SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

Fund Management Activities Survey 2013

July 2014

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I. Survey Summary

The Securities and Futures Commission (SFC) conducted the Fund Management Activities Survey (FMAS) for the year ended 31 December 2013. The survey covered asset management activities among licensed corporations[1], registered institutions[2] and insurance companies[3].

1. Summary of major findings of FMAS 2013

1.1 Hong Kong's combined fund management business[4] sustained year-on-year growth of 27.2% to achieve another record high of $16,007 billion[*] as of the end of 2013. Overall growth was registered across all types of fund management business activities involving a growing number of licensed market players (pages 2 – 3).

1.2 Investors from around the world continued to utilise Hong Kong as an asset management platform which gives them access to the ever-growing opportunities in the region, with the Mainland continuing to be one of the key driving forces of economic growth. The proportion of funds sourced from non-Hong Kong investors reached a historic high of 72% (page 4).

1.3 Hong Kong continued to attract asset management talents which have underpinned the city's success as an asset management hub. 2013 saw a notable shift within the financial talent pool in Hong Kong's fund management business away from sales and marketing and into the high-value end of the business such as portfolio management, research and dealing (page 24).

1.4 Hong Kong's strength in product innovation and in particular its role as the world's leading provider of renminbi products outside the Mainland is one of the key drivers behind the growth of its fund management business. Over the past decade, offshore renminbi business in Hong Kong developed rapidly with the Mainland government's policy support resulting in an increasing breadth of innovative products and offerings (pages 7 – 8).

(a) Hong Kong is committed to maintaining its lead as the centre for the creation and development of renminbi assets, products and services. Following on from the successful development of the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme and products, the SFC is working with Mainland regulators and authorities on mutual recognition of funds between Hong Kong and the Mainland. This will be another first in the global asset management universe, and a significant milestone in the renminbi internationalisation journey. The number of Hong Kong domiciled funds and new asset managers increased in 2013, as they position for the opening of the mutual recognition platform in Hong Kong.

(b) Hong Kong's proximity to and long history of close cooperation with the Mainland has always made it the undisputed forum of choice for Mainland-related companies who wish to gain international exposure. As the number of Mainland-related financial institutions establishing operations in Hong Kong continues to increase, they have become an integral part of the Hong Kong market.

1.5 Hong Kong-based asset managers, while experienced with Asian investments, have increasingly diversified outside Asia to capture opportunities arising from changes in the global financial landscape and investor demand. The amount of assets managed in Hong Kong that were invested outside Asia continued to grow in 2013 (page 6).

[*] Unless stated otherwise, the values given are in Hong Kong dollars.

2. **The combined fund management business in Hong Kong hit another record high of $16,007 billion at the end of 2013.**

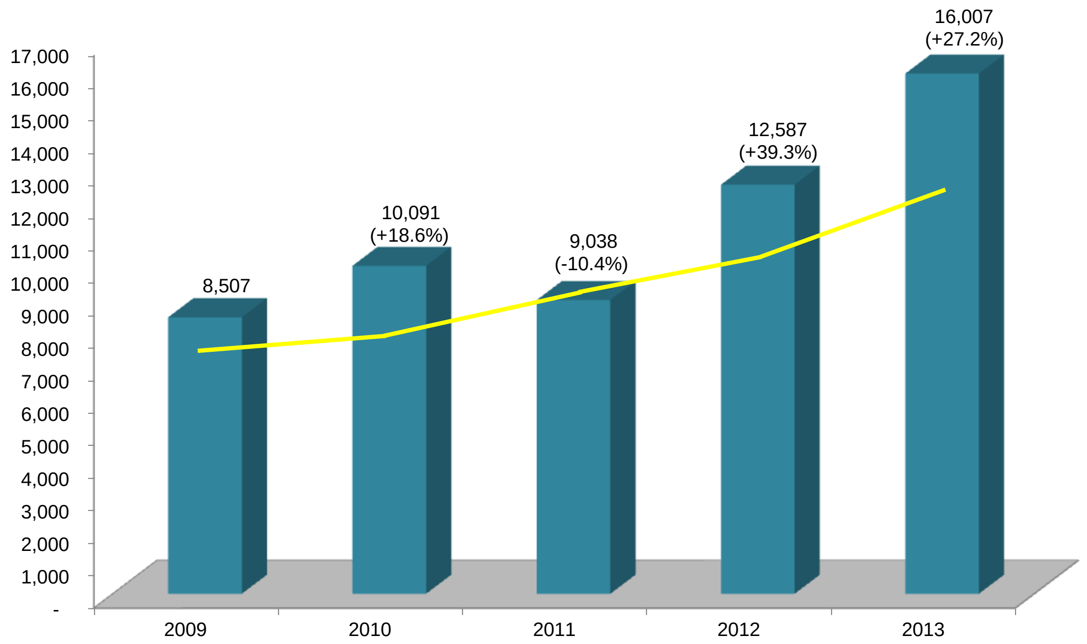
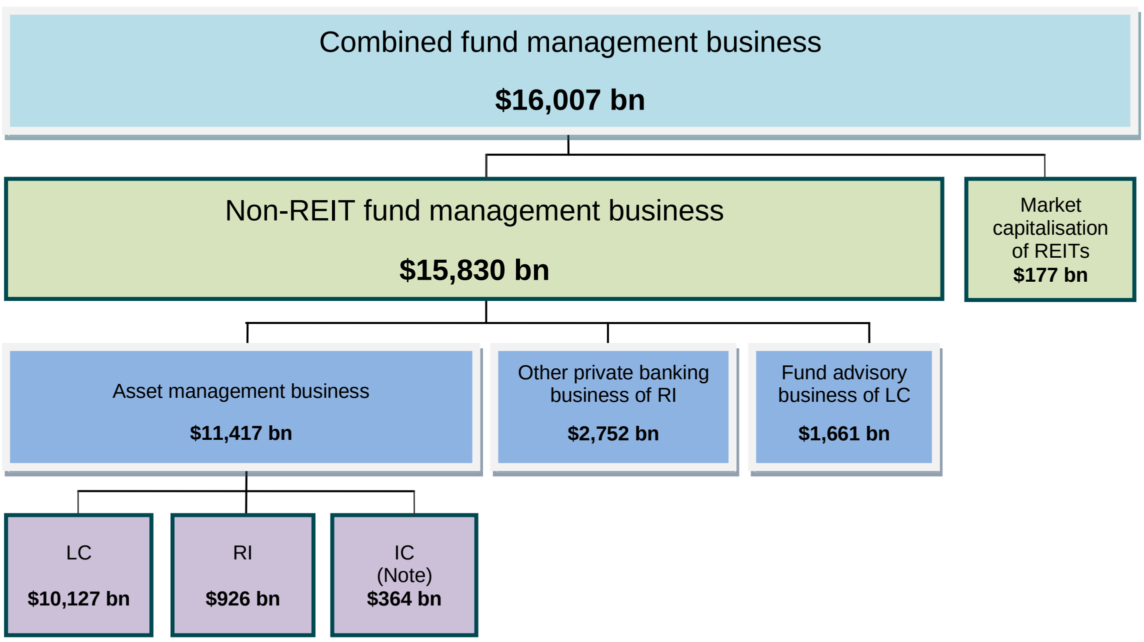


Chart 1: Combined Fund Management Business ($ bn)

Combined Fund Management Business ($ bn) Trailing three-year average ($ bn)

Components in Combined Fund Management Business



Legend:
REITs: real estate investment trusts LC: licensed corporations
RI: registered institutions IC: insurance companies

Note:
The amount of assets under management by insurance companies has excluded those assets sub-contracted or delegated to other licensed corporations / registered institutions in Hong Kong for management.

2.1 The fund management business in Hong Kong continued to trend up in 2013 with year-on-year growth of 27.2% from 2012. On a trailing three-year average basis, the combined fund management business reached $12,544 billion.

2.2 By types of business activity:

(a) Asset management business recorded a year-on-year increase of 38.5% in total assets under management to $11,417 billion in 2013.

(b) Other private banking business increased by 2.7% to $2,752 billion.

(c) Fund advisory business grew by 11.6% to $1,661 billion.

2.3 By category of market players:

(a) Licensed corporations registered a year-on-year increase of 28.4% in their aggregate asset management and fund advisory businesses to $11,788 billion in 2013.

(b) Registered institutions recorded a 27.8% increase in their aggregate asset management and other private banking businesses to $3,678 billion.

