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FUTURES COMMISSION
證券及期貨事務監察委員會

Fund Management Activities Survey 2003

2003 年基金管理活動調查

Hong Kong
July 2004

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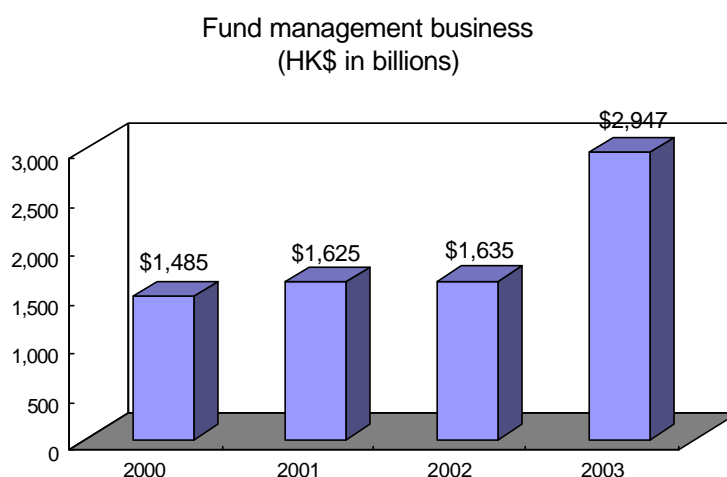
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Executive Summary

The Securities and Futures Commission (SFC) has conducted a survey of fund management activities in Hong Kong as of 31 December 31, 2003. The scope and the major findings are summarized as follows:

Fund management business, which comprises of assets management¹, advisory business² and other private banking activities³, amounted to \$2,947 billion. Of this total, \$2,317 billion was reported by licensed corporations⁴, and consisted of \$2,108 billion worth of asset management business and \$209 billion worth of advisory business. The remaining \$630 billion was reported by registered institutions⁵, which were invited to participate in the survey for the first time, and consisted of \$142 billion worth of asset management business and \$488 billion worth of other private banking business.



- In view of the banking sector's move into the realm of wealth management, such as unit trusts, pensions and private banking, the SFC invited registered institutions to participate in the survey and to report on their fund management activities, which include asset management and other private banking activities.

¹ "Asset management" refers to the provision of services which constitutes type 9 regulated activity as defined in Schedule 5 of the Securities and Futures Ordinance.

² "Advisory business" refers to the provision of pure investment advisory services on funds/portfolios and constitutes type 4 and/or type 5 regulated activities as defined in Schedule 5 of the Securities and Futures Ordinance.

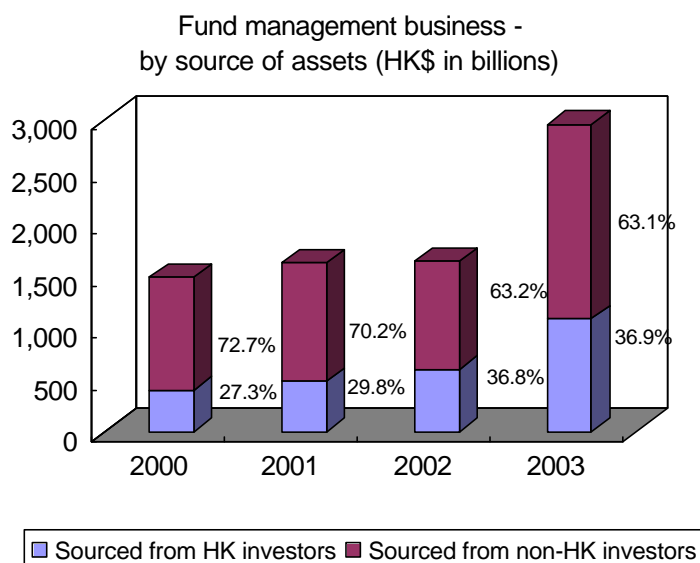
³ For the purpose of this survey, "other private banking activities" are defined as the provision of financial services to private banking clients other than by means of type 9 regulated activity. They include providing the service of managing clients' portfolio of securities and/or futures contracts wholly incidental to the carrying on of type 1 and/or type 2 regulated activity.

⁴ A "licensed corporation" means a corporation which is granted a licence under section 120 or 121 of the Securities and Futures Ordinance to carry on a regulated activity in Hong Kong. For the purpose of this survey, only those licensed corporations licensed to perform type 4, 5 and /or 9 regulated activities as defined in Schedule 5 of the Securities and Futures Ordinance were invited to participate in the survey.

⁵ A "registered institution" means an authorised financial institution which is registered under section 119 of the Securities and Futures Ordinance. An "authorised financial institution" means an authorised institution as defined in section 2(1) of the Banking Ordinance (Cap. 155).

- A total of 166 licensed corporations and 30 registered institutions responded that they had assets under management, had engaged in providing advice on portfolios, and/or had engaged in other private banking activities.
- Among the licensed corporations, asset management business was up 41% year-on-year, on the back of strong performance in the financial markets, inflows of investment funds and gain in investment mandates. Manpower was also strengthened substantially. The number of staff engaged in fund management activities increased 31% during the year to 3,763, driven by a threefold increase in sales and marketing staff.
- The assets in the asset management business were mostly sourced from overseas. 23% of these assets were invested in Hong Kong and the rest in overseas markets. Registered institutions, however, appeared to have invested more heavily in foreign markets (88% of the assets in their asset management business).

