



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

## **Report of the Survey on Hedge Fund Activities of SFC-licensed Managers/Advisers**

March 2015



## Executive Summary

### Introduction

The Securities and Futures Commission (SFC) has conducted its fifth fact-finding survey on Hong Kong's hedge fund industry in conjunction with a data collection exercise coordinated by the International Organization of Securities Commissions concerning global hedge fund activities.

This report aims to provide an update on Hong Kong's hedge fund industry and hedge fund assets under management (AUM) as of 30 September 2014.

The SFC would like to thank all the licensed hedge fund managers<sup>1</sup> who participated in the survey as well as the Alternative Investment Management Association Limited (Hong Kong Chapter) for its support. All licensed hedge fund managers participated in the survey.

### Major findings

#### 1. Hong Kong's hedge fund industry continued to grow.

- The number of hedge funds managed by SFC-licensed hedge fund managers in Hong Kong increased from 676 in 2012 to 778 as of 30 September 2014.
- The total hedge fund AUM in Hong Kong expanded from US\$87.1 billion in 2012 to US\$120.9 billion as of 30 September 2014, an increase of 38.8%.
- The total hedge fund AUM in Hong Kong surpassed its peak in 2008 and represented over 13 times the US\$9.1 billion AUM in 2004, the earliest year covered by our surveys.

#### 2. Hong Kong hedge fund managers mainly adopted Asia Pacific-focused equity long/short and multi-strategy. Overseas institutional investors made up the majority of the investor base.

- Equity long/short and multi-strategy remained the most popular investment strategies. For multi-strategy, the most common underlying strategies were equity long/short, event driven (equity special situations) and equity hedge (market neutral).
- Capital allocation remained focused on the Asia Pacific markets, which accounted for 63.9% of the total hedge fund AUM. Hong Kong and mainland China accounted for 31.7%.
- American<sup>2</sup> and European Union (EU) investors represented 61.3% of the total AUM while Hong Kong-based investors accounted for 7.9%.
- Institutional investors accounted for 66.9% of the total AUM and was the largest group by investor type. They included funds of funds, financial institutions, pension funds, endowments/foundations, sovereign wealth funds and government-related entities.

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<sup>1</sup> For the purpose of this survey, the term "hedge fund managers" includes those fund managers that manage hedge fund assets as well as those that advise hedge funds.

<sup>2</sup> In this report, "American" and "the Americas" refer to all of North and South America.

