



HONG KONG MONETARY AUTHORITY

2016 Exchange Fund Results

25 January 2017



INVESTMENT OBJECTIVES OF THE EXCHANGE FUND

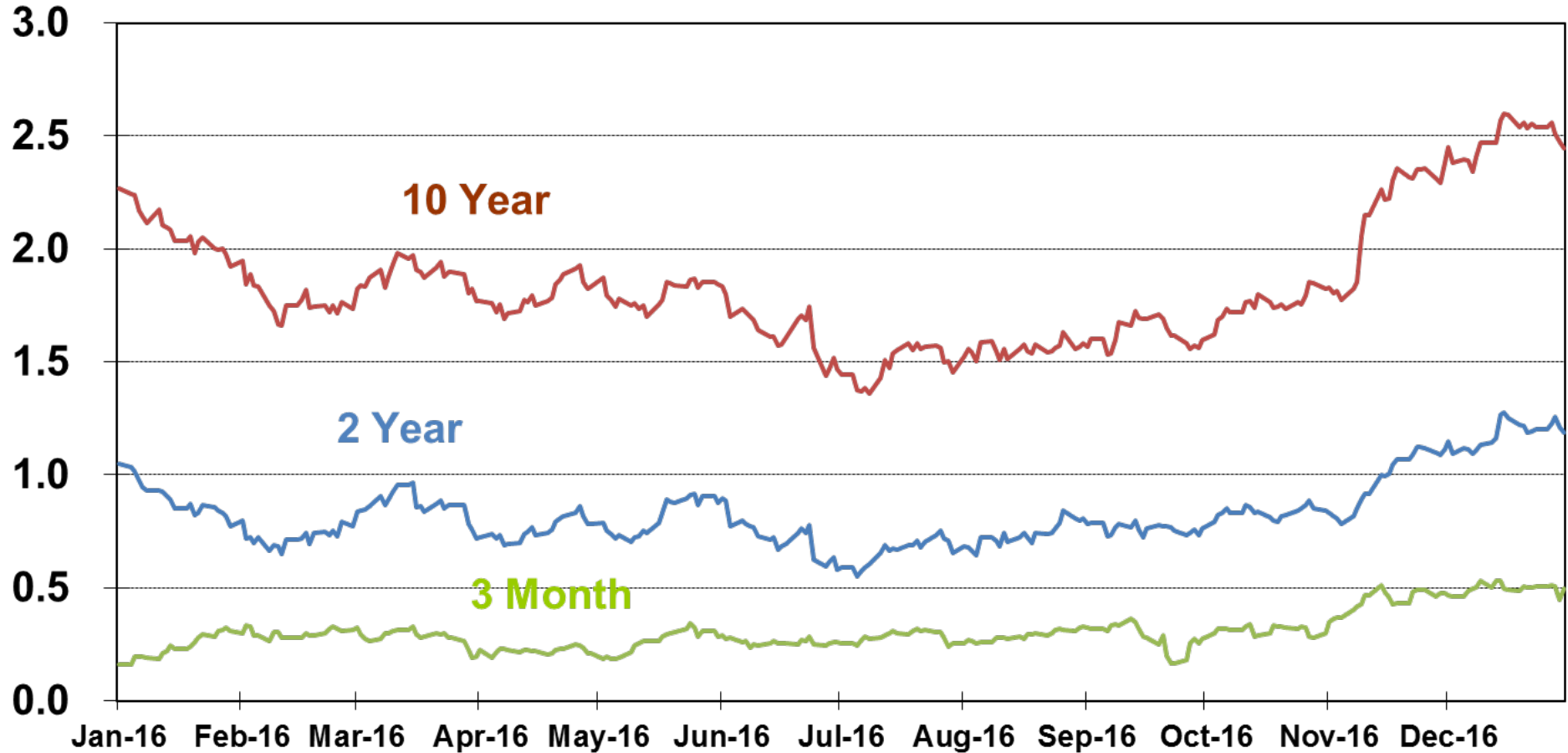
Investment objectives of the Exchange Fund:

- (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 2016

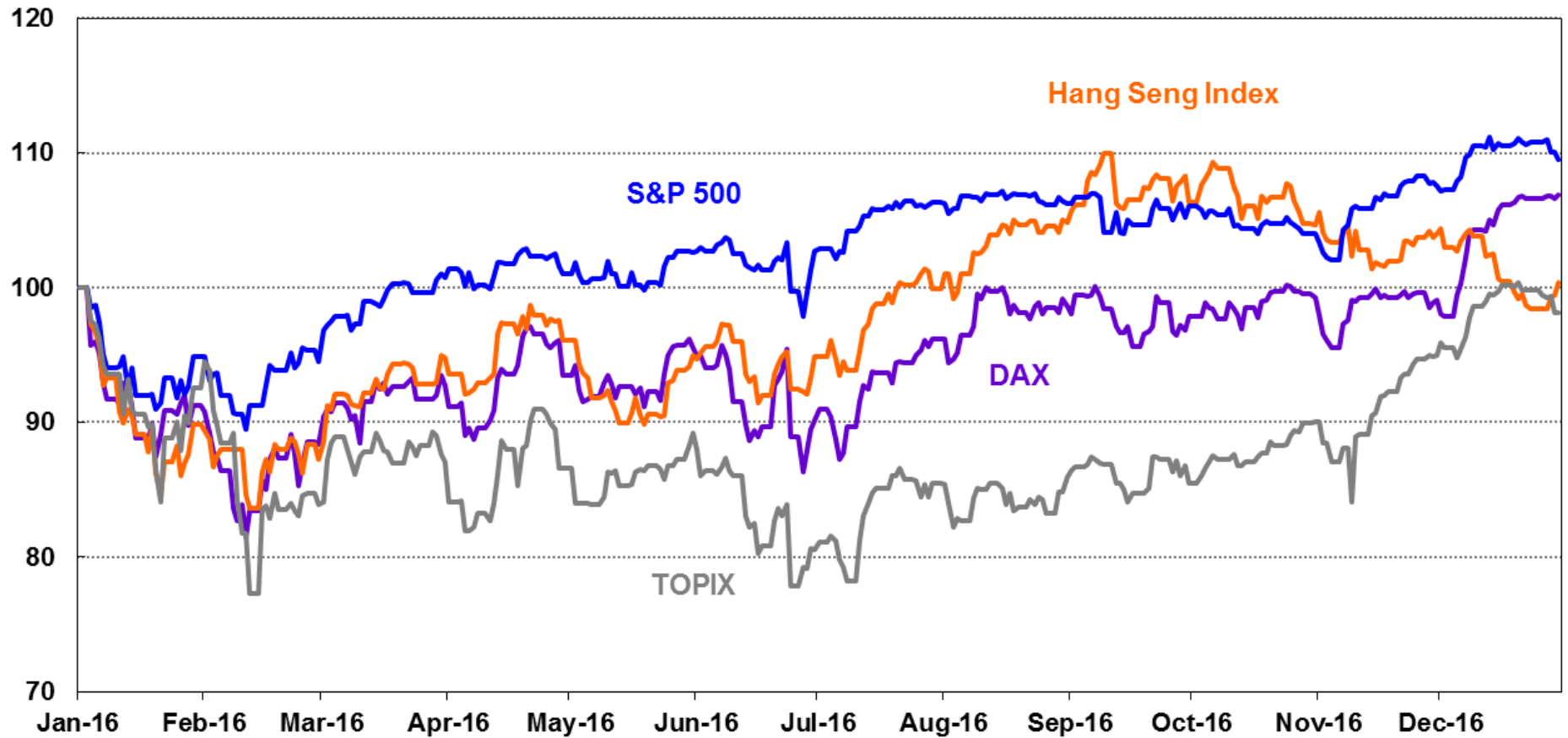
Yield (%)





