



**HONG KONG MONETARY AUTHORITY**

# **2019 Exchange Fund Results**

**23 January 2020**



# **INVESTMENT OBJECTIVES OF THE EXCHANGE FUND**

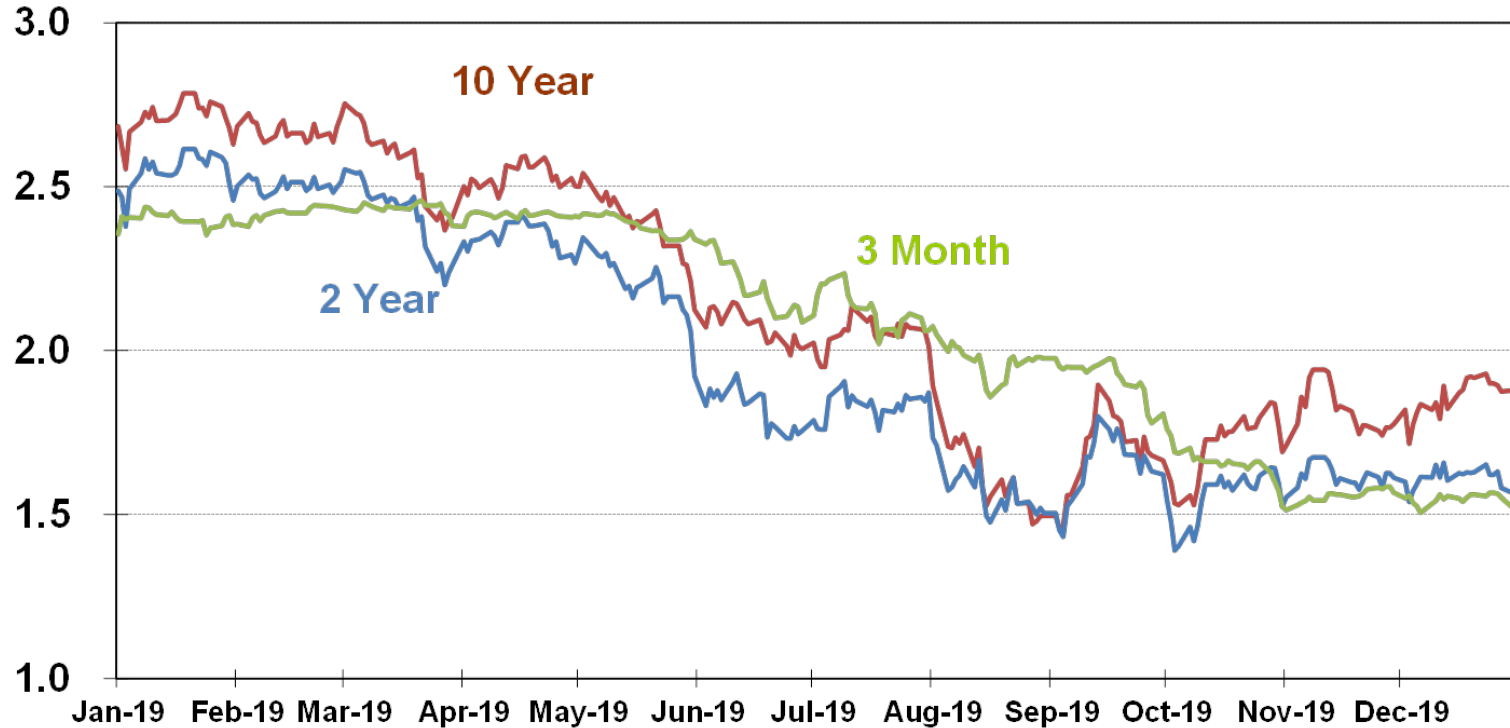
## **Investment objectives of the Exchange Fund:**

