



**HONG KONG MONETARY AUTHORITY**

# **2012 Exchange Fund Results**

**14 January 2013**



# **INVESTMENT OBJECTIVES OF THE EXCHANGE FUND**

**Investment objectives of the Exchange Fund:**

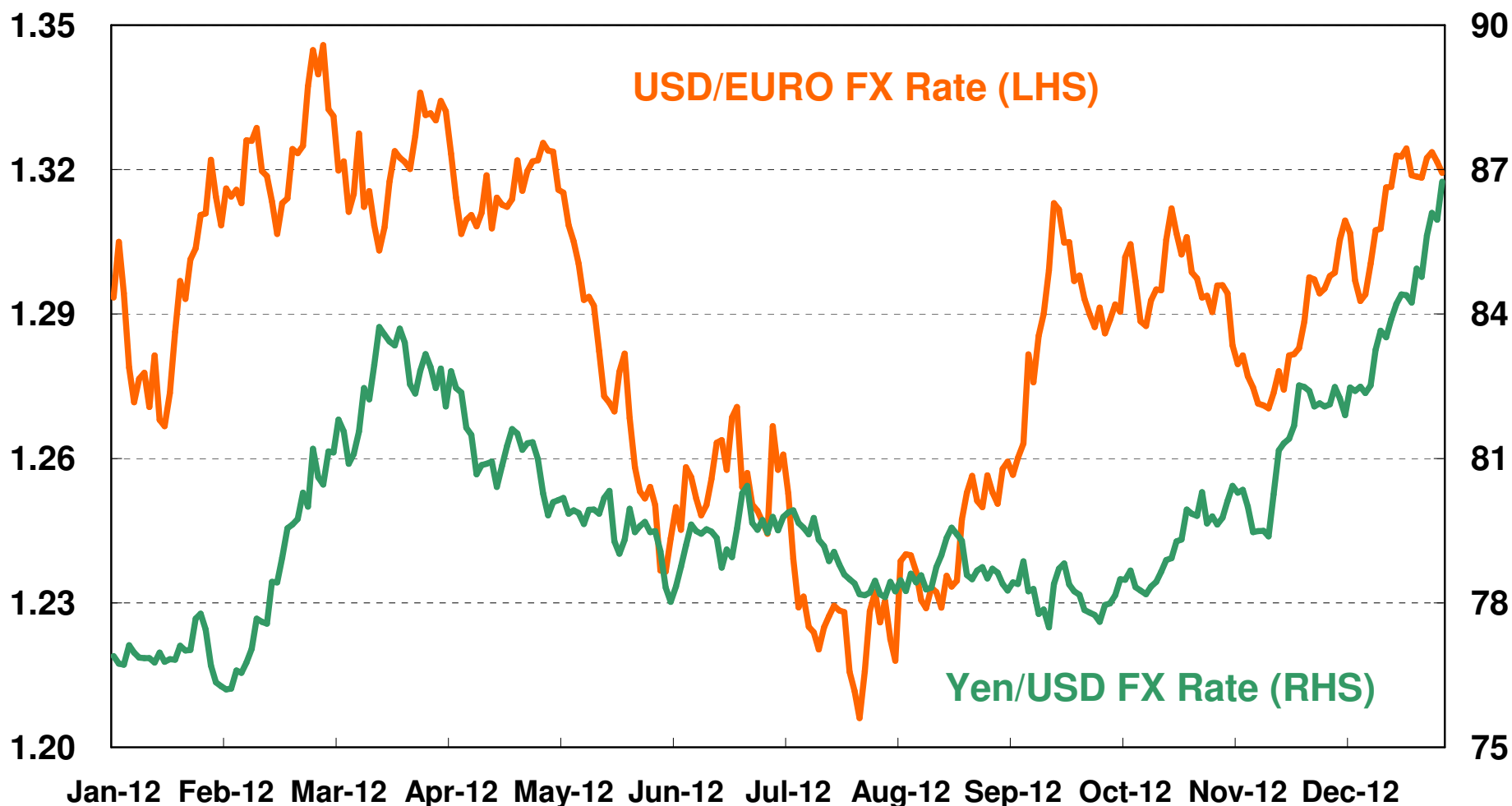
- (1) to preserve capital;**
- (2) to ensure that the entire Monetary Base at all times will be fully backed by highly liquid US dollar denominated assets;**
- (3) to ensure sufficient liquidity for the purpose of maintaining monetary and financial stability; and**
- (4) subject to (1) – (3), to achieve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



