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

Fund Management Activities Survey 2011

July 2012

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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 2011. The survey covered asset management activities among licensed corporations[1], registered institutions[2] and insurance companies[3].

The major findings of this year's FMAS are summarised below:

1. The combined fund management business[4] of Hong Kong recorded a year-on-year decline of 10.4% to $9,038 billion* as at the end of the year.

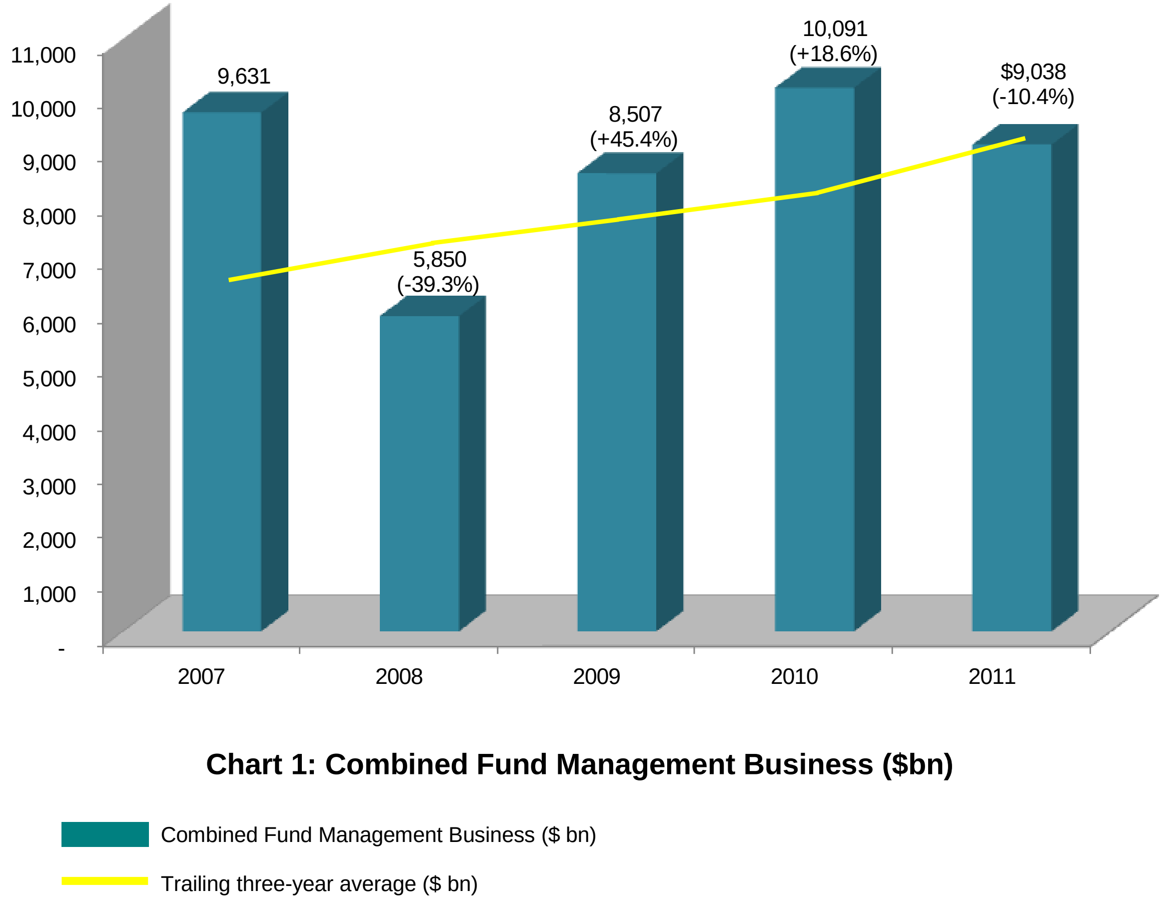
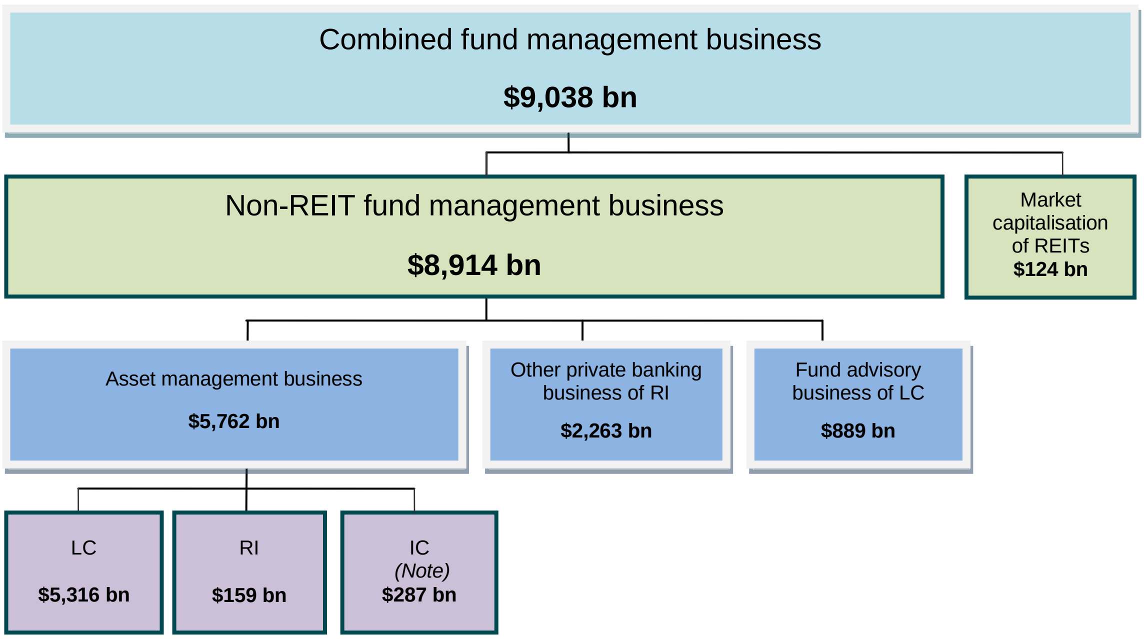


Chart 1: Combined Fund Management Business ($bn)

** 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.

(a) In 2011, the global financial markets continued to be buffeted by the European sovereign debt crisis and the slow recovery of the major developed economies. According to the 2011 Market Highlights issued by the World Federation of Exchanges, the broad equity market indices of its member exchanges dropped by an average of 13.6% in US dollar terms in 2011, with the Asia-Pacific region experiencing the largest decline of 20.1% during the year.

(b) The financial challenges ahead and persistent concerns over the global economic outlook were having a knock-on effect on the asset management industry in 2011. The combined fund management business in Hong Kong dropped year-on-year by 10.4% to $9,038 billion at the end of 2011. This decrease appeared in line with the general decline of the broader indices during the year. However, on a trailing three-year average basis, the combined fund management business remained in an uptrend, amounting to $9,212 billion.

(c) Hong Kong has made significant achievements in expanding the range of investment products denominated in renminbi. Further to the initial public offering and the listing of the world's first renminbi-denominated REIT in April 2011, 19 unlisted Renminbi Qualified Foreign Institutional Investor (RQFII) funds were authorized by the SFC for offer to the public after the rollout of the RQFII pilot scheme by the Mainland authorities in December 2011. These funds, managed by the Hong Kong subsidiaries of qualified Mainland fund managers and securities companies, channelled renminbi raised in Hong Kong to the Mainland to invest directly in the Mainland bond and equity markets.

(d) In January 2012, the SFC authorized the world's first renminbi-denominated and traded gold exchange-traded fund (ETF), also the first renminbi ETF in Hong Kong.

(e) The SFC recently authorized the first RQFII A-share ETF denominated in renminbi to be listed on the Hong Kong Stock Exchange. This ETF uses the newly increased RQFII quota to invest directly in the A-share equities market (i.e. a physical A-share ETF) tracking the performance of an underlying A-share index.

