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Navigating Global Investment Trend Strengthening Hong Kong as an International Asset Management Center

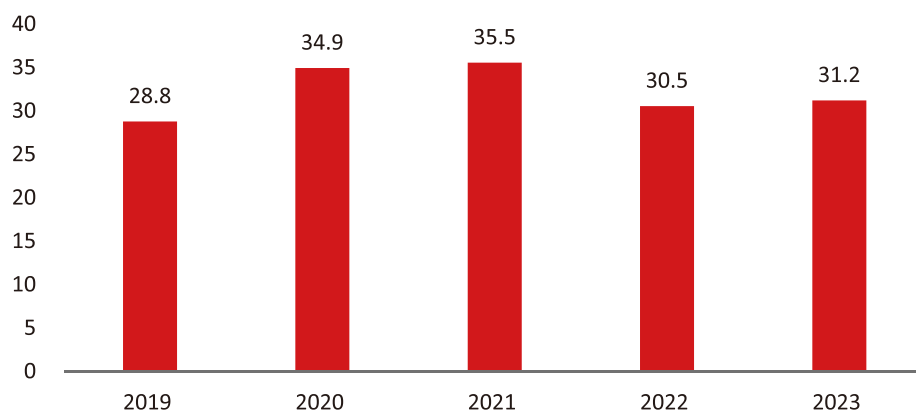
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Hong Kong's asset management market expanded rapidly in recent years, its asset under management (AUM) were up more than five times during the years from 2008 to 2023. Hong Kong international financial center was supported by financing activities such as banking and capital market activities. As the global financial markets evolving with financial innovation, asset management business promotes the upgrading of Hong Kong from a financing center to a financial center equipped with more comprehensive functions such as asset and risk management, which injects new momentum into Hong Kong's financial development.

I. Characteristics of Hong Kong's asset management market

In terms of Investment Management, Hong Kong was first ranked according to the 36 edition of the Global Financial Centers Index(GFCI) released in September 2024. Investment Management has been an important sector propping up Hong Kong's status as an international financial center being back to the global top three cities. The Asset and Wealth Management Activities Survey(the Survey) held by the Securities & Futures Commission of Hong Kong(SFC) every year, covering firms conducted asset management, fund advisory, private banking and private wealth management business or trust services. This provides an objective prospective to scrutinize Hong Kong's asset management market activities. The survey suggested Hong Kong's asset management business was generally under expansion in 2023, its AUM rose by 2% year on year(YoY) to HKD 31.2trn, recovering from a decline

Figure 1: The AUM of Hong Kong's asset and wealth management business (HKD trn)



Source: HK SFC, Hong Kong Financial Research Institute of Bank of China

in 2022 (Figure 1). The total number of staffs engaged in asset and wealth management activities was 53,883 in 2023, while the number of firms licensed to carry out asset management under Type 9 regulated activity in Hong Kong increased by 3% to 2,127. To be specified, Hong Kong’s asset management market presented the following characteristics:

1. Development pattern: typical characteristics of offshore financial centers

A relatively large amount of capital in Hong Kong’s asset management industry sourced from non-resident entities and most of them are invested in overseas assets. Therefore, the local market primarily played the role of management and bookkeeping. Within the Global Wealth Report from Boston Consulting Group(BCG) ranking major global financial centers by cross-border wealth, in the year of 2023, Hong Kong was the second largest booking center globally, indicating its advantage in offshore asset management. In 2023, 77% of Hong Kong’s investment funds were allocated to overseas assets, an increase from 72% in 2019 (Figure 2-3). Hong Kong was the second largest holder of portfolio investment(PI) assets in Asia according to International Monetary Fund(IMF), its PI position as a shares of Balance of Payment(BoP) was up from 15.1% in 2000 to 29.7% in 2023.

