

Reserves Management



Waders rest and feed in Mai Po on their return journey from Australia to northern China in the spring. They increase their weight substantially to prepare themselves for the remainder of their journey.

Performance of the Exchange Fund in 2000

Hong Kong's foreign currency reserves, held in the Exchange Fund, form the backing for Hong Kong's linked exchange rate. In 2000, the reserves continued to grow, despite a very difficult investment environment.

- at the end of 2000, Hong Kong's foreign currency reserves totalled US\$107.5 billion, making them the third largest in the world
- in 2000 the accumulated surplus of the Exchange Fund increased by 5.6%. The return on the invested assets of the Fund for the year was 4.8%, above the benchmark return of 3.8% and Hong Kong's inflation rate of -1.4%
- proceeds from the strategic positioning in bond investments more than offset the losses to the Exchange Fund resulting from the decline in the value of Hong Kong equities and the weaknesses of the euro and yen.

Investment benchmark of the Exchange Fund	
Bonds	80%
Equities	20% (Hong Kong: 5%)
Currencies	80% US dollar bloc 15% European bloc 5% Yen

Gross investment return of the Exchange Fund			
	Return on total invested assets	Return on investment benchmark*	CPI(A)
2000	4.8%	3.8%	-1.4%
1999	10.8%	5.5%	-2.9%
1993 – 2000			
cumulative	76.0%	N/A	33.1%
1993 – 2000			
annualised	7.3%	N/A	3.6%

* established since January 1999

2000 market returns	
Currencies	
Appreciation of US dollar	
Against Yen	11.6%
Against Euro	6.8%
Merrill Lynch Global Government Bond Index, 1-5 years (in US\$ terms)	0.9%
Equity markets	
Standard & Poor's 500 Index	-10.1%
Hang Seng Index	-11.0%

Currency mix of the Exchange Fund's assets (at 31 December 2000)		
	HK\$ billion	%
US dollar	691.0	67.5
Hong Kong dollar	166.7	16.3
European currencies	120.7	11.8
Yen	42.3	4.1
Others	2.7	0.3
Total	1,023.4	100.0

Hong Kong equity holdings

Disposal of the Exchange Fund's Hong Kong equity holdings continued during the year through the Tap Facility. During the period between the fourth quarter of 1999 and the fourth quarter of 2000 total gross proceeds of \$83.3 billion were received from disposals through the initial public offering of the Tracker Fund and the Tap Facility.

Improved management of the Exchange Fund

A number of improvements were made to the management of the Exchange Fund during the year. These included enhancements to risk management, using the latest tools available in the industry, and a strategic review of the assets assigned to external fund managers, resulting in an enhancement of portfolio management techniques and an increase in the range and amounts of assets assigned to external managers.