

**Fund Management Activities Survey 2000
Summary Report**

Investment Products Department
Securities and Futures Commission
June 2001

Executive Summary

The Securities and Futures Commission (SFC) has conducted a survey of fund management activities in Hong Kong as of 31 December 2000. The major findings are:

- Total assets under management amounted to HK\$1,485 billion, a decrease of 57% from a year ago. The drop was largely due to the restructuring of a very substantial overseas registrant, and partly because of lower equity prices and a generally more difficult business environment.
- Total assets managed in Hong Kong dropped by a smaller extent of 18% to \$626 billion.
- A larger proportion of total assets under management was managed in Hong Kong – doubling to 42%.
- About 27% of total assets under management were attributable to Hong Kong investors.
- The number of fund management companies increased to 203 from 183 a year earlier.
- As background, the number of funds and other collective investment schemes authorised by the SFC reached a record 2,267 as of 31 March 2001, 26% higher than that of a year earlier.
- Since the beginning of 2000, eight more international or local firms had become approved management companies under the Code on Unit Trusts and Mutual Funds¹. The total number of such approved groups or companies was 97, with eight more applications awaiting approval².

Introduction

1. The Fund Management Activities Survey (FMAS) collects information on fund management activities in Hong Kong in order to better understand the current state of the sector and with a longer term view to building a comprehensive industry database for regulatory and market facilitation purposes.
2. The first such survey, for the year ended 31 December 1999, was conducted in the first half of last year. The findings of FMAS 1999 were published in July 2000³.
3. With the experience gained in FMAS 1999, the questionnaire was modified for FMAS 2000, with clearer definition of terms. Some additional questions were added to enhance the value of the survey.

¹ Under the Code, every collective investment scheme for which authorisation is requested must in general appoint a management company acceptable to the SFC.

² As of 31 May 2001.

³ A number of firms had subsequently reported that errors had been made in the FMAS 1999 returns. The errors were generally minor. The FMAS 1999 figures quoted in this report have been adjusted, where possible, for the errors. An adjusted summary of the aggregate figures of FMAS 1999 is attached.

Responses

4. The FMAS was conducted together with the annual Licensing surveys of registrants and exempt persons. A total of 203 registrants or exempt persons whose primary investment advisory business was fund management – managing funds or portfolios, and/or giving advice on investment – had responded to the Licensing surveys⁴. This represents an increase of 20 respondents from the 183 a year ago.
5. SFC registrants and exempt persons were asked to respond to the FMAS if they were engaged primarily in managing funds or portfolios⁵.

Findings⁶

6. Some main aggregate figures are in the following table⁷.

Some main aggregate figures of FMAS 2000 (as of 31 December 2000)	
	\$'000
Total assets under management by the company = (A) Where $A = B + C$	1,485,179,586
Amount of assets directly managed by the company in Hong Kong = (B)	622,920,042
Amount of assets sub-contracted or delegated to other offices/third parties for management = (C) Where $C = D + E$	862,259,544
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for management = (D)	3,536,222
Amount of assets sub-contracted or delegated to other offices/third parties overseas for management = (E)	858,723,322
Total assets managed in Hong Kong = (F) Where $F = B + D$	626,456,264

⁴ Figures as of 8 June 2001. The figures are subject to further confirmation and the full results of the Licensing surveys will be published soon.

