



HONG KONG MONETARY AUTHORITY

2015 Exchange Fund Results

22 January 2016



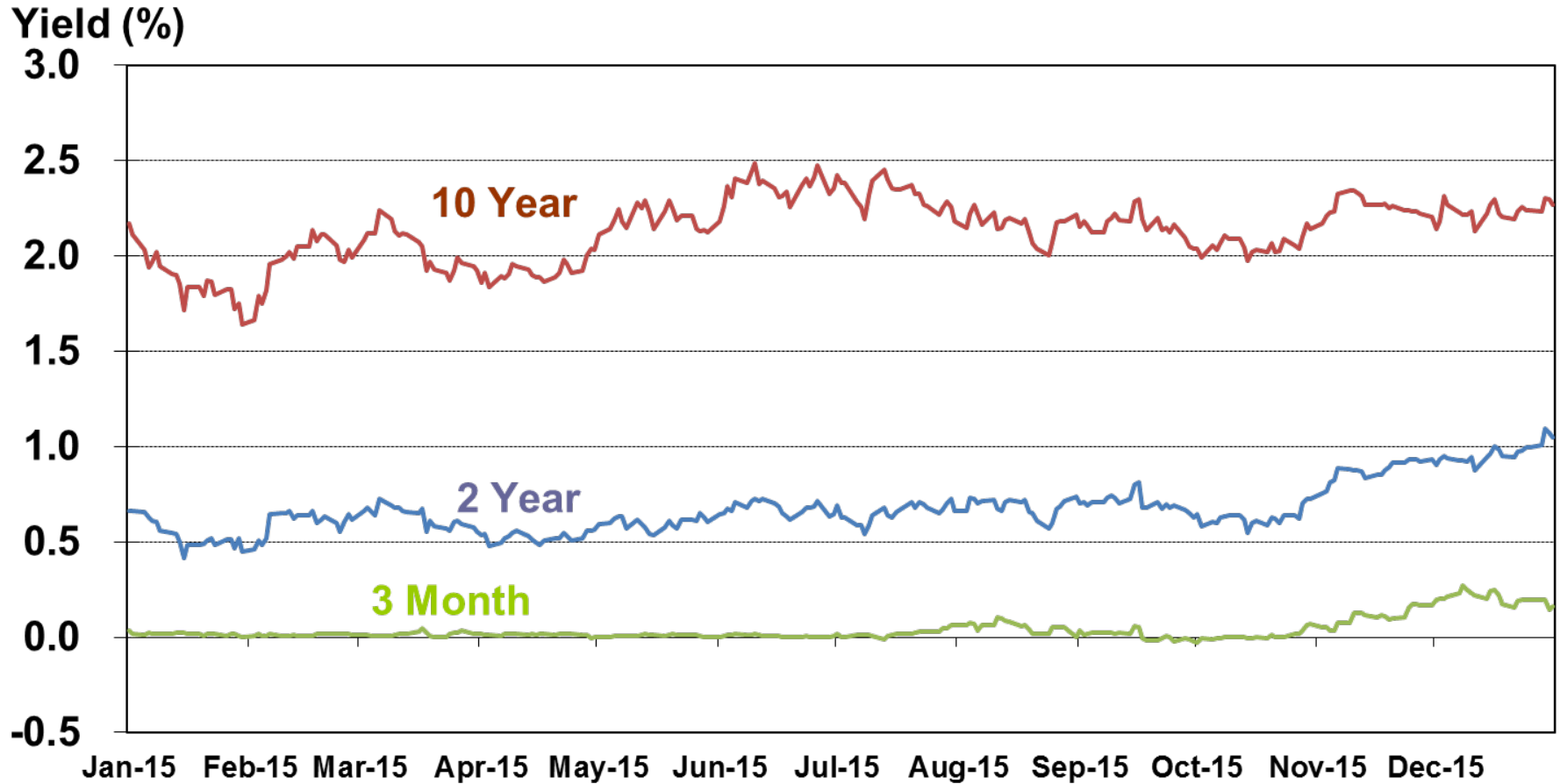