Figure 2: Hong Kong’s asset and wealth management AUM by geographical distribution of investments in 2019 (%)

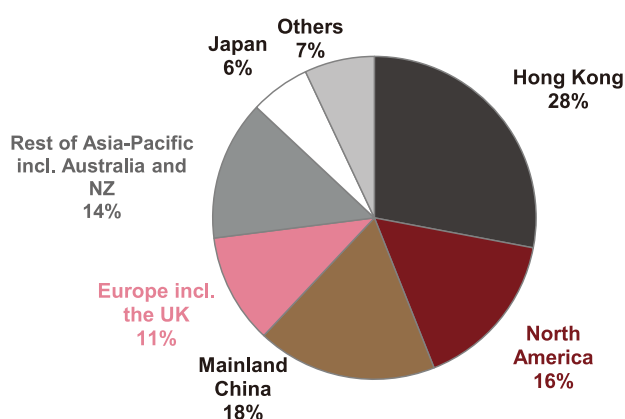
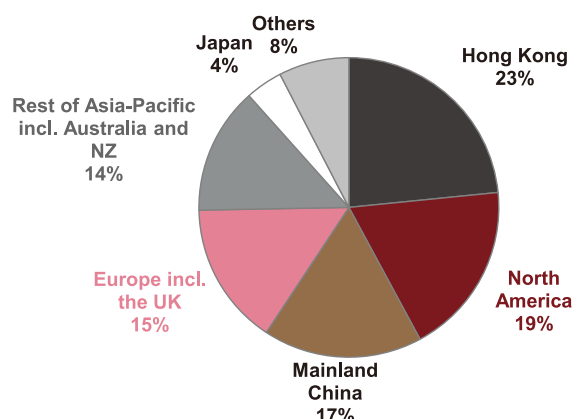


Figure 3: Hong Kong’s asset and wealth management AUM by geographical distribution of investments in 2023 (%)



Source: HK SFC, Hong Kong Financial Research Institute of Bank of China

Offshore asset and wealth management has been an important support for Hong Kong asset management center. The Hong Kong stock market has experienced rising volatility in recent years, especially after the US started rate hikes in 2022, as the Hang Seng Index(HSI) fell by 15.5% and 13.8% in 2022 and 2023 respectively. Hong Kong’s AUM fell by 14.1% in 2022, a smaller decline than the HSI, while the AUM rose by 2% in 2024. Looking into the development pattern of other international asset management centers, it turns out that New York focuses on onshore business with a well-developed local financial market; London’s advantage of financial market transactions is the main driver of its asset management business; Being an offshore center, Hong Kong takes the advantage of bookkeeping to achieve steady development.

2. Asset origin: the proportion of US and European assets increased slightly, while the fund inflow from mainland China accelerated

The origin of Hong Kong’s AUM is mainly overseas capital. In 2023, 64% of the AUM came from non-Hong Kong residents, of which mainland investors accounted for 10%. The proportion of non-mainland and non-Hong Kong investors remained stable at 54%-56% in the past five years. Assets from North America, Europe (including the UK) and the rest of Asia-Pacific regions accounted for 24%, 10% and 13% respectively. Those of North America increased slightly by 2ppt from 22% in 2019, and the proportion of European assets was 10% (Table). In recent years, some overseas asset management institutions are willing to invest in Greater China assets through Hong Kong, for instance, Tikehau Capital and Federal Hermes indicated their plan of setting up a Hong Kong office to capture investment opportunities.

Meanwhile, Mainland capitals are becoming an important source of Hong Kong’s asset management industry. Hong Kong’s asset and wealth management business recorded a net capital inflow of HKD 389bn in 2023, a YoY increase of 342%, of which

private banking net inflows of HKD 341bn contributed the most. Within private banking business, mainland (17%) accounted for the highest proportion of capitals outside Hong Kong, increasing by 4% YoY. Mainland China was the only non-Hong Kong region achieved a positive YoY growth, suggesting the acceleration of mainland capitals flowing into Hong Kong.

Table: Hong Kong’s asset and wealth management AUM by investor base (2019-2023)

	Hong Kong	North America	Europe	Mainland China	RoA	Others
2019	36%	22%	10%	10%	14%	8%
2020	36%	22%	11%	10%	13%	8%
2021	35%	23%	10%	9%	13%	10%
2022	36%	23%	11%	9%	14%	7%
2023	36%	24%	10%	10%	13%	7%

Notes: Europe includes UK, RoA stands for Rest of Asia-Pacific including Australia and New Zealand
Source: HK SFC, Hong Kong Financial Research Institute of Bank of China

3. Asset allocation: the proportion of bonds investment rebounded, collective investment schemes were newly under the spotlight

Under the allocation by asset class, the proportion of equities fell from 52% in 2019 to 45% in 2023, while that of bonds rebounding to 29% in 2023 after declining previously. Moreover, PI under BoP showed that Hong Kong’s equity positions decreased and bond positions increased to 58% and 42% respectively in 2023 (Figure 4-5), indicating an increasing attractiveness of bond investment in Hong Kong market. The traditional advantage of Hong Kong’s financial sector was mainly in stock market, while in recent years, Hong Kong also began to improve its competitiveness of fixed-income business including bond investments, such as issuing bonds denominated in CNH with longer maturities. Additionally, benefiting from the alternative investment boom and the supporting measures from the Hong Kong SAR government, collective investment schemes garnered more attention, with the proportion of their AUM rising rapidly to 14% in 2023 from 7% in 2019.