(c) Insurance companies reported a 1.7% increase in their assets under management to $364 billion.

2.4 At the end of 2013, the number of corporations licensed for asset management (i.e. Type 9 regulated activity) grew by 6.5% to 950 corporations from 892 a year ago. The number further increased to 967 as of end March 2014, surpassing all the other types of licensees, including dealing in securities (Type 1), the regulated activity which traditionally had the largest number of firms licensed.

3. Contributions from non-Hong Kong investors to the non-REIT fund management business reached a new high of almost 72% in 2013, indicating that Hong Kong continued to be a preferred investment platform for international capital.

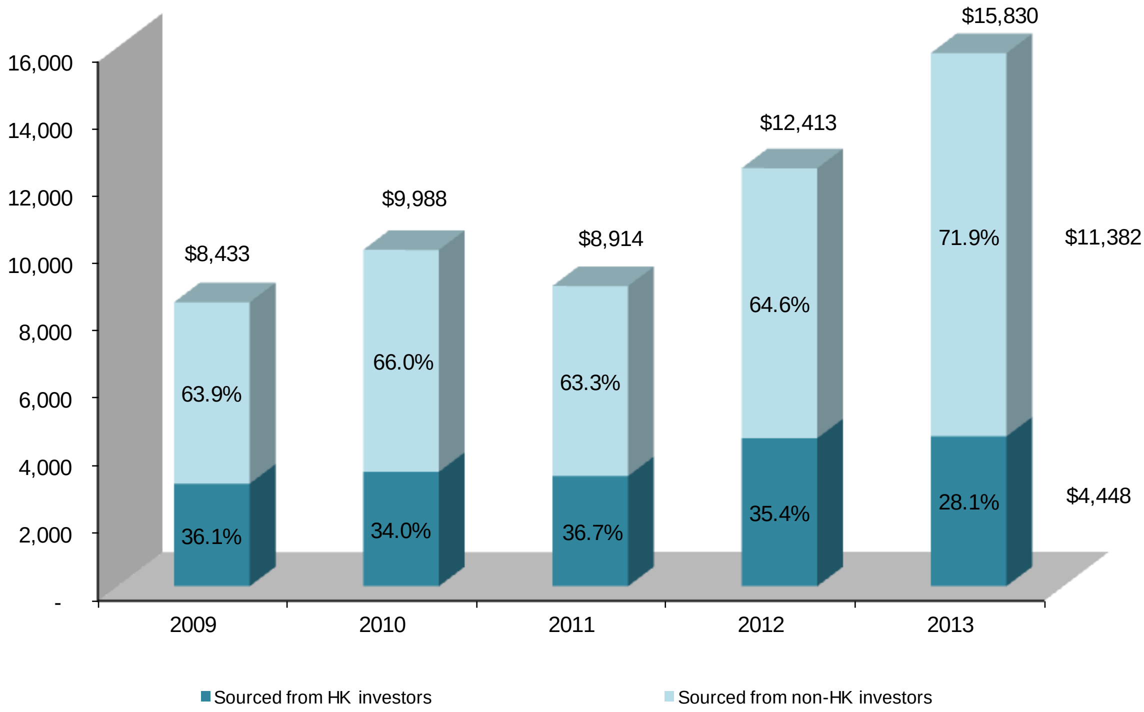


Chart 2: Non-REIT Fund Management Business: by Source of Funds ($ bn)

3.1 In 2013, the amount of funds sourced from overseas investors grew by 42% to $11,382 billion and accounted for over 70% of the non-REIT fund management business in Hong Kong, exceeding the proportions recorded in any of the previous ten years. The continuous ability to access funds sourced from overseas investors is an important feature of the Hong Kong market and reinforces its status as an international financial centre.

3.2 Over the years, Hong Kong has had a strong appeal to foreign investment capital, thanks to a number of factors including: the presence of many established international banks and law and accountancy firms, Hong Kong's strong ties with the Mainland, solid information and transport infrastructure, a sound regulatory environment, and the availability of professionals. To maintain the continued significance of overseas capital, it is important for Hong Kong to expand and strengthen its role as a leading international asset management centre through innovation and adaptability.

4. Of the total $11,417 billion of non-REIT assets under management, 51.0% ($5,827 billion) was managed in Hong Kong.

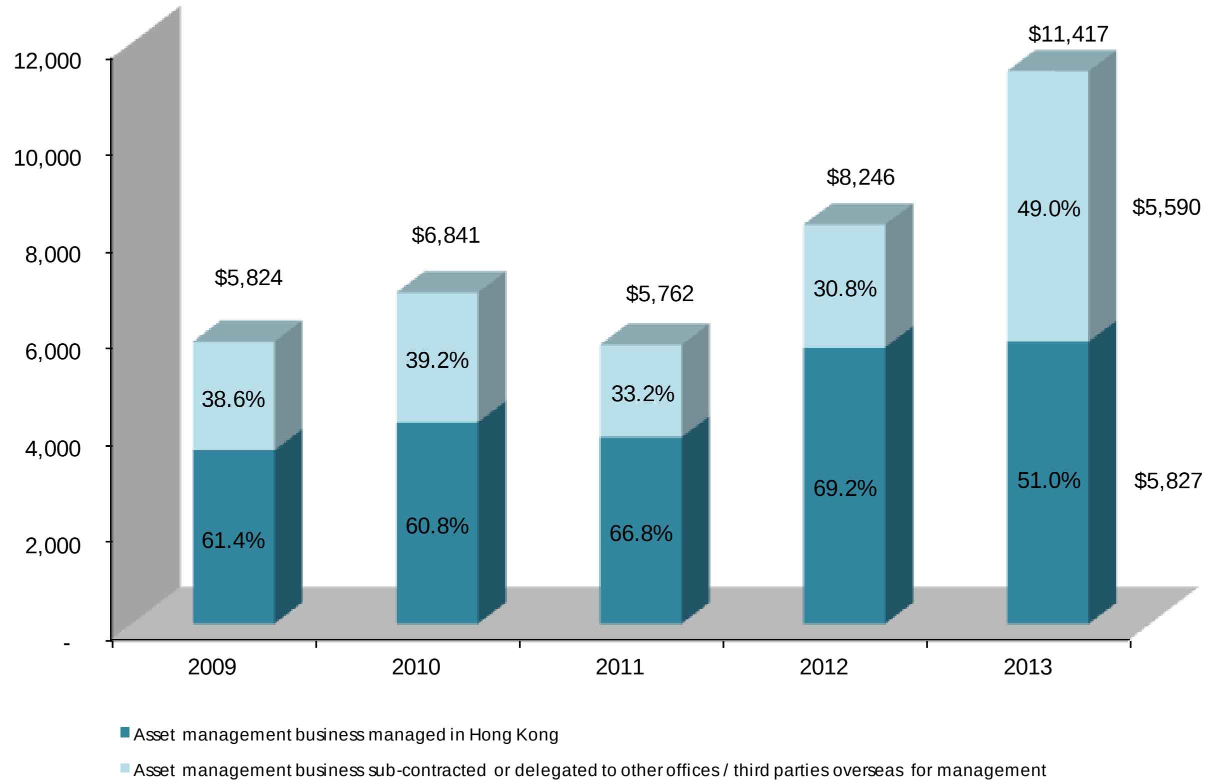


Chart 3: Asset Management Business: by Location of Management ($ bn)

4.1 Hong Kong continues to be a favourable location for conducting asset management business in the region. In 2013, non-REIT assets managed in Hong Kong amounted to $5,827 billion, another record level, and accounted for 51% of the overall non-REIT assets under management.

4.2 In order to meet the demand for investment products from international and increasingly sophisticated local investors, the number of professionals with expertise in the asset management industry's core and high-value functions has increased. To provide a wide array of products responding to investors' investment needs and risk appetites, there is more market innovation supported by globally recognised standards of investor protection. These factors help to strengthen the growing capability of Hong Kong to develop and manage regional and global products to cater for a variety of investors.

4.3 Economic growth in Asia, particularly in the Mainland, has generated huge savings and wealth accumulation in the region. With the Mainland Government's ongoing financial liberalisation, Hong Kong plays an increasingly important role in connecting investors to investment opportunities around the world.

5. 74.6% of assets managed in Hong Kong were invested in Asia in 2013.

