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Vision 2030

The future of Hong Kong's fund management industry

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Foreword

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Welcome to Vision 2030, a new report from the Hong Kong Investment Funds Association (HKIFA) and KPMG. Vision 2030 is the third edition of this publication, which aims to take the pulse of the asset management sector in Hong Kong (SAR) and consider the outlook for the next few years.

Since we issued the previous report, Vision 2025, in 2020, there have been seismic changes affecting the industry, from the lingering Covid-19 pandemic restrictions to geopolitical instability and a higher interest rate environment. So we thought it would be a timely exercise to once again gather insights from industry experts and come up with some proposals on how we can work together with the policymakers and regulators to refine the landscape for asset managers in the medium term.

Vision 2030 is based on a series of in-depth interviews and a survey of HKIFA member firms. As in previous editions, in the interviews, we spoke to members of HKIFA's Executive Committee. For Vision 2030, we have also expanded the scope to include industry players from adjacent areas of the ecosystem including banking, asset owners, insurance and recruitment specialising in supporting talent acquisition for this industry.

Through the interviews and survey, we heard about the biggest challenges facing the industry, as well as the areas where opportunities are emerging. The interviewees also shared their suggestions on a range of measures to encourage the growth of the industry.

In addition, we are delighted that senior representatives from both the Hong Kong government and the Securities and Futures Commission (SFC) took the time to sit down with us to hear what the industry has been saying and to share their plans for the city's asset management industry.

In this report, you can read about the macro themes that are shaping the industry, including China-US tensions, Hong Kong's status as an international financial centre (IFC), and the drive to attract talent. While the industry is facing challenges, there are also opportunities emerging from the continuing growth in the Chinese Mainland and Southeast Asian markets, as well as the need to find retirement solutions for the region's ageing populations. The rapid evolution of technology is driving change in the way the industry operates, while the mutual funds landscape is expanding to include assets including alternatives, ESG and virtual assets.

Hong Kong's asset management industry must also evolve if it is to stay competitive. This report includes a series of recommendations on how the industry can cooperate with the governments and regulators to retain our standing as the region's asset management hub. While it is impossible to predict what 2030 will look like, we hope that by laying the groundwork now, we will be in the best position to seize the new opportunities as they emerge.

We would like to thank all of the participants who took the time to share their insights both in the interviews and the survey. These have given us an in-depth understanding of the industry, the key pain points and biggest opportunities, and have been invaluable in creating this report.

We hope that you enjoy the insights shared in Vision 2030. Please feel free to get in touch if you would like to discuss the findings and the outlook for the asset management sector in Hong Kong.

Acknowledgements

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1 Overview: CEO Roundtable

In this section, Hong Kong and APAC CEOs discuss some of the key topics for the asset management sector in Hong Kong, including the city's role in Asia, the rapidly evolving environment as well as the mega trends that the industry is facing.

Eddy Wong
Asia CEO, Amundi

As we move along the path to 2030, it seems likely that the environment for asset managers will continue to be volatile -- in the short term at least. The prospects for global economic growth remain muted while geopolitical tensions are unlikely to subside in the near future. Taking a longer view, however, there are a number of key trends and themes that will provide opportunities for the sector, as well as actions that Hong Kong can take to cement its status as an asset management hub.

Hong Kong's role in Asia

Hong Kong's role as the major hub for asset management in Asia remains secure, although there is much that can be done to enhance the city's status and ensure that Hong Kong re-emerges stronger from the challenges it faced over the last few years, and demonstrated by its ability to continue to attract funds, business and talent.

Many of the global firms in Hong Kong have been here for many years, and Asia makes up a considerable proportion of their whole business. But these companies are not just here for historical reasons: Asia is a top priority due to the expectation of continuing growth across the region.

As **Eddy Wong, Asia CEO of Amundi**, explained: "The weight of Asia in global asset management has risen a lot, and Asia is outpacing global asset management growth. Hong Kong will continue to benefit from this trend."

Ajai Kaul
CEO, APAC
AllianceBernstein

Within Asia, the biggest portion of growth is most likely to come from the Chinese Mainland. Hong Kong's connectivity with the Mainland and longstanding role as an international financial hub mean that it is uniquely positioned to seize these opportunities. In addition, support from both the Hong Kong and Central governments has been rolled out in recent years to encourage the growth of the asset management sector, including cross-border schemes like the Wealth Management Connect.

As the Chinese Mainland market opens up and more Chinese investors – institutional and retail – seek global opportunities, Hong Kong-based asset managers are ideally placed to serve this new market. Their global experience will also help the development of the Mainland's domestic asset management sector. To facilitate this, foreign firms would like to have greater access to the Chinese market to better serve potential clients.

Thomas Chan
CEO, AIA Investment Management Hong Kong Limited

"US and European firms have been investing globally for decades, and have global teams," said **Ajai Kaul, CEO, APAC, AllianceBernstein**. "If foreign asset managers could operate with more efficiency in the Mainland, this would help China to improve the professionalism of its funds industry."

Such global experience and insight are also to Hong Kong's advantage as asset managers look at other Asian markets. Although there are many opportunities in the Chinese Mainland, China is not the only asset management story in the region. Many other jurisdictions across Southeast Asia also have growing middle-class populations that are in need of investment services.

"Being close to China benefitted Hong Kong for many years because of the tremendous economic growth in the Mainland," said **Thomas Chan, CEO of AIA Investment Management Hong Kong Limited**. "Now, other Asian economies are growing rapidly. We should have a broader vision to serve the regional market, which will also help Hong Kong retain its IFC status."

Tariq Ahmad
Head of APAC,
Franklin Templeton

Tariq Ahmad, Head of APAC at Franklin Templeton, agrees that while the meaningful opportunities can be found in China, asset managers also need to look at the rest of the region. "The wealth story in APAC is dynamic," he said. "The growth of middle earners continues to accelerate, and the retirement story is getting more significant across the region."

Evolving environment

Junjie Watkins
Equity Partner, Pictet Group and CEO Asia ex-Japan, Pictet Asset Management

Globally, it is a time of flux for the asset management sector. Technology is changing the way that firms operate, while new players from fintech start-ups to traditional financial services firms are entering the asset management realm. Asset managers are also handling a broader range of assets, including alternatives, leading to some adjustments as firms seek to increase their capabilities. Amid these shifting sands, asset managers must be nimble to stay ahead.

"It is good to have a vision for five years, but it is equally important to be flexible," noted **Junjie Watkins, Equity Partner, Pictet Group and CEO Asia ex-Japan, Pictet Asset Management**. "Using historical experience may not always be sufficient, as the investment regime globally may be totally different in five or 10 years."

Amy Lo
Chairman, UBS Global Wealth Management Asia, and Head and Chief Executive, UBS Hong Kong

Since the last Vision report just a few years ago, a major change has been the emergence and growth of new technologies like blockchain and GenAI. There is also increasing demand for digital services from a more digital-savvy client base, which is expected to increase in the future.

"A key trend that will shape the industry in 20 years is the needs of the current next generation, who will be our major clients in the near future. It is crucial to anticipate the needs of a largely digital-native population," said **Amy Lo, Chairman, UBS Global Wealth Management Asia, and Head and Chief Executive, UBS Hong Kong**.

Other big themes that will shape the development of the asset management sector in the near term include ageing populations across the region, ESG, alternative assets, as well as virtual assets and blockchain. Hong Kong should pay close attention to these trends, and make use of its global position to leverage insights and best practice from other markets.

Susan Chan
Head of Asia Pacific, BlackRock

Another recent development in the Asian market has been the growth of ETFs. The key benefits of ETFs – diversified, low-cost and simple to access – have encouraged their adoption by a wider range of investors.

"The investor mix across Asia Pacific – and in particular in Hong Kong – is rapidly evolving from being traditionally an institutional market to one that has more retail engagement as private wealth and robo-advisory channels invest more in ETFs," said **Susan Chan, Head of Asia Pacific, BlackRock**.

As this trend continues, asset managers have the opportunity to provide education and insights to both retail investors and large institutions on how best to use ETFs in their portfolios.

Gopi Mirchandani
Hong Kong CEO, Head of North Asia, Head of Strategy, Asia Pacific, Schroders

Dan Watkins
APAC CEO, J.P. Morgan Asset Management

Challenges and competition

While the CEOs we spoke to appreciated Hong Kong's advantages as a location, they also spoke frankly about the headwinds that the city was facing. Two key challenges are the China-US tensions, and rising competition from other locations, particularly Singapore. The interviewees also agreed that the city needs to do better when it comes to promoting the city's strengths as an asset management hub.

For example, Hong Kong needs to ensure that it remains competitive in terms of its tax regime if it is to continue to attract investors and encourage asset management companies to retain Hong Kong as their regional hubs.

Following the upheaval of the Covid-19 pandemic, the city must also make renewed efforts to retain the high quality professional talent that is crucial to its success as an international financial centre.

"Hong Kong talent is dynamic, international, pragmatic and focused," said **Gopi Mirchandani, Hong Kong CEO, Head of North Asia, Head of Strategy, Asia Pacific, Schroders**. "But turnover has increased notably in the past few years. We need to give talent reason to stay in Hong Kong, and ensure people are invested in the city for the longer term."

The evolving opportunities across Asia paint a potentially bright picture for the asset management sector, but there is no doubt that this is also a sensitive time for Hong Kong. Tensions between China and the United States in particular have an impact as the city inevitably gets caught in the crossfire.

Questions have been raised whether Hong Kong can continue to serve as an international financial hub while also being the financial centre of China. However, many in the asset management sector believe that the city can continue in this dual role.

"Hong Kong can embrace its connections with China and enhance cross-border activities while also having a very international view and being a bridge to the rest of the world," said **Dan Watkins, APAC CEO of J.P. Morgan Asset Management**. "It has done this for decades, and I think it can still do both."

The environment may be challenging at present, but the industry players, governments and regulators can work together to strengthen Hong Kong as the major asset management hub in Asia. We need to continually enhance the landscape for the sector, be bolder in marketing the city's advantages, and take combined responsibility for helping Hong Kong to refine and strengthen its position.

2 Key trends, opportunities and challenges

In this section we discuss the macro drivers of the asset management environment, Hong Kong's status as an IFC, and Chinese Mainland opportunities. We also consider the key themes shaping the industry's development and the crucial topic of talent.

"Hong Kong's access to the Chinese Mainland market is a unique advantage that will continue to drive the growth of the asset management industry."

Vivian Chui
Head of Securities and Asset Management, Hong Kong, KPMG China

2.1 Macro drivers and challenges

As we look ahead to the next five years in Hong Kong, certain macro challenges will likely remain, including a more complicated geopolitical climate, slower global economic growth, and a higher interest rate environment.

Despite the uncertainty, interviewees for this report were generally optimistic about the future of the asset management sector. On top of Hong Kong's advantage as a connector to the Mainland and an IFC, there will be opportunities in the longer term including Asia-Pacific market growth, alternatives and ESG, and the impact of technology advances.

