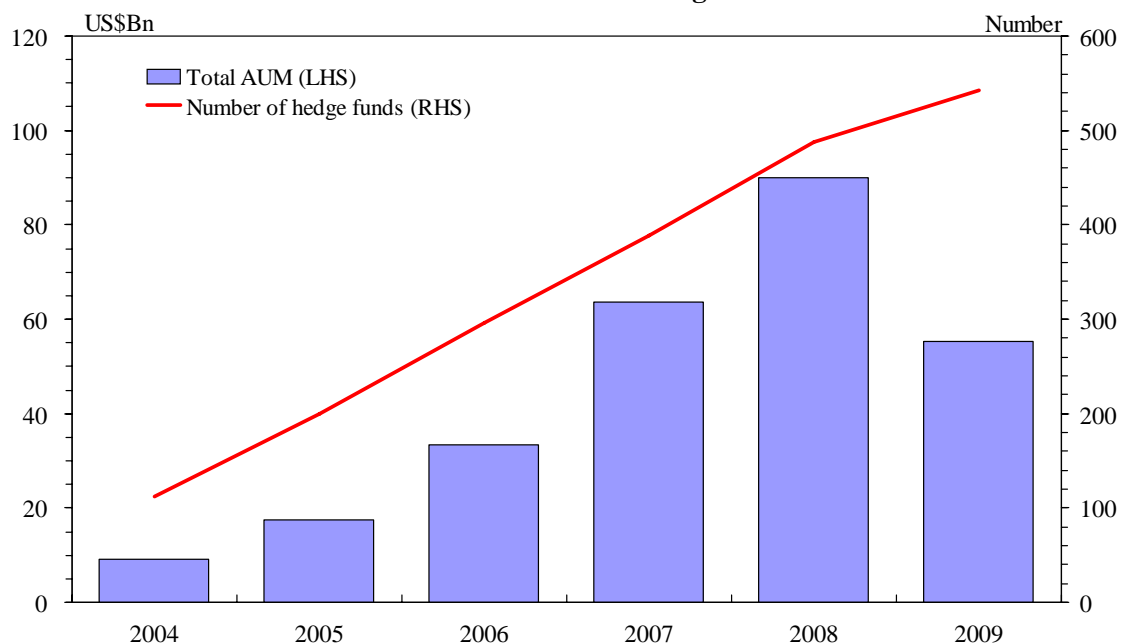


Box 4.2**Hedge fund activities of SFC-licensed managers/advisors**

In view of the rapid development of the hedge fund industry, the Securities and Futures Commission (SFC) has conducted a fact-finding survey on the industry, taking 31 March 2009 as the reference date¹. The following are some of the key findings of the survey.

Growth of the local hedge fund industry

Affected by the adverse market conditions, the total assets under management/advisory (AUM) of hedge funds managed in Hong Kong dropped to US\$55.3 billion at end-March 2009, 38.6% lower than a year earlier. Yet over a longer-term horizon, significant growth in AUM was observed, by more than five times over the US\$9.1 billion at end-March 2004. Moreover, the number of hedge funds managed by SFC-licensed managers has grown to 542 at end-March 2009, almost five times that at end-March 2004.

Total AUM and number of hedge funds*

Note : (*) Both AUM and number of funds are positions at end-March.

¹ There is no formal definition of hedge funds. For SFC's survey, funds (including managed portfolios) are regarded as hedge funds if they exhibit the following characteristics : (1) use of alternative investment strategies, leverage, use of derivatives for trading purposes, and/or arbitrage techniques; (2) pursuit of absolute returns, rather than measuring investment performance relative to a benchmark; (3) charging of performance-based fees in addition to a management fee based solely on AUM; and/or (4) adoption of investment mandates that give managers more flexibility to shift strategies.

SFC does not directly regulate hedge funds unless they are offered to the public. However, hedge fund managers, like other fund managers, are required to be licensed by the SFC if they carry out asset management or advisory activities in Hong Kong. Once licensed, they are subject to the SFC's ongoing supervision. Also, although the SFC does not regulate private hedge funds directly, all hedge funds using the Hong Kong platform are still subject to the law against fraud, insider dealing and market misconduct.

Box 4.2 (Cont'd)

Features of hedge funds managed in Hong Kong

Hedge funds managed in Hong Kong were mainly Asia Pacific-focused. At end-March 2009, 59.1% of the total AUM was invested in the Asia Pacific markets, with the fund invested in the Hong Kong and Mainland markets accounting for a combined share of 26.7%. Regarding source of investors by location, they were mainly from the Americas (49.1%) and Europe (34.9%). Hong Kong investors, on the other hand, constituted only 1.9% of the investor base. In terms of investor type, funds of funds dominated with a share of 37.6% of the investor base, followed by high-net-worth individuals/family offices (16.6%), financial institutions (14.4%), pensions (11.1%) and endowments/foundations/charitable organisations (10.3%).

Hedge funds managers operating in Hong Kong are typically considered boutique funds as far as AUM is concerned. At end-March 2009, 60.7% of the hedge fund managers had an AUM of US\$100 million or less, while another 25.7% of managers had AUM of US\$100-500 million. Only 6.3% of the hedge fund managers in Hong Kong had more than US\$1 billion under management.

On employment, the 209 hedge fund managers covered by the survey reported that a total of 1 967 staff were involved in their hedge fund business in Hong Kong at end-March 2009, 86.8% higher than the 1 053 at end-March 2006. Among the total, 38.7% of their staff was involved in investment management, advisory and research. The proportion of hedge fund managers with more than 20 staff increased from 6.0% to 10.1% during the past three years, in tandem with the expansion of the assets managed during the period.