



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

Fund Management Activities Survey 2001

2001年基金管理活動調查

Hong Kong
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香港
2002年6月

Executive Summary

The Securities and Futures Commission (SFC) has conducted a survey of fund management activities in Hong Kong as of 31 December 2001. The major findings are:

- The result of the survey suggested that Hong Kong remained a major center in the region for attracting overseas funds for management. Total assets under management amounted to HK\$1,484 billion at the end of 2001. Of this amount, HK\$1,030 billion (69%) were derived from non-Hong Kong investors.
- Of the HK\$1,484 billion assets under management, HK\$1,469 billion worth of assets were reported by respondents who had fund management as a primary business, down 1% year-on-year, and \$15 billion were reported by respondents who had gross operating income derived from fund management.
- Institutional funds and pension funds (including mandatory provident funds) were the main types of funds under management, accounting for 61% and 25% of total assets under management, respectively.
- HK\$668 billion, or around 45% of the HK\$1,484 billion total assets under management, were managed in Hong Kong. Of this, HK\$654 billion were attributed to respondents who had fund management as a primary business, representing an increase of 4% from 2000.
- As at year end, there were 172 companies which provided fund management or advisory services, or derived gross operating income from such activities.
- The amount of assets under advice totaled HK\$140 billion, primarily originating from non-Hong Kong and institutional funds. However, around 50% of such funds were advised in Hong Kong and the rest delegated overseas for advice.

Introduction

1. This annual Fund Management Activities Survey (FMAS) exercise was first conducted for 1999. Its aim is to collect information on fund management activities in Hong Kong. Such information would enable better understanding of fund management activities and identify possible trends, both of which are crucial for the formulation of policies to

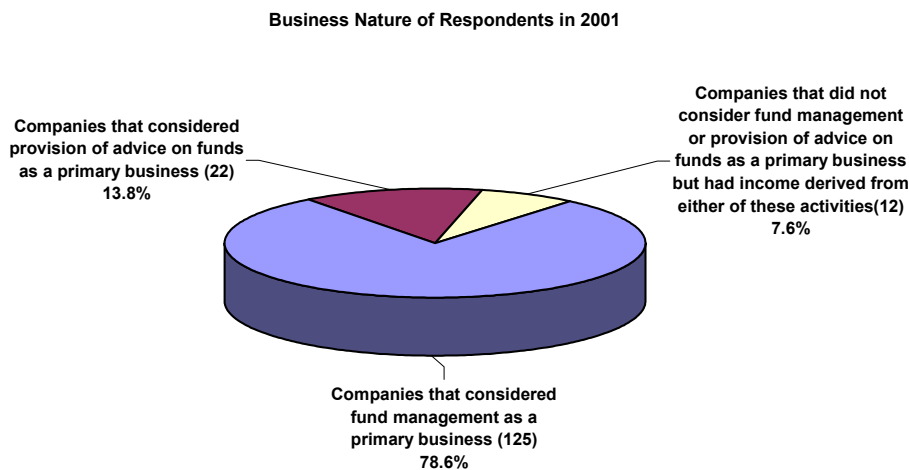
regulate the fund management industry and to facilitate its long-term growth in Hong Kong.

2. In contrast with the two previous surveys which only focused on intermediaries or exempt persons who have declared fund management as a primary business, the FMAS 2001 also invited responses from those registrants whose primary business was the provision of advice on funds or who had gross operating income derived from either the management of funds or the provision of advice on funds. The inclusion of these registrants was intended to achieve a more comprehensive picture of the size of the fund management business in Hong Kong.
3. To differentiate between the management of funds and the advisory business, the questions that were asked in the survey were divided into two parts. The first part focused on the amount of assets that was managed by the respondents; the second part on the amount of assets that was the subject matter as to which advisory services were provided by the respondents.
4. The FMAS 2001 also collected additional information on fund management activities, namely whether the funds were invested in Hong Kong or overseas, in order to better understand their investment diversity.

Responses

5. As in the previous surveys, the FMAS was conducted in conjunction with Licensing Department's annual survey. A total of 159 registrants or exempt persons responded to FMAS 2001, analysed as follows:

Registrants with fund management as a primary business	125
Registrants with provision of advice on funds as a primary business	22
Registrants which had gross operating income derived from fund management or provision of advice on funds	12
	159



6. Compared with the FMAS 2000 which included data from 160 registrants whose primary business was fund management, data of only 125 such registrants was included in FMAS 2001. This represents a net decrease of 35 registrants, analysed as follows:

First time survey participants	14
Licence with the SFC revoked ¹	(14)
Fund Management was no longer a primary business but had income derived from either management of funds or provision of advisory services	(15)
Ceased fund management operations	(4)
No assets under management as at 31 December 2001	<u>(16)</u>
	<u>(35)</u>

7. In addition to the 159 registrants who responded (see paragraph 5), another 7 had yet to submit their responses while a further 6 continued to engage in the fund management business but did not have assets under management at the end of 2001. Therefore, in total, there were 172 fund management companies at the end of 2001.
8. It will be noted that in the FMAS 2000, there were 203 fund management companies at the end of 2000. The 2000 and 2001 numbers (203 versus 172) are not directly comparable because some of the companies surveyed did not respond in time and a number of companies had during the year handed in their licences because of corporate restructuring.

