



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

## **Fund Management Activities Survey 2002**

**2002 年基金管理活動調查**

Hong Kong  
July 2003

香港  
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## Table of Contents

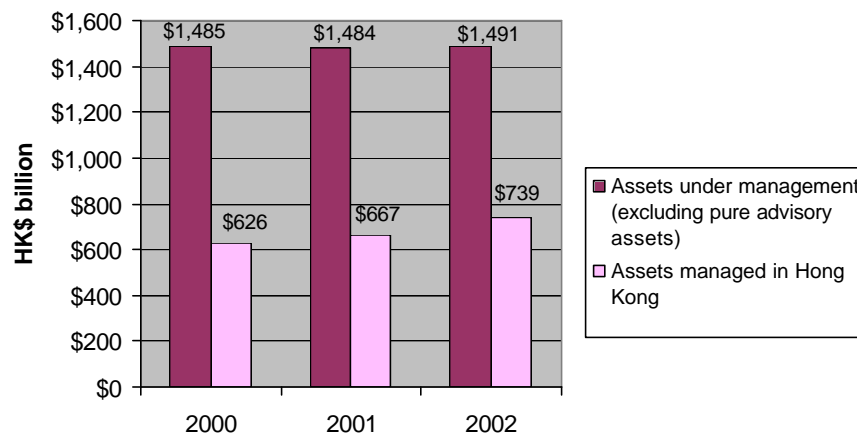
	Page
▪ <b>Executive Summary</b> .....	1
▪ <b>Introduction</b> .....	4
▪ <b>Responses</b> .....	4
▪ <b>Findings</b>	
- Combined discretionary and non-discretionary assets under management (\$1,635 billion).....	5
- Main aggregate figures.....	5
- Total assets under management (AUM) excluding pure advisory assets (\$1,491 billion) .....	6
- AUM (\$1,491 billion) - type of funds.....	7
- AUM (\$1,491 billion) - source of funds.....	7
- AUM (\$1,491 billion) - allocation of investments.....	8
- Assets managed in Hong Kong (\$739 billion) .....	8
- Assets managed in Hong Kong (\$739 billion) - type of funds.....	10
- Assets managed in Hong Kong (\$739 billion) - geographical spread ....	11
- Assets managed in Hong Kong (\$739 billion) - asset class .....	12
- Total assets under pure advice (\$144 billion).....	13
- Profile of staffing.....	14
- Internet activities.....	15
▪ <b>Conclusion</b> .....	15

## Executive Summary

The Securities and Futures Commission (SFC) has conducted a survey of fund management activities in Hong Kong as of 31 December 2002. The major findings are:

*The results of FMAS 2002 indicated that Hong Kong remained a major fund management center in the Asia Pacific region for attracting overseas funds for management, and assets under management has been consistent for the past three years.*

- As at the end of 2002, assets under management<sup>1</sup> (AUM) amounted to \$1,491 billion<sup>2</sup>. Of this amount, \$932 billion (63%) was derived from non-Hong Kong investors.
- For the past three years, the reported AUM has remained steady at around \$1.5 trillion, as illustrated by the following graph. Assets managed in Hong Kong, on the other hand, has demonstrated a three-year growth trend, with year-on-year growth rates of 6.5% for 2000-01 and 10.8% for 2001-02 respectively.



- Reflecting the attraction of Hong Kong as a major fund management center in the region, the number of firms that reported Hong Kong as its Asian headquarters increased from 34 in 2001 to 36 in 2002.

<sup>1</sup> “Assets under management” or “AUM” in this paper refers to assets under management excluding assets under pure investment advice.

<sup>2</sup> All dollar amounts are in Hong Kong dollars, unless otherwise specified.

- In line with global developing trends, Hong Kong appeared to have attracted boutique fund houses to set up their businesses here. There were 44 new respondents to the FMAS 2002, and these are mostly small and medium sized firms with no global affiliations.

***There was considerable growth in fund management activities in Hong Kong's own market in 2002. The importance of Hong Kong's role as a fund management center has increased in 2002 was evidenced by the increase in the amount of funds in respect of portfolio management that was sourced from, managed out of, and invested in Hong Kong, as compared with 2001.***