# CURRENCY MARKETS IN 2012

USD/Euro FX Rate

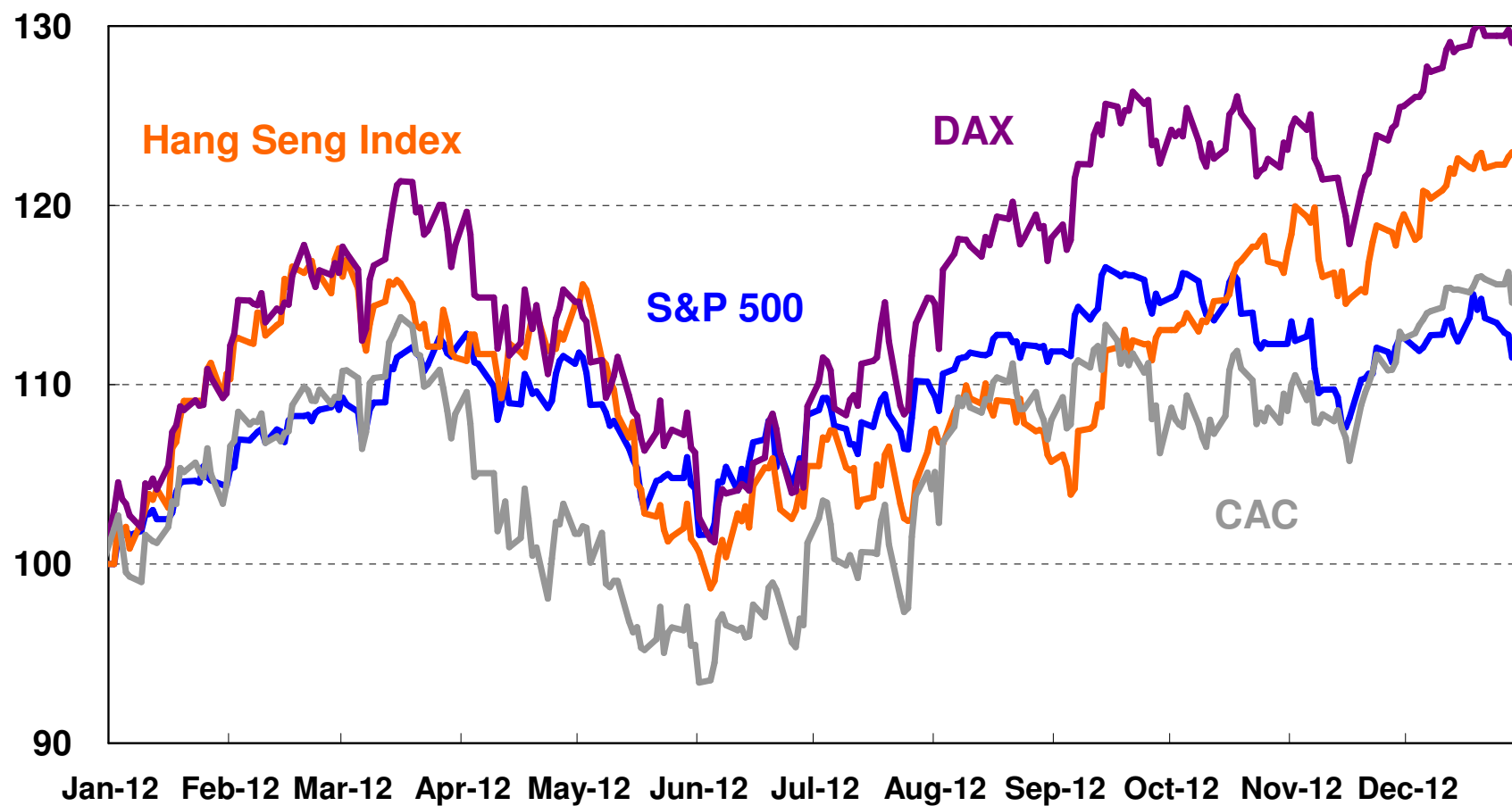
Yen/USD FX Rate





