

**Legislative Council Panel on Financial Affairs
Follow-up to meeting on 15 December 2011**

**Comparison of the Investment Return
of the Exchange Fund with Inflation**

The Exchange Fund (EF) is established under the Exchange Fund Ordinance (Cap. 66) with the statutory purpose to maintain monetary and financial stability. Investments of the EF are required to preserve capital and ensure that the entire Monetary Base will, at all times, be fully backed by highly liquid US dollar-denominated assets. They are also aimed at ensuring that sufficient liquidity will be available for the purpose of maintaining Hong Kong's monetary and financial stability. Subject to the above principles, the Hong Kong Monetary Authority will also strive to achieve a medium- to long-term investment return that will preserve the long-term purchasing power of the EF.

2. Since financial market conditions changes constantly, leading to fluctuations in the short term investment return of the EF, the investment performance of the EF should be viewed over a medium- to long-term horizon and with regard to its investment objectives of high liquidity, capital preservation and preservation of long-term purchasing power of the EF.

3. The investment return against inflation over different time horizons are listed below for Members' reference:

	Investment return^{1 & 2}	Composite CPI³
2010	3.6%	3.1%
2009	5.9%	1.3%
2008	-5.6%	2.0%
2007	11.8%	3.8%
2006	9.5%	2.3%
3-year average (2008 – 2010)	1.2%	2.1%
5-year average (2006 – 2010)	4.9%	2.5%
10-year average (2001 – 2010)	4.9%	0.7%
Average since 1994	5.9%	1.6%

Note:

1. Investment return calculation excludes the holdings in the Strategic Portfolio.
2. Averages over different time horizons are calculated on an annually compounded basis.
3. Composite Consumer Price Index is calculated based on the 2004/2005-based series.