



HONG KONG MONETARY AUTHORITY

2013 Exchange Fund Results

23 January 2014



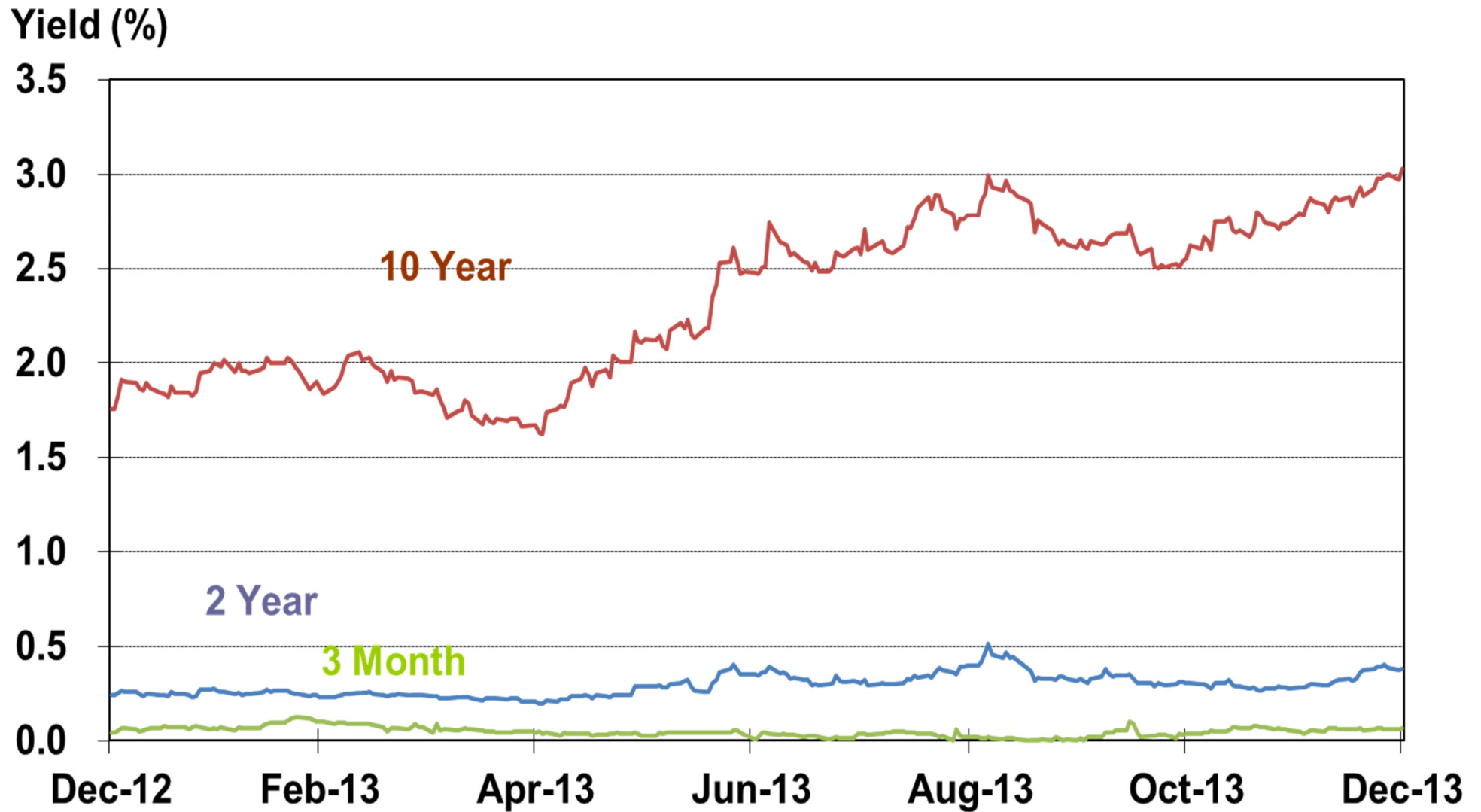
INVESTMENT OBJECTIVES OF THE EXCHANGE FUND

Investment objectives of the Exchange Fund:

- (1) to preserve capital;**
- (2) to ensure that the entire Monetary Base at all times will be fully backed by highly liquid US dollar denominated assets;**
- (3) to ensure sufficient liquidity for the purpose of maintaining monetary and financial stability; and**
- (4) subject to (1) – (3), to achieve an investment return that will preserve the long-term purchasing power of the Fund.**