EQUITY MARKETS IN 2016

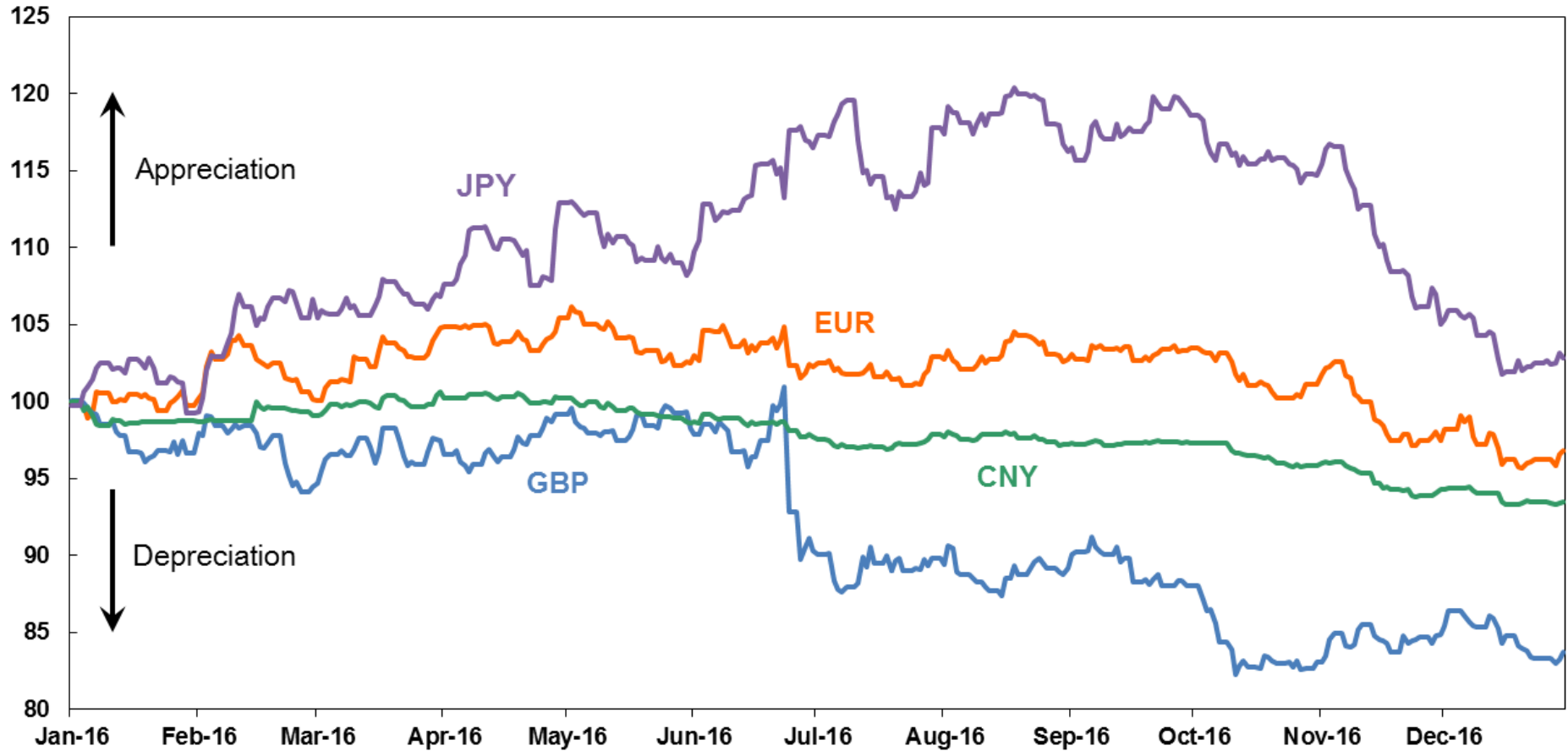
Normalized Index Level (2015 year-end = 100)





CURRENCY MARKETS IN 2016

Normalized FX Level Against USD (2015 year-end = 100)





INVESTMENT INCOME

(HK\$ billion)	← 2016 → (unaudited)					2015	2014	2013	2012
	Full year	Q4	Q3	Q2	Q1	Full year	Full year	Full year	Full year
Hong Kong equities*	5.3	(8.0)	16.8	2.7	(6.2)	(5.0)	6.5	10.1	30.7
Other equities	28.3	14.6	18.5	5.1	(9.9)	7.1	33.7	71.8	42.8
Bonds	33.0	(17.7)	6.4	19.3	25.0	15.9	47.3	(19.1)	33.1
Other investments@	10.2	-	4.6	4.3	1.3	11.1	9.9	16.8	6.4
Foreign exchange#	<u>(15.8)</u>	<u>(19.3)</u>	<u>0.8</u>	<u>(12.5)</u>	<u>15.2</u>	<u>(44.9)</u>	<u>(52.7)</u>	<u>1.6</u>	<u>(1.4)</u>
Investment income/(loss)	61.0	(30.4)	47.1	18.9	25.4	(15.8)	44.7	81.2	111.6