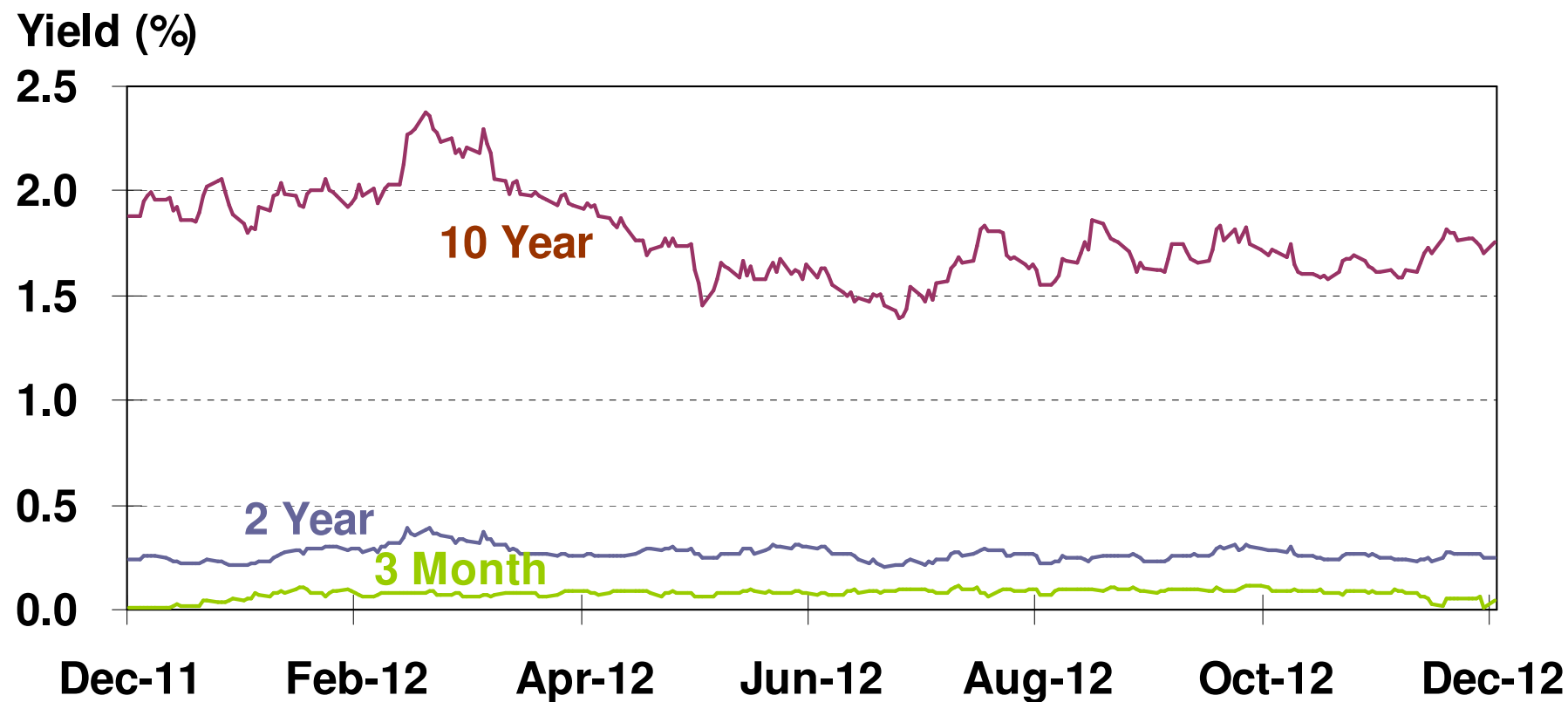
# EQUITY MARKETS IN 2012

Normalized Index Level (2011 year-end = 100)