(f) The number of licensed corporations and individuals licensed for asset management (i.e. Type 9 regulated activity) grew by 5.5% and 12.8% respectively. At the end of 2011, 842 corporations and 6,184 individuals were licensed for asset management (compared with 798 corporations and 5,483 individuals at the end of 2010). For reference, the number of licensed corporations and individuals for asset management further increased to 873 and 6,355 respectively as at end April 2012.

(g) By types of business activity:

(i) Asset management business recorded a year-on-year decrease of 15.8% in total assets under management to $5,762 billion in 2011.

(ii) Other private banking business increased by 1.5% to $2,263 billion.

(iii) Fund advisory business dropped by 3.1% to $889 billion.

(h) By categorisation of market players:

(i) Licensed corporations recorded a year-on-year decrease of 15.1% in their aggregate asset management and fund advisory businesses to $6,205 billion in 2011.

(ii) Registered institutions recorded a 0.04% decrease in their aggregate asset management and other private banking businesses to $2,422 billion.

(iii) Insurance companies reported a 10.4% increase in their assets under management to $287 billion.

2. **Hong Kong continued to serve as a platform for attracting international capital from non-Hong Kong investors. Of the total $8,914 billion in non-REIT fund management business, 63.3% was sourced from non-Hong Kong investors.**

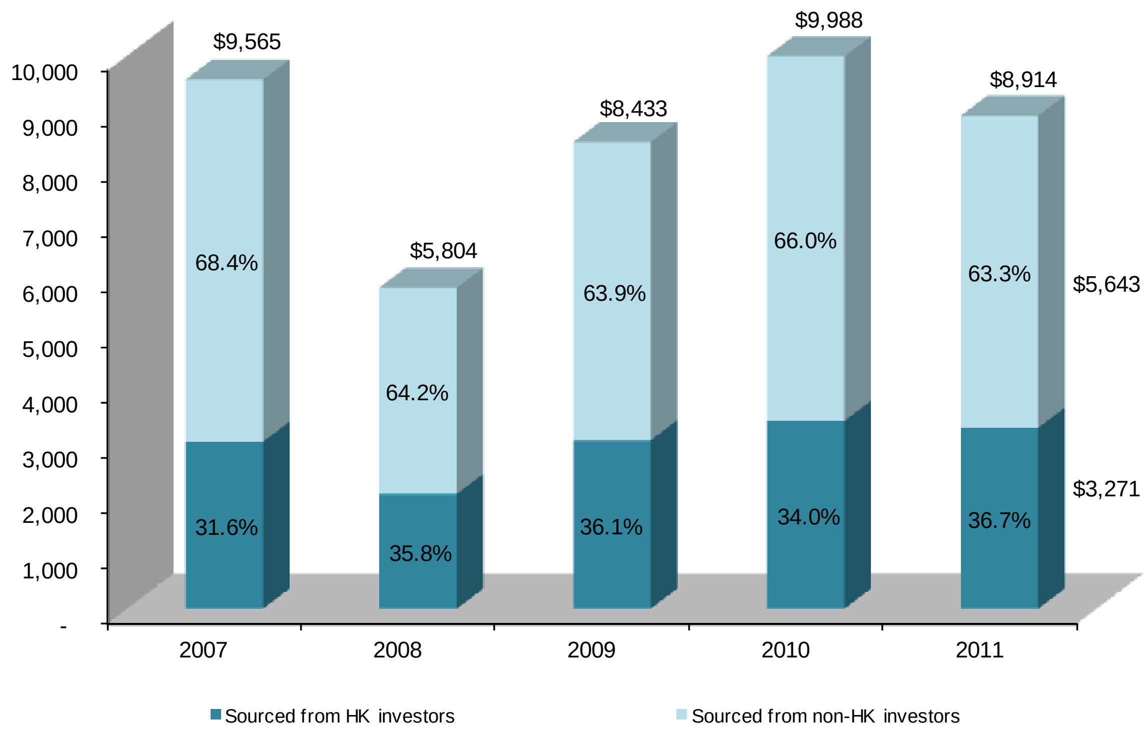


Chart 2: Non-REIT Fund Management Business: by Source of Funds ($ bn)

(a) The ability to attract capital from, and the continued significance of, non-Hong Kong investors can be attributed to the critical mass of professional expertise and talents, supported by a robust and transparent regulatory framework and a well-established platform provided for investments in the growing regional economies. It is also an indication of the intermediaries' capability in maintaining their longstanding client base cultivated throughout the years.

(b) During times of buoyant market activities in 2011, funds sourced from non-Hong Kong investors have consistently accounted for over 60% of the non-REIT fund management business in Hong Kong.

3. **Of the total non-REIT assets under management of $5,762 billion, 66.8% or $3,851 billion was managed in Hong Kong.**

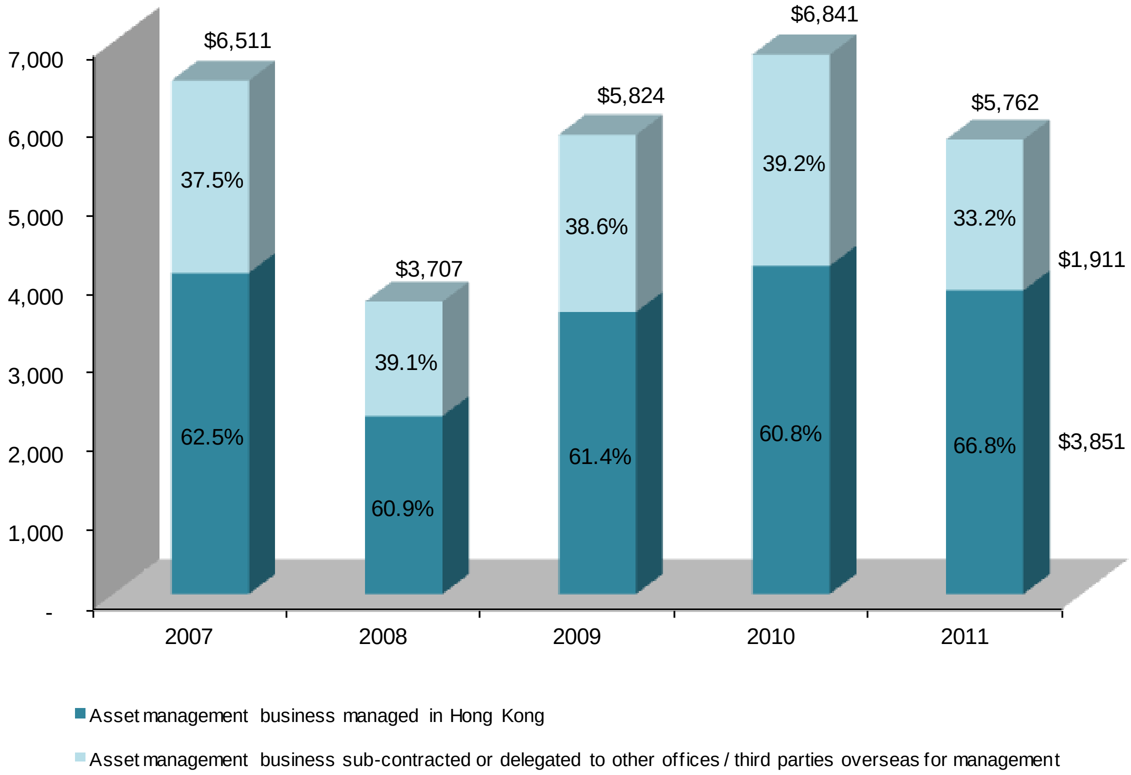


Chart 3: Assets Management Business: by Location of Management ($ bn)

(a) The amount of non-REIT assets managed in Hong Kong decreased by 7.5% in value terms to $3,851 billion in 2011. However, it still accounted for 66.8% of the non-REIT assets under management overall, representing an increase of 6% compared to 2010. The amount of assets managed in Hong Kong has consistently stayed above 60% of the total non-REIT assets under management since 2007.

