



Reserves Management

The Exchange Fund

Under the Exchange Fund Ordinance, the Exchange Fund's primary objective 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 with a view to maintaining 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

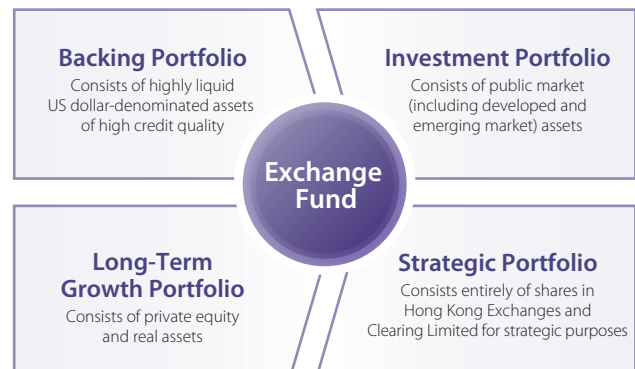
Investment objectives and portfolio structure

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 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, including in emerging market and Mainland bonds and equities, private equity and real assets. Emerging market and Mainland bonds and equities are held under the IP, while private equity and real asset investments are held under the Long-Term Growth Portfolio (LTGP).

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 45:55 for 2025.

The investment process

The investment process of the Exchange Fund is underpinned by decisions on 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, tactical decisions are made with a view to achieving an excess return over the benchmark. This means the actual allocation is often different from the benchmark (or strategic) allocation, and the differences in allocations are “tactical deviations”. 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. About 71% of the investments of the Exchange Fund, comprising the entire BP and part of the IP, are managed in-house. These include portfolios investing in global fixed-income markets and various derivative overlay portfolios implementing macro risk management strategies for the Fund.

Use of external managers

The HKMA also employs external fund managers to manage about 29% 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

The investment process of the Exchange Fund is also underpinned by a robust risk management and compliance monitoring framework. The HKMA sets stringent controls and investment guidelines for its internally and externally managed portfolios. Three lines of defence are in place for effective risk management and governance of investment activities. The HKMA regularly monitors key risk types, including credit, market, liquidity and operational risks.

Responsible investment

The HKMA believes that placing 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, we have 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 our responsible investment work, see the *Responsible Investment* chapter of our *Sustainability Report 2025*.

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 2025

The global financial markets experienced significant volatility in the first half of 2025 due to factors such as trade conflicts and geopolitical tensions. In particular, following the announcement of a series of tariff measures by the US Government in early April, global equity and bond markets fell sharply. Going into the second half of the year, the investment environment improved notably, bolstered by the smaller-than-expected impact from trade conflicts as well as the swift advancement of artificial intelligence technology, which attracted investment flows. Policy rate cuts by major central banks during the year also helped boost market sentiment.

Overall, the global financial markets showed strong resilience in 2025. Major stock markets saw broad-based gains, with many of them setting record highs. US Treasuries also performed decently on the back of the US Federal Reserve's rate cuts. On foreign exchange, the US dollar depreciated against other major currencies.

The performance of major currencies, bond and equity markets in 2025 is shown in Table 1.

Table 1 2025 market returns

Currencies

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

Euro	+13.4%
Pound sterling	+7.7%
Renminbi	+4.5%
Yen	+0.3%

Bond markets

Relevant US Government Bond (1–30 years) Index	+6.2%
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Equity markets^a

Standard & Poor's 500 Index	+16.4%
DAX Index	+23.0%
FTSE 100 Index	+21.5%
TOPIX Index	+22.4%
MSCI Emerging Markets Index	+30.6%
Hang Seng Index	+27.8%

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\$337.4 billion in 2025, which included:

- gains on bonds of HK\$142.7 billion;
- gains on equities of HK\$108.7 billion (with gains of HK\$33.9 billion from Hong Kong equities and HK\$74.8 billion from other equities);
- a positive currency translation effect of HK\$38.5 billion on non-Hong Kong dollar assets; and
- gains of HK\$47.5 billion on other investments held by the investment-holding subsidiaries of the Fund.

