



HONG KONG MONETARY AUTHORITY

2023 Exchange Fund Results

26 January 2024



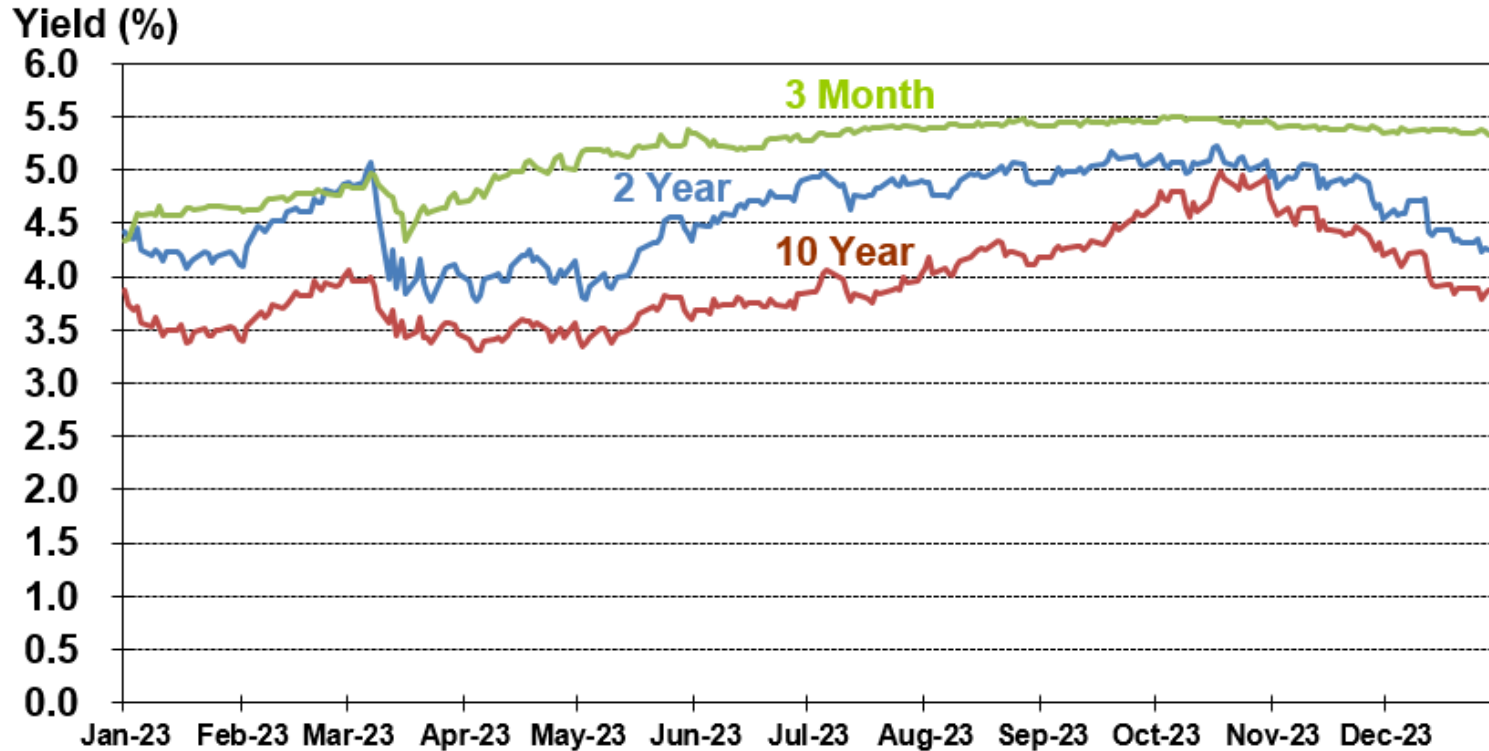
INVESTMENT OBJECTIVES OF THE EXCHANGE FUND

Investment objectives of the Exchange Fund:

