



Asset & Wealth Management Market Intelligence Digest

Hong Kong



Asset & Wealth Management
Market Research Centre
Asia Pacific

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Key takeaways

1



Steady growth in the onshore mutual fund market

- The number of onshore funds has doubled from 306 products in 2012, to 745 as of 2017.
- In absolute terms, assets of onshore funds have grown from \$56.0 billion to \$140.5 billion. The average size of onshore products has also increased from \$183.1 million to \$188.5 million over the same time period.
- The Securities and Futures Commission (SFC) has also been active in streamlining fund approval processes, reducing average processing time for mutual funds to an expected 2.2 months.

2



Alternatives on the rise

- Hong Kong is a key alternative hub in the region, and boasts the largest hedge fund industry in Asia-Pacific. It is also the third largest hedge fund market globally, trailing behind US and UK.
- In the private equity space, profits tax exemption has also been extended to offshore funds since 2015, making Hong Kong a more attractive destination for private equity (PE) managers.

3



Growing private wealth

- Private wealth management business has been steadily growing in Hong Kong, and stood at \$670.9 billion in 2016, representing a 8.9% year-on-year growth.
- Private banks in Hong Kong continue to attract high net worth investors to bank in the country, and are responsible for 78.0% of private wealth managed.

4



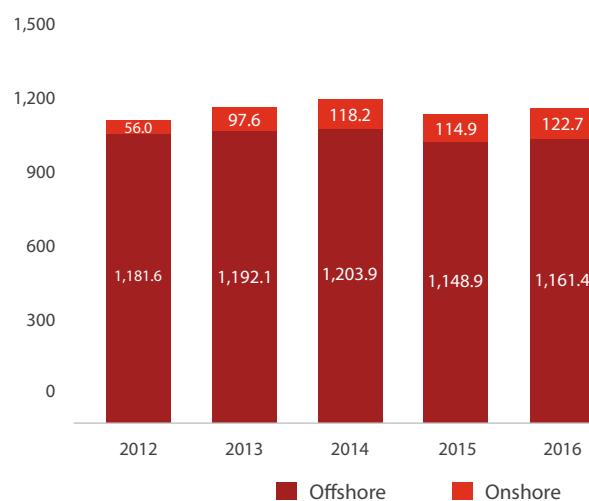
Greater connectivity with Mainland China and rest of the world

- To bridge connectivity between China and Hong Kong, several schemes, including the Shanghai-Hong Kong Stock Connect, Mainland-Hong Kong Mutual Recognition of Funds, Shenzhen-Hong Kong Stock Connect have been introduced.
- At the same time, SFC has also inked mutual fund recognition programmes with Switzerland and France in 2016 and 2017, respectively.

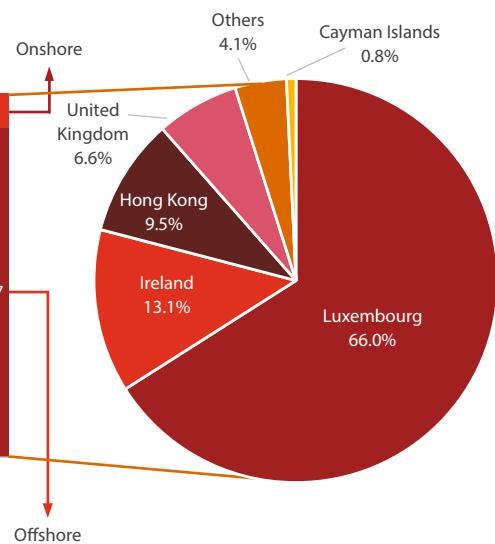
Market landscape

Mutual funds - Breakdown by domiciles

Mutual fund assets in Hong Kong (USD bn),
2012 – 2017



Mutual fund assets by domicile,
2017



Onshore fund assets on the rise

- In 2012, onshore funds stood at \$56.0 billion, occupying 4.5% of the market. Onshore fund assets have increased by \$84.4 billion, standing at 9.5% of the industry as of 2017.
- Luxembourg, on the other hand, remains a key fund domicile for offshore products retailed in the country. As of 2017, Luxembourg-domiciled funds made up two-thirds of mutual fund assets in Hong Kong, at \$980.2 billion.
- Ireland-domiciled funds, which took up about a-fifth, or 21.3% of assets in 2012, has seen a steady decline in assets and made up just 13.1% of market assets in 2017.

Institutional investors

1 Sovereign wealth fund

- The Exchange Fund, managed by the Hong Kong Monetary Authority, saw an average year-on-year growth of 7.9% between 2012 and 2016. As of end 2017, total assets of the Exchange Fund stood at \$466.6 billion.
- 74.0% of the Exchange Fund is managed internally, while 26.0% are outsourced.

2 Pension funds

- In 2017, the bulk of the employed Hong Kong workforce, or 2.8 million individuals, were part of the MPF scheme.
- Assets under the MPF scheme has grown steadily in recent years, recording a 5-year CAGR of 8.0% between 2011 and 2016, while ORSO schemes only saw a 5-year CAGR of 3.4% during the same period.