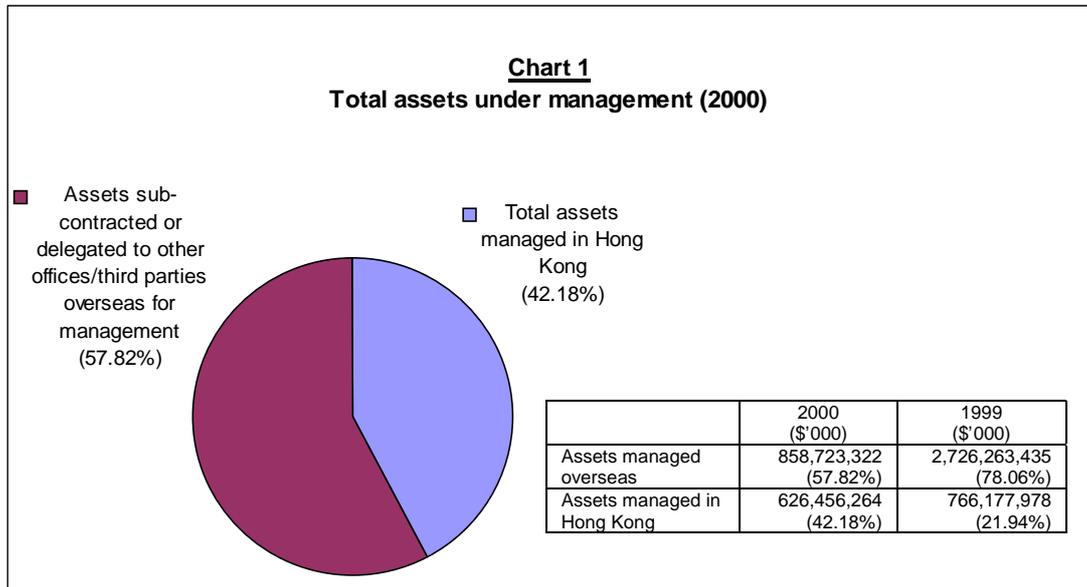
⁵ Assets managed by registrants or exempt persons who did not declare advisory or management of funds as their primary business (e.g. banks) were not included in the results. According to the Hong Kong Monetary Authority, the aggregate size of discretionary portfolios handled by Authorised Institutions for private banking clients was \$22 billion as at the end of 2000, while that of non-discretionary portfolios was \$351 billion.

⁶ All figures are in Hong Kong dollars unless otherwise specified.

⁷ The aggregate figures are based on information in a total of 160 returns from respondents. Figures in FMAS 1999 were compiled from 150 returns.

Total assets under management by the respondents

7. Total assets under management (AUM) at the end of 2000 amounted to \$1,485 billion (see Chart 1). This comprised \$626 billion of assets managed in Hong Kong (42%) and \$859 billion of assets sub-contracted or delegated to other offices/third parties overseas for management (58%).



8. Total AUM in FMAS 2000 was 57% lower than the \$3,492 billion reported in FMAS 1999. The main reason was a “domestication” exercise by a registrant during last year, which is explained below. Respondents also generally indicated that the drop in AUM was attributable to the fall in equities value and the more competitive and difficult business environment in 2000.
9. A very substantial part of the drop in AUM was due to an overseas-incorporated SFC registrant “domesticating” its Hong Kong business in 2000. A new entity was incorporated in Hong Kong and became a SFC registrant. Assets previously managed by the company’s Hong Kong branch were transferred to the new entity, and the company ceased to be registered. While the company responded to the FMAS 1999 with its total AUM (with assets mostly managed outside of Hong Kong), only assets managed by the new Hong Kong registrant were reported in FMAS 2000. The group said the incorporation of an entity to seek SFC registrant status demonstrated its commitment to its activities in Hong Kong⁸.
10. Another commonly cited reason for the lower AUM was the fall in equities prices. Certain major indices suffered significant drops over the past year⁹.

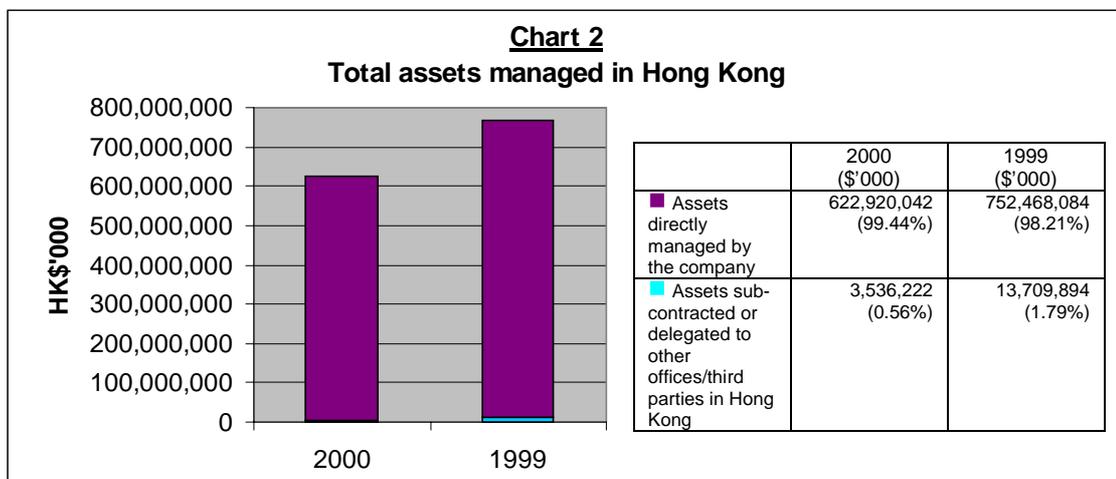
⁸ Figures reported to the FMAS are confidential and only published in aggregate form. The SFC is therefore unable to publish a separate analysis of the drop in AUM due to this factor.