Macro opportunities

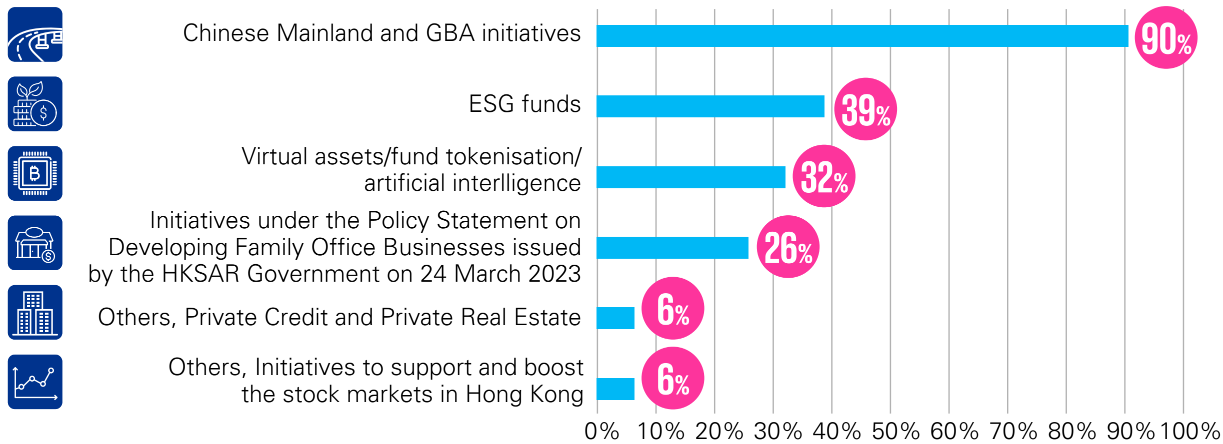
One of Hong Kong's major strengths is its longstanding role as the leading hub for the sector in Asia. According to statistics from the Hong Kong Monetary Authority (HKMA), the city is a major asset management hub in Asia as well as the largest cross-border private wealth management and hedge funds centre[1].

A key driver of continued growth in the mid term will be the sheer size of the market in Asia. The region's share of global asset management has risen, and Asia is also experiencing faster growth than other regions. Hong Kong's location, expertise and experience means that it will benefit from this growth.

Within Asia, the Chinese Mainland market dominates. Interviewees noted the size of the Mainland's economy, stock market and population -- particularly the growing number of high-net-worth individuals (HNWI) and the middle class population -- and the fact that only Hong Kong has the unique attributes to truly serve this huge market.

1 Hong Kong Monetary Authority, Competitive International Financial Platform: https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/hong-kong-as-an-international-financial-centre/competitive-international-financial-platform/

Figure 1 **What of the following will be the most significant growth engine to the fund management industry in Hong Kong between now and 2030: (Please select maximum 2 options)**



The Chinese Mainland is very important, but Hong Kong's location also provides access to many other jurisdictions including Japan, Australia, India and Southeast Asia. Asia is incredibly diverse, and many jurisdictions in the region look to Hong Kong and the SFC as a role model.

Ken Lin
Head of Hong Kong and SEA Intermediary Business, Invesco

The Central Government has also demonstrated its commitment to supporting the asset management sector, including cross-border initiatives such as Wealth Management Connect and the Mutual Recognition of Funds scheme.

But China is not the only focus. As a regional asset management centre, Hong Kong is also in a good position to seize the opportunities arising across the rest of Asia. The numbers of middle-class people are accelerating, driving new investment and retirement needs from across the diverse APAC markets.

Hong Kong's role as a hub was further evidenced by the comments from interviewees about serving new clients from regions including the Middle East and Europe.

The demographic shift in the region is another macro factor driving the evolution of the industry. While the ageing population is a challenge for governments and society, there are also opportunities for asset managers to find solutions to fund the retirement of people in Hong Kong, Chinese Mainland and beyond.

At the same time, the industry will need to consider the expectations of the younger generation, who have a different approach to investing than their parents and grandparents.

More broadly, democratisation of investment is seeing more asset classes becoming available to retail investors, as well as options emerging in areas like sustainability and virtual assets. Asset managers will need to have the appropriate products available to compete in this changing market.

The advancements in digitalisation are creating new opportunities for the public to conveniently access a diverse selection of asset management products. With the increasing trend of trading through mobile platforms, the future generation in Hong Kong is expected to embrace this seamless and efficient way of conducting transactions, similar to what is already happening in the Chinese Mainland.

Vincent Ching
Managing Director, Head of Intermediaries, Asia Pacific, Value Partners

It can be difficult for the layman to understand investing strategies and complex topics like leverage and derivatives. We have been trying to do more education for committee and board members as well as plan members about investment cycles and long-term investing.

Doris Ho
Executive Director,
Hospital Authority Provident Fund Scheme

Lack of clarity among people outside Hong Kong about the city and its ongoing role is having a negative impact on investment sentiment. Hong Kong's advantage as an international financial hub with a diverse talent pool, wide range of investment services and resilient foundational strength remains intact. Clear communication about these benefits is critical for the global investment community to feel confident capitalising on these unique opportunities.

Toby Chan
Head of Client Group,
Greater China,
Capital International

Technology is also speeding the pace of change, giving firms the opportunity to serve their clients better, while saving costs through efficiency gains. More and more people in Hong Kong expect to be able to invest online, and this trend will pick up pace as younger generations enter the market.

Challenges

The macro environment continues to give rise to challenges. The series of interest rate rises introduced by the US Federal Reserve in March 2022 brought an end to the low interest rate environment that had dominated since the global financial crisis almost 15 years earlier, and has had a significant effect on the sector globally as investors seek lower risk options.

Other factors including a lukewarm recovery after the pandemic and falling stock markets in Hong Kong and the Mainland have also affected sentiment, particularly among retail investors. Many younger people have had little experience of higher interest rates or downturns in economic cycles. This is creating a challenge for asset managers to explain their strategies to their retail customers and other stakeholders about investing over the long term.

Geopolitical uncertainty, in particular China-US tensions, continues to be an undercurrent that affects Hong Kong and the region, which is also having an impact on the perception of city by overseas investors. However, many global investors remain interested in China, and interviewees report that investment into areas other than mutual funds, such as investment notes and structured products, has continued.

Hong Kong is also facing increasing competition as an asset management hub. Singapore has made successful efforts over the past decade to attract funds and talent, while geopolitical tensions have encouraged investors to open accounts in Singapore, in addition to Hong Kong. The city-state also benefited from Hong Kong's longer period of closed borders during the pandemic.

However, many interviewees noted that Hong Kong and Singapore have different roles to play, and that there was space for both cities in Asia Pacific to serve the growing demand. In addition, Hong Kong has advantages including its unique proposition in terms of access to the Mainland, deeper capital markets, and a stronger talent pool.

Other challenges are related to perception. For example, the travel restrictions during the pandemic had an impact on the city's reputation, while there are often misconceptions about Hong Kong's status. To ensure that global investors understand the true picture, further marketing efforts will be needed to emphasise Hong Kong's advantages.

The regulators in Hong Kong are very helpful: they welcome inputs from the asset management sector and help us share our insights with the Mainland authorities. We do not see a need for major structural changes in Hong Kong, but we hope to see some regulatory developments to further improve the business environment.

Sam Yu
Managing Director,
Head of Compliance,
Asia Pacific (ex-Japan), Barings

2.2 Hong Kong as an IFC and asset management centre

Hong Kong has unique and unrivalled advantages as an IFC and the authorities have been making efforts to further support the city’s role as an asset management hub.

Advantages include the well-known fundamentals such as the city’s legal system, business-friendly environment, regulatory regime, low and simple tax rate, deep capital markets and strong talent pool. Both the Hong Kong and Central governments have recently reiterated their support for financial services and for the asset management sector in particular.

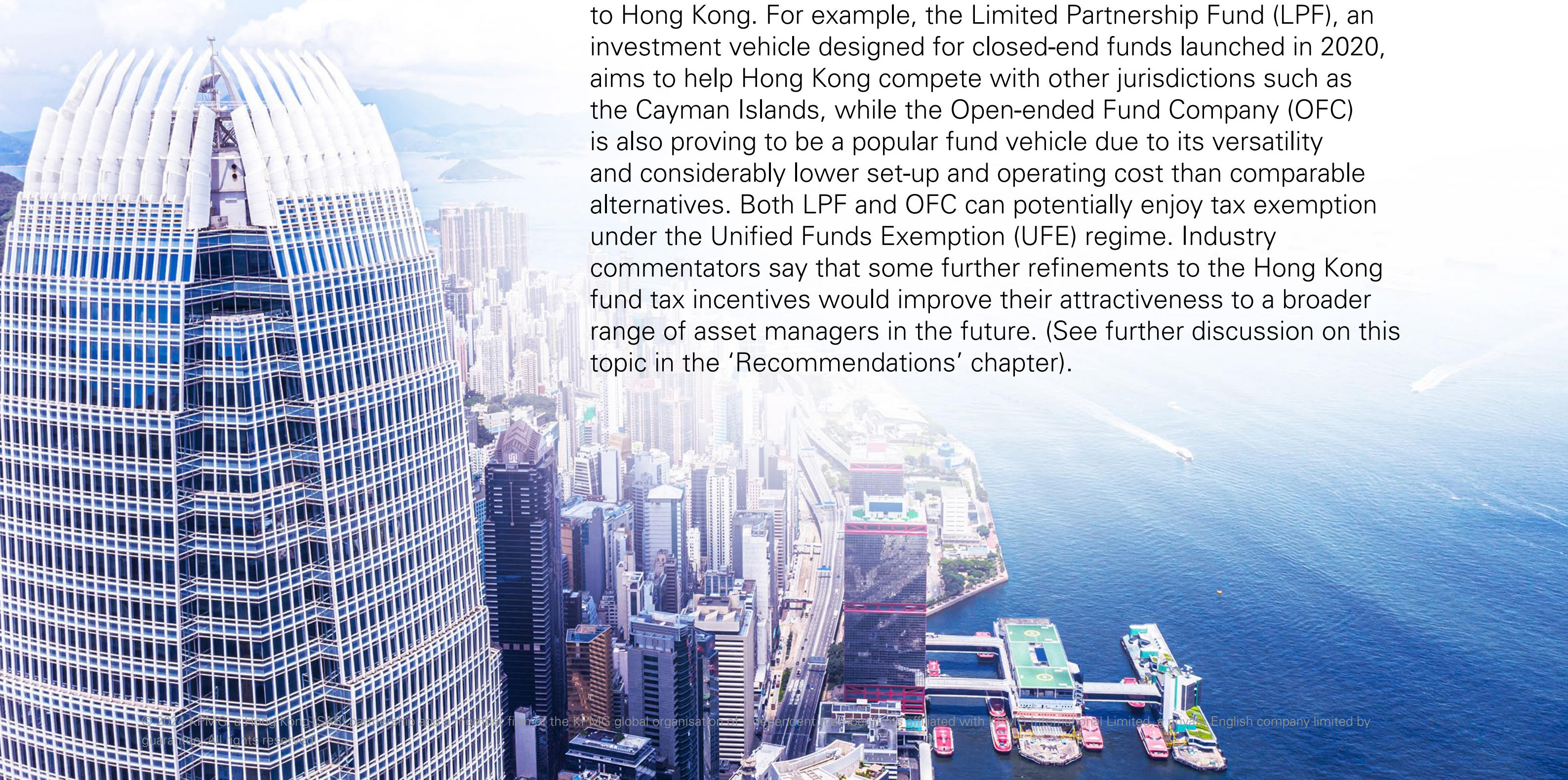
In terms of opportunities, connections to the Chinese Mainland remain the biggest draw, followed by access to markets in Southeast Asia and the Middle East. The city also has growing strengths in emerging areas such as ESG and virtual assets.

Hong Kong enjoys a stable and transparent regulatory regime, including access to and engagement with the relevant regulators. In fact, some of the less mature jurisdictions in the region look to the Hong Kong regulators as a model for their own development.

The government and regulators have been working to develop the asset management sector further through a range of incentives. The family office tax incentive and the licensing regime for virtual assets trading platforms, for example, both launched in 2023, have been welcomed by the industry. They have been successful in attracting attention from investors and helping to put Hong Kong on the map as a dynamic and secure location for investment.

Another successful measure is the new Capital Investment Entrant Scheme (CIES), which was announced at the end of 2023. Under this programme, applicants must invest a minimum of HK$30 million in permissible assets. Applicants can bring their spouse and children, and after seven years will be entitled to apply for permanent residency.

