



# Vision 2020

*The Future of Hong Kong's  
Fund Management Industry*

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In Association with the HKIFA





# Contents

<i>Foreword</i>	4
<i>Executive Summary</i>	6
<i>Hong Kong Today: A privileged position</i>	8
<i>Closer ties with mainland China</i>	12
<i>People: an aging market and the battle for talent</i>	18
<i>Technology: The inevitable rise of digital</i>	22
<i>Regulation: Balance commercial needs with risk management</i>	26
<i>Social Values: Extending the commitment to investor education</i>	30











# Foreword



**Vivian Chui**  
Partner  
Investment Management  
KPMG China

Fund management is one of the fastest growing sectors within Hong Kong's financial services industry and the development of this sector is becoming critical for the territory. In order to consolidate Hong Kong's status as Asia's hub in the long term, a cohesive and focused effort is needed to look into the challenges and the opportunities for the industry.

KPMG and the Hong Kong Investment Funds Association (HKIFA) have published this report in order to outline expectations for the industry's future development through 2020. The key focus is on the challenges and opportunities and the strategies practitioners are developing, in order to capitalise on the opportunities and deal with the challenges.



**Terry Pan**  
HKIFA Chairman

It is a forward-looking contribution to the dialogues surrounding the fund management business that can serve as a basis for further discussion with peers, regulators and the broader public. It also calls for concrete action to ensure the sector continues to contribute to the prosperity of Hong Kong and its status as a global financial centre.

Our research has identified a number of challenges, many of which are shared with the wider Hong Kong financial services industry. Discussions with some of the key players have revealed their ideas and long-term strategies for overcoming such challenges. There are also, however, clear opportunities within the market, and this report serves to share our views on how the industry in Hong Kong may be able to take advantage of them.

We would like to thank all the executives we interviewed and the many who made themselves available for discussions. The insights, candid views and expertise that we received have been essential to the enrichment of the report. We are grateful for the comments and feedback from the responses received from leading fund management companies.

We will continue to work with the industry by sharing insights and best practice to help fund management firms better coordinate with regulators and investors to ensure that Hong Kong's exclusive position is maintained.



# Executive Summary

Despite the challenges outlined in this paper, the view of fund managers on the industry's prospects is bright. Issues are clearly outweighed by the progress and opportunities that are emerging, many of which are unprecedented. There is a sense that the industry, regulators and the public may reach closer alignment on many of the matters that will define the sector's future, given the shared goal of continuing Hong Kong's success.

It is telling that in our survey, all respondents said Hong Kong will still be Asia's leading asset management hub in five years' time, and a clear majority (67 percent) believed the same would hold true in 2035. In an age where change and volatility are the 'new normal,' there can be no greater endorsement of Hong Kong's present path than the confidence its future is assured.

Nonetheless, several key action points emerged from our research that if tackled by the industry and regulators in tandem, will help ensure Hong Kong thrives through 2020 and beyond:



## Regulation:

- Increase coordination between Mainland and Hong Kong regulators. Ensure the industry also has opportunities to engage with both regulators.
- Step up efforts to benchmark the competitiveness of Hong Kong regulation globally, and conclude more mutual recognition and tax arrangements with other jurisdictions.
- Develop clear regulations around the use of digital technology and mobile platforms to market and distribute funds.



## People and talent:

- Embark on a more ambitious reform of Hong Kong's pension system that addresses sensitive but necessary changes like higher minimum contributions and increased investment diversification, to promote the financial health of the city's swelling ranks of retirees.
- Develop educational and training programmes that anticipate the industry's future needs and talent shortages, and raise the industry's profile as a viable and fulfilling career choice.



## Social values:

- Embed investor education in the workplace and the school curriculum.



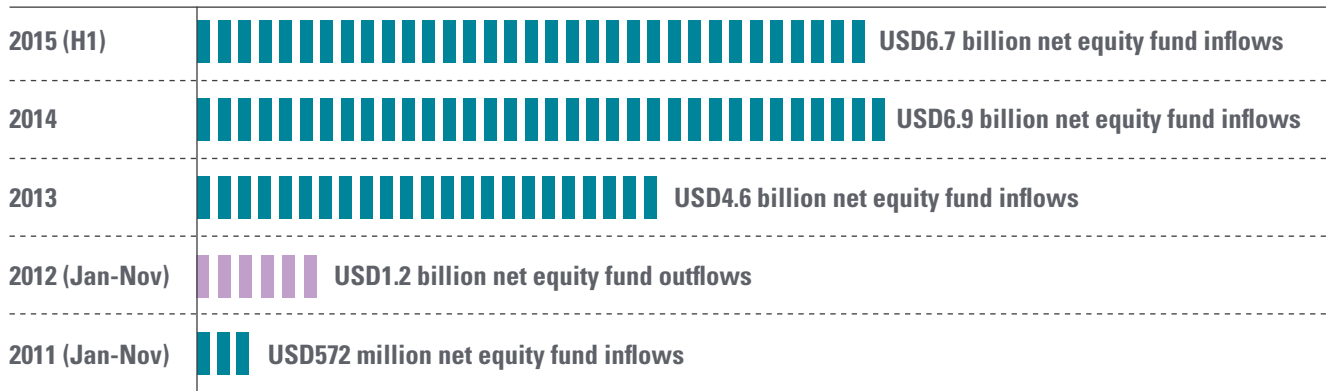






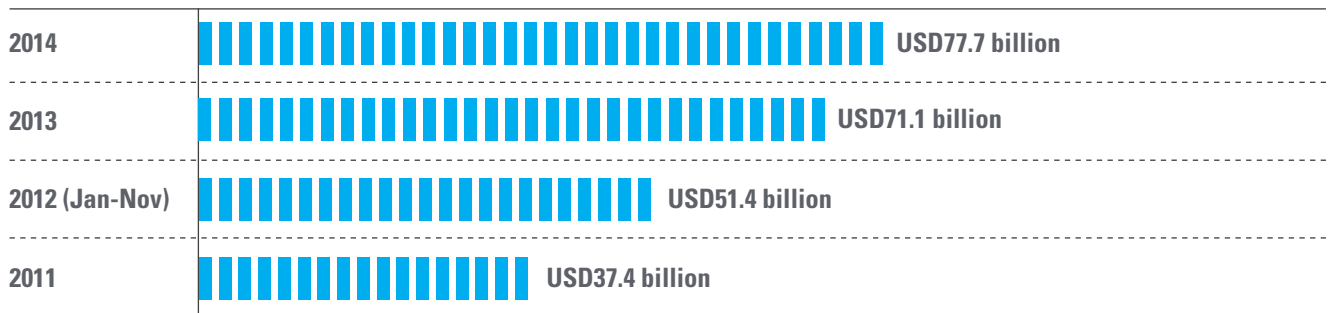


### Equity fund inflows (from 2011 - 2015) (H1)



Source: HKIFA

### Gross fund sales



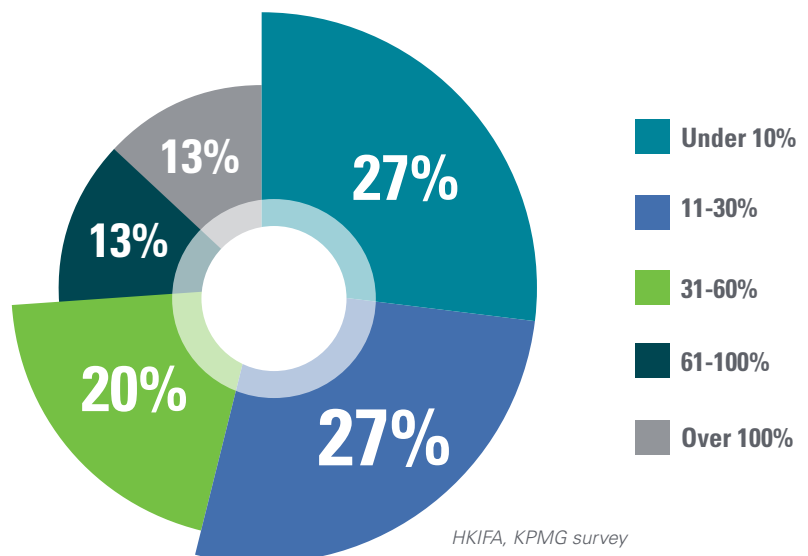
Source: HKIFA



**Bonn Liu**  
ASPAC Head of  
Investment Management  
KPMG China

“Over the past decade, investment management has been regarded as one of the key growth sectors within Hong Kong’s financial services. This will continue to be the trend if a more focused effort is made to maintain the territory’s position as Asia’s investment management hub.”