¹ These registrants had aggregate assets under management of \$5.4 billion in 2000 and accounted for 0.4% of assets under management in FMAS 2000. Typically, their licenses were revoked due to their decisions to close down businesses in view of the small amount of assets under management.

Findings²

9. The major aggregate figures are summarized in the following table:

Major Aggregate Figures of FMAS 2001 <i>(as of 31 December 2001)</i>			
<i>(HK\$ in Million)</i>	AUM		
	<i>Reported by Respondents with Fund Management as Primary Business</i>	<i>Reported by Respondents with Operating Income from Fund Management</i>	<i>Total AUM</i>
Managing Funds or Portfolios			
Total assets under management by the company = (A) Where A = B+C	HK\$1,468,597	HK\$15,470	HK\$1,484,067
Amount of assets directly managed by the company in Hong Kong = (B)	651,375	11,682	663,057
Amount of assets sub-contracted or delegated to other offices/third parties for management = (C) Where C = D+E	817,222	3,788	821,009
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for management =(D)	2,979	1,542	4,522
Amount of assets sub-contracted or delegated to other offices/third parties overseas for management = (E)	814,242	2,245	816,488
Total assets managed in Hong Kong = (F) Where F = B+D	654,354	13,225	667,579
Giving Advice on Funds or Portfolios			
Total assets on which company advises = (H) Where H = I+J			HK\$140,480
Amount of assets directly advised by the company in Hong Kong = (I)			70,505
Amount of assets sub-contracted or delegated to other offices/third parties for providing the advisory services = (J) Where J = K+L			69,975
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for providing the advisory = (K)			2,019
Amount of assets sub-contracted or delegated to other offices/third parties overseas for providing the advisory services = (L)			67,957
Total assets on which advice is given in Hong Kong =(M) Where M = I+K			72,524

Total assets under management (\$1,484 billion)

10. As mentioned in the Executive Summary, total assets under management stood at \$1,484 billion, comprising of \$1,469 billion reported by respondents who had fund management as a primary business, and \$15 billion reported by respondents who had gross operating income derived from fund management.
11. Given that FMAS 2000 only collected data from 160 respondents who had fund management as a primary business, all the analyses and comparisons drawn in this report, except where otherwise specified, are based on the \$1,469 billion of assets under management (hereafter described as “AUM”) reported by 125 respondents who had fund management as a primary business in 2001.

² All figures are in Hong Kong dollars unless otherwise specified.

AUM (\$1,469 billion) – Year-on-year comparison

12. The amount of assets under management as at the end of 2001 was largely unchanged from a year earlier. 14 first time survey respondents contributed \$37 billion to AUM and another 45 respondents reported an aggregate 9% increase in assets under management to \$759 billion, both of which in total nearly offset the 12% decline reported by the remaining 66 respondents.
13. Respondents who reported gains in assets under management generally attributed the increase to contributions from the mandatory provident fund (“MPF”) schemes, launching of guaranteed funds³, and increases in assets allocated from their clients for management.
14. On the other hand, the decline in equity markets⁴, redemptions by investors, and the liquidation of funds were the primary factors quoted by respondents who registered decreases in assets under management.