⁹ Falls in major equities indices during 2000: MSCI World – 10.77%; Dow Jones Industrial Average – 6.18%; FTSE 100 – 10.21%; MSCI Asia Pacific ex Japan – 24.81%; Hang Seng Index – 11%. It should be noted that fund assets were not only invested in equities.

11. Despite the lower AUM, there are still encouraging signs that Hong Kong's status as a leading assets management centre in the region is not eroded.
12. Firstly, there was an increase of 20 firms engaging primarily in fund management to 203 firms, compared to 183 a year ago. On the retail funds side, eight more international or local firms had become approved management companies under the Code on Unit Trusts and Mutual Funds since the beginning of 2000. The total number of such approved management groups or companies was 97 as of 31 May 2001, with eight more applications awaiting approval.
13. Secondly, the drop in total assets managed in Hong Kong at the end of 2000, which will be discussed below, was much more moderate than that of the total AUM and in line with stock market falls in this region.
14. Thirdly, the number of SFC authorised unit trusts and other collective investment schemes reached a record 2,267 as of 31 March 2001, 26% higher than that of a year earlier. Among the authorised products were 263 master trust schemes and pooled investment funds for the purpose of Mandatory Provident Fund (MPF). The industry is expected to grow with the increasing contributions to MPF schemes and increased awareness of investment funds following the implementation of MPF.