INVESTMENT OBJECTIVES OF THE EXCHANGE FUND

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.**



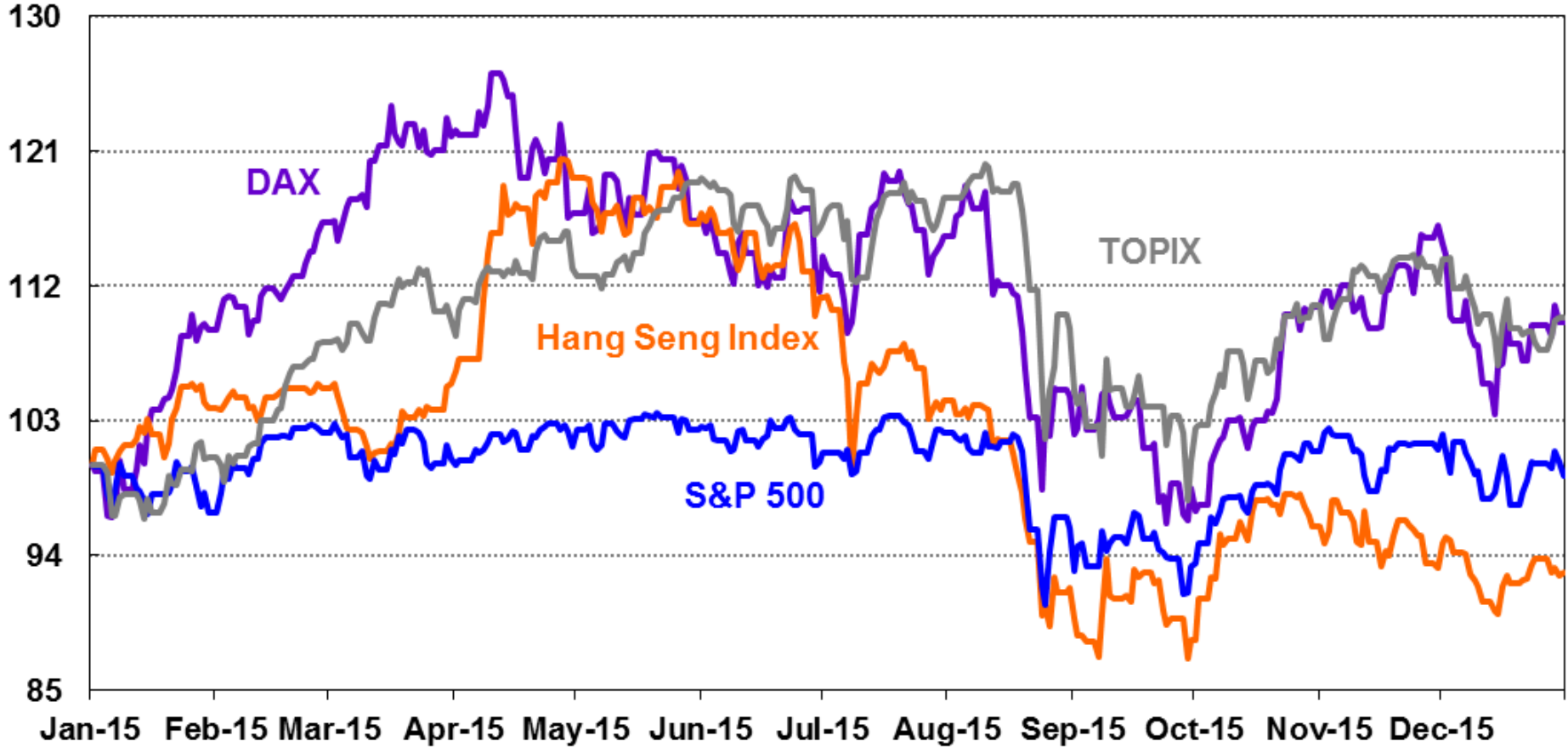