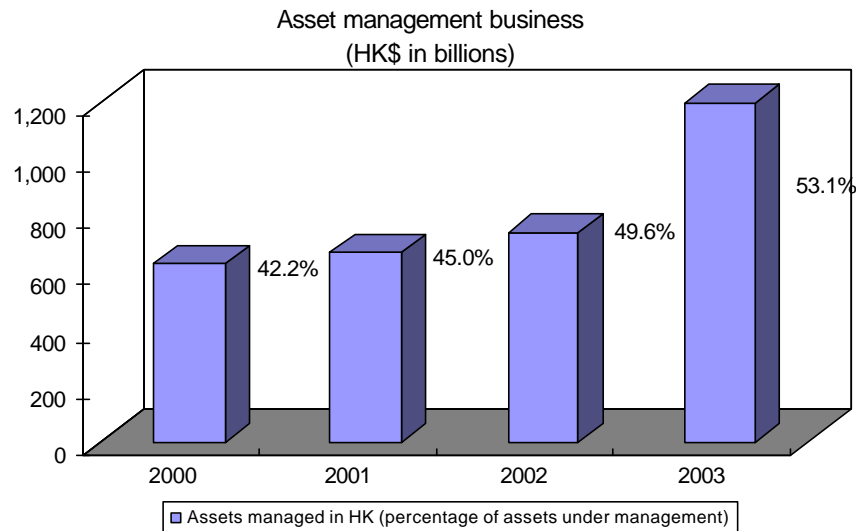
Hong Kong remains strong in attracting overseas funds for investment management. Funds sourced from overseas investors amounted to \$1,860 billion, representing 63% of the fund management business.



- In the last four years, funds sourced from overseas investors by licensed corporations have consistently accounted for 60-70% of the asset management and advisory businesses. In 2003, licensed corporations sourced \$1,536 billion or 66% of their asset management and advisory business (2002: \$1,034 billion or 63%) from overseas investors, representing a 49% increase from the level seen in 2002.
- Registered institutions sourced 51% of the asset management business and other private banking activities from overseas investors. In value terms, non-Hong Kong sourced funds totalled \$324 billion.

- 37 licensed corporations and 10 registered institutions responded that they have chosen Hong Kong as their regional headquarters.

In addition to serving as a magnet for overseas funds, Hong Kong is also a major fund management centre. According to the respondents, \$1,194 billion worth of assets were managed in Hong Kong.



- The results demonstrated that asset managers in Hong Kong have developed strong in-house investment expertise that enabled them to cater to the diverse investment needs of overseas investors in most circumstances.
- Of the \$1,194 billion worth of assets managed in Hong Kong, 73% or \$878 billion were invested in Asia, including \$481 billion in Hong Kong and China.
- Substantial investments in the Asian markets reflected the attractiveness of such markets in 2003, and increased investors' appetite in the markets as the Asian economies continued to regain strength.
- Moreover, such investments demonstrated the expertise that the fund management industry in Hong Kong has developed over the years in investing in Asia. Such skills have been and will continue to be vital to Hong Kong's ability to attract overseas funds for management.

Initiatives by the SFC to help maintain Hong Kong's position as a major fund management centre

- The SFC introduced the guidelines for regulating real estate investment trusts (REITs) in August 2003, and the guidelines for regulating index tracking exchange traded funds (ETFs) in October 2003. Such guidelines will not only broaden the investment choices available to the public, but will also facilitate Hong Kong's development into regional centres for ETFs and REITs in the longer term.
- The SFC is fully aware of the importance of overseas property investments to the growth of REITs in Hong Kong. In order to establish a set of practical

benchmarks that address the risk of such investments and protect the interest of the investors, a taskforce has already been commissioned to specifically examine the issues involved. It is expected that a set of proposed benchmarks will be concluded and the public will be consulted on the proposals.

- To further facilitate the development of hedge funds in Hong Kong, the SFC will also review its hedge fund guidelines this financial year, based on the experience gained in authorizing twelve hedge funds so far. Again, the public will be consulted on the proposals.

Introduction

1. The Fund Management Activities Survey (FMAS) for the year ended 31 December 2003 (FMAS 2003) was conducted to collect information pertaining to fund management activities in Hong Kong. With the implementation of the new licensing regime under the Securities and Futures Ordinance, all licensed corporations which have responded to FMAS 2002 or were engaged in asset management and/or giving advice on funds/portfolios in 2003 were invited to participate in the survey.
2. For the first time, FMAS 2003 expanded the coverage of the survey to invite authorised financial institutions to report on their asset management (whether discretionary or non-discretionary) and other private banking activities. With the assistance of the Hong Kong Monetary Authority, a set of FMAS questionnaire was devised and sent to registered institutions. The questionnaire was largely the same as that sent to licensed corporations, except for minor adjustments to cater for their different business nature and operations.
3. FMAS 2003 also commenced the collection from all participants in the survey of information on the distribution and/or marketing of collective investment schemes in order to gain an understanding of the means in which such schemes were sold to investors.

Responses

Licensed corporations and registered institutions

4. A total of 166 licensed corporations and 30 registered institutions reported that they had assets under management, had provided advice on funds/portfolios, and/or had engaged in other private banking activities.
5. Another 6 licensed corporations and 12 registered institutions reported that they had not engaged in asset management, giving advice on funds/portfolio, or other private banking businesses during the year, but they were distributors of collective investment schemes.

Licensed corporations

6. An analysis of the activities of the 166 licensed corporations (including 25 new participants) that had assets under management (AUM) and/or had engaged in providing advice on funds/portfolios is shown below:

Respondents with AUM only	97
Respondents with pure advisory assets only	33
Respondents with AUM and pure advisory assets	<u>36</u>
	<u>166</u>

Registered institutions

7. An analysis of the activities of the 30 registered institutions that had AUM and/or had engaged in other private banking activities is shown below:

Respondents with AUM only	11
Respondents with other private banking activities only	11
Respondents with AUM and other private banking activities	<u>8</u>
	<u>30</u>

Findings⁶

Fund management business

8. According to the survey, the aggregate amount of assets in the fund management business reported by licensed corporations and registered institutions amounted to \$2,947 billion at the end of 2003:

		\$ billion
Assets under management		
- licensed corporations	2,108	
- registered institutions	142	
		2,250
Funds/Portfolios on which advice was given		
- licensed corporations		209
Other private banking activities		
- registered institutions		488
Combined assets in the fund management business		<u>2,947</u>

9. Excluding registered institutions, assets management business and advisory business among licensed corporations grew by 42% from \$1,635 billion in 2002. This rate of growth was seen in both assets under management and in funds which were the subject matter on which advice was given.
10. Currently, the aggregate amount of assets in asset management business and other private banking activities of the registered institutions was small as a percentage of the fund management business. Nevertheless, the data reflected the phenomenon that registered institutions have begun to diversify into the areas of wealth management and asset management in their efforts to broaden their income sources and to reduce the volatility of their earning through engagement in fee-generating businesses.

