



HONG KONG MONETARY AUTHORITY

2014 Exchange Fund Results

26 January 2015



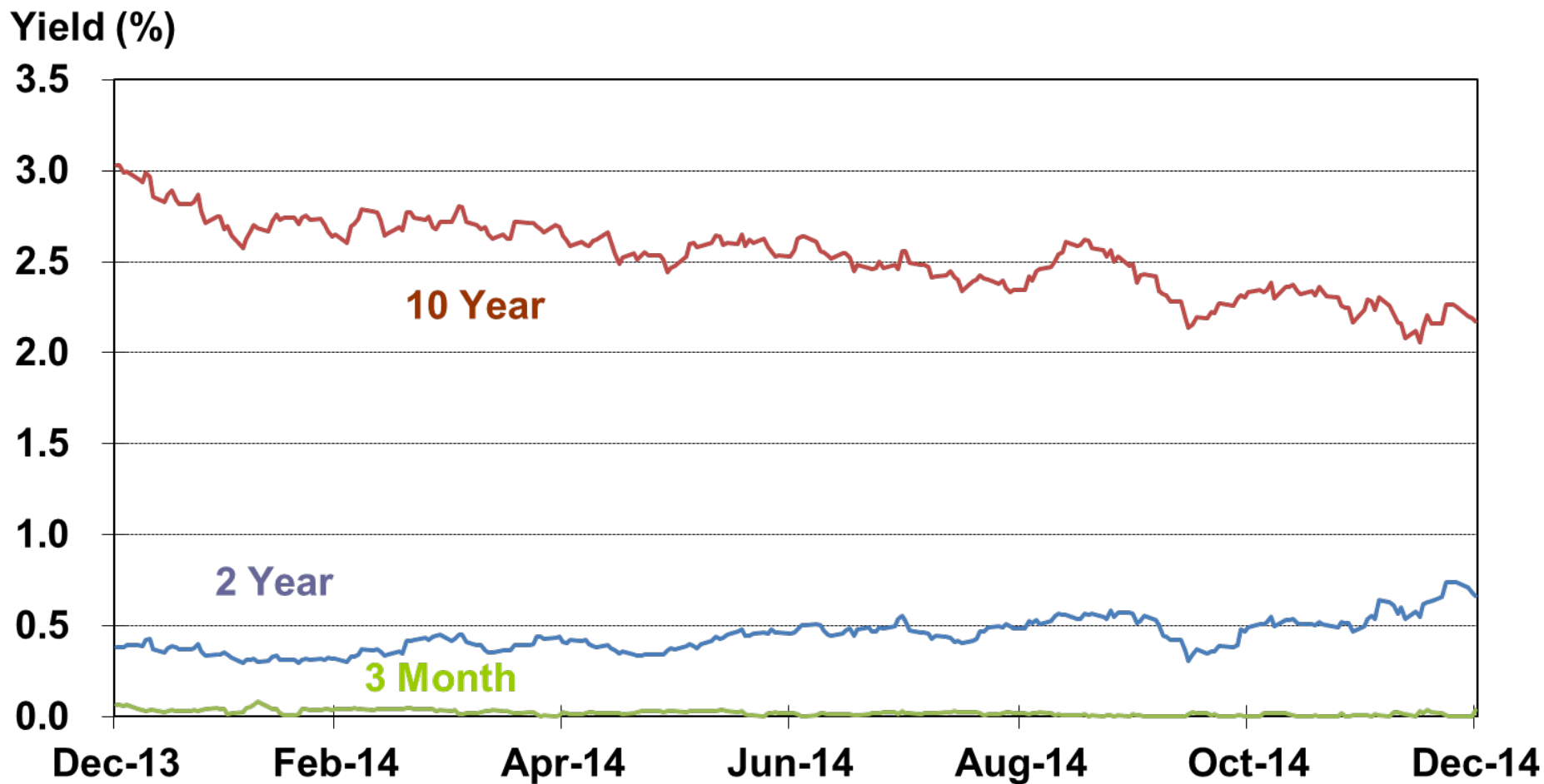
INVESTMENT OBJECTIVES OF THE EXCHANGE FUND