### Reported Growth in Total AUM (Over the last 3 years)



HKIFA, KPMG survey





**Art Bacci,**  
Group Head  
Principal  
Hong Kong

*“Clearly you’ve got a very established infrastructure in Hong Kong compared to a lot of emerging markets, but more importantly, it’s honestly a place people want to be, so I think you have an easier time attracting talent to Hong Kong than some other locations. It has the benefits of the rule of law and an independent court system; it’s a way to operate in (Greater) China while having a degree of protection. And it’s just such an international city – there are very few cities in the world that you can really say that about. It’s a very attractive place to do business.”*

For those in the industry, the reasons for Hong Kong’s success are abundantly clear. One is the city’s regulatory framework; steeped in common law tradition and benchmarked by international standards, it boasts a degree of transparency and predictability that few other administrations can match, particularly in Asia. Another is the reservoir of local talent; many fund managers find – at least for now – a steady supply of educated, experienced and multilingual professionals to fill their ranks.

Industry insiders also appreciate the city’s free flow of capital and growing links with the Mainland; the local market may be relatively small, but Hong Kong also provides unmatched access to a hinterland that is rich with possibilities. “It’s one of the most open, if not the most open, cross-border markets in the region, and also geographically aligned with the Mainland, which is becoming increasingly important,” notes Ajai Kaul, CEO, Asia ex-Japan at Alliance Bernstein. “In the Greater China area there is a lot more wealth generation and larger pockets of wealth than other parts of Asia, and some of the larger institutional investors in the region are in closer proximity to Hong Kong than anywhere else.”

Perhaps less recognised, but certainly no less important, are Hong Kong’s ‘soft’ advantages; cosmopolitan and exciting, with enviable infrastructure and an abundance of career opportunities, it is, quite simply, seen as a desirable place for professionals to live, work and play. As Graham Turl, Managing Director at BlackRock Asset Management North Asia, notes: “People want to come and work in an environment that they like, and Hong Kong is still a place that the majority of people like to be in. If you’re trying to attract global talent to a region, it’s going to be easier to attract to a place like Hong Kong, with good schools and relative ease of living.”

At the same time, the investment professionals consulted for this paper were virtually unanimous in agreeing Hong Kong cannot afford to ‘rest on its laurels.’ The city remains primarily an importer and distributor, rather than a manufacturer, of fund products; most funds are still domiciled offshore. There are signs of strain in areas like the talent pool, the capacity of regulators and the cost of doing business, driven primarily by real estate prices – office rents in Hong Kong’s prime business districts are among the highest in the world – and compensation. The exclusivity of the access Hong Kong enjoys to Mainland China may be tempered somewhat in future, and conscious of the city’s success, other jurisdictions from Shanghai to Singapore are working to emulate it by grooming their own financial hubs – though they have cost and capacity issues of their own.





# 2020 at a glance: What does the future look like?

What changes is Hong Kong's fund management industry likely to undergo in the next five years, after taking its relatively strong position and the emerging challenges into consideration? While previous bouts of volatility have highlighted the difficulty of making even near-term projections about the financial sector, five main predictions and trends emerged from discussions with professionals for this paper, all of which will be examined in detail:



## Further orientation towards the Mainland

The emergence of schemes such as the Shanghai-Hong Kong Stock Connect and Mainland-Hong Kong Mutual Recognition of Funds, along with Mainland China's economic emergence and aging population, mean most firms expect Mainland China to account for a greater proportion of their customer base and assets under management in the next five years. Policy changes in Mainland China are also seen as the main driver of change in Hong Kong's investment management industry, with almost all survey respondents identifying this as the number one or two factor likely to impact the sector. Fund managers also expect increased coordination between Hong Kong and Mainland regulators which, combined with policy developments, is expected to contribute to the industry's growth. However, the schemes increasing Hong Kong's access to the Mainland may be expanded to other markets, perhaps encouraging the development of alternative hubs.



## Demographic-driven demand

The rapidly aging populations both locally and farther afield will boost the number of people seeking investment options and higher returns to support longer retirements, and require enhancements to current pension arrangements such as Hong Kong's Mandatory Provident Fund (MPF), which are generally viewed as insufficient. This trend, along with associated reforms to the MPF and the use of funds as long-term investment vehicles, represents a substantial opportunity for the industry.



## A tougher battle for talent

With the number of new graduates declining and more funds setting up in Hong Kong, executives are anticipating talent shortages in multiple key areas and resultant upward pressure on salaries. A lack of sufficient human resources has the potential to significantly impact Hong Kong's position as a premier financial hub.



## Regulation continues to grow more onerous

Driven primarily by the global financial crisis, governments will continue to clamp down on financial malpractice and tax loopholes. The industry and consumers will face more scrutiny from regulators and compliance-related costs are likely to rise.



## Digital development

Investors, increasingly accustomed to the ubiquity of technology in virtually all aspects of life and commerce, will demand more real-time, electronic information and interactive digital experiences with financial service providers; an area where Hong Kong has lagged other markets due to the regulatory preference for paper-based communications. Regulators and service providers need to adjust their operational models to compete in a global market increasingly defined by digital interaction.





## Closer ties with mainland China

In the words of several fund managers, for Hong Kong-based funds, Mainland China is, quite simply, the opportunity that “can’t be ignored.” Even with short-term fluctuations or setbacks in the country’s reform process the ongoing development of the Mainland’s massive market will provide the industry with a growth engine for decades to come. In the survey Mainland China was identified as the market where fund managers are most aggressively trying to expand their customer base. The vast majority (87 percent) expect double-digit plus growth in percentage terms in Mainland China assets under management (AUM) over the next five years.



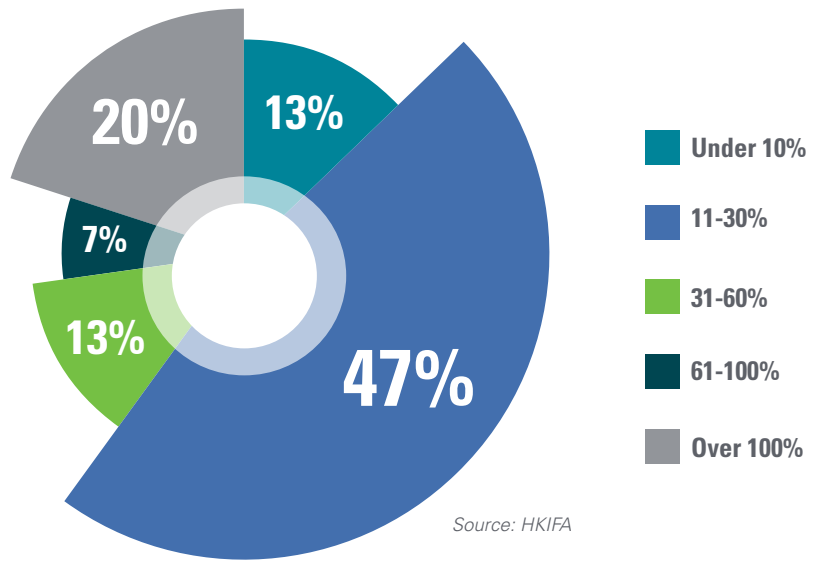


**Expected growth in mainland China (Over the next 5 years)**



**Ajai Kaul**  
CEO,  
Asia ex-Japan,  
Alliance Bernstein

*“In the Greater China area there is a lot more wealth generation and larger pockets of wealth than other parts of Asia, and some of the larger institutional investors in the region are in closer proximity to Hong Kong than anywhere else.”*



**Eddy Wong**  
Managing Director/  
Head of Funds Business,  
Hong Kong & China  
Retail, JPMorgan Asset  
Management

*“The bottom line is that Mainland China is going to open up its capital account, so the main thing is to figure out how Hong Kong can ride on this opportunity, seize the first mover advantage, prepare our platform, try to learn and understand more about (Mainland) Chinese investor behavior. We have to find out what products they like, and how they are going to evolve in the next five years.”*

Hong Kong’s existing political and geographic links with the Mainland have been reinforced by the recent introduction of the Shanghai-Hong Kong Stock Connect, which allows investors from both sides to trade directly in the other market, and Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, which streamlines the procedures for funds from one jurisdiction to be sold to retail investors in the other.

Few Hong Kong-based fund managers expect these schemes to transform the industry overnight; many of the technical details surrounding both have yet to be worked out. But there is a near-unanimous view that taken as a whole, they represent what might be the most promising opportunity in the local industry’s history – not least because they provide Hong Kong fund managers with a toehold to familiarise themselves with what is still, after all, a relatively untested market. “These are all transitional schemes, I think we all agree,” explains Eddy Wong, Managing Director/Head of Funds Business, Hong Kong & China Retail, JPMorgan Asset Management. “The bottom line is that Mainland China is going to open up its capital account, so the main thing is to figure out how Hong Kong can ride on this opportunity, seize the first mover advantage, prepare our platform, try to learn and understand more about (Mainland) Chinese investor behavior. We have to find out what products they like, and how they are going to evolve in the next five years.”