# US GOVERNMENT BOND YIELDS IN 2012





# INVESTMENT INCOME

	←————— 2012 —————→					2011	2010	2009	2008
(HK\$ billion)	Full year *	Q4	Q3	Q2	Q1	Full year	Full year	Full year	Full year
<b>Hong Kong equities<sup>^@</sup></b>	<b>30.7</b>	<b>11.8</b>	<b>9.3</b>	<b>(4.0)</b>	<b>13.6</b>	<b>(24.2)</b>	<b>11.6</b>	<b>48.9</b>	<b>(77.9)</b>
<b>Other equities<sup>^</sup></b>	<b>42.6</b>	<b>10.3</b>	<b>14.4</b>	<b>(10.3)</b>	<b>28.2</b>	<b>(12.2)</b>	<b>27.1</b>	<b>48.8</b>	<b>(73.1)</b>
<b>Bonds<sup>#</sup></b>	<b>33.1</b>	<b>2.5</b>	<b>10.8</b>	<b>22.7</b>	<b>(2.9)</b>	<b>71.9</b>	<b>42.1</b>	<b>(0.6)</b>	<b>88.4</b>
<b>Other investments<sup>&amp;</sup></b>	<b>3.6</b>	<b>0.3</b>	<b>1.3</b>	<b>0.5</b>	<b>1.5</b>	<b>0.7</b>	<b>1.7</b>	<b>0.8</b>	<b>-</b>
<b>Foreign exchange</b>	<u><b>(1.4)</b></u>	<u><b>2.4</b></u>	<u><b>6.6</b></u>	<u><b>(14.5)</b></u>	<u><b>4.1</b></u>	<u><b>(9.1)</b></u>	<u><b>(3.1)</b></u>	<u><b>9.8</b></u>	<u><b>(12.4)</b></u>
<b>Investment income/(loss)<sup>@&amp;</sup></b>	<b>108.6</b>	<b>27.3</b>	<b>42.4</b>	<b>(5.6)</b>	<b>44.5</b>	<b>27.1</b>	<b>79.4</b>	<b>107.7</b>	<b>(75.0)</b>

\* Unaudited figures

<sup>^</sup> Including dividends

<sup>@</sup> Excluding valuation changes in Strategic Portfolio (a gain of HK\$0.8 billion in 2012)

<sup>#</sup> Including interest

<sup>&</sup> Including valuation changes of investment held by EF's investment holding subsidiaries



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

	2012					2011
	Full year (unaudited)	Q4	Q3	Q2	Q1	Full year
(HK\$ billion)						
<b>Investment income/(loss)</b>	<b>108.6</b>	<b>27.3</b>	<b>42.4</b>	<b>(5.6)</b>	<b>44.5</b>	<b>27.1</b>
Other income	0.2	-	0.1	0.1	-	0.2
Interest and other expenses	<u>(4.4)</u>	<u>(1.0)</u>	<u>(1.1)</u>	<u>(1.4)</u>	<u>(0.9)</u>	<u>(4.7)</u>
Net investment income/(loss)	104.4	26.3	41.4	(6.9)	43.6	22.6
<b>Payment to Fiscal Reserves #</b>	<b>(37.8)</b>	<b>(9.3)</b>	<b>(9.2)</b>	<b>(9.6)</b>	<b>(9.7)</b>	<b>(37.0)</b>
Payment to HKSAR government funds and statutory bodies #	(8.0)	(2.2)	(2.1)	(1.9)	(1.8)	(5.6)
Valuation change of Strategic Portfolio less valuation change of investment held by EF's investment holding subsidiaries^	<u>(2.8)</u>	<u>0.7</u>	<u>(0.7)</u>	<u>(1.7)</u>	<u>(1.1)</u>	<u>(3.6)</u>
<b>Increase/(Decrease) in EF Accumulated Surplus</b>	<b>55.8</b>	<b>15.5</b>	<b>29.4</b>	<b>(20.1)</b>	<b>31.0</b>	<b>(23.6)</b>

