



Reserves Management

Global financial markets performed broadly well in 2024. Major economies recorded stable growth while inflation eased closer to policy targets. Major central banks progressively lowered their policy rates. This was positive to the investment environment. For 2024 as a whole, the Exchange Fund recorded an investment income of HK\$218.8 billion, representing an investment return of 5.2%.

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The Exchange Fund

The Exchange Fund's primary objective, as laid down in the Exchange Fund Ordinance, is to affect, either directly or indirectly, the exchange value of the currency of Hong Kong. The Fund may also be used to maintain the stability and integrity of Hong Kong's monetary and financial systems in order to help maintain Hong Kong as an international financial centre. The HKMA, under the delegated authority of the Financial Secretary and within the terms of the delegation, is responsible to the Financial Secretary for the use and investment management of the Exchange Fund.

Management of the Exchange Fund

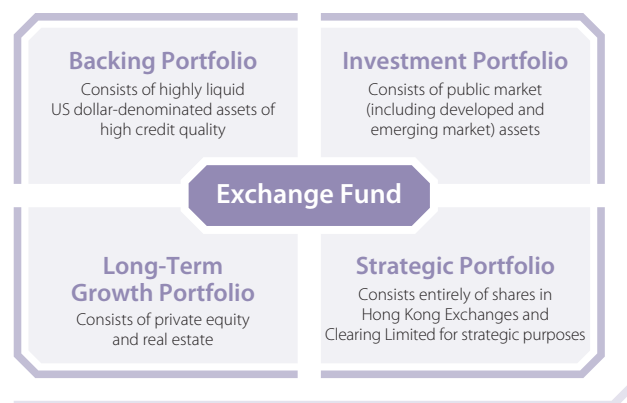
Investment objectives and portfolio structure

The Exchange Fund Advisory Committee (EFAC) has set the following investment objectives for the Exchange Fund:

- (i) To preserve capital;
- (ii) To ensure that the entire Monetary Base, at all times, is fully backed by highly liquid US dollar-denominated assets;
- (iii) To ensure that sufficient liquidity is available for the purposes of maintaining monetary and financial stability; and
- (iv) Subject to (i)–(iii), to achieve an investment return that will help preserve the long-term purchasing power of the Exchange Fund.

These objectives take full account of the statutory purposes of the Exchange Fund, and are incorporated into the portfolio structure and the target asset mix of the Fund (Figure 1).

Figure 1 Portfolio segregation of the Exchange Fund



Broadly speaking, the Exchange Fund has two major portfolios: the Backing Portfolio (BP) and the Investment Portfolio (IP). The BP holds highly liquid US dollar-denominated assets to provide full backing to the Monetary Base, as required under the Currency Board arrangements. The IP invests primarily in the bond and equity markets of the member economies of the Organisation for Economic Co-operation and Development, with a view to preserving the value and long-term purchasing power of its assets.

To better manage risks and enhance returns in the medium and long term, the HKMA diversifies part of the Exchange Fund's investments in a prudent and incremental manner into a wider variety of asset classes. These include emerging market and Mainland bonds and equities, private equity (including infrastructure), and real estate. Emerging market and Mainland bonds and equities are held under the IP, while private equity and real estate investments are held under the Long-Term Growth Portfolio (LTGP). The target asset allocation of the LTGP is determined concurrently with that of other asset classes, subject to prudent risk management principles and portfolio diversification strategies.

The Strategic Portfolio, established in 2007, holds shares in Hong Kong Exchanges and Clearing Limited that have been acquired by the Government for the account of the Exchange Fund for strategic purposes. Due to its unique nature, the Strategic Portfolio is not included in the assessment of the Fund's investment performance.

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Placements with the Exchange Fund

The Exchange Fund, from time to time, accepts placements by the Fiscal Reserves, Government funds and statutory bodies. The interest rate is generally linked to the performance of the IP¹. A major exception is the Future Fund², which links its interest rate to the return of both the IP and the LTGP in accordance with the portfolio mix. The target portfolio mix of the Future Fund between the IP and the LTGP was 35:65 for 2024.

The investment process

The investment process of the Exchange Fund is underpinned by decisions on two types of asset allocation: strategic asset allocation and tactical asset allocation. Strategic asset allocation, reflected in the investment benchmark, represents long-term asset allocation based on the investment objectives of the Exchange Fund. Guided by the strategic allocation, assets are tactically allocated in an attempt to achieve an excess return over the benchmark. This means the actual allocation is often different from the benchmark (or strategic) allocation. The differences between the actual and benchmark allocations are known as “tactical deviations”. While the benchmark and tracking error³ limit are determined by the Financial Secretary in consultation with EFAC, tactical decisions and allowable ranges for tactical deviations are made and set by the HKMA under delegated authority. Within the ranges allowed for tactical deviations, portfolio managers may assume positions to take advantage of short-term market movements.