- As at the end of 2002, there were 192 companies<sup>3</sup> that provided fund management or advisory services and derived gross operating income from such activities as compared to 172 companies<sup>4</sup> a year ago (+12%).
- As seen above, assets managed in Hong Kong, excluding the amount of assets sub-contracted or delegated overseas, grew from \$667.6 billion to \$739.2 billion (+11%). Of this, equities was the most significant asset class and accounted for 59% of the total assets under management in Hong Kong.
- There were also increases in funds pertaining to advisory services sourced from and managed out of Hong Kong. Pure advisory assets sourced from Hong Kong grew from \$30 billion to \$43 billion (+43%) while pure advisory assets managed in Hong Kong grew from \$72.5 billion to \$83 billion (+14%).
- AUM sourced from Hong Kong investors grew from \$454 billion to \$558 billion (+23%). This also marked the second consecutive growth year for monies sourced from Hong Kong.
- The amount of assets invested in Hong Kong grew from \$301 billion to \$364 billion (+21%).
- Such sizable growth in Hong Kong's own market could be attributable to growing contributions in mandatory provident funds schemes (MPF), increased investment in SFC authorised retail funds by Hong Kong investors, growth in non SFC-authorized funds, and increased assets managed on behalf of high net worth individuals (HNWIs).
- As at 31 December 2002, there were 2,001 SFC authorized retail funds with an aggregated net asset value of \$2,662 billion. The SFC authorized an increased number of funds in 2002 compared with a year before. In 2002, it authorized 399 funds with an aggregated net asset value of \$298 billion versus 316 funds with an aggregated net asset value of \$218 billion in 2001.

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<sup>3</sup> Comprised of 185 respondents to FMAS 2002 and seven outstanding respondents.

<sup>4</sup> Comprised of 159 respondents to FMAS 2001, seven outstanding respondents and six registrants that did not have assets under management as at the end of 2001.

- As at the end of 2002, there were 856 investment professionals in the fund management industry in Hong Kong. Such professionals mainly specialized in equities and were proficient in investing in the Asia-Pacific regions, and particularly in mainland China and Hong Kong.
- There were about half as many marketing and sales staff as there were investment professionals in the fund industry in 2002 and they specialized in serving customers in Hong Kong and also the rest of Asia Pacific, especially mainland China and Taiwan.

***Hong Kong is committed to constantly facilitating market development without compromising investor protection.***

- Hong Kong has a wide variety of investment products to offer and products such as guaranteed funds have generated substantial growth in 2002. This could be attributed to investors' preference for conservative investment instruments and alternatives to bank deposits in a low interest rate environment.
- Hong Kong's fund management industry will continue to develop new products, a process which is facilitated by the government and the SFC.
- The SFC has facilitated the offering of a wide range of investment products to the market. This has helped to spur the growth in the industry. Various initiatives to facilitate product innovation that were completed in 2002 included:
  - ♦ Guidelines on Index-tracking Funds;
  - ♦ Enhancement of the Guidelines on Guaranteed Funds;
  - ♦ Guidelines on Hedge Funds; and
  - ♦ Guidelines on Hedge Funds Reporting Requirements.
- There are also other initiatives in the pipeline. Following public consultation on real estate investment trusts (REITs) and exchange traded funds (ETFs), the SFC will be issuing authorization guidelines on these specialized products very soon.
- The Capital Investment Entrant Scheme (the Scheme), which is expected to be introduced by the government in the third quarter of 2003, is likely to increase the demand for SFC authorized funds. Upon meeting certain investment criteria, some of the SFC authorized funds will be included as permissible investments under the Scheme. The capital inflow is also expected to raise the assets both invested and managed in Hong Kong.
- Other initiatives of relevance to the fund management industry would include simplification of the stock lending and borrowing regime and rationalization of the short selling rules in respect of ETFs. These are expected to enhance liquidity while maintaining adequate transparency in the market, and further consolidate Hong Kong's position as a premier fund management centre in the region.

## Introduction

1. This annual Fund Management Activities Survey (FMAS) exercise was first conducted for the year ended 31 December 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. The FMAS 2002 invited responses from those SFC registrants and exempt persons<sup>5</sup> that had gross operating income derived from fund/portfolio management in managing funds/portfolios and/or giving advice on funds/portfolios during the year ended 31 December 2002. The inclusion of these companies 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 pure advisory services were provided by the respondents.
4. For the first time, the FMAS 2002 also collected information on staff numbers categorized by job function and product specialty, and distribution of assets managed Hong Kong categorised by asset classes and geographical regions.

## Responses

5. As in the previous surveys, the FMAS 2002 was conducted in conjunction with Licensing Department's annual Intermediaries Activities Survey.
6. A total of 185 SFC registrants or exempt persons responded to the FMAS 2002, analysed as follows:

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<sup>5</sup> All references to "SFC registrants" and "exempt persons" in this paper are as defined under the former regime before the Securities and Futures Ordinance took effect on 1 April 2003.

