Hong Kong Fund Services

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ALTERNATIVE ASSETS
Investor appetite drives Hong Kong traction

MARKET GROWTH
Resumed travel to stimulate the market

DIVERSIFYING PRODUCTS
Managers broadening the fund portfolios

Resumed travel will boost market growth

Interview with Michael Pang

Despite a challenging fundraising environment, the new Limited Partnership Fund Ordinance regulation (LPF) has the potential to make Hong Kong the preferred domicile for investment funds in Asia, especially once travel restrictions are lifted. As investors seek to broaden their portfolios, Asian funds can be a valuable source of diversification.

"We are very excited about the limited partnership fund structure. It gives the market additional flavour and we now have more options to offer our clients and prospects," says Michael Pang, Executive Director, Head of North Asia Alternative Investments, Circle Partners, "The reaction and feedback from the community has been very positive and we expect to see an increase in demand for these structures. As a global fund services provider, we certainly see traction in terms of the number of LPFs set up since the bill passed in August 2020, and we expect the appetite will continue to grow."

In Pang's view, the LPF is a milestone for Hong Kong as an international jurisdiction: "We are very confident in the Hong Kong government's commitment to strengthen its competitiveness and sustain its status as an International Financial Centre, particularly when it comes to building an alternative investment hub in the region.

Beyond travel restrictions

The outlook for growth in alternative funds across Asia as a region is strong. This is despite a challenging fund-raising environment. According to Pang, this environment can encourage managers to be more discerning about the strategy they bring to market: "They need to consider what would most encourage growth. For example, they could restructure their current fund or launch new strategies which align with the limited partners' (LPs) sentiment or expectations. Most investors are looking to diversify their assets so increasing exposure to Asian markets is likely."

However, a few factors make the prospect of tapping into that opportunity more challenging, especially in times of Covid is undoubtedly

challenging. Pang believes launching new fund in this environment is particularly difficult: “Managers are not able to meet investors face to face to demonstrate their track record and value proposition. They have to do it through a virtual call on Zoom or teams, which may not be the most effective way of marketing a fund.”

Pang explains how although parts of the region have suffered, the speed of recovery in Asia is looking to be quite high: “We are already seeing a lot of momentum in terms of new funds being launched to take advantage of the new structure. And this is only going to grow.”

In this challenging fundraising environment, global alternative AUM on all underlying assets is expected to grow 9.8 percent according to Preqin’s report. Pang comments: “We are seeing large portion of private markets/ private assets targeting Asia Pacific and Limited Partners (LPs) are diversifying their asset classes and increasing exposures to Asia Pacific. The attractive and subsidy offerings such as tax incentives, simplified capital raising, segregation of assets and liabilities, will certainly help Hong Kong to best take advantage to secure its position.”

Encouraging incentives

The Hong Kong government is working hard, from its vantage point, to increase the attractiveness of what the jurisdiction has to offer. Tax incentives, simplifying capital raising, segregation of assets and liabilities – these are all elements which can help encourage managers to domicile their products in Hong Kong.

In the latest iteration of such initiatives, foreign investment funds can now re-domicile in Hong Kong for registration as an Open-Ended Fund Company (OFC). In its most recent budget speech, the government also announced it will subsidise up to 70 percent of the cost of setting up a new OFC or moving funds to Hong Kong. “These may seem like small things when considered separately but together they can provide significant incentives to attract more people to the investment community here,” Pang suggests, “Some of our fund clients are looking into re-domiciliation, driven by these latest updates from the Hong Kong SAR regarding subsidies. More such incentives or subsidies can be attractive to the investment fund community.”

Having a base in Hong Kong can be a significant advantage for managers looking to tap into the Asian investor asset pool. It can also benefit their strategy. Pang also highlights the cost considerations managers need to make when considering their fund domiciliation: “Although managers should take into account what structure they are going to use, cost remains a key concern. Once they cater for all the legal, tax and other advisory fees, as well as administration and annual maintenance charges, managers need to make sure their business remains cost effective.”

He says managers are also being driven to domicile their funds in Hong Kong due to the assets they are investing in: “For some this is the perfect moment to consider a local Hong Kong domiciled fund given the fact that they will have easier access to what they’re investing in. As a global fund service provider, we are agnostic on where managers are domiciled and what structures they use. Ultimately, we advise them to make the decision which is in the best interest of their investment strategy and their investors.” ■

Michael Pang
Head of North Asia, Alternative Investments, Circle Partners

Michael Pang is the Head of North Asia Alternative Investments of Circle Partners, he is responsible for driving business and growth strategy in North Asia, particularly Greater China. Michael has over 17 years of experience, he held senior management positions in market leading financial services companies in the private equity, capital markets and M&A arena. Prior to Circle Partners, Michael worked for global fund services provider, he has extensive experience working with clients such as hedge fund, private equity/ venture capital and private debt fund. Michael speaks native Mandarin, Cantonese and English.