Total assets managed in Hong Kong

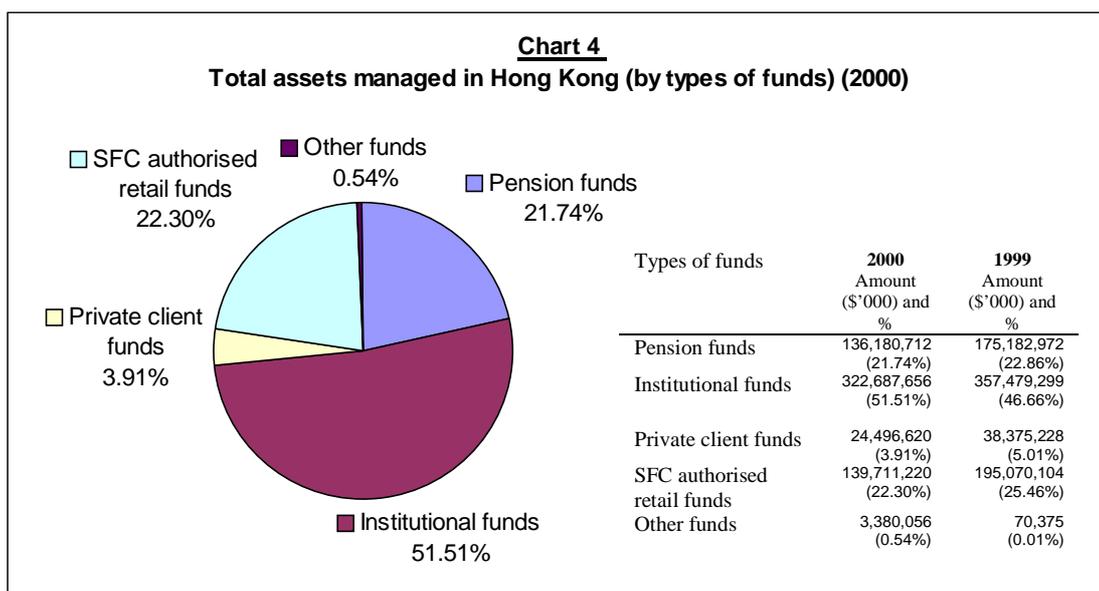
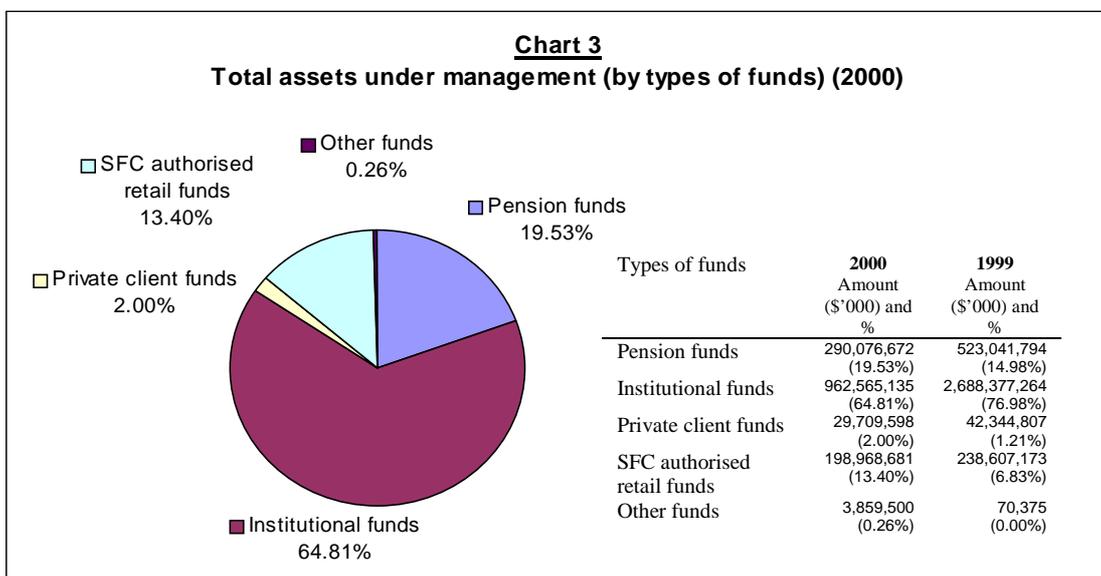
15. Total assets managed in Hong Kong amounted to \$626 billion, a decrease of 18% from a year ago (see Chart 2). This compared to the decline of 57% for total AUM. It should be noted that the domestication event mentioned before did not affect the total assets managed in Hong Kong because the assets originally managed by the ex-registrant's Hong Kong branch were essentially transferred to the new company, which is a current SFC registrant.
16. Notwithstanding the drop in AUM, it is noted that a significantly larger proportion of the assets was managed in Hong Kong – doubling to 42% at the end of 2000 (see Chart 1).



17. More than 99% of the assets managed in Hong Kong were directly managed by the respondents, with the remainder sub-contracted or delegated to other offices/third parties in Hong Kong for management.

Assets under management (by types of funds)

18. Chart 3 shows the proportions of assets under management by types of funds. The largest share was institutional funds (64.81%), followed by pension funds (19.53%), SFC authorised retail funds (13.40%) and private client funds (2%).
19. Similarly, Chart 4 shows the proportions of total assets managed in Hong Kong by types of funds. Institutional funds accounted for 51.51%, followed by 22.3% and 21.74% respectively for SFC authorised retail funds and pension funds.