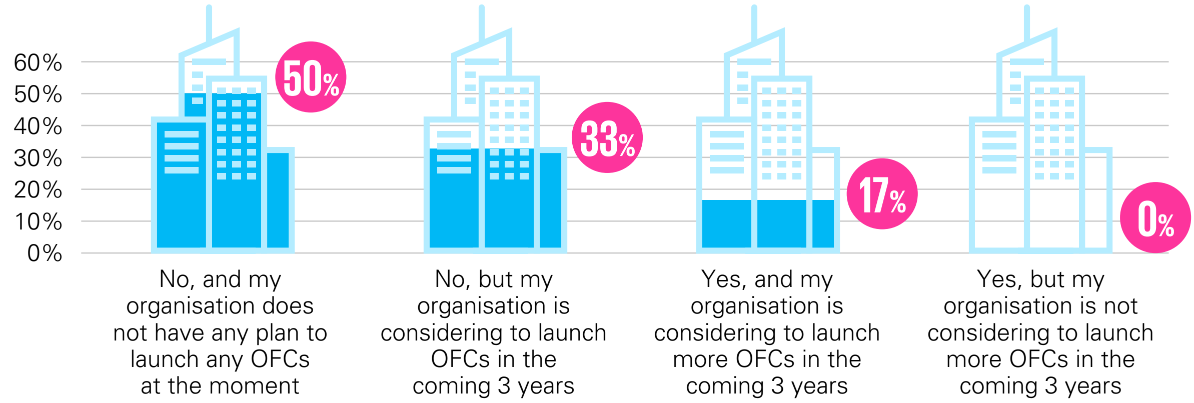
There are a variety of other measures and incentives to attract funds to Hong Kong. For example, the Limited Partnership Fund (LPF), an investment vehicle designed for closed-end funds launched in 2020, aims to help Hong Kong compete with other jurisdictions such as the Cayman Islands, while the Open-ended Fund Company (OFC) is also proving to be a popular fund vehicle due to its versatility and considerably lower set-up and operating cost than comparable alternatives. Both LPF and OFC can potentially enjoy tax exemption under the Unified Funds Exemption (UFE) regime. Industry commentators say that some further refinements to the Hong Kong fund tax incentives would improve their attractiveness to a broader range of asset managers in the future. (See further discussion on this topic in the ‘Recommendations’ chapter).



Our survey results (below) show that 50% of respondents have either launched OFCs already or are considering doing so in the medium term. The proportion that are not planning to launch OFCs may be reflective of the fact that HKIFA members include a significant number of global firms that are more likely to use the UCTIS structure.

Statistics from the SFC show that the number of registered OFCs is growing rapidly. There are now 302 registered OFCs, as of end of March 2024, up from 131 a year earlier[2].

Figure 2 **Has your organisation launched any Open-ended Fund Companies (OFC)?**



Since removing the Covid-era restrictions, the Hong Kong government has been making renewed marketing efforts. The initiatives to date include the Global Financial Leaders' Investment Summit, visits by government officials and senior banking executives to the Middle East and ASEAN, and the Wealth for Good Summit.

While Hong Kong's advantages as an IFC remain the same as ever, it cannot be ignored that the city continues to face challenges. Besides competition from other locations, the geopolitical climate has had an impact on the perception of Hong Kong as an autonomous city, which will affect confidence in investing in the city if it is not addressed.

[2] Securities and Futures Commission, Annual Report 2023-2024: https://www.sfc.hk/en/Published-resources/Corporate-publications/Annual-reports

Amid Hong Kong's ageing population, there are opportunities for asset managers to create new and innovative solutions to serve the financial needs of residents as they retire.

Darren Bowdern
Head of Asset Management Tax, KPMG ASPAC; Head of Alternative Investments, Hong Kong, KPMG China

Hong Kong local market

Besides international and Mainland Chinese investors, there are also evolving opportunities within Hong Kong itself amid the ageing population, an increasingly diverse client base and the availability of a broader range of assets.

Hong Kong's population is not only getting older, but its residents also enjoy a life expectancy that is among the longest in the world. The city also benefits from a three-pillar pensions system comprising government support, employment-related savings in the form of the Mandatory Provident Fund (MPF) scheme, and private pension options. But there remains an opportunity for asset managers to develop strategies to help fund a long and healthy retirement for Hong Kong people.

The mandatory contribution under Hong Kong's MPF system is 5% and is capped at HK$1,500 monthly, for both employer's and employee's contribution, which is relatively low compared to some other jurisdictions and may not be adequate to provide for a comfortable retirement.

However, there are major reforms to the MPF under way to help encourage Hong Kong people to take advantage of the opportunities to save for their retirement. Key among these is the eMPF platform, which will start to be rolled out this year, and will give members more transparency, lower costs, more products, and make it easier to switch providers.

Some interviewees suggested that the Mandatory Provident Fund Schemes Authority (MPFA) could consider making more asset classes, such as alternatives, available to investors in the future, as part of any future changes to the system.

Apart from accumulation products, there are also significant opportunities to bring decumulation products to Hong Kong, to allow customers to have wider choices to help them plan for retirement income. The availability of decumulation products could also encourage more people to keep their assets in the MPF system after they retire.

Outside of the MPF, there is an opportunity for asset managers in private pensions to create products and solutions to serve the financial needs of Hong Kong citizens once they retire.

Besides retirement products, there is a broader opportunity to serve an untapped pool of wealth management clients in Hong Kong. According to the interviewees, among the affluent residents of the city, less than 30% actually invest – and this figure has been stagnant for decades. However, more education will be needed on the benefits of long-term financial planning and portfolio construction if this proportion is to increase.

More people are travelling cross-border with the more convenient transport and permit arrangements. We expect this to continue, with more Hong Kong people living in the GBA and more mutual recognition of licencing and qualifications. This will drive integration of GBA and support the development of financial initiatives.

Rex Lo
Managing Director, Business Development, BEA Union Investment Management

2.3 Chinese Mainland opportunities and challenges

The Chinese Mainland market and Hong Kong's unique gateway role will continue to provide a significant portion of the opportunities for Hong Kong's asset managers.

The huge population, rising wealth and growing middle class will drive demand for asset management services, including pensions and insurance, which are relatively new for Chinese residents. In addition, large Chinese corporations with a global presence are likely to use Hong Kong as a base for their overseas revenue.

For international clients, Chinese domestic industries also offer a wide variety of investment targets. Hong Kong-based asset managers have the right mix of expertise, China experience and access to global markets to serve this broad and evolving potential client base.

Hong Kong's role as the asset manager has drawn support from governments on both sides of the border. Regulatory support in recent years includes a variety of policies and measures to enhance cross-border access and connections.

The biggest programme affecting Hong Kong is the Greater Bay Area (GBA) initiative, which is gradually opening up opportunities in Guangdong province to Hong Kong businesses. Interviewees noted that as the border restrictions are eased, and more people live and work across Hong Kong and Guangdong Province, there will be further opportunities to expand the current schemes.

For asset managers, the key schemes are the Mutual Recognition of Funds (MRF) and the Wealth Management Connect (WMC), introduced in 2015 and 2021 respectively, which make it easier for investors on both sides of the border to access each other's markets.

While both these programmes have limitations at present, they are widely welcomed as an important step in opening up the potential opportunities, and it is hoped that they will continue to be expanded and enhanced in the near future. Recent reforms in both schemes are positive signs that the government and regulatory bodies in both the Chinese Mainland and Hong Kong are committed to make improvements to these schemes.

While the Wealth Management Connect scheme has helped open up the GBA market, further enhancements would make the scheme more attractive to asset managers and clients.

Chee Hoong Tong
Partner, Wealth and Asset Management, Hong Kong, KPMG China

Chinese economy

The sheer size of the Chinese Mainland economy, the role it plays in global commerce and the strength of the RMB are some of the reasons why China is an important part of many asset management strategies. There are some headwinds, as the economy has not rebounded as strongly as expected after Covid, and the property sector and stock markets remain in a slump. However, several of our interviewees noted that the situation is more nuanced than the headline news suggests.

Firstly, the rate of growth is still reasonably good, especially by global standards. The nation saw a 5.3% GDP growth rate in the first quarter of 2024, following on from 5.2% growth in 2023. While this is less than the breakneck pace of growth seen in the recent past, nevertheless, it still demonstrates the economy's strength and resilience.

In terms of investing into China, increasing numbers of domestic companies are becoming significant players in global markets, providing attractive opportunities.

Despite the challenging environment and the geopolitical complications, clients still want to invest in the Mainland market. Interviewees reported that investors based in Asia, who are likely to have a better understanding of the landscape, are most interested at present. Global investors are less confident, but many remain interested in a market that is often described as being "too big to ignore".

A silver lining to the drop in Chinese stock markets is that valuations are now looking very attractive, and investors are now returning to the market with their eye on the longer term benefits.

Challenges in the Chinese Mainland market

While there are undeniably major opportunities in the Chinese Mainland, there are also challenges.

Firstly, foreign firms need to be aware that the market is quite different to Hong Kong and other developed jurisdictions. Institutional and retail investors alike are relatively new to asset management and have limited experience with concepts and products that are commonplace elsewhere in the world.

Investors in the Chinese Mainland have relatively limited experience of offshore investments, so foreign asset managers entering the market may need to make a bigger investment in educating potential clients about their services and products.

Arion Yiu
Partner, Asset Management, Hong Kong, KPMG China

Chinese investors in the past have tended to be focused on very stable cash deposits, or else short-term speculation in pursuit of high returns. They tend to be unfamiliar with mutual funds that grow slowly over the long term and cannot be redeemed early. Mainland investors often wrongly assume that investment products are capital guaranteed.

The regulators are working to help address misconceptions, explain risk levels, and introduce broader investing practices, but it will likely take some time before these messages are understood.

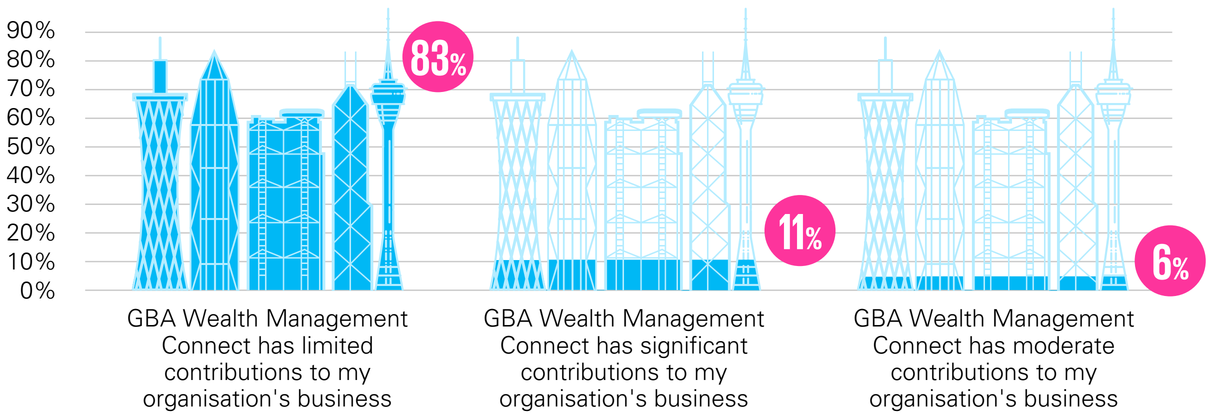
For now, firms active in the Mainland will find success by offering lower volatility and fixed income products. In time, however, it is expected that the risk portfolio will evolve and asset managers can help Chinese investors and corporates to navigate this transition.

Recent volatility in the Chinese Mainland also creates an 'unintended upside' for Hong Kong where there is elevated awareness among Chinese Mainland investors on the need for and benefits of diversification. This is providing a positive momentum to southbound flow, which provides Chinese investors with international exposure.

