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Opinion | The Prospects of Private Equity Funds in Hong Kong

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To solidify and enhance Hong Kong's status as an international financial centre, Hong Kong's Chief Executive, John Lee, proposed in his latest policy address in October 2024 to continuously optimize the "Stock Connect" mechanism, provide more RMB-denominated investment products, encourage more listed companies to increase RMB stock trading counters, expand RMB bond issuance, and enrich offshore investors' liquidity management tools related to onshore bonds.

In strengthening the status of an international asset and wealth management centre, the Government will fully promote the management of more global funds in Hong Kong, including facilitating private equity funds to explore new sales channels through the Hong Kong Stock Exchange. In terms of attracting new overseas funds, the Government proposes to implement Exchange Traded Funds (ETFs) tracking the Hong Kong stock index in the Middle East, attracting local funds to allocate Hong Kong stocks. The first ETF in Saudi Arabia investing in the Hong Kong market was listed on the Saudi Stock Exchange recently, marking a new milestone in the diversified cooperation between Hong Kong and the Middle East region.

In the first half of 2024, the capital managed by private equity funds in Hong Kong exceeded USD 233.9 billion, ranking second in Asia. As of June 2024, the Hong Kong Securities and Futures Commission recognized more than 230 ESG (Environmental, Social, and Governance) funds, managing assets over USD 160 billion, representing a 60% increase compared to three years ago.

The private equity fund market in Hong Kong has shown continuous development in recent years, demonstrating a promising outlook. Here are some key factors:

1. Policy Support:

The Hong Kong Government and relevant regulatory bodies actively promote the development of the financial services industry, creating a favourable policy environment for private equity funds. This includes continuously optimized regulatory frameworks and simplified operational processes, making it easier for private equity funds to enter the market. Additionally, tax incentives and measures encouraging diversified investments further attract both international and local investment institutions.

2. Investor Base:

As a globally renowned financial centre, Hong Kong has a vast investor base, including high-net-worth individuals, family offices, and various institutional investors. These investors seek diversified investment opportunities to reduce risk and increase returns. In this context, private equity funds can attract more capital for effective capital management, promoting healthy market development.

3. Market Diversification:

Hong Kong's private equity fund market is known for its diversified investment opportunities, covering multiple fields such as real estate, technology, healthcare, and renewable energy. This diversification not only meets the needs of different investors but also effectively spreads risk, enhancing the overall stability of investment portfolios.

4. Connection to Mainland China:

Hong Kong serves as a bridge between Mainland China and global markets, providing private equity funds with convenient access to the Mainland market. Especially under the "Belt and Road" initiative and the development of the Guangdong-Hong Kong-Macau Greater Bay Area, investment opportunities for private equity funds have significantly increased. Through Hong Kong, private equity funds can better allocate capital and participate in rapidly growing industries in Mainland China, which is an attractive option for investors.

5. International Platform:

Hong Kong's private equity fund management companies generally possess an international perspective, offering a variety of investment opportunities to global investors. This international outlook not only enhances the competitiveness of Hong Kong's private equity funds but also attracts funds from different regions. Additionally, Hong Kong's financial infrastructure and professional talent provide strong support for the operation of private equity funds.

Overall, Hong Kong's private equity fund market shows promising prospects in terms of policy support, investor base, market diversification, and international platform. With the further optimization of the market environment and the recovery of the global economy, the vibrant development of private equity funds in Hong Kong is expected to continue. In the future, Hong Kong will not only become a hotspot for capital flow but also continue to play a central role in the global financial system.

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