(b) As an international financial centre underpinned by a robust regulatory regime and a pool of investment professionals, Hong Kong continues to be a preferred location for conducting asset management business in the region. Hong Kong's proximity to the Mainland and the continuing policy support from the Mainland give Hong Kong a competitive edge in attracting overseas investors to use Hong Kong as a platform to invest in the Mainland.

4. Mainland participation in the asset management business

(a) The amount of Mainland assets managed in Hong Kong came to $62 billion in 2011. Although this represented a decrease of 19.5% from end 2010, Hong Kong remained the market of choice for Mainland assets (around 60% of these assets were invested in Hong Kong). The remaining 40% was invested in other parts of Asia-Pacific (15%) and North America, Europe and other regions (25%).

(b) Economic growth in the Mainland will continue to serve as a potent source of funds for management in Hong Kong as the Mainland continues to generate wealth amongst its citizens, and against the backdrop of her national policy of promoting a wider use of renminbi outside her borders.

Overview of the Mainland-related companies licensed with the SFC

(c) Hong Kong continues to develop its role as an offshore renminbi centre. The strategic importance of Hong Kong as a testing ground for Mainland financial reform as well as a gateway and a bridge connecting the Mainland economy with the global financial markets is well recognized. The number of Mainland-related financial institutions establishing operations in Hong Kong continues to increase. As at the end of May 2012, around 62 Mainland-related groups established a total of 168 licensed corporations or registered institutions in Hong Kong, broken down as follows:

(i) 19 Mainland securities companies have established 69 licensed corporations.

(ii) Six Mainland futures companies have established eight licensed corporations.

(iii) 13 Mainland fund management companies have established 13 licensed corporations.

(iv) Seven Mainland insurance companies have established eight licensed corporations.

(v) Other types of Mainland companies, totalling 17, have established 56 licensed corporations and 14 registered institutions.

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

(d) The number of SFC-authorized funds managed by Mainland-related licensed firms increased from 81 in 2010 to 106 in 2011. The net asset value of these funds slightly decreased by 1.7% from $53.2 billion to $52.3 billion during this period.

(e) The number of Mainland-related licensed firms managing SFC-authorized funds increased from 13 in 2011 to 25 by the end of June 2012. Amongst these Mainland-related licensed firms, 19 are licensed subsidiaries of either Mainland asset management firms or brokerage firms managing the existing SFC-authorized RQFII funds.

Snapshot of Mainland-related companies responding to the survey

(f) In 2011, a total of $265.1 billion of non-REIT fund management business was attributable to Mainland-related licensed firms, representing a growth of 13.1% from $234.5 billion in 2010. The growth was mainly attributable to two Mainland-related licensed firms which only commenced their fund management business in late 2010. While the amount of assets under management continued to increase during 2011 as these two Mainland-related licensed firms were in full operation, the growth of the assets was partially offset by the general decline in assets under management driven by redemptions in view of greater market volatility in late 2011.

Market developments

(g) The Mainland-related licensed firms are expected to play a more significant role as a result of the following developments:

(i) During the visit in August 2011, Vice Premier Li Keqiang unveiled a series of policy initiatives that use Hong Kong as the platform to further the renminbi liberalization and capital market opening goals. These initiatives include the introduction of the RQFII scheme for investing in the Mainland's securities markets, expansion of issuance of renminbi bonds in Hong Kong by Mainland enterprises (including financial institutions and corporates) and the support for the use of renminbi for foreign direct investments in the Mainland. These policies will actively support the growth of the renminbi market in Hong Kong, expand renminbi circulation channels between Hong Kong and the Mainland, and will play an important role in the innovation and development of offshore renminbi financial products in Hong Kong.

(ii) The renminbi bond market in Hong Kong continues to expand significantly. According to the Hong Kong Monetary Authority (HKMA), total issuance of renminbi bonds in Hong Kong reached approximately RMB108 billion in 2011, representing three times the total issuance of renminbi bonds of RMB36 billion in 2010. The range of issuers has also been diversified to include sovereigns, supranationals, and commercial banks and corporations from the Mainland, Hong Kong and overseas countries.

(iii) According to HKMA, renminbi deposits in Hong Kong reached approximately RMB588.5 billion as at the end of 2011, representing a year-on-year increase of more than 80% and an increase of around 840% from the deposit size as at the end of 2009. As the Mainland is prepared to accelerate the pace of promoting the wider use of renminbi outside the Mainland, with this sizeable liquidity pool, the range of renminbi-denominated retail investment products managed by Mainland-related licensed firms is expected to grow.

(iv) The Qualified Domestic Institutional Investor (QDII) programme has continued to expand. According to statistics published by the State Administration of Foreign Exchange (SAFE), QDII quotas reached US$76.4 billion in mid-April 2012, up from US$68.4 billion at the end of 2010, allowing more Mainland capital to invest in overseas markets.

5. A significant portion of the assets managed in Hong Kong was invested in Asia, accounting for 77.9% in 2011.

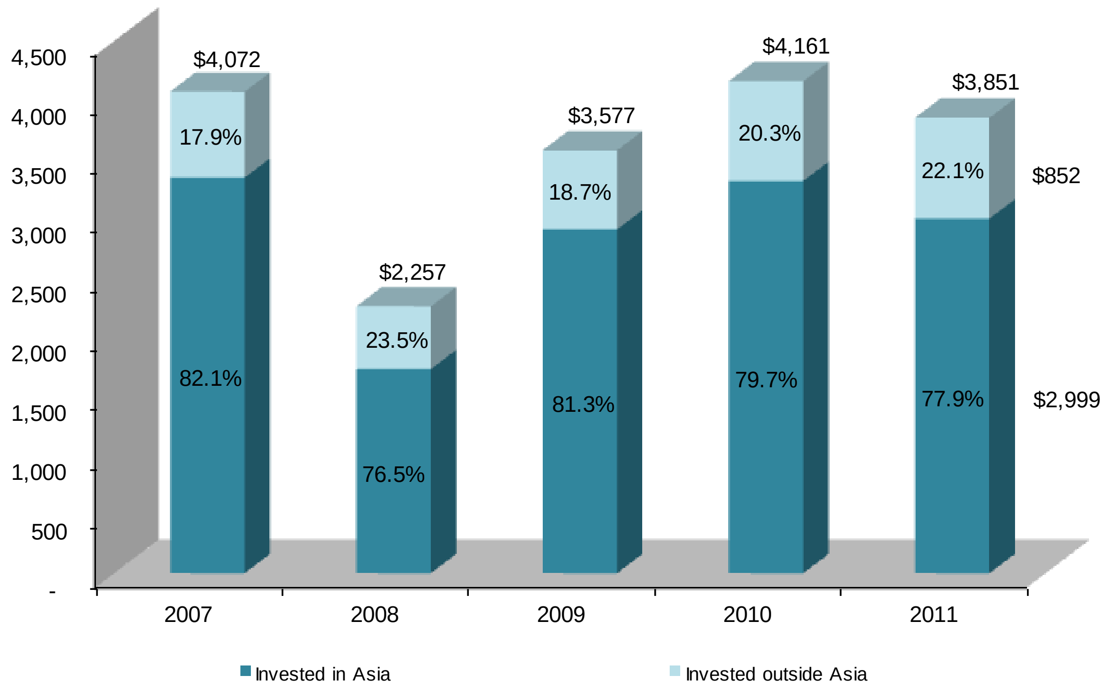


Chart 4: Assets Managed in Hong Kong: by Geographical Distribution of Investments ($ bn)

(a) The level of assets managed in Hong Kong and invested in Asia remained high, accounting for 77.9% of the assets managed in Hong Kong. In value terms, this reached $2,999 billion, comprising $1,860 billion invested in Hong Kong and the Mainland*, $265 billion invested in Japan and $874 billion invested in the rest of Asia Pacific.

