

# Exchange Fund Position at end-December 2021

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) today (January 27) published the unaudited financial position of the Exchange Fund at end-December 2021.

The Exchange Fund recorded an investment income of HK\$170.5 billion in 2021. The main components were:

- gains on bonds of HK\$12.4 billion;
- losses on Hong Kong equities of HK\$21.0 billion;
- gains on other equities of HK\$68.4 billion;
- positive currency translation effect of HK\$16.8 billion on non-Hong Kong dollar assets (Note 1); and
- gains on other investments of HK\$93.9 billion (Note 2).

Fees on placements by the Fiscal Reserves and placements by Hong Kong Special Administrative Region Government funds and statutory bodies were HK\$34.4 billion (Note 3) and HK\$16.8 billion respectively in 2021, with the rate of fee payment at 4.7 per cent for 2021.

The Abridged Balance Sheet shows that the total assets of the Exchange Fund increased by HK\$78.6 billion, from HK\$4,499.2 billion at the end of 2020 to HK\$4,577.8 billion at the end of 2021. Accumulated surplus stood at HK\$788.0 billion at end-December 2021.

The Exchange Fund recorded an investment return of 3.6 per cent in 2021 (Note 4). Specifically, the Investment Portfolio achieved a rate of return of 3.7 per cent, while the Backing Portfolio gained 0.4 per cent. The Long-Term Growth Portfolio (LTGP) recorded an annualised internal rate of return of 15.3 per cent since its inception in 2009 up to the end of September 2021. As the LTGP becomes increasingly mature in investment scale and asset diversity, starting from 2022, its target asset allocation will be determined concurrently with that of other asset classes, subject to prudent risk management principles. This will strengthen the overall investment management of the Exchange Fund. Accordingly, the target asset allocation of the LTGP will replace the market value cap for managing the size of the LTGP.

Commenting on the performance of the Exchange Fund in 2021, the Chief Executive of the HKMA, Mr Eddie Yue, said, "The global financial markets embarked on a recovery track in 2021. Although the global economy has remained volatile due to the evolving pandemic situation, a number of factors including increasing vaccination rate, as well as accommodative monetary policies and fiscal measures around the world have contributed to notable recovery in the global economy and financial markets. Against this

background, a number of overseas equity markets made record highs during the year, and the Exchange Fund's overall equity holdings were able to achieve a decent return despite the sluggish performance in Hong Kong equities. For the bond markets, rising inflation expectations and tapering of asset purchases by the US Fed have led to a rise in US Treasury yields and falling bond prices during the year. Nevertheless, taking into account coupons received, the Exchange Fund's bond holdings still recorded a positive return. Overall, the Exchange Fund achieved good results in its equity and bond investments for the year."

Mr Yue said, "Looking ahead in 2022, rising inflation pressure and the path of monetary normalisation will be critical issues for the global economy and financial markets. Major central banks have begun gradual withdrawal of accommodative monetary policies. In particular, the US Fed has already announced that it would accelerate the pace of tapering, aiming to complete its asset purchases in early March. Interest rate tightening cycle will likely start thereafter. Should inflation prove to be more persistent, central banks may need to accelerate the pace of interest rate hikes, which may lead to greater volatility and corrections in asset markets.

It is worth noting that global equity markets have risen sharply over the past three years with elevated valuations. As global economic recovery moderates with slowing growth momentum of corporate earnings and lingering concerns over new virus variants and geopolitical tensions, the investment environment will remain uncertain. In case market sentiment takes a turn, global equity markets may undergo major adjustments. If bond yields also surge at the same time due to mounting inflation and policy shifts, there will be significant challenges to the investments of the Exchange Fund.

Despite the complicated and challenging investment environment, the HKMA will continue to manage the Exchange Fund prudently. We will remain flexible, implement defensive measures as appropriate, and maintain a high degree of liquidity. We will continue to diversify investments to strive for higher long-term returns for the Exchange Fund. We will also monitor market developments closely to ensure that the Exchange Fund will continue to serve its purpose of maintaining monetary and financial stability in Hong Kong in an effective manner."

Note 1: This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

Note 2: This is the valuation change of investments held by investment holding subsidiaries of the Exchange Fund. This figure represents valuation changes up to the end of September 2021. Valuations of these investments from October to December are not yet available.

Note 3: This does not include the 2021 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2021 is available.

Note 4: This return excludes the performance of the Strategic Portfolio and only includes the performance of LTGP up to the end of September 2021. The audited full year return will be disclosed in the 2021 annual report.