Most funds are adopting a long-term view of the possibilities presented by initiatives like the MRF. The possible ‘knock-on’ effects, in terms of changing the investor mindset, are in many respects just as exciting as the direct impacts. Currently, fund managers say, Mainland investors are relatively unfamiliar with the possibilities offered by mutual funds and other longer-term or global investments. The MRF, however, could help change all that. “It’s not just the retail fund market we’re excited about, it’s really the whole spectrum of wealth management, where people will be more familiar with products that are offered in Hong Kong because of MRF, and eventually more open to the idea of investing overseas,” says Au King Lun, CEO of BOCHK Asset Management. “That can escalate up to private banking, institutions - there are a lot of embedded benefits.”





**Au King Lun**  
CEO,  
BOCHK Asset  
Management

*“MRF is not a one-off exercise, it's a game changer in the sense that Mainland China's opening up its domestic market to the rest of the world. But it's not a big bang event either - you have to take it as a long-term commitment. There will be a lot of refinement of rules and regulations; it would be naïve to expect from day one everything would work seamlessly. However we should look at this as a historical development, like H-shares when they were first listed in Hong Kong 20-plus years ago. It will take time to mature but the opportunities are there.”*

The near-term plan for most firms, then, will be cautious exploration of these new prospects, rather than a mad dash for immediate payoff. As Douglas Eu, CEO, Asia Pacific at Allianz Global Investors points out, many of the investment management companies currently thriving in Hong Kong have been committed to the market for decades, and the Mainland is likely to be no different. However, “the question is not will it be a big opportunity; the question is when it will be a big opportunity.”

Fund managers also see Stock Connect and particularly the MRF consolidating Hong Kong's regional and global position. By vastly increasing the potential market for Hong Kong-domiciled funds, MRF will draw more international funds to the city, as well as a wave of Mainland funds keen to market their products in Hong Kong and beyond, creating more asset management positions and grooming industry talent – though also possibly contributing to the talent constraints that will be discussed later in this paper.

#### **Challenges:**

The substantial gains represented by Hong Kong's growing connection to the Mainland do not, however, come without potential risks. Growth is slowing, and as seen by the recent turbulence in Mainland China's stock markets and the devaluation of the renminbi (RMB), the country's investor landscape may be vulnerable to sudden shocks. Most (67 percent) survey respondents cited unforeseen political or policy changes as the biggest potential Mainland-related risk to Hong Kong's investment management industry, while 27 percent cited slowing growth. This uncertainty causes a degree of indecision on how to approach or best develop a strategy for the Mainland market, especially when combined with the questions that still exist around schemes like the MRF in areas such as taxation. “Fund houses will want to avoid uncertainty in new areas,” says Andrew Turner, Head of Compliance, Legal & Risk, Asia Pacific, BNP Paribas Investment Partners. “With an increasing number of market access routes available you don't have to jump in when there is that uncertainty, and many people won't.”







**Douglas Eu**  
CEO,  
Asia Pacific at  
Allianz Global Investors

“The question is not will it be a big opportunity; the question is when it will be a big opportunity.”



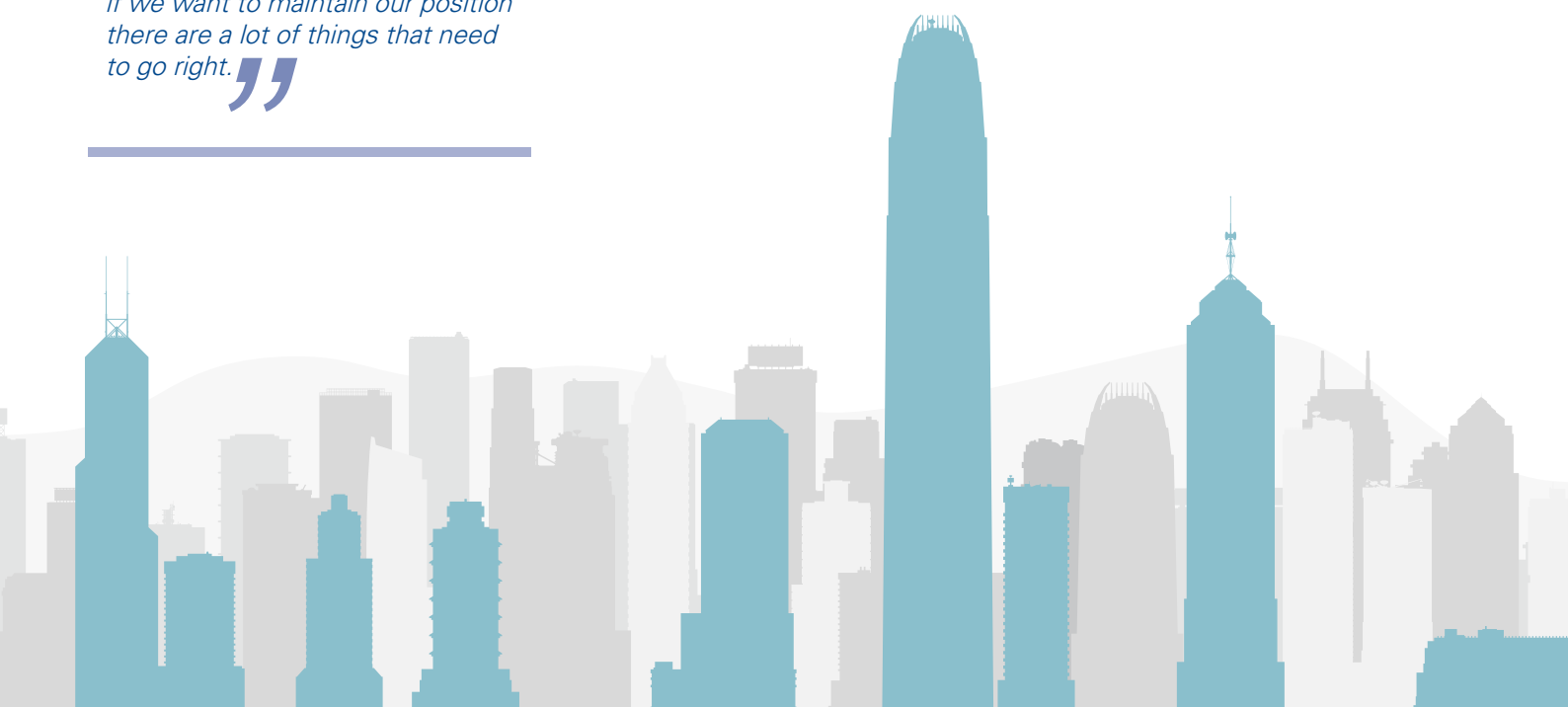
**Terry Pan**  
CEO, Greater China,  
Singapore and Korea,  
Invesco

“Hong Kong will not be the exclusive entry point into Mainland China five years from now. People might go straight there. It is opening up and despite a lot of uncertainty, there might be a lot of advantages to an asset manager not necessarily having to go through Hong Kong anymore. There are still a lot of things going for Hong Kong and it will continue to grow, no doubt about that. But if we want to maintain our position there are a lot of things that need to go right.”

Another substantial concern is exclusivity, or how long Hong Kong will enjoy the ‘head start’ it has in areas like the MRF before similar privileges are extended to other jurisdictions, thus potentially eroding one of the city’s key competitive advantages. Fund managers are conscious that Mainland China has held discussions with other countries on programmes like the Stock Connect. Hong Kong may have an advantage as first mover; but capitalising on and maintaining that advantage is key. Regulatory decisions that are made on the Mainland have a clear impact on Hong Kong, which can be a double-edged sword.

Most asset managers agree Hong Kong’s unique status is secure over the five-year time frame, although there are a number of challenges. Xiaofeng Zhong, CEO, North Asia, Amundi, points out that the strategy for Hong Kong’s investment management industry has to be developed on the basis of closer integration with the Mainland. At the same time, as the Mainland’s asset management industry evolves, it may offer similar advantages, and begin to rival Hong Kong as an industry centre. “On the one hand you have to bank the whole case on the Chinese market, but it’s also going to be very difficult to stay unique.”

And while Mainland China’s sheer size means it will practically define the Asian market for years to come, some also fear the focus on the Mainland may cause fund managers to overlook some of the other opportunities the region presents. “There’s still a lot of value and potential in the region, and liberalisation in a lot of other markets as well as Mainland China,” explains Eleanor Wan, CEO of BEA Union Investment. “We’re seeing opportunities arising from Korea, and this year the ASEAN single market takes effect. These are the changes that stimulate a lot of international thinking. International managers will be coming to Asia for opportunity and looking into Hong Kong as a regional hub to facilitate their global expansion.”