Investment management

Direct investment

The HKMA's Exchange Fund Investment Office houses the Exchange Fund's investment and related risk management functions. Exchange Fund Investment Office staff members directly manage about 70% of the investments of the Exchange Fund, comprising the entire BP and part of the IP. The part of the IP managed internally includes a set of portfolios invested in global fixed-income markets and various derivative overlay portfolios implementing macro risk management strategies for the Fund.

Use of external managers

In addition to managing assets internally, the HKMA employs external fund managers to manage about 30% of the Exchange Fund's assets, including all of its listed equity portfolios and other specialised asset classes. The purpose of engaging external managers is to tap the best investment expertise available in the market to realise sustainable returns, while also drawing on diverse and complementary investment styles and taking advantage of external market insights and technical expertise in investment.

Expenditure relating to the use of external managers includes fund management and custodian fees, transaction costs, and withholding and other taxes. The expenditure is determined primarily by market factors and may fluctuate from year to year.

Risk management and compliance

As the investment environment becomes more complex, sound risk management is increasingly important. The HKMA sets stringent controls and investment guidelines for both its internally and externally managed portfolios, and ensures that a proper risk monitoring and compliance system is in place. Three lines of defence are in place to implement effective risk management and governance of investment-related activities. Key risk categories (including credit, market, liquidity and operational risks) are regularly monitored. The risk management process provides a robust framework that supports the HKMA's strategic planning and investment diversification efforts.

Responsible investment

The HKMA believes that an appropriate emphasis on responsible investment and sustainable long-term economic performance can help better achieve the investment objectives of the Exchange Fund, as well as reduce risks associated with environmental, social and governance (ESG)-related matters of its underlying investments. To embrace responsible investment practices, the HKMA has integrated ESG factors into the investment processes of the Exchange Fund, with the guiding principle that priority will generally be given to ESG investments if their long-term risk-adjusted returns are comparable with other investments. For more details about the HKMA's responsible investment work, see the *Responsible Investment* chapter of our *Sustainability Report 2024*.

¹ The rate is the average annual investment return of the IP for the past six years, or the average annual yield of three-year Government Bond for the previous year, subject to a minimum of 0% (whichever is higher).

² The Future Fund was established by the Government in 2016 with a view to securing higher investment returns for the Fiscal Reserves to support increasing needs in the future.

³ “Tracking error” measures how closely a portfolio follows its benchmark.

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Performance of the Exchange Fund

The financial markets in 2024

Global financial markets performed broadly well in 2024.

Major equity markets rose notably in 2024, with US equities making strong gains in the first three quarters on the back of generally positive economic and inflationary fundamentals, and the fervour around the artificial intelligence industry. However, markets became more volatile in the fourth quarter and retreated from their highs as investors turned more cautious amidst concerns over rising inflation and bond yields. In the Mainland and Hong Kong, investor confidence improved, following the Central Government's announcements of a series of policy measures in the third quarter to stimulate the economy and equity market. Nevertheless, the two equity markets softened in the fourth quarter as market participants remained somewhat uncertain about the real economic growth.

Global bond markets experienced higher volatility in 2024. Although major central banks affirmed their general policy direction of lowering interest rates, the pace and magnitude of rate cuts changed a few times during the year. Entering the fourth quarter, as markets began to focus on the US fiscal policy in 2025, US Treasury yields rose sharply and weighed on bond prices.

In the currency markets, the US dollar strengthened against other major currencies in 2024, particularly in the fourth quarter, as a result of interest rate movements and the relatively strong performance of the US economy.

The performance of major currencies, bond and equity markets in 2024 is shown in Table 1.

Table 1 2024 market returns

Currencies

Appreciation (+)/depreciation (-) against US dollar

Euro	-6.2%
Pound sterling	-1.7%
Renminbi	-2.7%
Yen	-10.3%

Bond markets

Relevant US Government Bond (1–30 years) Index	+0.7%
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Equity markets^a

Standard & Poor's 500 Index	+23.3%
DAX Index	+18.9%
FTSE 100 Index	+5.7%
TOPIX Index	+17.7%
MSCI Emerging Markets Index	+5.1%
Hang Seng Index	+17.7%

a. Market performance of equities is based on index price change during the year.

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The Exchange Fund's performance

The Exchange Fund recorded investment income of HK\$218.8 billion in 2024, which included:

- gains on bonds of HK\$135.9 billion;
- gains on equities of HK\$90.9 billion (with gains of HK\$21.8 billion from Hong Kong equities and HK\$69.1 billion from other equities);
- a negative currency translation effect of HK\$35.6 billion on non-Hong Kong dollar assets; and
- gains of HK\$27.6 billion on other investments held by the investment-holding subsidiaries of the Fund.

Separately, the Strategic Portfolio recorded a valuation gain of HK\$2.8 billion.

