



HONG KONG MONETARY AUTHORITY

2021 Exchange Fund Results

27 January 2022



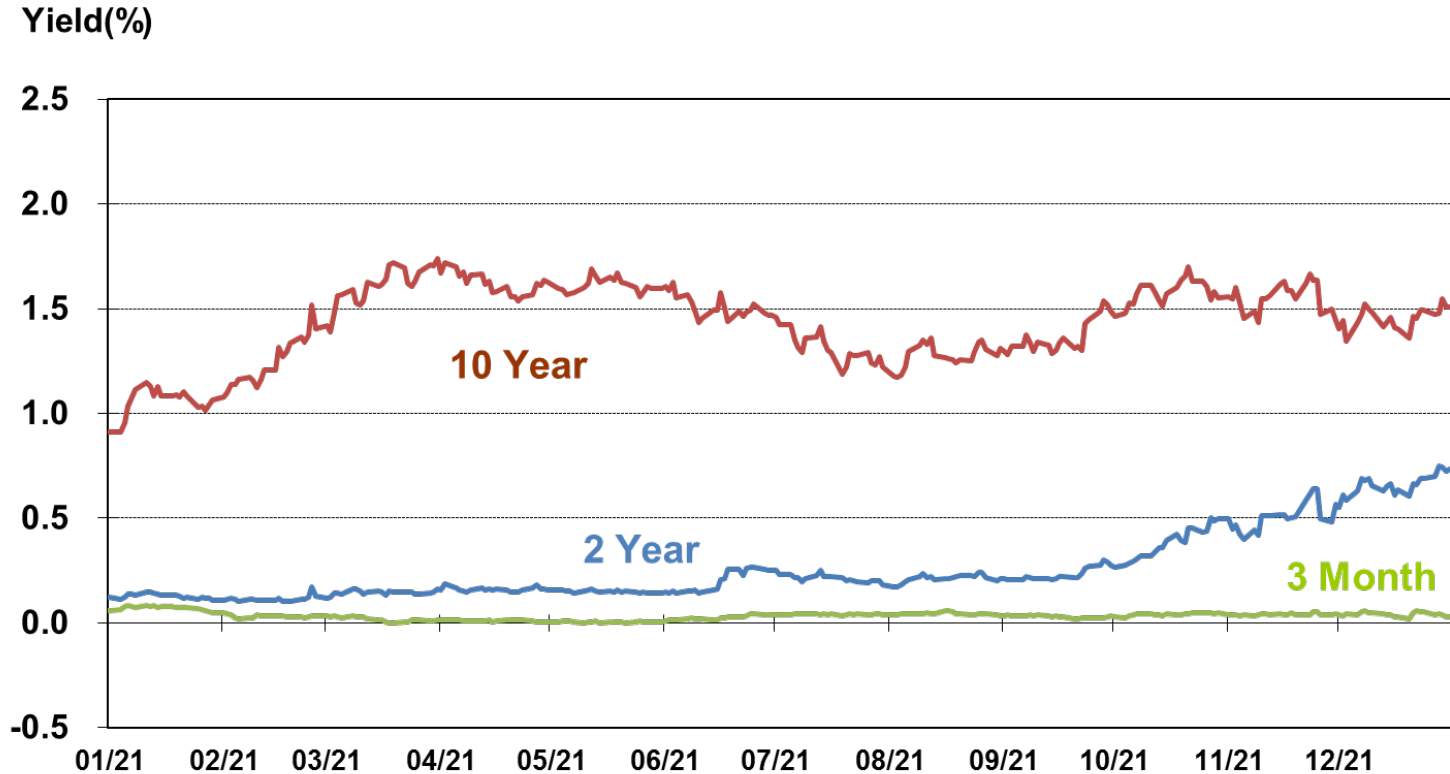
INVESTMENT OBJECTIVES OF THE EXCHANGE FUND

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.**



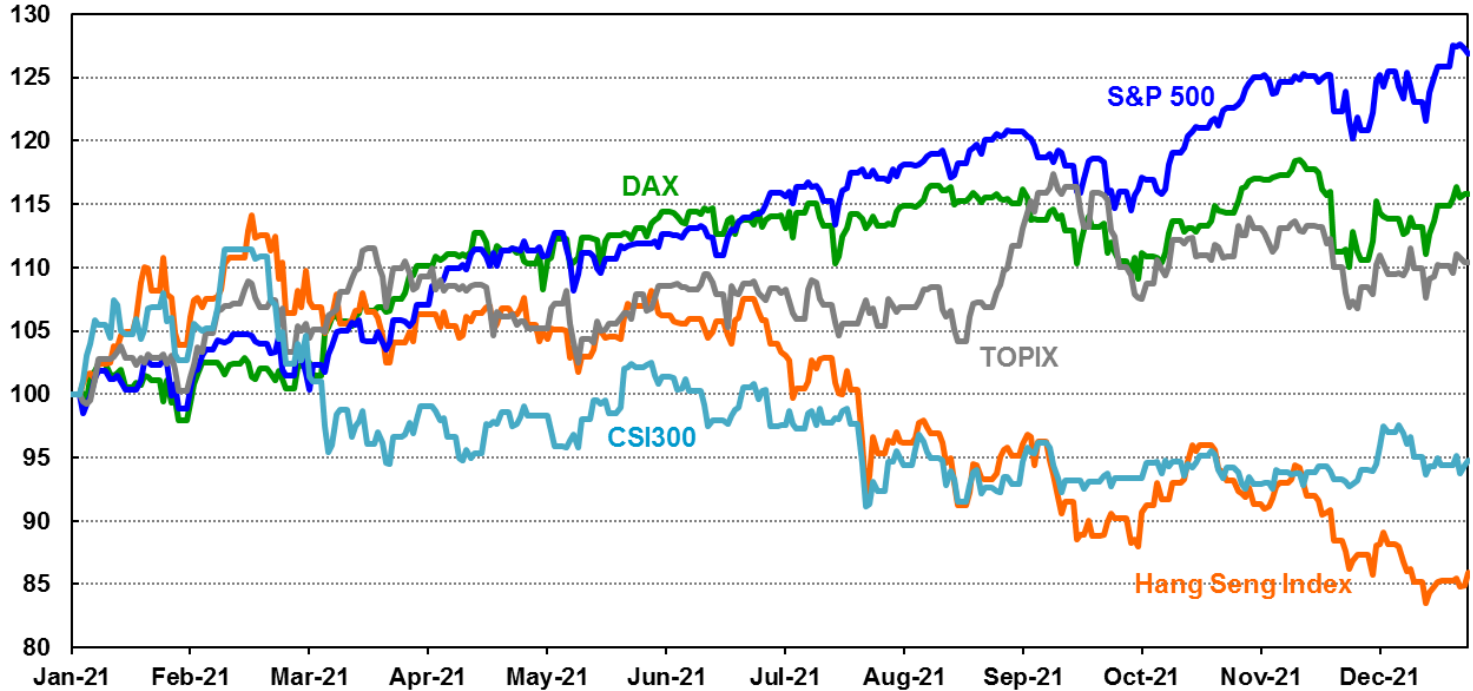
US GOVERNMENT BOND YIELDS TRENDED UPWARDS BUT REMAINED AT LOW LEVELS





MAJOR EQUITY MARKETS ROSE SHARPLY WHILE MAINLAND AND HK MARKETS DIPPED