⁶ All figures are in Hong Kong dollars unless otherwise specified. Respondents that reported that they only engaged in the distribution of collective investment schemes and did not engage in asset management, advisory services or other private banking businesses were not included in the analysis of AUM.

Major aggregate figures

11. The major aggregate figures are summarized in the following table.

Major Aggregate Figures of FMAS 2003				
(HK\$ in Millions)	(as of 31 December 2003)	LC	RI Total	LC + RI
Managing Funds or Portfolios		Total AUM	Total AUM	Total AUM
Total assets under management by the company		2,107,820	142,484	2,250,304
Amount of assets directly managed by the company in Hong Kong		1,046,506	133,661	1,180,167
Amount of assets sub-contracted or delegated to other offices/third parties for management		1,061,314	8,823	1,070,136
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for management		11,137	3,060	14,197
Amount of assets sub-contracted or delegated to other offices/third parties overseas for management		1,050,177	5,763	1,055,940
Total Assets managed in Hong Kong		1,057,643	136,721	1,194,364
Giving advice on Funds/Portfolios				
Total assets on which company advises		209,092		
Amount of assets directly advised by the company in Hong Kong		128,679		
Amount of assets sub-contracted or delegated to other offices/third parties for providing the advisory services		80,414		
Amount of assets sub-contracted or delegated to other offices/third parties in Hong Kong for providing the advisory services		65		
Amount of assets sub-contracted or delegated to other offices/third parties overseas for providing the advisory services		80,349		
Total Assets on which advice is given in Hong Kong		128,743		
Other private banking activities				
Total asset under other private banking activities			488,449	

Total assets under management (AUM), which excludes pure advisory assets and other private banking activities (\$2,250 billion)

Licensed corporations and registered institutions

12. Total AUM, which excluded pure advisory assets and other private banking activities, amounted to \$2,250 billion as at December 31, 2003.

Licensed corporations

13. 94% of the total AUM were contributed by licensed corporations, which were traditionally the active players in the fund management industry.
14. In general, respondents attributed the growth in the size of AUM to the positive performance of the financial markets, the inflow of investment money and the launching of new funds.

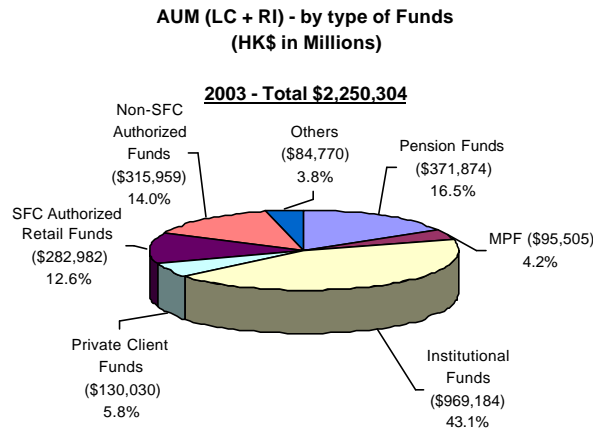
Registered institutions

15. The AUM of registered institutions consisted of two broad types, namely private client funds and institutional funds. By place of origin, the funds were primarily sourced from non-Hong Kong investors. Based on these characteristics, it might be deduced that banks capitalized on their existing network of banking and corporate clients to tap into the pool of assets available for management.

AUM (\$2,250 billion) – by type of funds

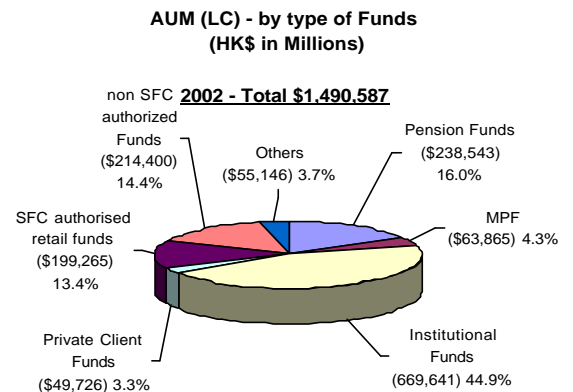
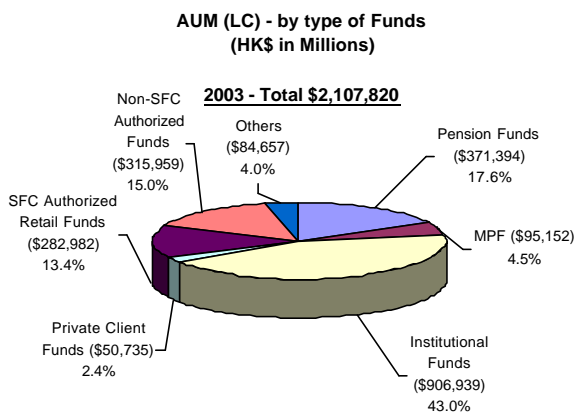
Licensed corporations and registered institutions

16. Institutional funds, pension funds and non-SFC authorised funds remained the major types of funds, representing 43%, 17% and 14% of the AUM of licensed corporations and registered institutions, respectively. SFC-authorized funds, private client funds, mandatory provident funds and other funds accounted for the remaining 26%.



