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Asset Management and Private Equity 2024 Outlook

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Foreword

As we step into 2024, the landscape of the asset management and private equity industry in the Hong Kong SAR and Chinese Mainland is marked by a combination of economic, geopolitical and regulatory shifts that have unfolded over the past few years. These changes have not only shaped investment strategies but have also influenced market sentiment and investor confidence across the region.

The Asian region has navigated through a series of challenges that have transformed the asset management sector in Hong Kong and the Mainland. The geopolitical strains between major economies have prompted some market volatility and reshaped investment priorities. The rise in interest rates has also impacted asset valuations and investment strategies, particularly in sectors sensitive to borrowing costs such as the real estate market, which has historically been a cornerstone of the investor confidence in the Chinese economy.

However, amid these challenges, both Hong Kong and the Chinese Mainland have demonstrated resilience, leveraging their robust economic fundamentals to adapt in an evolving global landscape. With an expanding middle class, increasing wealth, and a growing appetite for investment diversification, the demand for sophisticated financial products and wealth management services is on the rise. Hong Kong, with its well-established financial infrastructure and regulatory framework, remains at the forefront of this growth trajectory, serving as Asia's leading asset management hub.

As an asset management hub, Hong Kong's strategic location and its role as a gateway to China offers unparalleled access to opportunities in the world's second-largest economy, further solidifying its status as a prominent financial centre in the region.

The report looks at the various factors that will impact the asset management and private equity industries in the Chinese Mainland and Hong Kong, including the decline in interest rates, lingering geopolitical tensions, elections to be held this year in several major economies, and the anticipated rebound in growth in the Chinese economy.

Although there is naturally some difference of opinion among the asset management community about the outlook for 2024, it is clear that the asset management sector will continue to grow in China and the rest of region. There is likely to be resurgence in IPO activity and deal-making in China as the Chinese government continues to promote economic reforms and open up its capital markets. The anticipated pick-up in IPO activity reflects confidence in China's long-term growth prospects and underscores the attractiveness of its vibrant investment landscape.

We hope you enjoy this report, and that our insights are helpful as you plan your business strategies for 2024. If you'd like to discuss any of the topics covered in this publication, please feel free to get in touch with our team.

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General Outlook

There is no doubt that 2023 was a difficult year for the asset management and private equity sector in Hong Kong amid global economic and geopolitical upheaval. Will the situation improve in 2024 and the Year of the Dragon?

There is certainly a sense that the worst may have passed. At the same time, there is still a lot of uncertainty about the pace of recovery in 2024 and how the industry will address the challenges.

The sharp increase in interest rates has had a significant impact on asset management activity. Given the volatility in some markets, investors have moved out of public markets as they seek relatively stable returns. As rates come down, a wider variety of assets will become more attractive once again.

The **IPO market** in Hong Kong has been extremely subdued throughout 2023. Some expect a rebound in 2024, which will help to restore some liquidity, although the levels of IPO activity and funds raised in the year ahead will likely remain below the longer term average.

The ongoing **geopolitical tensions** will continue to impact Hong Kong. US sanctions have slowed the flow of investment from the US into China via Hong Kong, while investors from other locations have remained cautious. China is also suffering from domestic challenges, such as concerns about the real estate debt problem.

A related trend has seen private equity investment **diversifying** out of being focused on China. Given the vast amounts of capital that have been raised, funds have been forced to deploy capital into other locations, particularly Japan but also South Korea and India. However, we expect that foreign investors will return their focus to China in time.

China is also expected to take measures to further strengthen the domestic economy. The Chinese Government may decide to introduce more policy measures to support certain key industries, which will help build stronger confidence among domestic consumers and foreign investors alike.

With investment slowing from traditional sources, the Hong Kong Government has been making efforts to attract investment from new locations, particularly the **Middle East and ASEAN**.

While the external environment may be challenging, the Hong Kong government has continued to make efforts to build a healthier and more stable asset management ecosystem. It has introduced a variety of **new regulations** such as new rules, guidance and circulars around virtual assets and ESG investing. There have also been a range of **incentives** specifically aimed at encouraging family offices and HNWIs.

In addition, cross-border cooperation has continued to deepen through enhancements of the various "Connect" programmes from the Hong Kong Monetary Authority and the People's Bank of China. The scope of the Wealth Management Connect Scheme, for example, has been expanded to include eligible securities firms.