The ongoing China-US tensions are having an impact on sentiment that inevitably affects Hong Kong. Global players may be either refraining from investing or delaying decisions in the current uncertain climate. Other geopolitical issues, including conflict in Ukraine and the Middle East, and several upcoming elections globally, are adding to the uncertainty and creating more stress for the asset management ecosystem.

Asset managers based in Hong Kong also report a certain amount of frustration about some of the schemes to increase access to the Mainland market, such as WMC and MRF. While very attractive in principle, these programmes have a number of fairly tight limitations, quotas and restrictions, so adoption has been relatively slow to date.

Figure 3 **How much contribution does GBA Wealth Management Connect generate for your organisation?**



The HKMA and SFC have established comprehensive and strict guidelines for banks and asset managers in Hong Kong on advising clients. By leveraging our expertise, we hope that the government may allow Hong Kong licenced professionals to advise and sell in the GBA. This could start with a pilot scheme in the Qianhai Economic Zone, or by issuing temporary licences for Hong Kong individuals.

Ricky Li
Head of Business and Product Development, BOCHK Asset Management

There have been recent updates to both these schemes. Changes to WMC issued in February 2024, known as WMC 2.0, expanded the scheme to include securities firms, increased the individual investor quota and relaxed the scope of eligible products. In April this year, the China Securities Regulatory Commission proposed easing the current restrictions on the MRF scheme.

These recent refinements are big steps in the right direction that enable both asset managers in Hong Kong and their potential clients to benefit from the schemes.

Another major hurdle that foreign firms discussed, particularly in terms of WMC, is the fact that they are restricted in how they can carry out marketing, advisory and sales activities. This severely constrains their ability to introduce and explain their products to potential investors and was one of the most common issues raised during our interviews.

Many interviewees noted that the asset management sector in Hong Kong was very well regulated, and that the expertise of the city's licenced professionals would benefit Chinese Mainland consumers by being able to explain and introduce safe and appropriate products to clients.

2.4 Emerging trends: alternatives and ETFs, ESG, virtual assets, AI and technology, family office

We asked industry participants to share their thoughts on some of the major trends that are shaping the asset management sector at the present time.

Alternative assets and ETFs

A significant development in recent years that is expected to gather pace is the democratising of access to alternative assets. Previously, alternatives were mostly limited to institutional investors, but in recent years they have been joined by HNWIs and sophisticated professional investors. Now, there is an increasing amount of interest at the retail level, providing an opportunity for firms to create new products with a lower entry bar and with more liquidity.

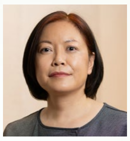
Many of the asset managers that we spoke to – including those that are mostly seen as traditional fund managers – had already responded to this shift in demand with offerings in areas including private equity, private debt, infrastructure and real estate.

While giving suitable investors in Hong Kong more access to alternative assets is a positive development, it is also important that these investors fully understand the liquidity and risk associated with each asset class.

ETFs have recently started to take off in Asia, including active as well as passive. These ETFs have been mainstream in the US for some time to the point where they are rivalling mutual funds, and have started to make inroads in Europe. Key benefits of ETFs are that they are diversified, low-cost, offer huge choice and are simple to access.

As ETFs are relatively new in Asia, there is a significant opportunity for firms to be the first movers in this potential growth segment, particularly given the growing interest among retail investors.

At the end of March 2024, a total of 179 SFC-authorised ETFs were listed in Hong Kong. The launch of ETF Connect in July 2022 has also spurred growth in the Hong Kong's ETF market turnover, and ETF's share of trading on the Main Board reached 14% in the first quarter of 2024.



The direction of travel is that everyone is upping their standards in terms of ESG disclosure requirements. Institutional investors and financial intermediaries are more conversant with what sustainability means and how to implement it overall. Retail investors, however, have varying level of understanding of what sustainability means in terms of risk and opportunities, so there is a need for more education.

Charlotte Chan
Head of HK Global Platform Solutions & Head of Hong Kong, Fidelity International

ESG

ESG has been one of the major talking points for the asset management sector for several years. However, it is also a complex topic given the lack of universal standards, evolving regulations globally, greenwashing risk and difficulty in accessing data. Despite these challenges, interviewees generally agreed that the ESG trend is here to stay and that it is ultimately good for the industry. However, more work will be needed to ensure investors across Asia understand the benefits and risks.

Adoption of ESG investing is being driven in part by regulatory requirements. Major corporates, particularly in the European Union, are raising their standards in terms of sustainable operations and ESG disclosures, while institutional investors are likely to be well versed in sustainability concepts.

Hong Kong is doing a good job on ESG in a number of distinct ways: product regulation, green bond issuance, innovation and investor education. To date, regulators have been specific on ESG reporting requirements and definitions of what is defined as sustainable. This clear regulatory environment should continue to benefit fund managers.

Charles Brooke
Managing Director, Head of Product, Business Development & Growth, Asia Pacific, Principal Asset Management Company (Asia) Limited

The EU is leading the way in terms of ESG regulations. Although Hong Kong is not as advanced, it is seen by many as the leader in Asia, and the SFC is praised for its efforts in terms of product regulation and education. The SFC is also quite specific in terms of reporting requirements and definitions of what is green, which is helpful for firms and investors that are trying to understand this complex and changing topic.

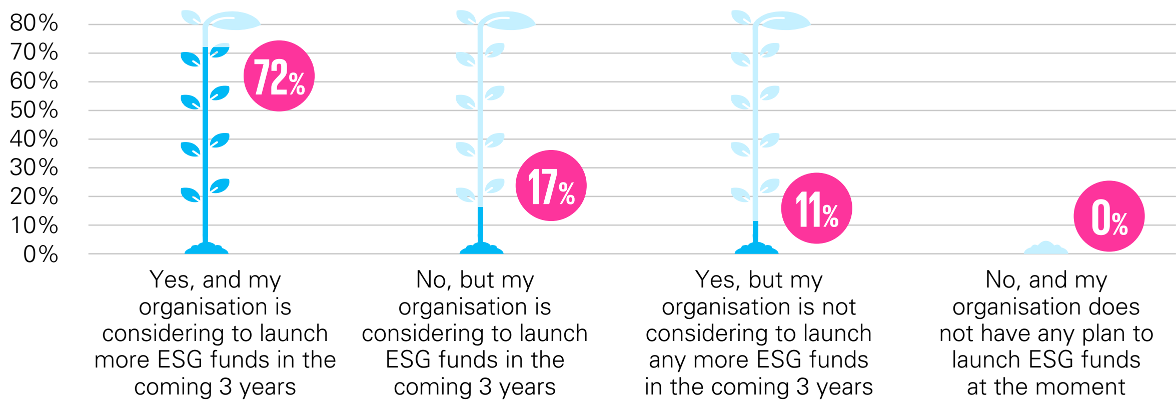
Some asset management firms based in Hong Kong have ESG-focused products and funds available. Many firms are also working towards integrating sustainability practices across their whole business. Several firms interviewed mentioned that they went above and beyond current regulatory requirements in Hong Kong, in areas including ESG disclosure and employee ESG certification.

As the Chinese Mainland undergoes its own sustainable transition, there will be opportunities for Hong Kong to provide the transition finance to help the nation meet its carbon-reduction targets. Firms could take the opportunity to develop new asset classes for China and sell to global investors in areas such as infrastructure debt and renewable energy.

But while Hong Kong is a regional leader in ESG, there is concern that some investors treat sustainability as a box-ticking exercise. ESG can also be a costly exercise. Not only does it require additional resources, but it also means that firms may be more restricted in the industries where they make investments. As a result, some firms may not take action to become more sustainable unless tougher regulatory requirements are introduced.

The path to sustainability is not smooth, and the topic has lost some momentum in recent years. This is partly due to the relatively risk-averse current climate amid global economic uncertainty. There has also been some pushback on ESG more generally as the topic has become politicised, particularly in the US.

Figure 4 **Has your organisation launched any ESG funds in Hong Kong (including introducing overseas ESG funds to Hong Kong)?**



Hong Kong's recent work to support the development of virtual assets has successfully put the city on the map as an innovative hub for this emerging asset class.

Nelson Lee
Partner, Asset Management, Hong Kong, KPMG China

Virtual Assets

Virtual assets have been another hot topic in the past few years. The market has seen a lot of volatility including the high-profile collapse of a number of operators. On the other hand, virtual assets continue to garner interest among investors, particularly the younger generation, and investment options including virtual asset ETFs are becoming more widely available.

Hong Kong has been making efforts to establish itself as a hub for the virtual assets sector. These include the licensing system for virtual assets trading platforms launched in 2023, and circulars offering guidance on tokenisation. On 30 April, the Hong Kong stock exchange welcomed the listing of Asia's first spot virtual asset ETFs, giving investors access to a new asset class and further strengthening the city's virtual assets ecosystem.

ETFs related to virtual assets are also a global trend: for example, the US approved Bitcoin ETF in January this year and a number of the biggest global asset management firms have launched their own spot virtual asset ETFs recently.

Virtual assets remain volatile, however, and among interviewees for this report there was little interest in virtual assets as an asset class at the present time. This was also reflected by our survey results. It is worth noting that the surveyed firms are HKIFA members which are mainly focused on traditional asset classes, so does not necessarily reflect the whole market.

Figure 5 **Does any investment portfolio managed by your organisation contain exposure to virtual assets?**

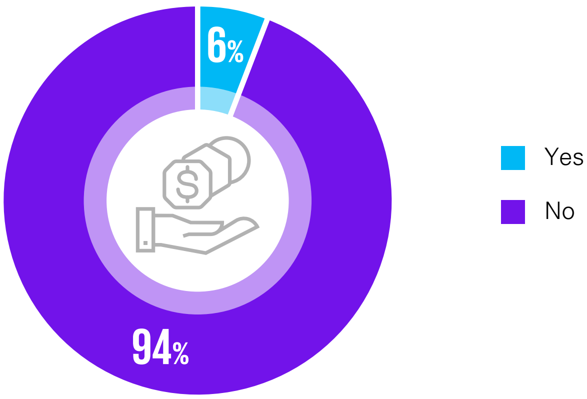


Figure 6 **Has your organisation launched any SFC-authorised funds that have exposure to virtual assets?**