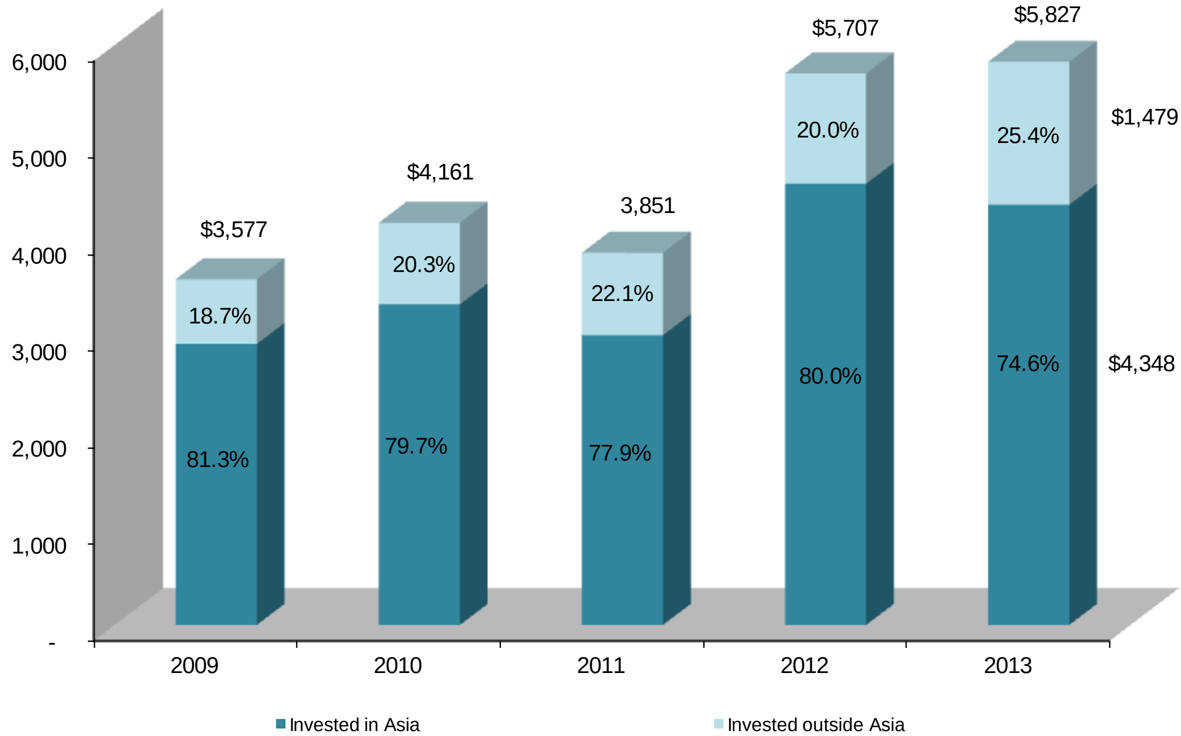


Chart 4: Assets Managed in Hong Kong: by Geographical Distribution of Investments ($ bn)

5.1 Consistent with previous years, the majority of assets managed in Hong Kong were invested in Asia during 2013. In value terms, of the $4,348 billion of assets managed in Hong Kong that were invested in Asia, $2,912 billion was invested in Hong Kong and the Mainland[∂], $408 billion in Japan and $1,028 billion in the rest of the Asia-Pacific region. The significant investment in Hong Kong and the Mainland suggests that the Mainland continues to provide attractive investment opportunities to investors.

5.2 Interestingly, the amount of assets invested outside Asia increased by 29.6% to $1,479 billion in 2013, from $1,141 billion in 2012. This suggests that Hong Kong based managers, while experienced with Asian investments, have increasingly diversified outside Asia.

[∂] No further breakdown between Hong Kong and the Mainland is available

6. Hong Kong's role as the pre-eminent offshore renminbi centre

6.1 Renminbi business is one of Hong Kong's strengths. Hong Kong has a unique geographical position and a long history of close cooperation with Mainland authorities. Given Hong Kong's experience and status as an international financial centre, Hong Kong is ideally positioned to share its knowledge and expertise with the Mainland market.

6.2 With the gradual internationalisation of the renminbi, Hong Kong continues to serve as a testing ground for new financial reform initiatives. These efforts have proven to be very successful: beginning with the offer of renminbi personal banking services in 2004, to the launch of the first offshore renminbi bond (or the dim sum bond) in 2007, followed by renminbi cross-border trade settlement in 2009, and the cross-border direct investment in renminbi and RQFII schemes in 2011. With the deepening of the use of renminbi under these measures, Hong Kong serves as a bridge linking the onshore and offshore renminbi markets and promotes the use and circulation of renminbi funds.

6.3 Hong Kong hosts the largest pool of renminbi liquidity outside the Mainland. According to the Hong Kong Monetary Authority (HKMA), total outstanding renminbi customer deposits and certificates of deposit reached RMB1,053 billion as of the end of 2013. Accounting for 70% of the offshore pool of renminbi liquidity, this pool underpins and drives demand for the further development of a fuller and more diversified range of renminbi investment and financial products.

RQFII scheme

6.4 Since the landmark launch of the RQFII scheme in December 2011, Mainland authorities have expanded the initiative repeatedly, in terms of eligible applicants, size and investment scope. More market players in Hong Kong are now participating in the RQFII scheme and launching funds that employ more innovative and diverse strategies (such as RQFII bond exchange-traded funds (ETFs)). As at 31 May 2014, the SFC authorized 39 unlisted RQFII funds with an aggregate RQFII quota size of RMB42.7 billion and 16 RQFII ETFs with an aggregate RQFII quota size of RMB66.1 billion.

Other retail renminbi-denominated products

6.5 The renminbi bond market in Hong Kong is the largest outside Mainland China. According to the HKMA, total issuance of dim sum bonds in 2013 amounted to RMB116.6 billion, bringing the outstanding amount of dim sum bonds to RMB310 billion at the end of 2013, representing year-on-year growth of 30.7%. There has been ongoing demand for dim sum bonds and retail renminbi offshore dim sum bond/fixed income funds in Hong Kong. As at 31 May 2014, there were 14 SFC-authorized unlisted renminbi offshore dim sum bond/ fixed income funds and one listed renminbi offshore dim sum bond ETF with aggregate assets under management of RMB12.7 billion, up 76.4% from RMB7.2 billion a year ago.

6.6 The variety of retail renminbi-denominated products continued to broaden in 2013. During 2013, the SFC authorized the first equity-linked investments with renminbi features and allowed the initial batch of Hong Kong domiciled SFC-authorized funds with limited renminbi-denominated underlying investments managed by SFC-licensed corporations to offer renminbi share classes. A renminbi trading counter for a Hong Kong dollar-denominated gold ETF was also introduced under the dual counter arrangement of the Stock Exchange of Hong Kong Limited in 2013.

Growing Mainland participation in the Hong Kong market

6.7 Apart from the popularity of renminbi investment products, Mainland-related companies are also an integral part of the Hong Kong market:

(a) The number of Mainland-related financial institutions establishing operations in Hong Kong continues to increase. At the end of May 2014, a total of 82 Mainland-related groups (May 2013: 73) had established 222 licensed corporations or registered institutions (May 2013: 196) in Hong Kong:

- 22 Mainland securities companies have established 92 licensed corporations;
- six Mainland futures companies have established 10 licensed corporations;
- 20 Mainland fund management companies have established 20 licensed corporations;
- eight Mainland insurance companies have established 11 licensed corporations; and
- other types of Mainland companies, totalling 26, have established 72 licensed corporations and 17 registered institutions.

(b) The number of Mainland-related fund groups managing SFC-authorized funds increased to 28 at the end of 2013 (from 25 a year ago). With more Mainland-related fund groups launching new retail funds in Hong Kong, the number of SFC-authorized funds managed by the Mainland-related fund groups increased to 194, with an aggregated net asset value of $145.1 billion at the end of 2013, up from 161 with an aggregated net asset value of $135.7 billion at the end of 2012.

6.8 In 2013, $543.4 billion (or 3.4%) of non-REIT fund management business was attributable to Mainland-related licensed firms, representing growth of 31% from $414.7 billion in 2012.

6.9 The amount of Mainland assets managed in Hong Kong sourced from Qualified Domestic Institutional Investors (QDII) recorded year-on-year growth of 40% to $112 billion in 2013. The majority of these QDII assets were concentrated in the Asia-Pacific region: about 50% were invested in Hong Kong, 11% in other parts of the Asia-Pacific region, and the remaining 39% in North America, Europe and other regions.