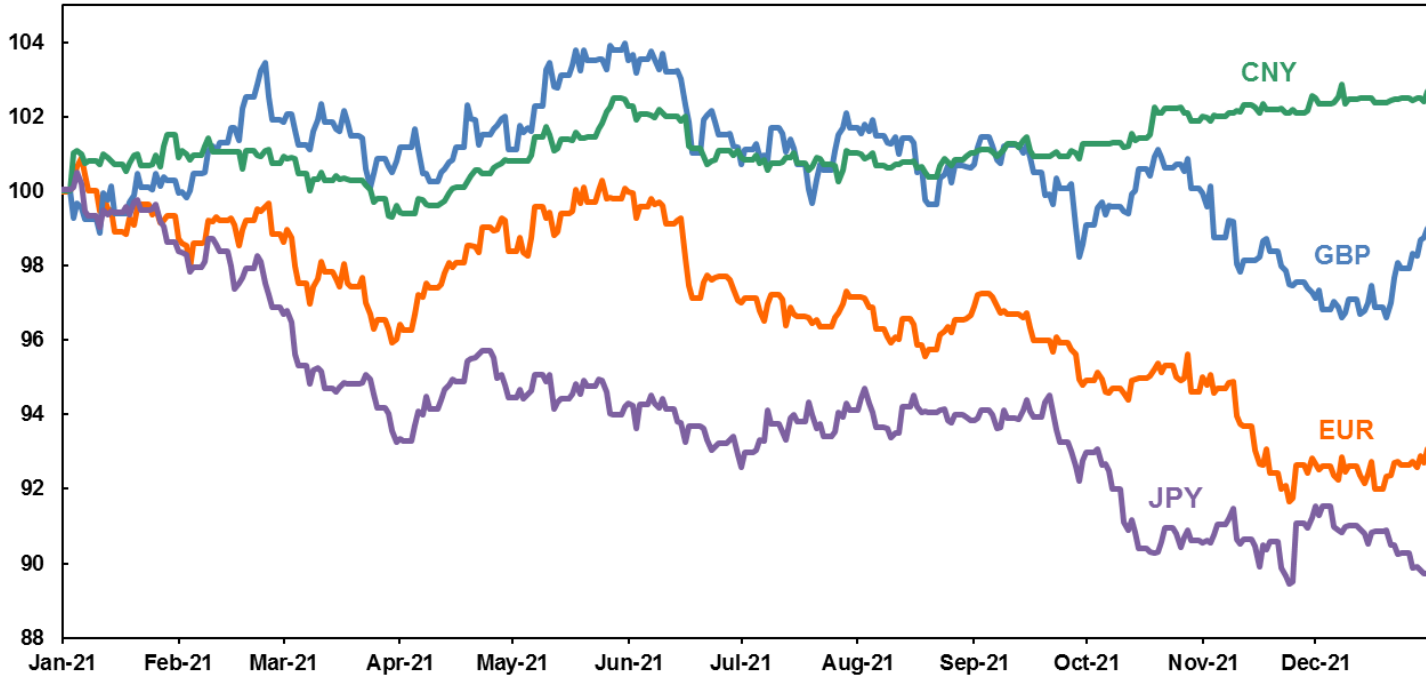
Normalized Index Level (2020 year-end = 100)





MAJOR CURRENCIES WEAKENED WHILE RMB STRENGTHENED AGAINST USD

Normalized FX Level Against USD (2020 year-end = 100)





INVESTMENT INCOME

←————— 2021 —————→ 2020 2019
 (unaudited)

(HK\$ billion)	Full year	2H	1H	Full year	Full year
Bonds	12.4	11.1	1.3	92.7	114.5
Hong Kong equities*	(21.0)	(33.5)	12.5	4.0	22.1
Other equities	68.4	22.0	46.4	69.9	100.7
Foreign exchange#	16.8	14.0	2.8	9.6	(13.0)
Other investments@	93.9	17.2	76.7	59.6	37.9
Investment income	170.5	30.8	139.7	235.8	262.2

* 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 2021. Valuations of these investments from October to December are not yet available.