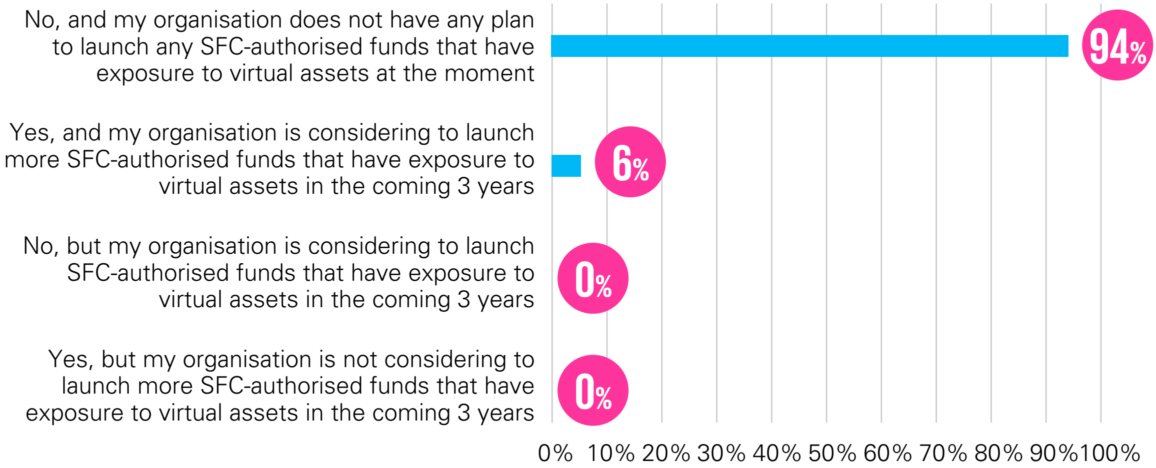
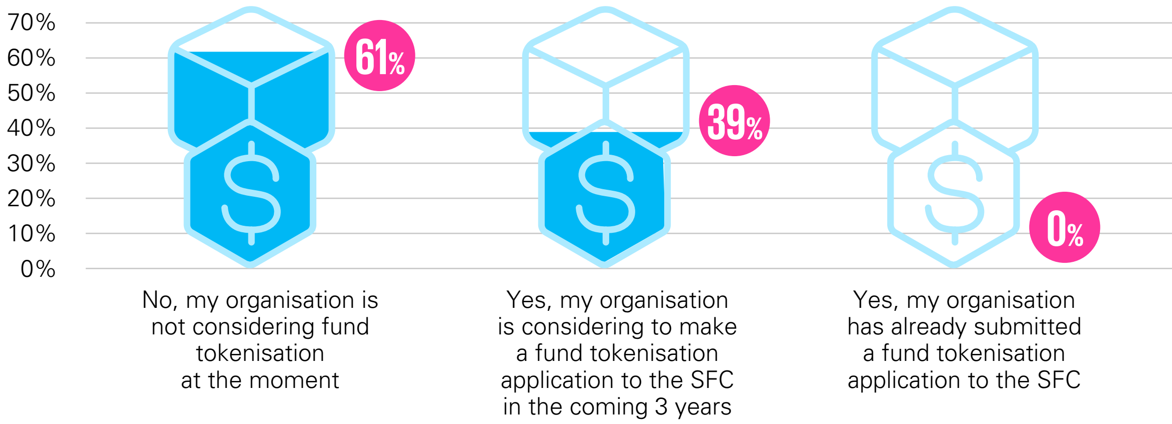


Figure 7 **Is your organisation considering fund tokenisation in Hong Kong?**



Another aspect of virtual assets is the underlying technology, and there was notably more interest in this area among interviewees, including fund tokenisation. A significant minority of survey respondents said they were considering applying to the SFC to apply for fund tokenisation in the future.

Some firms are already using the underlying technology such as blockchain and distributed ledger technology (DLT) to improve operational efficiency, while other firms are planning to do so. The technology may have a variety of uses and firms are keen to explore the possibilities.

The SFC also supports the responsible use of innovative technologies such as DLT and encourages tokenisation of traditional securities and investment products. The regulator authorised the first public gold token earlier this year.

In general, more products including virtual assets on the shelf will foster a healthy industry dynamic. If Hong Kong gets a reputation as being an innovative location, this will attract more innovative firms and people. Local asset managers could then cooperate with the newcomers to serve the changing market.

Charlie Tsai
Head of Strategy, Asia Pacific, Natixis Investment Managers

Technology is bringing changes to the management of funds. In distribution, activities have moved online and this trend will continue, driving a need for more robust cybersecurity and faster investment services. There is also a lot of potential for AI to be used in investment research that will save time for financial analysts.

Grace Ho
Head of Retail Wealth Distribution and Head of Direct Digital Business & Portfolios, Wealth & Asset Management, Asia, Manulife Investment Management

Although interviewees said they were not presently investing in virtual assets themselves, they were broadly supportive of the Hong Kong Government's efforts to develop the sector. They noted that the recent regulatory developments were helping to make Hong Kong a safer place for fund managers that are keen to embrace these emerging asset classes, while also putting the city on the map as a progressive jurisdiction that encourages the development of new technology.

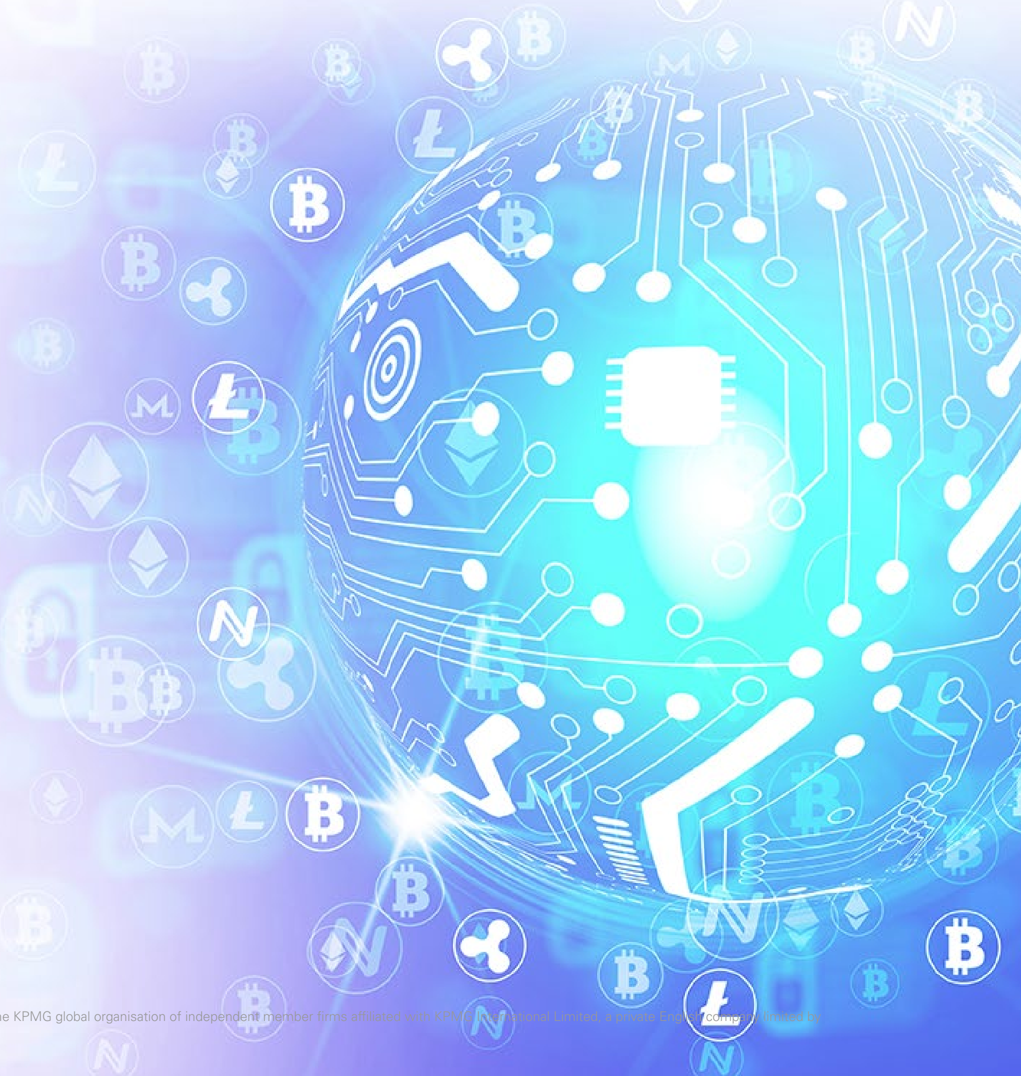
While there are potential opportunities emerging across alternatives, ESG and virtual assets, more education will be needed in all of these areas, to ensure that investors are aware of the risks involved, and also to encourage people to enter these markets if their risk profile allows.

AI and technology evolution

Technology has advanced rapidly since the Vision 2025 report was released. Asset management firms recognise the importance of staying up to date, and acknowledge that the industry has sometimes been slow in the past to adopt emerging technology.

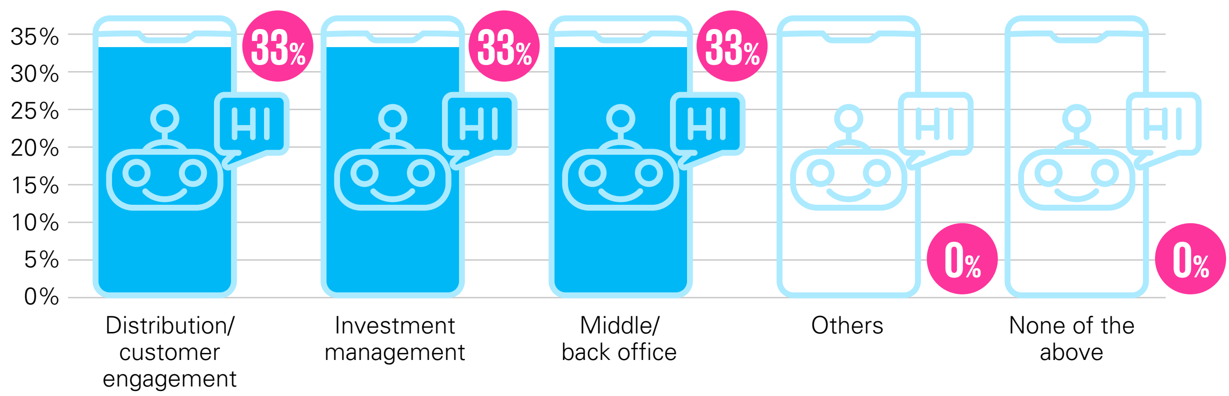
This is now changing, and firms report that they have been investing in technology and resources to improve efficiency and customer experience, and to free up research analysts to do more meaningful work.

Emerging technology including artificial intelligence (AI) and DLT is being put to use, particularly in the back and middle office, in areas including analysis, targeted marketing, drafting reports, generating ideas, data gathering and reviewing anomalies.



However, although AI will be increasingly useful in research and information gathering, interviewees emphasised that they will not use AI to make the actual decisions on investment choices. Human insights will continue to be essential to not only analyse and understand the results, but also to explain them to clients. Although such technology can also be used in some areas of marketing, distribution and customer engagement, face-to-face connections and building relationships will continue to be a defining characteristic of how the industry operates.

Figure 8 **Where do you find the most applicable use cases for adoption of Artificial Intelligence in your organisation? (You can select more than one)**



In its ambition to become an AI hub, Hong Kong needs to commit completely with government support for the development of AI. Hong Kong could encourage the growth of AI through regulatory measures, as has been done successfully with virtual assets.

Philip Tso
Head of Institutional Business Asia Pacific, Allianz Global Investors

Technology's impact has also created some challenges, including concerns about risk and data privacy. Increased efficiency could also have a knock-on impact as buyers and sellers can react more quickly, which may lead to more volatility and uncertainty.

Another way that technology is changing the market is in terms of how people invest. The younger generation are keen to use technology to do their own research and trading, so firms will need to adapt to this different approach. Firms will need to not only have online products available to serve this demand, but also the necessary cybersecurity protections.

If it can continue to build on its current strengths in technology, Hong Kong is in a good position to serve as an AI hub for the region. However, this will require more regulatory support as well as focused efforts to attract and retain the talent needed in this specialised technology area.

Family offices

The family office regime in Hong Kong is a good example of how regulatory support and targeted initiatives can be successful in attracting interest and investment. The rising number of HNWIs in the region and globally are in need of a suite of wealth management and other services that can be provided by family offices. Several interviewees noted that they were expanding their ability to cater to this rapidly growing market.

The landscape for family offices is evolving, with different types of office with different levels of sophistication and investment goals. Fund managers will need to adapt to make sure products and solutions are appropriate, and that they are taking a client-focused approach.

Singapore moved before Hong Kong to introduce a package of measures that successfully increased the number of family offices in the city-state. However, Hong Kong is seen as having caught up to a certain extent. In 2023, it introduced a variety of measures, including exempting eligible transactions from profits tax, more funding for InvestHK to focus on family offices, and plans for the Academy for Wealth Legacy.

The CIES scheme mentioned earlier has also been a boost for family offices, as it encourages and facilitates wealthy overseas residents to come to Hong Kong and to invest in a variety of assets in the city.

2.5 Talent: evolving landscape

To retain its role as a global asset management hub, Hong Kong must have the best talent. Our survey and interviews revealed mixed views on this topic.