II. Recent Developments and Industry Outlook

In 2013, the SFC collaborated with the industry to uphold Hong Kong's standing as a global asset management hub through the launch of various facilitative measures and regulatory initiatives. In addition, with the assistance of the Investor Education Centre (IEC)[Ω], several topical asset management related subjects and issues were highlighted and explained to the investing public to raise their awareness and understanding. More importantly, the SFC also furthered its cooperation with Mainland authorities to maintain Hong Kong as a premier offshore renminbi centre.

1. Facilitating market development and safeguarding investor interests

Regulation and ongoing monitoring of investment products

1.1 An efficient and effective authorization process is conducive to market development and broader investor choices. The SFC regularly reviews and seeks to improve its process wherever practicable.

(a) To facilitate efficient compliance management of SFC-authorized funds by management companies and of SFC-authorized investment-linked assurance schemes (ILAS) by ILAS issuers, the SFC published a circular to management companies of SFC-authorized funds in June 2013 and a circular to ILAS issuers in November 2013. The circulars set out streamlined measures to enhance the processing of applications in respect of scheme changes and the consequential revision of offering documents of the relevant SFC-authorized funds or ILAS. The SFC also published a set of frequently asked questions (FAQs) and conducted briefing sessions for industry participants to explain and provide practical guidance on the implementation of the streamlined measures.

(b) To encourage a more efficient authorization process, in November 2013 the SFC issued a circular to applicants seeking SFC's authorization of unit trusts and mutual funds, ILAS, unlisted structured investment products and REITs to promulgate a revised application lapse policy whereby the time period for the lapse of applications was reduced from 12 to six months with effect from 1 January 2014. The SFC also updated a set of FAQs in respect of the revised application lapse policy in December 2013 and conducted a briefing session for around 110 industry participants in May 2014 to provide further guidance on disclosure requirements concerning applications for authorization.

1.2 Cognizant of the importance of REITs to Hong Kong's continued development as a premier international asset management centre, the SFC has maintained regular dialogues with industry participants to stay up-to-date on changes to the market landscape, and to keep industry participants appraised of existing regulatory regime. In January 2014, the SFC launched a public consultation on proposals to amend the Code on Real Estate Investment Trusts to allow for greater flexibility in the investment scope of REITs with respect to (i) investment in properties under development or engagement in property development activities and (ii) investment in financial instruments.

[Ω] Investor Education Centre is a wholly-owned SFC subsidiary dedicated to providing financial education to the public

1.3 In response to the increasing number of SFC-authorized funds which advertise or promote regular income or distributions in their marketing materials, a feature that became popular in the persistently low interest rate environment, the SFC published a set of FAQs in March 2014 to provide further guidance for issuing marketing materials with the aim of helping investors better understand the implications of these features.

1.4 In view of the implementation timeline of the United States Foreign Account Tax Compliance Act (FATCA), the SFC issued a circular to issuers of SFC-authorized investment products in March 2014 reminding them to critically consider and assess the potential implications of FATCA on their business operations and products, and the need to implement any necessary process and controls to ensure compliance.

1.5 With the aim of protecting investors and encouraging healthy development of the retail investment products market in Hong Kong, the SFC issued a circular in April 2014 introducing a set of guidance that explains the requirements for a robust internal product governance and approval process for product providers covering the entire product lifecycle from inception to post-sale, and that reminds product providers of their duty to consider investors' interests as part of the product-design process.

1.6 The SFC and Securities Commission Malaysia jointly organised a seminar on Islamic funds in Hong Kong in June 2014 to explore Hong Kong's potential as an Islamic fund platform. The seminar brought together over 100 policy makers, regulators and international industry participants from Hong Kong and Malaysia, providing a forum for exchanging views on, and exploring market opportunities relating to, Islamic funds and Islamic finance.

Investor education

1.7 Renminbi-related products

The SFC engaged the IEC to prepare investor education materials, published in October 2013, to remind investors about the risks associated with renminbi share classes for funds denominated in non-renminbi currency with limited or no renminbi-denominated underlying investments.

The SFC also worked with the IEC to publish materials in February 2014 that aimed to help investors understand the key features and risks of RQFII bond ETFs.

1.8 Other investment products with special features

The SFC worked with the IEC to inform and update investors about:

(a) valuation of funds, highlighting, among other issues, how a fund is valued and the common types of anti-dilution measures that may be used in the course of valuation of funds, including anti-dilution levy and swing pricing in February 2014;

(b) risks concerning Mainland capital gains tax issues relating to funds with exposure to Mainland securities in February 2014;

(c) distribution policy associated with discretionary distribution share classes offered by SFC-authorized funds in March 2014; and

(d) key features of Islamic funds in view of the launch of the first SFC-authorized Islamic balanced fund in June 2014. This Islamic fund was authorized pursuant to the mutual recognition agreement between the SFC and the Securities Commission Malaysia signed in 2009.

1.9 ILAS

The SFC engaged IEC to explain the key features and risks for renminbi-denominated paper gold schemes. The investor education material was published on the IEC website in June 2013.

The SFC collaborated with IEC to prepare an appropriate investor education campaign and relevant materials to promote, amongst other things, investors' awareness in respect of ILAS intermediaries' remuneration and new regulatory measures relating to ILAS. The ILAS investor education campaign and relevant materials were launched in June/July 2013.

2. Market opportunities and challenges

2.1 The continuous growth of wealth and foreign exchange reserves in Mainland China and other parts of Asia has generated robust demand for world-class asset management services. To capture these opportunities and cater to changing investor preferences and behaviour, Hong Kong needs to develop into a more comprehensive fund management centre, from fund domicile to portfolio management and administration and ancillary services. To help achieve this, the SFC has been actively participating in various policy initiatives:

(a) The SFC continues to work with Mainland authorities to prepare for the formal launch of the mutual recognition of funds between Hong Kong and the Mainland. This initiative will further expand the investor base of Hong Kong domiciled funds. Increased assets under management will help to promote the development of ancillary professional services engaged in product development, investment management and the distribution and sales of funds.

(b) In view of the increasing popularity of open-ended fund companies to be used by the fund industry, the SFC continues to work with and provide technical support to the Hong Kong Special Administrative Region Government (HKSAR Government) in developing a legal and regulatory framework for open-ended fund companies, so as to offer an additional choice for the market and attract more funds to domicile in Hong Kong.

(c) In promoting the development, management and trading of ETFs in Hong Kong, the SFC continues to provide support to the HKSAR Government in implementing the proposal to waive the stamp duty for all ETF trading. This initiative is conducive to fostering Hong Kong's position as an asset management centre and increasing business for market practitioners and service providers as well as the range of products available to investors.

2.2 In order to ensure that the legal and regulatory regime in Hong Kong is well developed to enhance Hong Kong's status as a location for the establishment of a range of fund management businesses, the SFC is conscious that it is vital to work closely with fellow regulators locally and overseas and to maintain regular dialogues with market participants:

(a) The SFC continues to contribute actively to the initiatives of the International Organization of Securities Commissions (IOSCO) by taking an active and leadership role in IOSCO's work and its policy committees and task forces.

(b) The SFC also proactively monitors any possible impact on Hong Kong's fund management industry and takes appropriate actions in response to evolving global regulatory developments and challenges; for example, the Undertakings for Collective Investments in Transferable Securities – amended V Directive with regards to depositary functions.

(c) At the same time, the SFC continues to monitor the impact of global economic conditions and new market developments on the Hong Kong markets, for example, the tapering of the United States Federal Reserve's bond-buying programme and domestically, new developments such as securities related crowd-funding initiatives.

(d) The SFC is also committed to taking a more proactive approach to work with market participants on investor education, especially on topical issues, in order to enhance protection for the investing public.

III. Survey Report

Introduction

1. The FMAS is an annual survey conducted by the SFC since 1999 to collect information and data on the general state of affairs of the fund management industry in Hong Kong. It helps the SFC plan its policies and operations.

2. The survey covers the fund management activities of three types of firms in Hong Kong, namely:

   (a) corporations licensed by the SFC that engage in asset management and fund advisory business (collectively "licensed corporations"[1]);

   (b) banks engaging in asset management and other private banking business (collectively "registered institutions"[2]), and are subject to the same regulatory regime (i.e., the Securities and Futures Ordinance (SFO)) as the licensed corporations in respect of their fund management activities; and

   (c) insurance companies[3] registered under the Insurance Companies Ordinance (ICO) but not licensed with the SFC, which provide services constituting classes of long-term business as defined in Part 2 of Schedule 1 of the ICO and have gross operating income derived from asset management.