**Andrew Turner**

Head of Compliance,  
Legal & Risk,  
Asia Pacific,  
BNP Paribas Investment  
Partners

*“With an increasing number of market access routes available you don't have to jump in when there is that uncertainty, and many people won't.”*

### Takeaways:

Regardless of the associated issues, Hong Kong's connections to the Mainland are no doubt the envy of many other markets, and fund houses based here are already gearing up to seize the moment. Leading fund managers believe the industry must put its 'head start' to good use by studying the preferences and expectations of Mainland clients, so they are already adept at navigating the market when access is eventually extended more broadly, and prepared to offer the digital distribution methods and education that market demands. Several emphasised that transferring existing products to the Mainland and waiting for the masses to scoop them up was unlikely to work. Many Mainland investors still perceive mutual funds as roughly equivalent to securities; long-term investing is a relatively new concept. Substantial efforts therefore need to be channeled into investor education, distribution and building local teams – all to lay the groundwork for revenues that will take time to materialise.

“The customer base in Mainland China is so diverse; you can't directly compare Beijing or Shanghai to other cities in China,” explains Simon Wong, Deputy Head of Sales at Franklin Templeton Investments. “Doing business there is like doing business in many different countries, and you need to spend a lot of resources to support this market.”



**Simon Wong**

Deputy Head of Sales  
at Franklin Templeton  
Investments

*“Doing business in mainland China is like doing business in many different countries, and you need to spend a lot of resources to support this market.”*

One factor that could help the industry maximise the potential of Hong Kong's bonds with the Mainland is greater coordination between Mainland and Hong Kong regulators, signs of which are already emerging. In the view of fund managers, by ensuring market-linking initiatives like the MRF are developed in a concerted fashion and rolled out according to a clearly defined time frame, regulators would help these schemes hit the ground running.

Finally, there is a clear consensus that regardless of developments in its relations with the Mainland, Hong Kong must continue to measure itself against other fund management centres regionally and globally, and boost its links with other markets – if only to avoid putting all eggs in the proverbial single basket. The various fund passport schemes emerging regionally present one possible means to achieve this, though several fund managers felt the government would be better served by seeking out strong bilateral relationships. There was a view that the industry and regulators need to look more broadly at ties with other countries and other fund passporting initiatives if Hong Kong is serious about being the region's preferred asset management hub.







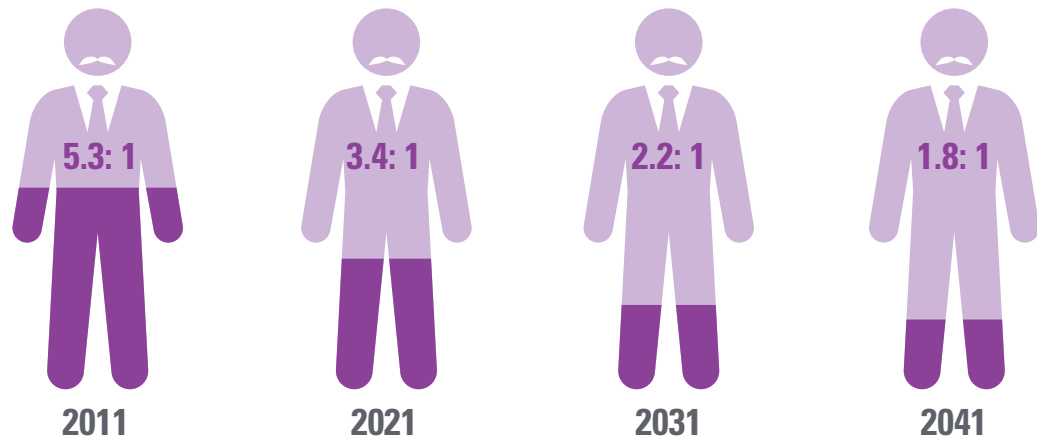


## People: an aging market and the battle for talent

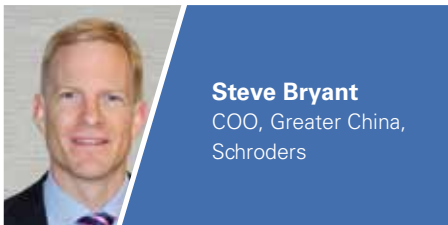
Demographics are also likely to shape the fund management industry in the years ahead. The city's low birth rate and high life expectancy means Hong Kong's society is ageing rapidly; nearly a third of the population is expected to be 65 years old or above by 2041, while the working-age population will dwindle. Many recognise the MPF alone will not be sufficient to meet the needs of the ageing population, and that retirement solutions for current and future generations need to be enhanced.



## Ratio of working age population to one elderly person



Source: Hong Kong Census and Statistics Department



**Steve Bryant**  
COO, Greater China,  
Schroders

“The initiatives to introduce default funds, lower fees and portability are all to some extent addressing one important theme: enhancing long-term investment returns. This is essential for the MPF system to be a credible and substantive part of retirement planning in Hong Kong. That said, these initiatives do present challenges for the fund industry. Active managers need to decide if they are willing to participate at these fee levels given the possible changes required to their product design and investment process in order to lower the cost of production.”

This trend presents the industry with both opportunities and challenges that require more aligned efforts with the government and regulators. While in the past funds were perceived as ‘only for the rich’, they are increasingly recognised as a crucial part of retirement planning. More people realise mandatory pension schemes are unlikely to produce sufficient savings for a retirement that lasts much longer than prior generations. “If you look at a typical Hong Kong investor’s portfolio, there’s decent fund penetration, but I would say more people have property investment than fund investment, ex-MPF,” says Mr Pan of Invesco. “I think the aging population bodes well for our industry, because we have an ability to find income from a variety of sources and create lower-risk solutions for the growing number of retirees out there.”

Partly in response to demographic change, Hong Kong’s government has prioritised reform of city’s mandatory retirement scheme, the MPF. The reform centres around the creation of a core fund that will become the default for investors who do not choose a specific fund to invest their savings.

A majority (60 percent) of survey respondents said the reforms would encourage the growth of the funds market, and more than half said they planned to invest more in the MPF business in the next five years. Also important is the opportunity to promote funds – whether through MPF or outside of MPF – as long-term savings vehicles, not short-term trading securities.

### Challenges:

The flipside of the swelling population of retirees, of course, is a smaller number of people entering the workforce – which is collectively seen as one of the biggest potential roadblocks facing the industry in the years ahead. The survey showed talent shortages are expected across all functions, particularly legal and compliance. A wave of Mainland firms that have set up in Hong Kong are now also competing for the limited number of people who can meet the regulatory requirements for roles like responsible officer, and Mandarin speakers with experience marketing to Mainland clients are in higher demand than ever. Adding to the issue is the overall push for more funds to be managed directly in Hong Kong, a development in which MRF is playing a part and that is likely to create new jobs, but also ramp up demand for talent even further.





**Eleanor Wan**  
CEO, BEA Union  
Investment

*“We’re seeing opportunities arising from Korea, and this year the ASEAN single market takes effect. These are the changes that stimulate a lot of international thinking. International managers will be coming to Asia for opportunity and looking into Hong Kong as a regional hub to facilitate their global expansion.”*



**Bruno Lee**  
Former Chairman,  
HKIFA

*“There is a talent shortage, but we also have to define whether it’s quantitative or qualitative. There’s no doubt if you have a job opening, whether on the investment side or business side, someone will apply for it. The problem is the quality of the applicant might not be exactly what you want. The reality is with initiatives like the MRF, when you have to have the fund knowledge, do the roadshow for Mainland customers, can your hire speak that kind of language? Do they have the professional knowledge, can they really dedicate their time to upgrading their skills, developing a more open mind to forget all the negative news about what’s happening in Mainland China (and) really do a deep dive to find out what’s happening to the industry and the whole economy there? I think that’s where the gap is.”*

“Part of Mutual Recognition’s objective is to bring the portfolio management into Hong Kong; right now a lot of companies in effect delegate or subadvise the asset management to other parts of the world,” notes Mr Bacci of Principal. “It’s easy to say I want to bring it here, but is the talent here to do the portfolio management? I think you see significant turnover in portfolio managers; if you’re successful someone’s going to come poach you and pay you a lot more money to do it for them. It’s a hard business model to sustain when you have that kind of turnover.”

The talent crunch is driving up salaries and costs – and as Mr Bacci points out, once a company does find the ideal addition to the team, they often struggle to retain them. Most (73 percent) survey respondents ranked salaries and compensation pressure as the top or second biggest people-related challenge over the next five years, followed by high turnover. For Hong Kong’s young financial professionals, “mobility is very high – five years is a very long commitment,” says Ms Wan of BEA Union Investment. “Because of quick moves they can easily get a very good title without necessarily knowing what needs to be delivered, and their packages also see very big inflation because the demand for talent is so massive.”

