

Press Release

LCQ15: Funds outside accounts of Government established by Government

Wednesday, February 19, 2014

Following is a question by the Hon Paul Tse Wai-chun and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (February 19):

Question:

It has been reported that the 16 funds set up or with moneys injected by the Government in 2008 or later have an aggregate balance of \$67 billion, and the investment return rates of more than half of such funds lagged behind that of the Exchange Fund (EF) over the same period, and the investment returns of as many as 11 funds could not even cover the expenses. Moreover, the Arts and Sport Development Fund, which received an injection of \$3 billion in 2011-2012, suffered a loss equivalent to 5% of the amount injected that year. Some members of the public have queried that the investment failure of the funds concerned has resulted in loss of public money. In this connection, will the Government inform this Council:

- (1) of the differences between the investment returns of the various funds mentioned above and the return of EF under the management of the Hong Kong Monetary Authority (HKMA) in the past three years;
- (2) whether it has conducted any study on the causes for the deficits suffered by the 11 aforesaid funds and taken any measure to improve their investment return rates; if it has, of the outcome of the study; if not, the reasons for that;
- (3) whether it has taken measures to regulate, and reviewed regularly, the investment models, types of investment products, returns and expenses on management fees of the aforesaid funds; if it has, of the details; if not, the reasons for that;
- (4) of the fees paid by the 11 aforesaid funds on investment management in each of the past three years, and how such amounts compare with the relevant fees incurred by EF; the measures and mechanisms to ensure that management fees for the funds concerned are cost effective, so as to avoid fund capital and government injections

being depleted by excessive or unreasonable management fees; and

(5) whether it has conducted any study on pooling the moneys of various funds and entrusting them to HKMA for investment; if it has, of the outcome of the study; if not, the reasons for that and whether it can do so immediately?

Reply:

President,

Information including the investment returns, investment management fees and monitoring mechanism of the funds established/or with injection made by the Government since 2008 but outside the Government accounts is set out at the Annex.

These funds were established with specific purposes and modes of operation. To cater for their respective needs, the investment strategies of these funds are also different. Some of the funds use their investment returns to meet their operational needs, whilst some make use of both investment returns and the capitals. Besides, the investment strategy of individual funds may be regulated by the legislation under which the funds were established.

Hence, we should not judge whether the investment returns of individual funds are satisfactory simply by looking at the revenue and expenditure of the funds. It is neither appropriate to compare the investment returns and management fees of a particular fund with those of the Exchange Fund.

As regards the monitoring mechanism of investments, there are different supervisory regimes in place for individual funds. The supervisory authority or committee concerned will closely monitor the external investment environment and review the investment strategy according to individual needs, so as to fulfill the purpose and investment objectives of the funds.

The funds have different policy objectives of establishment, background, scale, mode of operation, asset liquidity need and investment objectives. Therefore, it may not be operationally feasible to pool the moneys of all the funds to a designated institution (e.g. the Exchange Fund) for investment. The bureaux or government departments concerned will continue to keep in view the latest situation

and views on the management of funds and benefits of investments, so that the investment returns will be able to serve the purposes and needs of the respective funds.

Ends