- (1) to preserve capital;**
- (2) to ensure that the entire Monetary Base, at all times, is 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 help preserve the long-term purchasing power of the Fund.**



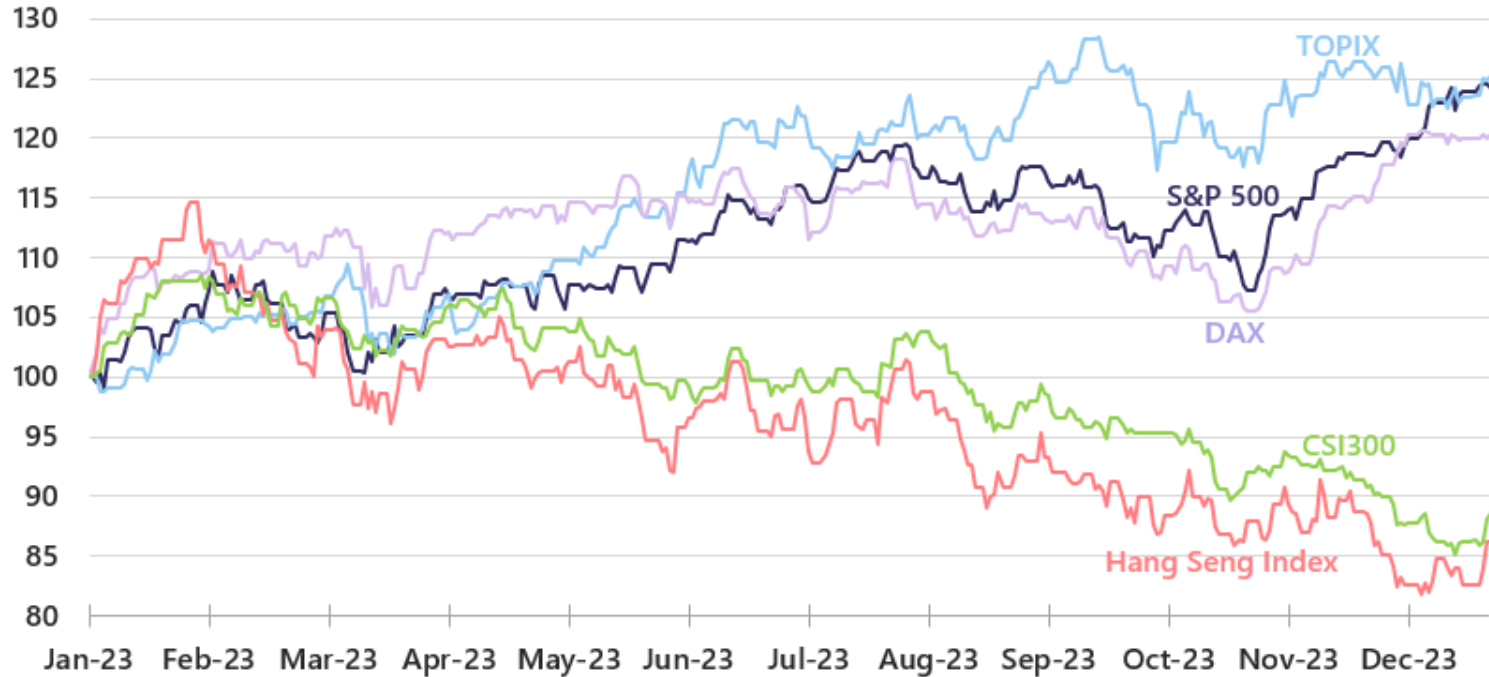
US GOVERNMENT BOND YIELDS REMAINED HIGH





MAJOR EQUITY MARKETS ROSE SHARPLY WHILE HK AND MAINLAND MARKETS DECLINED

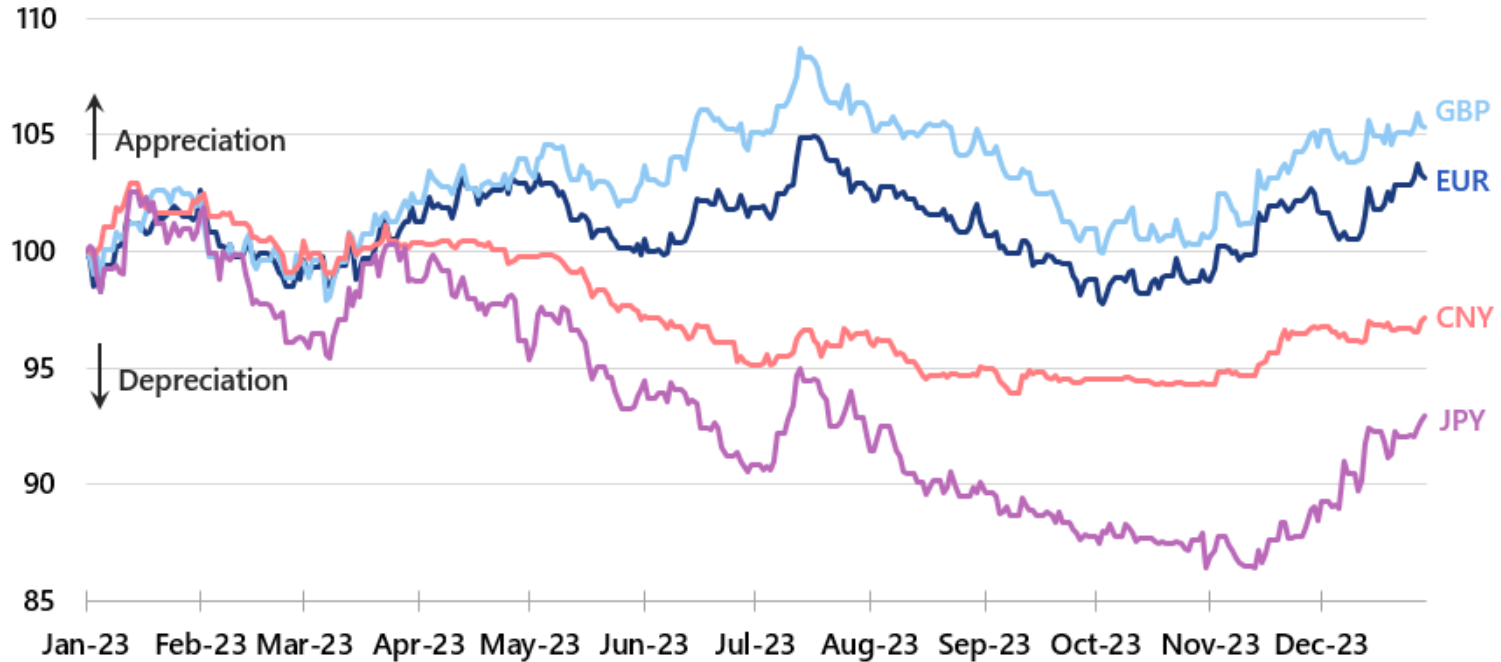
Normalised Index Level (2022 year-end = 100)





MIXED PERFORMANCE OF US DOLLAR AGAINST MAJOR CURRENCIES

Normalised FX Level Against USD (2022 year-end=100)





INVESTMENT INCOME

	←—————	2023	—————→	2022	2021
		(unaudited)			
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Bonds	144.0	86.0	58.0	(53.2)	12.6
Hong Kong equities*	(15.5)	(10.7)	(4.8)	(19.5)	(21.0)
Other equities	73.2	24.7	48.5	(61.0)	68.8
Foreign exchange#	(0.5)	1.3	(1.8)	(40.0)	16.8
Other investments@	11.5	(5.0)	16.5	(31.7)	114.7
Investment income/(loss)	212.7	96.3	116.4	(205.4)	191.9

* 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 reflects the valuations at the end of September 2023. Valuation changes of these investments from October to December are not yet available.