3. The FMAS Questionnaires (Questionnaires) were sent to the licensed corporations and, with the assistance of the HKMA and the Hong Kong Federation of Insurers, to registered institutions and relevant insurance companies respectively, to enquire about their fund management activities as at 31 December 2013. The Questionnaires sent to the registered institutions and insurance companies were largely the same as those sent to the licensed corporations, except for minor adjustments to cater for their different business nature and operations.

Responses

General

4. A total of 555 firms responded to the Questionnaires and reported that they had conducted asset management, fund advisory and/or other private banking businesses during the survey period. These included 488 licensed corporations, 47 registered institutions and 20 insurance companies.

Licensed corporations

5. An analysis of the activities of the 488 licensed corporations that had engaged in asset management and/or advisory business on funds or portfolios is shown below:

Respondents with asset management business only	316
Respondents with assets under fund advisory business only	55
Respondents with both of the above	117
	488

Registered institutions

6. An analysis of the activities of the 47 registered institutions that had engaged in asset management and/or other private banking business is shown below:

Respondents with asset management business only	5
Respondents with other private banking business only	20
Respondents with both of the above	22
	47

Insurance companies

7. Twenty insurance companies that provided services of long-term business covering wealth management, life and annuity and retirement planning products, but were not licensed by the SFC, responded to this survey.

Findings

Combined Fund Management Business ($16,007 billion)

8. Hong Kong's combined fund management business amounted to $16,007 billion, representing a year-on-year increase of 27.2% as of end 2013.

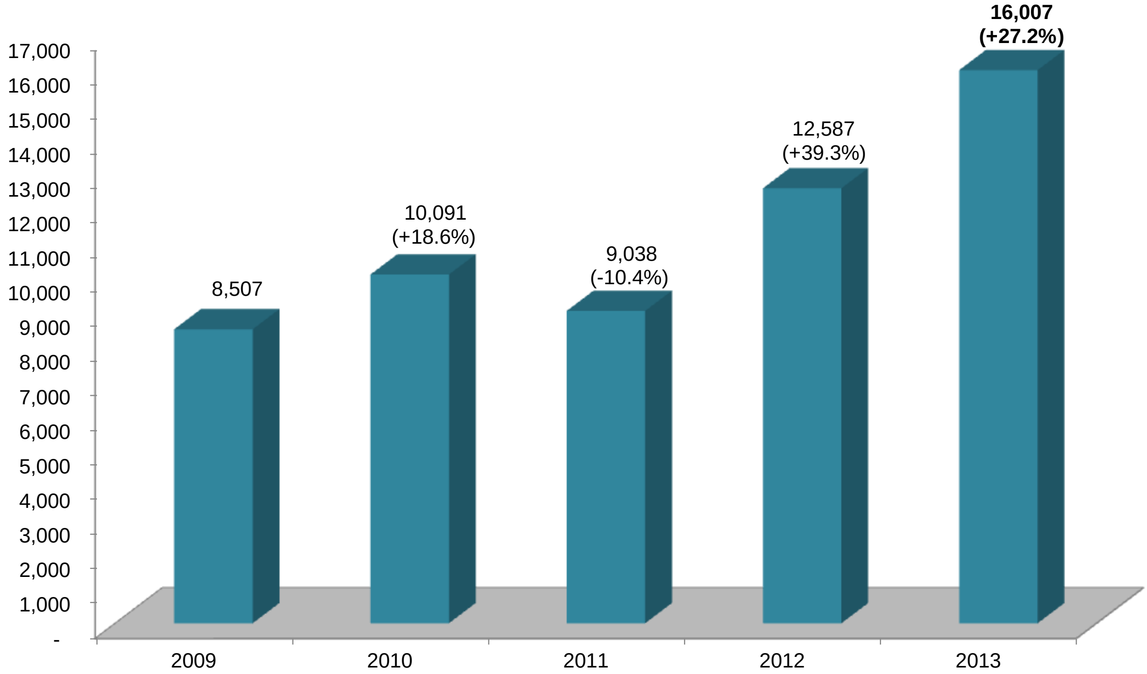


Chart 5: Combined Fund Management Business ($ bn)

9. The combined fund management business can be analysed as follows:

($ billion)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Asset management business	10,127	926	364	**11,417**
Fund advisory business	1,661	-	-	**1,661**
Other private banking business	-	2,752	-	**2,752**
Non-REIT fund management business	11,788	3,678	364	**15,830**
SFC-authorized REITs	177	-	-	**177**
Combined fund management business	11,965	3,678	364	**16,007**

For major aggregate figures of FMAS 2013, see the Appendix on page 25.

10. Licensed corporations reported year-on-year growth of 28.4% in their non-REIT fund management business to $11,788 billion at the end of 2013. The majority of the growth was attributed to a number of market participants who set up or expanded their businesses in Hong Kong to conduct asset management and/or fund advisory activities during 2013. In addition, some respondents reported that they relocated their portfolio management business from overseas to Hong Kong and recorded new inflows from both existing and new client mandates in 2013.

11. Registered institutions reported a year-on-year increase of 27.8% in their non-REIT fund management business to $3,678 billion at the end of 2013. The increase was mainly attributed to new capital inflows from clients and business expansion. Some large international banks or their Hong Kong branches reported that services provided to private bank clients expanded in 2013.

12. Insurance companies reported a total of $364 billion of assets under management as of the end of 2013, representing a year-on-year increase of 1.7%. Such increase was mainly attributable to normal business growth as reported by the insurance companies.

Asset Management and Fund Advisory Business of Licensed Corporations, Registered Institutions and Insurance Companies ($13,078 billion)

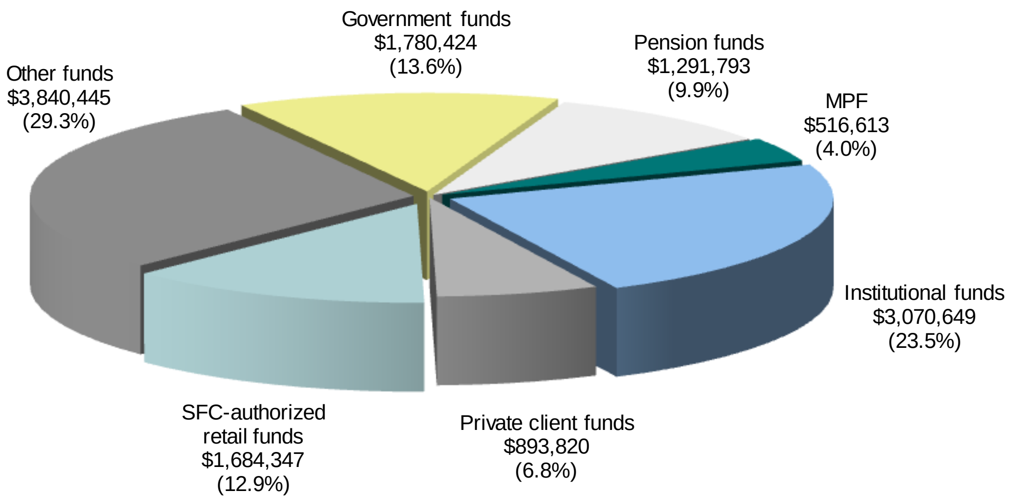


Chart 6A: Asset Management and Fund Advisory Business by Type of Funds ($ mn)