INCOME AND EXPENDITURE

	← 2021 →			2020	2019
	(unaudited)				
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Investment income	170.5	30.8	139.7	235.8	262.2
Other income	0.2	0.1	0.1	0.2	0.2
Interest and other expenses	<u>(6.1)</u>	<u>(2.8)</u>	<u>(3.3)</u>	<u>(14.6)</u>	<u>(24.8)</u>
Net income	164.6	28.1	136.5	221.4	237.6
Fee payment to Fiscal Reserves**	(34.4)	(16.4)	(18.0)	(69.8)	(53.8)
Fee payment to HKSAR government funds and statutory bodies*	(16.8)	(8.9)	(7.9)	(11.5)	(9.0)

* The rate of fee payment is 4.7% for 2021, 3.7% for 2020 and 2.9% for 2019.

This does not include the 2021 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2021 is available.

(The composite rate was 12.3% for 2020 and 8.7% for 2019. Fee payable to the Future Fund was HK\$37.2 billion for 2020 and HK\$24.4 billion for 2019.)



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)	At 31 Dec 2021	At 31 Dec 2020	Change
ASSETS	(unaudited)		
Deposits	299.6	267.0	32.6
Debt securities	3,291.2	3,238.0	53.2
Hong Kong equities*	183.2	206.9	(23.7)
Other equities	559.3	536.3	23.0
Other assets#	<u>244.5</u>	<u>251.0</u>	<u>(6.5)</u>
Total assets	<u>4,577.8</u>	<u>4,499.2</u>	<u>78.6</u>
LIABILITIES AND EQUITY			
Certificates of Indebtedness	592.4	556.2	36.2
Government-issued currency notes & coins in circulation	13.1	12.8	0.3
Balance of the banking system	377.5	457.5	(80.0)
Exchange Fund Bills and Notes issued	1,148.6	1,068.9	79.7
Placements by banks and other financial institutions	-	87.6	(87.6)
Placements by Fiscal Reserves®	973.3	881.8	91.5
Placements by HKSAR government funds and statutory bodies	394.2	342.5	51.7
Placements by subsidiaries	21.6	15.5	6.1
Other liabilities	<u>268.2</u>	<u>233.1</u>	<u>35.1</u>
Total liabilities	<u>3,788.9</u>	<u>3,655.9</u>	<u>133.0</u>
Accumulated surplus	788.0	842.4	(54.4)
Revaluation reserve	<u>0.9</u>	<u>0.9</u>	<u>-</u>
Total equity	<u>788.9</u>	<u>843.3</u>	<u>(54.4)</u>
Total liabilities and equity	<u>4,577.8</u>	<u>4,499.2</u>	<u>78.6</u>