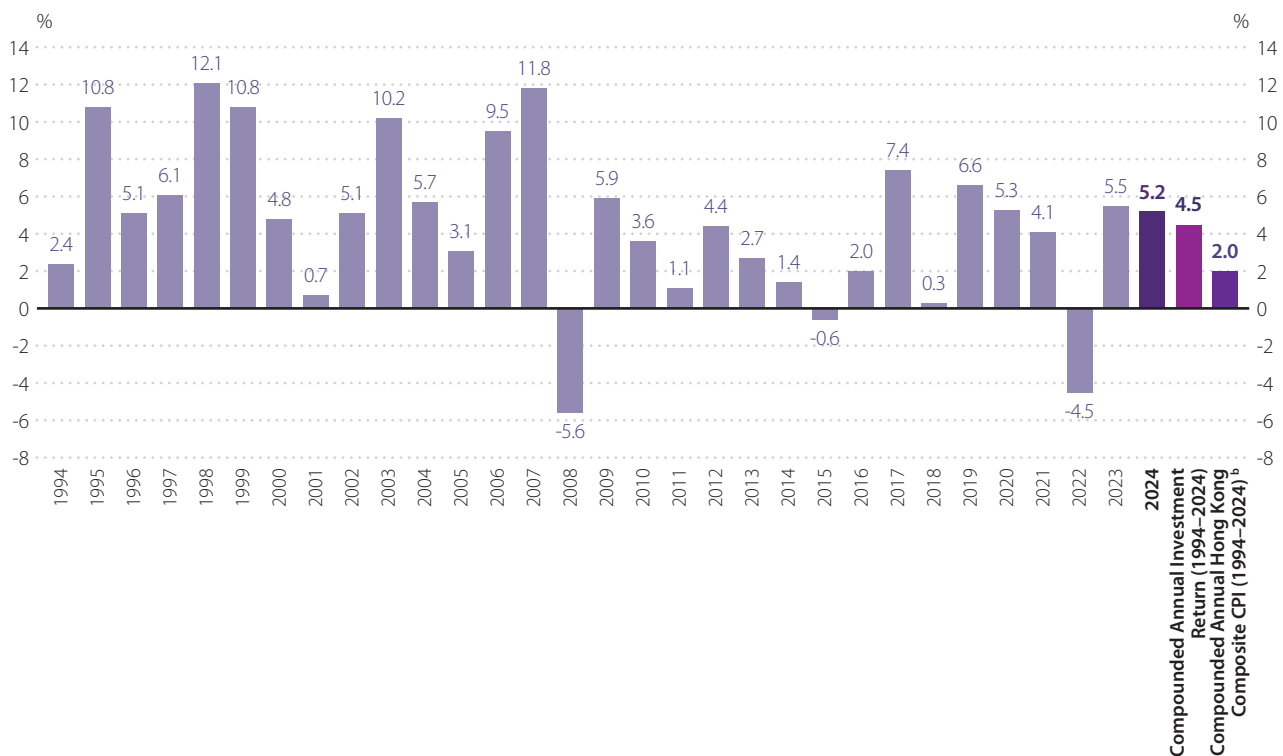
Total assets of the Exchange Fund reached HK\$4,081.0 billion at the end of the year. The market value of investments under the LTGP totalled HK\$541.2 billion, with private

equity amounting to HK\$434.8 billion and real estate HK\$106.4 billion. Outstanding investment commitments of the LTGP amounted to HK\$288.6 billion.

The investment return of the Exchange Fund in 2024, excluding the Strategic Portfolio, was 5.2%. The returns of the IP and the BP were 7.2% and 4.1% respectively. The LTGP has recorded an annualised internal rate of return of 11.2% since its inception in 2009.

The annual returns of the Exchange Fund from 1994 to 2024 are set out in Chart 1. Table 2 shows the 2024 investment return and the average investment returns of the Fund over several different time horizons. The average return was 2.0% during 2022–2024, 3.1% during 2020–2024, 3.1% during 2015–2024 and 4.5% since 1994. Table 3 shows the currency mix of the Fund's assets on 31 December 2024. For details, see pages 203 to 309 for the audited 2024 financial statements of the Exchange Fund.

Chart 1 Investment return of the Exchange Fund (1994–2024)^a



- a. Investment return calculation excludes the holdings in the Strategic Portfolio.
 b. The Composite Consumer Price Index (CPI) is calculated based on the 2019/2020-based series.

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Table 2 Investment return of the Exchange Fund in Hong Kong dollar terms^a

	Investment return ^{b,c}
2024	5.2%
3-year average (2022–2024)	2.0%
5-year average (2020–2024)	3.1%
10-year average (2015–2024)	3.1%
Average since 1994	4.5%

- a. The investment returns for 2001 to 2003 are in US dollar terms.
 b. Investment return calculation excludes the holdings in the Strategic Portfolio.
 c. Averages over different time horizons are calculated on an annually compounded basis.

Table 3 Currency mix of the Exchange Fund's assets on 31 December 2024 (including forward transactions)

	HK\$ million	%
US dollar	3,230,422	79.1
Hong Kong dollar	260,243	6.4
Others ^a	590,310	14.5
Total	4,080,975	100.0

- a. Other currencies consisted mainly of the euro, renminbi, pound sterling and yen.