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.**



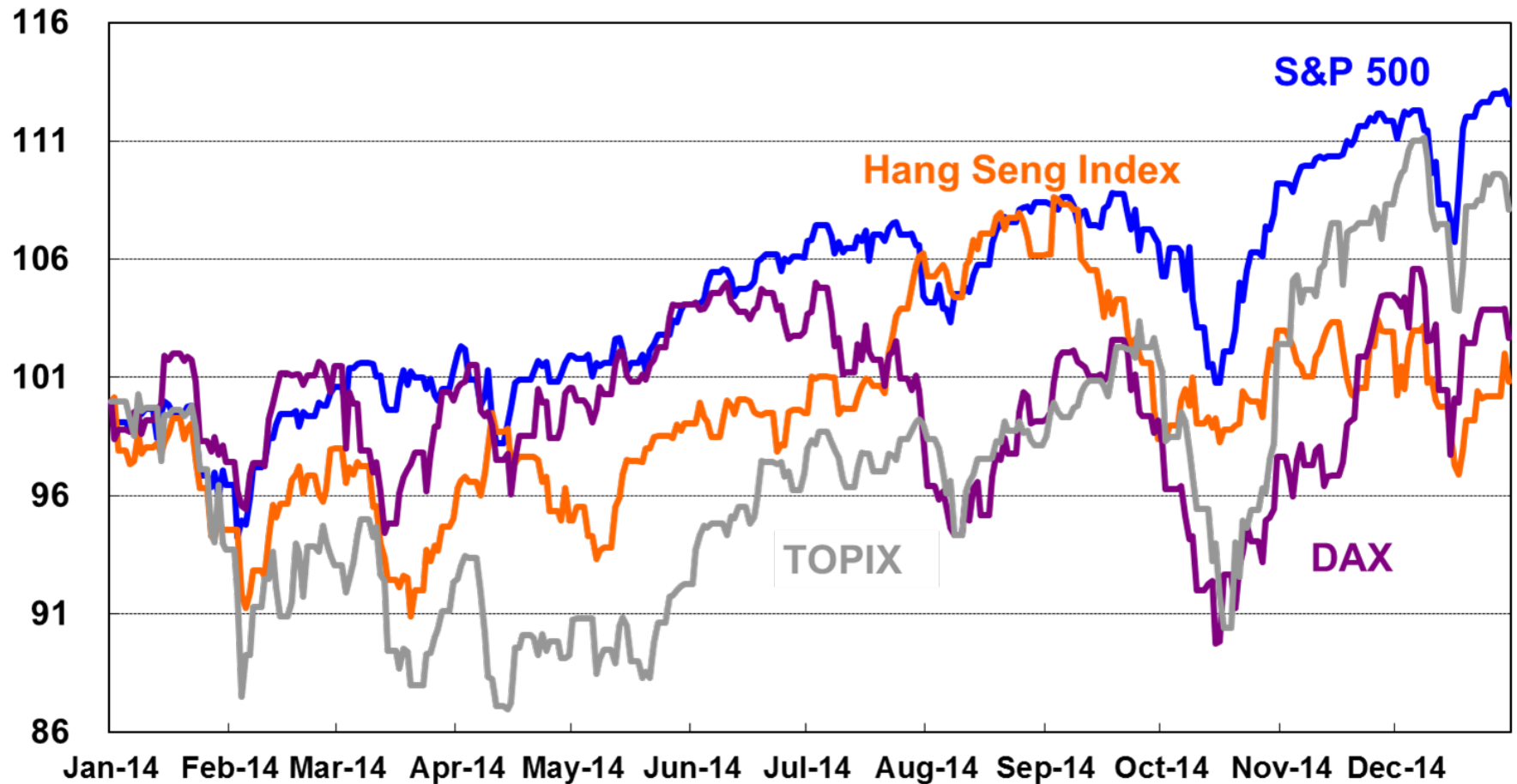
US GOVERNMENT BOND YIELDS IN 2014





EQUITY MARKETS IN 2014

Normalized Index Level (2013 year-end = 100)