#### Takeaways:

While the industry is welcoming of MPF reform overall, there is a sense among many fund managers that these efforts should be more ambitious, especially given the scale of the aging of Hong Kong’s population. Some of the possibilities mooted included enhancing the tax incentives associated with retirement savings, and boosting the mandatory contribution rate. Hiking minimum contributions would likely prove unpopular with businesses and retirees alike – but the industry could bring its experience to bear to support the government in explaining it as a financial necessity for sustainable retirement and to avoid future costs to the government and taxpayers.

Members also feel the MPF and its investors could benefit from a loosening of restrictions on MPF funds, particularly on the way they are structured. Some pointed out a lack of exposure to certain currency, equity and bond markets as a huge limitation, especially when much of Hong Kong’s economy is expected to





**Abby Wang**

Partner,  
Head of Investment  
Management, China  
KPMG China

“Many fund managers in Hong Kong see China as a crucial factor, maybe the most important factor, to their success. We try to help them better coordinate with China’s regulators and China’s investors so to ensure that Hong Kong’s unique position is maintained.”

be renminbi-based in future. In marketing the schemes regulation also makes it difficult to give potential investors concrete advice or actionable information – the very things many customers believe the fees they pay should entitle them to, and that offer industry professionals a chance to demonstrate their worth.

Talent shortfalls are perhaps more difficult to address. The survey indicated many companies are attempting to paper them over by redeploying staff from other divisions, training people for new roles, or redoubling efforts to hire externally. But many funds also emphasise bridging talent gaps requires a longer-term strategy, supported by government, that has as much to do with culture and education as numbers.

“We have to look at the universities and colleges, if we’re really going to grow the talent locally, and find ways to encourage the university students to look at this as an attractive career,” says Mr Bacci of Principal. “In recent years I think the industry has been painted a bit negatively, and if you want to create opportunities, bring portfolio management here and create higher-paying, better quality jobs, you don’t then portray the industry in a negative light.”

Employers are also likely to have to go out of their way to build workplaces with the flexibility and opportunities for development that young financial professionals increasingly expect. “The modern manager has to be much more able to communicate and bond with (young employees), to explain things to them,” says Gerry Ng, CEO, Asia ex-Japan at Baring Asset Management. “The days when people just got on and did their work are over. Now they want to know everything, they want to get involved, they want to be told they are important. These are the softer challenges we face.”

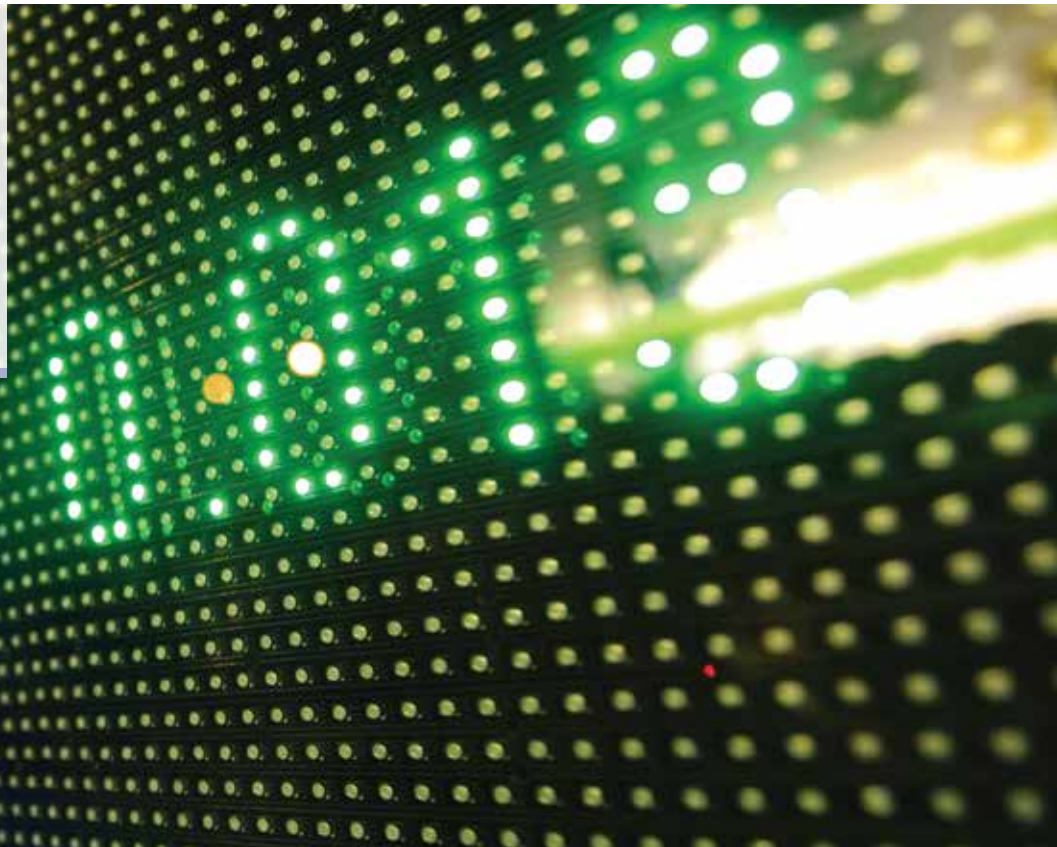
“We’re starting to see in Hong Kong moves that have happened in more established markets like Australia, where some of the best talent on the investment side is going to private boutique-type houses, working for themselves, having equity share ownership, and so on,” adds Mr Turner of BNP Paribas Investment Partners. “As a global firm you’re competing against that.”



**Gerry Ng**

CEO, Asia ex-Japan  
at Baring Asset  
Management

“The modern manager has to be much more able to communicate and bond with (young employees), to explain things to them. The days when people just got on and did their work are over. Now they want to know everything, they want to get involved, they want to be told they are important. These are the softer challenges we face.”



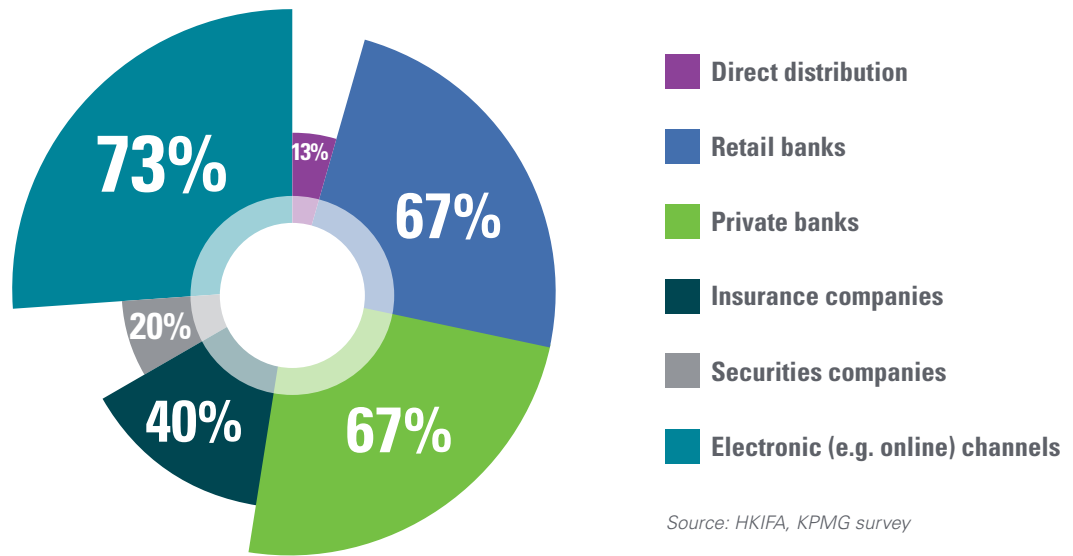


# Technology: The inevitable rise of digital

Related to Hong Kong's demographic shift is the emergence of another phenomenon that is poised to transform the industry: the plugged-in investor. Having come of age in an era where technology and communications are ubiquitous, younger clients are increasingly demanding investment advice, interaction and even transactions online and via mobile platforms. Again this development carries plenty of potential benefits; while fund distribution is currently confined almost overwhelmingly to intermediaries, electronic channels offer a new, highly efficient and easily scalable way to market and sell to customers that could also drive down costs for the end investor.



**Fastest growth distribution methods over the next 5 years (More than one response possible)**



“Online selling and distribution of funds is already a reality in Mainland China. Things change, and Hong Kong definitely has to work harder. On the Mainland everything is accessible online, everyone can check their investments. In five years there’s no way Shanghai can compete with Hong Kong, but in 20 years – who knows?”