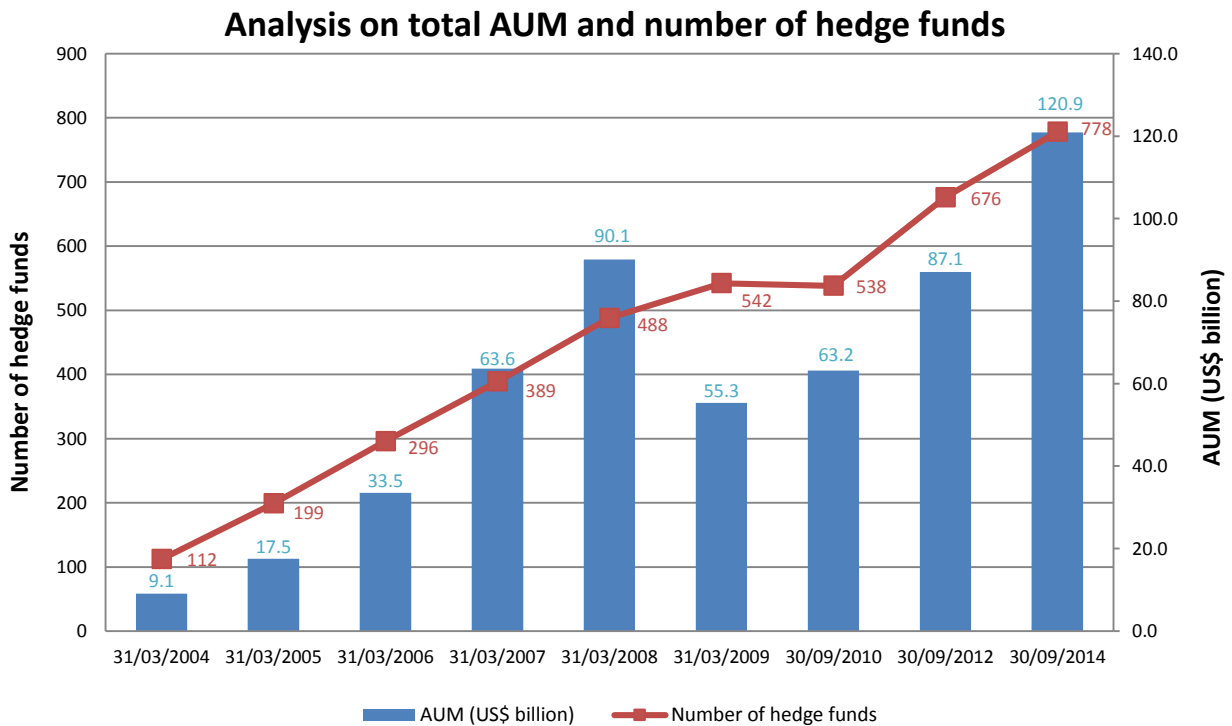


## Overview

The number of hedge fund managers increased from 348 in September 2012 to 401 in September 2014.

	Number of firms as of 30 September 2014
Active licensed hedge fund managers (with AUM in Hong Kong) <sup>3</sup>	357
Inactive licensed hedge fund managers <sup>4</sup>	44
<b>Total</b>	<b>401</b>

Total hedge fund AUM managed in Hong Kong grew to US\$120.9 billion, surpassing the previous peak of US\$90.1 billion in March 2008.



<sup>3</sup> A total of 357 active hedge fund managers responded to the survey. One of them could not differentiate the AUM managed in Hong Kong and was therefore not included in our other analyses in this report.

<sup>4</sup> Inactive licensed hedge fund managers refers to managers with no hedge funds launched as of 30 September 2014 as well as managers who ceased business after 30 September 2014 and therefore did not report any AUM.