US GOVERNMENT BOND YIELDS IN 2015





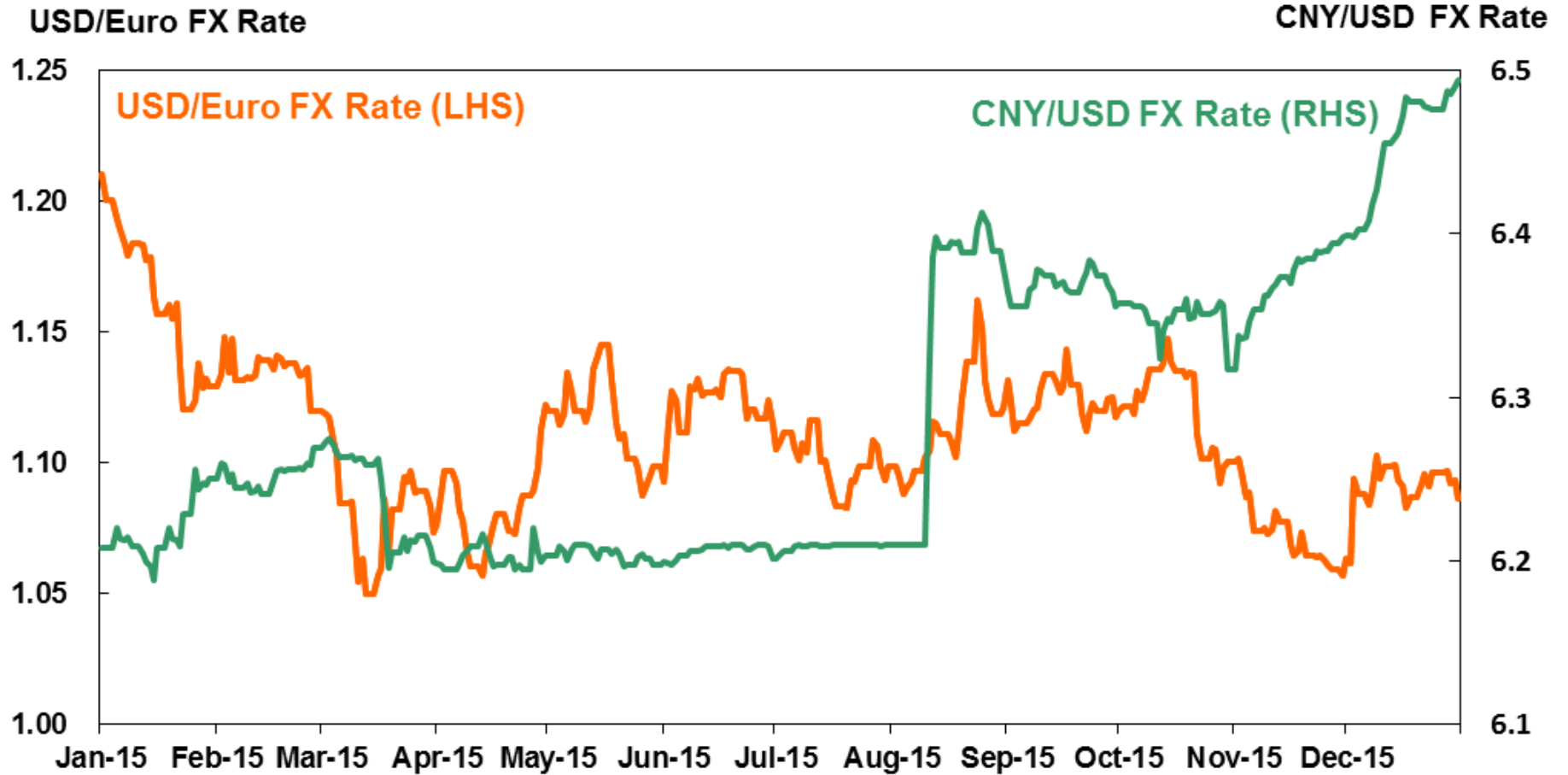
EQUITY MARKETS IN 2015

Normalized Index Level (2014 year-end = 100)