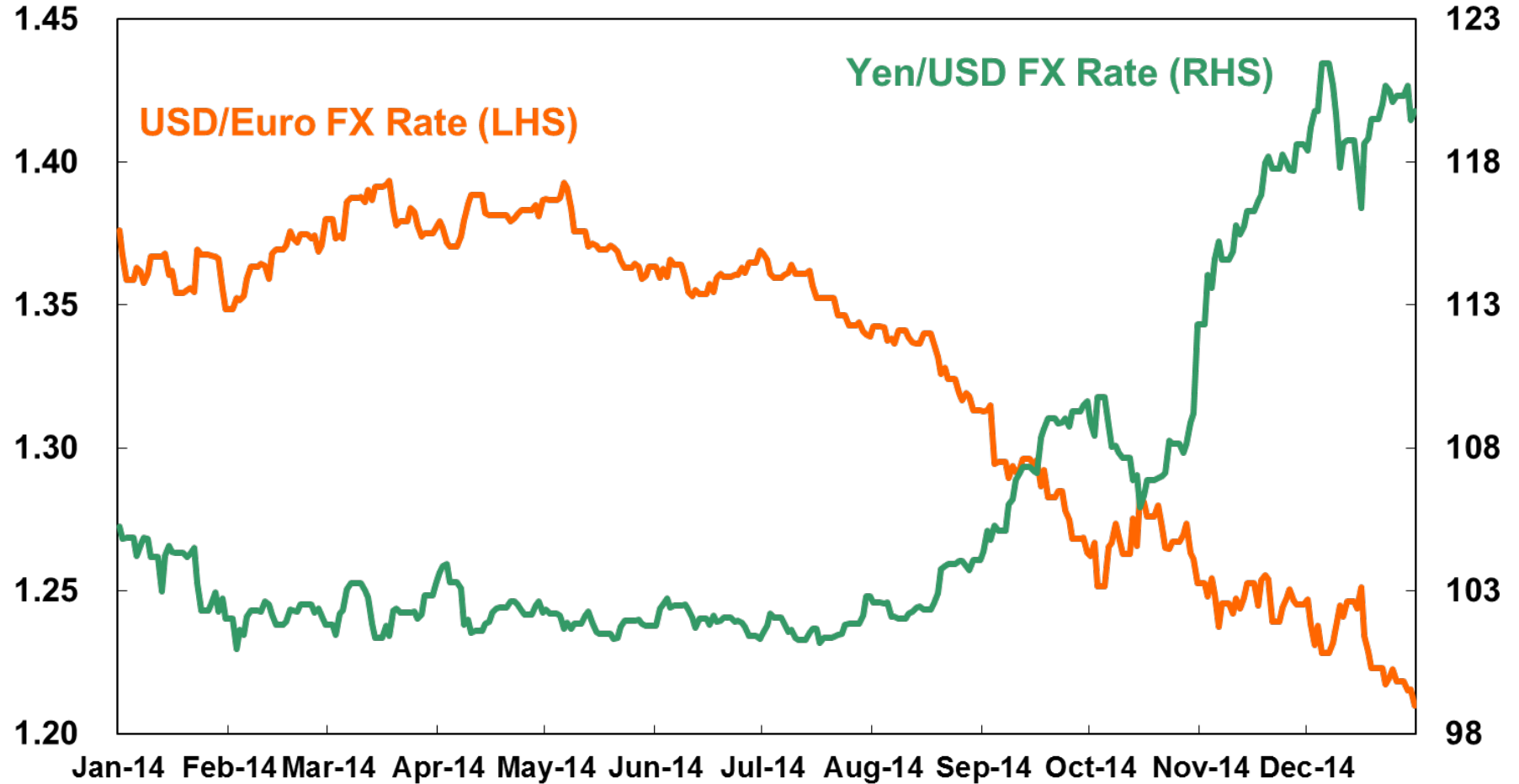




CURRENCY MARKETS IN 2014

USD/Euro FX Rate

Yen/USD FX Rate





INVESTMENT INCOME

	← 2014 →					2013	2012	2011	2010
(HK\$ billion)	Full year *	Q4*	Q3 *	Q2 *	Q1 *	Full year	Full year	Full year	Full year
Hong Kong equities[@]	6.5	4.8	(0.2)	8.7	(6.8)	10.1	30.7	(24.2)	11.6
Other equities	33.7	11.3	2.8	16.0	3.6	71.8	42.8	(12.2)	27.1
Bonds	47.3	13.6	7.1	13.4	13.2	(19.1)	33.1	71.9	42.1
Other investments^{&}	8.8	-	0.9	5.9	2.0	16.8	6.4	0.7	1.7
Foreign exchange	<u>(52.7)</u>	<u>(24.7)</u>	<u>(28.4)</u>	<u>(0.7)</u>	<u>1.1</u>	<u>1.6</u>	<u>(1.4)</u>	<u>(9.1)</u>	<u>(3.1)</u>
Investment income/(loss)^{@&}	43.6	5.0	(17.8)	43.3	13.1	81.2	111.6	27.1	79.4