# The fixed rate of fee payment is 5.6% for 2012 and 6.0% for 2011.

^ Including dividends



# EXCHANGE FUND ABRIDGED BALANCE SHEET

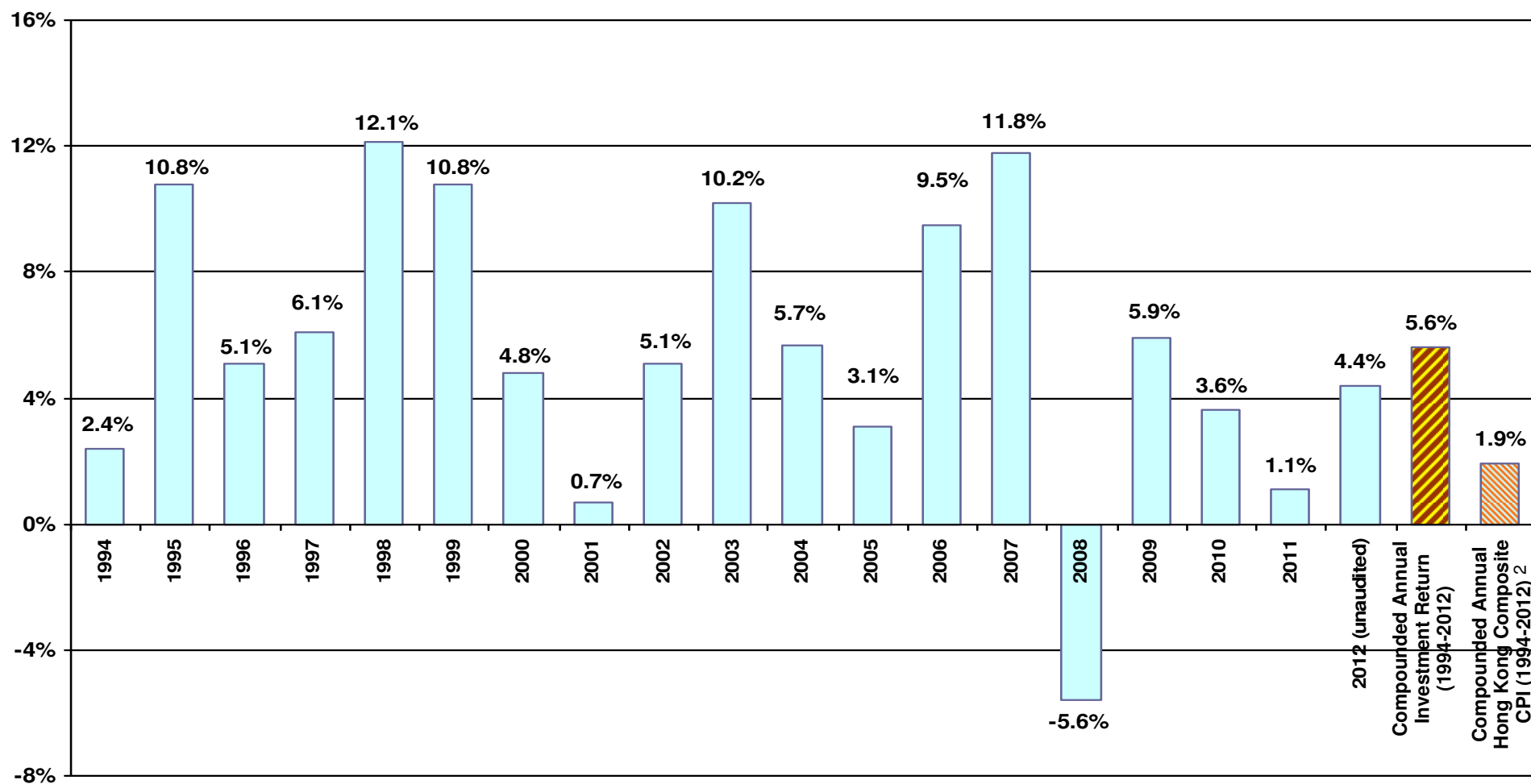
(HK\$ billion)	At 31 Dec 2012 (unaudited)	At 31 Dec 2011	Change
<b>ASSETS</b>			
Deposits	189.2	221.7	(32.5)
Debt securities	2,047.5	1,844.4	203.1
Hong Kong equities	148.0	120.6	27.4
Other equities	284.9	238.2	46.7
Other assets <sup>#</sup>	<u>112.6</u>	<u>63.1</u>	<u>49.5</u>
<b>Total assets</b>	<b>2,782.2</b> =====	<b>2,488.0</b> =====	<b>294.2</b> =====
<b>LIABILITIES AND FUND EQUITY</b>			
Certificates of Indebtedness	289.8	258.7	31.1
Government-issued currency notes & coins in circulation	9.9	9.9	-
Balance of the banking system	255.9	148.7	107.2
Exchange Fund Bills and Notes	688.5	655.8	32.7
Placements by banks and other financial institutions	-	24.5	(24.5)
Placements by Fiscal Reserves	717.5	663.5	54.0
Placements by HKSAR government funds and statutory bodies	167.9	126.2	41.7
Other liabilities	<u>29.0</u>	<u>32.8</u>	<u>(3.8)</u>
<b>Total liabilities</b>	2,158.5	1,920.1	238.4
Accumulated Surplus	<u>623.7</u>	<u>567.9</u>	<u>55.8</u>
<b>Total liabilities and fund equity</b>	<b>2,782.2</b> =====	<b>2,488.0</b> =====	<b>294.2</b> =====

