Hong Kong: Adapting to The New Context

Asset and Wealth Management

Navigating The New Context

Evolving stakeholder expectations and industry priorities

The asset and wealth management (AWM) industry has been undergoing significant transformation in recent years and the ever-evolving landscape has been exacerbated by profound shifts in the way we live, work, and interact with one another. Coupled with today's geopolitical tensions and macroeconomic uncertainty, this has created The New Context for asset and wealth managers which has far-reaching implications affecting the industry, its ecosystem, and its investors. As the industry is constantly evolving to meet the changing needs of all stakeholders, investors, and wider communities, the role of asset and wealth managers as fiduciaries is also broadening. Industry players must strive to create positive societal impact and play a bigger role in solving global issues.

With control of more than US$115 trillion, the asset and wealth management industry has the unparalleled influence to shape a better future for all investors, the economy and wider society, channeling capital to bridge the finance gap in several areas. As the concept of fiduciary duty evolves and more dimensions are included, greater responsibility is being placed on the asset and wealth management industry as a key driver in funding the economy and championing the initiatives of governments and public stakeholders.

Global influence of the industry

Global assets under management
US$115 trillion

Greater than global GDP
US$104 trillion

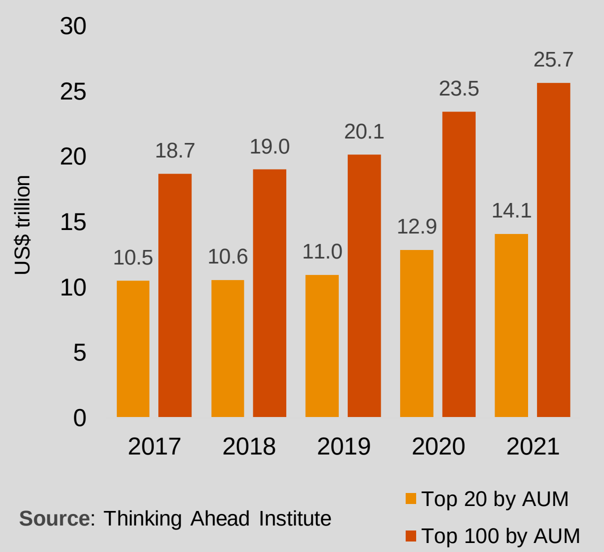
Larger than the total asset base of the world's 100 largest banks
US$79 trillion

Source: PwC, International Monetary Fund (IMF), S&P Global

Helping climate risk challenges, accelerating financial inclusion, eradicating poverty, financing much-needed infrastructure, and addressing the pension funding gap are some areas in which the industry can work hand in hand with policymakers in driving sustainable outcomes. In particular, the institutional investors and asset owners with long-term investment horizons such as sovereign wealth funds, endowments and insurance companies will play an increasing role in steering capital to under-financed initiatives.

The world's largest asset owners (Top 100) oversee US$26 trillion of assets under management (AUM). With so much capital at their disposal, asset owners and asset managers are well positioned to fill the financing gaps and support real economic growth, given they hold a large portion of influential capital.

Top asset owners globally



Source: Thinking Ahead Institute

Going forward, it is expected that asset and wealth managers will increasingly include societal considerations in their performance to improve perceptions from employees and investors. 45% of asset and wealth managers are increasing alignment of corporate values with employees' values and 53% are increasing efforts to improve ESG-related transparency according to our most recent global survey Asset and wealth management revolution 2023: The New Context.

Navigating The New Context

Industry consolidation on the horizon

The New Context has created challenges as well as opportunities for asset and wealth managers, and this has necessitated that businesses adapt to new ways of operating. Addressing the megatrends requires industry players to fundamentally rethink and reconfigure what they do. They need to reinvent their business strategy and operating model - what value they create and how they do so - in order to cope with the ever-evolving shifts in the industry.

Globally, industry players, big and small, across the spectrum of asset classes are vigorously transforming their business models to survive and grow. With 16% of existing asset and wealth management organisations expected to be swallowed up or have fallen by the wayside by 2027 according to our most recent global survey Asset and wealth management revolution 2023: The New Context - twice the historical rate of turnover – it is vital industry players accelerate their strategic growth agenda and act with urgency.

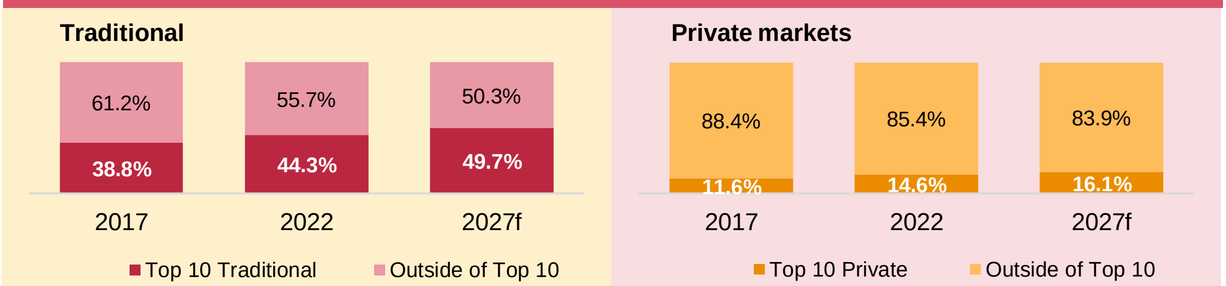
Across the globe, it is expected that there will be a further rise in market concentration due to heightening costs and regulatory pressures. Although the materialisation of this scenario can result in improved economies of scale, industry players must also be prepared to navigate the potential effects of reduced competition, product homogeneity, and elevated systemic risk. Asia may not follow the global trends unerringly, but these developments are worth watching.

