



HONG KONG MONETARY AUTHORITY

2020 Exchange Fund Results

27 January 2021



INVESTMENT OBJECTIVES OF THE EXCHANGE FUND

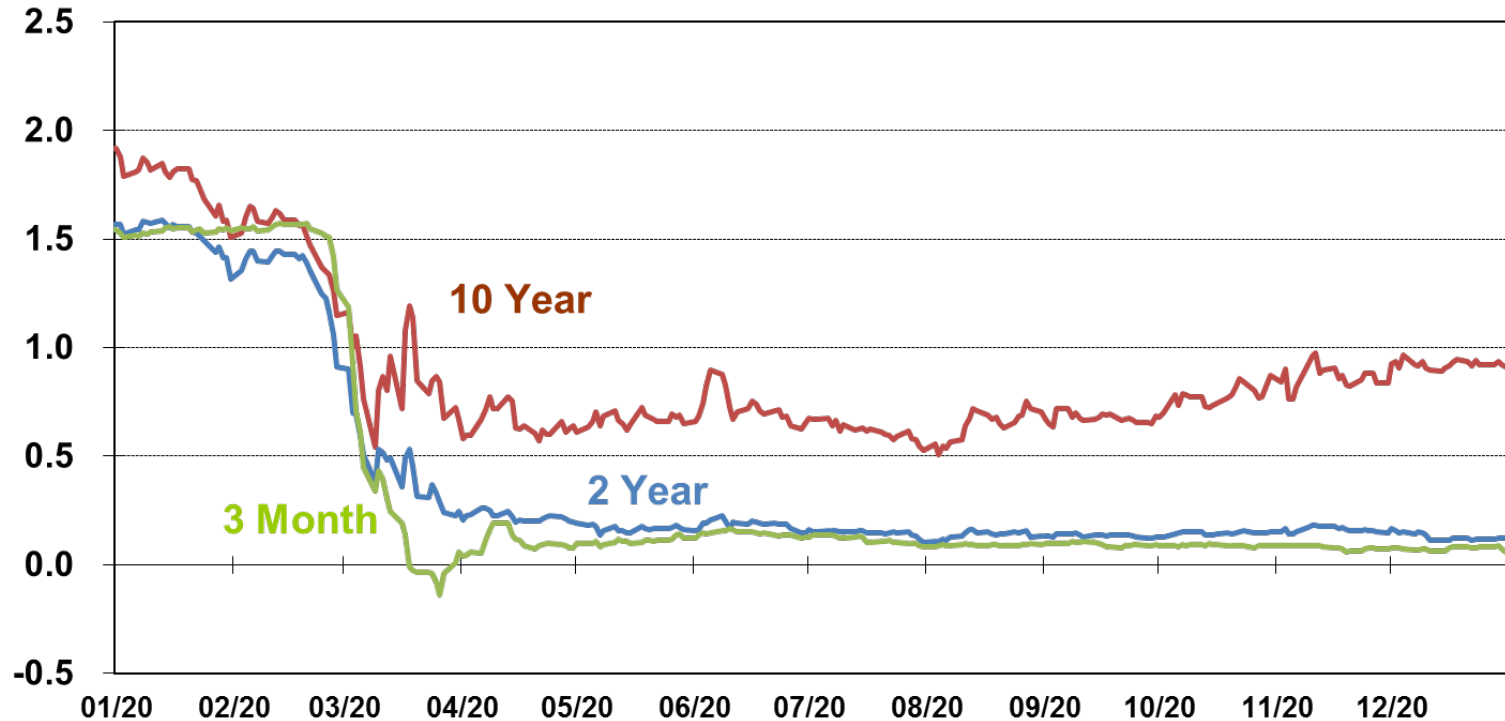
Investment objectives of the Exchange Fund:

- (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 REMAINED LOW IN 2020

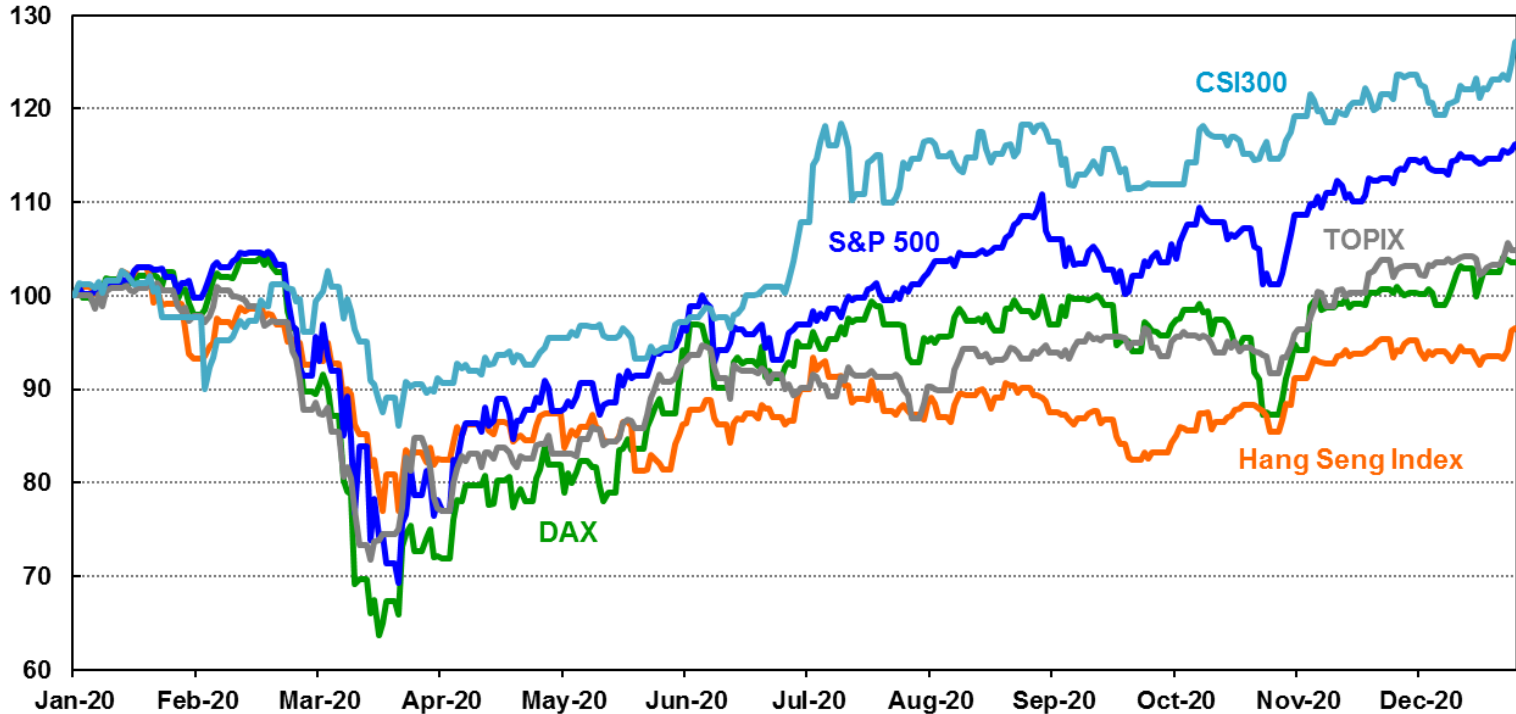
Yield(%)





EQUITY MARKETS REBOUNDED SHARPLY AND HOVERED AT HIGH LEVELS

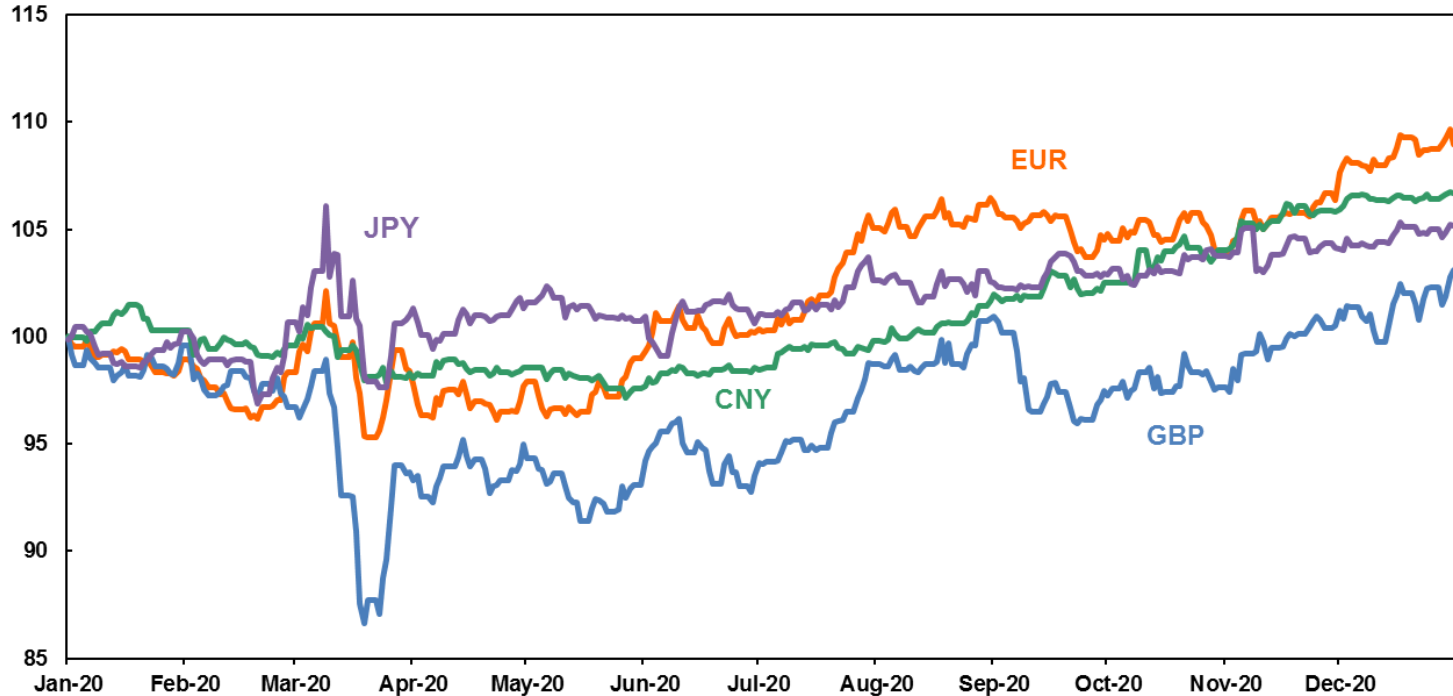
Normalized Index Level (2019 year-end = 100)