Hong Kong's broad and deep talent pool is one of the key pillars of its status as a global financial centre, and the asset management sector is a beneficiary of this. Many interviewees remarked on the high quality of financial services talent in Hong Kong. Professionals in Hong Kong have the skills to serve both clients in the Chinese Mainland and international firms seeking China opportunities, as well as the knowledge and experience to serve the wider APAC region. This is an extremely valuable quality of Hong Kong.

Interviewees reported that Hong Kong's talent pool is dynamic, diverse, international, pragmatic and focused. They also have a good work ethic, are ambitious, resourceful and deliver a calibre of service -- especially to HNWI clients -- that cannot be found elsewhere in the region.

Several interviewees also said that Hong Kong is the leadership hub for their firm's asset management for the APAC region, and that the core team will remain here for the foreseeable future.

On the other hand, most interviewees also reported some level of workforce challenges. In particular, there are shortages at the senior level, as well as in middle and back office areas including compliance, fund accounting, product development, and operations.

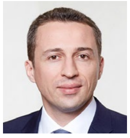
This is partly as a result of an exodus from Hong Kong of both domestic and expat talent in recent years - particularly middle-class, mid-career people, often those with young families. However, many interviewees noted that this trend has now stabilised, and there is even a trend of some people returning to Hong Kong after a few years overseas.

Another challenge is that asset managers can find it difficult to compete with the high salaries on offer in some other areas of financial services, such as private banks.

Leaders and young talent

Having the right people at the top is crucial for any industry, and asset management leaders today must be flexible, pragmatic but take risks, and able to operate across different competencies.

The landscape for top executives has also changed. Leadership in the past was relationship driven, and executives tended not to share their methods or client access. But while relationships remain as important as ever, a more holistic approach is needed today that allows different team members access to clients.



The investment management industry continues to be a business rooted in fostering meaningful relationships with colleagues and clients, where in-person interactions are irreplaceable.

Guillaume Levi
Managing Director - Head of Investment Management Asia & Greater China Financial Services, Russell Reynolds

In Hong Kong, there has been a notable shift in leadership demographics in recent years towards a more local focus. The proportion of APAC CEOs who are from the region has grown to be more than half of the market. Research from Russell Reynolds found that the proportion of Asian and local talent in "Head of Asia" roles had grown from 31% in 2019 to 51% in 2023. Foreign people in leadership roles in Asia are often those who have many years of experience working in the region.

In addition to the evolution at the top level, there has also been notable localisation of the talent pool at mid and senior levels.

A less welcome trend has seen younger people, including international talent, leaving for locations including Singapore, the Middle East and Europe in the past few years. Geopolitical tensions have also affected recruitment, with young global talent – particularly from the US – less willing to come to Hong Kong. However, these trends seem to have stabilised recently.

The pandemic has had an impact on the quality of younger workers, according to some interviewees. This may be because younger staff members missed out on direct interaction with senior colleagues and clients due to remote working. To address this, firms should be clear when they are hiring younger talent about what is expected for their career development and how they can demonstrate that they are ready to step up and take on more responsibilities.

Besides the impact of the remote working trend, businesses are also dealing with rapid technological shifts that are also changing how the industry operates. In such a relationship-driven sector as asset management, it is crucial that firms retain their client-focused approach.

The Hong Kong government has been doing a lot of work to attract global talent since the end of the pandemic restrictions. A major policy is the Top Talent Pass scheme, launched at the end of 2022 and open to graduates of elite global universities or those with an annual income of at least HK$2.5 million. There are also more specific programmes, such as the Academy for Wealth Legacy, launched in 2023, which will train talent for the growing family office sector.

It is worth noting that the topic of talent had the most diverse responses of any of our questions: two interviewees said they had no problem finding talent in Hong Kong, while another reported that the shortages were acute. Most respondents reported some level of challenge in finding the right talent.

But even if talent shortages are not severe, the asset management industry still needs to make continual efforts to attract and retain staff, refresh skills, and ensure that the sector is building a pipeline of talent for 2030 and beyond.

In addition, manpower is an issue that is affecting many sectors. In this year's Hong Kong Executive Salary Outlook 2024, 97% of C-suite and HR respondents to the survey said that they were experiencing challenges finding the right talent[3].

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[3] KPMG, Hong Kong Executive Salary Outlook 2024: https://kpmg.com/cn/en/home/insights/2024/03/hong-kong-executive-salary-outlook-2024.html

3 Government and regulator insights

3.1 Financial Services and the Treasury Bureau

Joseph Chan

JP, Under Secretary for Financial Services and the Treasury, The Government of Hong Kong SAR, shared his insights and vision for the asset management sector

Discussing the outlook for the asset management sector, Under Secretary Joseph Chan noted that Hong Kong is already well established as the largest asset management in the region.

"And we don't only have scale, we also have growth," he added. "Hong Kong achieved the highest AUM growth rate among top booking centres from 2017 to 2022, posting a CAGR of 13%."

Chan noted that we are all familiar with Hong Kong's core competitiveness in areas like free flow of capital, simple and low tax regime, and the financial stability provided by the Hong Kong-US dollar link.

"But even though we can offer these core advantages, we need to keep reinventing ourselves to stay competitive," Chan said. "For example, with the Wealth Management Connect Scheme, where we rolled out WMC 2.0 in February 2024."

The asset management industry has welcomed the latest enhancements, and are hoping for further relaxations. Chan did not comment on future plans for WMC. However, he referred to the Bond Connect and Stock Connect schemes, which have evolved and expanded.

"So you can expect that the WMC will continue to take feedback from the market, observe how business is being conducted and learn from the experience. There will always be room for enhancement in breadth and depth."

ESG, technology and tax

ESG is a priority for Hong Kong. Supporting sustainable development is an important part of the city's standing as an IFC as well as in its role as a responsible global citizen.

"Using our capabilities as a capital formation centre and as a financial intermediary, we can support the green transition of economies in Asia," Chan said.

Hong Kong is also making efforts to stay ahead of the rapid technology advances that are reshaping the sector.

"Fintech will transform traditional financial services. It will replace a lot of traditional functions, and will also create new products and services," Chan said. "We were among the first jurisdictions to offer licences to virtual banks and virtual insurers. When regulations are needed or when funding is needed, we won't be shy with moving forward."

On tax, Chan said that it is crucial that Hong Kong maintains its simple and low tax regime, and it must also remain transparent, certain and predictable.

"Some other jurisdictions may introduce a tax exemption to a certain sector, but then roll it back again later," he said as an example. "When we introduce a tax incentive, we do an in-depth consultation first, and are less likely to make revisions."

As tax is a core competitiveness of Hong Kong, the FSTB will continue to promote active dialogue with the industry to understand the challenges of the existing tax measures and come up with solutions.

Attracting talent

Attracting the right talent has been a challenge in recent years. This was partly driven the pandemic, but there are other trends at play.

"A fundamental reason for the talent shortage is that the financial services sector has grown so quickly in recent years, so naturally it is difficult to find talent," Chan said, adding that the shortage is particularly acute in areas that have seen rapid growth, such as ESG and fintech.

This is not an easy problem to solve, but Chan noted the positive impact when people visit Hong Kong, as they see the true picture.

Industry events play a key role in bringing people to the city: the annual FinTech Week was launched in 2016 and is now a well-established event, while the recent Wealth for Good summit attracted around 400 of the world's top family offices. Hong Kong government representatives have also been actively making overseas connections, and Chan himself recently visited the Middle East, Switzerland and Spain.

These efforts to build overseas connections will continue as part of the government's work to develop the asset management sector and attract talent.

"Financial professionals are very mobile: we need to ensure that they are aware of the opportunities in Hong Kong," Chan said. "Our job as the government, with support from the private sector, is to make sure they know about the opportunities."

3.2 Securities and Futures Commission

Christina Choi

Executive Director (Investment Products) of the Securities and Futures Commission, discusses the regulator's plans to support the development of the sector

To understand the SFC's plans for the next few years, Executive Director Christina Choi suggested it would be best to start with the regulator's three-year strategic priorities for 2024-2026[4], issued in January this year. The strategic plan specifies the SFC's priorities in regulation and its approach to enhance the competitiveness of the capital markets of Hong Kong, which focuses on four prongs:

- Maintaining market resilience and mitigating serious harm to our markets
- Enhancing the global competitiveness and appeal of Hong Kong capital markets
- Leading financial market transformation through technology and ESG
- Enhancing SFC's institutional resilience and operational efficiency

To achieve these priorities, Choi highlighted the importance of the Central Government's support for Hong Kong. For instance, the China Securities Regulatory Commission (CSRC) announced in April five measures to strengthen the city's status as an international financial centre, including three measures related to asset management: enhancements of the ETF Connect, inclusion of REITs in the Stock Connect scheme, and enhancements of the Mainland-Hong Kong Mutual Recognition of Funds (MRF) arrangement.

These developments are the fruit of the continuous efforts of the SFC and the CSRC in developing connectivity across the Mainland and Hong Kong markets and deepening their integration in the long term. The industry's feedback has provided important inputs for regulators in formulating and enhancing these schemes and responding to the changing market conditions.

"Stock Connect will soon celebrate its 10th anniversary and we have been seeing expansions and enhancements from time to time since its launch. For example, we are anticipating the introduction of block trading under the Stock Connect, which we jointly announced with the CSRC last year," Choi said.

Likewise, the Greater Bay Area (GBA) Wealth Management Connect (WMC) scheme has recently been enhanced with an expanded scope of products and participants, increased individual investor quota, refined eligibility criteria for investors as well as enhanced sales and promotion arrangements. Acknowledging that the industry is keen to see further enhancements, Choi reminded that market liberalisation measures need to be carried out step-by-step. She encouraged the fund industry to make good use of the existing schemes and build up a strong track record to back up the pursuit for further enhancements.

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4 Securities and Futures Commission, SFC's Strategic Priorities for 2024-2026: https://www.sfc.hk/en/Published-resources/Corporate-publications/SFC-Strategic-Priorities-for-2024-2026

Choi noted Hong Kong-domiciled funds are increasingly used in the public fund space as vehicles to offer offshore investment products to Mainland investors, via schemes like MRF and WMC. Hedge funds and private funds are utilizing more Hong Kong vehicles of different structures, such as Open-ended Fund Companies (OFC) and Limited Partnership Funds (LPF). While Mainland asset managers in Hong Kong are setting the trend, Choi hopes that more international firms will follow suit to leverage Hong Kong as a natural springboard for Mainland capital and investors eyeing overseas opportunities.

"I would urge the industry to make good use of the MRF and other mutual access schemes," she said. "This is an opportunity for international managers to use their expertise and offer offshore solutions and products, to diversify allocation and mitigate risks for Mainland Chinese clients."

International hub

Besides the China opportunities, the SFC is taking a wider perspective. "While enhancing connectivity with the Mainland is a priority, we are also extending our reach to foster closer collaboration with other markets including the Middle East and the ASEAN region, both being key regions under the Belt and Road Initiative," Choi said.

Hong Kong's recent efforts to cement ties with the Middle East, for example, are now delivering results: HKEX welcomed its first ETF investing in Saudi Arabian equities in November 2023.

"Both Asia and the Middle East are showing broad-based economic growth, and the room for them to increase intra-Asia asset allocations remains aplenty." Choi said. "We and our 'new friends' still have a lot to learn about each other. The markets are fragmented but the wealth accumulation and investment needs are huge from these markets, and Hong Kong has a lot to offer."

Technology and product development

One area where Hong Kong is taking a leading role is virtual asset regulation and the use of technology. Since 2018, the SFC has been developing a comprehensive framework to regulate a range of virtual asset-related activities, including the licensing regime for virtual asset trading platforms in 2023 and the introduction of virtual asset spot ETFs in April this year.