20. Chart 5 and Table 1 give more details and comparisons.

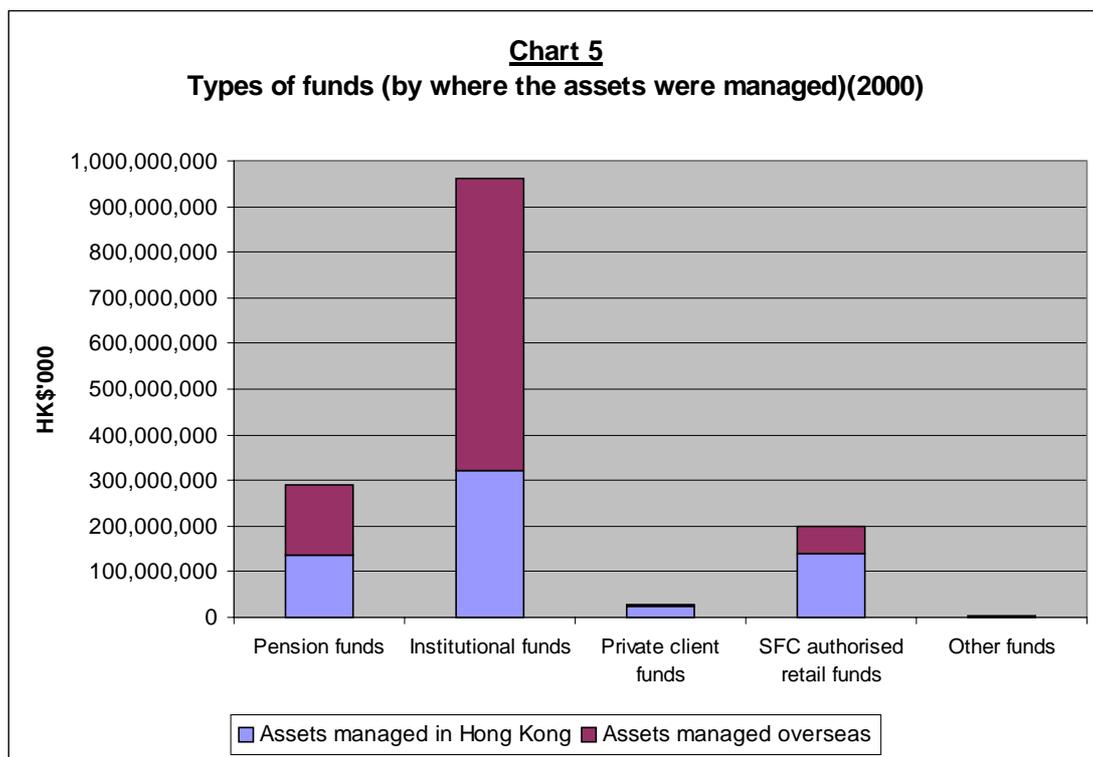


Table 1: Types of funds (by where the assets were managed)

	Pension funds		Institutional funds		Private client funds		SFC authorised retail funds		Other funds	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Assets managed in Hong Kong (\$million)	136,181 (46.95)	175,183 (33.49)	322,688 (33.52)	357,479 (13.30)	24,497 (82.45)	38,375 (90.63)	139,711 (70.22)	195,070 (81.75)	3,380 (87.58)	70 (100)
Assets managed overseas (\$million)	153,896 (53.05)	347,859 (66.51)	639,877 (66.48)	2,330,898 (86.70)	5,213 (17.55)	3,970 (9.37)	59,257 (29.78)	43,537 (18.25)	479 (12.42)	0 (0)
Total assets under management (\$million)	290,077 (100)	523,042 (100)	962,565 (100)	2,688,377 (100)	29,710 (100)	42,345 (100)	198,969 (100)	238,607 (100)	3,860 (100)	70 (100)