Respondents with AUM only	124
Respondents with pure advisory assets only	36
Respondents with both types of assets	<u>25</u>
	185

7. Apart from the 185 respondents, there were seven late respondents who had gross operating income derived from fund management in 2002. Therefore, there should have been 192 companies that provided fund management or advisory services and derived gross operating income from such activities as at the end of 2002.
8. It is noted that 44 companies were first time respondents to the FMAS [2001: 14]. These first time respondents were mainly boutique fund managers not affiliated with global investment management groups.
9. There were 36 respondents [2001: 34] that reported Hong Kong as their regional headquarters. These firms included various well-known global fund management groups. They also appeared to have developed specialist expertise in equities.

## **Findings**

### ***Combined discretionary and non-discretionary assets under management (\$1,635 billion)***

10. Results of FMAS 2002 suggested that Hong Kong remained a major center in the region for attracting funds for management. Combined discretionary and non-discretionary assets under management stood at \$1,635 billion [2001: \$1,625 bil], comprising of \$1,491 billion assets under management and HK\$144 billion assets under advice. This represented a marginal increase of 0.6% over the 2001 level.

### ***Major aggregate figures***

11. The major aggregate figures are summarized as follows:

<b>Major Aggregate Figures of FMAS 2002</b> (as of 31 December 2002)	
<i>(HK\$ in Million)</i>	<b>Total AUM</b>
<b>Managing Funds or Portfolios</b>	
Total assets under management by the company = (A) Where A = B+C	1,490,587
Amount of assets directly managed by the company in Hong Kong = (B)	731,687
Amount of assets sub-contracted or delegated to other offices/third parties for management = (C) Where C = D+E	758,900
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for management =(D)	7,510
Amount of assets sub-contracted or delegated to other offices/third parties overseas for management = (E)	751,390
Total assets managed in Hong Kong = (F) Where F = B+D	739,198
<b>Giving Advice on Funds or Portfolios</b>	
Total assets on which company advises = (H) Where H = I+J	144,301
Amount of assets directly advised by the company in Hong Kong = (I)	80,350
Amount of assets sub-contracted or delegated to other offices/third parties for providing the advisory services = (J) Where J = K+L	63,952
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for providing the advisory = (K)	2,623
Amount of assets sub-contracted or delegated to other offices/third parties overseas for providing the advisory services = (L)	61,329
Total assets on which advice is given in Hong Kong =(M) Where M = I+K	82,973

***Total assets under management excluding pure advisory assets ( \$1,491 billion)***

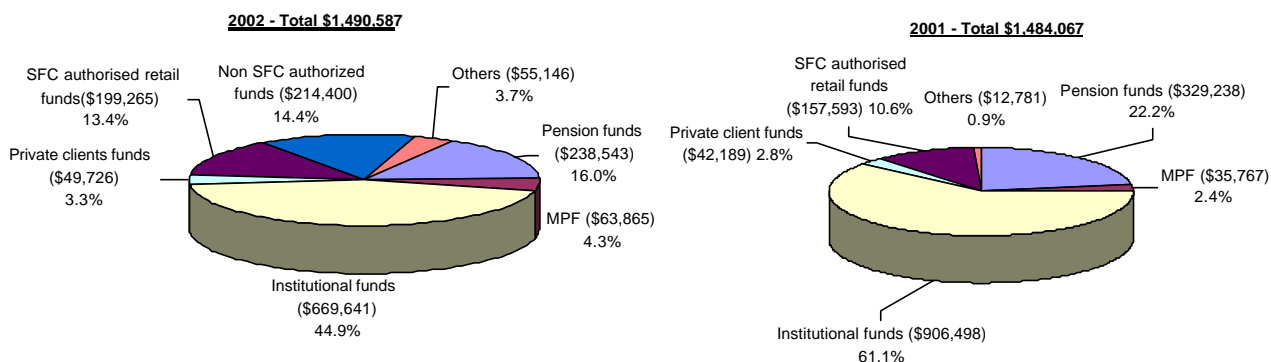
12. The amount of AUM as at the end of 2002 was largely unchanged from a year earlier. Total assets under management (AUM) stood at \$1,491 billion [2001: \$1,484 bil]. This represented a marginal increase of 0.4% over the 2001 level.
13. Growth in mandatory provident funds, SFC authorised retail funds, non SFC-authorised funds and private client funds offset shrinkage of assets in respect of pension funds and institutional funds. Thus, AUM was kept at a steady level of \$1,491 billion as compared to the 2001 level of \$1,484 billion.
14. The implementation of the MPF in December 2000 had increased public awareness of the significance of long-term investment and diversification of risk. This in turn has aroused the investors' interest in funds. Private portfolios had also grown. On the other hand, institutional and pension monies have reduced in face of the downturn of the economy.



**AUM (\$1,491 billion) - type of funds**

15. Institutional funds remained the major contributor to AUM, and accounted for 45% of the total. This was followed by: pension funds, non SFC-authorized funds, SFC authorised retail funds, mandatory provident funds, private clients funds and others.