INCOME AND EXPENDITURE

	← 2023 →			2022	2021
	(unaudited)				
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Investment income/(loss)	212.7	96.3	116.4	(205.4)	191.9
Other income	0.2	0.1	0.1	0.2	0.2
Interest and other expenses	<u>(54.4)</u>	<u>(30.7)</u>	<u>(23.7)</u>	<u>(18.8)</u>	<u>(6.1)</u>
Net income/(loss)	158.5	65.7	92.8	(224.0)	186.0
Fee payment to Fiscal Reserves*#	(17.5)	(7.5)	(10.0)	(26.0)	(93.0)
Fee payment to HKSAR Government funds and statutory bodies*	(16.5)	(8.6)	(7.9)	(22.1)	(16.8)

* The rate of fee payment is 3.7% for 2023, 5.6% for 2022 and 4.7% for 2021.

This does not include the 2023 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2023 is available.

The composite rate was -3.0% for 2022 and 17.8% for 2021. Fee (reversed from)/payable to the Future Fund was HK\$(9.0) billion for 2022 and HK\$58.6 billion for 2021.



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)	At 31 Dec 2023	At 31 Dec 2022	Change
ASSETS	(unaudited)		
Deposits	344.8	368.8	(24.0)
Debt securities	2,799.7	2,773.3	26.4
Hong Kong equities*	125.0	150.4	(25.4)
Other equities	484.4	472.4	12.0
Other assets#	<u>263.9</u>	<u>243.1</u>	<u>20.8</u>
Total assets	<u>4,017.8</u>	<u>4,008.0</u>	<u>9.8</u>
LIABILITIES AND EQUITY			
Certificates of Indebtedness	593.2	606.0	(12.8)
Government-issued currency notes & coins in circulation	12.9	13.2	(0.3)
Balance of the banking system	44.9	96.2	(51.3)
Exchange Fund Bills and Notes issued	1,244.5	1,200.3	44.2
Placements by banks and other financial institutions	99.1	99.5	(0.4)
Placements by Fiscal Reserves®	695.4	765.2	(69.8)
Placements by HKSAR Government funds and statutory bodies	468.7	449.0	19.7
Placements by subsidiaries	31.2	30.6	0.6
Other liabilities	<u>174.7</u>	<u>190.8</u>	<u>(16.1)</u>
Total liabilities	<u>3,364.6</u>	<u>3,450.8</u>	<u>(86.2)</u>
Accumulated surplus	652.4	556.4	96.0
Revaluation reserve	<u>0.8</u>	<u>0.8</u>	<u>-</u>
Total equity	<u>653.2</u>	<u>557.2</u>	<u>96.0</u>
Total liabilities and equity	<u>4,017.8</u>	<u>4,008.0</u>	<u>9.8</u>