Figures in brackets represent % of assets under management

21. SFC authorised retail funds, at \$199 billion, saw the mildest fall of 16.61%¹⁰. Respondents said it was partly due to net redemptions during a year of difficult market conditions¹¹.
22. The findings also show that SFC authorised retail funds represented a growing proportion of total AUM to 13.4%, from 6.83% at the end of 1999 (see Chart 3). The majority of SFC authorised retail funds reported in the survey were managed in Hong Kong (70.22%) (see Table 1).
23. Similar to that in 1999, institutional funds constituted a majority of total AUM as at the end of 2000. The lower amount of assets was largely due to the domestication event, as explained earlier. Nevertheless, the event did not significantly impact on the amount of institutional funds managed in Hong Kong, which fell by 9.75% to \$323 billion.
24. Pension funds were \$290 billion and a larger proportion of those was managed in Hong Kong (47% compared to 33.5%).
25. The majority of private client funds were managed locally (82.45%). The number of companies managing private client funds increased to 70 from 64 in 1999.
26. The only funds reported under “Other Funds” were Government Funds and Charity Funds, totaling \$386 million and \$3,474 million respectively. Those assets together increased by more than 50 times over a year ago. Nearly 90% was managed in Hong Kong.
27. Chart 6 illustrates a breakdown by various types of funds and the proportions of total AUM that were pooled and non-pooled. Table 2 shows more details for comparison. Similar to that in FMAS 1999, institutional funds formed the bulk of pooled funds.

¹⁰ It should be noted that the fall should have been smaller. It is because some respondents of FMAS 1999 had overstated the retail funds figure by mistakenly including other types of funds. While the figures have been adjusted where possible, a number of respondents failed to recover the relevant 1999 data. With the modification of the questionnaire, it is believed such inadvertent errors can be minimised.

¹¹ It is noted that the total net asset value of all SFC authorised unit trusts and mutual funds increased to \$2,429 billion at the end of 2000, from \$2,331 billion a year ago. The net asset value is different from the \$199 billion as reported by the respondents because many SFC authorised funds are managed by overseas managers that are not SFC registrants or exempt persons and therefore are not included in the FMAS.

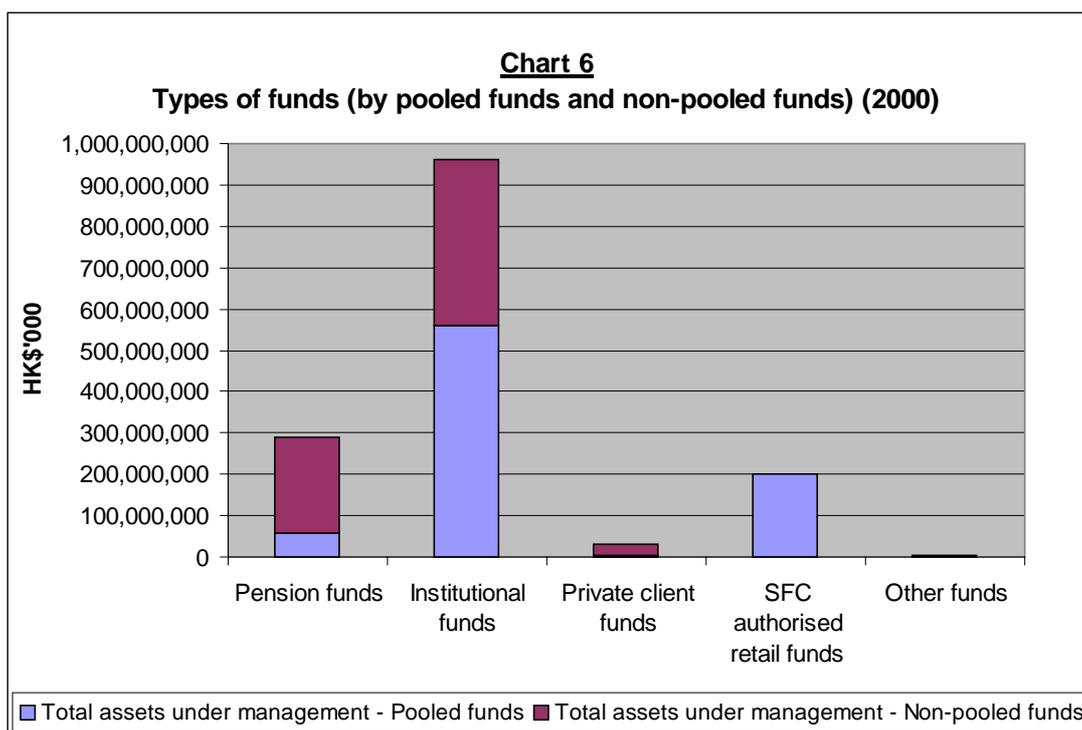


Table 2: Types of funds (by pooled funds and non-pooled funds)