* Unaudited figures

@ Excluding valuation changes in Strategic Portfolio

& Including valuation changes of private equity and real estate investments held by Exchange Fund's investment holding subsidiaries

(The above figures represent valuation changes up to the end of September 2014. Valuations of these investments from October to December are not yet available.)



INCOME AND EXPENDITURE

(HK\$ billion)	2014					2013
	Full year*	Q4*	Q3 *	Q2 *	Q1 *	Full year
Investment income/(loss)	43.6	5.0	(17.8)	43.3	13.1	81.2
Other income	0.2	-	0.1	0.1	-	0.2
Interest and other expenses	<u>(5.2)</u>	<u>(1.1)</u>	<u>(1.3)</u>	<u>(1.7)</u>	<u>(1.1)</u>	<u>(4.9)</u>
Net income/(loss)	38.6	3.9	(19.0)	41.7	12.0	76.5
Fee paid/payable to Fiscal Reserves #	(27.5)	(6.9)	(6.7)	(6.8)	(7.1)	(36.8)
Payment to HKSAR government funds and statutory bodies #	(8.6)	(2.2)	(2.3)	(2.2)	(1.9)	(9.3)

* Unaudited figures

The fixed rate of fee payment is 3.6% for 2014 and 5.0% for 2013.



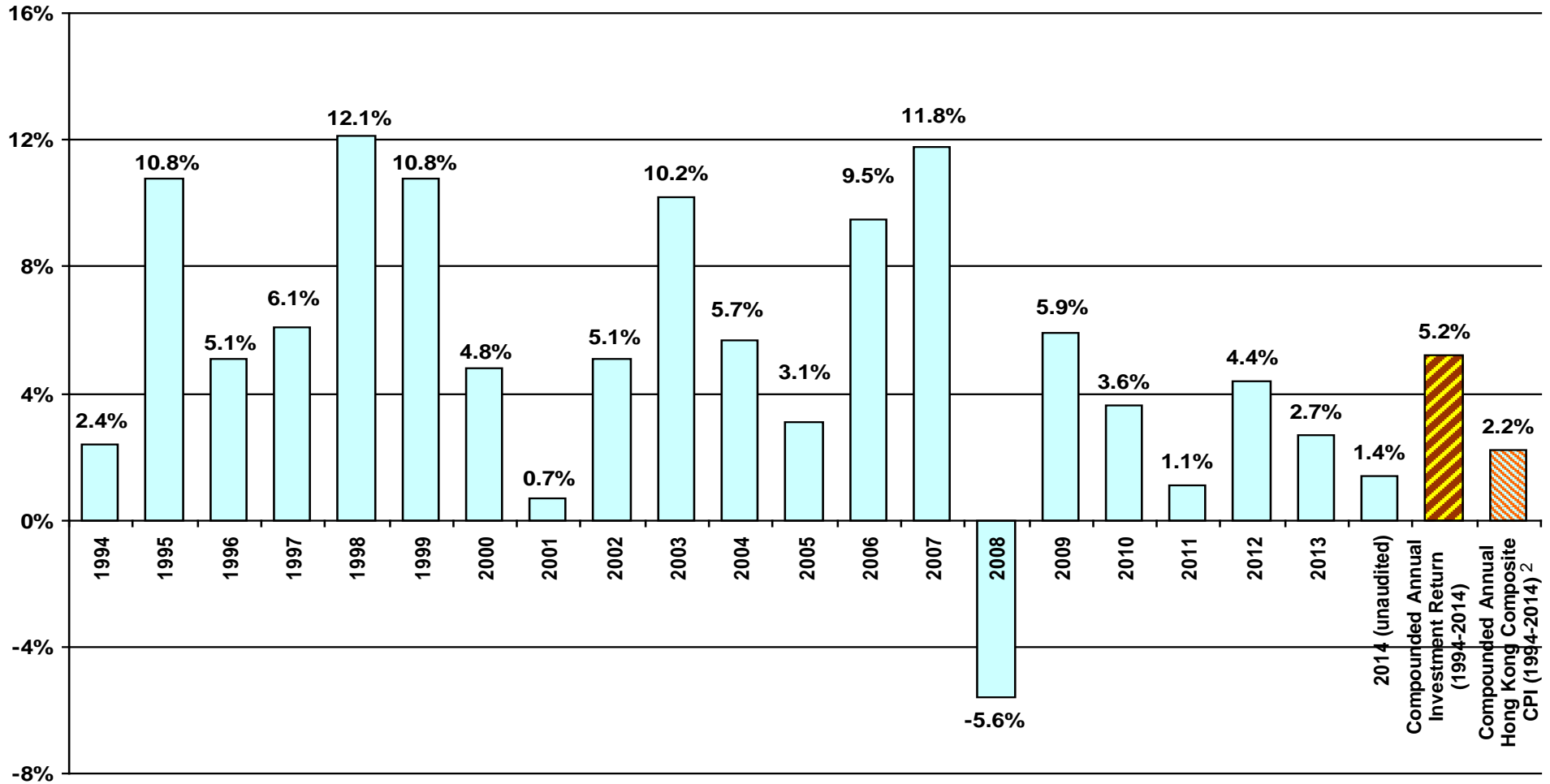
EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)	At 31 Dec 2014 (unaudited)	At 31 Dec 2013	Change
ASSETS			
Deposits	315.7	292.8	22.9
Debt securities	2,148.0	2,080.0	68.0
Hong Kong equities	156.8	152.9	3.9
Other equities	418.5	370.6	47.9
Other assets [#]	<u>113.1</u>	<u>136.5</u>	<u>(23.4)</u>
Total assets	<u>3,152.1</u> =====	<u>3,032.8</u> =====	<u>119.3</u> =====
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	340.2	327.4	12.8
Government-issued currency notes & coins in circulation	11.0	10.6	0.4
Balance of the banking system	239.2	164.1	75.1
Exchange Fund Bills and Notes issued	752.5	782.6	(30.1)
Placements by banks and other financial institutions	64.0	50.7	13.3
Placements by Fiscal Reserves	788.7	773.9	14.8
Placements by HKSAR government funds and statutory bodies	261.1	214.9	46.2