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

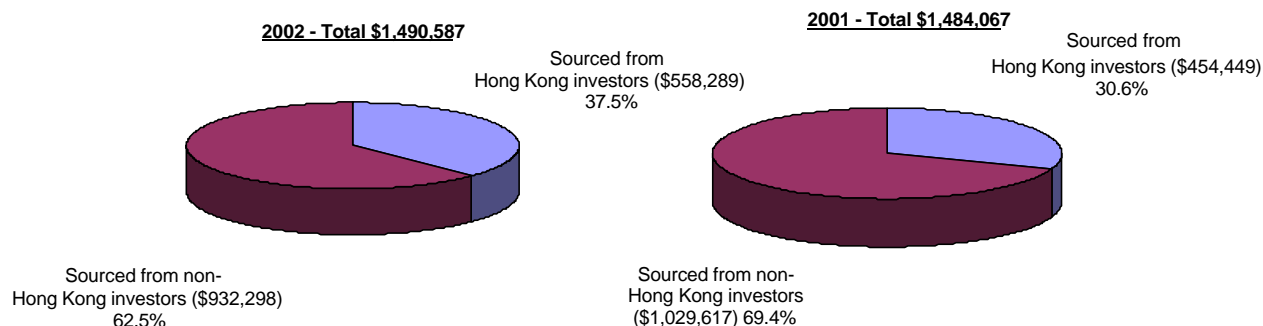


**AUM (\$1,491 billion) – source of funds**

16. The survey revealed that \$558 billion, or 37% of AUM, was sourced domestically. Compared to 2001, for which \$454 billion was sourced domestically, there was an increase of 23% of assets sourced from Hong Kong investors from a year ago. This marked a second consecutive growth year<sup>6</sup> for a growing proportion of monies sourced from Hong Kong. It is suggested that the growth of MPF, coupled with increased investors’ interest in funds had explained the growth.
17. Non-Hong Kong investors continued to play a dominant role in the development of the fund management industry in Hong Kong, accounting for the balance of 63% [2001: 69%] of the assets under management. The following charts illustrate the change in the source of AUM over the last two years.

<sup>6</sup> Assets sourced from Hong Kong investors grew from \$405 billion in 2000 to \$454 billion in 2001, an increase of 12% or \$49 billion.

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



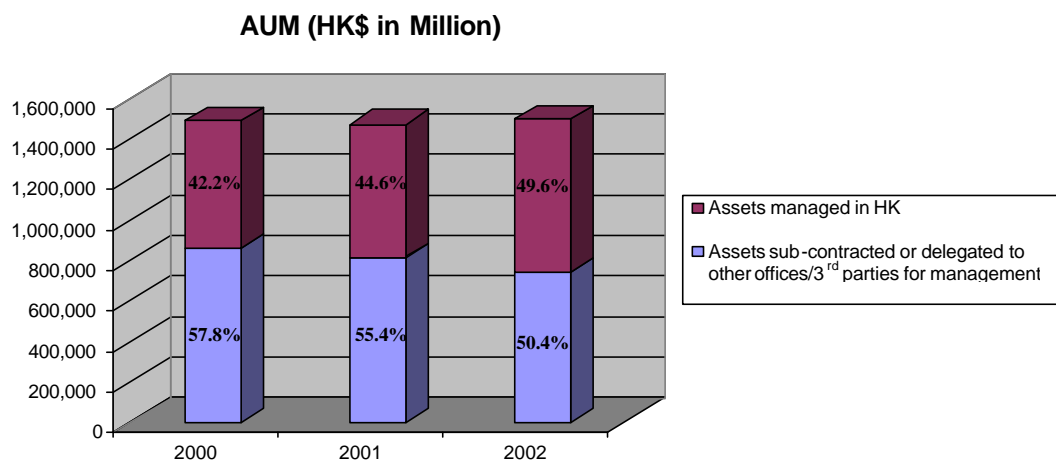
***AUM (\$1,491 billion) – allocation of investments***

18. In terms of the geographical allocation of investments, 24% [2001: 20%] of AUM was invested in Hong Kong and the remaining invested abroad. In terms of absolute figures, there was a 21% increase from assets invested in Hong Kong from \$301 billion in 2001 to \$364 billion in 2002. Thus, it appeared that fund managers had favored investments in Hong Kong as at the end of 2002.
19. AUM invested in Hong Kong continued to be predominantly in equities. Equities accounted for \$205 billion [2001: \$185 bil] or 56% [2001: 61%] of total funds invested in Hong Kong. Yet, the proportion of funds invested in bonds had grown significantly from \$47 billion in 2001 to \$85 billion in 2002, representing an increase of 81% over the past year. This may be due to various market facilitative initiatives to develop the local bond market in Hong Kong.