3 Insurance companies

- In 2017, there were 54 life insurers in Hong Kong. Among them, insurance companies A, B, C, D and E are the largest by premiums, making up about two-thirds of life insurance premiums in the country.



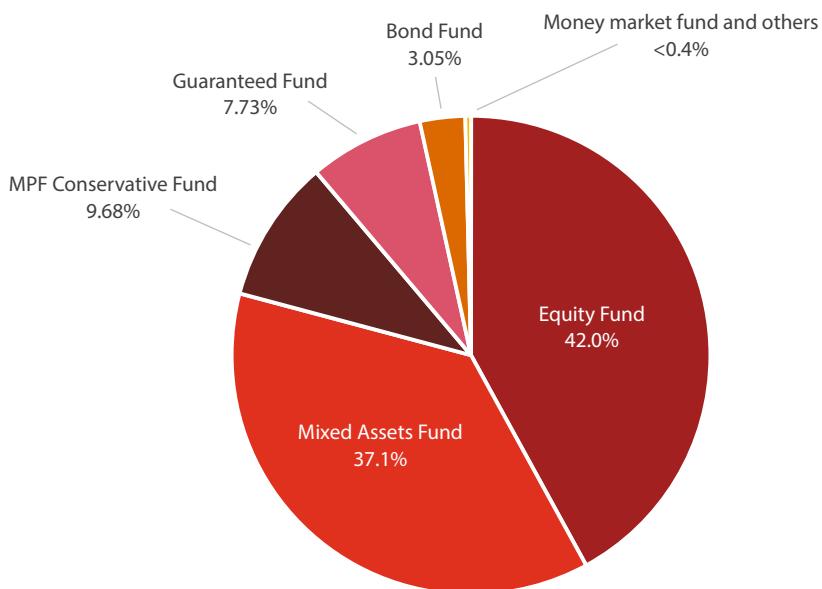
Institutional investors

Pension funds - Mandatory Provident Fund

Net Asset Values of Approved Constituent Funds
(by Fund Type, USD bn)

As at	2012	2013	2014	2015	2016	2017
Equity Fund	23	26.8	29.1	31	33.8	40.2
Mixed Assets Fund	20.8	25.1	28.4	28.8	30.8	35.5
MPF Conservative Fund	6.3	6.8	7.3	7.8	8.8	9.2
Guaranteed Fund	5.1	5.6	5.9	6.3	7	7.4
Bond Fund	1.4	1.6	1.9	2	2.6	2.9
Money Market Fund and Others	0.2	0.3	0.3	0.3	0.4	0.4
Total	56.7	66.3	72.8	76.3	83.3	95.5

Percentage Share* of Aggregate NAV and Number of Approved Constituent Funds
(by Fund Type), 2017



Equity and mixed assets form the bulk of constituent fund assets

As of 2017, equity funds and mixed asset funds made up 79.1% of approved constituent fund assets.

The proportion of total NAV occupied by equity and mixed asset funds have increased from 40.5% and 26.6% in 2012 to 42.0% and 37.1% in 2017.

Distribution trends

Retail banks

Retail banks usually offer financial and banking services to the mass markets. These services typically include deposits, savings, loans, credit cards, insurance and sometimes investments. In Hong Kong, retail banks remain the key distributors of mutual funds. However, the bulk of the funds (~70%) are sold through HSBC, Standard Chartered and Citibank.

Hong Kong banks

Rank	Bank	Branches in Hong Kong	AUM USD bn	Activities
1	Bank A	196	287.1	Incorporated in Hong Kong on 12 September 2001, Bank A is one of the largest commercial banking group in Hong Kong in terms of assets. It is primarily known for its interest-income business and it has been moving into other non-interest-income areas such as wealth management and other financial services.
2	Bank B	126	177.6	Founded in 1933, Bank B is a commercial bank and a member of the Bank G. Its major business activities include retail banking, wealth management, commercial banking, treasury services, and private banking.
3	Bank C	77	98.7	Incorporated in Hong Kong in 1918, Bank C is Hong Kong's largest independent local bank. It provides corporate banking, personal banking, wealth management, and investment services to its customers in Hong Kong, Mainland China, and other major markets around the world.

Foreign Banks in Hong Kong

Rank	Bank	Branches in Hong Kong	Activities
1	Bank D	100	Established in 1865, Bank D is the founding member of the Bank G. It has grown to become the largest bank incorporated in Hong Kong. The company's business ranges from retail banking, premier banking, corporate banking to investment banking, private banking and global banking. It is the largest bank in Hong Kong.
2	Bank E	76	Bank E incorporated its business in Hong Kong on 1 July 2004 and is a wholly-owned subsidiary of Bank E. It is one of the largest fund distributor in Hong Kong and one of the Hong Kong SAR's three note-issuing banks today. Bank E is listed on the London, Hong Kong and the Indian Stock Exchanges.
3	Bank F	24	Bank F opened in 1902 and is currently one of the largest foreign financial institution in the country, serving more than one million clients. Bank F provides a full range of wealth and financial solutions and products to a wide spectrum of clienteles and remains one of the key credit card issuers.

Asia Pacific Market Intelligence Digest

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- The distribution channels and how they are evolving
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