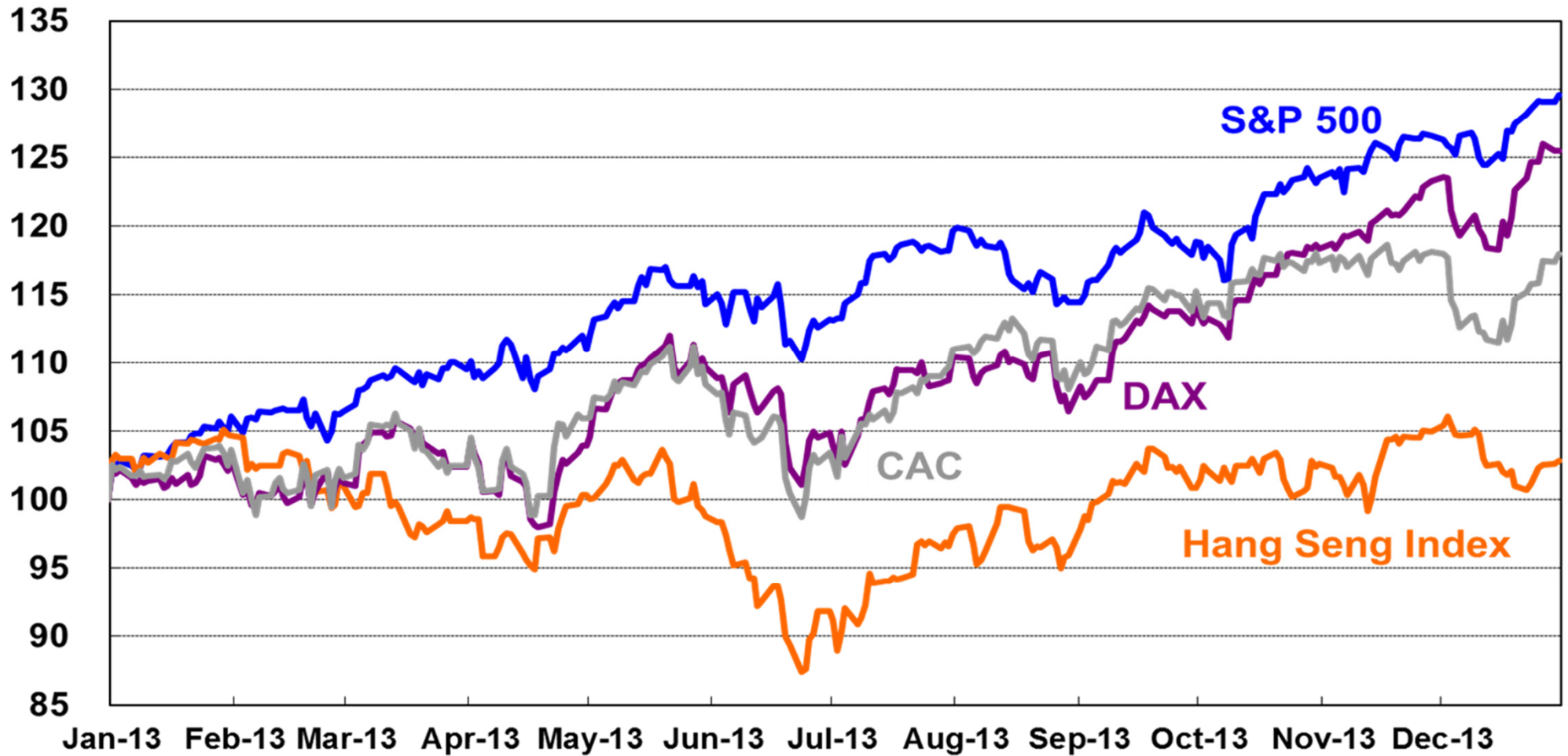
US GOVERNMENT BOND YIELDS IN 2013





EQUITY MARKETS IN 2013

Normalized Index Level (2012 year-end = 100)