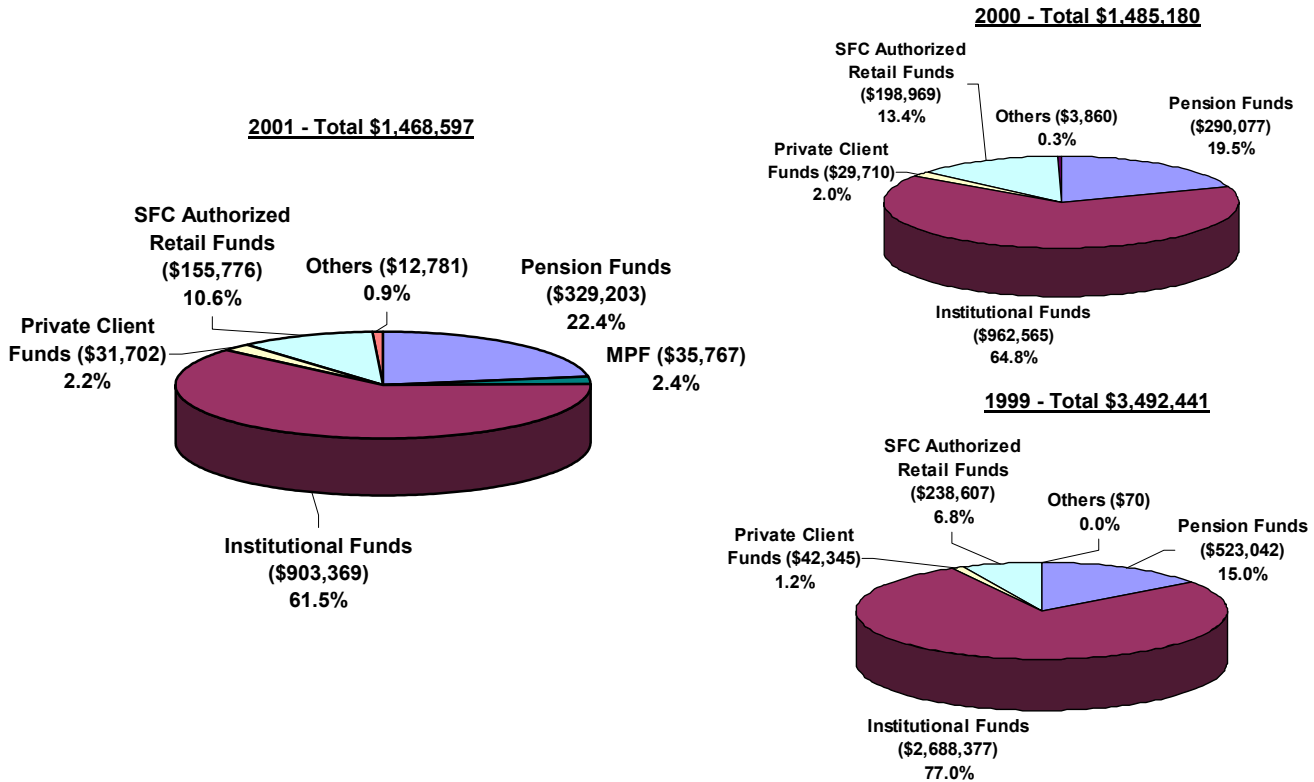
AUM (\$1,469 billion) - by type of fund

15. As recorded in previous years, institutional funds accounted for the largest share of AUM, followed by pension funds (including the mandatory provident fund (“MPF”) schemes), SFC authorised retail funds, private clients funds and lastly, other funds (namely government funds and charity funds). Such distribution, shown in the following charts, is fairly similar to that recorded in 2000.

³ As a reference, the SFC authorized a total of 316 funds in 2001, with an aggregate net asset value of \$217.8 billion at the end of 2001. Of these, 37 were guaranteed funds which together had an aggregate net asset value of \$39.8 billion.

⁴ Most major stock markets around the world recorded losses in 2001, except for Taiwan (up 12.5%), Korea (up 33.2%) and Malaysia (up 4.4%).

**AUM - By Type of Funds
(HK\$ in Millions)**

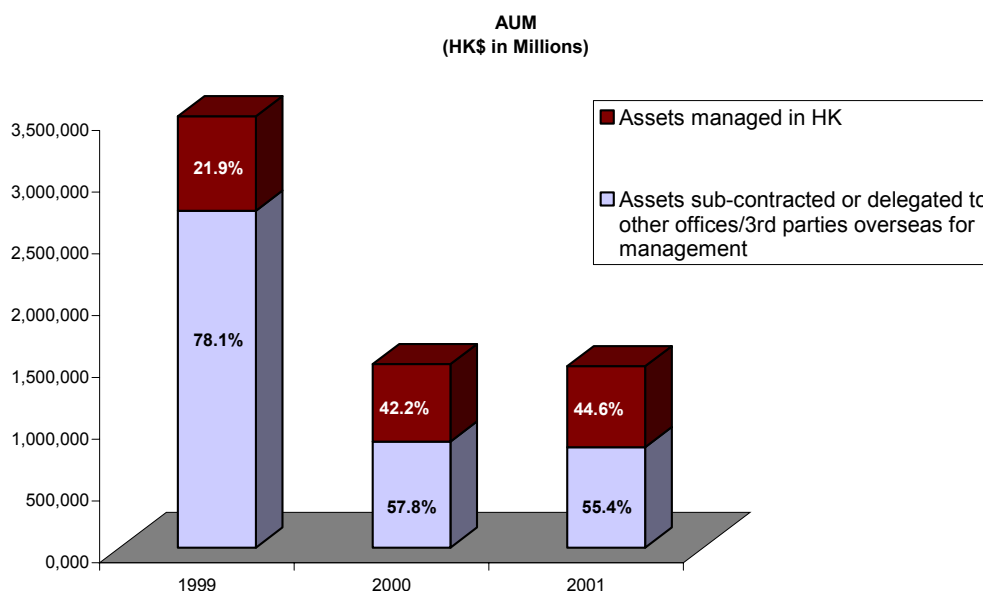


16. In terms of growth, other funds, namely government and charity funds, recorded the largest gain of 231%, albeit from a small base of around \$4 billion in 2000 to nearly \$13 billion in 2001. Pension funds also registered strong gains of 13% year-on-year while MPF schemes reflected the first full year of contributions since the implementation of the MPF System in December 2000. In contrast, SFC authorized retail funds fell 22% during the year⁵, largely due to redemptions and asset depreciation.

⁵ Since many SFC authorized retail funds are managed by overseas managers that are not SFC registrants or exempt persons, the survey did not include all the SFC authorised retail funds. The net asset value of all such funds totalled \$2,225 billion as at 31 December 2001, compared with \$2,429 billion a year earlier. 1,893 funds were authorized at the end of 2001, up from 1,776 in 2000.

AUM (\$654 billion) managed in Hong Kong

17. 45% of AUM, or \$654 billion, were managed in Hong Kong, representing a growth of 4% from 2000. The remaining \$814 billion were subcontracted or delegated to other offices / third parties overseas for management.



18. In line with the data for the prior two years, virtually all of the assets managed in Hong Kong were directly managed by the respondents, with only 0.5% being sub-contracted or delegated to other offices or third parties in Hong Kong for management.