MAJOR CURRENCIES APPRECIATED AGAINST USD

Normalized FX Level Against USD (2019 year-end = 100)





INVESTMENT INCOME

←————— 2020 —————→
 (unaudited)

(HK\$ billion)	Full year	2H	1H	Full year	Full year
Bonds	92.5	17.8	74.7	114.5	57.4
Hong Kong equities*	4.0	23.6	(19.6)	22.1	(20.7)
Other equities	69.0	84.4	(15.4)	100.7	(38.7)
Foreign exchange#	9.6	34.0	(24.4)	(13.0)	(9.0)
Other investments@	22.7	28.4	(5.7)	37.9	21.9
Investment income	197.8	188.2	9.6	262.2	10.9

* 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 2020. Valuations of these investments from October to December are not yet available.



INCOME AND EXPENDITURE

	← 2020 →			2019	2018
	(unaudited)				
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Investment income	197.8	188.2	9.6	262.2	10.9
Other income	0.2	0.1	0.1	0.2	0.2
Interest and other expenses	<u>(14.5)</u>	<u>(4.3)</u>	<u>(10.2)</u>	<u>(24.8)</u>	<u>(17.9)</u>
Net income/(loss)	183.5	184.0	(0.5)	237.6	(6.8)
Fee payment to Fiscal Reserves**	(32.6)	(14.0)	(18.6)	(53.8)	(60.2)
Fee payment to HKSAR government funds and statutory bodies*	(11.5)	(5.7)	(5.8)	(9.0)	(13.8)

* The rate of fee payment is 3.7% for 2020, 2.9% for 2019 and 4.6% for 2018.

This does not include the 2020 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2020 is available.

(The composite rate was 8.7% for 2019 and 6.1% for 2018. Fee payable to the Future Fund was HK\$24.4 billion for 2019 and HK\$16.4 billion for 2018.)



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)

	At 31 Dec 2020	At 31 Dec 2019	Change
ASSETS	(unaudited)		
Deposits	266.3	305.9	(39.6)
Debt securities	3,239.1	2,856.6	382.5
Hong Kong equities*	206.9	194.8	12.1
Other equities	534.8	534.9	(0.1)
Other assets#	253.7	314.5	(60.8)
Total assets	4,500.8	4,206.7	294.1
LIABILITIES AND EQUITY			
Certificates of Indebtedness	556.2	516.1	40.1
Government-issued currency notes & coins in circulation	12.8	13.0	(0.2)
Balance of the banking system	457.5	67.7	389.8
Exchange Fund Bills and Notes issued	1,068.9	1,152.3	(83.4)
Placements by banks and other financial institutions	87.6	35.0	52.6
Placements by Fiscal Reserves®	881.8	1,137.5	(255.7)
Placements by HKSAR government funds and statutory bodies	342.5	328.4	14.1
Placements by subsidiaries	15.5	12.6	2.9
Other liabilities	224.9	194.7	30.2
Total liabilities	3,647.7	3,457.3	190.4
Accumulated surplus	852.4	748.7	103.7
Revaluation reserve	0.7	0.7	-
Total equity	853.1	749.4	103.7
Total liabilities and equity	4,500.8	4,206.7	294.1