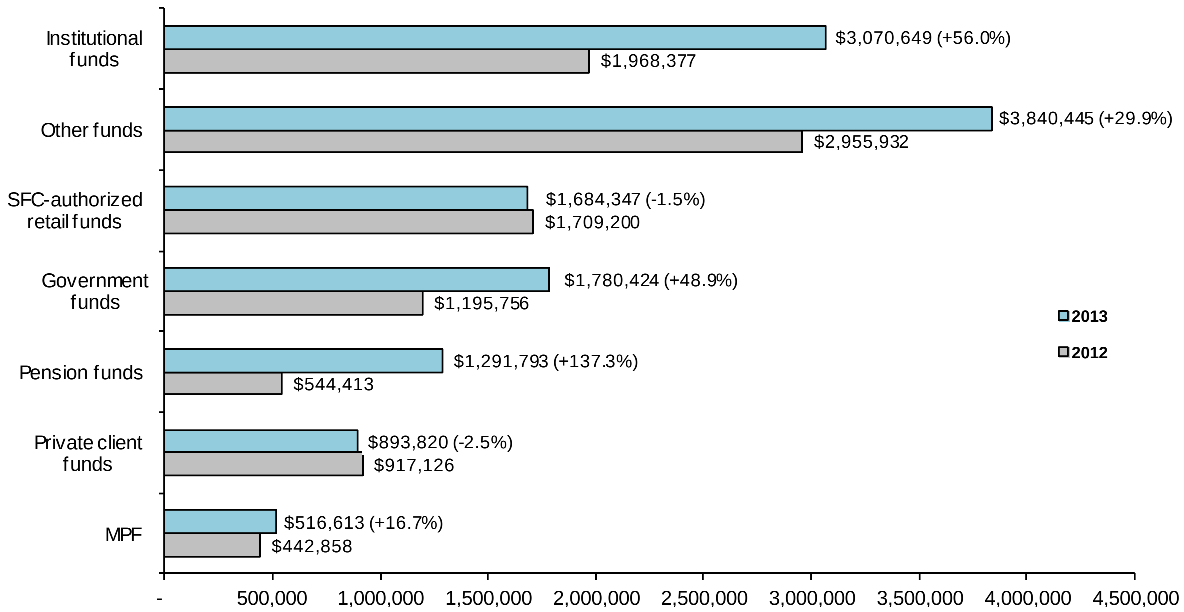


Chart 6B: Asset Management and Fund Advisory Business: by Type of Funds 2013 vs 2012 ($ mn)

13. Institutional funds and Other funds (comprising mainly overseas retail funds, hedge funds, private equity funds and insurance portfolios) recorded significant year-on-year growth of 56% and 29.9% respectively. They also accounted for over 50% of total asset management and fund advisory business of licensed corporations, registered institutions and insurance companies. Certain respondents, in particular a number of new market participants, reported that a majority of their asset management and fund advisory business were provided to institutional funds, overseas retail funds and some pension mandates.

14. Despite SFC-authorized retail funds reporting a slight decrease of 1.5% in 2013, gross sales of SFC-authorized funds to Hong Kong investors reached a record high of US$71.1 billion in 2013, up 29.5% from US$54.9 billion in 2012, according to statistics published by the Hong Kong Investment Funds Association (HKIFA). The HKIFA observed that robust inflows were recorded in the beginning of 2013 whilst there was a slowdown in gross sales in the second half of 2013 following two years of extremely strong growth in mutual fund sales. On a three-year rolling average basis, both gross sales and net sales remained on an uptrend and grew by 34.9% and 15.5% respectively.

Asset Management Business of Licensed Corporations, Registered Institutions and Insurance Companies ($11,417 billion)

15. As of the end of 2013, the total asset management business of licensed corporations, registered institutions and insurance companies amounted to $11,417 billion, representing growth of 38.5% from $8,246 billion as of the end of 2012. There was overall growth for each category of market players, in particular licensed corporations, which recorded an increase of $2,437 billion to $10,127 billion. Registered institutions and insurance companies reported year-on-year increases of $728 billion and $6 billion respectively.

Asset Management Business ($11,417 billion): by Source of Funds

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Hong Kong investors (% of total)	2,411,782 (23.8%)	345,454 (37.3%)	301,084 (82.7%)	**3,058,320 (26.8%)**
Non-Hong Kong investors (% of total)	7,715,211 (76.2%)	580,388 (62.7%)	62,843 (17.3%)	**8,358,442 (73.2%)**
Total (100%)	10,126,993 (100%)	925,842 (100%)	363,927 (100%)	**11,416,762 (100%)**

16. Funds from non-Hong Kong investors accounted for more than 70% of the asset management business, exceeding the proportions recorded in each of the previous ten years. In terms of value, the amount of funds sourced from overseas investors increased by 58.4% to $8,358 billion in 2013.

Asset Management Business ($11,417 billion): by Geographical Distribution of Investments

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Invested in Hong Kong (% of total)	2,007,595 (19.8%)	378,216 (40.9%)	60,857 (16.7%)	**2,446,668** **(21.4%)**
Invested overseas (% of total)	8,119,398 (80.2%)	547,626 (59.1%)	303,070 (83.3%)	**8,970,094** **(78.6%)**
Total (100%)	10,126,993 (100%)	925,842 (100%)	363,927 (100%)	**11,416,762** **(100%)**

17. Over 20% of the asset management business was invested in Hong Kong in 2013. In value terms, the amount of assets invested in Hong Kong declined by 12.2% to $2,447 billion in 2013. Relatively, more funds were invested in major overseas markets given the outperformance in these markets.

Asset Management Business ($11,417 billion): by Location of Management

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Managed in Hong Kong (% of total) (See Charts 7A &7B)	5,108,421 (50.4%)	642,011 (69.3%)	77,028 (21.2%)	**5,827,460** **(51.0%)**
Managed overseas[5] (% of total)	5,018,572 (49.6%)	283,831 (30.7%)	286,899 (78.8%)	**5,589,302** **(49.0%)**
Total (100%)	10,126,993 (100%)	925,842 (100%)	363,927 (100%)	**11,416,762** **(100%)**

18. The proportion of assets managed in Hong Kong accounted for 51.0% of the asset management business in 2013. In terms of value, the amount of assets managed in Hong Kong increased slightly by 2.1% to another record level of $5,827 billion.

Assets Managed in Hong Kong ($5,827 billion): by Geographical Distribution of Investments

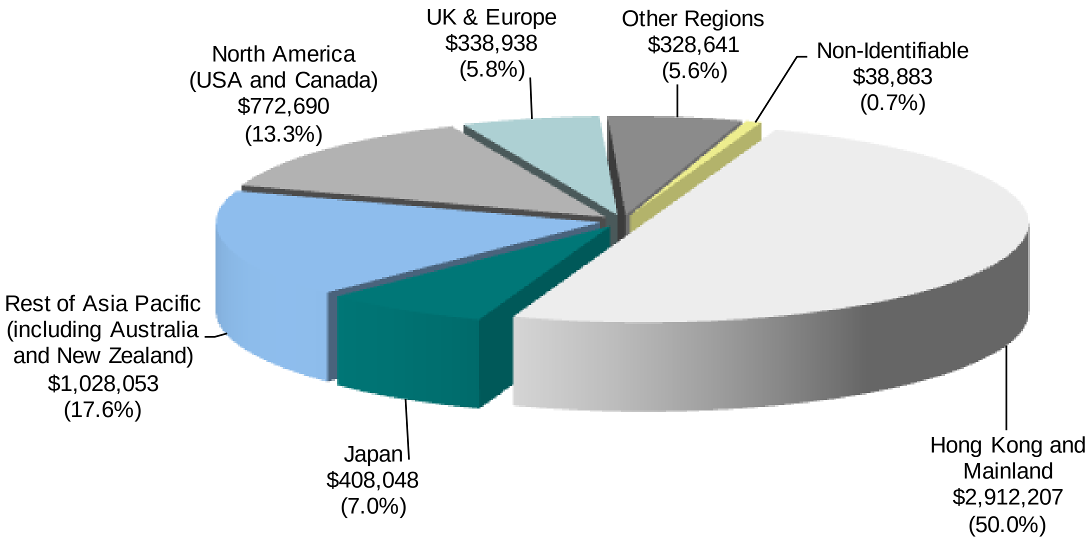


Chart 7A: Asset Managed in Hong Kong: by Geographical Distribution of Investments ($ mn)

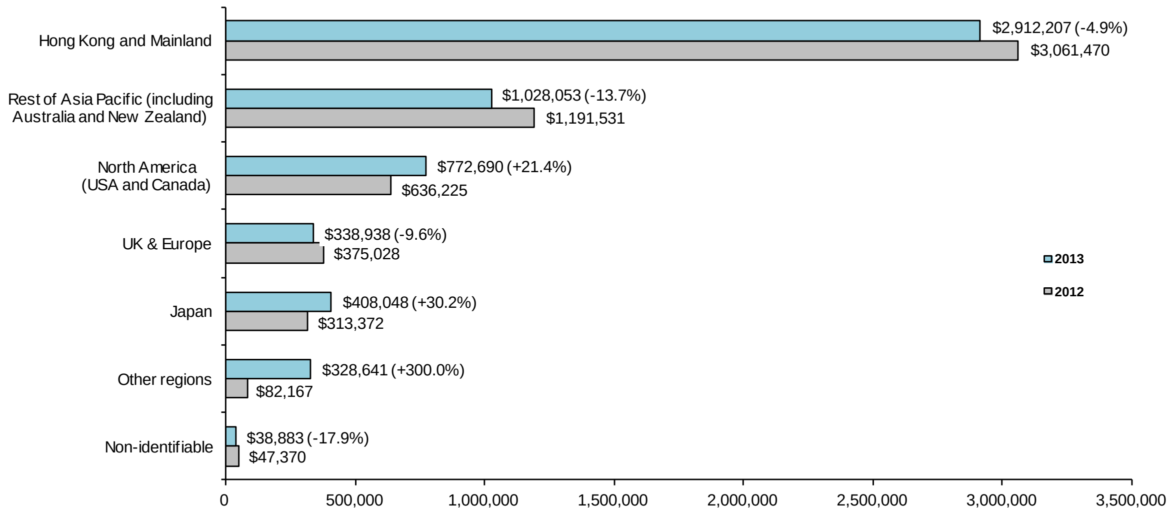


Chart 7B: Asset Managed in Hong Kong: by Geographical Distribution of Investments 2013 vs 2012 ($ mn)