Figure 4: Hong Kong’s BoP portfolio investment(PI) by asset class

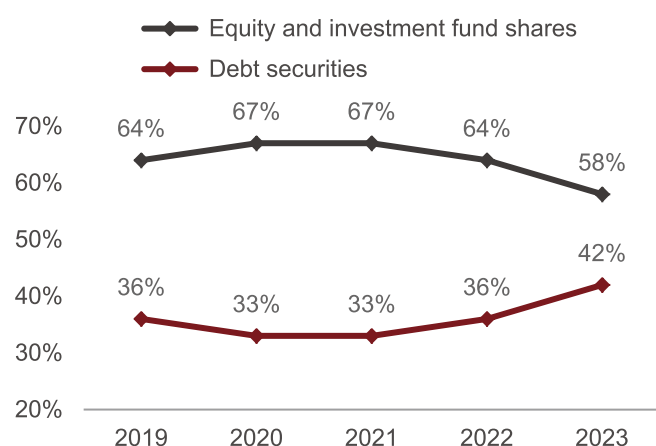
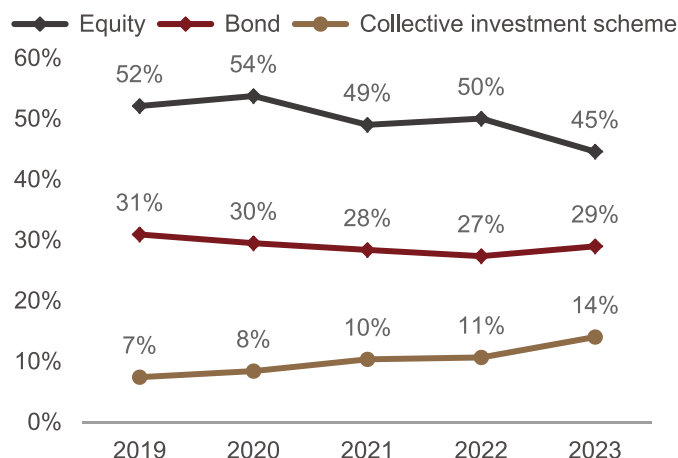


Figure 5: Hong Kong’s asset and wealth management AUM by asset class



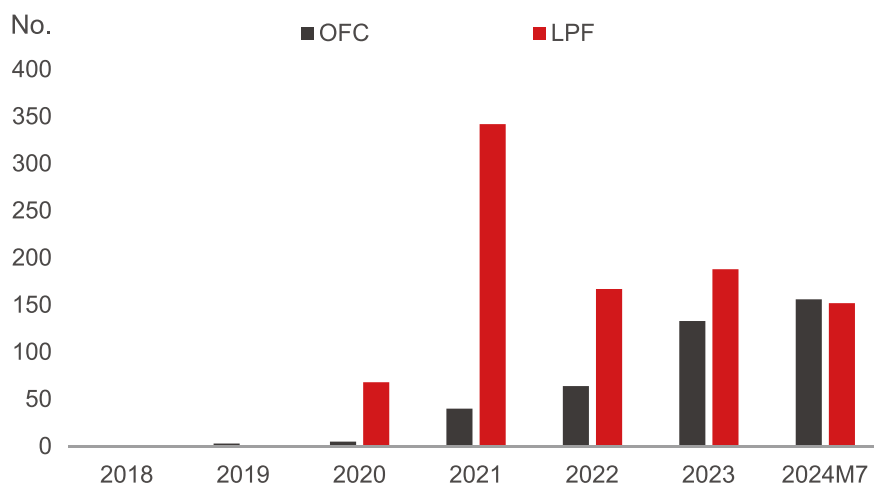
Source: HK SFC, Hong Kong Financial Research Institute of Bank of China

II. Hong Kong has a favorable policy environment for the development of asset management business

Hong Kong’s asset management business is mainly motivated by policy conditions such as free capital flow, low tax rate and a favorable business environment. Recently, the Hong Kong SAR and mainland governments have introduced a number of new measures to enhance the competitiveness of Hong Kong’s asset management business.