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

(b) While the reported amount of $2,999 billion assets that were managed in Hong Kong and invested in Asia represents a 9.6% drop from the amount reported for year 2010, it nevertheless continues to be significantly higher than the amount of assets invested outside of Asia, which reported a total of $852 billion in 2011. The capital inflow into, and the continuing significant investments in, the Asia Pacific region suggests that Asia continued to provide attractive investment opportunities to investors in view of the European sovereign debt crisis. According to the International Monetary Fund (IMF), while the financial turmoil in the Eurozone area spilled over to Asian markets in late 2011, the effects were limited given robust domestic demand and favorable financial conditions in some Asian economies.

(c) The Mainland experienced a gross domestic product growth of 9.2% in 2011. According to forecasts of the IMF and World Bank, the Mainland is expected to achieve a growth of above 8% in 2012. The relatively stronger economic growth of the Mainland is expected to continue to encourage inflows of capital looking for exposure to the Mainland or other Asian opportunities amid concerns about the European sovereign debt crisis.

II. Recent Developments and Industry Outlook

In the year 2011, the SFC focused on three key aspects in strengthening the status of Hong Kong as a leading asset management centre, namely:

1. Maintaining close monitoring of on-going regulatory compliance of investment products

Collective investment schemes

(a) All product issuers were given a one-year transitional period from June 2010 to produce a product key facts statement (KFS) and revise their offering documents to satisfy the disclosure requirements as set out in the SFC's Handbook for Unit Trusts and Mutual Funds, Investment-linked Assurance Schemes and Unlisted Structured Investment Products (Handbook).

(b) Following the expiry of the one-year transitional period on 25 June 2011, the SFC conducted a surveillance exercise focusing on different components of the offering documents of those existing SFC-authorized funds and existing SFC-authorized investment-linked assurance schemes (ILAS) that continued to be marketed to the public of Hong Kong on or after 25 June 2011:

   (i) Samples of KFS of these SFC-authorized funds were selected for surveillance purpose based on a number of criteria including the assets under management (AUM) based/market impact priority ranking, the complexity of the funds and observations regarding the quality of draft KFS submitted to the SFC during the directional comments process carried out in early 2011. At least one KFS from each issuer of these SFC-authorized funds was selected for surveillance. A total of 209 KFS representing 13% of the total population were subject to the surveillance exercise.

   (ii) For ILAS, the focus of the surveillance exercise was on the revised offering documents as the SFC has previously vetted all KFS. Samples of revised offering documents of ILAS were selected for surveillance on the basis of AUM-based/market impact priority ranking and the date of original authorization of the relevant ILAS. A total of 25 sets of offering documents representing a sample size of 24.5% and covering 23 different issuers were reviewed.

(c) Under the surveillance exercise, these KFS and offering documents were reviewed against the Handbook and other guidelines published by the SFC from time to time.

(d) Based on the surveillance findings, the SFC provided the industry with further guidance on the quality of disclosures in the KFS and offering documents by way of a circular.

(e) As part of our ongoing efforts to assist the industry in meeting our regulatory requirements:

   (i) The SFC held a briefing session in November 2011 for more than 150 fund industry participants to share our observations and findings of the surveillance exercise and provide further guidance to the industry on the disclosure requirements.

(ii) The SFC organized two separate workshops in February 2012 to provide guidance to the fund industry and the ILAS issuers respectively pertaining to the preparation of new funds / ILAS applications and other on-going compliance related matters.

Investor education

(f) Renminbi products

(i) The SFC published a list of frequently asked questions (FAQ) to help investors understand the key features and risks specific to unlisted RQFII funds. In addition, two articles were published on the SFC's InvestEd website to explain the key risks and fees relating to unlisted RQFII funds, how the RQFII scheme differs from the Qualified Foreign Institutional Investors (QFII) scheme, and how the QFII, QDII and RQFII schemes provide channels for cross-border investments in and out of mainland China.

(ii) The SFC published a revised list of FAQ on its InvestEd website setting out additional matters that investors need to pay attention to when investing in a gold ETF that is denominated and traded in renminbi.

(iii) The SFC published a list of FAQ on its InvestEd website to help investors understand the key features and risks related to RQFII A-share ETFs.

(g) ILAS

The SFC enhanced the materials on ILAS on its InvestEd website to educate investors on, and alert them to the special features of and risks relating to ILAS, salient charging structures, cooling-off period and regulatory framework with respect to ILAS.

2. Strengthening our partnership with the Mainland and our role in the process of renminbi internationalisation

The Mainland government continues to support Hong Kong's development as an offshore renminbi centre. This is evidenced by a series of securities-related key initiatives announced by Vice Premier Li Keqiang during his visit to Hong Kong in August 2011. The SFC has been working closely with the HKSAR Government to facilitate the implementation of these initiatives while maintaining regular dialogues with Mainland financial regulators, anchoring Hong Kong's role as the renminbi continued to venture outside the Mainland's borders.

Retail renminbi-denominated bond funds

(a) The progressive internationalization of renminbi has attributed to the rapid development of the dim sum bond market. According to HKMA, approximately RMB108 billion renminbi bonds were issued in Hong Kong in 2011, representing three times the total renminbi bond issuance in 2010 amounted to RMB36 billion.

(b) We have also seen a gradual development of retail renminbi-denominated bond funds in Hong Kong. As of 30 June 2012, there was a total of nine SFC-authorized renminbi-denominated funds investing primarily in renminbi-denominated securities issued or distributed outside the Mainland, up from five from end 2010. All such funds are managed by SFC-licensed managers.

Further diversification of range of renminbi products

(c) Given the sizeable pool of renminbi deposits in Hong Kong, developing a more diversified range of renminbi investment products is essential to provide further channels for renminbi to become an attractive currency for outside investors to hold, i.e. an investible currency. Since the authorization of the first renminbi-denominated REIT in April 2011, a number of milestones were achieved in expanding the range of renminbi products:

(i) RQFII funds

As of 31 March 2012, a total of 19 unlisted RQFII funds were authorized by the SFC with an aggregate RQFII quota size of RMB19 billion. For the first time, Hong Kong retail investors could use the renminbi to tap the Mainland equity and bond markets, in particular the interbank bond market. The RQFII pilot scheme is both a landmark achievement in the process of renminbi liberalization, and a recognition of Hong Kong's role as a testing ground for the Mainland's financial reforms.

(ii) Renminbi Gold ETF

In January 2012, the SFC authorized the world's first renminbi-denominated and traded gold ETF and the first renminbi ETF in Hong Kong. It was managed by a SFC-licensed manager and was listed on the Hong Kong Stock Exchange in February 2012.

(iii) RQFII A-share ETF

On 3 April 2012, the Mainland authorities announced the expansion of the RQFII scheme quota by RMB50 billion for RQFII holders to develop and launch ETFs tracking A-share indices to be listed on the Hong Kong Stock Exchange. The SFC has been in close dialogues with Mainland authorities to discuss the technical details and implementation matters related to the launch of this new product. On 29 June 2012, the SFC authorized the first RQFII A-share ETF. RQFII A-share ETFs further broaden the types of renminbi products available to Hong Kong investors and strengthen Hong Kong's position as a major offshore renminbi centre.

3. Continuous growth of the exchange-traded fund (ETF) market and strengthening protection for investors

In 2011, while the ETF market in Hong Kong has demonstrated continuous growth, additional measures have been announced and implemented to enhance investor protection for domestic synthetic ETFs with collateral arrangement.

Continuous growth of the ETF market in Hong Kong

(a) The Hong Kong ETF market continued to attract both new and existing ETF managers to launch their products in Hong Kong. As at end 2011, there was a total of 77 ETFs, up from 69 in 2010. Twenty-seven ETFs were listed in the first six months of 2012, while 12 ETFs were de-listed, bringing the total number of ETFs currently listed in Hong Kong to 92. According to the Securities and Derivatives Markets Quarterly Report (1st Quarter 2012) issued by Hong Kong Exchanges and Clearing Ltd, the total market value of ETFs listed in Hong Kong reached US$97.4 billion as at 31 March 2012, up 9.9% from US$88.6 billion at end 2010. At the same time, we saw three new ETF managers coming to the marketplace in Hong Kong.