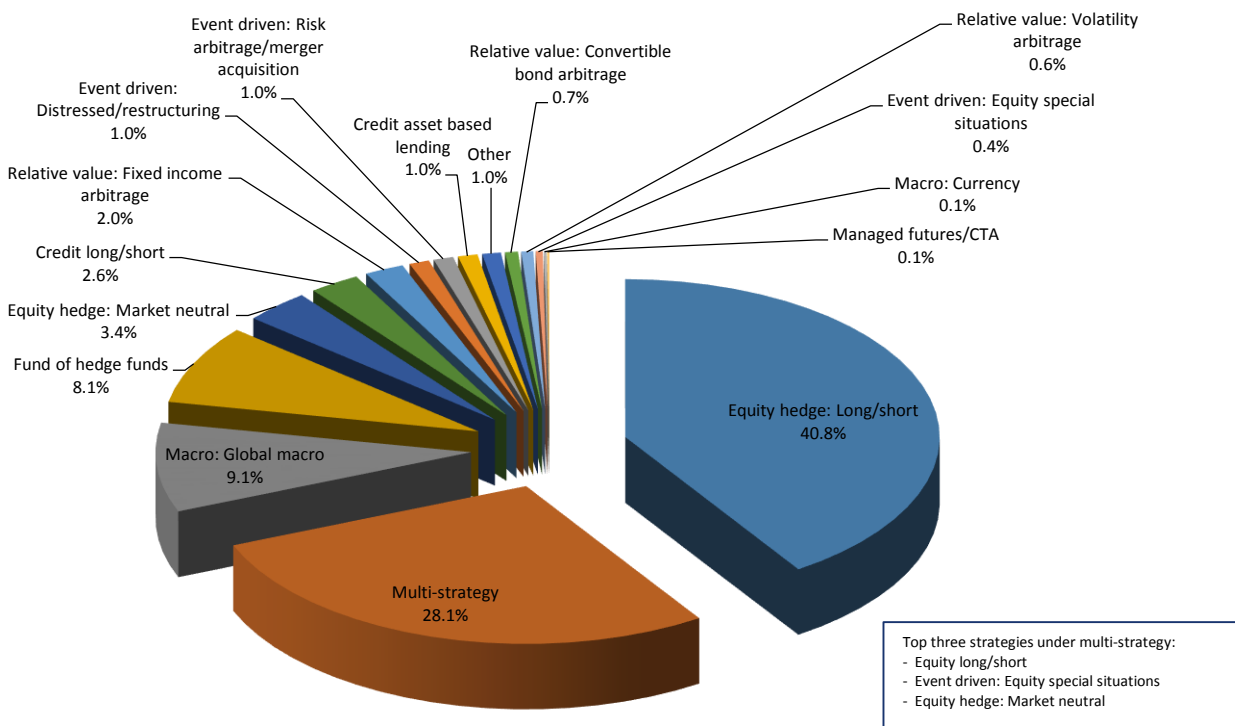


## Investment strategy (based on top three hedge funds reported)

Equity long/short and multi-strategy remained the most popular investment strategies in Hong Kong. The adoption of equity long/short increased from 33.1% to 40.8%, mainly due to the increase in long-bias strategy, which rose from 3% in 2012 to 10.9% in 2014.

There was a notable decrease in the AUM attributable to funds of hedge funds. It fell from 20% in 2006, the earliest year we collected such comparable data, to 11.2% in 2012 and then to 8.1% in 2014.

### Investment strategies of hedge funds (as a % of NAV of hedge funds reported)



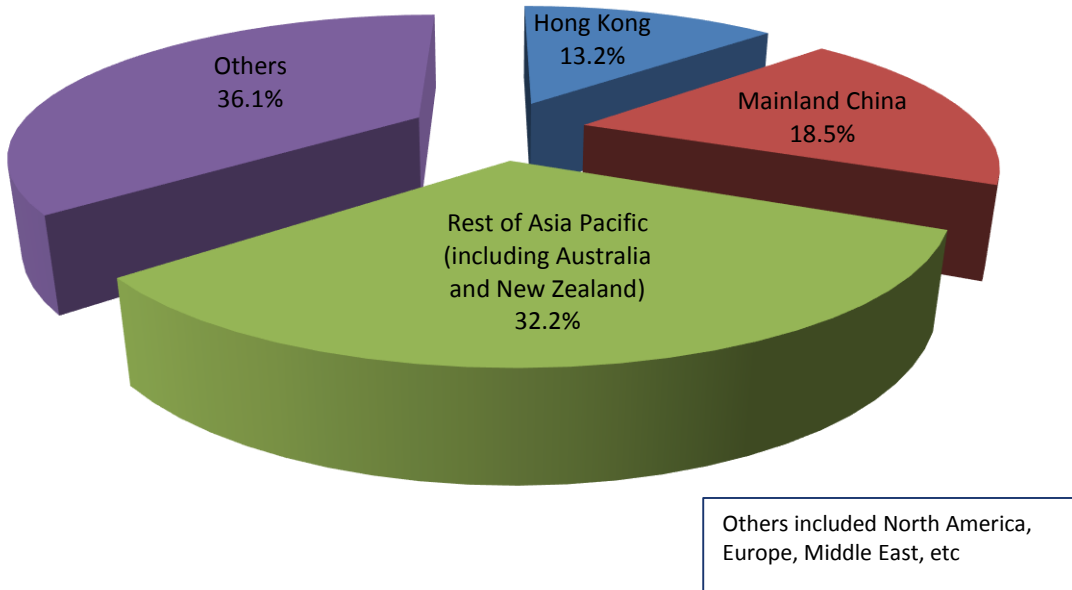
The major asset class exposures were equities (including equity derivatives), sovereign bonds and fixed income derivatives. As equity long/short was the main strategy adopted, the largest asset class exposure was equities (including equity derivatives).



## Geographical capital allocation<sup>5</sup>

AUM allocated to Asia Pacific markets by Hong Kong managers constituted 63.9% of the total. Hong Kong and mainland China accounted for 31.7%.