- (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 2019

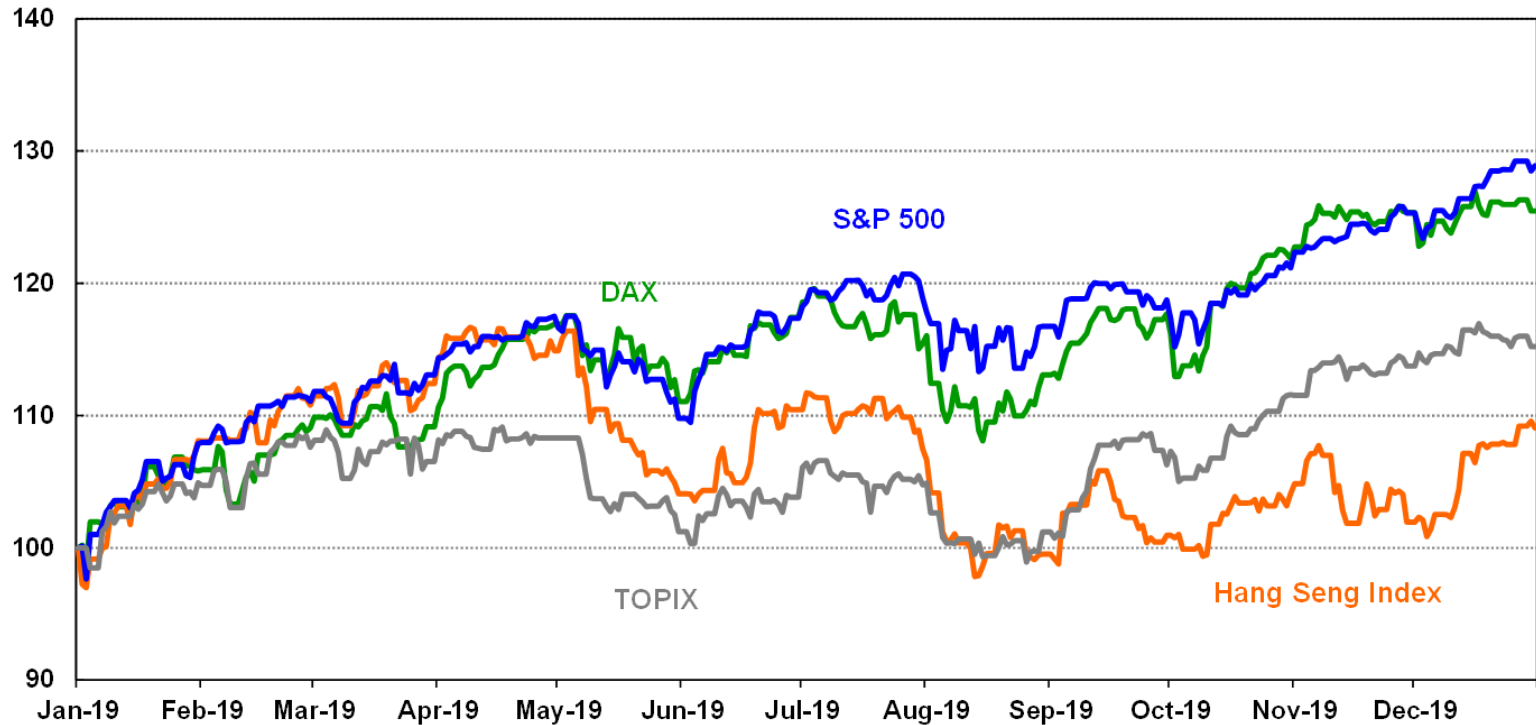
Yield (%)