In the survey conducted for this paper, almost three-quarters (73 percent) of respondents identified e-channels as one of the biggest-growing distribution platforms over the next five years, leading retail banks and private banks. Over a quarter of respondents (27 percent) also named mobile apps as a key emerging customer communication channel. These expectations are linked to those for a larger customer base on the Mainland, where financial products are routinely marketed, disseminated, bought and sold online. “The Chinese asset management industry has been developing very fast and due to that there’s quite an efficient connection between the industry and Internet platforms,” says Amundi’s Mr Zhong. “One of the key challenges for Hong Kong is to adapt to the new trend of digital innovation so that it can effectively serve a much bigger market.”

As well as facilitating interaction with customers, technology is also seen helping the industry realise more internal efficiencies, particularly in areas like compliance, by automating key tasks and enabling fund managers to sift through vast amounts of information for signs of trouble. “It’s never been easier to screen data and highlight inconsistencies,” explains Mr Turner of BNP Paribas. “That’s made it a lot easier to identify and hopefully eradicate some questionable behavior. In the short term it might have some adverse impact in terms of identifying problems that haven’t been really publicised, but longer term I think it has to be a positive in terms of cleaning up the image of the industry.”

**Challenges:**

Unfortunately, while fund managers are clearly galvanised by the potential of technology and aware of the need to adjust with the times, almost all agree the industry has some way to go in this regard. Hard copies remain the norm for a number of everyday processes in Hong Kong and institutions continue to grapple with the limitations posed by legacy systems.

“If you look at the cost today of processing a transaction the paperwork just makes it significantly harder,” says Mr Bacci of Principal. “In some cases we’ve got to keep copies of envelopes to prove when the stamp was dated. We haven’t built the complete infrastructure to the end client that would allow us to know more about them. Because of that we tend to look at everything inside out rather than outside in, based on the customer view and the customer experience.”





**Gigi Chan**

COO, Head of Business,  
Asia Pacific,  
Janus Capital Group

“Mainland China is more advanced than Hong Kong in some ways, such as the online selling and distribution of funds. However, this also has to deal with the population, and investor expectations. Investors on the Mainland are usually investing comparatively small amounts. In Hong Kong, where you might be talking about a \$1 million transaction, you probably won't want to place an order on WeChat.”

Many institutions are increasingly aware of the contrast with the way business is conducted over the border — and worry Hong Kong is falling behind in some respects.

“Online selling and distribution of funds is already a reality in Mainland China,” says Chen Ding, CEO at CSOP Asset Management. “Things change, and Hong Kong definitely has to work harder. On the Mainland everything is accessible online, everyone can check their investments. In five years there's no way Shanghai can compete with Hong Kong, but in 20 years – who knows?”

“A lot of the admin systems are very entrenched,” agrees Mr Ng of Baring. “We work with a lot of banks and third-party administrators, and to change their way of doing things is going to be very difficult. The Asia Funds Automation Consortium is trying to do things that are a bit more automated, such as straight through processing, (but) the relatively shorter history of the Mainland asset management industry meant that it was coming into being in an era of more automation. There's a natural cohesiveness that comes from that.”

Updating regulations to encourage the greater adoption of technology is seen as essential. But at the same time, industry representatives agree it is an area that needs to be treated with a certain amount of regulatory caution, not least because it introduces additional vulnerabilities.

“From a compliance perspective, legal perspective and marketing perspective there are a lot of things you have to consider when introducing new technologies,” says Mr Wong of JPMorgan. “All companies are eager to find the right way to leverage technology to promote their products, but the right way also has to be a safe way and a compliant way.”

#### Takeaways:

Though regulations and existing practices do not yet reflect new technological realities, fund managers are already clear on what they have to do going forward – embrace technology as a distribution channel and invest more in developing technology infrastructure, strategy and talent. Several mentioned they are already boosting spending in this area, mainly with the intention of reaping efficiencies and cost savings later.

At the same time, there is a clear need for regulations to be updated to give firms more free rein to cater to changing consumer preferences via emerging technology platforms. This could start with areas that are generally less susceptible to security scares, such as customer support and marketing, before moving on to more complex and sensitive functions, like the buying and selling of funds. Given their presence on the industry's front lines, retail fund managers are seen having an important role to play in informing this shift. Also prevalent is the belief that further integration with the Mainland will inevitably hasten the adoption of technology in Hong Kong, as local funds strive to cater to new customers who are used to managing investments on their mobiles, and institutions and regulators on both sides are required to share more information. Failure to adapt could risk Hong Kong's position as a financial centre and deprive the city of another potential field for the creation of well-paying jobs – not to mention consumers of the cost savings that greater adoption of technology could create.

“I think (MFR) might trigger more of an automation phase here, so hopefully there's more of a rub-off effect, more straight-through processing type arrangements for funds in particular, consistency and some convergence of standards with the Mainland,” remarks Mr Turner of BNP Paribas Investment Partners.

“In Mainland China they have already had a big revolution in terms of technology – they've just leaped immediately into digital, so the level of acceptance is far different,” says Ms Wan of BEA Union Investment. “But the two places are getting closer, so that culture is coming here.”









## Regulation: Balancing commercial needs with risk management

As is seen in areas such as technology adoption, regulatory support plays a crucial role in the industry's healthy development. Fund managers in Hong Kong generally believe they are in good hands. The various regulators with a stake in the industry in Hong Kong – the Securities and Futures Commission (SFC), the Hong Kong Monetary Authority (HKMA), the Mandatory Provident Funds Authority (MPFA) and the Office of the Commissioner of Insurance (OCI) – are perceived overall as fair, responsive and proactive in addressing the industry's needs.





“ We need a consensus on how to tackle bad market situations without going to extremes. When you pattern regulations to deal with crises, it’s important to have a mechanism to manage the situation in a fair, not sudden, way, knowing it shouldn’t be a unilateral tightening towards more regulation. And it’s very important to have a framework for dialogue in place so regulation will not kill innovation and also the future of the business. It’s very easy to tighten the rules in a bad situation, but this shouldn’t be the only way to deal with it. ”

Importantly, 73 percent of survey respondents said they had a ‘healthy’ relationship with regulators, and another 20 percent a ‘satisfactory’ relationship. From a regulatory standpoint, Hong Kong is seen as one of the most developed markets in the region. Fund managers find it relatively easy to operate in and appreciate the clarity regulators provide.

There is also the sense that the tide is finally turning after a period post-2008 financial crisis arguably characterised by regulatory overreach, as governments struggled to respond to public concerns about the financial sector. In Hong Kong, this culminated in the Lehman minibond scandal. “People talk about the loss of trust of investors in financial markets, but that trust also broke down between the industry and the regulators. Thankfully that trust is being rebuilt,” says Mr Turner of BNP Paribas Investment Partners.

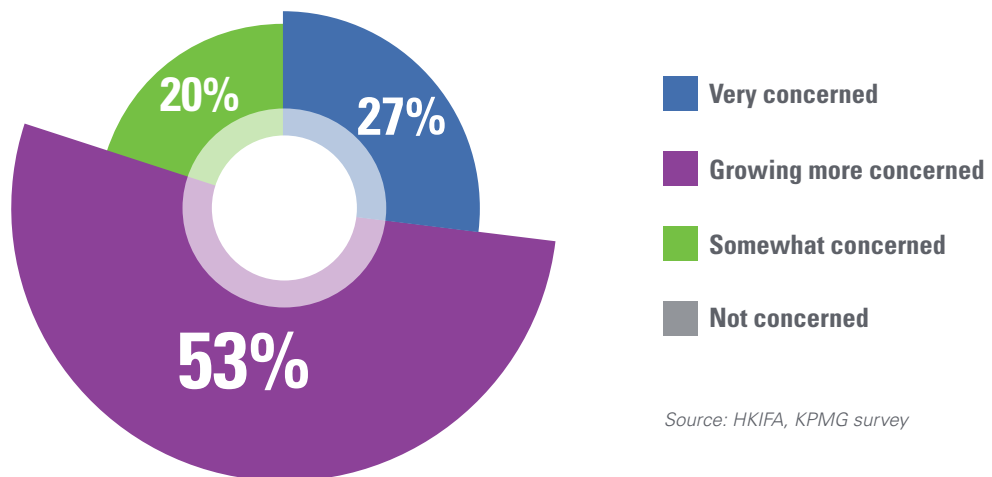
Managers praised the SFC’s recent moves to streamline the process for product approval, and are confident in the ability of Hong Kong’s regulators to stay abreast of – and in some cases even lead – global trends, all while continuing to build ties with the Mainland. “Regulations here are built on the highest international standards, and if we continue to observe and understand what other countries around the world are doing, and pick best practices while at the same time positioning Hong Kong as one of the most important cities within (Greater) China, we’ll have a combination like no other city in the world,” says JPMorgan’s Mr Wong.

