

Remarks by Mr Norman T.L. Chan,
Chief Executive of the Hong Kong Monetary Authority
on 29 January 2018
at the announcement of
Exchange Fund's investment results for 2017

(Abridged version)

The Exchange Fund posted an investment income of HK\$252 billion in 2017. The investment return is made up of -

- equity holdings' gain of HK\$138.5 billion;
- bond holdings' gain of HK\$34.3 billion;
- gain of HK\$25.7 billion from other investments; and
- a positive foreign currency translation effect of HK\$53.5 billion.

The investment income of HK\$252 billion last year is a record high for the Exchange Fund, surpassing the previous record in 2007 (HK\$142.2 billion) by HK\$109.8 billion.

2. The overall rate of return of the Exchange Fund was 7.1%. The Investment Portfolio achieved a rate of return of 12.1%, while the Backing Portfolio gained 1.8%. The Long-Term Growth Portfolio (LTGP) registered an annualised internal rate of return of about 13.5% since its inception in 2009 up to the end of September 2017.

3. The fee payable to the Fiscal Reserves was HK\$23.5 billion, while the fees for placements by Government funds and other statutory bodies totalled HK\$8.6 billion.

Amounts payable to the Future Fund will be disclosed in the HKMA's Annual Report to be released later this year.

4. The performance of the global economy and financial markets last year was much better than expected.

5. Moving into 2018, market optimism continues to prevail despite high valuations. However, the sustainability of the upward momentum of the financial markets will hinge crucially on whether the markets' optimistic expectations will materialise. It seems that the markets may have under-priced some potential risks, including inflation and interest rates may move up faster than expected, negative impact of trade protectionism and geopolitical factors. If the actual outcomes do not tally with the markets' expectations, it could easily trigger significant corrections and volatilities in asset markets.

6. As usual, we will manage the Exchange Fund prudently, monitor market developments closely and deploy some defensive measures as and when appropriate. We will also continue to expand our investments under the LTGP, with a view to achieving better returns for the Exchange Fund in the medium to longer term.