19. In terms of geographical distribution of assets managed in Hong Kong, Hong Kong and the Mainland continued to be the most favourable location for investment, accounting for 50.0% of the assets managed in Hong Kong in 2013, despite relatively weak market performances in Hong Kong and the Mainland.

Fund Advisory Business of Licensed Corporations ($1,661 billion)

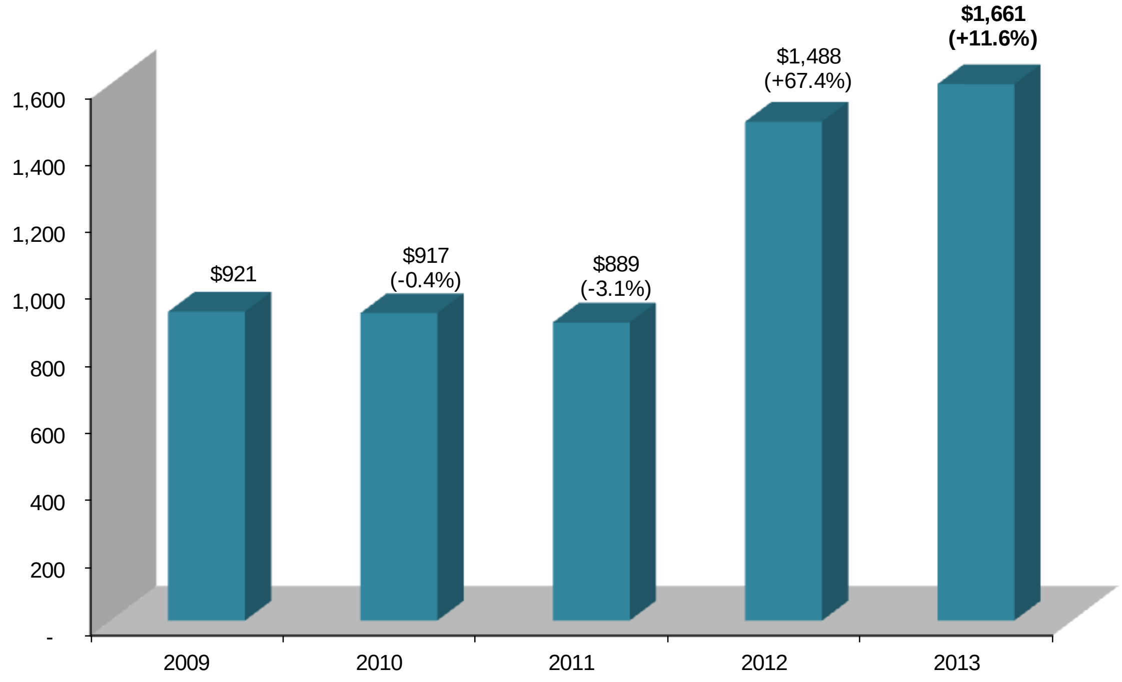


Chart 8: Fund Advisory Business ($ bn)

20. In 2013, the fund advisory business recorded year-on-year growth of 11.6% to $1,661 billion. Both new and existing market participants contributed to the growth. Many respondents reported that relocating their business to Hong Kong or expanding their business here brought in new fund flows and new mandates. Of the total fund advisory business, 91.7% (2012: 91.7%) or $1,523 billion was directly advised by licensed corporations in Hong Kong while the remaining was sub-contracted or delegated to other offices/third parties.

21. The percentage of assets under advice derived from overseas maintained a steady level of 88.9% in 2013 (2012: 87.6%). In value terms, these assets amounted to $1,476 billion, up 13.3% from $1,303 billion in 2012.

Other Private Banking Business ($2,752 billion)

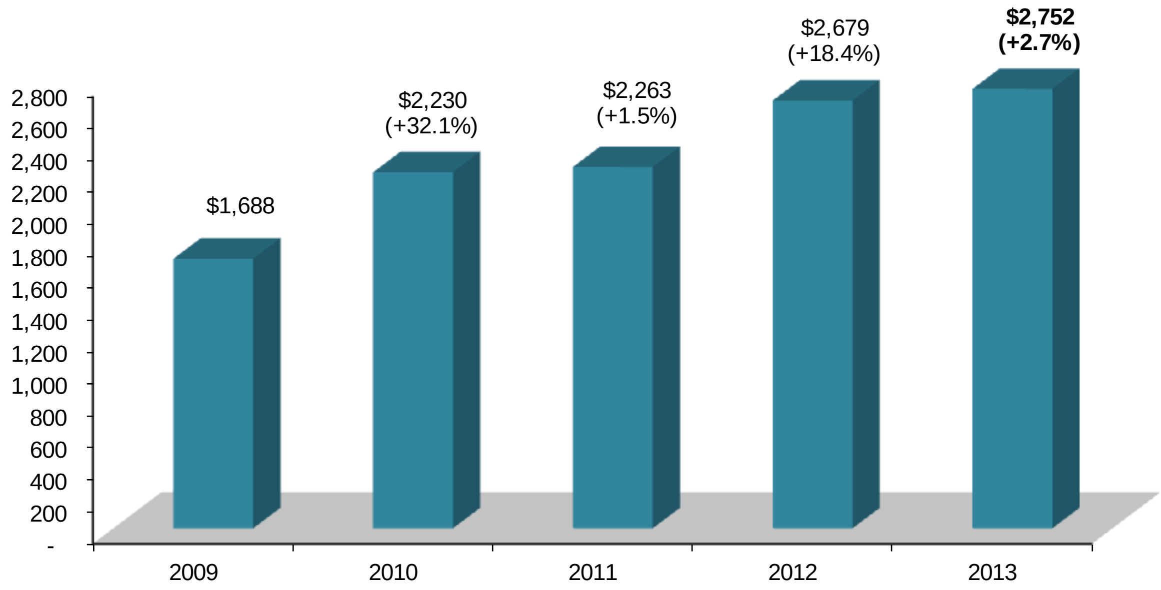


Chart 9: Other Private Banking Business ($ bn)

22. Other private banking business recorded a slight increase of 2.7% to $2,752 billion in 2013. The increase was mainly due to the positive performance in major global markets which led to an appreciation of assets as well as intensive marketing efforts by some international banks to expand their private banking business and attract new clients to capture the increasing wealth in the region.

SFC-authorized REITs ($177 billion)

23. The Hong Kong REIT market continued to expand in 2013. The market capitalisation of all SFC-authorized REITs increased by approximately 1.7% from $174 billion at the end of 2012 to $177 billion at the end of 2013.

24. Two REITs were listed during the year: the world's first Mainland China-based hotel REIT, and a REIT which offers exposure to premium grade office buildings in Beijing. There were also a number of major acquisitions made by listed REITs in 2013 involving an aggregate consideration close to $10 billion.