The rebuilding of trust is also evident in the SFC’s attempt to pave the way for introduction of the open-ended fund company (OFC) structure in Hong Kong, which managers believe will remove a significant limitation on an industry currently confined mainly to unit trusts. While the change is taking time to introduce, the industry is appreciative of the effort and optimistic about the end result. In the eyes of fund managers, successfully launching this structure will make Hong Kong a much more viable route for international and Chinese investors, helping preserve its status as a premier investment management hub.

**Challenges:**

Of course, as in any relationship, in the interaction between regulators and the industry there is room for improvement. The vast majority (80 percent) of survey respondents were very concerned or growing more concerned about regulation negatively impacting their business over the next five years, and even more (87 percent) see their compliance costs increasing.

**Level of concern over the negative impact of increased regulations in Hong Kong and globally (Over the next 5 years)**



Source: HKIFA, KPMG survey





**Arion Yiu**  
Partner  
Investment Management  
KPMG China

*“Ever-changing regulations are top of mind for fund management executives in Hong Kong. The industry therefore needs to work closely with the regulators to achieve best practice.”*”

Some of this pressure, of course, has less to do with Hong Kong than what is taking place on a global level. But locally there is a sense that regulations, especially those around investor protection, are at times excessively focused on minutiae while missing the bigger picture.

Risk classification is also seen as excessively stringent, effectively preventing managers from introducing more portfolio diversification to retail customers and cutting clients off from more secure investment options. Several fund managers pointed out that they essentially have to conform to the same practices as stockbrokers, despite mutual funds being generally more diversified, less risky and more conducive to long-term savings than stocks. And while fund managers agree on the need to ensure compliance extends throughout the organisation, the growing regulatory focus on the ‘culture’ of compliance has opened potential grey areas that are ripe for possible miscommunication or misunderstandings, since an organisation’s ‘culture’ can be difficult to measure or judge.

Having four regulators with responsibility over different segments of the industry was also cited as a source of confusion, inertia and perhaps disadvantage. This framework is partly a result of Hong Kong’s fund distribution model, which is still concentrated heavily in the hands of banks and thus requires the participation of monetary authorities. Multiple managers expressed the view that this model is not diverse enough, “unhealthy” and needs to change, which could in turn lead to a restructuring and perhaps smoothing out of industry oversight. Online distribution is seen as a promising means to effect this transformation, but again this needs to be facilitated by regulatory adjustments.

There were also mixed views on the regulatory push for localisation, or the domiciling of more funds in Hong Kong – a common emphasis for regulators worldwide, but sometimes at odds with the industry’s tendency to pool expertise and assets in a single location so they are parceled out in the most efficient way possible.

On the one hand, managers fully understand that regulators have a mandate to promote the development of the local economy. On the other, there are doubts that prescribing localisation is the best way to achieve it – and many indications that it is likely to happen naturally, especially given the introduction of the MRF and the push for the introduction of the open-ended investment company. Indeed, all survey respondents said they were planning to domicile more funds in Hong Kong in the next five years.





**Brad Fresia**

Global Head of Legal  
and Compliance, Fidelity  
Worldwide Investment

*“The trends described in this report such as the integration of the Hong Kong and Chinese markets, increasing regulatory complexity, and digitalization of distribution all point to a more complicated environment for investing. Investor education needs to go beyond asset classes and products. We should help clients understand their individual financial planning requirements and give them the tools necessary to build fit-for-their purpose solutions. If we can get the regulation right, technology-enabled tools should allow us to do so in a manner that is efficient, scalable and most importantly delivers innovative solutions that provide our clients with a better future.”*

### Takeaways:

In essence, while fund managers are thankful for Hong Kong's regulatory environment, they are also hoping for a little more understanding in the development of the industry. According to the survey, the introduction of more commercial principles into the regulatory approach – that is, ensuring regulations are based on industry realities (such as the rapid uptake of technology) as well as market developments and consumer needs – is seen as one of the best ways to improve industry-regulator relations.

The rise of technology and customer demand for electronic services, the increasing complexity of products and the need to provide clients with more advice and investment options were all seen as areas where regulations need to be reconfigured to address market evolution. “I think the regulations have to make it easier for us to be able to deal with customers; you can't spend two hours trying to explain an investment product to somebody or fit every product into certain ratings – the world just isn't that simple,” says Mr Bacci of Principal.

Fund managers also expressed hopes regulators would continue to gauge themselves against – and extend their relationships with – their counterparts in the region and globally. More bilateral fund recognition arrangements with Europe or other Asian markets could, for example, be a huge boon to the business, as could more bilateral regulatory cooperation. Hong Kong is perceived as having one of the best regulatory systems in the world in terms of investor protection, which means more sustained cooperation would be welcomed in many markets.

Inevitably, sustained dialogue is perceived as key to ensuring the development of regulation is at least partly shaped by the industry's experiences and viewpoints. “I think the only way to progress is to continue discussions through the fund associations, working with the banks, distributors, trusts and other stakeholders collectively,” says Mr Ng of Baring.



## Social Values: Extending the commitment to investor education

Regulation frequently brushes up against the fund management sector's obligations to investors and wider society it operates in. Despite the at times negative portrayals of the industry in the media, this is a collective responsibility of which fund managers seem keenly aware. All of the firms consulted for this paper named investor education and corporate social responsibility as major strategic priorities, and all have made and continue to devote substantial resources to these areas. A majority of survey respondents (60 percent) are planning to invest more in investor education over the next 12-18 months.

## Hong Kong's major investor education bodies and initiatives (Past 5 years)

2009

HKIFA publishes FAQs on fund operation and investment in Ming Pao newspaper in response to investor demand in the aftermath of 2008 financial turmoil

Source: HKIFA

2012

Investor Education Centre (IEC) established by regulators

September 2015

IEC launches consultation on the development of the Hong Kong Strategy for Financial Literacy



**Pedro Bastos**  
CEO, Asia Pacific,  
HSBC Global Asset  
Management

“Hong Kong still seems to be dominated by a trading mentality rather than a long-term investment mentality, and that means that there is a gap in financial education that still needs to be filled. All the tools are there, but how many of us really go out seeking places to learn?”

Encouragingly, many also said these programmes appear to be meeting with a more receptive audience as a growing number of people, old and young, become more discerning and active in terms of assessing their investment options and managing their savings. “People learn from experience, and investor knowledge has improved over time, especially since the MPF was introduced and people were effectively forced to invest in mutual funds, and after the financial crisis, which focused a lot of attention on investment issues,” says Mr Wong of Franklin Templeton.

“Despite the negative news, the funds we are selling on a day to day basis are very transparent, and investors know more of what they should now than eight, nine, 10 years ago,” says Mr Wong of JPMorgan. “This is something the industry has been pushing forward and we hope investors appreciate it.”

### Challenges:

This said, despite constant attempts by the government and industry to improve investor education, it remains a controversial area where impacts are difficult to measure or quantify. In the poll, half of fund managers said there was “substantial” room for improvement in the industry’s efforts to educate investors.

In the eyes of fund managers, part of the problem is that the rules around investor education are more focused on process – for example, the size of disclaimers, or number of boxes ticked – than content or outcomes. This sometimes results in abstract, bureaucratic messaging that causes the intended audience to lose interest, despite the fact investor education deals with topics – finance, savings, retirement – that have a profound impact on everyday lives.

“In some ways I think we make it too darn complicated. We talk in our acronyms and our language. I think the hardest thing to do is make things simple,” notes Mr Bacci of Principal.

“It should be less about product education than introducing a long-term investment philosophy, and nobody is listening because it’s typically framed in a boring way,” agrees Ms Wan of BEA Union Investment. “Education should be actionable information, like explaining to people exactly how much they’re likely to need for retirement.”

Related to this, some managers worry the industry’s perceived obscurity, and frequent skewering in the media, have contributed to a negative public perception that could have future consequences in terms of regulation or discouraging new entrants. “There’s a perception in some quarters that making Hong Kong a financial centre will just make the rich people richer,” says Mr Turl of Blackrock. “I think we as an industry, and the government, need to articulate how Hong Kong being a financial hub would benefit the population as a whole and not just the upper echelons.”



**Takeaways:**

As noted by fund managers such as Ms Wan of BEA Union Investment, perhaps the most important step that can be taken in terms of investor education is a perception shift. Rather than seeing it as inherently a good initiative and simply arguing for 'more,' all parties involved need to ensure investor outreach is relevant, compelling and resonates with the intended audience. As it touches on so many facets of people's lives, there is in essence no reason for financial literacy to be perceived as esoteric, or dull.

