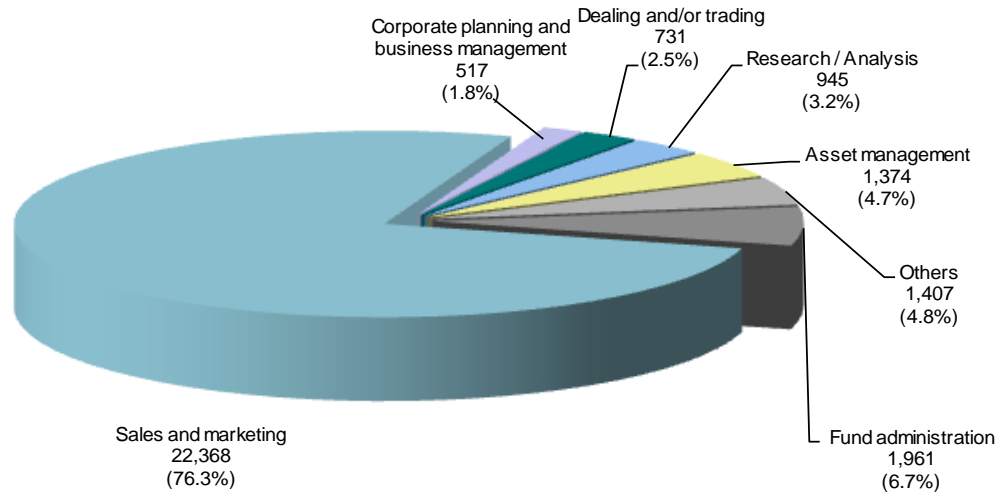


Chart 10A: Staff in Fund Management Business: by Job Function

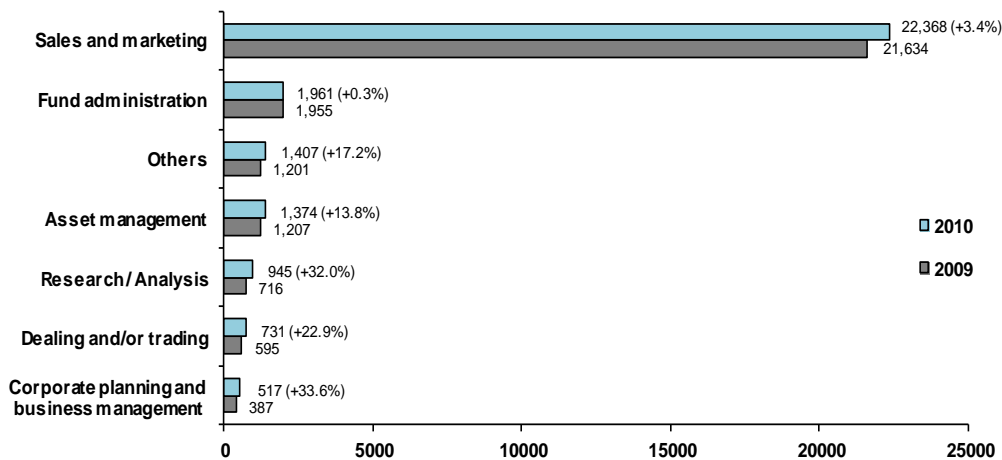


Chart 10B: Staff in Fund Management Business: by Job Function 2010 vs 2009

28. Staff involved in the fund management business increased from 27,695 in 2009 to 29,303 in 2010 as companies continued to ride on the recovery of the global economy. The number of staff engaged in fund management activities at licensed corporations and registered institutions experienced a moderate increase of 10.4% from 10,306 in 2009 to 11,380 in 2010. Sales and marketing staff also recorded an increase of 3.4% to 22,368 during the year, with 20,115 staff in aggregate employed by insurance companies and registered institutions.



Appendix

Major Aggregate Figures

The major aggregate figures are summarised in the following table.

(\$ million)	Aggregate asset size as at 31 December 2010			
	Licensed Corporations	Registered Institutions	Insurance Companies	Total
Asset management of funds / portfolios				
Total assets managed by the firm (A) = (B) + (C)	6,388,264	193,100	260,224	6,841,588
Total assets directly managed by the firm in Hong Kong (B)	3,576,575	173,029	49,523	3,799,127
Total assets sub-contracted or delegated to other offices / third parties for management (C) = (D) + (E)	2,811,689	20,071	210,701	3,042,461
Total assets sub-contracted or delegated to other offices / third parties in Hong Kong for management (D)	361,123	1,609	-	362,732
Total assets sub-contracted or delegated to overseas offices / third parties for management (E)	2,450,566	18,462	210,701	2,679,729
Total assets managed in Hong Kong (F) = (B) + (D)	3,937,698	174,638	49,523	4,161,859
Giving advice on funds / portfolios				
Total assets under advisory business of the firm (H) = (I) + (J)	916,681	-	-	916,681
Assets directly advised by the firm in Hong Kong (I)	847,248	-	-	847,248
Assets sub-contracted or delegated to other offices / third parties for providing advisory services (J) = (K) + (L)	69,433	-	-	69,433
Assets sub-contracted or delegated to other offices / third parties in Hong Kong for providing advisory services (K)	16,177	-	-	16,177
Assets sub-contracted or delegated to overseas offices / third parties for providing advisory services (L)	53,256	-	-	53,256
Assets on which advice is given in Hong Kong (M) = (I) + (K)	863,425	-	-	863,425
Other private banking business				
Total assets under other private banking activities	-	2,230,031	-	2,230,031
SFC-authorized REITs				
Total market capitalisation of SFC-authorized REITs	102,876	-	-	102,876



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.