Fund Management Business Staff Profile (Total number: 31,834)

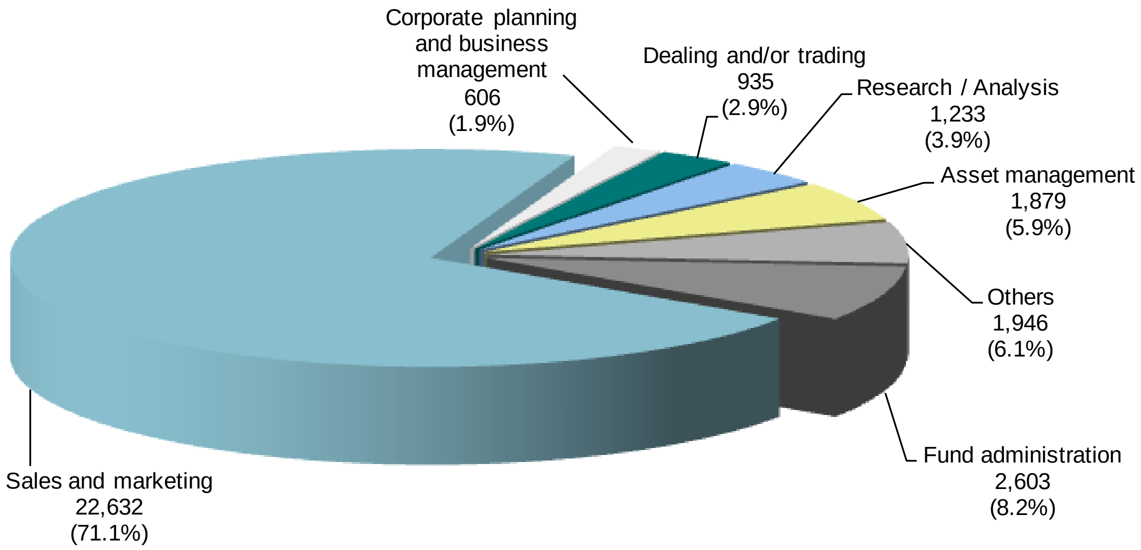


Chart 10A: Fund Management Business Staff by Job Function

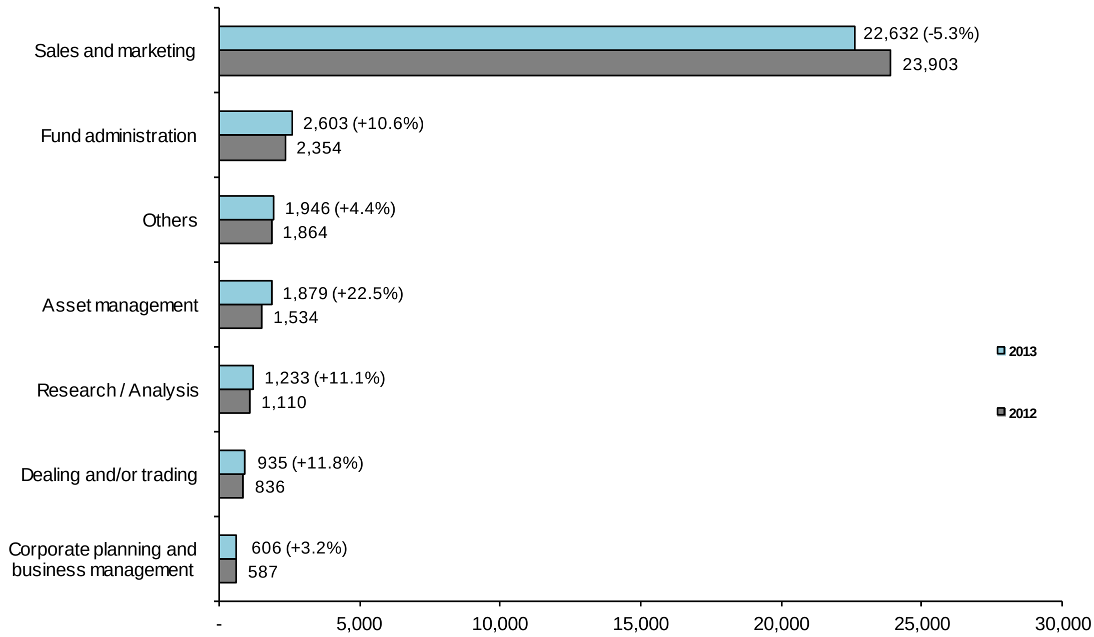


Chart 10B: Fund Management Business Staff by Job Function 2013 vs 2012

25. The total number of staff engaged in the fund management business recorded a slight decrease from 32,188 in 2012 to 31,834 in 2013. The drop was mainly attributable to a decrease in the number of staff engaged in sales and marketing activities at insurance companies. This drop was largely offset by the growth in the number of staff engaged in other functions, notably within the areas of asset management and fund administration at licensed corporations and registered institutions. This trend suggests that there is a shift within the talent pool toward more diversified skill sets.

Appendix

Major Aggregate Figures

The major aggregate figures are summarised in the following table.

($ million)	Aggregate asset size as at 31 December 2013			
	Licensed Corporations	Registered Institutions	Insurance Companies	Total
Asset management of funds/portfolios				
Total assets managed by the firm (A) = (B) + (C)	10,126,993	925,842	363,927	**11,416,762**
Total assets directly managed by the firm in Hong Kong (B)	5,018,357	638,913	77,028	**5,734,298**
Total assets sub-contracted or delegated to other offices/third parties for management (C) = (D) + (E)	5,108,636	286,929	286,899	**5,682,464**
Total assets sub-contracted or delegated to other offices/third parties in Hong Kong for management (D)	90,064	3,098	-	**93,162**
Total assets sub-contracted or delegated to overseas offices/third parties for management (E)	5,018,572	283,831	286,899	**5,589,302**
Total assets managed in Hong Kong (F) = (B) + (D)	5,108,421	642,011	77,028	**5,827,460**
Giving advice on funds/portfolios				
Total assets under advisory business of the firm (H) = (I) + (J)	1,661,329	-	-	**1,661,329**
Assets directly advised by the firm in Hong Kong (I)	1,523,208	-	-	**1,523,208**
Assets sub-contracted or delegated to other offices/third parties for providing advisory services (J) = (K) + (L)	138,121	-	-	**138,121**
Assets sub-contracted or delegated to other offices/third parties in Hong Kong for providing advisory services (K)	708	-	-	**708**
Assets sub-contracted or delegated to overseas offices/third parties for providing advisory services (L)	137,413	-	-	**137,413**
Assets on which advice is given in Hong Kong (M) = (I) + (K)	1,523,916	-	-	**1,523,916**
Other private banking business				
Total assets under other private banking activities	-	2,751,821	-	**2,751,821**
SFC-authorized REITs				
Total market capitalisation of SFC-authorized REITs	177,311	-	-	**177,311**

Footnotes

[1] A "licensed corporation" means a corporation granted a licence under section 116 or 117 of the SFO to carry on a regulated activity in Hong Kong.

[2] A "registered institution" means an authorized financial institution registered under section 119 of the SFO. An "authorized financial institution" means an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155).

[3] An "insurance company" means an insurance company registered under the Insurance Companies Ordinance (Chapter 41) and provides services that constitute classes of long-term business as defined in Part 2 of the First Schedule of the Insurance Companies Ordinance. The insurance company is not licensed by the SFC. For those insurance companies which are also licensed by the SFC, their reported assets under management are included in the category of licensed corporations.

[4] "Combined fund management business" comprises fund management business and SFC-authorized real estate investment trusts (REITs) management business.

- "Fund management business" comprises asset management, fund advisory business and other private banking business.

- "Asset management" refers to
  (i) the provision of services that constitute Type 9 regulated activity as defined in Schedule 5 of the SFO carried out by licensed corporations and registered institutions (excluding assets from clients who are also licensed by or registered with the SFC); and
  (ii) the management of financial assets arising from the provision of services that constitute classes of long-term business as defined in Part 2 of the First Schedule of the Insurance Companies Ordinance (Chapter 41) (excluding assets sub-contracted or delegated to other licensed corporations/registered institutions in Hong Kong for management), but excludes REIT management, fund advisory business and other private banking business, and "assets managed" shall be construed in the same manner.

- "Fund advisory business" refers to the provision of pure investment advisory services on funds/portfolios and does not include the provision of research. It constitutes Type 4 and/or Type 5 regulated activities as defined in Schedule 5 of the SFO. Such service is generally provided to overseas managers who manage a global or regional portfolio and need expert advice from a manager in Hong Kong or its delegate with respect to the Hong Kong portion or a specific geographic segment of the global or regional portfolio.

- "Other private banking business" refers to the provision of financial services to private banking clients other than by means of Type 9 regulated activity carried out by registered institutions. They include providing the service of managing clients' portfolio of securities and/or futures contracts wholly incidental to the carrying on of Type 1 and/or Type 2 regulated activities.

[5] Asset Management Business managed overseas refers to amounts of assets sub-contracted or delegated to other offices/third parties overseas for asset management.