Looking at the **longer term outlook**, the Chinese Mainland remains an important economy with massive and evolving investment opportunities. This will continue to be to Hong Kong's advantage when the global economy recovers and sentiment improves, and activity in the asset management sector picks up again.

For the near term, 2024 will see elections in a number of major economies including the US, which will continue the uncertainty. Amid global turmoil, Hong Kong will need to work hard to emphasise its attractions as an international financial centre and hub for asset management, to be ready to seize the opportunities when the time is right.

Chinese Mainland Opportunities

Many global asset managers will be considering in 2024 whether it is a good time for them to enter or expand their presence in the Chinese Mainland. It is not a straightforward decision. China is a huge market that has significant growth potential, but in some respects it requires in-depth market knowledge to access.

The macro factors remain attractive. China's vast and growing middle class is driving demand for wealth management and investment products, which will support the continued growth of the asset management sector. For Hong Kong and international asset managers, there is nowhere else in the world that provides such a sizeable market and range of opportunities.

The domestic asset management market in China continues to mature, but this is mostly being driven by the retail sector. The institutional investor space is also evolving rapidly amid the growth of insurance and pensions, so there is an opportunity here for global firms that have long experience serving institutional investor clients.

On the topic of pensions, it was recently announced that the pilot private pensions scheme launched in 2022 will be fully implemented. As private pensions are a new product in China, this also creates opportunities for global firms with the relevant experience.

In terms of sectors, ESG is an area of interest. China has ambitious plans to cut its carbon emissions to zero by 2060 after peaking in 2030, which will require capital to fund the decarbonisation process. This is creating opportunities for asset managers to invest into supporting the infrastructure needed for a rapid green transition.

For Hong Kong and international asset managers there is nowhere else in the world that provides such a huge market and range of opportunities.

But while there are many opportunities, the Chinese Mainland market can present certain challenges for foreign players. The top-down, policy driven environment in China it is very different to the markets where global firms are accustomed to operating.

The type of commercial arrangement entered into can be key to success in China. Global asset managers must weigh up the pros and cons of the options, including whether to set up a joint venture with a domestic firm or to operate as a wholly owned enterprise.

From another perspective, however, China has never been so open. The licencing process for foreign asset management firms is now much faster than in the past, and it is also more likely that eligible firms will be successful in their application.

But whether 2024 will see global asset managers proactively seeking out China opportunities may depend more on the external landscape. Amid the uncertain global economic environment and continuing geopolitical tensions, many firms may refrain from making any major decisions in the year ahead. A wait-and-see approach may be the prudent option, but firms should also consider the upside opportunity compared to the downside risk of waiting.

IPOs and Liquidity

The IPO market in Hong Kong had a challenging year in 2023. Challenges accelerate innovation and adaption: as we look ahead to 2024, we see positive signs of those same challenges from a year ago translating into opportunities.

The IPO markets in Hong Kong, the Chinese Mainland and many other jurisdictions had a challenging year in 2023, in terms of the number of IPOs and funds raised. Even the US, which improved its performance on a year-on-year basis, was still behind recent averages.

This has had a significant impact on the performance of the asset management sector, particularly private equity, as a lack of IPOs reduces the amount of liquidity in the market.

Privately held companies often exit through an IPO, with the capital then being recycled back into the public market or other ventures. However, the stagnant IPO environment -- including in Japan and Korea as well as the A-Share and Hong Kong markets -- has led to a lot of capital being trapped in China. While US markets offer more attractive valuations, it is increasingly difficult for Chinese companies to list in the US.

Interest rates may start to come down this year. This will benefit the IPO market by improving liquidity and valuations, although the timing and pace of such rate cuts remains a matter for debate.

A key reason for this slowdown in IPO activity is the higher interest rate environment, which results in lower valuations and prompts investors to reallocate their portfolios to lower risk assets. Companies may choose to postpone their listing plans or reduce the size of their IPOs due to insufficient investor interest and lower-than-desired valuations.

Looking at this more positively, it is expected that 2023 marked the low point and that the situation should improve this year. KPMG has forecast that that IPO market activity in Hong Kong will recover this year, although it will still be considerably lower than the average over the past decade.