Licensed corporations

17. The distribution of fund types differed if the licensed corporations and registered institutions were analyzed separately. Among licensed corporations, institutional funds ranked first, followed by pension funds, non-SFC authorised funds and SFC-authorized funds.

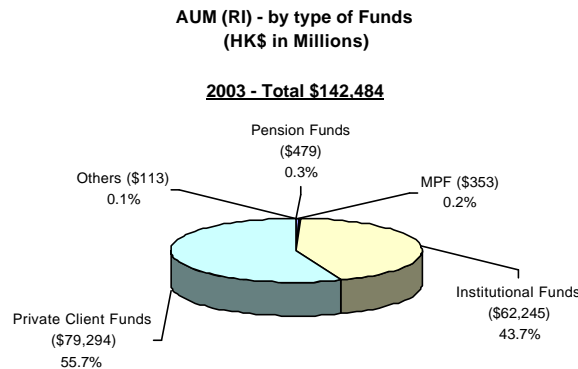


18. In terms of growth, pension funds and other funds registered the largest year-on-year increases of 56% and 54% respectively, followed by a 49% rise in mandatory provident funds, 47% in non-SFC authorised funds, 42% in SFC authorised funds, 35% in institutional funds and 2% in private client funds.

19. Since the introduction of the mandatory provident funds scheme in December 2000, mandatory provident funds have grown to account for 4% of the total AUM. This percentage is expected to rise in the coming years, on the back of continued contributions from existing mandatory provident fund scheme members, contributions from new scheme members as the local economy picks up further and the employment situation improves, and accumulation of investment returns generation by the contributions.

Registered institutions

20. The pattern differed in the context of registered institutions. There were only two main types of funds, namely institutional funds and private client funds, accounting for 43.7% and 55.7% of the assets under management respectively. The dominance of private client funds could be attributed to the banks' efforts to capitalize on their established banking relationships to sell fee-generating services, such as wealth management and private banking, to their banking clients.



21. Mandatory provident funds only accounted for 0.2% of the AUM, as banks generally played the role of intermediaries, selling and advising on mandatory provident fund schemes. However, the importance of such funds to registered institutions is expected to grow as the size of the funds increases. More importantly, the mandatory provident fund business poses strategic importance to the banking industry, as it enables the banks to build a relationship with both employers and employees and thus generates cross-selling opportunities.

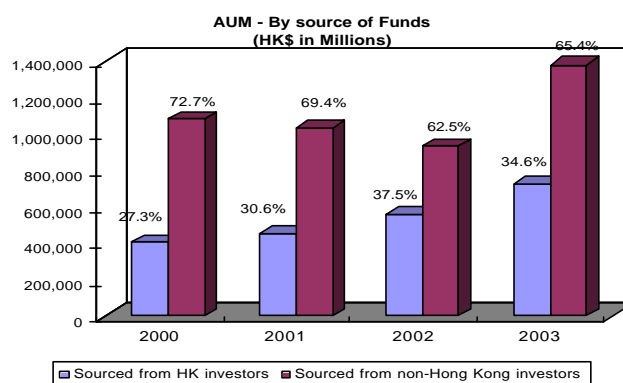
AUM (\$2,250 billion) - source of funds

Licensed corporations and registered institutions

22. As a whole, \$1,495 billion or 66% of the AUM was sourced from overseas, and the remaining 34% from Hong Kong investors. However, domestic source was more important to licensed corporations than to registered institutions.

Licensed corporations

23. The percentage of AUM sourced from overseas investors grew to 65% from 63% in 2002. Such growth could be attributed to increased allocation of overseas funds into the Asian Pacific region, as the Asian financial markets continued to recover. The expertise that licensed corporations have developed in investing in Asia was probably another major factor that encouraged overseas investors to direct funds ear-marked for Asian investments to Hong Kong for management.
24. While the share of Hong Kong investors fell to 35% of the AUM of licensed corporations in 2003 from 37% a year ago, it should be noted that assets sourced from Hong Kong investors grew in absolute terms by 30% to \$729 billion in 2003 from \$558 billion in 2002. Such growth could be attributed to the establishment of the mandatory provident fund schemes, which have helped the general public focus their attention on the attractions of funds for long-term savings and retirement planning, and to investors' move to fund investment given the low return offered by bank deposits in a low-interest rate environment. However, the growth of AUM sourced from Hong Kong investors was small when compared with the 48% gains seen in funds sourced from non-Hong Kong investors, which have traditionally represented the majority source of AUM.



Registered institutions

25. 81% of the AUM was sourced from non-Hong Kong investors, and the remaining 19% from Hong Kong investors. The reliance on overseas funds could partly be attributed to the established global network of some registered institutions which allowed them to source funds on an international basis.

AUM (\$2,250 billion) – allocation of investments

Licensed corporations and registered institutions

26. In terms of geographical exposure, 23% of the AUM was invested in Hong Kong and 77% in overseas markets. Of the assets (\$528 billion) invested in Hong Kong by licensed corporations and registered institutions, 64% were

invested in equities and 27% in bonds. The rest was invested in cash, deposits, money market instruments or other investments.

Licensed corporations

27. Licensed corporations invested \$511 billion (2002: \$363 billion) of their AUM in Hong Kong and \$1,597 billion (2002: \$1,127 billion) in overseas market. In percentage terms, the allocation of the AUM between Hong Kong and overseas markets stood at 24% and 76% respectively, maintaining the same weightings as those observed in 2002. By value, investments in Hong Kong rose by 40%, while investments outside of Hong Kong rose by 42%.
28. Where investments were made in Hong Kong, they were mainly invested in equities (65% in 2003, up from 57% in 2002), probably reflecting the shift in investments to take advantage of the strong performance of the equity markets. Investments in bonds also rose from 23% in 2002 to 28% in 2003. Meanwhile, investments in cash, cash equivalents and other investment fell to 7% from 20% a year ago, probably in response to the low rates of return offered by such investments in a low interest rate environment.