Enhanced investor protection for domestic synthetic ETFs with collateral arrangements

(b) With a view to enhancing investor protection, the SFC required each of the 13 domestic synthetic ETFs with collateral arrangement to top-up and at all times maintain its collateral level to at least 100% of the ETF's gross total counterparty risk exposure by end October 2011. Where the collateral held is equities, the value of the equity collateral would be increased to at least 120%. This top-up exercise was successfully completed on 31 October 2011.

Challenges and market opportunities

(a) In 2011, we implemented new measures on the regulation of retail funds with a view to further upholding protection for investors while a wider range of renminbi investment products was introduced to provide investors with further access to the Mainland financial market. We will maintain such effort and keep in view the latest developments in the financial markets and further assess if any new safeguards may be required or more investor education effort may be stepped up for better investor protection.

(b) To maintain the competitiveness of Hong Kong and fortify its strategic position as an offshore renminbi centre, the SFC will continue to conduct high-level dialogues with the key Mainland authorities with a view to engaging them in policy design and execution that would benefit both the Hong Kong and Mainland markets. In particular, Hong Kong's robust regulatory framework is a key to bolstering Hong Kong's status as a premier offshore renminbi centre. By adding breadth to Hong Kong's existing renminbi product range, more outside investors and their liquidity could be attracted to the Hong Kong renminbi platform.

(c) As certain overseas new regulatory requirements are expected to be implemented or introduced in the near future, the SFC will continue to maintain regular dialogues with the industry to monitor any possible impact on the fund industry, for example, the US Foreign Account Tax Compliance Act, the India Taxation Legislation, and the possible introduction of the revised UCITS regime under the European funds regulations framework.

(d) Against an uncertain global economic outlook and a continued unfolding of the European sovereign debt crisis, the SFC will continue to work closely with local and overseas regulators in exchanging information. In particular, the SFC will remain vigilant of any possible contagion effect that the European sovereign debt crisis may have on the Hong Kong market.

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 companies[3] registered under the Insurance Companies Ordinance (ICO) but not licensed with the SFC, which provide services constituting classes of long-term business as defined in Part 2 of Schedule 1 of the ICO and have 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 2011. 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 409 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 351 licensed corporations, 39 registered institutions and 19 insurance companies.

Licensed corporations

5. An analysis of the activities of the 351 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	217
Respondents with assets under fund advisory business only	43
Respondents with both of the above businesses	91
	351

Registered institutions

6. An analysis of the activities of the 39 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	15
Respondents with both of the above businesses	18
	39

Insurance companies

7. Nineteen 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 ($9,038 billion)

8. Hong Kong's combined fund management business amounted to $9,038 billion, representing a year-on-year decrease of 10.4% as at end of 2011.

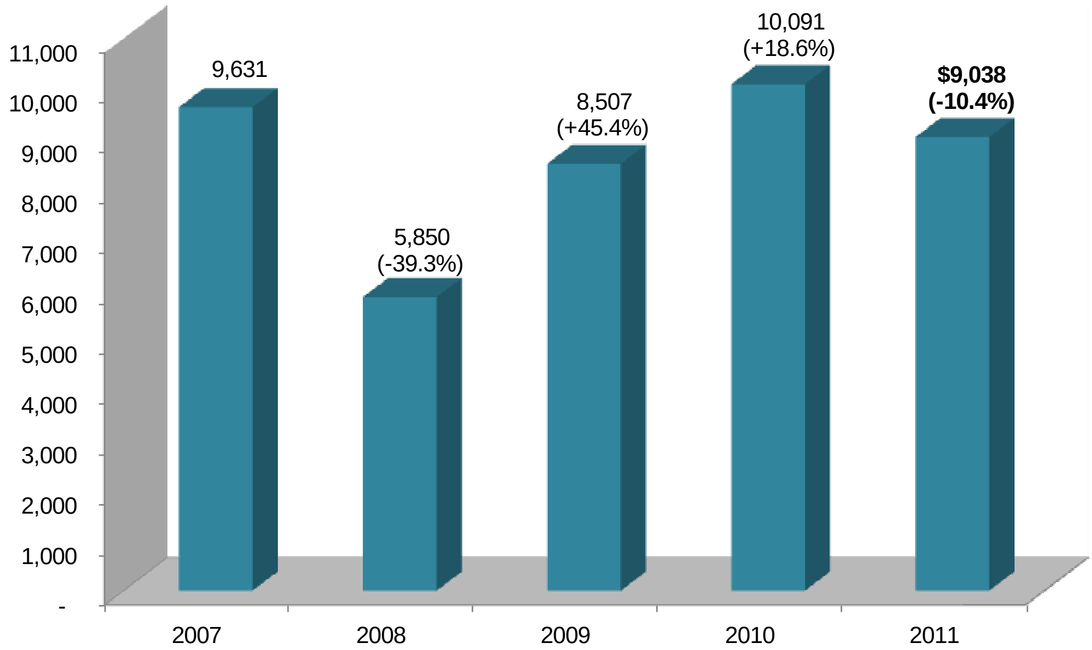


Chart 5: Combined Fund Management Business ($ bn)

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

($ billion)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Asset management business	5,316	159	287	**5,762**
Fund advisory business	889	-	-	**889**
Other private banking business	-	2,263	-	**2,263**
Non-REIT fund management business	6,205	2,422	287	**8,914**
SFC-authorized REITs	124	-	-	**124**
Combined fund management business	6,329	2,422	287	**9,038**

For major aggregate figures of FMAS 2011, see the Appendix on page 25.

10. Licensed corporations reported a year-on-year decrease of 15.1% in their non-REIT fund management business to $6,205 billion at the end of 2011. By category, their asset management business dropped by 16.8% to $5,316 billion while the fund advisory business dropped by 3.1% to $889 billion during the year. The significant decline in the asset management business was mainly due to the poorer market performance during the year as compared with 2010, resulting in depreciation of assets and reduction of investment return. Many of the respondents also reported increased redemptions and outflows of funds. Although the fund advisory business was also affected by the generally poor market performance, the adverse impact was partially offset by the signing up of new client mandates and launch of new portfolios as reported by a number of respondents and therefore the fund advisory business only recorded a slight decrease.

11. Registered institutions reported a 0.04% decrease in their non-REIT fund management business to $2,422 billion at the end of 2011. The slight decrease in non-REIT fund management business reported by the registered institutions was mainly due to the overall poor market performance which was partially offset by business growth of some international banks or their branches in Hong Kong in 2011.

12. Insurance companies reported a total of $287 billion of assets under management as at the end of 2011, representing a year-on-year increase of 10.4%. Such increase was mainly due to two new respondents reporting to this year's survey (which together accounted for over 50% of the increase in the assets under management in 2011) and the business growth as reported by another respondent during the year.

Asset Management and Fund Advisory Business of Licensed Corporations, Registered Institutions and Insurance Companies ($6,651 billion)

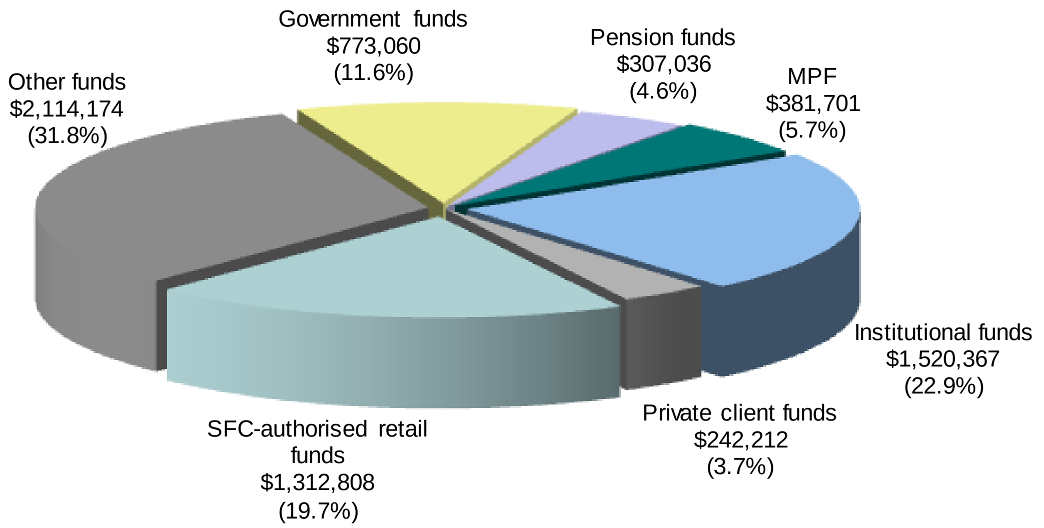


Chart 6A: Asset Management and Fund Advisory Business by Type of Funds ($ mn)