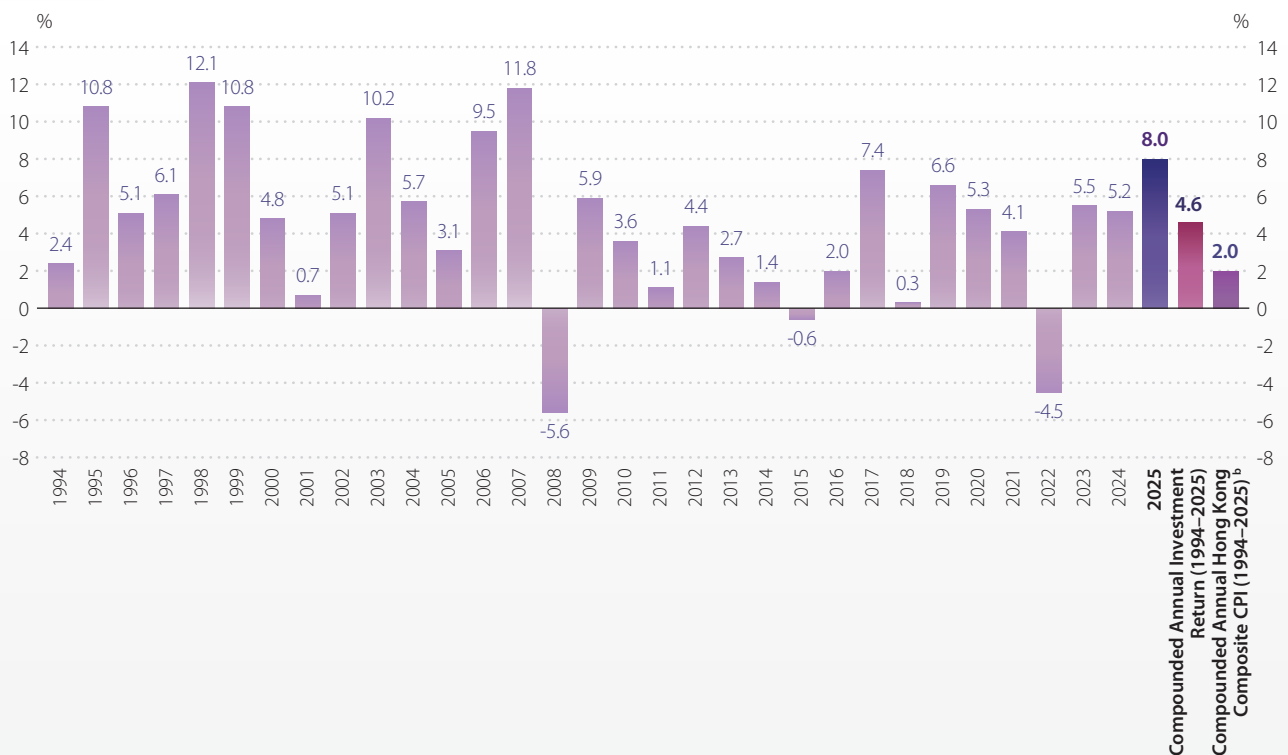
Separately, the Strategic Portfolio recorded a valuation gain of HK\$9.7 billion.

Total assets of the Exchange Fund reached HK\$4,161.2 billion at the end of the year. The market value of investments under the LTGP totalled HK\$578.4 billion, including HK\$417.1 billion in private equity and HK\$161.3 billion in real assets. Outstanding investment commitments of the LTGP amounted to HK\$296.4 billion.

The investment return of the Exchange Fund in 2025, excluding the Strategic Portfolio, was 8.0%. The returns of the IP and the BP were 12.4% and 5.2% respectively. The internal rate of return of the LTGP since its inception in 2009 was 10.9%.

The annual returns of the Exchange Fund from 1994 to 2025 are set out in Chart 1. Table 2 shows the 2025 investment return and the average investment returns of the Fund over different time horizons. Table 3 shows the currency mix of the Fund's assets on 31 December 2025. For details, see pages 171 to 279 for the audited 2025 financial statements of the Exchange Fund.

Chart 1 Investment return of the Exchange Fund (1994–2025)^a



a. 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}
2025	8.0%
3-year average (2023–2025)	6.2%
5-year average (2021–2025)	3.6%
10-year average (2016–2025)	3.9%
Average since 1994	4.6%

a. The investment returns for 2001 to 2003 are in US dollar terms.

b. Excludes holdings in the Strategic Portfolio.

c. The averages are calculated on an annually compounded basis.

Table 3 Currency mix of the Exchange Fund's assets on 31 December 2025 (including forward transactions)

	HK\$ million	%
US dollar	3,308,050	79.5
Hong Kong dollar	241,935	5.8
Others ^a	611,196	14.7
Total	4,161,181	100.0

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