# EQUITY MARKETS IN 2019

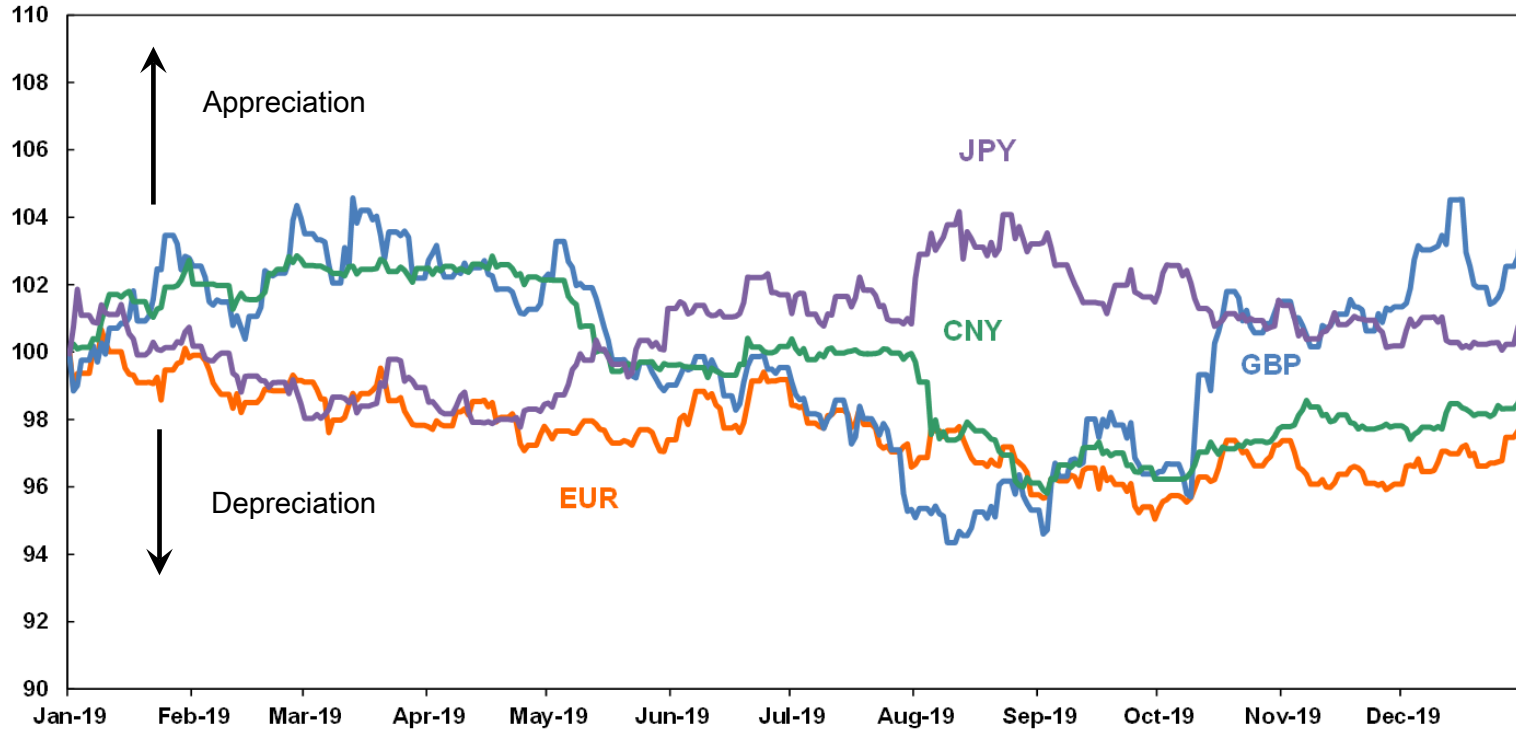
Normalized Index Level (2018 year-end = 100)





# FX MARKETS IN 2019

Normalized FX Level Against USD (2018 year-end = 100)





# MAJOR ASSET CLASS PERFORMANCE IN 2019

Asset Class	Index	Change in 2019
Equities	MSCI World Index (Developed Markets)	25.2%
	MSCI Emerging Markets Index	15.4%
Bonds	Barclays Global Aggregate Index	6.8%
Commodities	Bloomberg Commodity Index	7.7%



# INVESTMENT INCOME

←————— 2019 —————→  
 (unaudited)

(HK\$ billion)	Full year	2H	1H	2018 Full year	2017 Full year
<b>Bonds</b>	<b>114.4</b>	<b>38.0</b>	<b>76.4</b>	<b>57.4</b>	<b>34.4</b>
<b>Hong Kong equities*</b>	<b>22.1</b>	<b>1.8</b>	<b>20.3</b>	<b>(20.7)</b>	<b>58.3</b>
<b>Other equities</b>	<b>100.3</b>	<b>35.2</b>	<b>65.1</b>	<b>(38.7)</b>	<b>80.4</b>
<b>Foreign exchange#</b>	<b>(13.0)</b>	<b>(9.5)</b>	<b>(3.5)</b>	<b>(9.0)</b>	<b>53.5</b>
<b>Other investments@</b>	<b>23.4</b>	<b>3.3</b>	<b>20.1</b>	<b>21.9</b>	<b>37.4</b>
<b>Investment income</b>	<b>247.2</b>	<b>68.8</b>	<b>178.4</b>	<b>10.9</b>	<b>264.0</b>

\* Excluding valuation changes of the Strategic Portfolio.