CURRENCY MARKETS IN 2015





INVESTMENT INCOME

(HK\$ billion)	← 2015 → (unaudited)					2014	2013	2012	2011
	Full year	Q4	Q3	Q2	Q1	Full year	Full year	Full year	Full year
Hong Kong equities*	(5.0)	6.9	(30.7)	9.7	9.1	6.5	10.1	30.7	(24.2)
Other equities	7.4	21.0	(34.1)	2.0	18.5	33.7	71.8	42.8	(12.2)
Bonds	15.9	(0.4)	11.8	(7.7)	12.2	47.3	(19.1)	33.1	71.9
Other investments@	8.3	-	0.0	6.6	1.7	9.9	16.8	6.4	0.7
Foreign exchange#	<u>(44.9)</u>	<u>(9.0)</u>	<u>(10.8)</u>	<u>8.1</u>	<u>(33.2)</u>	<u>(52.7)</u>	<u>1.6</u>	<u>(1.4)</u>	<u>(9.1)</u>
Investment income/(loss)	(18.3)	18.5	(63.8)	18.7	8.3	44.7	81.2	111.6	27.1

* Excluding valuation change of Strategic Portfolio

@ Including valuation changes of private equity and real estate investments held by Exchange Fund's investment holding subsidiaries. (The above figures for 2015 represent valuation changes of these investments up to end-September. The valuation figures for the fourth quarter are not yet available.)

This is primarily the effect of translating non-US dollar foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging



INCOME AND EXPENDITURE

(HK\$ billion)	2015 (unaudited)					2014
	Full year	Q4	Q3	Q2	Q1	Full year
Investment income/(loss)	(18.3)	18.5	(63.8)	18.7	8.3	44.7
Other income	0.2	0.1	0.0	0.1	0.0	0.2
Interest and other expenses	<u>(4.8)</u>	<u>(1.1)</u>	<u>(1.0)</u>	<u>(1.7)</u>	<u>(1.0)</u>	<u>(5.2)</u>
Net income/(loss)	(22.9)	17.5	(64.8)	17.1	7.3	39.7
Fee payment to Fiscal Reserves #	(46.7)	(11.6)	(11.5)	(11.8)	(11.8)	(27.5)
Fee payment to HKSAR government funds and statutory bodies #	(14.7)	(3.8)	(3.7)	(3.7)	(3.5)	(8.6)

The rate of fee payment is 5.5% for 2015 and 3.6% for 2014.



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)