Registered institutions

29. Among registered institutions, a majority (88%) of their aggregate AUM was invested outside of Hong Kong. While the heavy exposure to overseas market could reflect the investment strategy of the registered institutions, it could also be attributed to the preference of their clients or the investment mandates specified by their clients.
30. Cash, deposits and money market instruments constituted the major destination of the investments made in Hong Kong (71%), followed by equities (26%), and bonds and structured products (3%). The prevalence of cash and cash equivalents could probably be attributed to the strength of the registered institutions in designing and generating such investments that catered to the need of their clients.

Assets managed in Hong Kong (\$1,194 billion)

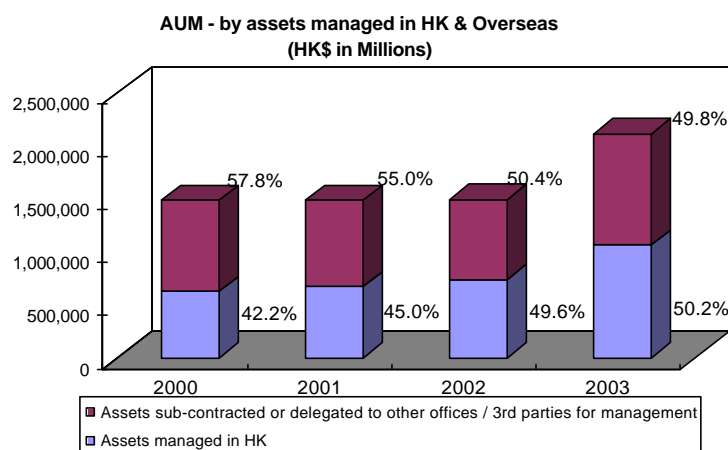
Licensed corporations and registered institutions

31. Out of the total \$2,250 billion worth of AUM, 53% or \$1,194 billion was managed in Hong Kong and the rest managed overseas.

Licensed corporations

32. Among licensed corporations, the percentage of assets managed in Hong Kong stabilized at around the 50% level in 2003, after recording two consecutive years of increase. The other half was managed overseas. In value terms, AUM managed in Hong Kong stood at \$1,058 billion and AUM managed overseas stood at \$1,050 billion. In line with the pattern observed in the

previous years, only 1% of the assets managed in Hong Kong was sub-contracted or delegated to other offices or third parties for management.



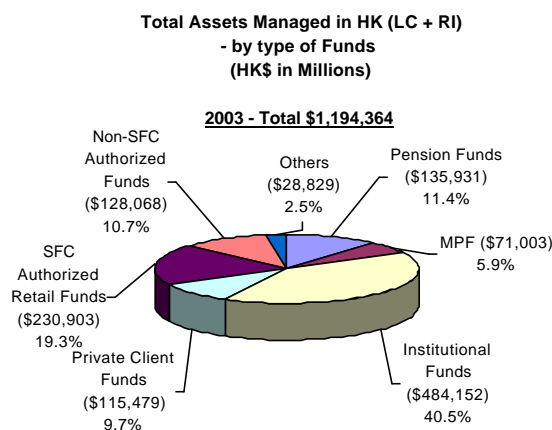
Registered institutions

33. In contrast, registered institutions nearly managed all of their AUM in Hong Kong. Statistically, 96% of the AUM of registered institutions was managed in Hong Kong.
34. However, as in the case of the licensed corporations, 98% of the AUM managed in Hong Kong was directly managed by the registered institutions. Only 2% was delegated to other offices or third parties in Hong Kong for management.

Assets managed in Hong Kong (\$1,194 billion) – by type of funds

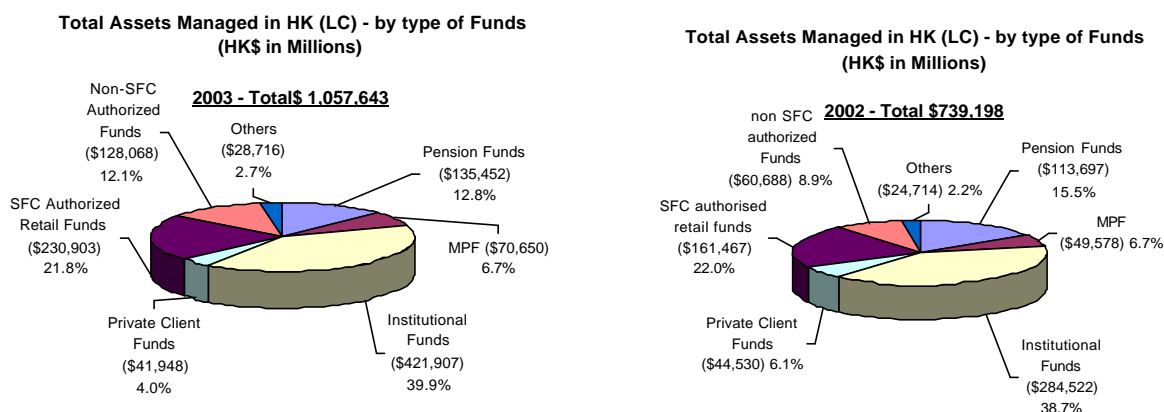
Licensed corporations and registered institutions

35. Of the AUM managed in Hong Kong, 41% was derived from institutional funds and 19% from SFC authorised funds. Pension funds and non-SFC authorised funds each contributed 11% to the AUM, while private client funds accounted for 10%, mandatory provident scheme funds 6%, and other funds the remaining 2%.