# This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

@ Including valuation changes of private equity and real estate investments held under the Long-Term Growth Portfolio. This figure represents valuation changes up to the end of September 2019. Valuations of these investments from October to December are not yet available.



# INCOME AND EXPENDITURE

(HK\$ billion)	← 2019 →			2018	2017
	Full year	2H	1H	Full year	Full year
	(unaudited)				
<b>Investment income</b>	<b>247.2</b>	<b>68.8</b>	<b>178.4</b>	<b>10.9</b>	<b>264.0</b>
Other income	0.2	0.1	0.1	0.2	0.2
Interest and other expenses	<u>(24.8)</u>	<u>(13.4)</u>	<u>(11.4)</u>	<u>(17.9)</u>	<u>(9.9)</u>
Net income/(loss)	222.6	55.5	167.1	(6.8)	254.3
Fee payment to Fiscal Reserves**	(29.4)	(14.1)	(15.3)	(60.2)	(46.2)
Fee payment to HKSAR government funds and statutory bodies*	(9.0)	(4.5)	(4.5)	(13.8)	(8.6)

\* The rate of fee payment is 2.9% for 2019, 4.6% for 2018 and 2.8% for 2017.

# This does not include the 2019 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2019 is available.

(The composite rate was 6.1% for 2018 and 9.6% for 2017. Fee payable to the Future Fund was HK\$16.4 billion for 2018 and HK\$22.7 billion for 2017).





# EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)

	At 31 Dec 2019	At 31 Dec 2018	Change
	(unaudited)		
<b>ASSETS</b>			
Deposits	306.3	325.7	(19.4)
Debt securities	2,857.9	2,825.2	32.7
Hong Kong equities*	194.8	175.5	19.3
Other equities	542.5	452.3	90.2
Other assets#	<u>357.6</u>	<u>276.2</u>	<u>81.4</u>
<b>Total assets</b>	<b><u>4,259.1</u></b>	<b><u>4,054.9</u></b>	<b><u>204.2</u></b>
<b>LIABILITIES AND EQUITY</b>			
Certificates of Indebtedness	516.1	485.7	30.4
Government-issued currency notes & coins in circulation	13.0	12.6	0.4
Balance of the banking system	67.7	78.6	(10.9)
Exchange Fund Bills and Notes issued	1,152.3	1,129.6	22.7
Placements by banks and other financial institutions	35.0	56.3	(21.3)
Placements by Fiscal Reserves®	1,137.5	1,173.5	(36.0)
Placements by HKSAR government funds and statutory bodies	328.4	320.6	7.8
Placements by subsidiaries	12.6	7.7	4.9
Other liabilities	<u>237.5</u>	<u>180.0</u>	<u>57.5</u>
<b>Total liabilities</b>	<b><u>3,500.1</u></b>	<b><u>3,444.6</u></b>	<b><u>55.5</u></b>
Accumulated Surplus	758.3	609.7	148.6
Revaluation reserve	<u>0.7</u>	<u>0.6</u>	<u>0.1</u>
<b>Total equity</b>	<b><u>759.0</u></b>	<b><u>610.3</u></b>	<b><u>148.7</u></b>
<b>Total liabilities and equity</b>	<b><u>4,259.1</u></b>	<b><u>4,054.9</u></b>	<b><u>204.2</u></b>