* Excluding valuation changes of the Strategic Portfolio

@ Including valuation changes of private equity and real estate investments held under the Long-Term Growth Portfolio (LTGP). (The above figures represent valuation changes up to the end of September 2016. Valuations of these investments from October to December 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)	← 2016 → (unaudited)					2015
	Full year	Q4	Q3	Q2	Q1	Full year
Investment income/(loss)	61.0	(30.4)	47.1	18.9	25.4	(15.8)
Other income	0.2	0.1	0.0	0.1	0.0	0.2
Interest and other expenses	<u>(6.4)</u>	<u>(1.9)</u>	<u>(1.6)</u>	<u>(1.7)</u>	<u>(1.2)</u>	<u>(4.8)</u>
Net income/(loss)	54.8	(32.2)	45.5	17.3	24.2	(20.4)
Fee payable to Fiscal Reserves**	(23.0)	(5.8)	(5.5)	(5.7)	(6.0)	(46.7)
Fee payable to HKSAR government funds and statutory bodies*	(9.6)	(2.5)	(2.4)	(2.4)	(2.3)	(14.7)

* The rate of fee payment is 3.3% for 2016 and 5.5% for 2015

This does not include the 2016 fee payment to the Future Fund because such amount will only be calculated when the figures on the LTGP annual performance for 2016 are available



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)

At 31 Dec 2016
(unaudited)

At 31 Dec 2015

Change

ASSETS

Deposits	389.2	290.5	98.7
Debt securities	2,467.2	2,462.0	5.2
Hong Kong equities*	147.3	148.2	(0.9)
Other equities	436.9	392.4	44.5
Other assets#	<u>189.3</u>	<u>129.8</u>	<u>59.5</u>
Total assets	<u>3,629.9</u> =====	<u>3,422.9</u> =====	<u>207.0</u> =====

LIABILITIES AND FUND EQUITY

Certificates of Indebtedness	405.3	357.9	47.4
Government-issued currency notes & coins in circulation	11.9	11.3	0.6
Balance of the banking system	259.6	391.3	(131.7)
Exchange Fund Bills and Notes issued	961.0	827.8	133.2
Placements by banks and other financial institutions	56.1	66.9	(10.8)
Placements by Fiscal Reserves@	914.6	833.5	81.1
Placements by HKSAR government funds and statutory bodies	302.5	280.9	21.6
Other liabilities	<u>172.2</u>	<u>108.4</u>	<u>63.8</u>
Total liabilities	3,083.2	2,878.0	205.2
Accumulated Surplus	<u>546.7</u>	<u>544.9</u>	<u>1.8</u>
Total liabilities and fund equity	<u>3,629.9</u> =====	<u>3,422.9</u> =====	<u>207.0</u> =====