***Assets managed in Hong Kong (\$739 billion)***

20. Out of the total AUM of \$1,491 billion, after excluding assets that were delegated or sub-contracted overseas, approximately half or \$739 billion [2001: \$667 bil] were managed in Hong Kong. This represented an increase of 11% over last year.

21. The following graph would note that there was a growing trend for an increased proportion of funds to be managed in Hong Kong, from 42.2% (2000) to 44.6% (2001) to 49.6% (2002), out of total AUM.



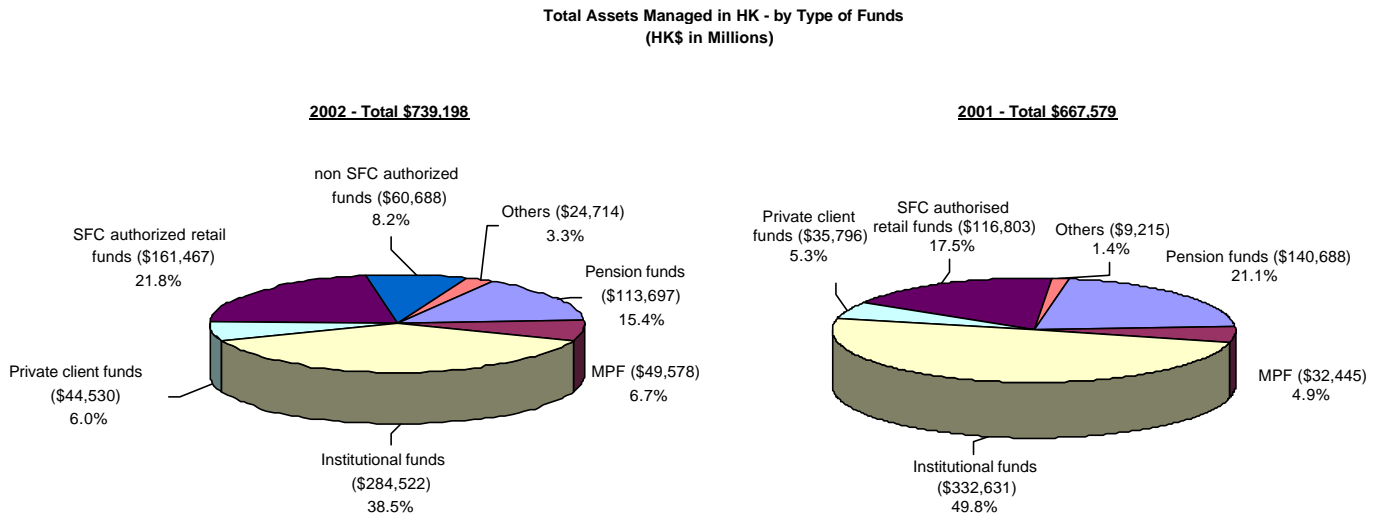
22. The AUM distribution for assets managed in Hong Kong vis-à-vis sub-contracted or delegated overseas categorised by types of assets is depicted in the following table.

(HK\$ in Billions)		AUM - by Type of Funds								
		2002			2001			2000		
			%	Total		%	Total		%	Total
Pension Funds	Managed in HK	113.7	47.7%		140.7	42.7%		136.2	46.9%	
	Managed overseas	124.8	52.3%	238.5	188.5	57.3%	329.2	153.9	53.1%	290.1
MPF	Managed in HK	49.6	77.6%		32.4	90.7%		NA	NA	
	Managed overseas	14.3	22.4%	63.9	3.3	9.3%	35.8	NA	NA	NA
Institutional Funds	Managed in HK	284.5	42.5%		329.5	36.5%		322.7	33.5%	
	Managed overseas	385.1	57.5%	669.6	573.9	63.5%	903.4	639.9	66.5%	962.6
Private Client Funds	Managed in HK	44.5	89.6%		26.0	82.1%		24.5	82.5%	
	Managed overseas	5.2	10.4%	49.7	5.7	17.9%	31.7	5.2	17.5%	29.7
SFC Authorized Retail Funds	Managed in HK	161.5	81.0%		116.5	74.8%		139.7	70.2%	
	Managed overseas	37.8	19.0%	199.3	39.2	25.2%	155.8	59.3	29.8%	199.0
Non SFC Authorized Funds	Managed in HK	60.7	28.3%		NA	NA		NA	NA	
	Managed overseas	153.7	71.7%	214.4	NA	NA	NA	NA	NA	NA
Others	Managed in HK	24.7	44.8%		9.2	72.1%		3.4	87.6%	
	Managed overseas	30.4	55.2%	55.1	3.6	27.9%	12.8	0.5	12.4%	3.9

23. In line with the data for the previous years, virtually all of the assets managed in Hong Kong was directly managed by the respondents, with only 1% being sub-contracted or delegated to other offices or third parties in Hong Kong for management.