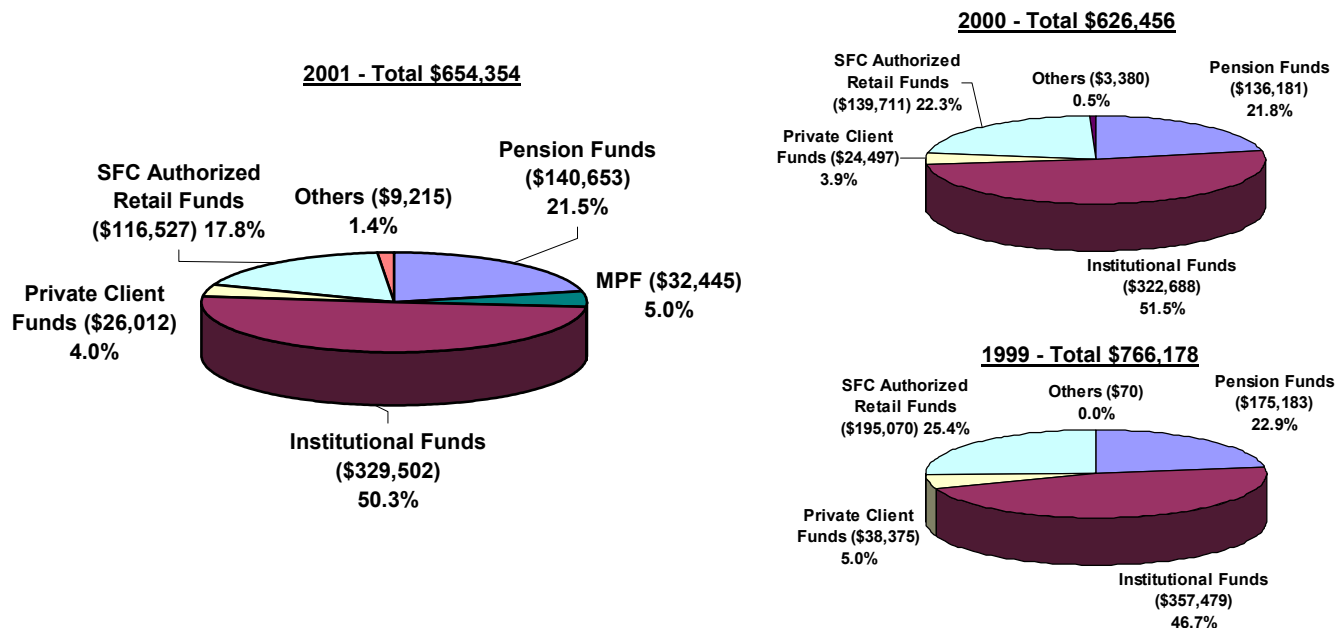
Assets Managed in Hong Kong						
<i>(HK\$ in Millions)</i>	2001		2000		1999	
	HK\$	%	HK\$	%	HK\$	%
Assets directly managed in HK	651,375	99.5%	622,920	99.4%	752,468	98.2%
Assets sub-contracted or delegated to other offices/third parties in HK for management	<u>2,979</u>	<u>0.5%</u>	<u>3,536</u>	<u>0.6%</u>	<u>13,710</u>	<u>1.8%</u>
Total	654,354	100.0%	626,456	100.0%	766,178	100.0%

19. The increase in assets managed in Hong Kong was mainly driven by two factors, namely the growth of other funds (primarily government funds) and the development of the MPF System, the latter of which requires the investment managers of the funds to be

incorporated in Hong Kong, thus playing an important role in the promotion of the investment management business in Hong Kong.

20. An analysis of total assets managed in Hong Kong by type of funds is shown in the following charts:

**Assets Managed in Hong Kong - By Type of Funds
(HK\$ in Millions)**

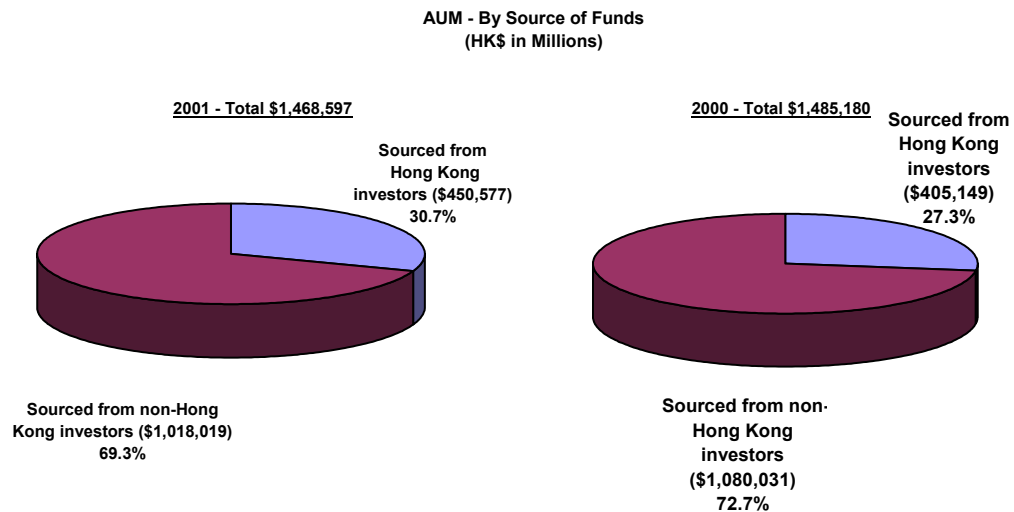


21. The following table illustrates the changes in the proportion of funds managed in Hong Kong over the past three years, by type of funds.