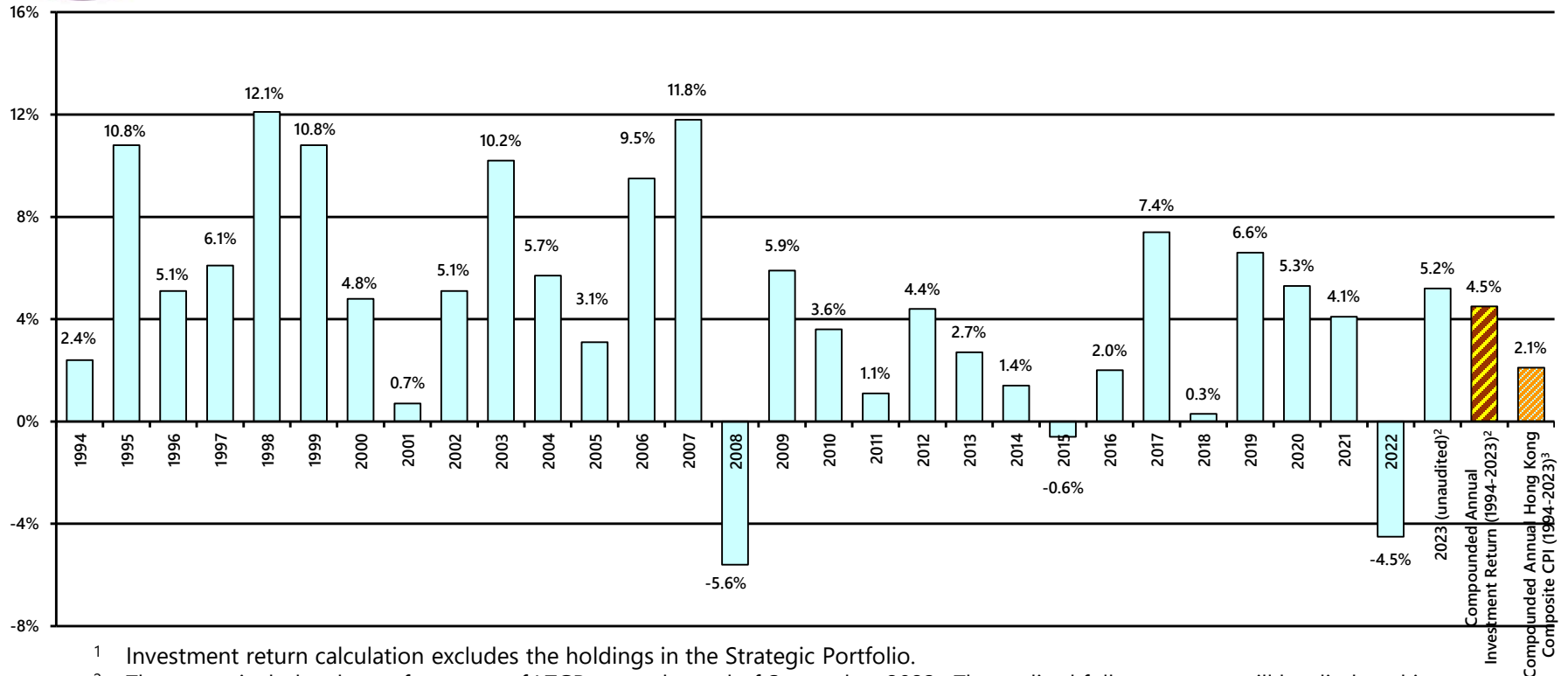
* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$203.9 billion at 31 December 2023 (HK\$191.7 billion at 31 December 2022).

® Including placements by the Future Fund of HK\$299.4 billion at 31 December 2023 (HK\$255.2 billion at 31 December 2022).



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2023)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 2023. The audited full year return will be disclosed in the 2023 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. Performance of the LTGP in the first three quarters of 2023 remained stable and its annualised internal rate of return since inception till end-September 2023 was 11.8%. The market value of the major asset classes are shown in the table below.

As of end-September 2023 (unaudited)

Asset Classes	Market Value HK\$ billion
Private Equity	393.0
Real Estate	110.1
Total	503.1

Note: Outstanding investment commitments amounted to HK\$297.3 billion.



OUTLOOK FOR 2024

Global financial markets continue to face numerous challenges

- **The time required for inflation to return to target levels set by major central banks remains uncertain**
- **May trigger heightened volatility and corrections in asset prices should the timing and pace of interest rate cuts fall short of market expectations**
- **Impact of rate hikes on global real economy has become more visible**

The biggest unknown factor remains geopolitical risks

- **Escalation of tensions could have substantial impact on the global economy and the financial markets**
- **Key election year would mean further market uncertainties**

HKMA will manage the Exchange Fund with prudence and flexibility

- **Implement appropriate defensive measures, and maintain a high degree of liquidity**
- **Diversification of investments**



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