**Assets managed in Hong Kong (\$739 billion) – type of funds**

24. A comparison of the breakdown of assets managed in Hong Kong by category as at the end of 2001 and 2002 respectively is as follows.



25. The noticeable gains in assets managed in Hong Kong could be attributed to various factors. In particular, growths in the order of magnitude of the absolute increase in assets may be explained by:

- growth in non SFC-authorized funds (new category).
- growth of SFC authorised retail funds (+38% from \$117 bil to \$161 bil);
- the development of the MPF system (+56% from \$32 bil to \$50 bil); and
- increased private client funds (+25% from \$36 bil to \$45 bil).

These growths in assets had more than offset declines in:

- institutional funds (-14% from \$333 bil to \$285 bil); and
- pension funds (-19% from \$141 bil to \$114 bil).

26. In particular, the MPF, which required the investment managers of MPF funds to be incorporated in Hong Kong, effectively meant a continuous supply of assets managed in Hong Kong. It also served as a catalyst for growth of the funds industry. Of late, it appeared that Hong Kong people's awareness of funds had been raised. Compared with before, Hong Kong investors appeared to be more receptive to funds, as seen by the growth of SFC authorized retail funds.

27. The SFC authorised an increased number of funds as compared to the previous year. There were 2,001 SFC authorized funds as at the end of December 2002 with an aggregated net asset value of \$2,662 billion. During the year, the SFC authorized 399 funds in 2002, with an aggregate net asset value of \$298 billion as at the end of 2002.<sup>7</sup>
28. Within the category of SFC authorised retail funds, guaranteed funds represented the most significant fund type. It appeared that investors viewed guaranteed funds as a safe haven and an alternative to savings in deposits. Of the funds authorized by the SFC in 2002, 28% or 112 were guaranteed funds with a corresponding aggregate net asset value of \$52.5 billion as at the end of 2002.
29. The amount of assets managed in Hong Kong in respect of non SFC-authorized funds was not data that was actively solicited in the survey. However, this amount was taken out of the “Others” category for those respondents who had specified the nature of assets comprising of the “Others” category. Such amount was \$61 billion, or 8% of total asset managed in Hong Kong, and included both hedge funds and traditional funds that were non SFC-authorized funds.

***Assets managed in Hong Kong (\$739 billion) – geographical spread***

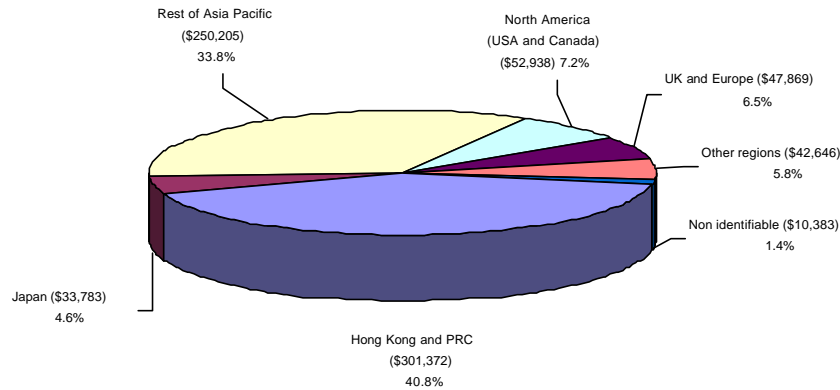
30. For the first time, the survey invited responses on breakdown by geographical regions and by asset classes of the assets under management in Hong Kong.
31. In terms of geographical allocation of investments, 79% of assets managed in Hong Kong were invested in the Asia-Pacific region including Japan. Specifically, 41% or \$301 billion worth of assets managed in Hong Kong was invested in Hong Kong and Mainland China. Investments in the rest of Asia Pacific including Japan accounted for 38% of assets managed in Hong Kong. Thus, Hong Kong based managers seemed to have developed an edge in investing in the markets near to them, in the Asia-Pacific region.

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<sup>7</sup> As a reference, the SFC authorised 316 funds in 2001, with an aggregate net asset value of \$218 bil as at 31 Dec 2001.