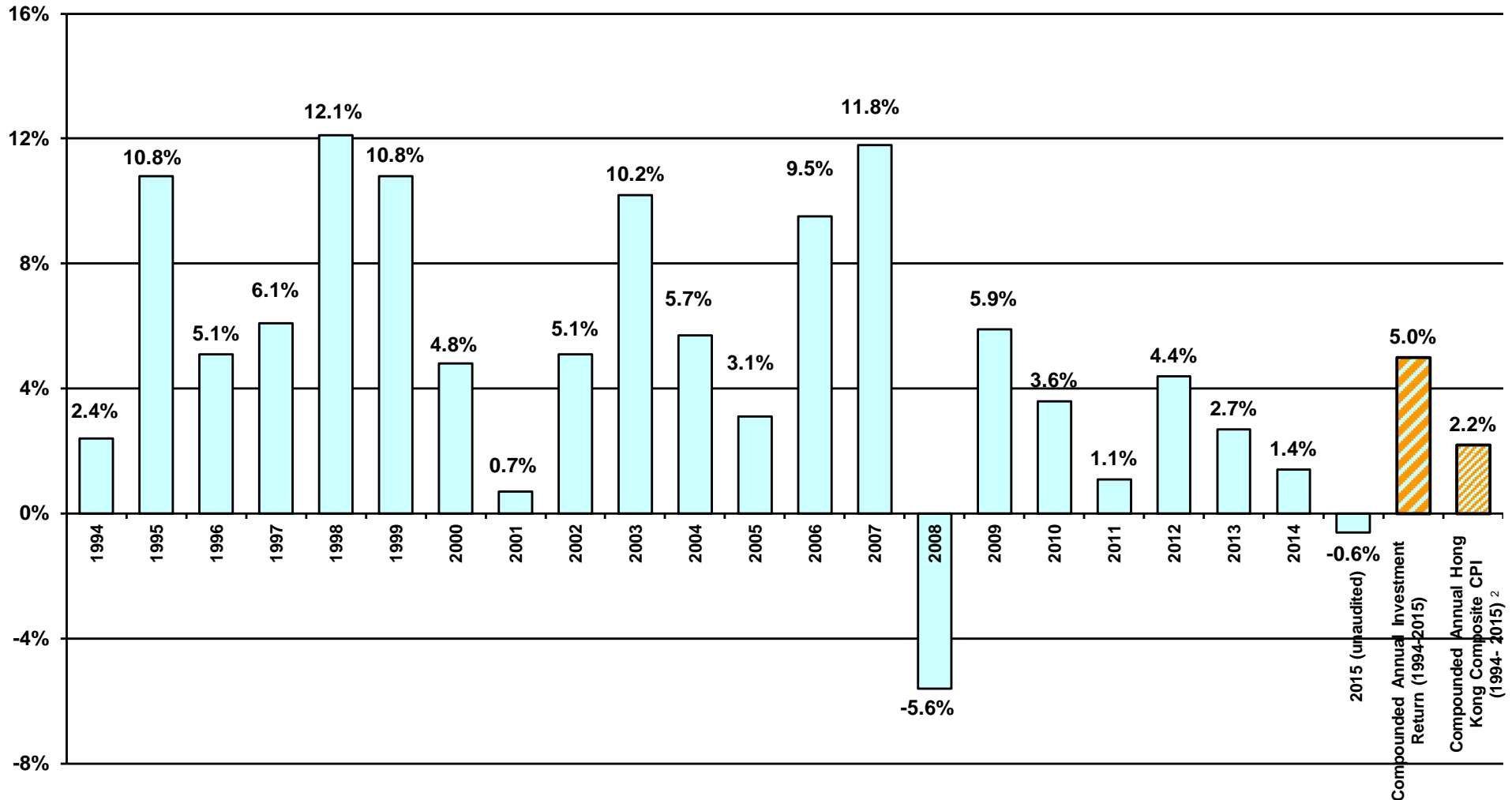
	At 31 Dec 2015 (unaudited)	At 31 Dec 2014	Change
ASSETS			
Deposits	290.9	315.6	(24.7)
Debt securities	2,464.1	2,146.3	317.8
Hong Kong equities*	148.2	156.8	(8.6)
Other equities	397.7	416.3	(18.6)
Other assets#	<u>128.0</u>	<u>114.0</u>	<u>14.0</u>
Total assets	<u>3,428.9</u> =====	<u>3,149.0</u> =====	<u>279.9</u> =====
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	357.9	340.2	17.7
Government-issued currency notes & coins in circulation	11.3	11.0	0.3
Balance of the banking system	391.3	239.2	152.1
Exchange Fund Bills and Notes issued	827.8	752.4	75.4
Placements by banks and other financial institutions	66.9	64.0	2.9
Placements by Fiscal Reserves	833.6	788.7	44.9
Placements by HKSAR Government funds and statutory bodies	280.8	261.1	19.7
Other liabilities	<u>114.1</u>	<u>56.9</u>	<u>57.2</u>
Total liabilities	2,883.7	2,513.5	370.2
Accumulated Surplus	<u>545.2</u>	<u>635.5</u>	<u>(90.3)</u>
Total liabilities and fund equity	<u>3,428.9</u> =====	<u>3,149.0</u> =====	<u>279.9</u> =====

* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio

Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$96.0 billion at 31 Dec 2015 (HK\$82.6 billion at 31 Dec 2014)



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2015) 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}
2015	-0.6%
3-year average (2013 – 2015)	1.2%
5-year average (2011 – 2015)	1.8%
10-year average (2006 – 2016)	3.3%
Average since 1994	5.0%

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 and set up the Long-Term Growth Portfolio (LTGP).
- The progress of the LTGP in 2015 has been good. Positions at end-2015 and performance since inception are as follows:

As of end-2015

New Asset Classes	Market Value HK\$ billion	Annualized return since inception till end 2015
Private Equity	90.0	} 12.0% (IRR)
Real Estate	49.3	
Total	139.3	

Note: Outstanding investment commitments at the end of 2015 amounted to HK\$122.4 billion



OUTLOOK FOR 2016

- Financial market volatility may continue
- Fed rate hike path remains highly uncertain
- Strength of US and Euro-zone economic recovery still in doubt, emerging economies also face downside risks
- When energy prices will bottom is hard to gauge



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