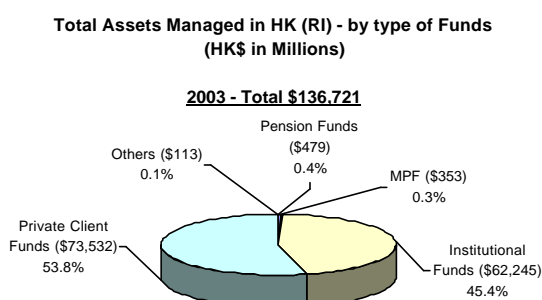
Licensed corporations

36. Among licensed corporations, institutional funds have remained the largest category of funds since the inception of this survey in 2000, accounting for 40% of the AUM managed in Hong Kong in 2003. SFC authorised funds ranked second and represented another 22%. Both pension funds and non-SFC authorised funds carried weightings of 13% and 12% respectively. Mandatory provident funds accounted for 7% while private client funds and other funds made up the remaining 6%.



Registered institutions

37. The situation was slightly different in the context of registered institutions. Private client funds and institutional funds were the primary fund types among the registered institutions, representing 54% and 45% of the AUM managed in Hong Kong respectively. The predominance of these two funds types could probably be attributed to the banks' effort to capitalize on their relationships with banking and corporate clients in the promotion of their asset management services.



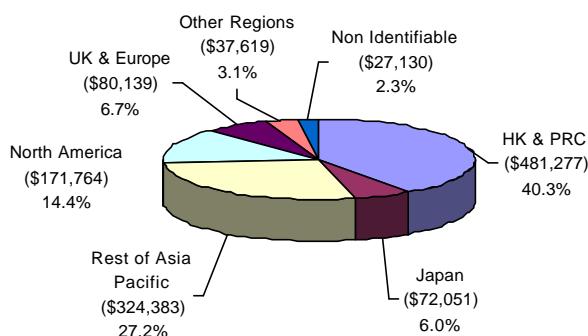
Assets managed in Hong Kong (\$1,194 billion) – geographical spread

Licensed corporations and registered institutions

38. In terms of geographical exposure, Asia remained the primary destination of the AUM managed in Hong Kong. 40% of the AUM was invested in markets in Hong Kong or China, 6% in Japan and 27% in the rest of Asia.

**Total Assets Managed in HK (LC + RI) - by region
(HK\$ in Millions)**

2003 - Total \$1,194,364

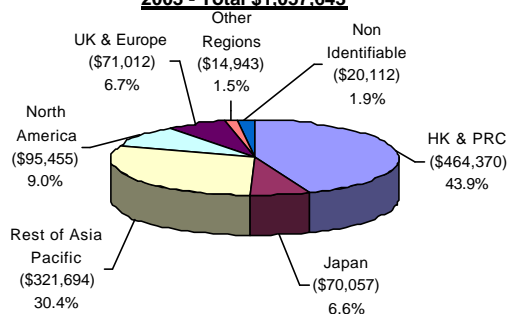


Licensed corporations

39. Investments in the Asian region were even higher among the licensed corporations and represented 81% of the AUM managed in Hong Kong, compared with 79% in 2002. While the concentration of AUM in the Asian region reflected asset allocation to a certain extent, it also demonstrated the expertise that the licensed corporations have developed with respect to investments in the Asian region.

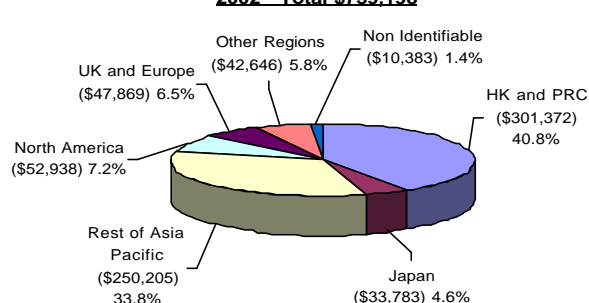
**Total Assets Managed in HK (LC) - by region
(HK\$ in Millions)**

2003 - Total \$1,057,643



**Total Assets Managed in HK (LC) - by region
(HK\$ in Millions)**

2002 - Total \$739,198

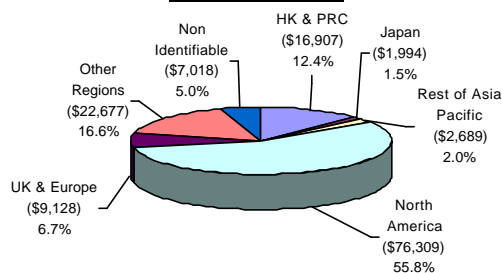


Registered institutions

40. In contrast, only 17% of the AUM managed by registered institutions was invested in Asia. 56% of the AUM was invested in North America, 7% in the UK and Europe, and the rest in other regions.

**Total Assets Managed in HK (RI) - by region
(HK\$ in Millions)**

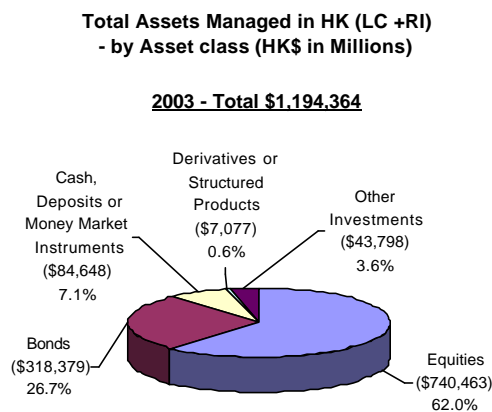
2003 - Total \$136,721



Assets managed in Hong Kong (\$1,194 billion) – asset class

Licensed corporations and registered institutions

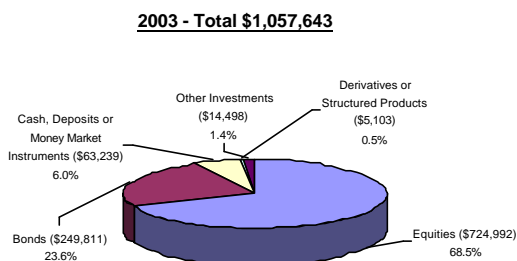
41. Over 60% of the AUM managed in Hong Kong was invested in equities, and close to 30% in bonds. Derivatives, structured products, cash or cash equivalent and other investments accounted for the remaining 10%.