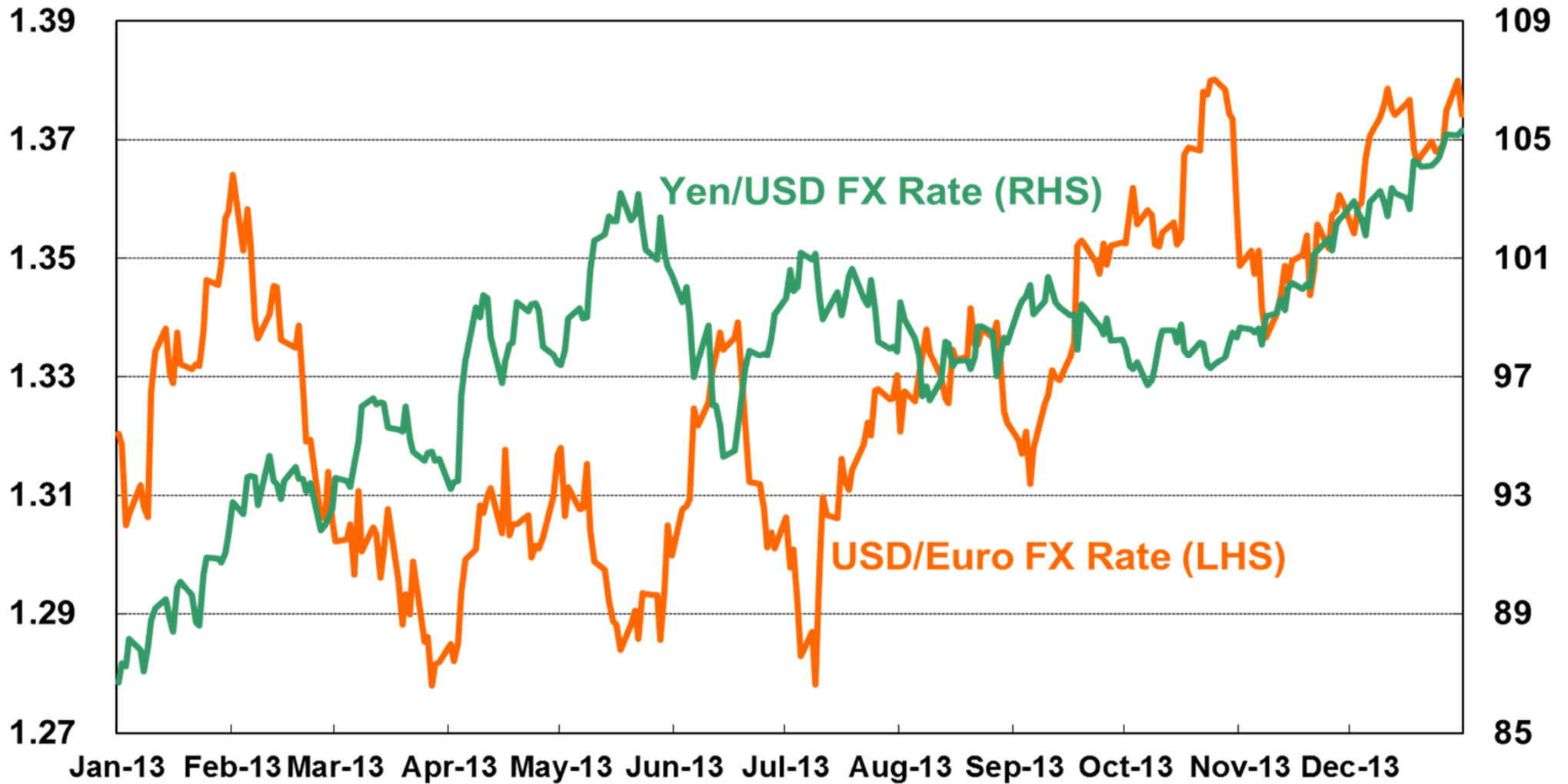




CURRENCY MARKETS IN 2013

USD/Euro FX Rate

Yen/USD FX Rate





INVESTMENT INCOME

(HK\$ billion)	← 2013 →					2012	2011	2010	2009
	Full year *	Q4 *	Q3 *	Q2 *	Q1 *	Full year	Full year	Full year	Full year
Hong Kong equities^{^@}	10.1	3.9	13.7	(6.1)	(1.4)	30.7	(24.2)	11.6	48.9
Other equities[^]	71.6	22.6	17.9	6.2	24.9	42.8	(12.2)	27.1	48.8
Bonds[#]	(19.1)	(4.1)	1.8	(19.6)	2.8	33.1	71.9	42.1	(0.6)
Other investments^{&}	11.7	1.3	5.7	2.1	2.6	6.4	0.7	1.7	0.8
Foreign exchange	<u>1.6</u>	<u>1.7</u>	<u>15.6</u>	<u>(5.9)</u>	<u>(9.8)</u>	<u>(1.4)</u>	<u>(9.1)</u>	<u>(3.1)</u>	<u>9.8</u>
Investment income/(loss)^{@&}	75.9	25.4	54.7	(23.3)	19.1	111.6	27.1	79.4	107.7

* Unaudited figures

[^] Including dividends

[@] Excluding valuation changes in Strategic Portfolio

[#] Including interest

[&] Including valuation changes of investments held by EF's investment holding subsidiaries

(Investments held by EF's investment holding subsidiaries include private equity and real estate investments. The figure for the latest quarter is preliminary and is subject to change in case there are changes in the valuations of these investments.)