### Breakdown of AUM by geographical areas



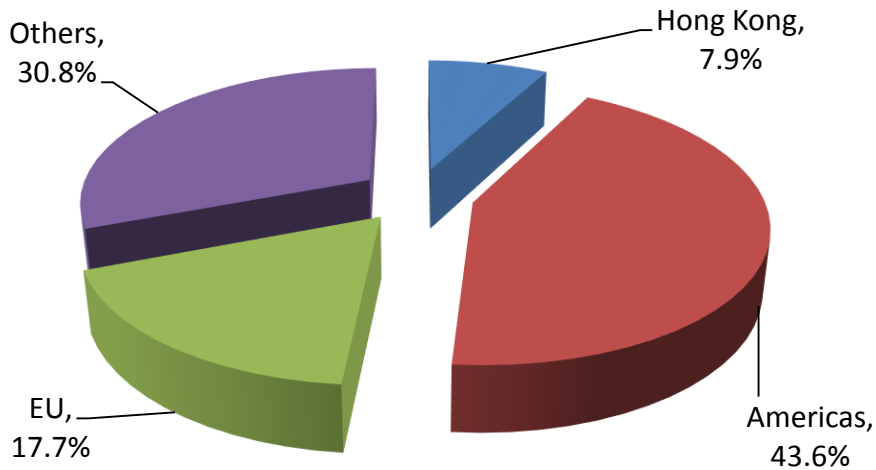
<sup>5</sup> In 2014, residual or unallocated cash was included and attributed to the relevant geographical area, and non-investment items (eg, redemption payable, subscription receivable, etc) were assigned to a geographical region based on the currencies they were denominated in instead of being reported separately in "unallocated cash and others" category in the previous survey.



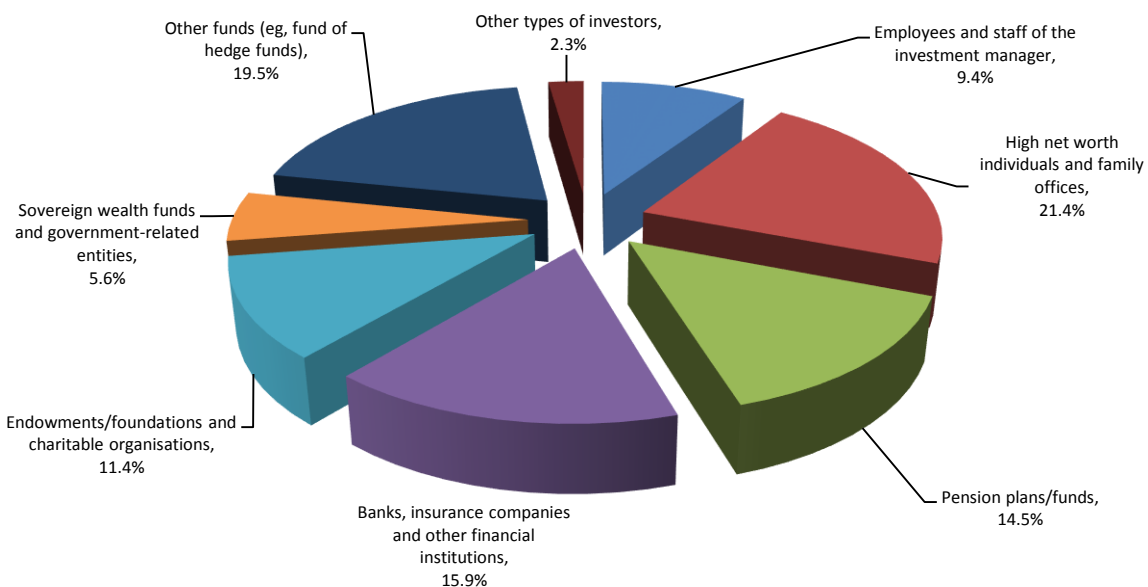
## Source of investors

The Americas remained the largest source of investors, representing 43.6% of the total AUM managed in Hong Kong as of 30 September 2014. This was followed by the EU at 17.7%. Institutional investors, including funds of funds, financial institutions, pension funds, endowments/foundations, sovereign wealth funds and government-related entities, remained the predominant group by investor type.