Other liabilities	<u>59.9</u>	<u>71.1</u>	<u>(11.2)</u>
Total liabilities	2,516.6	2,395.3	121.3
Accumulated Surplus	<u>635.5</u>	<u>637.5</u>	<u>(2.0)</u>
Total liabilities and fund equity	<u>3,152.1</u> =====	<u>3,032.8</u> =====	<u>119.3</u> =====

[#] Including investment injection to EF's investment holding subsidiaries at a carrying amount of HK\$82.6 billion (HK\$66.4 billion at 31 Dec 2013)



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2014) 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}
2014	1.4%
3-year average (2012 – 2014)	2.8%
5-year average (2010 – 2014)	2.6%
10-year average (2005 – 2014)	3.7%
Average since 1994	5.2%

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 2014 has been good. Positions at end-2014 and performance since inception are as follows:

As of end-2014

New Asset Classes	Market Value HK\$ billion	Annualized return since inception till end 2014
Private Equity	80.5	13.5% (IRR)
Real Estate	34.7	
Total	115.2	

Note: Outstanding investment commitments at the end of 2014 amounted to HK\$79.9 billion



OUTLOOK FOR 2015

- The macroeconomic environment and the global financial markets will be more complicated and unpredictable.
- The timing and pace of interest rate normalization in the US are still uncertain.
- Impact of quantitative easing by ECB and BoJ on global fund flows, exchange rates, interest rates and asset markets remains to be seen.
- The HKMA will continue to manage the Exchange Fund in a cautious and prudent manner, taking appropriate actions in the face of the complex and highly volatile investment environment. We will adhere to the investment objective of “capital preservation, then long-term value creation” in managing the Exchange Fund.



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