HKVCA 私募投資
香港創業及私募投資協會
The Association for Private Capital in Asia

Mr Christopher Hui, GBS, JP
Secretary for Financial Services and the Treasury
Hong Kong Special Administrative Region
Tamar, Hong Kong

30 May, 2024

Dear Christopher,

We would like to express our gratitude for your participation in the Hong Kong Venture Capital and Private Equity Association's recent Greater China Private Equity Summit 2024. Your opening remarks, in which you emphasized the importance of Hong Kong's position as an asset and wealth management hub, were very encouraging for our industry as well as for the broader financial sector.

In addition to your remarks on the enhancement of preferential tax regimes for funds, single-family offices and carried interest, the Association would like to take this opportunity to recommend additional measures that would serve to strengthen the role of Hong Kong as a private capital center.

First, we recommend that private equity products be included within Hong Kong's Mandatory Provident Fund Schemes (MPF). Both academic and commercial research has shown that private equity as an asset class offers real diversification benefits to a traditional stock-bond portfolio. Moreover, US private equity returns historically have a volatility rate similar to that of US 10-year bonds and significantly lower volatility than the S&P 500.

Importantly too, the inclusion of private equity funds allows MPF members to invest their savings to a longer-term, higher-return asset class, a potential solution to the issue of higher aggregate government spending required with an aging population.

To be clear, we are not recommending the existence of a standalone private equity portfolio for MPF beneficiaries to select. Rather, we are recommending a scheme similar to that of Australian superannuation fund "AustralianSuper" (a DC fund), which would allow MPF and SFC-authorized funds to allocate 5-15% of fund assets to private equity.

Second, the Association suggests the allocation of part of existing local sovereign funds be committed to fund level. For instance, the Innovation and Technology Venture Fund only deploys capital in a portfolio company with co-investment partners. However, this has not been as effective as was initially expected. Hence, we recommend switching the current investment approach to LPs, and allowing sovereign money to be committed into funds that meet certain criteria or certain conditions. A condition could be that the fund adds "substance" in Hong Kong, for example (i) setting up regional headquarters in Hong Kong; (ii) a certain amount of capital to be deployed in Hong Kong nexus companies; and/or (iii) requiring that portfolio companies add substance in Hong Kong, such as a local IPO, establishing local offices, or committing a certain amount of expenses similar to the tax exemption regime.

Third, the China Securities Regulatory Commission (CSRC) announced a series of measures to further expand mutual access between the capital markets of the Mainland and Hong Kong, with those

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measures serving to vitalize the capital market. We suggest this connection be broadened to the private capital market.

Finally, the HKVCA is seeking ways in which "listed private equity" firms or vehicles might obtain a listing in Hong Kong as a way to broaden the product offering in the territory's stock market and further enhance Hong Kong's position as the leading private equity center in Asia. The initiative would offer Asian investors, and in particular MPF fund managers, a valuable investment product that at present is difficult for them to access, creating a substantial positive spillover effect on Hong Kong's financial industry.

The HKVCA appreciates that the government has been open to hearing feedback from our industry and has implemented a number of favorable policies. The Association would be keen to submit further comments providing additional details around the proposals discussed in this letter, proposals which we strongly believe will enhance Hong Kong's position as a private equity fund hub.

Your Sincerely,

Rebecca Xu
Chairwoman, HKVCA

Johnny Chan
President, HKVCA

About the HKVCA

Established in 1987, the HKVCA represents over 520 corporate members, which include 330 private equity firms across all types – including the ten largest private equity firms as well as small venture capital investors, managing a total of US$2 trillion in assets. These firms are engaged in venture capital and private equity investments in the Asia-Pacific region at all levels – covering venture, growth, buyout, secondary, pension, funds of fund, family offices, etc. For more information about the HKVCA, please visit: www.hkvca.com.hk