	Pension funds		Institutional funds		Private client funds		SFC authorised retail funds		Other funds	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Non-pooled funds (\$million)	231,630 (79.85)	401,015 (76.67)	402,393 (41.80)	1,996,281 (74.26)	24,571 (82.70)	33,334 (78.72)	0 (0)	0 (0)	3,851 (99.79)	20 (28.42)
Pooled funds (\$million)	58,447 (20.15)	122,026 (23.33)	560,172 (58.20)	692,096 (25.74)	5,138 (17.30)	9,011 (21.28)	198,969 (100)	238,607 (100)	8 (0.21)	50 (71.58)
Total assets under management (\$million)	290,077 (100)	523,042 (100)	962,565 (100)	2,688,377 (100)	29,710 (100)	42,344 (100)	198,969 (100)	238,607 (100)	3,860 (100)	70 (100)

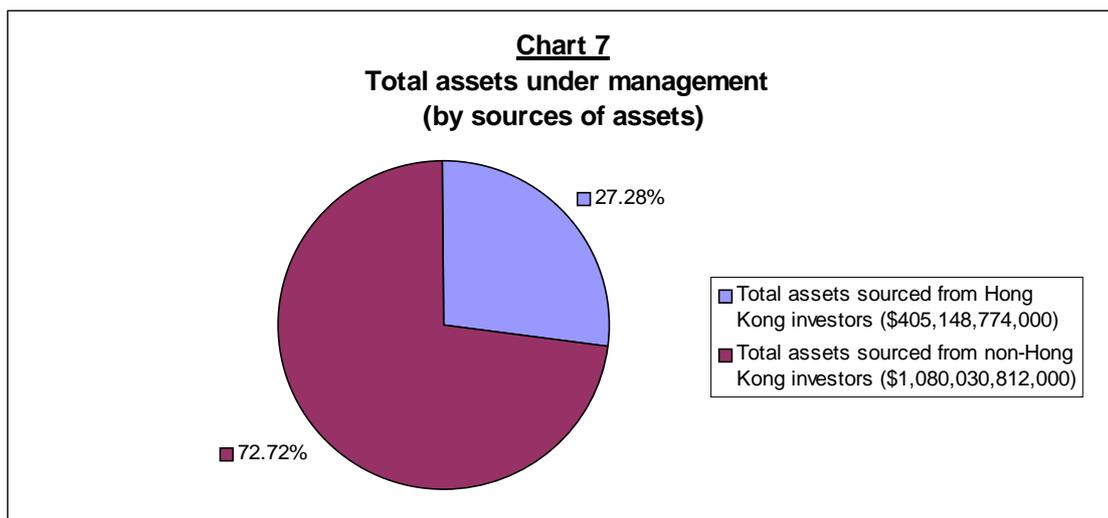
Figures in brackets represent % of assets under management

Assets sourced from Hong Kong investors

28. For the first time, respondents were asked to state how much of the assets under management was attributable to Hong Kong investors¹². Of the \$1,485 billion of total assets under management, \$405 billion¹³ or 27.28% was sourced from Hong Kong investors (see Chart 7).

¹² Assets attributable to Hong Kong investors include assets sourced from investors with a Hong Kong registered address, and assets which were otherwise known to the respondents to have been sourced from Hong Kong although the investors might not have a Hong Kong registered address.

¹³ On a per capita basis, the amount sourced from Hong Kong investors was \$59,668, which is equal to 32% of the per capita GDP (\$187,105) of Hong Kong in 2000. As reference, the per capita annual turnover on the Stock Exchange of Hong Kong in 2000 was \$448,831 (240% of the per capita GDP).



Internet activities

29. For the first time, respondents were asked if they conducted any business activities on the Internet or through other electronic means. The survey found that 23 respondents had carried out advertising or marketing activities on the Internet. Thirteen of these companies managed SFC authorised retail funds¹⁴. Two of the respondents further stated that they provided dealing facilities (subscription, redemption and switching) of SFC authorised funds on the Internet.
30. One of the respondents indicated that it provided portfolio planning services on its website for investors¹⁵.