Looking ahead, interest rates may start to come down this year. This will benefit the IPO market by improving liquidity and valuations, although the timing and pace of such rate cuts remains a matter for debate.

Hong Kong's IPO market is also tied to the fortunes of the Chinese Mainland economy, which is the source of the vast majority of IPO applicants. So the current challenges faced by China, such as real estate debt concerns, can have an impact on the industry chain, consumer sentiment and the broader economic prospects.

Hong Kong has taken a number of steps to encourage more tech companies to list, such as the introduction of Chapter 18C and GEM listing reform. These will remove some of the previous restrictions and broaden the scope of companies that can list in Hong Kong. If some companies choose to list in Hong Kong under Chapter 18C in the year ahead, that will have a positive impact on the IPO fundraising market.

GEM primarily caters to relatively small companies, so increased activity will not have a major impact on funds raised. More importantly, it provides a platform for small and medium-size companies to raise capital and fosters their growth.

In short, while 2024 is unlikely to see a major resurgence in IPOs in Hong Kong or other markets, we are cautiously optimistic in predicting that this year could mark the beginning of a longer term recovery in activity.

Looking beyond the IPO environment, there have been efforts in early 2024 by the Central Government to support the Mainland stock markets, and the Government also appears to be open to the prospect of other stimulus measures. This may be targeted towards sectors such as renewable energy, healthcare, AI and advanced manufacturing, and real estate, which should improve sentiment and boost stock market performance.

Coming back to Hong Kong, the city will continue to have an outsized role to play as a global capital market, and a world-leading asset management hub. We expect to see Hong Kong double down on its core competencies in talent, ease of doing business and efficient tax regime. From a regional perspective, Hong Kong as a jurisdiction works very well as a hub for access to all major capital and deal markets in the region.

In the meantime, Hong Kong may need to make efforts to emphasis its underlying advantages as a location for IPOs, as part of its role as an IFC and global connector. This will help strengthen trust among foreign investors and to lay the foundations for when the macroeconomic environment improves.

Private Equity

Geopolitical tensions and the performance of local stock markets in Hong Kong and the Chinese Mainland during 2023 have created challenges for private equity in both markets. In addition, real estate debt issues in the Mainland and the lack of a post-Covid economic boom have also affected the industry.

In response to these challenges, private equity firms have been seeking alternative options to continue to serve their clients.

One trend that has taken root is funds diversifying, rather than focusing only on China. Japan has attracted a lot of investment attention recently, because the yen is at historic lows and the cost of borrowing in Japan is still negligible. In addition, businesses and conglomerates in Japan have been selling off parts of their asset base and this is set to continue. Additionally, there has been interest in South Korea and India. Going forward, there will likely be more such Asia funds or China-plus-1 funds.

The diversifying of funds beyond China is also a reflection of the evolution of Chinese companies, including in the healthcare sector, to become more international in how they operate. Such businesses are likely to have local teams on the ground in the US and Europe to serve those markets, while the business continues to benefit from Chinese expertise in manufacturing and supply chain. More and more Chinese companies also have manufacturing plants in locations like Vietnam or Indonesia, and selling to consumer markets in Southeast Asia and beyond.

Amid the slower market, private equity managers have been taking the time to review their existing portfolios, finding ways to better manage them and bring more value.

Funds are still flowing and will flow to the area with the highest return and lower risk. While there may not be a massive recovery in the Hong Kong capital markets in 2024, the outlook is better than in the past year.

Private equity will follow this trend, and will likely remain fairly flat in the year ahead, ready for a more sustained recovery in the longer term.

The private equity market in Mainland China operates in quite a different way to Hong Kong, particularly with respect to the different types of funds – specifically RMB funds and dollar funds. Last year's Outlook noted that RMB funds and US dollar funds had taken diverging paths, and this trend has continued in 2023 and beyond.

US dollar funds have continued to be slow due to the global economic slowdown, geopolitical tensions and the rising cost of capital. Although fund raising faced pressure throughout 2023, investment activity has continued, with a trend towards more buyout deals. Healthy companies that had previously been unreachable because of high valuations have become more attractive targets for buyouts.

At the same time, restructurings that are taking place will provide opportunities for asset managers to deal with these assets.

Otherwise, amid the slower market, private equity managers have been taking the time to review their existing portfolios, finding ways to better manage them and bring more value. Finding exit ramps has been challenging in the current climate, so there have been some moves to extend the lifespan of investments or to set up new funds to take over existing portfolios.