CHANGES IN INVESTMENT INCOME, PAYMENT TO FISCAL RESERVES AND ACCUMULATED SURPLUS

(HK\$ billion)	2013					2012
	Full year *	Q4 *	Q3 *	Q2 *	Q1 *	Full year
Investment income/(loss)	75.9	25.4	54.7	(23.3)	19.1	111.6
Other income	0.2	0.0	0.1	0.1	0.0	0.2
Interest and other expenses	<u>(4.9)</u>	<u>(1.2)</u>	<u>(1.3)</u>	<u>(1.5)</u>	<u>(0.9)</u>	<u>(4.4)</u>
Net income/(loss)	71.2	24.2	53.5	(24.7)	18.2	107.4
Payment to Fiscal Reserves #	(36.8)	(9.0)	(9.0)	(9.5)	(9.3)	(37.8)
Payment to HKSAR government funds and statutory bodies #	(9.3)	(2.6)	(2.5)	(2.1)	(2.1)	(8.0)
Valuation change of Strategic Portfolio less valuation change of investments held by EF's investment holding subsidiaries^	<u>(11.7)</u>	<u>(1.0)</u>	<u>(5.1)</u>	<u>(3.0)</u>	<u>(2.6)</u>	<u>(5.6)</u>
Increase/(Decrease) in EF Accumulated Surplus	13.4	11.6	36.9	(39.3)	4.2	56.0

* Unaudited figures

The fixed rate of fee payment is 5.0% for 2013 and 5.6% for 2012.

^ Including dividends



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)

ASSETS

	At 31 Dec 2013 (unaudited)	At 31 Dec 2012	Change
Deposits	293.0	188.3	104.7
Debt securities	2,079.0	2,048.5	30.5
Hong Kong equities	152.9	148.0	4.9
Other equities	372.3	283.3	89.0
Other assets [#]	<u>132.8</u>	<u>113.0</u>	<u>19.8</u>
Total assets	<u>3,030.0</u> =====	<u>2,781.1</u> =====	<u>248.9</u> =====