"We have always adopted the 'same business, same risks, same regulation' approach," Choi said. "This is a principle endorsed by different international regulatory bodies like the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) as the foundation of how we should look at such innovations."

Despite volatility of virtual assets, the regulator is well aware of the demand from both retail and professional investors. The SFC decided to formulate a regulatory regime for activities in this asset class to ensure that investors who wish to gain investment exposure are able to invest in a regulated environment.

Looking ahead

Choi is positive about the financial sector's prospects given Hong Kong's unique strengths: "Hong Kong remains very committed to being an international financial centre, embracing international standards, and promoting best practices, investor protection and risk management to be a trusted platform for investors all over the world."

In addition, she noted wealth management needs in Asia and beyond will continue to grow and drive demand.

"Hong Kong is unrivalled in its connectivity with the Chinese Mainland, and given a trusted and well-regulated regime, we have more to offer to the markets and investors within the region with our product diversity and expertise." Choi said. "I'm confident that growth opportunities abound for the wealth and asset management industries."

4 Recommendations

During the research process for this report, industry players shared their thoughts on a wide variety of areas where the current landscape could be enhanced. In this section, we summarise some of the key recommendations and suggestions that emerged from our survey and discussions.

4.1 Raising awareness

A clear theme that emerged from the interview process was the need for greater education as the asset management landscape continues to evolve. The topic of education cropped up across a wide range of areas: from new and seasoned investors to industry staff, as well as in fast-evolving sectors including ESG and alternatives.

Retail investors

After the global financial crisis, many retail investors benefitted from a long period of rising stock and property markets, quantitative easing and low interest rates. Now that the cycle has moved on, there is a role for asset managers to help these investors amid a very different environment.

A key hurdle is that retail investors in Asia have relatively little understanding of mutual funds and of long-term investing, including pensions. This is particularly the case in the Chinese Mainland and developing Southeast Asian markets, but is also true of Hong Kong, which is relatively underpenetrated in wealth management.

Firms should make more efforts to educate customers about investment products, building a portfolio and investing cycles. It is important that firms speak to potential customers in layman's terms, explain the metrics involved and are clear about the risks as well as benefits involved.

Alternatives, ESG and virtual assets

Education of retail investors is particularly important at the current time, as a wider range of options are becoming available including alternatives, ESG and virtual assets.

On alternatives, there is growing demand from investors for options other than mutual funds. To serve this demand, asset managers would like the authorities to broaden the scope of investment options that they can sell to clients. At the same time, they must work together to ensure that appropriate guardrails are in place and that investors understand the risks of more illiquid assets.

A similar story applies to ESG-related products. While large companies and institutional investors are relatively well-versed on sustainability issues, there is still a lot of work to do to help retail investors be more confident about sustainable investing. ESG reporting involves a variety of complex metrics and disclosures, so there is a role for asset managers to explain these topics in a way that the layman will understand.

Undoubtedly, some of the most dramatic investment stories in recent years have involved virtual assets. Rocketing gains in cryptocurrencies and non-fungible tokens (NFTs) attracted many retail investors, however, many of them were caught out when values subsequently plummeted.

While there is a space for such volatile assets, the industry would like greater education of investors to ensure that they are fully conversant with the risks involved.

Educating different generations

Different generations of investors will also need targeted advice and education as their needs and expectations are quite different.

It is crucial that the industry encourages younger people to start investing earlier. This section of the market has always been challenging as young people tend to have relatively little interest in mutual funds and long-term investing.

A key focus of education of younger people should therefore focus on how mutual funds can reliably make money over the long term. At the same time, education about riskier assets like cryptocurrencies is important. Firms could consider partnering with the government to visit universities to discuss the topic with students and share their insights.

As younger and more technology-savvy generations start to invest, asset managers will need to have the right products available, particularly online distribution.

Those approaching retirement will also need specific advice about how to understand the options available. The government and regulators have made efforts recently to promote the various options available in Hong Kong, such as the annuity and reverse mortgage programmes from the Hong Kong Mortgage Corporation.

There is also a need for continuing education of asset management staff, particularly frontline sales people, to ensure they can offer clients the most appropriate choices, and can explain the risks and benefits of different investment options.

Chinese Mainland

While some of the biggest opportunities for Hong Kong's asset management industry are emerging in the Chinese Mainland, this is also where there is considerable need for education.

Mutual funds have only been available for around 20 years, so this is the first time that many Chinese people have experienced the downturn part of a cycle. The current situation is affecting sentiment, so there is a need to help people understand the cyclical nature of long-term investing.

Private pensions are also a new concept that needs greater understanding of the benefits of starting to save at a younger age.

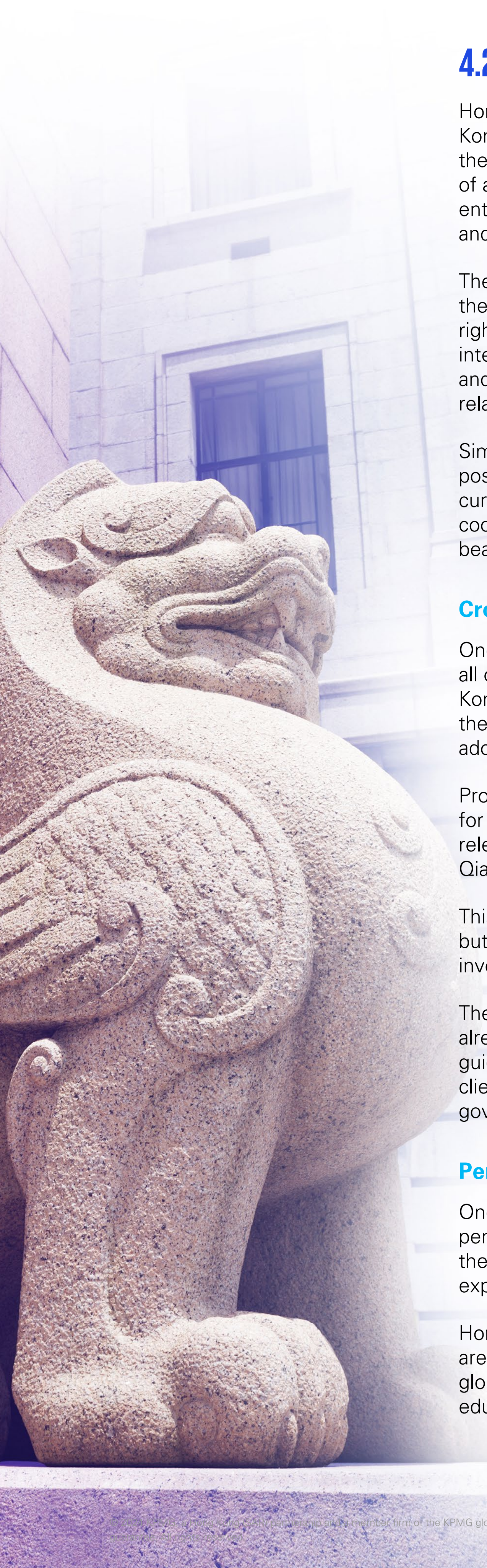
It is not just about retail investors. Because the asset management sector is relatively new on the Mainland, corporates and domestic industry players would also benefit from education.

Hong Kong-based asset management firms, with their wealth of experience, expertise and professional talent, would be ideally placed to share their insights. This would have mutual benefits of improving the standards of the domestic industry while providing more opportunities for foreign firms.

In providing education about asset management, it is important that industry, regulators and government work together. This will ensure that firms are not seen as "selling" when they share information, particularly with consumers or students, about the sector.

To this end, a task force could be set up that would include members from a variety of stakeholders including government, regulators and the asset management sector. This would provide a holistic overview of the environment and a platform to discuss education as part of encouraging the industry's growth.

	Actions and recommendations
Retail investors	• Raise awareness among retail investors about variety of investment choices, including long-term funds and riskier assets • Share information about long-term investment at an earlier stage, such as with university students
Retirees	• Build on current campaigns to explain different retirement options • More education needs to be provided to the public about the importance of earlier retirement planning
Sales staff	• Firms should ensure that their frontline staff understand evolving product offerings



4.2 Access to Chinese Mainland opportunities

Hong Kong asset managers appreciate the efforts that the Hong Kong and Central governments and regulators have made to open the borders for financial services firms. However, there are a number of areas where foreign firms face hurdles that dissuade them from entering the Mainland market, making use of the schemes available, and providing the services and expertise that they are capable of.

The cross-border schemes are a case in point. As mentioned earlier, the recent refinements to WMC and MRF are welcome steps in the right direction, but the industry is hopeful of further reforms. During the interviews, many speakers welcomed the expansion of product range and quotas in WMC 2.0, but were already looking ahead to further relaxation that may come with a future WMC 3.0 and even 4.0.

Similarly with the MRF, while the proposals announced in April are also positive developments, the industry hopes to see further easing of the current restrictions. In general, asset managers hope that continuing cooperation and discussions on access to the Mainland market will bear more fruit in the near future.

Cross-border promotion and advisory

One of the biggest hurdles, and an issue that was raised by virtually all of the interviewees, was the fact that fund managers in Hong Kong face a number of restrictions in how they can promote and sell their products through the WMC scheme. This is another reason why adoption has not been as high as had been anticipated.

Proposals to ease the current restrictions include a licencing scheme for staff who are already licensed in Hong Kong, mutual recognition of relevant qualifications or licences, and a pilot scheme, possibly in the Qianhai Economic Zone.

This would not only be a huge benefit to Hong Kong-based firms, but would also benefit Mainland clients by providing the appropriate investor education and advice on the products that are available.

The industry is keen to reassure the Central government that that they already have very high standards of investor protection under the SFC's guidance, and will not introduce risky and exotic products to Mainland clients. Asset managers may need some support from the Hong Kong government in sharing this message.

Pension alternatives in Chinese Mainland

One of the major opportunities in the Chinese Mainland is in the private pensions market. As the current public system may not be able to fund the retirements of the nation's ageing population, there is a need to expand private pensions.

Hong Kong's asset managers have a great deal of experience in this area, including a broad range of pensions products and insight into global best practice. They also have experienced staff that can help to educate Chinese consumers on the benefits of pension planning.

There is the potential for developing a scheme that would build on Hong Kong's experience in retirement planning to share this expertise with Mainland clients. Such a programme could be modelled on the Connect schemes, and could potentially be linked to Hong Kong's well-established MPF system.

Like with other types of investment, private pensions are a new concept for the average Chinese citizen, so a lot of education will be needed. Foreign firms can also cooperate with their industry peers on the Mainland to develop appropriate pensions product for the Mainland markets.

	Actions and recommendations
Cross-border and GBA schemes	• Schemes such as WMC and MRF are welcome in principal, but restrictions affect firms' interest and investor appetite • Suggest further expansions to quotas and investment caps for both schemes • Streamline application process and reduce supporting document requirements for MRF
Marketing	• Consider relaxing the restrictions on Hong Kong-based firms relating to sales and marketing activities for WMC in the GBA. Initial stages could include: - a licensing system in GBA for Hong Kong-licensed professionals - pilot scheme in one area of the GBA to start - mutual recognition of licenses across GBA
Mainland pensions	• Propose regulators develop a scheme to enable the Mainland to benefit from Hong Kong and global experience in pensions.
Further opening up of the onshore China market	• More broadly review restrictions on foreign firms and ease where appropriate

4.3 Hong Kong landscape

Hong Kong's many advantages as an international financial centre and an asset management hub, as discussed earlier, remain as strong as ever. But given today's uncertain landscape, and challenges from geopolitical tensions to competition from other cities, now is the time to take actions that will strengthen Hong Kong's status as the region's asset management hub.

A key point made by many interviewees is that incentives offered in Hong Kong must be at least as good as those offered in other jurisdictions.