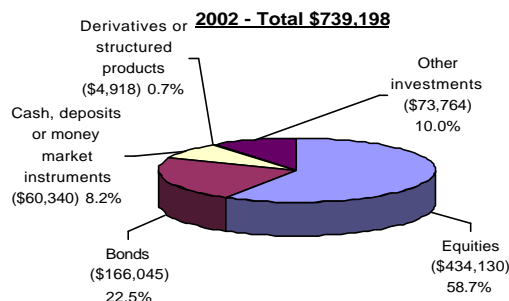
Licensed corporations

42. By and large, the above weightings were also observed in the AUM managed in Hong Kong by licensed corporations in this year and last year as well.

**Total Assets Managed in HK (LC) - by Asset class
(HK\$ in Millions)**



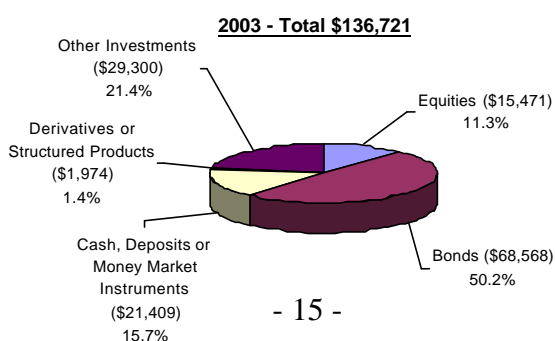
**Total Assets Managed in HK (LC) - by Asset class
(HK\$ in Millions)**



Registered institutions

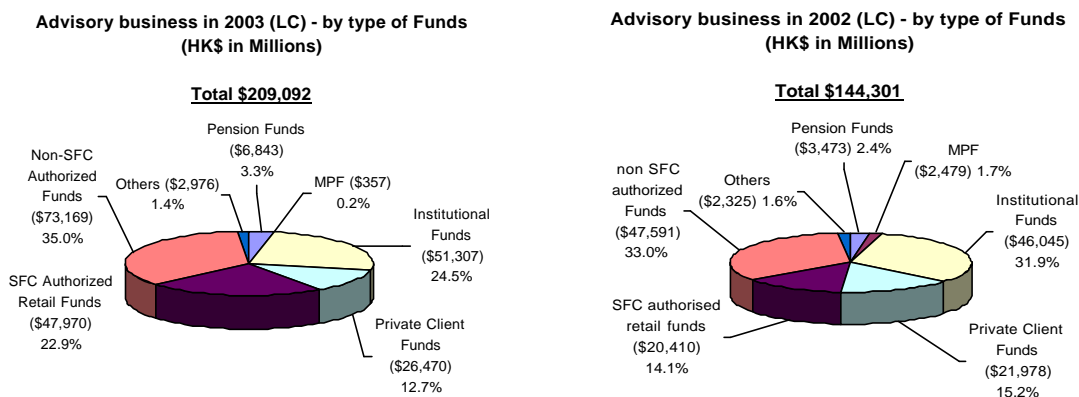
43. Among registered institutions, 50% of the AUM managed in Hong Kong was invested in bonds. The higher exposure to bonds might be due to a combination of factors, such as the different investment profiles of the clients of registered institutions and the competitive advantage of registered institutions in originating bond products or accessing the bond market.

**Total Assets Managed in HK (RI) - by Asset class
(HK\$ in Millions)**



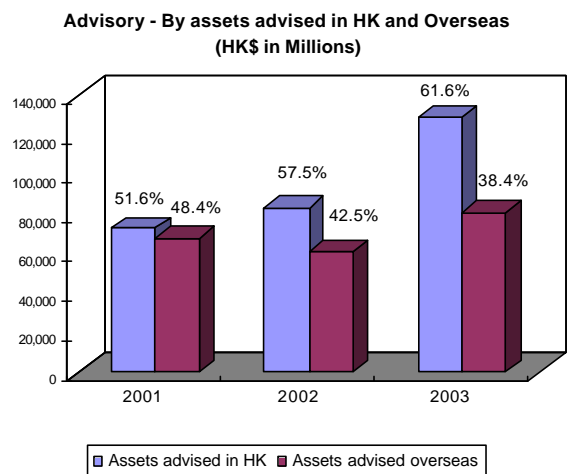
Total assets under pure advice (\$209 billion)

44. Aside from asset management, some licensed corporations were also engaged in the business of giving advice on funds or portfolios. The value of assets which were the subject matter in respect of which advisory services were given amounted to \$209 billion, up from \$144 billion in 2002.



45. By geographical origin, non-Hong Kong investors remained the major source of funds, growing by 55% during the year to account for 75% of the advisory business. Funds sourced from Hong Kong investors were up 21% to account for the remaining 25% of the business.

46. The amount of assets advised in Hong Kong rose to 62% in 2003 from 52% in 2001. This increase may be attributed to the rise in investment in the Asian markets which licensed corporations have developed an investment expertise.



Other private banking activities

47. In addition to asset management, registered institutions also provided the service of managing clients' portfolios of securities and/or futures contracts wholly incidental to the dealing of securities or futures for their clients. Such other private banking activities amounted to \$488 billion in 2003.

48. 57% of the funds were sourced from Hong Kong investors and the rest from non-Hong Kong investors.

Distribution of collective investment schemes

Licensed corporations and registered institutions

49. For the first time, the survey collected information on the distribution of collective investment schemes. Respondents were enquired as to whether they have engaged in such distribution activity and how they distributed their collective investment schemes.

Licensed corporations

50. 35 licensed corporations reported that they have acted as distributors of collective investment schemes during the year.
51. It should be noted that the number of licensed corporations involved in distribution of collective investment schemes as revealed by this survey did not present the aggregate number of all licensed corporations which were engaged in the distribution of collective investment schemes. This is because FMAS only included licensed corporations that were licensed to perform the regulated activities of Type 4, 5 and 9 stipulated under the Securities and Futures Ordinance, and therefore did not cover all licensed corporations that were licensed to carry out Type 1 regulated activity, which included the distribution of collective investment scheme, stipulated under the same Ordinance. While some of the licensed corporations in the survey were also licensed to carry out Type 1 regulated activity, most of them were not.