RMB funds, on the other hand, have remained relatively buoyant despite the external pressures. There is also increasing activity in government funds to help stimulate economic activities and shape the local investment environment. It is expected that RMB private equity activity will continue into 2024, further boosted by the strong domestic market and influence of government policies.

Sectors that have been target by government initiatives such as hard technology, new materials and new energy are expected to do well in the year ahead. The consumer market will remain stable, but will continue to evolve, for example there has been a shift away from luxury.

From an exit perspective, the Chinese government has been trying to encourage more IPOs and provide more options. For example, it is setting up exchange platforms for the secondary market. Under the exit pressure, fund managers are looking at options including continuation vehicles or secondary market opportunities.

A resurgence in private equity activity will not happen overnight, as investors will remain cautious in the short term. But the growing government fund players, and the expectation that interest rates in the US and globally will come down this year, will help the China investment market recovery in 2024.

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Regulatory Developments

The Hong Kong government has made clear that it wants to support the development of the asset management sector, and having appropriate regulations in place and ensuring that the industry understands any regulatory changes is an important part of that.

The Securities and Futures Commission, Hong Kong Monetary Authority and relevant government departments produce a constant flow of updates, circulars and guidance on the latest developments, in addition to introducing new regulations to protect investors and support the industry’s growth.

Such regulatory activity ensures that Hong Kong can maintain its status as a global hub for asset management as the industry evolves and as new innovations and technologies emerge. However, it does mean that asset managers must keep a close eye on regulatory changes and make sure that they are in compliance with the latest developments.

Some examples of recent regulatory developments – in the virtual assets sphere and new licencing schemes -- are introduced below.

Tokenisation of securities

Hong Kong is a leading jurisdiction when it comes to regulating the virtual asset space, with a broad and timely package of regulations and guidelines, including those relating to the underlying technology such as blockchain.

Such regulatory activity ensures that Hong Kong can maintain its status as a global hub for asset management as the industry evolves and as new innovations and technologies emerge.

New guidelines have been issued around the tokenisation of securities and investment funds. Tokenisation is about taking real world assets -- such as fixed income securities or property -- and putting them on to the distributed ledger to facilitate easier trading.

The SFC released two circulars in November 2023: on the tokenisation of SFC-authorised investment products and on intermediaries engaging on tokenised securities-related activities. This is a significant step towards the wider use of blockchain in investment funds and securities.

The tokenisation of SFC-authorised investment funds is usually limited to primary dealing only, meaning that investors can subscribe or redeem the funds using the distributed ledger technology.

This gives fund managers, trustees and custodians the opportunity to streamline their operations, which should improve efficiency and save costs, and will also help expand access to funds to more investors.

The tokenisation of securities offers investment managers the ability to invest in securities and to potentially get greater liquidity in securities, and should also reduce some of the friction when entering or exiting those investments.

These developments around tokenisation show how Hong Kong is putting blockchain technology to practical use in the real economy, including fostering the development of the financial service sector.

RA-13 and RA-11

Two new licencing regimes are due to come into effect in that aim to provide more protection for retail investors and develop Hong Kong as an international asset management centre.

A new licencing system for trustees – RA-13 – is due to come into effect in October 2024. Under this regime, trustees and custodians of SFC-authorised investment schemes will need to be licenced for Type 13 regulated activity. This is a significant development as these trustees – which include some of the biggest names in banking and insurance in Hong Kong – have never been regulated before.

Trustees will need to apply for the licence and ensure that their policies, procedures and internal controls comply with all the SFC regulations. However, the process does not finish once the licence has been granted. Trustees will then need to follow all the relevant regulatory requirements for licensed corporations on an ongoing basis such as the financial resources rules (FRR) and monthly regulatory reporting to the SFC.

RA-11 brings OTC derivative-related activities into the scope of the SFC's supervision. Those dealing in OTC derivative products will need to be licensed for type 11 regulated activity. The effective date has not been confirmed, but the SFC has publicly stated previously that it may be in 2024, so affected firms would be wise to start preparing now.

Once the licencing regime is introduced, a key change is that firms will have to have a large amount of capital in place, under FRR. According to information provided by the SFC in previous public consultations, the minimum level for OTC derivative dealers will be set at HK$500 million of tangible capital and minimum liquid funds of HK$78 million.