**Total Assets Managed in HK - by Regions  
(HK\$ in Millions)**

**Total \$739,198**

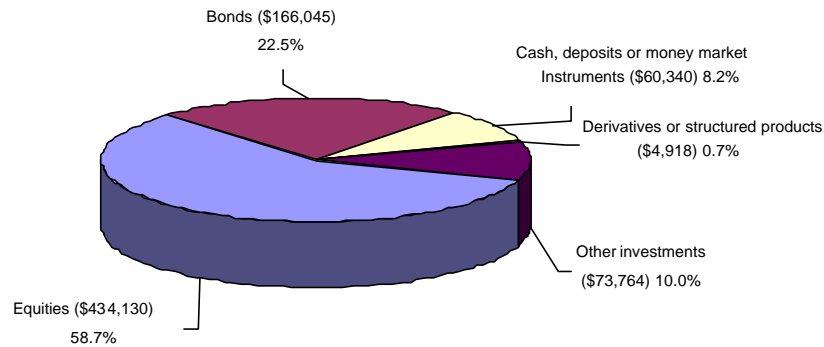


**Assets managed in Hong Kong (\$739 billion) – asset class**

32. As regards asset class specialization, assets managed in Hong Kong were heavily concentrated in equities, which accounted for 59% of the total. The following table depicts the distribution of assets managed in Hong Kong by asset class.

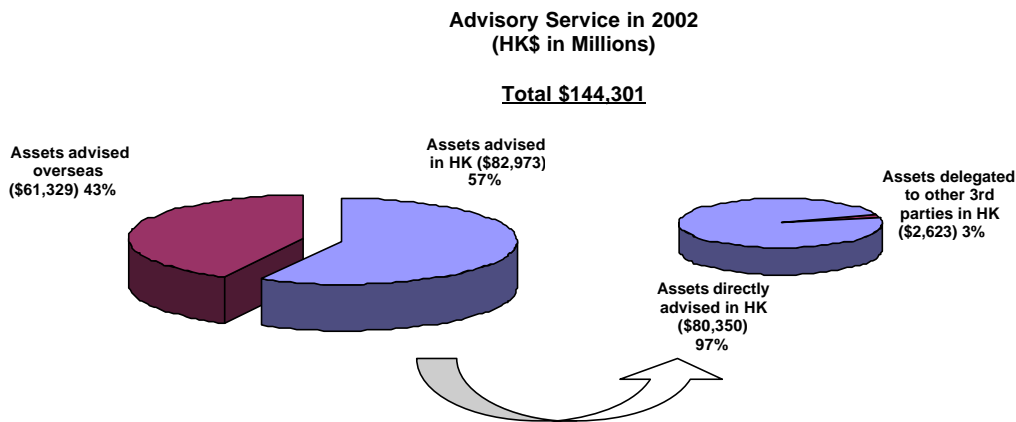
**Total Assets Managed in HK - by Asset Class  
(HK\$ in Millions)**

**Total \$739,198**

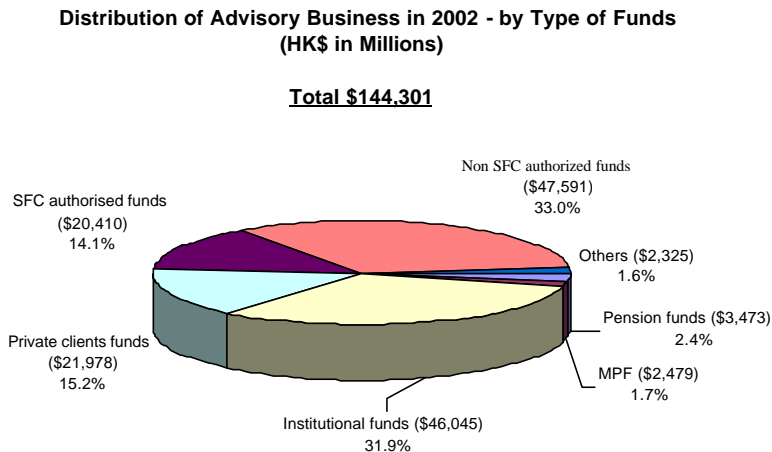


**Total assets under pure advice (\$144 billion)**

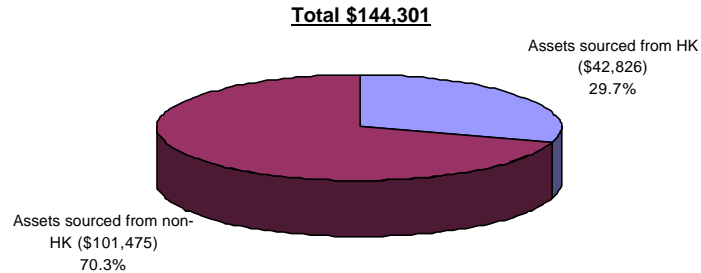
33. The survey also invited responses from respondents that gave advice on funds or portfolios. Such respondents reported that a total of \$144 billion [2001: \$140 billion] worth of assets were the subject matter in respect of which advisory services were given. This is an increase of 2.7% over the 2001 level.
34. Of this amount, 57% (\$83 billion) pertained to advisory services provided in Hong Kong. The following charts show where the advisory services were performed and the delegation involved.