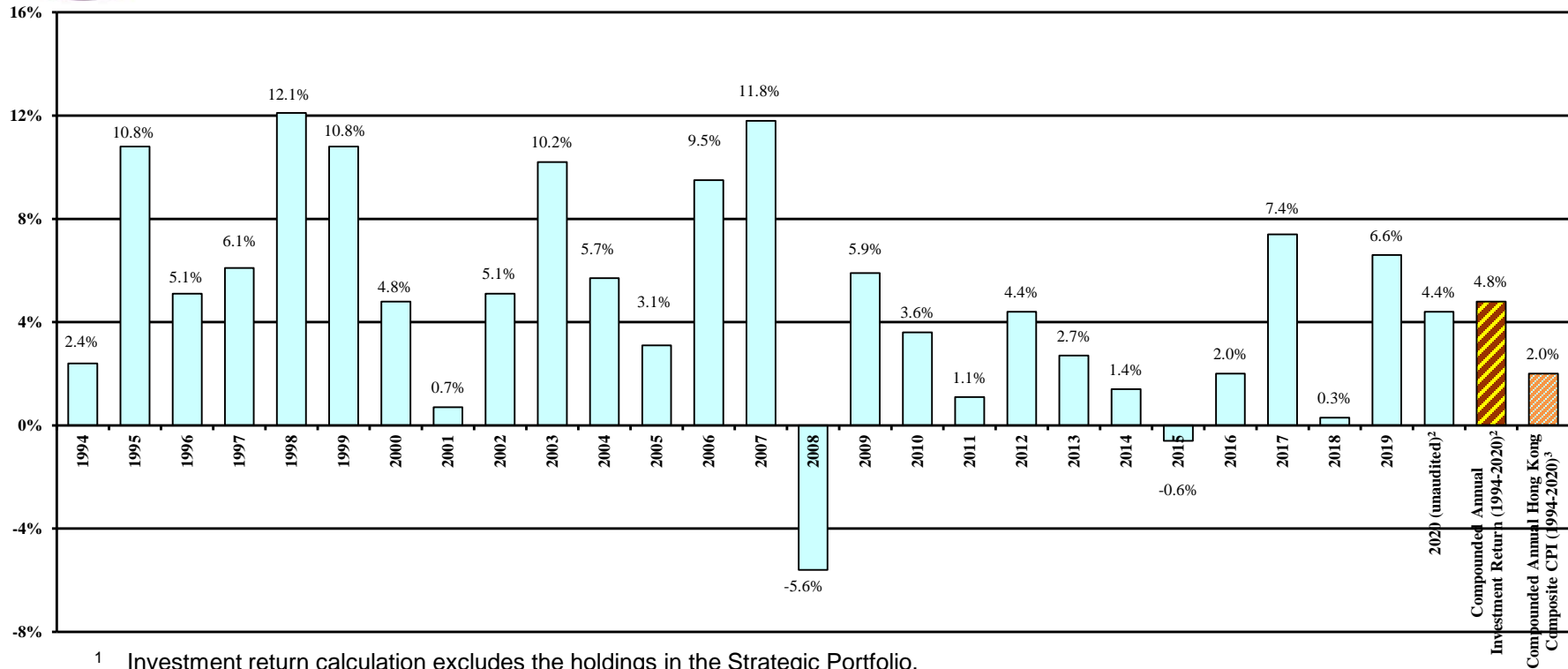
* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$193.2 billion at 31 December 2020 (HK\$177.3 billion at 31 December 2019).

® Including placements by the Future Fund of HK\$205.0 billion (HK\$224.5 billion at 31 December 2019).



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2020)¹



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

² The return includes the performance of LTGP up to the end of September 2020. The audited full year return will be disclosed in the annual report of 2020 to be released later this year.

³ 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 performance of the LTGP in 2020 has been good. Positions at the end of September 2020 and performance since inception are as follows:

As of end-September 2020 (unaudited)

Asset Classes	Market Value HK\$ billion	Annualised IRR (Since inception from 2009 till end-Sep 2020)
Private Equity	264.8	} 12.5%
Real Estate	103.8	
Total	368.6	

Note: Outstanding investment commitments amounted to HK\$227.8 billion.



OUTLOOK FOR 2021

- Pace of global economic recovery will be key, and the evolving pandemic may continue to have a bearing on the economic outlook.
- Various geopolitical risks may add to the volatility of global markets
 - Policies under the new U.S. administration
 - China-US relations
 - Implementation of Brexit agreement
- Prolonged low interest rate environment adds to market risk
 - Lofty valuation of global equity markets
 - Negative impact on return from portfolio mix of bonds and equities and weaken effectiveness of risk diversification of such portfolio
 - Rising inflationary pressure may lead to major corrections in global asset markets
- Continue to manage the Exchange Fund in a prudent manner
 - Remain flexible, ensure appropriate defensiveness and maintain high liquidity in our investment strategy



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