		AUM (HK\$ in Billions) - By Type of Funds								
		2001			2000			1999		
			%	Total		%	Total		%	Total
Pension Funds	Managed in HK	140.7	(42.7%)	329.2	136.2	(46.9%)	290.1	175.2	(33.5%)	523.0
	Managed overseas	188.5	(57.3%)		153.9	(53.1%)		347.9	(66.5%)	
MPF	Managed in HK	32.4	(90.7%)	35.8	NA	NA	NA	NA	NA	NA
	Managed overseas	3.3	(9.3%)		NA	NA		NA	NA	
Institutional Funds	Managed in HK	329.5	(36.5%)	903.4	322.7	(33.5%)	962.6	357.5	(13.3%)	2688.4
	Managed overseas	573.9	(63.5%)		639.9	(66.5%)		2330.9	(86.7%)	
Private Client Funds	Managed in HK	26.0	(82.1%)	31.7	24.5	(82.5%)	29.7	38.4	(90.6%)	42.3
	Managed overseas	5.7	(17.9%)		5.2	(17.5%)		4.0	(9.4%)	
SFC Authorized Retail Funds	Managed in HK	116.5	(74.8%)	155.8	139.7	(70.2%)	199.0	195.1	(81.8%)	238.6
	Managed overseas	39.2	(25.2%)		59.3	(29.8%)		43.5	(18.2%)	
Others	Managed in HK	9.2	(72.1%)	12.8	3.4	(87.6%)	3.9	70.4 Mil	(100.0%)	70.4 Mil
	Managed overseas	3.6	(27.9%)		0.5	(12.4%)		0.0	(0.0%)	

AUM (\$1,469 billion) – source of funds

22. Non-Hong Kong investors continued to play a dominant role in the development of the fund management industry in Hong Kong, accounting for 69% of the assets under management. Meanwhile, funds sourced from Hong Kong investors were up by \$45 billion or 11%.
23. The following charts illustrate the change in the source of AUM over the last two years.



24. For the first time, respondents were asked how much of their assets under management were invested in Hong Kong⁶. Of the \$1,469 billion worth of assets under management, \$300 billion, or 20% of the assets, were invested in Hong Kong.

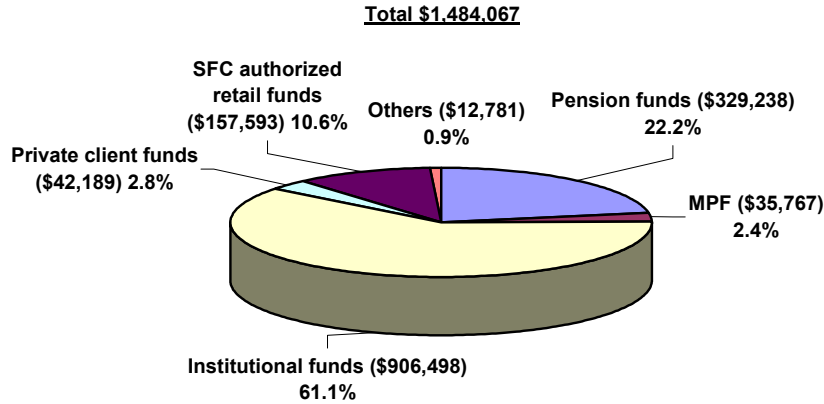
Total assets under management (\$1,484 billion)

25. Similar analyses as above, namely (a) by type of funds, (b) amount managed in Hong Kong versus overseas, and (c) source of funds, were performed on total assets under management and illustrated in the following charts:

⁶ Respondents were asked to give a breakdown of assets invested in Hong Kong versus overseas.

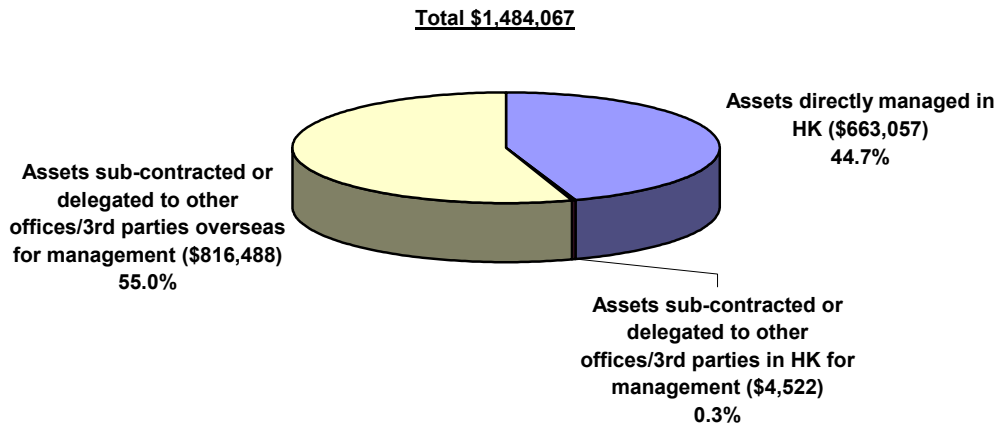
(a) by type of funds:

**Total Assets Under Management in 2001- by Type of Funds
(HK\$ in Millions)**



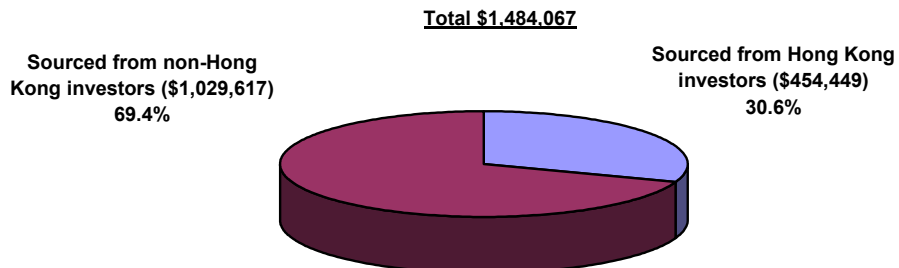
(b) amount managed in Hong Kong versus overseas:

**Total Assets Under Management in 2001
(HK\$ in Millions)**

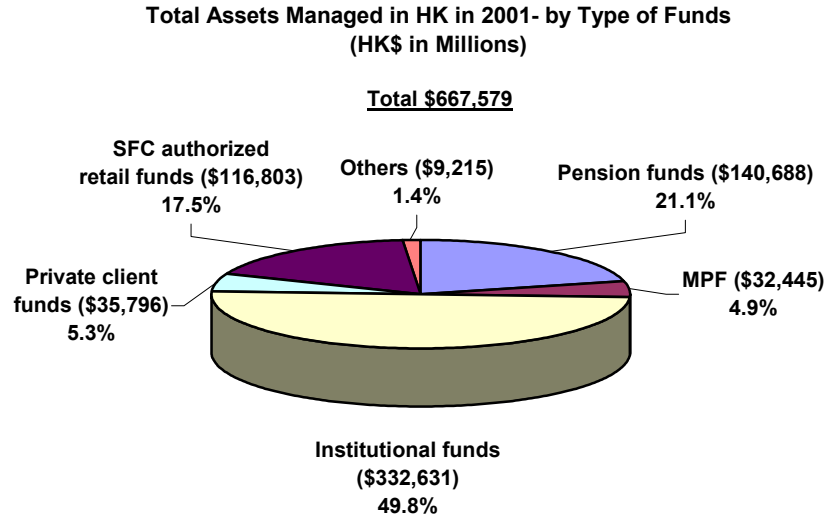


(c) source of funds:

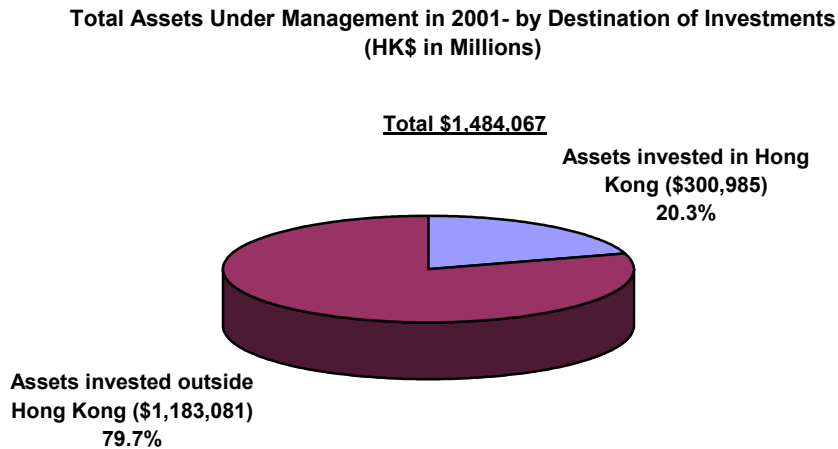
**Total Assets Under Management in 2001 - by Source of Funds
(HK\$ in Millions)**