35. By type of funds, 32% of the \$144 billion worth of assets were institutional funds. By source of funds, 70% 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 2002 - by Source of Funds  
(HK\$ in Millions)**



***Profile of Staffing***

36. As noted above, for the first time, the survey invited responses on staff numbers categorized by job function and product specialty in respect of all SFC registrants and exempt persons who had gross operating income derived from fund/portfolio management in managing funds/portfolios and/or giving advice on funds/portfolios during the year ended 31 December 2002.
37. However, the FMAS 2002 did not include data in respect of service providers for the fund management industry where they were not SFC registrants or exempt persons even if they had gross operating income derived from managing and/or giving advice on funds/portfolios. Entities that fell outside the scope of FMAS 2002 would have included various banks, fund distributors, trustee/custodians, and investment banks.
38. Despite the restricted scope of the survey, total number of staff reported by the 185 respondents amounted to 2,872. To avoid double-counting, respondents were asked to apportion the headcount in respect of any staff member who performed multiple roles, had more than one product specialty, or had served more than one geographical region.
39. The respondents had approximately 856 investment professionals. Of these, 733 staff directly engaged in portfolio management and research analysis. Close to 70%, of such investment professionals in Hong Kong were equity specialists.
40. There were 473 sales and marketing staff. Their marketing efforts were primarily focused on the business needs of Hong Kong as their home base, followed by Mainland China and/or Taiwan, and the rest of Asia Pacific.



### ***Internet activities***

41. While respondents make limited use of the internet to communicate with investors in terms of provision of information (eg. fund prices, offering documents etc), only two respondents used the internet in providing dealing activities in respect of SFC authorised retail funds.

### **Conclusion**

42. The FMAS 2002 indicated steady development in the fund management industry in Hong Kong. In particular, as noted above, there was considerable growth in assets managed in Hong Kong and assets sourced from Hong Kong investors.
43. In terms of expertise, it seems that Hong Kong has developed an expertise in managing assets in the Asia-Pacific region. By reference to the top ten respondents in the survey, it is suggested that Hong Kong has attracted many large multinational investment management firms in offering a wide range of investment products in Hong Kong.
44. As competition intensifies around the world and within the Asia-Pacific region, it is important for Hong Kong to evaluate its position in order to maintain its competitive edge and continue its growth as an international and regional fund management centre.
45. In this regard, the SFC is committed to constantly facilitating market development without compromising investor protection. For example, the SFC has facilitated the development of a wide range of investment products in Hong Kong. The SFC has also taken steps to enhance transparency and disclosure standards.
46. Initiatives completed in 2002 included the Guidelines on Index Tracking Funds (issued in January 2002) and enhancements of the Guidelines on Guaranteed Funds (issued in January and March 2002). More recently, the SFC issued the Guidelines on Hedge Funds (issued in May 2002) and Guidelines on Hedge Funds Reporting Requirements (issued in November 2002) that made it possible for the Hong Kong retail public to access hedge funds.

47. In response to requests for Real Estate Investment Trusts (REITs) to be introduced in Hong Kong, the SFC has issued a consultation paper on the subject in March 2003 and will issue the finalized guidelines very soon.
48. To further improve the existing regulatory framework for the offering of passively managed index tracking funds in Hong Kong, the SFC has consulted the public on draft guidelines for regulating Exchange Traded Funds (ETFs). The Guidelines on ETFs is expected to be issued around the third quarter of 2003.
49. The government has also announced the launch of the Capital Investment Entrant Scheme, and this is expected to raise the demand for SFC authorised funds. Upon meeting certain investment criteria, some of the SFC authorised funds will be included as permissible investments under the Scheme. The capital inflow is also expected to raise the amount of assets both invested and managed in Hong Kong. This, together with other initiatives such as the review of the simplification of the stock lending and borrowing regime and rationalization of the short selling rules in respect of ETFs are expected to further consolidate Hong Kong's position as a premier fund management centre in the region.
50. Fund managers play a key role in the development of our financial markets and the overall economy. In having Hong Kong as Asia's regional hub for fund management, the financial services industry as a whole would flourish. Increased employment opportunities would be offered to the Hong Kong people and the activities associated with fund management would help to support the brokerage and research industry, the trust and custody administration industry as well as the banking industry.
51. It is of paramount importance that the Commission maintains its proactive and transparent approach to the regulation of the fund management industry, and to ensure that its regulatory standards are in line with internationally recognized standards so that global fund management companies are encouraged to choose Hong Kong as their Asian base.