

**Supplementary information in relation to the meeting of the  
Legislative Council Panel on Financial Affairs  
held on 6 November 2017**

**Agenda Item IV –  
Briefing on the work of Hong Kong Monetary Authority**

The Hong Kong Monetary Authority (HKMA) sets out below supplementary information as requested by the Legislative Council Panel on Financial Affairs —

**(a) the annualised and five-year average rate of investment return of the Exchange Fund for the period from 2007 to 2017**

- i) The investment return of the Exchange Fund for the period from 2007 to 2016

The long-standing principle of the Exchange Fund is “Capital Preservation First, Long-term Growth Next”. Through careful allocation of funds across different asset classes, markets and currencies, the Exchange Fund seeks to achieve a relatively stable overall investment return in the medium and long term. In particular, after the global financial crisis in 2008, the financial markets have been characterised by “low return and high volatility”, and the investment environment has become highly uncertain. This underscores the importance of focusing on the Exchange Fund’s medium- and long-term investment performance, rather than its short-term performance on a quarterly or yearly basis. The two tables below show the annual rate of return, and 5-year and 10-year average rates of return of the Exchange Fund from 2007 to 2016 (**Table 1**), and its long-term return (**Table 2**) respectively. As shown in **Table 2**, the Exchange Fund registered an average return of 3.9% over the past 15 years and 4.8% from 1994 to 2016, both higher than the local inflation (2.2% and 2.1% respectively) during the same period.

**Table 1:** Investment return of the Exchange Fund (2007 - 2016)<sup>1,2</sup>

Year	Annual return (%)	5-year average return (%)	10-year average return (%)
2007	11.8	8.0	7.3
2008	-5.6	4.7	5.5
2009	5.9	4.8	5.0
2010	3.6	4.9	4.9
2011	1.1	3.2	4.9
2012	4.4	1.8	4.9
2013	2.7	3.5	4.1
2014	1.4	2.6	3.7
2015	-0.6	1.8	3.3
2016	2.0	2.0	2.6

**Table 2:** Long-term return<sup>1,2</sup>

	Exchange Fund Investment Return	Hong Kong Composite Consumer Price Index
15-year average (2002 to 2016)	3.9%	2.2%
Average since 1994 (1994 to 2016)	4.8%	2.1%

<sup>1</sup> The calculation of investment return excludes holdings of the shares in Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

<sup>2</sup> Averages over different time horizons are calculated on an annual compounded basis.

ii) The investment income of the Exchange Fund in the first three quarters of 2017

The Exchange Fund recorded an investment income of HK\$189.8 billion in the first three quarters of 2017, equivalent to around 4.9% of the total assets of the Exchange Fund, mainly attributable to the gains on equities and the positive currency translation effect.

The annual return of the Exchange Fund for 2017 will be announced in early 2018.

**(b) the development of on-shore private equity (PE) funds in Hong Kong in recent years, including the number of PE funds established in Hong Kong in recent years, and the background of such funds**

According to an industry survey<sup>1</sup>, Hong Kong is the largest hub for PE fund activities in Asia after Mainland China. As at end-June 2017, the total capital under management stood at US\$126 billion, representing a growth of about 49% over the 2012 figure of US\$85 billion.

Notwithstanding vibrant PE fund activities in Hong Kong, the vast majority of these funds are offshore in nature. This is because Hong Kong currently lacks a viable legal framework for setting up onshore PE funds. Nor is the tax arrangement under the current tax regime conducive to onshore PE fund operation.

In this regard, the HKMA is assisting the Administration in reviewing the PE fund regime in Hong Kong with a view to building a viable onshore PE fund platform. Industry consultation will be conducted at an appropriate time.

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<sup>1</sup> Source: Asian Venture Capital Journal