26. The types of funds managed in Hong Kong are shown below:



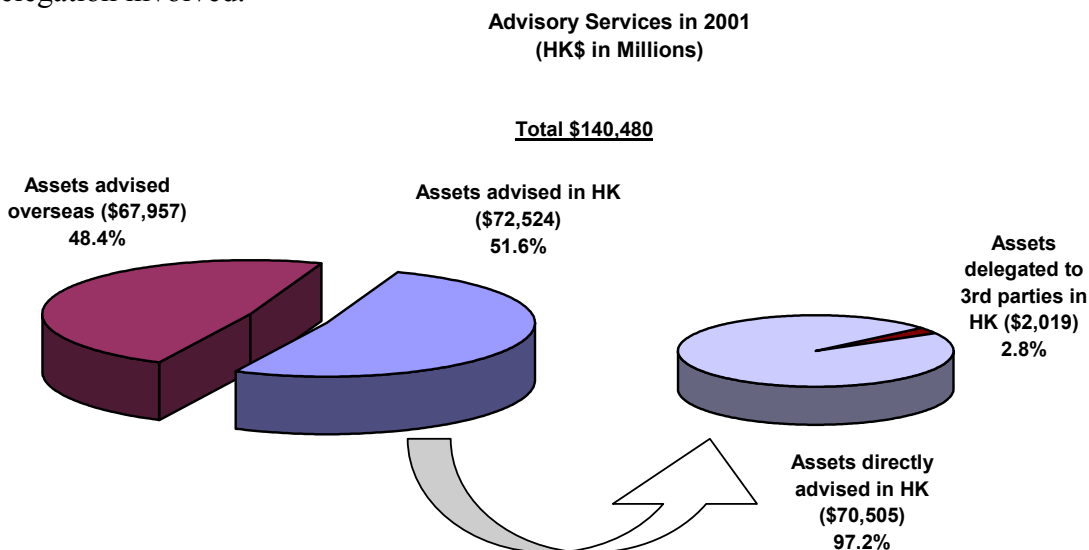
27. In terms of investments, \$301 billion, or 20% of total assets under management, were invested in Hong Kong, with the balance being invested elsewhere.



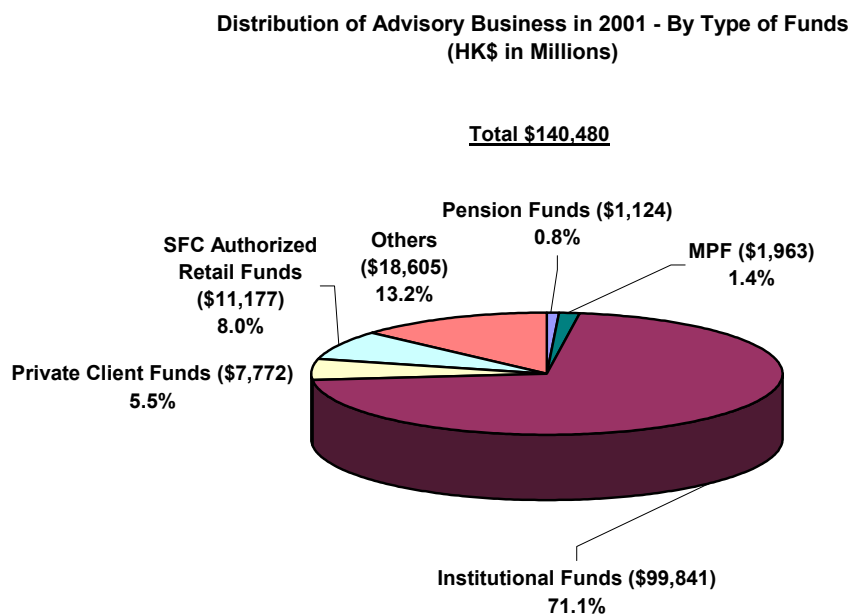
28. As indicated above, the trend revealed by data collected from *all* 159 respondents (i.e. those having fund management as primary business *plus* those who had gross operating income derived from fund management) was similar to that of data collected *only* from respondents who had fund management as primary business.

Total assets under advice (\$140 billion)

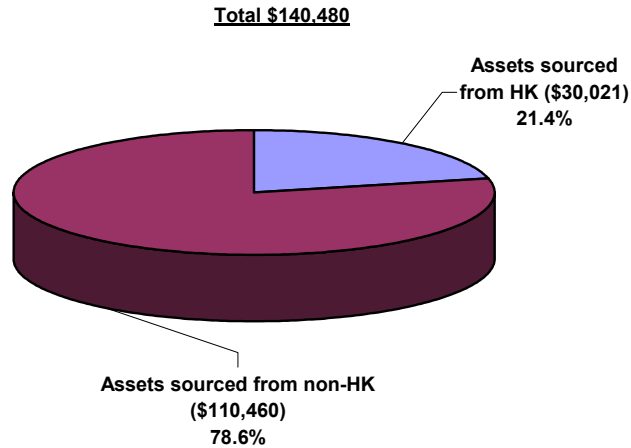
29. For the first time, the survey also invited responses from registrants that gave advice on funds or portfolios. Such registrants reported that a total of \$140 billion worth of assets were the subject matter in respect of which advisory services were given. Of this amount, around half (\$73 billion) pertained to advisory services provided in Hong Kong. The following charts show where the advisory services were performed and the delegation involved.



30. By type of funds, 71% of the \$140 billion worth of assets were institutional funds. By source of funds, 79% of the same amount were contributed by non-Hong Kong investors. The following charts illustrate the distribution of the advisory business by type of funds and source of funds, respectively.



**Distribution of Advisory Business in 2001- By Source of Funds
HK\$ in Millions**



Internet activities

31. Respondents were asked if they conducted any business activities on the Internet or through other electronic means. 21 of the respondents reported that they had carried out advertising or marketing activities on the Internet, including 18 companies which considered management of funds as a primary business. 11 of them managed SFC authorised retail funds.
32. Two of the respondents, one of whom managing SFC authorised retail funds, stated that they provided dealing facilities, namely subscription, redemption and switching of SFC authorised funds, on the Internet.
33. Both findings were virtually unchanged from the year before.
34. Three of the respondents indicated that they provided portfolio planning services on website for investors, up from only one respondent in 2000.

