

LCQ17: The Exchange Fund's assets managed by Hong Kong Monetary Authority

Following is a question by the Hon Adrian Ho and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (July 10):

Question:

It is learnt that, apart from directly managing most of the Exchange Fund (EF)'s assets, the Hong Kong Monetary Authority (HKMA) has also placed part of EF's assets under the management of external fund managers. In this connection, will the Government inform this Council:

(1) of the respective total values of EF's assets managed by HKMA directly and those by external fund managers appointed by HKMA as well as their ratio in each of the past five years, and the latest balances of the various current portfolios;

(2) of the following information on the investment managers appointed by HKMA: the respective numbers of local managers and those from other countries or regions as well as their ratio, their appointment periods and yearly management fees charged, with a tabulated breakdown by name of manager; among the managers from other countries or regions, of the number of those which have established offices in Hong Kong; and

(3) whether HKMA has set annual minimum return rates for EF's assets managed by external fund managers so as to ensure that the managers will regard securing a higher return as their prime objective in managing the relevant assets and drawing up investment strategies; if so, of the criteria for determining those minimum return rates; if not, the reasons for that?

Reply:

President,

In consultation with the Hong Kong Monetary Authority (HKMA), the consolidated reply to various parts of the question is as follows:

The HKMA, in addition to managing the Exchange Fund's investments directly, has external investment managers to manage the Exchange Fund's assets including the listed equity portfolios and other specialised asset classes. The purpose of engaging external investment managers is to leverage on the best investment expertise available in the market to serve the Exchange Fund, while facilitating the Exchange Fund to draw on more diversified and complementary investment styles for sustainable returns and

benefit from the market insights and investment expertise of external investment managers.

In the past five years, the percentages of the Exchange Fund's assets managed by external investment managers are as follows:

Year	Percentage of Exchange Fund's Assets Managed by External Managers
2023	29%
2022	30%
2021	29%
2020	28%
2019	29%

The Exchange Fund is primarily used for regulating the exchange value of the Hong Kong dollar, and maintaining the stability of Hong Kong's monetary and financial systems with a view to maintaining Hong Kong as an international financial centre. To ensure a high level of liquidity of the Exchange Fund, and to avoid putting additional pressure in the event that the Hong Kong market is under shocks and assets need to be sold in pursuit of the above policy objectives, the Exchange Fund has been mainly holding overseas assets.

The HKMA has in place a robust procedure to select and appoint investment managers. The selection process is holistic and based on a set of criteria such as the professional knowledge of the institutions concerned and the teams, their experience and investment track record, risk management and compliance record, extent of presence in Hong Kong, environmental, social and governance practices and fees, etc. Among other things, the HKMA attaches great importance to the operating situation of the investment managers in Hong Kong. For instance, their business scale and whether there have been business expansion in Hong Kong in recent years. The HKMA has gradually increased the investment exposure to investment managers whose major operations are in Hong Kong in recent years to encourage the expansion of their business in Hong Kong.

At present, the HKMA employs for its open market investments about 80 investment managers, who manage funds of about HK\$690 billion in total, of which about 90 per cent of the assets are managed by investment managers with offices in Hong Kong. In line with market practice, external investment managers are not appointed for a specified period of time, but the HKMA regularly reviews their investment performance and makes appropriate adjustments where necessary. All Hong Kong stock investments are managed by a local team of about 20 external investment managers with extensive investment experience. Over the past few years, the Exchange Fund has also invested in 32 local hedge funds through various channels.

For private market investments, the Long-Term Growth Portfolio under the Exchange Fund currently manages investment projects of about HK\$517 billion,

including global private equity and overseas real estates, with a general investment period of ten years. The Long-Term Growth Portfolio mainly works with internationally renowned investment managers by appointing them as general partners under the portfolio, where over 60 per cent of them have established offices in Hong Kong. These general partners focus on investing in global or regional assets. On the other hand, the HKMA has also been supporting a number of investment managers who focus on local investments through other investment channels, and attracting other experienced investment managers to set up offices in Hong Kong.

The overall management fees of the external investment managers in 2023 were approximately 0.43 per cent of their amounts under management. The fees charged by investment managers in the market are varied in general, subject to the characteristics of different assets.

Nevertheless, the HKMA has well-established mechanisms in place to regularly monitor and assess the performance of external investment managers, making reference to factors such as the general market performance and that of investment managers with similar investment targets. If the performance of an external investment manager is not satisfactory, the HKMA will take appropriate actions, including request for improvement, issuing warning, allocation reduction, termination of appointment, etc.