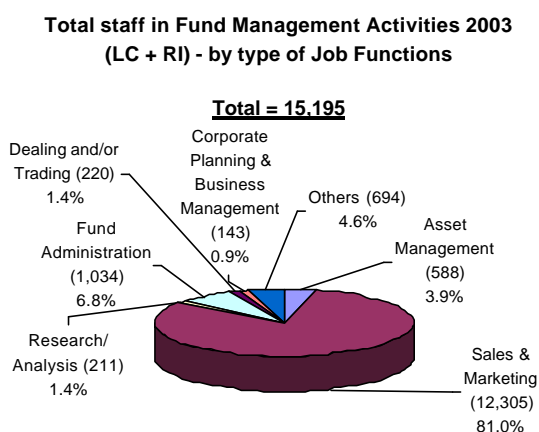
Registered institutions

52. Registered institutions appeared to be more active in the distribution of collective investment schemes, probably due to their strong retail presence and the potential for their cross-selling of financial products. 28 respondents indicated that they were distributors of funds. Of these, 12 were involved in collective investment schemes only in the capacity of distributors and did not have any asset under management nor engaged in any other private banking activities.
53. The results again manifested banks' efforts to diversify their earnings base into fee generating businesses, such as fund distribution. To those licensed corporations which aimed to source funds from the general public, they derived synergy from engaging banks as their distributors as this not only allowed them to tap into the strong retail network of the banks for public funds, but also enabled them to dedicate their resources to their traditional business of asset management.

Profile of staff

Licensed corporations and registered institutions

54. The respondents reported that a total of 15,195 staff was engaged in fund management activities. Among them, 81% was responsible for sales and marketing, 7% for fund administration and 5% for asset management and research. Hong Kong was the primary focus of the marketing effort, while the rest was spread among the rest of the Asia Pacific region.



Licensed corporations

55. The number of staff engaged in fund management activities increased 31% during the year to 3,763. The gain was solely derived from the threefold increase in sales and marketing staff.
56. The substantial growth in the sales and marketing sector could probably be attributed to two factors: namely, the firms' efforts to take advantage of the strong financial markets to grow their AUM and client base, and the increased competition for funds from the Hong Kong investors. Competition stemmed not only from the existing licensed corporations and the new set-ups, but also from the registered institutions that have committed to expanding into the business of asset management and fund distribution.

Registered institutions

57. Registered institutions reported that they had 11,432 staff engaged in fund management activities. Among them, 10,779 staff assumed sales and marketing functions.
58. The predominance of sales and marketing personnel could be attributed to the staffing need arising from the spread of the retail network of the registered institutions. Such sales staff played the multiple roles of responding to clients' general enquiries and requests, introducing clients to the various financial services or instruments offered by the registered institutions, as well as marketing investment products offered by third parties.

Internet activities

Licensed corporations

59. Five of the respondents indicated that they conducted certain activities through electronic means. In particular, two reported that they provided dealing facilities in respect of SFC authorised retail funds on the internet. Other services provided through the internet included fund prices, offering documents, and client portfolio reports.

Registered institutions

60. Six of the respondents indicated that they provided subscription, redemption or switching facilities in respect of SFC authorised retail funds through the internet. In addition to information on fund prices, offering documents, and client portfolio reports, a few of these respondents also provided on their internet services such as price alert and tools for performance calculation and investment/risk management.

Initiatives for promoting the Hong Kong fund management industry

61. In response to the growing types of collective investment schemes and the diverse investment needs of the investment public, the SFC introduced the guidelines for regulating real estate investment trusts (REITs) in August 2003 and the guidelines for regulating index tracking exchange traded funds (ETFs) in October 2003.
62. The ETF guidelines were introduced to remove certain regulatory constraints that have hindered the development of ETFs in Hong Kong, while at the same time ensuring that investors' interests were protected. It is expected that the flexible approach adopted by the guidelines will engender the introduction of a wider variety of ETFs in Hong Kong. Such ETFs could be either home-grown or overseas listed. This would not only offer local investors a wide choice of investment products, but would also help develop Hong Kong into a regional ETF market.
63. Separately, in view of the growth of REITs in the overseas markets and their importance as an alternative asset class, the SFC introduced the Code on REITs in August 2003 to address the unique features and investment characteristics of REITs. Through REITs, retail investors will be able to invest in large-scale income-generating real estate in a cost effective manner, with a relatively transparent and well-defined investment strategy. Such funds would also broaden the range of yield-generating investment vehicles presently available to the retail public.
64. It is also hoped that the introduction of REITs to the Hong Kong market would create an environment that facilitates cooperation and partnership between fund managers and property managers, enhance the skills of fund managers in

managing alternative investment products and eventually enable the development of REIT investment expertise in Hong Kong.

65. The SFC appreciates the importance of diversification into overseas properties for the longer-term development of REITs. In order to devise a set of benchmarks that REITs should set for themselves if and when they invest in overseas properties, the SFC has already set up a taskforce to specifically deal with this issue. The taskforce is comprised of representatives from various disciplines such as legal, investment management, trusteeship and valuation. It is expected that members will propose a set of benchmarks, after completing cross-jurisdictional studies and examining the practical issues. The SFC will consult the public on the proposed benchmarks.
66. Since the introduction of the hedge fund guidelines, the SFC has authorised twelve hedge funds for public offering in Hong Kong. As a result of the experience gained in the process of authorising the hedge funds, the SFC will review the hedge fund guidelines in the current financial year, with an aim to further facilitate the development of hedge funds in Hong Kong. Both the industry practitioners and the public will be consulted on the revisions to be made to the guidelines.