Other finding

35. 34 of the 159 respondents reported that their Hong Kong operations were their regional headquarters. Such organizations generally serve neighbouring countries such as Australia, Korea, Mainland China, Singapore and Taiwan. Among these respondents, 25 of them considered management of funds as their primary business.

Conclusion

36. The significant share of assets sourced from non-Hong Kong investors during the year suggested that Hong Kong continues to play a major role in attracting funds in the region for investment management. However, efforts have to be made to ensure that the flow of funds into Hong Kong not only continues but that funds are retained in Hong Kong for management.
37. To this end, the Commission has to maintain a market facilitative approach by accommodating different types of investment products that fund managers can offer to their clients. The Commission must continue to review its policies on a regular basis to ensure that they keep up with changes in the investment industry and the needs of the investors. The existence of a wide range of investment products for management in Hong Kong will also enable the development of local expertise, which is crucial to the development of Hong Kong as a major fund management centre. It will also provide a broad range of investment products with different characteristics to cater to different investor needs.
38. The Commission should also maintain its proactive and transparent approach to the regulation of the fund management industry so that more foreign fund management companies will choose Hong Kong as their Asian base. In this regard, the Commission must ensure that its regulatory standards are comparable to internationally recognized levels and adequate consultation with industry players is performed.

Notes:

The meanings of some of the terms used in the survey are as follows:

1. “Managing funds or portfolios” Management of clients’ funds or portfolios through making discretionary investment decisions or, if management is on a non-discretionary basis, this would involve provision of other services such as order execution or other administrative services i.e. not pure advisory.
2. "Giving advice on funds or portfolios" Pure advisory services to funds or portfolios
3. “Total assets under management by the company” All those assets being the subject of contracts entered into by the respondent company and its “clients” for management by the respondent or its delegates, i.e. all assets sub-contracted or delegated to other offices/ third parties for advisory or management purpose should be included. To avoid double counting, where a “client” is another SFC registrant or exempt person, the assets concerned should not be included.
4. “Total assets managed in Hong Kong” Assets for which management activities are carried out in Hong Kong. These include assets directly contracted with clients by the company and managed in Hong Kong, and those which are delegated to other offices/ third parties in Hong Kong for management.
5. “Pension funds” Client funds that are designated as pension or retirement funds. Mandatory Provident Fund (MPF) schemes should not be included.
6. "Mandatory Provident Funds (MPF)" Constituent funds of a master trust scheme or an industry scheme as defined under the Mandatory Provident Funds Scheme Ordinance. For the avoidance of doubt, the underlying approved pooled investment funds (APIF) should not be added.
7. “Institutional funds” Client funds that are non-pension, non-retail in nature, e.g. funds from shareholders, associated companies, fund houses (including an investment management company of an offshore retail fund which has contracted the respondent to manage the fund assets), insurance companies, large corporate clients. Where funds authorised by the SFC are offered to institutional clients only, these should be classified under “Institutional Funds”.
8. “Private client funds” Client funds that are non-institutional, non-retail, non-pension in nature, e.g. individual high net worth clients (average personal net worth exceeding US\$1 million during the year) with own accounts or portfolios managed on an individual or pooled basis.

- | | |
|---|---|
| 9. “SFC authorised retail funds” | Retail funds authorised by the SFC. Where funds authorised by the SFC are offered to institutional clients only, these should be classified under “Institutional Funds”. Where funds are offered to both retail and institutional clients, these should be separately identified and classified accordingly. |
| 10. “Other funds” | Other types of funds, e.g. government funds (funds from a government or a state), charity funds (funds from a charitable organisation). |
| 11. “Assets sourced from Hong Kong investors” | Assets that are attributable to Hong Kong investors. The respondent is expected to use its best efforts to classify the underlying investors based on available information. Investors with non-Hong Kong registered addresses may be classified as Hong Kong investors if it is known to the respondent that the assets were sourced from Hong Kong. Similarly, for nominee accounts, if the underlying investors or sources are known to the company, they should be identified and classified accordingly. |
| 12. “Assets sourced from non-Hong Kong investors” | Assets that are attributable to non-Hong Kong investors. |
| 13. "Assets invested in Hong Kong" | Assets invested in instruments (e.g. equities, bonds, money market instruments, derivatives) that are issued by an entity incorporated in Hong Kong or incorporated overseas but operating in Hong Kong, issues that are listed in Hong Kong, or deposits with an Authorised Institution in Hong Kong as defined under the Banking Ordinance. For any other investments, the respondent is expected to use its best efforts to identify if the investment has a Hong Kong origin. |
| 14. "Assets invested outside Hong Kong" | Assets invested in instruments of origins other than Hong Kong. |
| 15. "Total assets under advice" | All those assets being the subject of contracts entered into by the respondent company and its “clients” for pure investment advisory services by the respondent or its delegates, i.e. all assets sub-contracted or delegated to other offices/ third parties should be included. To avoid double counting, where a “client” is another SFC registrant or exempt person, the assets concerned should not be included. |
| 16. “Portfolio planning” | Giving advice on or designing the composition of a client’s portfolio based on his/her investment profile (risk aversion, age, projected cash flow) and investment objectives. This may or may not include making recommendations on specific funds. |