<sup>#</sup> Including investment in EF's investment holding subsidiaries amounted to HK\$53.6 billion at 31 Dec 2012 (HK\$31.1 billion at 31 Dec 2011)





# INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2012) <sup>1</sup>



<sup>1</sup> Investment return calculation excludes the holdings in the Strategic Portfolio.

<sup>2</sup> Composite CPI is calculated as of end-November 2012 based on the 2009/2010 base series.



## INVESTMENT RETURN OF THE EXCHANGE FUND IN HONG KONG DOLLAR TERMS <sup>1</sup>

	<b>Investment return</b> <sup>2&amp;3</sup>
<b>2012</b>	4.4%
<b>3-year average (2010 – 2012)</b>	3.0%
<b>5-year average (2008 – 2012)</b>	1.8%
<b>10-year average (2003 – 2012)</b>	4.9%
<b>Average since 1994</b>	5.6%

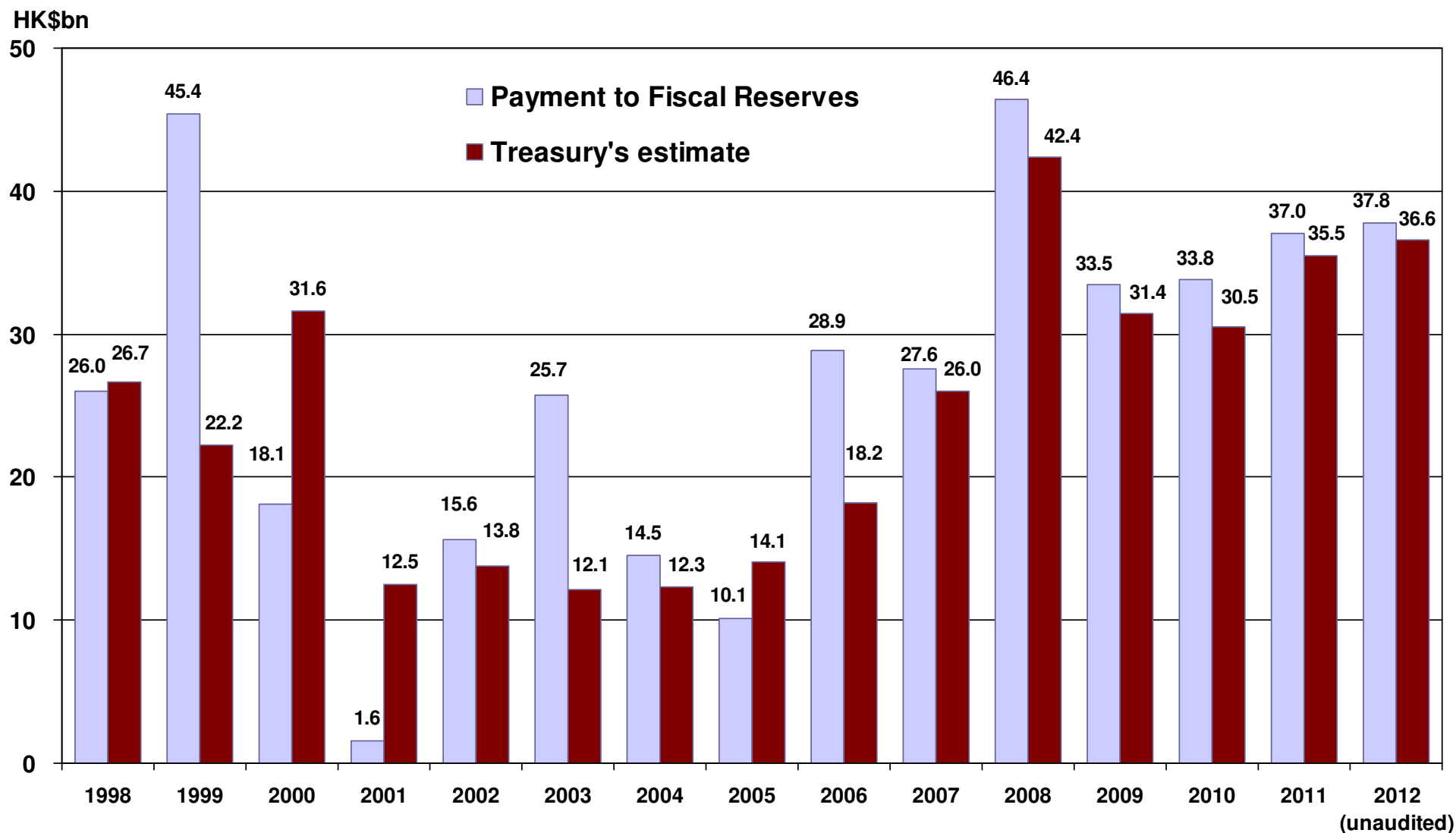
<sup>1</sup> The investment returns for 2001 to 2003 are in US dollar terms.

<sup>2</sup> Investment return calculation excludes the holdings in the Strategic Portfolio.

<sup>3</sup> Averages over different time horizons are calculated on an annually compounded basis.



# PAYMENT TO FISCAL RESERVES AGAINST ESTIMATE





# OUTLOOK FOR 2013

- **The global investment landscape will remain highly uncertain.**
- **The sovereign debt problem in Europe remains a prominent risk. Investors will focus on whether the Euro-zone can follow through its efforts to address imbalances as it seeks to spur growth.**
- **Further negotiations among political parties in the US over the raising of the debt limit and spending cuts will continue.**
- **Other geopolitical risks around the world could add to uncertainties of global economy.**



# 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.
- These assets are housed under the Long-Term Growth Portfolio (LTGP). Positions at end-2012 and performance since inception are as follows:

**As of end 2012**

New Asset Classes	Market Value HK\$ billion	Annualised return since inception till end 2012
Emerging market bonds and equities	41.4	8%
RMB assets (including bonds and equities)	46.9	
Private equity	47.1	10% (IRR)
Real Estate	13.5	
<b>Total</b>	<b>148.9</b>	

Note: Outstanding investment commitments at the end of 2012 amounted to HK\$63.8 billion



## Review of the LTGP

- In 2012, the HKMA conducted a review of the overall strategy of investment diversification. Results support that investment diversification should further be pursued.
- In November 2012, the Financial Secretary, on the advice of the Exchange Fund Advisory Committee (EFAC), endorsed the following recommendations:
  - To maintain the investment cap on LTGP size at one-third of the accumulated surplus of the Exchange Fund
  - To transfer Emerging Market Bonds and Equities and Renminbi Assets into the Investment Portfolio of the Exchange Fund
  - Private Equity and Real Estate will remain in the LTGP



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