Firms will also need to decide which of the SFC's calculation methods to use, and in some cases change their current legal entity booking arrangements given that as a consequence of the new regime certain OTC derivative activities will need to be booked within a regulated entity.

Like with RA-13, once firms are licenced under RA-11 there will be further requirements, such as complying with the SFC's code of conduct and reporting transactions to the Hong Kong Trade Repository.

While the date of implementation is not confirmed yet, firms are advised to start planning how they will implement the necessary systems, processes and controls, so they are prepared when the regime comes into effect.

Tax Environment

Hong Kong has long been seen as Asia's leading asset management hub, and the city's favourable tax regime is one of the key pillars of this success. But Hong Kong cannot be complacent about this status. There are a number of other jurisdictions that offer similar advantages, so it is crucial that Hong Kong's tax framework for the asset management sector remains competitive to those other alternative locations.

Hong Kong has long had a Unified Funds Exemption (UFE) that operates well for many funds managed from Hong Kong to ensure that they are not subject to direct taxation, but the ambit of the exemption regime doesn't extend to some common alternative asset management strategies such as private credit and debt. This is an area that the government is currently planning to address.

The impact of the family offices tax incentive that was introduced last year shows how well-designed and promoted incentives can be successful in attracting attention and investment to Hong Kong. However, there are other incentives aimed at the asset management sector that, for various reasons, have not been as successful as had been hoped.

One example is the Tax Concession for Carried Interest Ordinance that was introduced in 2021, where eligible carried interest allocated by a fund will be subject to a 0% tax rate. The aim of this concession was to provide an effective exemption and level the playing field with other jurisdictions.

More clarity about the scope of the incentives available and the conditions that need to be satisfied will also address concerns of global asset managers about domiciling funds and SPVs in Hong Kong.

However, fund managers have encountered a range of difficulties fulfilling the requirements of the incentive. These include the requirement that fund should allocate the carried interest through a person in Hong Kong, the requirement for the fund to be certified by the HKMA, and the fact that it is restricted to gains made on the sale of a private company only. As a result, the concession has not been widely adopted. However, the government has announced that it is currently reviewing the incentive and it is anticipated that changes will be made to the regime in order to make it more in line with the industry's expectation and the commercial realities of how carried interest is allocated.

Removing the uncertainty around the current incentives is the most important step. More clarity about the scope of the incentives available and the conditions that need to be satisfied will also address concerns of global asset managers about domiciling funds and SPVs in Hong Kong.

Accordingly, the government has recently announced that it is reviewing the UFE regime, and there is an expectation that the regime will be updated to ensure it remains competitive with other leading asset management hubs.

As noted above, the industry is expecting that the exemption will be extended to apply to private credit and debt investments made by a closed-ended private fund, as well as ensuring that co-investment structures commonly used by private equity funds are also clearly covered by the exemption.

The Hong Kong government has emphasised its commitment to supporting the asset management industry. It is hoped that continuing cooperation with the industry will see some these issues ironed out in the near future.

Virtual Assets

2023 was another exciting year for virtual assets. In Hong Kong, a key development was the introduction of the licencing regime for virtual assets trading platforms. This will move the trading of virtual assets into a regulated space, which will bring about more stability, certainty and investor protection.

All existing platforms trading in virtual assets with operations in Hong Kong will need to submit their licence application with the SFC by the end of February 2024. As part of their preparation, they will need to meet requirements in areas including KYC, AML, risk management and insurance. Any platforms that had already been operating will have to close if they do not meet the deadline for application.

Besides the landmark regime for virtual assets trading platforms, the regulators in Hong Kong have issued a variety of circulars and guidance in the past year relating to virtual assets, which aim to increase access to these assets while also ensuring investor protection.

For example, a joint SFC-HKMA circular issued in November 2023 on virtual asset-related products sold by intermediaries lifted the "professional investors only" restriction, thereby allowing retail customer to access certain virtual assets products.

The regulators in Hong Kong have issued a variety of circulars and guidance in the past year relating to virtual assets, which aim to increase access to these assets while also ensuring investor protection.