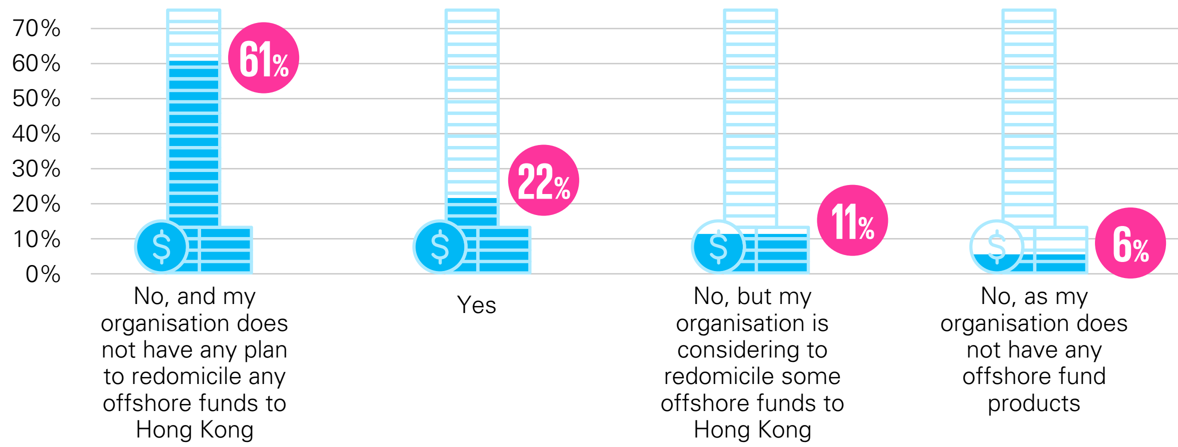
The tax concession for family offices, which came into operation in May last year, is a good example of a policy that has had a positive impact. The measures have successfully attracted interest from family offices and HNWIs from regions including the Middle East and Europe.

However, some of the other policies introduced to support the asset management sector have not been as successful as had been initially hoped.

These include the Carried Interest Tax Concession. This is a good incentive in principle, but the industry has run into some practical difficulties in fulfilling the requirements. For example, there is a requirement that the fund must allocate the carried interest through a person in Hong Kong, and that the fund must be certified by the HKMA - which are not the usual practice.

Another example is Unified Funds Exemption (UFE) regime, which exempts funds from profits tax so long as certain conditions are met. However, there is a lack of clarity around whether the concession applies to some alternative asset classes and fund management structures. Expanding the exemption to a broader range of investments managed from Hong Kong and providing more clarity about the coverage of the exemption would make this incentive more useful to the industry and help to attract more funds to the city. The benefit to Hong Kong would be having more of the asset management functions and alternative investments being managed from Hong Kong.

Figure 9 **Has your organisation redomiciled any funds to Hong Kong?**



Unit Trusts are also encumbered by requirements for daily liquidity reporting, which needs resources. If this were relaxed to monthly liquidity, that would make unit trusts more attractive.

However, the SFC is currently planning a review of the Code on Unit Trusts and Mutual Funds, to ensure that the regulatory regime is up to date and in line with international standards. Planned enhancements to the code aim to cater to a broader range of fund types, investment strategies and investable assets for SFC-authorised funds.

Access to alternatives

The industry has also been asking for more favourable tax treatment for alternative assets including private credit, real estate and infrastructure, as these assets become increasingly popular in Asia.

Hong Kong's financial regulators are applauded for doing an excellent job in protecting investors and creating a safe and transparent environment for investment. Amid the growth in interest in alternatives, now may be the right time to increase access to these asset classes for retail and other investors. Appropriate guardrails should be in place, for example, a limit on the proportion of a portfolio that can be put into risky or illiquid products.

Access to alternative assets could also be applied to pension funds in Hong Kong. The MPF is more restrictive in this regard than in other jurisdictions, such as Singapore's Central Provident retirement scheme. The government could consider allowing investment in global infrastructure at first, which is a long-term and relatively safe asset class.

Opening access to alternatives would also signal that Hong Kong is a progressive and dynamic hub that is evolving in response to the market.

Another way to promote long-term investing is to encourage people to invest more for their retirement. It may be unlikely that the level of mandatory contribution to the MPF of 5% will increase, so other methods such as financial incentives could be considered to encourage Hong Kong citizens to save more.

Liquidity and IPOs

A major challenge facing the asset management sector has been the low number of IPOs in recent years in Hong Kong and the Mainland, which has affected liquidity. There is relatively little that the government or regulators can do amid the current economic climate, however, the introduction of Chapter 18C and GEM listing reform have removed some restrictions and broadened the scope of companies that can list in Hong Kong. Other steps to encourage IPOs and enhance liquidity would be welcome.

It is hoped that the recent upswing in the Hong Kong stock markets will help to improve sentiment and revive the number of listings in the near future.

Talent proposals

While Hong Kong has been working to attract global talent through a number of schemes, interviewees would like to see more efforts to develop local professionals. If Hong Kong is to maintain its unique role as a global financial hub and the gateway to China, it needs to maintain a mix of global, Mainland Chinese and Hong Kong talent.

This can start through greater cooperation between the industry and academic institutions, such as through competitions where students can learn about the industry by working on their own projects and case studies.

There is also an ongoing need for asset managers to ensure their staff are keeping pace with the changing environment, particularly when it comes to technology. Workers will need to be upskilled to ensure they can operate in a much more technology-driven environment in the future. More generally, if Hong Kong is known as a high-tech city, this will help to attract global talent.

	Actions and recommendations
Hong Kong-domiciled funds	• Tax Concession for Carried Interest: remove the requirement that a fund must allocate the carried interest through a person in Hong Kong • UFE regime – include common alternative asset management strategies such as private credit
Alternatives	• Enhance incentives relating to alternatives. Eg tax exemption on SPVs relating to private credit, real estate and infrastructure
Pensions	• Consider tax incentives for pensions schemes to encourage citizens to invest more
Regulatory regime	• Broader access for retail investors to asset classes such as alternatives, virtual assets • Also allow pension funds to invest in alternative assets - with guardrails, eg limited to a certain percentage of portfolio
Talent	• Industry, with government support, should help students learn about asset management through roadshows and competitions • Develop more home-grown talent in Hong Kong, through the development of relevant courses and engaging with university students

4.4 Showcasing Hong Kong's advantages

Hong Kong has unrivalled advantages as a global city of business as well as a place to live and work. As the city has emerged from the pandemic, the government and regulators have also been making concerted efforts to enhance the city's IFC status and attract talent, including a variety of measures discussed earlier in this report that focus specifically on the asset management sector.

However, Hong Kong could make greater and more consistent efforts to promote the city's benefits, and to address some of the misconceptions that have arisen.

Messages to the rest of the world on Hong Kong's benefits should focus on the city's key advantages and areas where it is investing at the moment such as family offices, ESG, technology and virtual assets. Marketing efforts should include clear and consistent roadmaps on plans for the development of the asset management sector.

In-person visits

It was widely noted that when people actually come to Hong Kong, they get a true picture of the city. The HKMA's annual Global Financial Leaders' Investment Summit, first organised in 2022, was praised by interviewees for its success in attracting senior executives from across the globe. But they also said that there should be more initiatives like this to keep up a more constant flow of international investors to come to the city.

Attracting more investors from around the world is another government target. While the Chinese Mainland will remain the major source of investment, there is still a need to diversify. The high-profile visit to the Middle East in 2023 by government officials and financial services executives is also seen as a success in terms of raising Hong Kong's profile. But again, it is emphasised that such promotional efforts need to be repeated regularly to fulfil their aim.

When promoting Hong Kong's benefits, there is a case for also highlighting the lifestyle element. Hong Kong is not just home to a world-class financial sector, it is also a diverse and vibrant city with fantastic leisure and recreation options, a safe and family-friendly environment with convenient travel across the Asia Pacific.

Hong Kong is also a developing arts and culture hub, with events like Art Basel putting the city on the global cultural map. This is also an appealing factor for investors, particularly family offices, who are often interested in collecting art as part of their investment portfolio.

While further efforts by the government to promote Hong Kong overseas will be welcome, the asset management sector can also play its part by hosting events and encouraging their clients and contacts to visit the city. People that live here understand the benefits, and we can directly share our insights on living and working in Hong Kong.

	Actions and recommendations
Hong Kong's Fundamentals	• Increase promotional efforts about Hong Kong's strengths as an asset management hub • Consistent messaging on advantages and focused narrative • Address negative perceptions and misconceptions
Enhance international connections	• Host more high-profile events in Hong Kong to attract global executives to visit • Arrange more overseas visits by Hong Kong officials and senior executives
Lifestyle and Tourism	• Continue to make broad efforts to attract visitors as well as talent and businesses • Industry can also invite clients to experience Hong Kong's diverse and vibrant lifestyle

Putting recommendations into practice

For all of the recommendations in this section, it will be important for the relevant stakeholders to work together closely to strengthen Hong Kong's status as a regional financial hub. The industry supports the establishment of a task force to better facilitate cooperation among all the stakeholders involved.

Asset managers in Hong Kong are ready to support the government and regulators in preparing a roadmap for the sector's development and executing any new proposals to enhance the city's future prospects.

Vision for 2030

The past few years have been often tumultuous for Hong Kong's asset management sector, while the immediate future remains uncertain. But in the mid term, we can see many reasons for optimism as we look to 2030 and beyond.

During the research process for this report, interviewees shared their own visions for Hong Kong in 2030, and a number of common themes became clear.

The overarching vision for Hong Kong is of a city that is the undisputed leader in the region for asset management, with a local environment that actively encourages the development of the sector. To ensure that this vision becomes a reality, we need to continue to strengthen the areas where we are already a leader, and seize the opportunities in emerging areas.

Hong Kong's connectivity with the Chinese Mainland is our unique advantage, and we hope to see continuing enhancement of the current cross-border schemes and broader access to the Mainland market. Our vision of Hong Kong as a regional hub does not just mean China, and we expect that the city will also have increased its role in serving the growing markets across the rest of Asia.

Innovation is another major theme, and in the next few years Hong Kong has the opportunity to take a clear lead in the region in topics including sustainability, advanced technology and virtual assets.

We expect that the city's regulators will continue to do an excellent job in protecting investors. At the same time, cooperation between regulators and the industry will ensure that the range of investment options is refined, including in key areas of interest such as ESG, alternative assets and ETFs.

We also anticipate that further enhancements will be made to the current tax incentives to make Hong Kong a more viable location to manage alternative investments.

Talent is a crucial part of the equation, and Hong Kong in 2030 will have strengthened its deep pool of talent through attracting professionals from the Chinese Mainland and overseas, while also increasing the pipeline of homegrown talent through more training and university connections.

We will also in the next few years need to make renewed marketing efforts, to ensure that in 2030, the rest of the world has a greater understanding of Hong Kong's unrivalled attractions as an asset management hub.

These are ambitious visions for the future, but we believe that they can be achieved through continued industry cooperation with the government and regulators. Working together, we look forward to making our vision for 2030 become a reality.

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About HKIFA

The Hong Kong Investment Funds Association ("HKIFA") is a non-profit-making trade association that represents the fund management industry in Hong Kong. Incorporated in 1986, HKIFA's key objective is to promote the fund management industry in Hong Kong so as to further bolster its position as a fund management hub within the region and globally.

The HKIFA has two major roles, namely consultation and education. On consultation, it acts as the representative and consulting body for its members and the fund management industry generally in all dealings concerning the regulation of unit trusts, mutual funds, retirement funds and other funds of a similar nature. Towards this end, it reviews, promotes, supports or opposes legislative and other measures affecting the fund management industry in Hong Kong. Another very important task is to educate the public about the role of investment funds in retirement planning and other aspects of personal financial planning.

The HKIFA has four categories of members, namely full member, overseas member, affiliate member and associate member.

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