

**Remarks by Mr Eddie Yue,**  
**Chief Executive of the Hong Kong Monetary Authority**  
**on 27 January 2021**  
**at the announcement of**  
**Exchange Fund's investment results for 2020**

*(Translation)*

Review of the Investment Environment and Performance of the Exchange Fund in 2020

To many investors, 2020 was a year full of unexpected twists and turns. The novel coronavirus which began to spread across the globe since the start of the year has posed significant challenges to the world economy. After major corrections and disruptions in the first quarter of the year, asset markets rebounded quickly amid the ultra-loose monetary policies implemented by major central banks and a series of relief measures launched by various governments. A number of equity markets even reached record highs within the year. As for the bond market, major sovereign bond yields fell markedly while bond prices went up as major central banks substantially cut their benchmark interest rates and re-launched quantitative easing programmes.

2. For the year as a whole, the Exchange Fund recorded an investment income of HK\$197.8 billion in 2020. Specifically, our bond holdings recorded an investment income of HK\$92.5 billion while our equity holdings recorded an investment income of HK\$73.0 billion, of which HK\$69.0 billion was from foreign equities and HK\$4.0 billion from Hong Kong equities.

3. As for other investments, the Long-Term Growth Portfolio (LTGP) recorded an investment income of HK\$22.7 billion up to end-September last year. The invested amount and undrawn commitment of the LTGP totalled HK\$368.6 billion and HK\$227.8 billion respectively. The annualised internal rate of return of the LTGP from 2009 to the end of September 2020 was 12.5%. On foreign exchange, as major currencies strengthened against the US dollar during the year, the Exchange Fund

registered a positive currency translation effect of HK\$9.6 billion on its non-Hong Kong dollar assets. In other words, the Exchange Fund recorded positive returns on all of its five major investment categories.

4. The Exchange Fund recorded an overall investment return of 4.4% in 2020. Specifically, the Investment Portfolio achieved a rate of return of 7.8%, while the Backing Portfolio gained 1.6%. According to the sharing arrangement between the Government and the Exchange Fund, fees on placements by the Fiscal Reserves and placements by HKSAR government funds and statutory bodies were HK\$32.6 billion and HK\$11.5 billion respectively in 2020. These figures do not include the fee payable to the Future Fund in 2020. The amount will be announced in the HKMA Annual Report 2020 to be published later this year when the composite rate for 2020 is available.

#### Outlook for 2021

5. Looking ahead, the main focus for 2021 will be the timing and pace of recovery of different economies. Global recovery is in sight as vaccines continue to be rolled out, but until a wide and effective distribution of vaccines is achieved, the evolving pandemic will still have a bearing on the global economic outlook. In addition, geopolitical risks remain a cause for concern. The foreign policy direction of the new US administration, developments of the China-US relations, as well as implementation of the Brexit agreement will all have impact on the financial markets.

6. It is worth noting that the global equity markets have recorded substantial gains for two consecutive years owing to the persisting low interest rate environment. However, it is still uncertain whether the lofty valuations can be sustained. An ultra-low interest rate environment will also bring about significant challenges to our substantial bond holding. On the one hand, low interest rates will have significant negative impact on interest income from bonds. Furthermore, the limited room for further decrease in bond yields (i.e. rise in bond prices) will also significantly weaken the effectiveness of risk diversification in the portfolio mix of bonds and equities during market turbulence. The situation will worsen further should the prolonged low interest rate environment and the massive fiscal stimulus launched

by various governments lead to rising inflationary pressure in the future, resulting in surging bond yields and major corrections in global asset markets, thereby exerting downward pressure on the valuations of the Exchange Fund's assets.

7. Despite this ever-changing and complex global investment environment, the HKMA will continue to manage the Exchange Fund prudently and remain flexible. We will also implement defensive measures as appropriate and maintain a high degree of liquidity to deal with possible financial disruptions. The Exchange Fund will continue to serve its purpose of maintaining monetary and financial stability in Hong Kong in an effective manner.