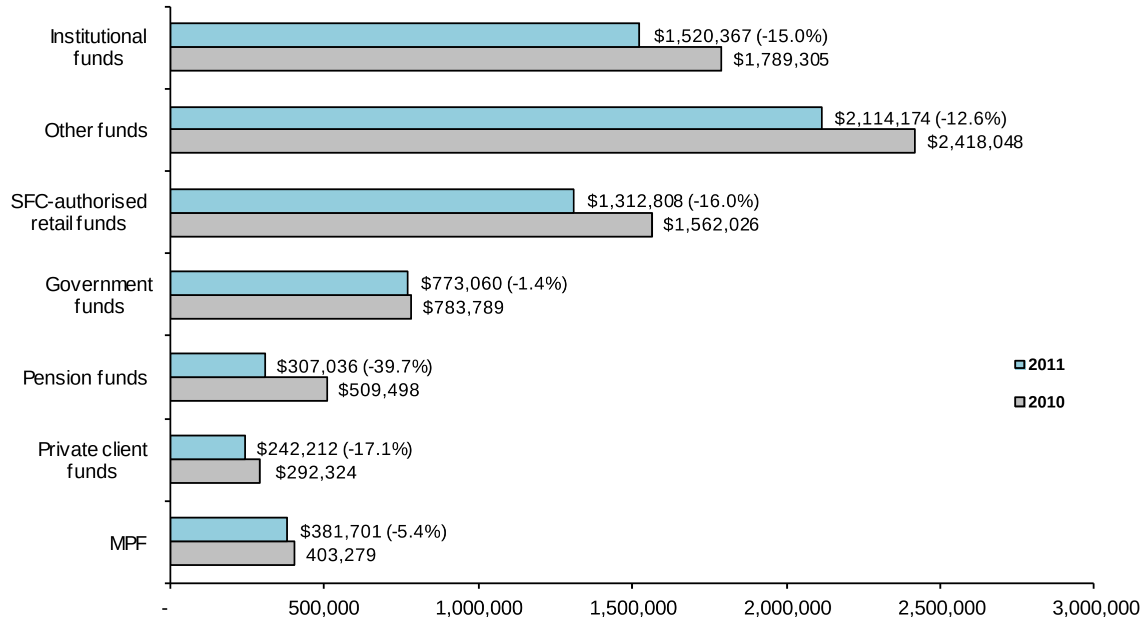


Chart 6B: Asset Management and Fund Advisory Business: by Type of Funds 2011 vs 2010 ($ mn)

13. In 2011, SFC-authorized retail funds recorded a year-on-year decline of 16.0%. According to statistics published by the Hong Kong Investment Funds Association (HKIFA), the net retail sales of SFC-authorized funds recorded a year-on-year decrease of 0.5% in 2011. The HKIFA observed that the significant fund sales in the first half of 2011 were partially outweighed by the drop in fund sales in the latter half of the year and the net redemptions in September and October 2011. These were mainly attributable to the heavy sell-off in the global equity markets triggered by the escalation of the European sovereign debt crisis and concerns about the outlook for the US economy in the second half of the year.

14. The value of "Other funds," which mainly comprised overseas retail funds, hedge funds, private equity funds and insurance portfolios, recorded a decrease of 12.6% to $2,114 billion in 2011.

Asset Management Business of Licensed Corporations, Registered Institutions and Insurance Companies ($5,762 billion)

15. As at the end of 2011, the total asset management business of licensed corporations, registered institutions and insurance companies amounted to $5,762 billion, representing a decline of 15.8% from $6,841 billion as at the end of 2010. The majority of such decline was attributable to the licensed corporations which recorded a decrease of $1,072 billion to $5,316 billion. Registered institutions reported a year-on-year decrease of $34 billion and insurance companies reported a year-on-year increase of $27 billion.

Asset Management Business ($5,762 billion): by Source of Funds

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Hong Kong investors (% of total)	1,846,600 (34.7%)	52,142 (32.7%)	236,023 (82.4%)	**2,134,765 (37.0%)**
Non-Hong Kong investors (% of total)	3,469,651 (65.3%)	107,123 (67.3%)	50,437 (17.6%)	**3,627,211 (63.0%)**
Total (100%)	5,316,251 (100%)	159,265 (100%)	286,460 (100%)	**5,761,976 (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 decreased by 21.6% to $3,627 billion in 2011.

Asset Management Business ($5,762 billion): by Geographical Distribution of Investments

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Invested in Hong Kong (% of total)	1,557,474 (29.3%)	58,793 (36.9%)	58,139 (20.3%)	**1,674,406** **(29.1%)**
Invested overseas (% of total)	3,758,777 (70.7%)	100,472 (63.1%)	228,321 (79.7%)	**4,087,570** **(70.9%)**
Total (100%)	5,316,251 (100%)	159,265 (100%)	286,460 (100%)	**5,761,976** **(100%)**

17. Compared to 2010, the percentage of assets invested in Hong Kong and overseas maintained similar proportions of 29.1% and 70.9% respectively in 2011.

Asset Management Business ($5,762 billion): by Location of Management

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Managed in Hong Kong (% of total) (See Charts 7A &7B)	3,621,988 (68.1%)	136,475 (85.7%)	92,715 (32.4%)	**3,851,178** **(66.8%)**
Managed overseas[5] (% of total)	1,694,263 (31.9%)	22,790 (14.3%)	193,745 (67.6%)	**1,910,798** **(33.2%)**
Total (100%)	5,316,251 (100%)	159,265 (100%)	286,460 (100%)	**5,761,976** **100%**

18. The proportion of assets managed in Hong Kong increased from 60.8% in 2010 to 66.8% in 2011, indicating that Hong Kong continues to be a preferred location for asset management.

Assets Managed in Hong Kong ($3,851 billion): by Geographical Distribution of Investments

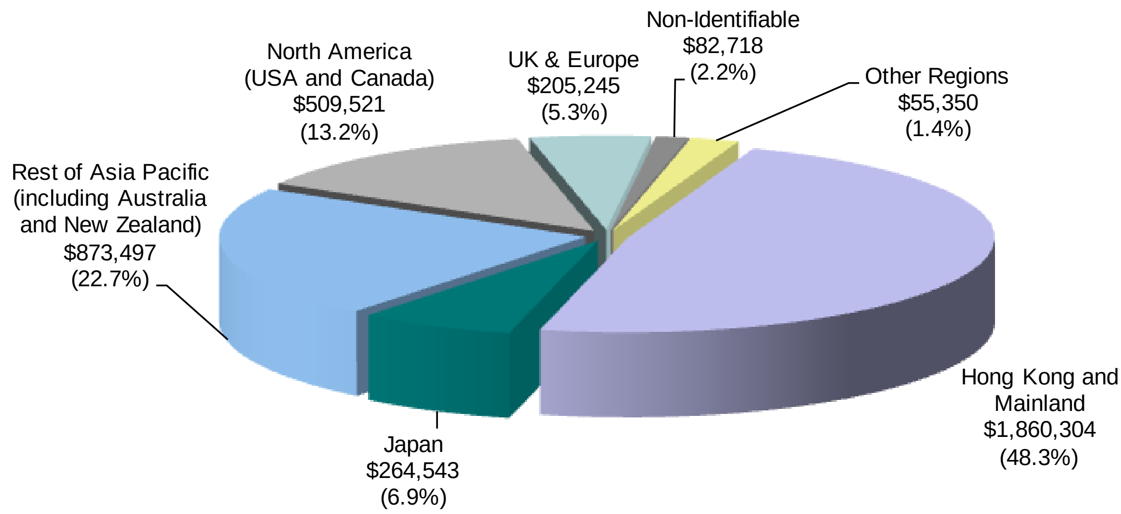


Chart 7A: Asset Managed in Hong Kong: by Geographical Distribution of Investments ($ mn)