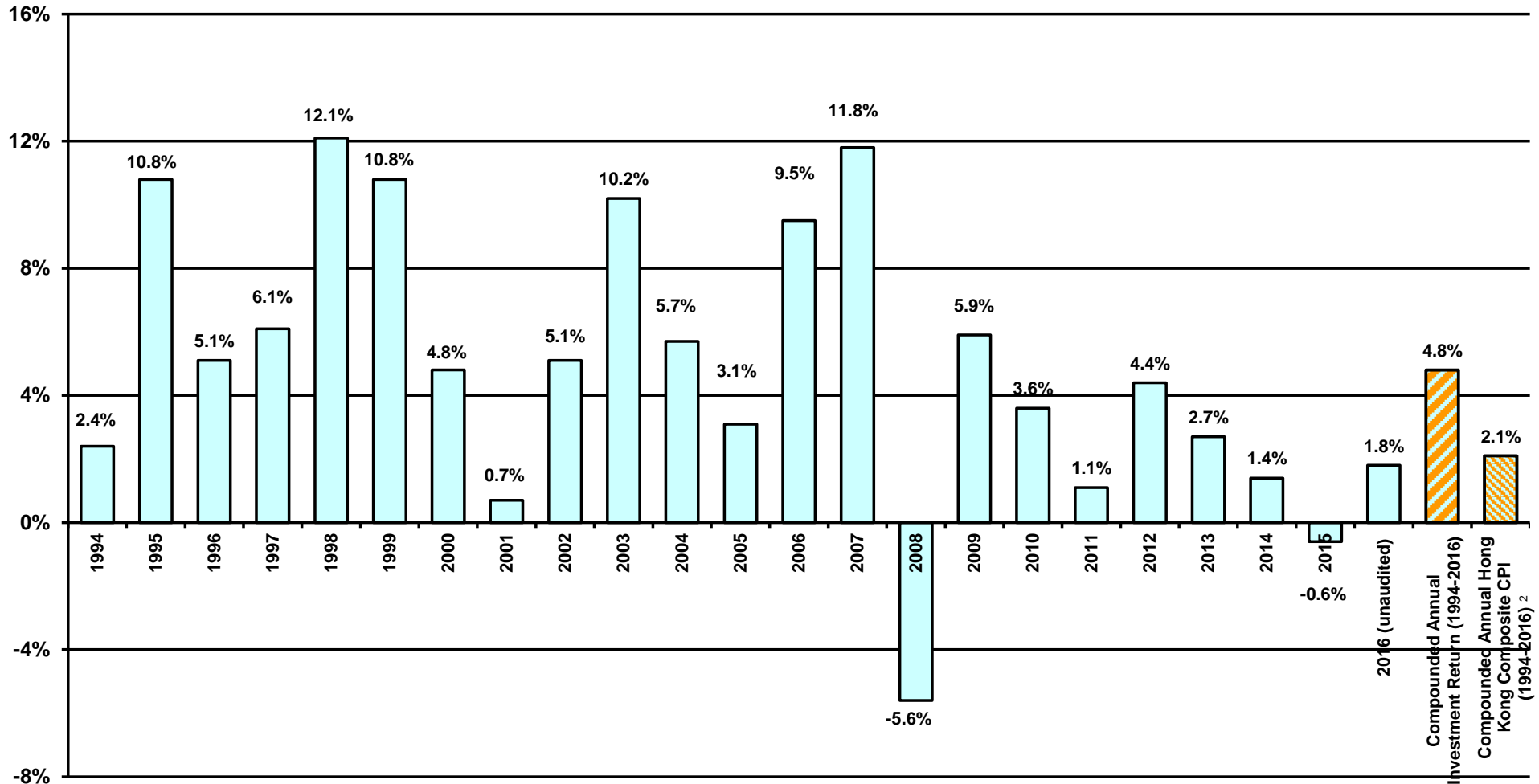
* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio

Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$118.8 billion at 31 Dec 2016 (HK\$96.0 billion at 31 Dec 2015)

@ Including placements by the Future Fund of HK\$224.5 billion



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2016)¹



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

² Composite CPI is calculated based on the 2014/2015-based series.



INVESTMENT DIVERSIFICATION

- Began to invest in alternative assets in 2009 under the Long-Term Growth Portfolio (LTGP). The progress of the LTGP in 2016 has been good. Positions at end-2016 and performance since inception are as follows:

As of end-2016 (unaudited)

Asset Classes	Market Value HK\$ billion	Annualized IRR (Since inception from 2009 till 2016)
Private Equity	112.0	10.9% (IRR)
Real Estate	62.9	
Total	174.9	

Note: Outstanding investment commitments at the end of 2016 amounted to HK\$133.8 billion



OUTLOOK FOR 2017

- **Global political and economic environment remains highly complex and unpredictable**
 - Great uncertainties over the new US administration's actual policy direction, as well as the approach, extent and timing of policy implementation
 - The coming national elections in Europe and the impending formal trigger of the Brexit process will add to the uncertainties
 - The pace of US interest rate normalisation is still highly uncertain, and will affect global fund flows, exchange rates and asset markets



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