First, supporting the introduction of a diversified fund structure, and launching three measures in the fields of open-end funds and private equity funds. These were including (1) the introduction of the open-ended fund company (OFC) structure and the limited partnership fund (LPF) Ordinance in 2018 and 2020 respectively; (2) the launch of the Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts(REITs) in 2021 and the extension of the Scheme for three years to 2027; (3) Re-domiciliation of Foreign Funds to Hong Kong introduced in November 2021. After the launch of the Grant Scheme and the Re-domiciliation of Foreign Funds, the number of OFC and LPF registrations increased significantly, by 8 times and 5 times YoY in 2021, respectively. As of July 2024, there were 401 OFCs and 917 LPFs registered in Hong Kong (Figure 6).

Figure 6: The number of OFC and LPF registered in Hong Kong



Notes: The OFC structure and LPF regime were launched in July 2018 and August 2020 respectively
Source: HKSAR government, Hong Kong Financial Research Institute of Bank of China

Second, promoting the development of exchange-traded fund (ETF) market and the inclusive of ETFs into the Stock Connect mechanism. On the one hand, the number of active ETF products in Hong Kong increased to 24 by the end of 2023, with new thematic products such as environmental, social and governance (ESG), blockchain and virtual assets. Active ETFs made notable contribution to the liquidity of Hong Kong market, with an average daily turnover of HKD 16.2mn in 2023, increasing by 214% YoY. On the other hand, the ETF Connect scheme between Hong Kong and the mainland has been gradually deepened. Currently, 16 Hong Kong ETFs are included in the Southbound scheme, with an average daily turnover of HKD 1bn in June 2024, up from HKD 220mn in July 2022.

Third, relaxing restrictions on alternative investments and fostering REITs investment market. In 2003, the local REIT market began to develop as the Code on Real Estate Investment Trusts was published. In 2020, the Mandatory Provident Fund Schemes Authority(MPFA) revised the relevant guidelines to relax the investment restrictions on REITs. In the meantime, the SFC amended the Code on REITs to provide greater investment flexibility for REITs in Hong Kong. In 2023, 11 REITs were listed on Hong Kong Stock Exchange(HKEX), with a market capitalization of around HKD 136.5bn, accounting for 0.4% of the total market cap of Hong Kong stock market.

Fourth, strengthening the coordinated development with the mainland, developing the Connect Scheme such as mutual recognition of funds(MRF) arrangement and Cross-boundary Wealth Management Connect(WMC). In April 2024, the China Securities Regulatory Commission (CSRC) announced five measures (Five Measures) for capital market coordination with Hong Kong included the enhancement of the MRF arrangement; in June, the Administrative Provisions on Recognized Hong Kong Funds (Draft Amendments for Solicitation of Comments) was issued with enhancement measures. As of H124, 39 Hong Kong MRFs have been registered, with cumulative net sales of RMB 27.8bn and AUM totaling RMB 333.9bn in mainland.

The WMC is an innovative mechanism for mutual access between the capital markets of Hong Kong and mainland. The market was boosted significantly after the launch of WMC 2.0, with amount of cross-border remittance between mainland and Hong Kong increasing by more than 8 times month on month(MoM) in March 2024, and the amount of mainland individual investors increasing by more than 9 times MoM. As of July 2024, 121,100 individual investors in the Guangdong-Hong Kong-Macao Greater Bay Area(GBA) have participated in the WMC, including 50,900 investors from Hong Kong and Macao, 70,200 investors from mainland; and RMB 83.5bn of cross-border remittance was handled by mainland domestic banks.

III. The future of Hong Kong’s asset management business is promising under the global investment trend

With fintech and digital finance bringing opportunities for global financial sector, Hong Kong could grasp the global investment trend in order to further develop the asset management industry, in areas such as ETF market, virtual assets and ESG investment.