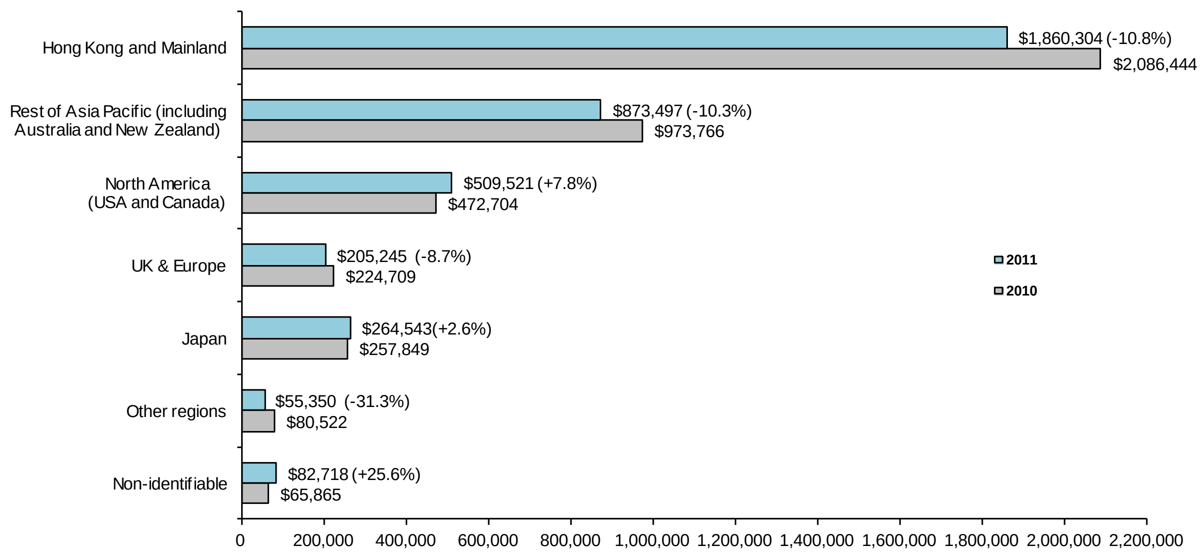


Chart 7B: Asset Managed in Hong Kong: by Geographical Distribution of Investments 2011 vs 2010 ($ mn)

19. The geographical distribution of assets managed in Hong Kong remained largely similar with Hong Kong and the Mainland continuing to be the primary geographical region designated for investment, accounting for 48.3% of the assets managed in Hong Kong.

Fund Advisory Business of Licensed Corporations ($889 billion)

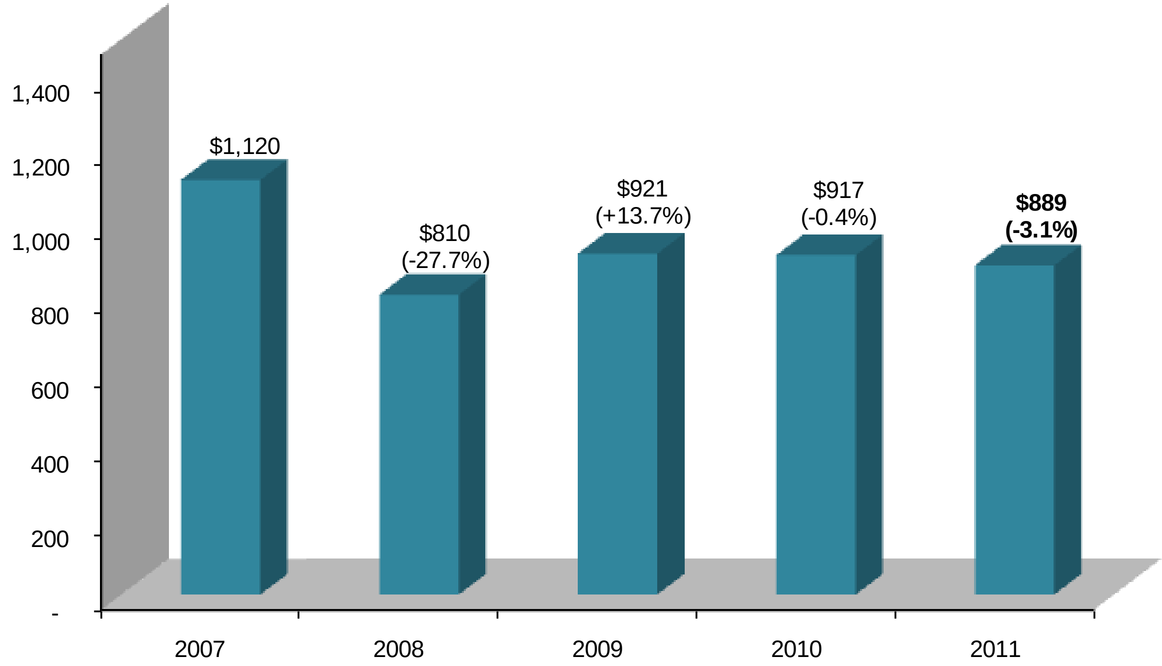


Chart 8: Fund Advisory Business ($ bn)

20. As compared to 2010, the fund advisory business recorded a decrease of 3.1% to $889 billion. Although the fund advisory business was also affected by the generally poor market performance, the adverse impact was partially offset by the signing up of new client mandates and launch of new portfolios as reported by a number of respondents. Therefore the fund advisory business only recorded a slight decrease. Of this amount, 87.1% (2010: 92.4%) or $774 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 89.7%. In value terms, these assets amounted to $797 billion, as compared with $820 billion in 2010.

Other Private Banking Business ($2,263 billion)

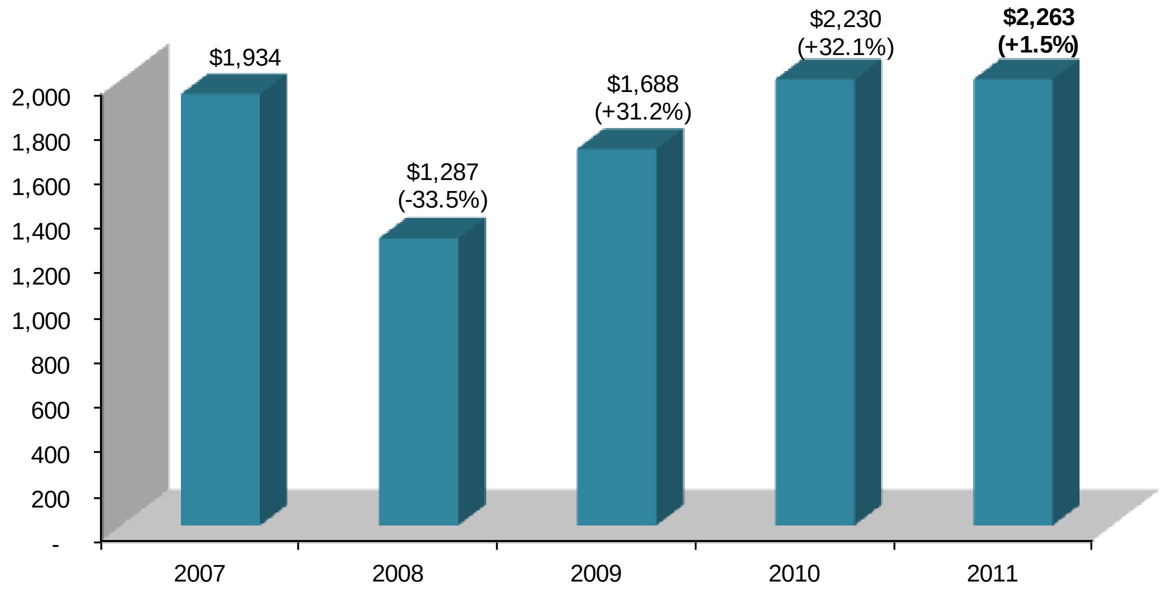


Chart 9: Other Private Banking Business ($ bn)

22. Other private banking business recorded a slight increase of 1.5% to $2,263 billion in 2011 as some respondents reported the expansion of their private banking business division during the year, and there was also business growth in the area of customer deposits and other investment activities.

