

## LCQ19: Operation of funds under Government

Following is a question by the Hon Mrs Regina Ip and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (March 27):

Question:

It is learnt that currently, a number of different funds established under the SAR Government are operating in the form of seed capital fund, and the investment returns are used to support the specific purposes of those funds. In this connection, will the Government inform this Council:

- (1) of the respective current surplus positions of individual funds;
- (2) whether various policy bureaux have set target rates of investment return for the funds under their purviews; if so, of the details and the respective actual rates of investment return of individual funds in the past five years; if not, the reasons for that, and whether relevant strategies will be formulated in the future;
- (3) in respect of individual funds, (i) the investment managers engaged and (ii) the respective percentages of money placed with the Hong Kong Monetary Authority, foreign investment companies and local investment companies among the capitals;
- (4) of the criteria adopted by the Government for engaging investment managers for those funds; and
- (5) when signing contracts with investment managers, whether the Government has included terms allowing the Government to dismiss those managers who do not meet the target rates of investment return; if so, of the details; if not, the reasons for that, and whether relevant terms will be included in the future?

Reply:

President,

Currently, there are 17 funds set up under Government departments which are operated in the form of seed capital fund and segregated from the government account. These funds are under the charge of various bureaux, and make use of investment returns to support their specific purposes for meeting the specific policy objectives of individual bureaux.

Parts (1) to (3) of the question concern, in respect of individual funds, the surplus positions, the target rates of investment return, the

actual rates of investment return of the funds in the past five years, the investment managers engaged and the percentage shares of funds managed by different investment managers. After consultation with the Education Bureau, the Culture, Sports and Tourism Bureau, the Home and Youth Affairs Bureau, the Labour and Welfare Bureau, the Environment and Ecology Bureau and the Security Bureau, we have prepared the required information at Annex.

As regards parts (4) and (5) of the question, generally speaking, the bureau responsible for a particular fund would, taking into account factors such as the background of fund establishment and scale of the fund, consider whether to set up an investment committee under the fund. The committee comprises representatives from the relevant bureaux and departments, as well as those from the finance and professional sectors, etc. The investment committee has to consider various risk factors in investment and put in place corresponding risk management measures (including diversification of risks). One of the duties of the investment committee is to select investment managers based on the following criteria:

(i) the investment managers' standing, including their credit ratings, compliance and internal controls;

(ii) the investment managers' investment track records;

(iii) the investment managers' specific expertise and experience, as well as appropriate support (including information systems, research teams, professional customer services and investment market networks spanning different times zones across the world); and

(iv) the level of fees charged.

The committee would conduct periodic meetings to review whether the performance of the investment managers is in compliance with the investment strategies and target set for the fund concerned. A contract for engagement of an investment manager for a particular fund would include a provision stipulating that the fund may, if necessary, dismiss the investment manager upon giving a prescribed period of notice without assigning any reason. If necessary, the committee may replace investment managers according to the selection criteria mentioned above.