Other findings

31. Twenty-seven respondents reported that they were regional headquarters. The following countries or places were covered by most of the respondents: Australia, Korea, Mainland China, the Philippines, Singapore and Taiwan. A few respondents, which oversaw a larger area, also covered some or most of the following places: India, Indonesia, Japan, Malaysia, New Zealand and Thailand.

¹⁴ There is also extensive use of the electronic media for advertising and/or dealing of SFC authorised funds by intermediaries which are not covered by the FMAS. For example, the SFC has approved a number of banks to advertise and offer authorised funds on their websites. A Hong Kong Investment Funds Association (HKIFA) survey published in May found that 33 of its 46 members operated websites. Most of them provided information for marketing purposes and other information such as fund prices and performances.

¹⁵ Other intermediaries may also provide portfolio planning services.

Conclusion

32. The survey has provided a snapshot of the state of the fund management industry in Hong Kong. It also offers an overview of the circumstances of the individual respondents, and their changes from a year ago. As evidenced by the decline in assets under management, 2000 had been a challenging year for practitioners. It is important that the Commission strengthens its efforts to understand the needs of the industry and take appropriate actions to ensure that Hong Kong maintains its status as a leading fund centre in the region.
33. In this regard, the Commission will ensure that it keeps an open and active dialogue with the industry. The industry will continue to be consulted on important policy proposals, which in turn will be implemented in a pragmatic manner.
34. However, certain factors contributing to the fall in AUM were not directly related to the competitiveness of the Hong Kong market. For example, the drop in equity prices in the leading markets had adversely affected all fund managers – not only SFC registrants or exempt persons – who had held stocks. The “domestication” exercise was by no means insignificant, but it did not represent a vote of no confidence in the Hong Kong market.
35. The Commission has made a lot of efforts to try and anticipate issues faced by the industry and respond to them. It aims to foster a friendly regulatory environment for local fund practitioners and to attract international businesses to Hong Kong, while ensuring that investor protection is not compromised. It is hoped that investors will benefit from a greater choice of investment products and high quality asset management services.

Notes:

- Aggregate figures in various categories represent the total assets managed by respondents who reported business in the respective categories only. Respondents might be engaged in one or some of the businesses only.
- The meanings of some of the terms used in the survey are as follows:

“Managing funds or portfolios”	Management of clients’ funds or portfolios through making discretionary investment decisions or, if management is on a non-discretionary basis, this would involve provision of other services such as order execution or other administrative services i.e. not pure advisory.
“Total assets under management by the company”	All those assets being the subject of contracts entered into by the respondent company and its “clients” for management by the respondent or its delegates, i.e. all assets sub-contracted or delegated to other offices/ third parties for advisory or management purpose should be included. To avoid double counting, where a “client” is another investment management company (being a SFC registrant or exempt person), the assets concerned should not be included.
“Total assets managed in Hong Kong”	Assets for which management activities are carried out in Hong Kong. These include assets directly contracted with clients by the company and managed in Hong Kong, and those which are delegated to other offices/ third parties in Hong Kong for management.
“Pension Funds”	Client funds that are designated as pension or retirement funds.
“Institutional Funds”	Client funds that are non-pension, non-retail in nature, e.g. funds from shareholders, associated companies, fund houses (including an investment management company of an offshore retail fund which has contracted the respondent to manage the fund assets), insurance companies, large corporate clients. Where funds authorised by the SFC are offered to institutional clients only, these should be classified under “Institutional Funds”.
“Private Client Funds”	Client funds that are non-institutional, non-retail, non-pension in nature, e.g. individual high net worth clients (average personal net worth exceeding US\$1 million during the year) with own accounts or portfolios managed on an individual or pooled basis.
“SFC Authorised Retail Funds”	Retail funds authorised by the SFC. Where funds authorised by the SFC are offered to institutional clients only, these should be classified under “Institutional Funds”. Where funds are offered to both retail and institutional clients, these should be separately identified and classified accordingly.
“Portfolio Planning”	Giving advice on or designing the composition of a client’s portfolio based on his/her investment profile (risk aversion, age, projected cash flow) and investment objectives. This may or may not include making recommendations on specific funds.