Another circular, issued in December 2023, focused on SFC-authorised funds with exposure to virtual assets. New guidance in this circular includes allowing the submission of applications for spot-based Exchange Traded Funds (ETF). Previously, ETFs were only allowed to invest in Bitcoin and Ether Futures listed on the Chicago Mercantile Exchange.

These are just two examples of a variety of regulatory guidance relating to trading virtual assets as well as the use of the underlying technology. Some of the recent circulars are updates to versions that were issued only a year or two earlier, showing the government's commitment to keeping up with the fast-evolving developments in the sector.

On a less positive note, Hong Kong was in the global spotlight when cryptocurrency firm JPEX was accused of fraud in September 2023, and more than 60 people were arrested. This followed the high-profile downfall of FTX and a number of other crypto-related firms in 2022, and served as a reminder of the volatility of the sector. However, the action against JPEX does show that the police and regulators in the city are taking action against such unlicenced operators.

With its proactive approach to regulation, Hong Kong has successfully established itself as a hub in the virtual assets space, and it is expected that more regulatory developments will follow in 2024.

Family Offices

Among the first events hosted by the Hong Kong government after the removal of all pandemic-related restrictions in March last year was the Wealth for Good summit, where it set out its clear position that Hong Kong welcomes ultra-high-net-worth (UHNW) individuals to set up in the city.

2023 saw a number of developments that underline that commitment, including the Family Office tax incentive policy finalised in May and the Capital Investment Entrant Scheme (CIES) announced in December.

The family office tax rule provides certainty for family offices that investment profits will be exempt from Hong Kong profits tax, where specific conditions are met. There is no pre-approval process or application requirement and only a self-declaration is required.

The new CIES enables eligible people to move to Hong Kong so long as they invest at least HK$30 million in certain assets. They and their immediate family members will be able to apply for permanent residency after seven years.

These incentives have been widely welcomed by asset managers in Hong Kong and have generated a lot of interest from UHNW families, especially from the Chinese Mainland.

The family office tax rule provides certainty for family offices that investment profits will be exempt from Hong Kong profits tax, where specific conditions are met.

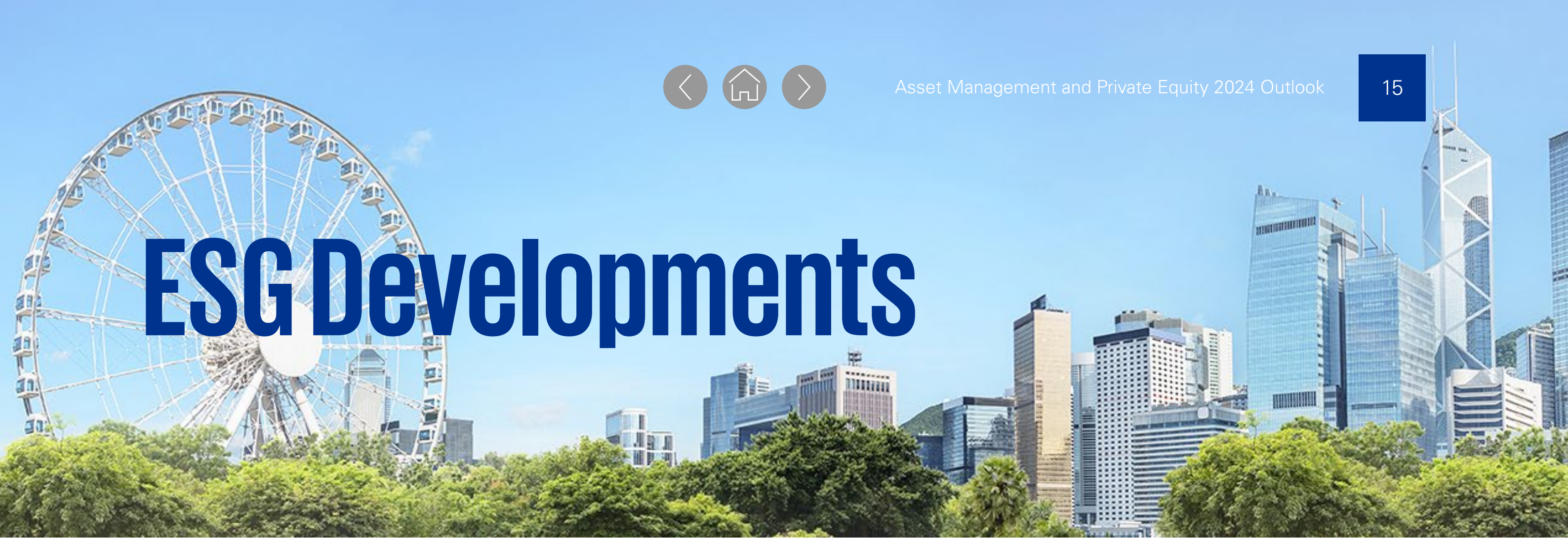
Altogether there are eight policies that aim to attract more family offices and UHNWIs to the city, including the Academy of Wealth Legacy to train dedicated professionals, as well as measures to support Hong Kong's growth as a philanthropy hub and art trading hub.