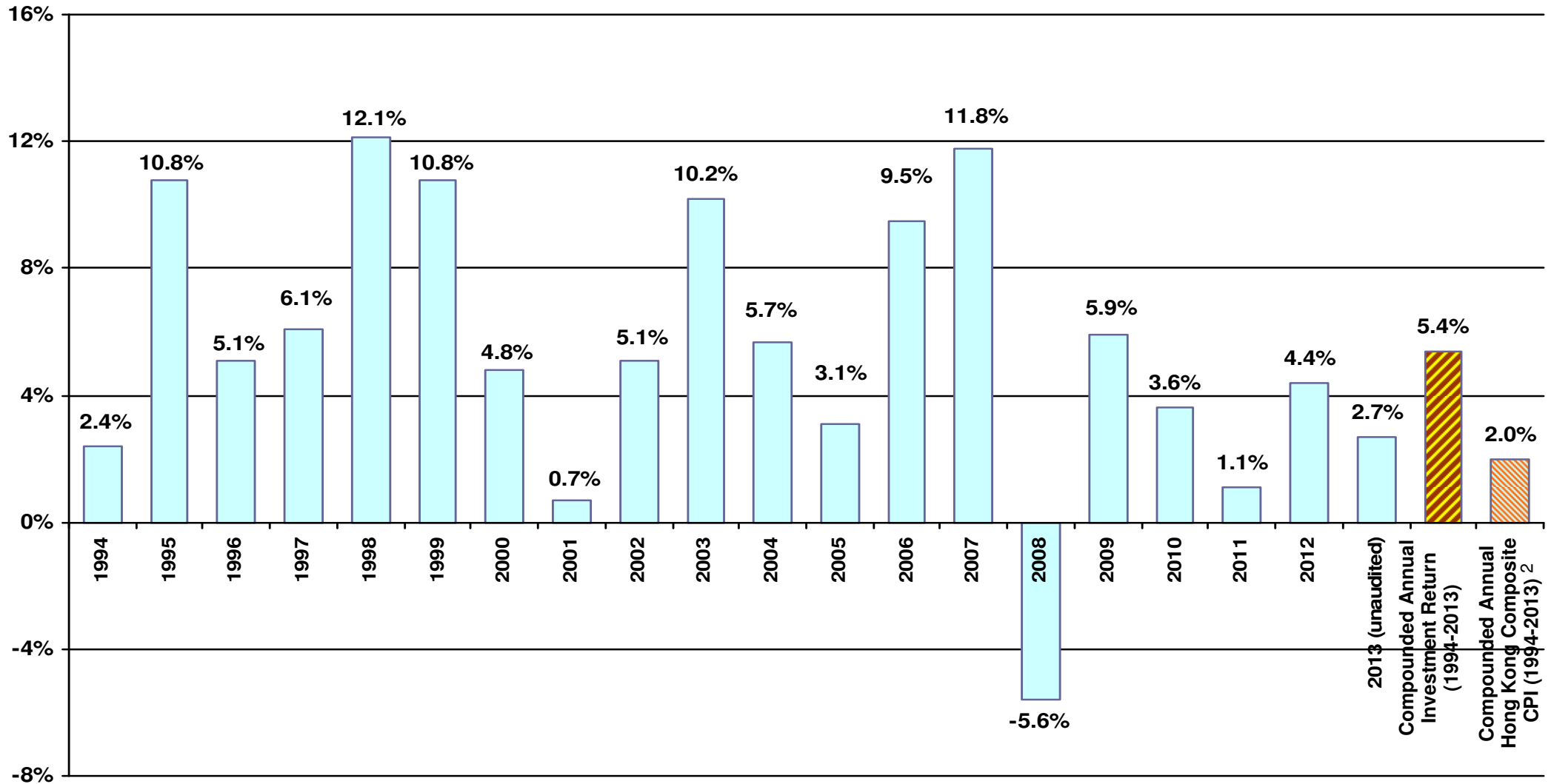
LIABILITIES AND FUND EQUITY

Certificates of Indebtedness	327.4	289.8	37.6
Government-issued currency notes & coins in circulation	10.6	9.9	0.7
Balance of the banking system	164.1	255.9	(91.8)
Exchange Fund Bills and Notes issued	782.6	688.5	94.1
Placements by banks and other financial institutions	50.7	0.0	50.7
Placements by Fiscal Reserves	773.9	717.5	56.4
Placements by HKSAR government funds and statutory bodies	214.9	167.9	47.0
Other liabilities	<u>68.5</u>	<u>27.7</u>	<u>40.8</u>
Total liabilities	2,392.7	2,157.2	235.5
Accumulated Surplus	<u>637.3</u>	<u>623.9</u>	<u>13.4</u>
Total liabilities and fund equity	<u>3,030.0</u> =====	<u>2,781.1</u> =====	<u>248.9</u> =====

[#] Including investment injection to EF's investment holding subsidiaries at a carrying amount of HK\$66.4 billion (HK\$53.6 billion at 31 Dec 2012)



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2013) ¹



¹ Investment return calculation excludes the holdings in the Strategic Portfolio.

² Composite CPI is calculated based on the 2009/2010 base series.



INVESTMENT RETURN OF THE EXCHANGE FUND IN HONG KONG DOLLAR TERMS ¹

	Investment return ^{2&3}
2013	2.7%
3-year average (2011 – 2013)	2.7%
5-year average (2009 – 2013)	3.5%
10-year average (2004 – 2013)	4.1%
Average since 1994	5.4%

¹ The investment returns for 2001 to 2003 are in US dollar terms.

² Investment return calculation excludes the holdings in the Strategic Portfolio.

³ Averages over different time horizons are calculated on an annually compounded basis.



INVESTMENT DIVERSIFICATION

- To enhance the return of the Exchange Fund in the medium and long term, the HKMA has, since 2008, been diversifying part of the Fund's investment into more asset classes, including emerging market bonds and equities, private equity, real estate, and Mainland renminbi bonds and equities. Emerging market bonds and equities and renminbi assets were transferred to the Investment Portfolio of the Exchange Fund in March 2013.
- Private Equity and Real Estate remain under the Long-Term Growth Portfolio (LTGP). Positions at end-2013 and performance since inception are as follows:

As of end 2013

New Asset Classes	Market Value HK\$ billion	Annualized return since inception till end 2013
Private Equity	64.2	} 15.9% (IRR)
Real Estate	24.4	
Total	88.6	

Note: Outstanding investment commitments at the end of 2013 amounted to HK\$81.3 billion



OUTLOOK FOR 2014

- **The pace and scale of the Fed's exit from QE and the consequential market reactions will shape the global financial environment and asset markets in 2014.**
- **The speed and sustainability of the US's economic recovery remain uncertain.**
- **Private and public sector indebtedness as well as unemployment rates remain very high in Europe.**
- **We cannot rule out the risk of another round of outflow of funds from emerging markets to the US, as the US gradually exits from QE and interest rates normalise.**
- **The HKMA will continue to manage the Exchange Fund prudently, strengthen the defensive position of our US bond holdings, and step up our investment diversification.**



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