To achieve this goal, managers recommend a more 'bottom-up' approach, where rather than products, investors are introduced to more fundamental and directly applicable concepts. "Investor education goes beyond investment knowledge and decisions; people need to learn about how to manage their own money, financial planning, about having a goal in mind and how to prepare their financial resources to meet it," says Former HKIFA Chairman Mr Lee.

Key to this is an early start – and indeed, many managers felt investor education could only be truly effective if it was embedded in the earliest stages of the education curriculum.

Ultimately, the industry will continue to develop and refine investor education even in the absence of rules or legislation, not least because it makes good long-term business sense. "It's in the best interests of asset management companies to invest in education, because if that doesn't happen the market will never grow to its full potential," says Mr Tino Moorrees, CEO Hong Kong, BNP Paribas Investment Partners. "But also because the last thing you want is unsatisfied clients who don't understand the product."









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- **Gigi Chan, COO, Head of Business, Asia Pacific, Janus Capital Group**
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- **All survey respondents**



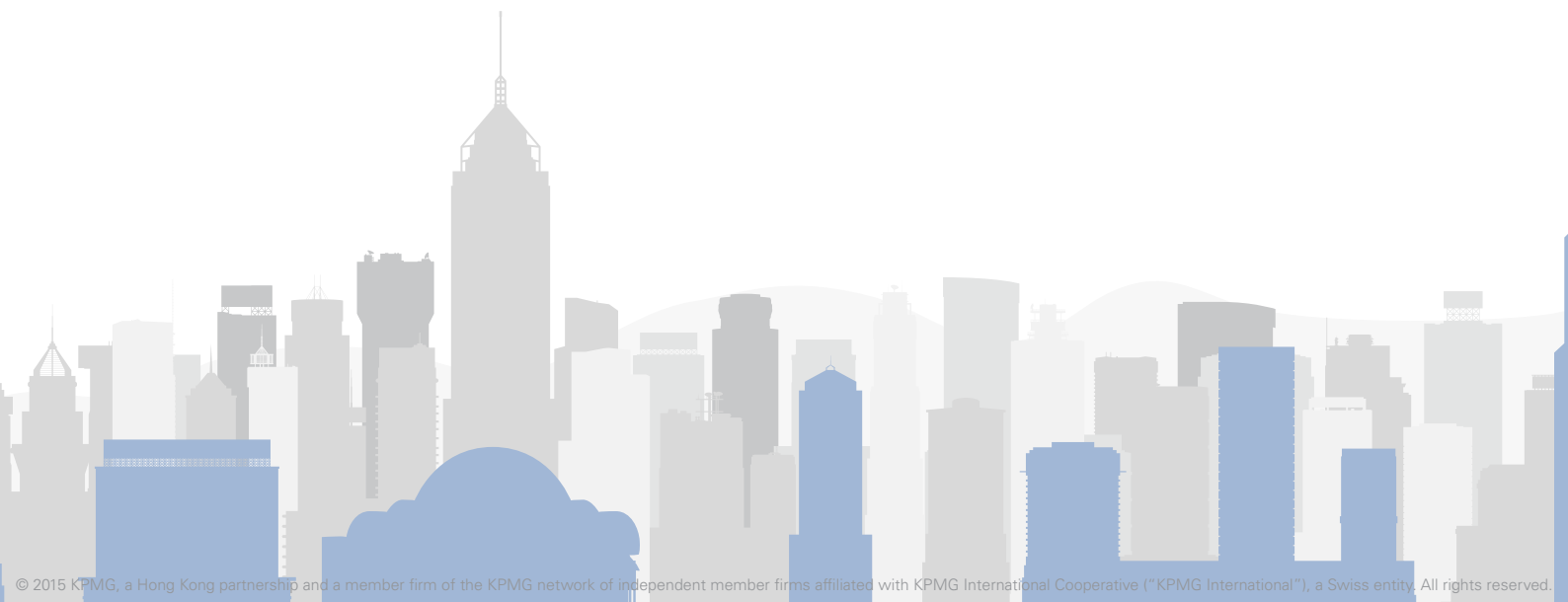


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In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.

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# About Hong Kong Investment Funds Association

The Hong Kong Investment Funds Association ("HKIFA") is a non-profit-making industry body that represents the fund management industry of Hong Kong.

Mission:

- To foster the development of the fund management industry of Hong Kong
- To enhance the professional standards of the industry to ensure that they are in line with international best practices
- To maintain Hong Kong's competitiveness as the major fund management center in Asia

To achieve these objectives, HKIFA has two key roles, namely consultation and education. On consultation, HKIFA maintains close dialogues with the regulators/authorities as well as other stakeholder groups. It represents its Members and the fund management industry generally with respect to the regulation of unit trusts, mutual funds and other funds of a similar nature, as well as pensions funds and other institutional funds. Another very important task is to educate the public about the role of investment funds in retirement planning and other aspects of personal financial planning.

The HKIFA has four categories of members, namely full member, overseas member, affiliate member and associate member. As at end of September 2015, HKIFA has 65 fund management companies as full/overseas members, managing about 1,170 SFC-authorized funds. Assets under management were at about USD970 billion. In addition, it has 63 affiliates and associate members.

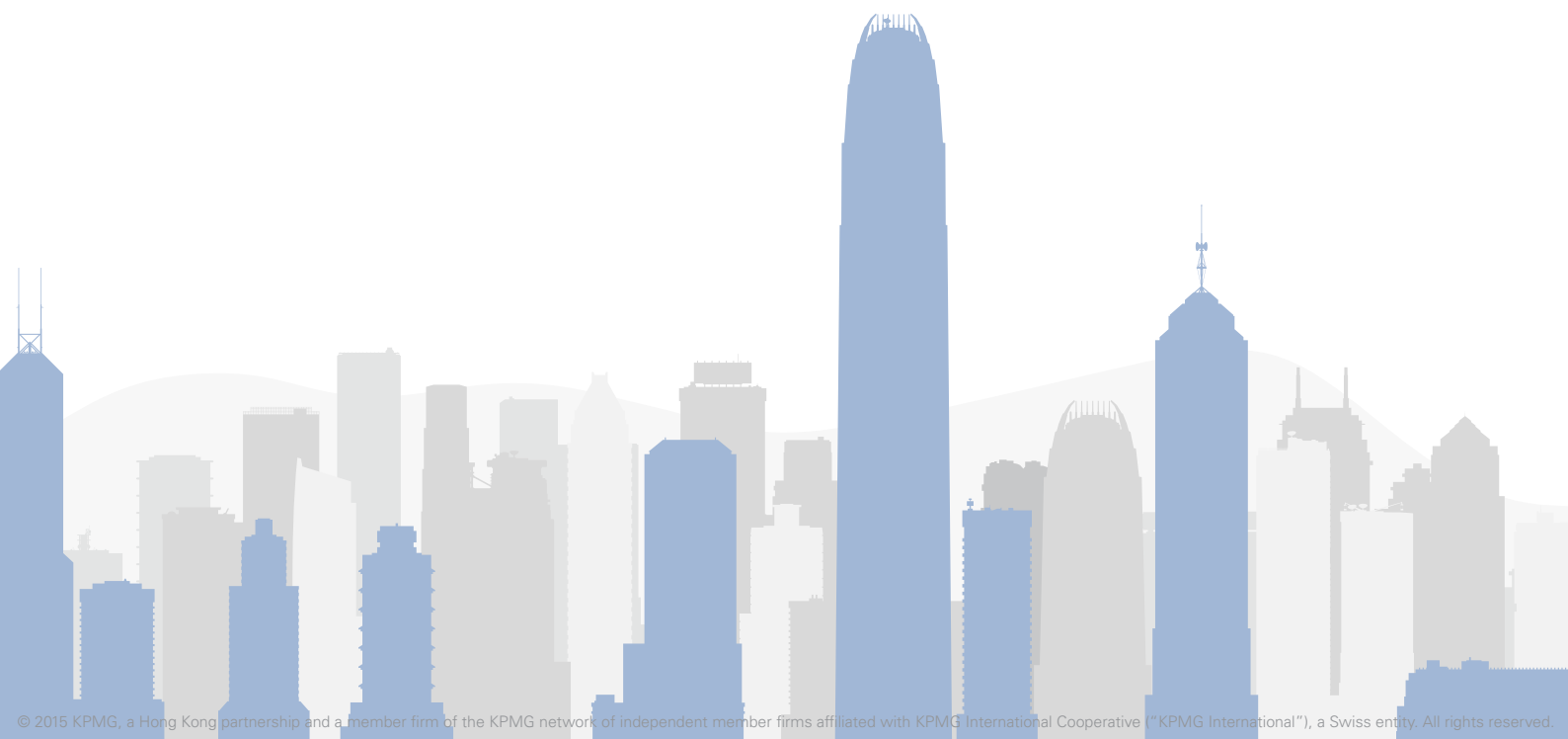
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