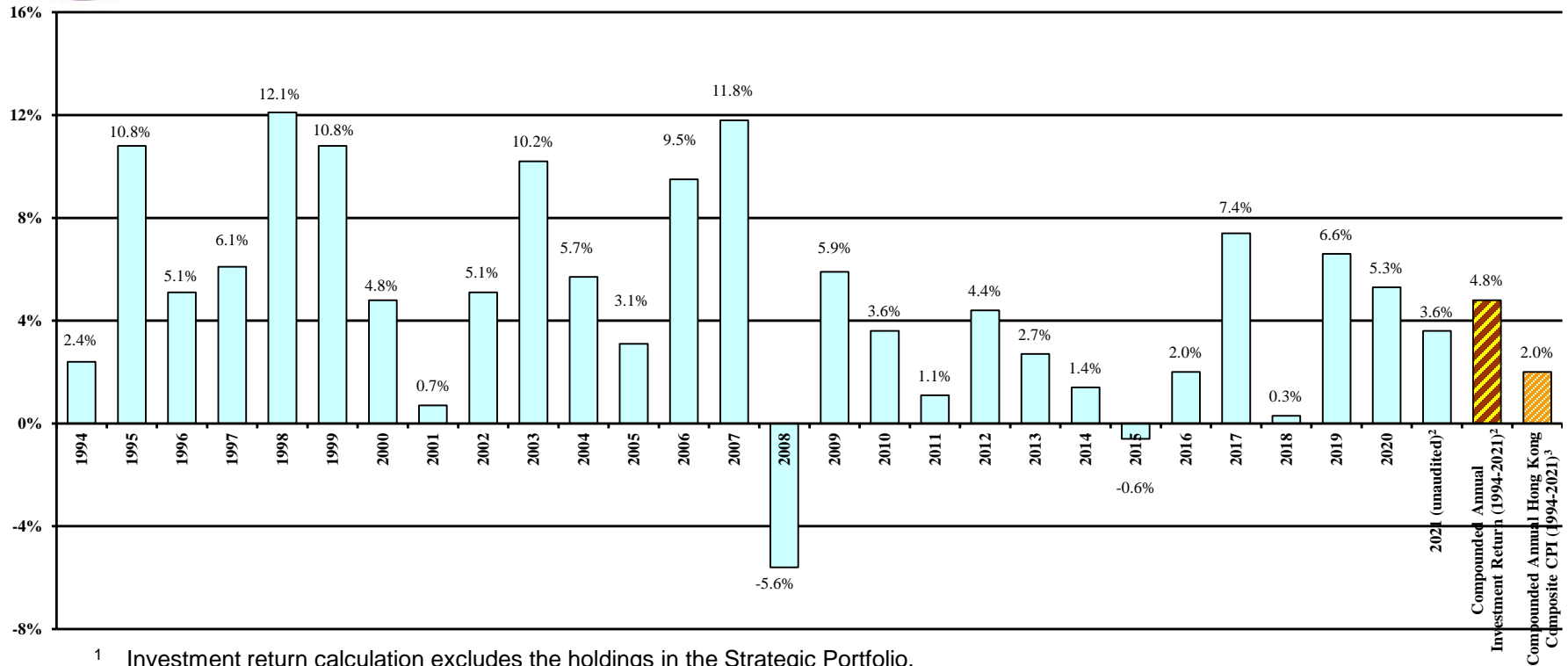
* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$190.1 billion at 31 December 2021 (HK\$193.2 billion at 31 December 2020).

® Including placements by the Future Fund of HK\$217.7 billion (HK\$205.0 billion at 31 December 2020).



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2021)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 2021. The audited full year return will be disclosed in the 2021 annual report.

³ Composite CPI is calculated based on the 2019/2020-based series.



INVESTMENT DIVERSIFICATION

- Investment in alternative assets under the Long-Term Growth Portfolio (LTGP) has commenced since 2009. The performance of the LTGP in 2021 was outstanding. The market value of the LTGP as at the end of September 2021 and the performance since inception are as follows:

As of end-September 2021 (unaudited)

Asset Classes	Market Value HK\$ billion	Annualised IRR (Since inception from 2009 till end-Sep 2021)
Private Equity	377.1	} 15.3%
Real Estate	119.1	
Total	496.2	

Note: Outstanding investment commitments amounted to HK\$229.6 billion.

- When the LTGP was at its nascent stage, the size of the Accumulated Surplus was used to guide portfolio construction to allow time for building up working experience and performance data. As the LTGP becomes increasingly mature in investment scale and asset diversity, starting from 2022, its target asset allocation will be determined concurrently with that of other asset classes in the strategic asset allocation process. Through a comprehensive assessment of the risk and return of individual asset classes and their return correlation, it can enable the Exchange Fund to determine the overall asset mix in a more effective manner. Accordingly, the original market value cap is no longer applicable.



OUTLOOK FOR 2022

- Rising inflation pressure and path of monetary normalisation are critical
 - More persistent inflation pressure may cause central banks to accelerate pace of interest rate hikes
 - Elevated global equity market valuations
 - Moderating global economic recovery and growth of corporate earnings
 - Challenge for the Exchange Fund brought by sharp equity market correction and rising bond yields
- Other risks :
 - Geopolitical tensions
 - Threat of new virus variants
- HKMA will continue to manage the Exchange Fund in a prudent manner
 - Retaining flexibility, implementing defensive measures as appropriate, maintaining high liquidity
 - Diversifying investments



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