SFC-authorized REITs ($124 billion)

23. The local REIT market continued to expand in 2011 as evidenced by a number of significant transactions, including acquisitions of four local properties and one overseas property involving an aggregate consideration of more than US$600 million.

24. In May 2012, a very substantial acquisition involving a total consideration of approximately RMB8,850 million was proposed by a local REIT to acquire a landmark building, one of the world's 10 tallest skyscrapers, located in the central business district of Guangzhou.

25. The market capitalisation of all SFC-authorized REITs increased from $103 billion in 2010 to $124 billion in 2011, representing a growth of approximately 20.4%. The increase was mainly attributable to the listing of the first renminbi-denominated REIT in April 2011.

Staff Profile in Fund Management Business (Total number: 31,011)

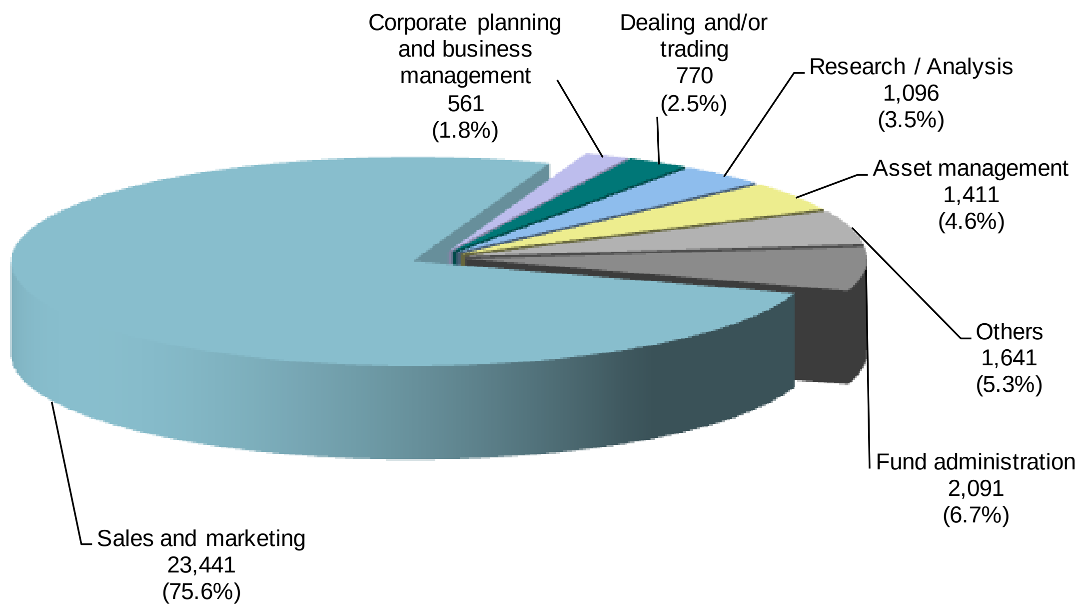


Chart 10A: Staff in Fund Management Business: by Job Function

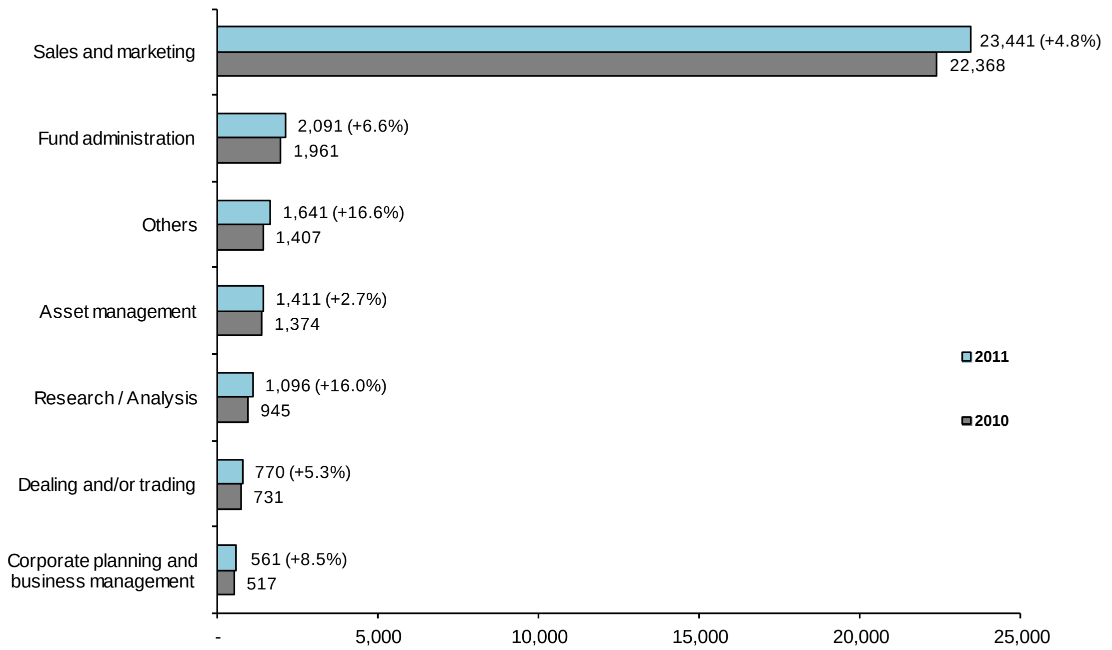


Chart 10B: Staff in Fund Management Business: by Job Function 2011 vs 2010

26. The number of staff engaged in fund management business recorded an increase of 5.8% from 29,303 in 2010 to 31,011 in 2011. The number of staff engaged in sales and marketing activities recorded an increase of 4.8% to 23,441 during the year, with 21,837 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 2011			
	Licensed Corporations	Registered Institutions	Insurance Companies	Total
Asset management of funds / portfolios				
Total assets managed by the firm (A) = (B) + (C)	5,316,251	159,265	286,460	**5,761,976**
Total assets directly managed by the firm in Hong Kong (B)	3,545,412	135,347	92,715	**3,773,474**
Total assets sub-contracted or delegated to other offices / third parties for management (C) = (D) + (E)	1,770,839	23,918	193,745	**1,988,502**
Total assets sub-contracted or delegated to other offices / third parties in Hong Kong for management (D)	76,576	1,128	-	**77,704**
Total assets sub-contracted or delegated to overseas offices / third parties for management (E)	1,694,263	22,790	193,745	**1,910,798**
Total assets managed in Hong Kong (F) = (B) + (D)	3,621,988	136,475	92,715	**3,851,178**
Giving advice on funds / portfolios				
Total assets under advisory business of the firm (H) = (I) + (J)	889,382	-	-	**889,382**
Assets directly advised by the firm in Hong Kong (I)	774,244	-	-	**774,244**
Assets sub-contracted or delegated to other offices / third parties for providing advisory services (J) = (K) + (L)	115,138	-	-	**115,138**
Assets sub-contracted or delegated to other offices / third parties in Hong Kong for providing advisory services (K)	5,726	-	-	**5,726**
Assets sub-contracted or delegated to overseas offices / third parties for providing advisory services (L)	109,412	-	-	**109,412**
Assets on which advice is given in Hong Kong (M) = (I) + (K)	779,970	-	-	**779,970**
Other private banking business				
Total assets under other private banking activities	-	2,262,726	-	**2,262,726**
SFC-authorized REITs				
Total market capitalisation of SFC-authorized REITs	123,990	-	-	**123,990**

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.