

LCQ4: The Hong Kong Growth Portfolio

Following is a question by the Hon Duncan Chiu and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (January 15):

Question:

The Government set up the Hong Kong Growth Portfolio (HKGP) in 2020 and subsequently appointed eight private equity firms as general partners (the partners) to make strategic investments for HKGP. In this connection, will the Government inform this Council:

(1) of the identification process for HKGP partners, the selection criteria (including whether priority will be given to teams with experience of investing in local innovation and technology projects), and the monitoring mechanism; whether it will regularly review and improve the relevant process, criteria and mechanism; if so, of the areas in which adjustments will be made;

(2) as it is learnt that some partners have yet made any investment and have not even set up offices and investment teams in Hong Kong, how the Government will follow up, including whether it will consider recovering the uninvested funds for allocation to other partners; and

(3) as the Government indicated in 2022 that HKGP's returns would be disclosed five years after its operation, and the arrangements for regular disclosure would also be considered by then, whether the Government has given instructions to the partners in this regard, and what follow-up actions it will take, including whether it will conduct a comprehensive assessment of the partners' investment strategies and performance; prior to the formal implementation of the disclosure arrangements, what measures the Government has in place to ensure that the partners make good use of the funds to maximise investment returns?

Reply:

President,

The Financial Secretary announced in the 2020-21 Budget that ten per cent of the Future Fund, i.e. \$22 billion, would be deployed for the establishment of the "Hong Kong Growth Portfolio" (HKGP). The Hong Kong Special Administrative Region Government had established a two-tier governance framework for the HKGP, i.e. the Governance Committee and the Investment Committee. The Investment Committee formulated the criteria for the selection of investment managers based on the investment criteria set by the Governance Committee, and appointed general partners based on these criteria. The appointed general partners are responsible for identifying projects and investing for the HKGP. Since the inception of the HKGP and

until the end of 2022, the Investment Committee has appointed relevant general partners by batches. The appointment arrangements were implemented gradually since 2022 and the investment work commenced in an orderly manner.

In the 2022 Policy Address, the Chief Executive announced the establishment of the Hong Kong Investment Corporation Limited (HKIC) to consolidate the HKGP, the Greater Bay Area Investment Fund, the Strategic Tech Fund, and the Co-Investment Fund, pooling together the relevant resources with the Government playing a leading role in attracting and facilitating more enterprises to develop in Hong Kong. As patient capital, the HKIC carries a dual mandate: supporting the development of Hong Kong's innovation and technology, as well as strategic industries through investment, thereby enhancing Hong Kong's long-term competitiveness and economic vitality; while seeking reasonable risk-adjusted returns over the medium to long term.

Since its establishment, the HKIC has implemented more than 80 investments, focusing on the themes of hard & core technology, biotechnology, new energy and green technology.

In consultation with the HKIC, the reply to the three parts of the question is as follows:

(1) The objective of establishing the HKGP is to make strategic investments in projects with a Hong Kong nexus, with a view to reinforcing Hong Kong's status as an international financial, trading and innovation and technology centre, as well as enhancing Hong Kong's productivity and competitiveness in the long run, while seeking reasonable risk-adjusted returns.

Considering that the HKGP focuses on long-term investment, the Investment Committee, in selecting general partners, considered not only their past performance in the private equity and venture capital markets (such as the internal rate of return, multiple of invested capital and loss ratio), but also whether the relevant company has sufficient capacity to identify investments that are conducive to the long-term development of Hong Kong from a number of perspectives, including whether the company concerned is headquartered in Hong Kong or has established an office of a certain size in Hong Kong; whether the company concerned is able to committed to contributing to the long-term development of Hong Kong and putting forward an action plan accordingly; and whether the company concerned has extensive and successful experience in investing in Hong Kong and the Greater Bay Area. The Investment Committee communicated with the appointed general partners and reviewed their investment progress reports regularly.

Since the new team of the HKIC came onboard gradually in October 2023, it has reviewed and updated the investment requirements and arrangements for the different portfolios under its purview, including the preferred mode of making direct and co-investments, with a view to maximising the contribution to Hong Kong from each of the investments.

(2) General partners of the HKGP are required to invest in projects with a

Hong Kong nexus, although the specific investment strategies vary in terms of focus and hence the pace of investment. At present, all general partners of the HKGP have offices and investment teams in Hong Kong. The HKIC will continue to closely monitor the operations of the four funds under its purview and update the relevant arrangements in a timely manner, with a view to fulfilling the development direction and needs of Hong Kong.

(3) As the HKGP focuses on long-term investment, it is appropriate to consider factors such as its long-term return and strategic contribution to Hong Kong when assessing its performance. With the new team of the HKIC coming on board gradually and relevant work fully laid out starting last year, the company will publish its first annual report to announce its operations, including the progress of its investment in the HKGP, in 2025.