1. ETF market

With the global financial cycle accelerated evolving, the volatility of stock market has been increasing, and hence investors pay more attention to ETF market because of lower cost and better liquidity. By the end of 2023, the total AUM of ETFs listed and traded across the globe increased to USD 11.6trn, a YoY increase of 21.8%, and a Compound Annual Growth Rate(CAGR) of 22.2% in the past 20 years. Referring to BCG’s survey on the global AUM for the whole asset management sector, the value of ETFs accounted for around 9.7% of the total asset management market in 2023 globally, with a cumulative increase of more than 5ppt in the past 10 years. As a leading market in the Asia-Pacific region, Hong Kong has the foundation and potential to further expand its market coverage in the ETF sector, and the relaxation of eligible products for ETF Connect in the Five Measures would also facilitate market growth.

2. Virtual assets

A typical component of virtual assets, the global cryptocurrency market recorded an increase of value, from USD 10.5bn in 2013 to USD 1.65trn in 2023. In terms of the number of virtual asset ETFs, North America takes the lead, while Hong Kong is expediting its development, listing a batch of six virtual asset spot ETFs this year, being the first practice in Asia. In 2022, the Hong Kong SAR government issued the Policy Statement on the Development of Virtual Assets in Hong Kong, marking a stage in which Hong Kong accelerated the exploration of the virtual asset industry; In 2024, a licensing regime for virtual asset trading platforms was introduced to provide greater protection to investors. Hong Kong also actively built up the Web3 ecosystem and created opportunities for the virtual asset industry, with the 2023-24 Policy Address proposed to allocate HKD 50mn into Web3 ecosystem.

3. ESG investment

As ESG has gradually become a new investment theme, global climate finance needs could increase to around USD 9trn annually by 2030, according the the Climate Policy Initiative, indicating large potential for the green finance market. A report released by KPMG and the Hong Kong Private Wealth Association suggested that two-thirds of investors are willing to allocate at least 10% of their portfolios into ESG assets. As a green finance hub in Asia, Hong Kong’s green finance market continued expanding. In 2023, Hong Kong ranked top in Asia in terms of green and sustainability-linked bond issuance, with an AUM of USD 169.6bn in ESG funds.

IV. Suggestions on promoting the development of Hong Kong asset management center

The development of asset management center is an important component of consolidating and enhancing Hong Kong’s status as an international financial center. In line with Hong Kong’s advantages in offshore wealth management and the recent global investment trends, it is necessary to further expand and strengthen the asset management market, enhance the resource allocation as a function of international financial center, and attract more financial institutions and long-term capital to settle in Hong Kong conducting business.

Extending ETF cross-listing to more overseas markets. In terms of overseas markets, the first Saudi ETF listed in Hong Kong in 2023 recorded a return rate of 8.3% since its inception to the end of August 2024. In September 2024, an ETF listed in Saudi Exchange that invests in Hong Kong-listed stocks was approved, realizing the two-way mutual exchange of ETFs between Hong Kong and Saudi Arabia. It is suggested to launch the ETF cross-listing with more markets through negotiation and cooperation between stock exchanges. This could be gradually expanded, starting from the Middle East and Southeast Asian markets, to broaden the investment coverage of Hong Kong’s asset management and attract more incremental capitals to Hong Kong’s asset management market.

Expediting the tokenization of the bond market. Tokenized bonds use distributed ledger technology (DLT) to record returns, and their breakthrough compared to traditional computerized bookkeeping methods is to centralize related transaction activities on a single digital platform, significantly reducing associated costs and facilitating the automation of the entire process. In 2022, the Hong Kong SAR government issued the Policy Statement on the Development of Virtual Assets, which included bond tokenization as one of the pilot projects. In February 2023, Hong Kong successfully issued HKD 800mn of tokenized green bonds under the Government Green Bond Program. In future, Hong Kong could further apply DLT to its bond market, including the development of a wider range of application scenarios and the connection to traditional platforms. Meanwhile, the legal and regulatory framework could also be further enhanced.

Nurturing Hong Kong’s ESG ecosystem to create a better investment environment. For green standards, the Hong Kong Monetary Authority (HKMA) has published the Hong Kong Taxonomy for Sustainable Finance, which is based on the common catalogue of mainland and the EU, so that Hong Kong’s standard can meet both mainland and international standards; looking forward, Hong Kong can expedite the formulation of a road map on the certain adoption of the International Financial Reporting Sustainability Disclosure Standard (ISSB). For bond market, as of September 2024, the Hong Kong SAR government has issued nearly HKD 220bn equivalent of green bonds, providing a pricing benchmark for potential issuers. On the investor side, the 2024-25 Budget launched the New Capital Investment Entrant Scheme – Hong Kong could consider the inclusion of a certain proportion of ESG products, such as ESG funds, to help expand the ESG investment market.