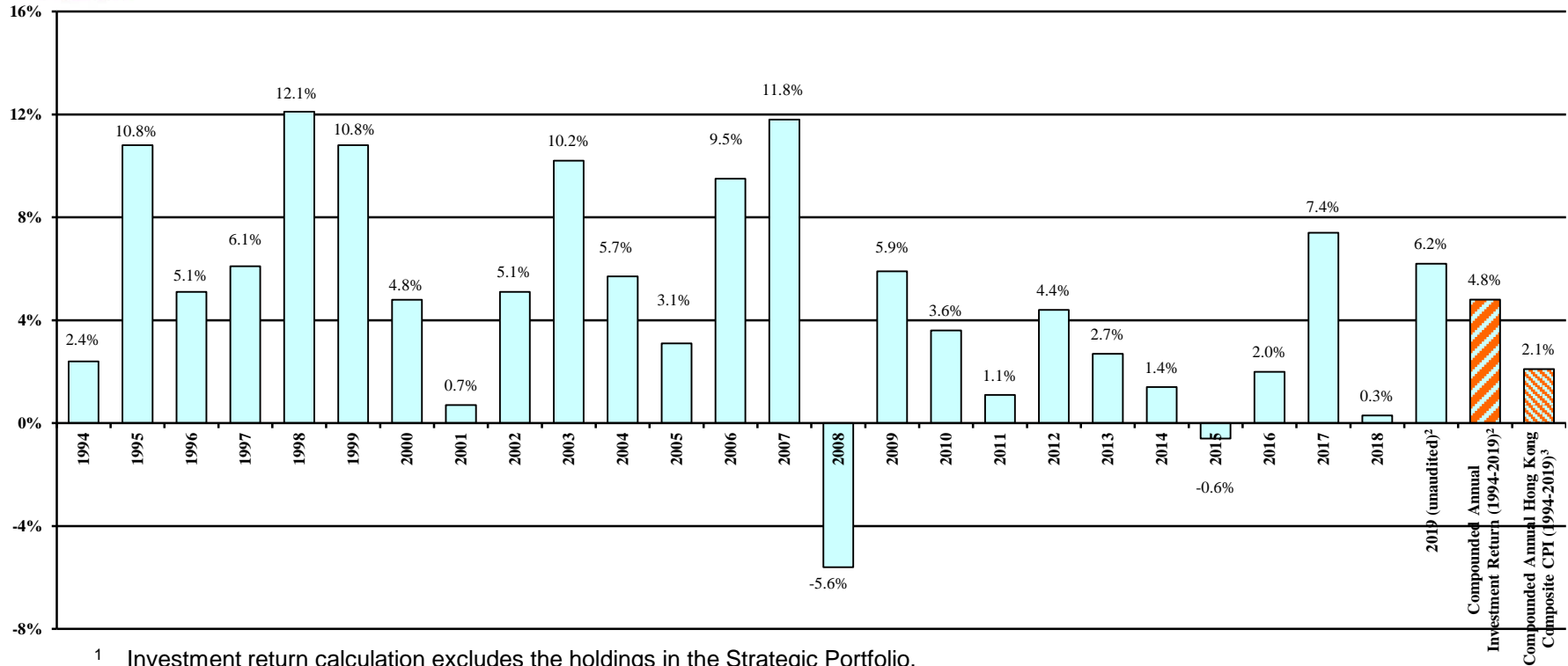
\* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

# Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$177.3 billion at 31 Dec 2019 (HK\$162.4 billion at 31 Dec 2018).

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



# INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2019)<sup>1</sup>



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

<sup>2</sup> The return includes the performance of LTGP up to the end of September 2019. The audited full year return will be disclosed in the annual report of 2019 to be released later this year.

<sup>3</sup> 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 2019 has been good. Positions at the end of September 2019 and performance since inception are as follows:

As of end-September 2019 (unaudited)

Asset Classes	Market Value HK\$ billion	Annualised IRR (Since inception from 2009 till end-Sep 2019)
Private Equity	217.5	} 12.4%
Real Estate	101.9	
<b>Total</b>	<b>319.4</b>	

Note: Outstanding investment commitments amounted to HK\$225.0 billion



# OUTLOOK FOR 2020

- Investment environment in 2020 will remain challenging
- Various geopolitical risks may add to the volatility of the global markets
  - US-China trade talks
  - Progress of Brexit
  - Situation in the Middle East
- Room for major central banks to stimulate the economy by means of monetary policy becomes limited
- Asset valuations across markets at stretched levels. Without a strong rebound in the global economy, it is questionable whether markets can maintain their upward momentum
- Will continue to manage the Exchange Fund prudently, monitor market developments closely, and further diversify our investments



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