Besides the family-office focused schemes, other policies to attract talent include the Top Talent Pass Scheme. Under this programme, launched at the end of 2022, talent with a recognised degree or an annual income of HK$2.5 million can live in Hong Kong, and can bring their spouse and children.

Apart from the strong asset management industry in Hong Kong, another reason for interest in setting up family offices here is the Hong Kong government's efforts to encourage the innovation and technology industries. These also serve as investment opportunities for family offices. For some investors, R&D investment is becoming more critical for their own family business, giving them added insights.

Hong Kong is already an attractive destination for family offices, given its competitive tax regime, finance professionals and variety of investment products. However, the new policies are welcome to ensure that Hong Kong remains competitive.

While 2023 saw a lot of interest from clients in learning about the structure and requirements, it is expected that more family offices will be established in the year ahead as UHNWIs put their plans into action.



ESG Developments

Hong Kong has in the past year continued to review and enhance its expectations of financial services firms in terms of ESG practices.

A notable recent step has been the HKMA's requirement for wealth managers to conduct product due diligence on sustainable products[1]. Asset managers will not only have to disclose the relevant sustainable information, as per existing SFC requirements, but they can also now expect that wealth managers will be checking that their data and systems adhere to expected standards for ESG products.

The asset management industry in Hong Kong and globally is taking such steps to ensure that any products labelled as "sustainable" are genuinely so. One of the hurdles to greater adoption of ESG has been the risk of accusations of greenwashing. Greater transparency will also inspire more confidence among investors.

In the past year, asset managers have also been adopting SFC regulations on the management and disclosure of climate risk. This has been a positive development as it has generated more data. The HKEX also committed to adopting the ISSB reporting standards in 2025, which will provide more relevant information.

The asset management industry in Hong Kong and globally is taking such steps to ensure that any products labelled as "sustainable" are genuinely so.

Data is an important focus of the SFC at present, as one of the key concerns around ESG has been the unavailability of data, or the fact that ESG data may not be comparable.

Data will also be useful in providing more clarity about the performance of ESG funds. A recent HKMA research paper[2] found that at times of major market corrections, ESG funds performed better than their non-ESG counterparts, with lower outflows and more stability. More data and more research will lead to better understanding of the ESG market, enable asset managers to enhance their products and improve the fund performance, and ultimately attract more interest from investors.

However, the increase in the volume of data is creating some challenges for the asset management sector, as they do not have the skills or the resources to make use of the data. Firms will need to explore the use of technology to help them to analyse and make use of the growing amount of information available.

It is also worth noting two key trends revealed in the latest report from the Global Sustainable Investment Alliance, released in November 2023[3]. Increased rigour in the US to prevent greenwashing has led to re-labelling of funds; and "Corporate engagement and shareholder action" has become the most popular sustainable investment strategy (in terms of AUM) for the first time.

While Hong Kong has been making strides in ESG, across the border, the Central Government is also proactively addressing climate risk. It has been encouraging investment into sustainable sectors, such as electric vehicles and clean energy. In practice, this is having an impact with more investment projects emerging in areas including geothermal and solar energy.

[1] Sale and Distribution of Green and Sustainable Investment Products, HKMA, November2023: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2023/20231129e1.pdf

[2] ESG fund flows under shocks: are they more resilient against macro-financial shocks? HKMA: https://www.hkma.gov.hk/media/eng/publication-and-research/research/research-memorandums/2023/RM06-2023.pdf

[3] Global Sustainable Investment Review 2022: https://www.gsi-alliance.org/members-resources/gsir2022/

About KPMG China

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