

The Asset Management Industry

Opportunities and Challenges for Hong Kong

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Asset Management Industry: Opportunities

- Global AM industry AUM growth outpaced GDP growth
 - AUM increased around 6% in 2016
- Asia with over 60% of world population (and with younger population and growing affluence), but under 15% of global AUM, will be the region of growth
- China with 1.38 billion population, but with US\$2.8 trillion AUM (only 3.4% of world) will see spectacular AM industry growth
- China: A-Share inclusion in MSCI indices starting May and August 2018. Global asset management managers will increase portfolio allocation into China.
- Stock Connect and Bond Connect: South-Bound investment account for over 7.5% of HK Stock Exchange trading volume
- HK and China mutual recognition of funds

Hong Kong as the Asset Management Center of Asia and the Global Gateway to China

- HK has the unique advantages:
 - Well established rule of law, and industry best practices
 - Abundance of professional talents from all over the world
 - Asset management infrastructure (middle office, back office, systems, accounting & reporting, ...) is well developed and transparent
 - Easy access to the Mainland China markets
- Global investors (asset management companies, pension funds, insurance, sovereign wealth funds, etc) are under-invested in China, and will play catch-up. HK, the large community of English and Chinese speaking professionals, can facilitate bridging the gap
- **The biggest upcoming event:** Chinese domestic bonds (RMB 73 trillion, US\$ 11 trillion) inclusion in 1 or all 3 of the global bond indices (Bloomberg Barclays Aggregate, JP Morgan GBI, LSE WGBI) – might lead to billions of investment inflows into China (directly or via HK)

Asset Management Industry: Challenges

- The migration from actively managed to passively managed (ETFs), and management fee compression
- Consolidation (M&A) in asset management industry, and AUM concentration
 - Top 25 managers control 42.3% of AUM, while 250 managers (251-500th) manages 5.9%
- AUM chasing small number of stocks
 - E.g.: 3 stocks (Tencent, AIA, HSBC) contributed to 48.49% of HangSeng Index gain in 2017. Top 10 stocks: 81%
- 2018 will be a year of market turbulence: global interest rate normalization and increasing volatility
- How well are we adapting?
- How well do we know each other?