Continuously expanding the scope of Connect Schemes. Since the launch of the Stock Connect, the included assets have progressed from basic products to derivatives sequentially, such as Stock Connect, Bond Connect, Northbound Swap Connect and Cross-boundary WMC, providing a more diversified product base for Hong Kong’s asset management. It is proposed to further expand the scope of Stock Connect, expedite the research on new products such as Futures Connect and IPO Connect, launch the Southbound Swap Connect in a timely manner, and further implement policies for REITs Connect. Those measures could play an important role in strengthening the unique advantage of Hong Kong’s asset management industry.

Encouraging more mainland financial institutions to set up asset management institutions in Hong Kong. In Hong Kong’s asset and wealth management business, the scale of mainland-related institutions continued to enlarge, with an AUM of HKD2,676 bn and a net capital inflows of HKD 153bn in 2023, an increase of 4% and 16% YoY respectively. Mr Li Yunze, Director General of the National Financial Regulatory Administration(NFRA), pointed out in his speech that it is necessary to support Chinese financial institutions to serve Hong Kong’s local market. Therefore, we suggest that more Chinese financial institutions could be encouraged to set up asset management institutions in Hong Kong. In respect of that, Hong Kong could capitalize its advantageous status as an international financial center and offshore RMB business hub, and promote its bridging function of “super connector” and “super value-adder” to support the development of international asset management center.

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主要經濟指標 (Key Economic Indicators)

	2022	2023	2024/Q1	2024/Q2
一、本地生產總值 GDP				
總量 (億港元) GDP(HKD 100million)	28,090	29,010	7,299	7,165
同比增長率 (%) YoY change(%)	-3.7	3.3	2.8	3.3
二、對外商品貿易 External merchandize trade			2024/8	2024/1-8
外貿總值 (億港元) Total trade(HKD 100million)				
總出口 Total exports	45,317	41,774	3,813	29,530
總進口 Total imports	49,275	46,450	4,144	31,690
貿易差額 Trade balance	-3,958	-4,676	-331	-2,160
年增長率 (%) YoY Growth(%)				
總出口 Total exports	-8.6	-7.8	6.4	11.5
總進口 Imports	-7.2	-5.7	7.9	8.0
三、消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	1.9	2.1	2.5	1.8
四、零售市場 Retail market				
零售額同比升幅 (%) Change in value of total sales YoY(%)	-0.9	16.2	-10.1	-7.7
五、訪港遊客 Visitors				
總人數 (萬人次) Total arrivals(10 thousands)	60.5	3,400.0	445.4	2,952.7
年升幅 (%) YoY change(%)	561.5	5,523.8	9.2	43.7
六、勞動就業 Employment			2024/5-2024/7	2024/6-2024/8
失業人數 (萬人) No. of unemployed(10 thousands)	16.3	11.3	11.8	12.2
失業率 (%) Unemployment rate(%)	4.3	2.9	3.0	3.0
就業不足率 (%) Underemployment rate(%)	2.3	1.1	1.2	1.2
七、住宅買賣 Domestic property sales and price index			2024/7	2024/8
合約宗數 (宗) No. of agreements	45,050	43,002	3,723	3,654
住宅售價指數 (1999=100) Domestic price index	369.7	337.4	297.2	292.1
八、金融市場 Financial market			2024/8	2024/9
港幣匯價 (US\$100=HK\$) 期末值	780.8	781.1	779.9	777.0
HKD exchange rate (US\$100 = HK\$), end of period				
銀行體系收市總結餘 (億港元) 期末值	962.5	449.5	448.9	478.0
Closing aggregate balance(HKD 100million), end of period				
銀行總存款升幅 (%)	1.7	5.1	5.0	-
Change in total deposits(%)				
銀行總貸款升幅 (%)	-3.0	-3.6	-2.7	-
Change in total loans & advances(%)				
最優惠貸款利率 (%) 期末值	5.6250	5.8750	5.8750	5.6250
Best lending rate (%), end of period				
恒生指數 Hang Seng Index	19,781	17,047	17,989	21,134