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Hong Kong Private Wealth Management Report 2021 Highlights

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Why do you curate the annual Hong Kong Private Wealth Management Report?

We've been putting this report together now for six years consecutively. And the reason that we put it together is so that we have the data to understand what is happening in this market, how the industry is doing, and therefore come up with the right ideas for how we further nurture the industry's growth. For instance, a couple of years ago, it was actually quite difficult to get accurate data about the size of AUM in the industry. I mean, we used to try and get estimates from our own members and the SFC in Hong Kong gathered data separately. And they came out with numbers which were different from the numbers that we were putting together. We then worked together with the SFC to help them refine the data that they were collecting so that it more accurately reflected what we felt was happening in the industry. And now we use that data from the SFC in our report.

What are some of the highlights of this year's report?

Our key takeaways from this year's report were, firstly, that the private wealth management industry in Hong Kong is firmly in growth mode, despite the challenges of COVID 19 and the macroeconomic environment. And this is backed up by the 25% growth in AUM that was reported in the SFC's asset wealth management survey this year, which we quote in the report. And that itself was underpinned by very robust net inflows of 656 billion Hong Kong dollars, and then a 17 and a half percent rise in the market returns for all of the assets that were under management. So, very, very strong numbers. And then on top of that, our members are expecting six to 10% annualized growth over the next five years or so. So clearly people see a very positive outlook for the industry going forward. That's the key thing.

The other key takeaways from this report are that people are looking to mainland China, servicing the next generation, attracting family offices as the key drivers for growth going forward. And then lastly, I would say we're

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seeing a very strong interest coming together around ESG investing, both on the side of our member firms and on the side of clients. We're seeing on the supply side and on the demand side, that ESG is really becoming a core theme for the industry here.

What is the attraction of Hong Kong to the region's growing wealthy clients?

Hong Kong retains a number of core attractions for clients. First and foremost, it is really the region's biggest international financial center. It has the most robust capital raising in the equity markets. And we have a very robust private equity industry, VC industry as well. There's just a lot of deals available for clients who are going to invest in Hong Kong, set up their accounts in Hong Kong. We're also seeing a very strong push to highlight Hong Kong's attractiveness to family offices, particularly from the government side with regulators offering clarifications on the licensing and regulatory front that are meant to make it easier for family offices to set up here. And the government now talking about offering things like tax concessions to family offices on top of Hong Kong's already low tax environment and simple tax environment, which is an attraction to family office to begin with. I think all of those together are really at the core of Hong Kong's competitiveness as an international private wealth management center.

What are key drivers of this growth?

The key drivers for growth that people have identified are China, the next generation and family offices, and attracting family offices. China, I think is top of mind for everybody operating in Hong Kong and private wealth management. This is where we see AUM increasing strongest going forward. Currently about 41% of all the AUM for our industry is sourced from than China according to our members. And we expect that number to go to about 51% over the next five years. It's entrepreneurial wealth coming from China, managed in Hong Kong. And then we also have next generation wealth. That refers to both the entrepreneurial wealth that is coming from China from the new economy industries that are taking shape, especially in China, though, elsewhere in the region. And often the entrepreneurs behind that wealth are younger than some of the traditional clients of private wealth management.

And then on the other hand, we have this massive transfer of wealth that's taking place from the first to the second generation or in some cases from the second to the third generation of existing clients for private wealth managers in Hong Kong. And those trends are what people are looking to, to drive the growth of the industry going forward.

On top of the rising importance of family offices, which I alluded to earlier, we're seeing more and more family offices set up in China in particular, although this is a global phenomenon as well. And so you have new family offices that are setting up in China that are looking to Hong Kong. You have global family offices from outside of the region, which want a footprint in Asia in order to get exposure to Asian growth and especially Chinese growth. And many of them are looking to set up a base in Hong Kong in order to get that exposure.

And then lastly, we see a very strong push towards ESG as a core theme for the industry. People have been talking about this for years. ESG is something that private wealth managers have been eager to push. And of course, it's a much more mature area of focus for private wealth managers in Europe, and to a lesser extent in the US. And now we're seeing that come to Asia as well. It's not just the private wealth managers, it's the clients who are looking for more exposure to ESG. One very important data point is that 72% of respondents to our survey believe that in five years, more than 10% of their AUM will be in ESG investments. And that's up from only 6% who currently have more than 10% of the AUM that they manage in the ESG investments today. So, that's a substantial jump that people are forecasting over the next five years. ■