### Source of investors by location



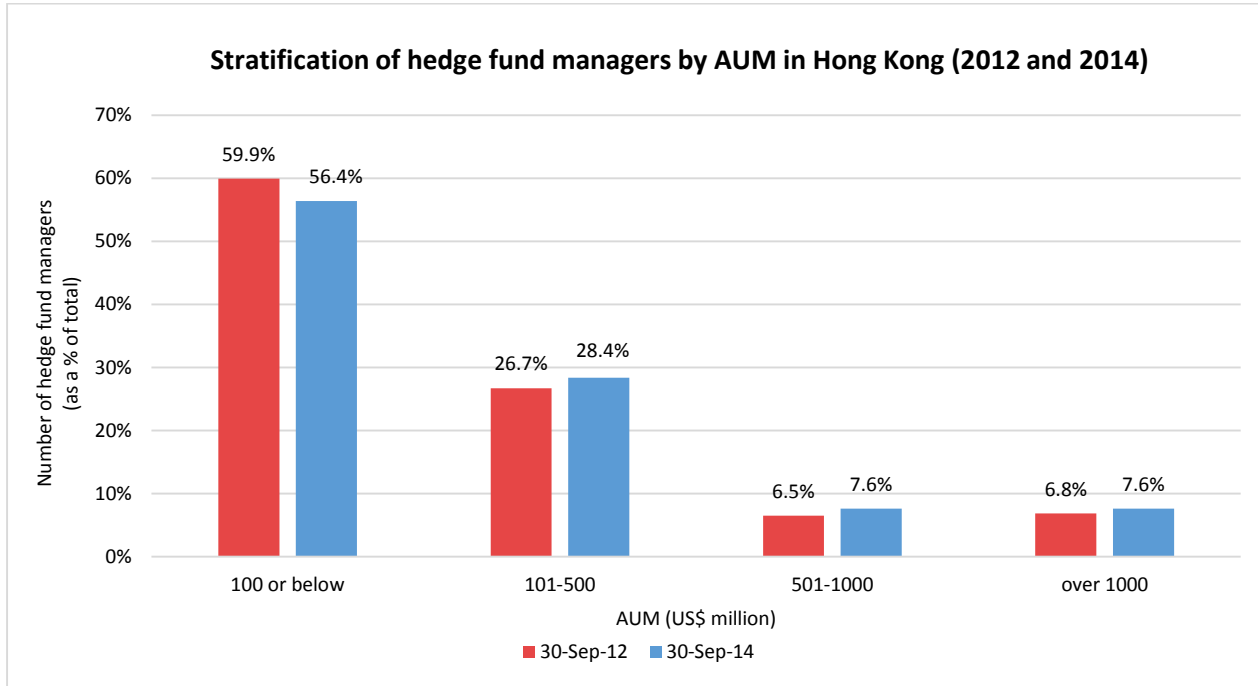
### Source of investors by type





## AUM stratification of hedge fund managers

As a percentage of the total, the number of hedge fund managers with AUM of US\$100 million or more grew from 40% in 2012 to about 44% in 2014. The proportion of billion-dollar managers increased from 5.9% in 2010, to 6.8% in 2012 and further to 7.6% in 2014.



The top 50 hedge fund managers accounted for 72.9% of the total AUM as of September 2014 compared with 73.5% as of September 2012. Among the top 20 managers, three were fund of hedge funds managers.

	30 September 2014		30 September 2012	
	AUM (US\$ billion)	% of total AUM	AUM (US\$ billion)	% of total AUM
<b>Top 1 to 20</b>	62.8	51.9%	45.8	52.5%
<b>21 to 50</b>	25.3	21.0%	18.3	21.0%
<b>51 to 100</b>	18.0	14.9%	14.6	16.8%
<b>101 and above</b>	14.8	12.2%	8.4	9.7%
<b>Total</b>	<b>120.9</b>	<b>100%</b>	<b>87.1</b>	<b>100%</b>