As industry players continue to seek ways to increase efficiency, it is expected that most will actively invest in developing targeted solutions, innovative product offerings, more streamlined platforms, and building robust brands. Moreover, with the shifting landscape challenging current operating models, an increasing number of asset managers have been outsourcing their non-core activities in the middle and back office, to focus on their core, investment management.

This unprecedented period of change for the industry has fundamentally challenged it and has changed the industry's stakeholders' behaviours and expectations. Asset and wealth managers who do not align their strategies with The New Context may risk irrelevance or, even if successful in growing, may become too complex to be managed effectively. The value creation playbook to outperform in The New Context should encompass a strategy that focuses more closely on strategic positioning, operational excellence and capital efficiency.

Globally, over the last decade, consolidation in the industry has surged and this is expected to continue. However, it is worth noting that Asia may not mirror this trend completely given the heterogenous nature of different markets in the region. Asia is also undergoing significant change, however, the trajectory and pace of consolidation differs in the region. As industry concentration picks up speed around the world, it is forecasted the top ten asset managers will control around half of all traditional assets (mutual funds and ETFs) globally by 2027.

Asset concentration within the industry globally



Source: PwC analysis
Note: Traditional asset managers consists of mutual funds and ETFs only. Private markets consists mainly of Private Equity players and excludes Hedge Funds, Funds of Funds and Secondaries.

Navigating The New Context

Preparing for the next stage of growth

Against the backdrop of concurrent forces reshaping the industry, strategic leaders are diverting their full attention to adapting their business strategy and operating models to meet short-term and long-term goals. For some, this means turning to transformative M&A, and for others, it means organic avenues by building capabilities and engaging the workforce to create sustainable businesses. This is vital to prepare for the next stage of growth, and asset and wealth managers must take steps in transforming to keep pace with the evolving business environment, which is grappling with a set of existential challenges exceeding those of any previous era.

Firms will need to adapt to the enormous shifts taking place while facing increasing competition and increasing costs of doing business. While this can be said in most industries, why is today different for the asset and wealth management industry? What is different now is that multiple concurrent forces are all happening at the same time and are going from new trend to new trend, from shifting investor expectations and technological disruption against a backdrop of social, economic and geopolitical disruption, with no end in sight and at a rate that seems to be increasing. Faced with these challenges, strategic leaders should focus on how they can successfully adapt to thrive in the changing industry landscape.

As near-term pressures mount, the industry is already seeing the emergence of a new breed of technology-driven players which adopt a client-focused approach, as opposed to a product-focused one. In the face of ever-changing shifts, policymakers should also evolve in line with the industry, and strive to strike a balance between investor protection and encouraging innovation and market efficiency.

In Asia, there is a host of boutique asset managers, a diverse group of nimble specialists, operating in alternative investment strategies such as private equity, hedge funds, real estate, private credit, and infrastructure, that will also need to consider their strategic playbook. Many boutique managers in the region are already well established with strong reputations, serving sophisticated institutional investors around the world and often possessing a proven record of outperforming the titans of the asset and wealth management industry.

Although definitions vary, boutique asset managers tend to share common characteristics, such as being owner-led by the founding investment team or principal, being specialised in an asset class or market segment, and lastly, being nimbler than their larger counterparts in the industry. While often more agile than other industry players, boutique asset managers are not immune to The New Context and will also need to re-think their strategic imperatives to fuel further growth, be it through M&A opportunities, organic growth avenues or capital raising via an IPO.

Fundamentals for industry players to consider

Strategic positioning
Focus on core competencies and outsource the rest

Workforce of the future
Retaining and attracting talented individuals is key

Technology transformation
Consider use of disruptive and emerging technologies

Operational excellence
Delivering at scale amid cost and competitive pressures

Product pivot
Tailor products to changing investor expectations

Distribution refresh
Getting closer to the investor is important

Value creation
Identify actions that can maximise value in times of disruption

Exit strategies
Seize the opportunity to secure the future for stakeholders

Shifting investor expectations

Accelerating aspirations in private markets

In recent years, traditional asset managers have increasingly looked towards and moved deeper into private markets and alternatives, as they look to build a presence in the asset class to offer more breadth and depth for their client base. M&A activity by traditional managers to build scale in private markets have increased and the market for deals has become more competitive. The move to diversify asset classes also highlights the convergence between traditional and alternative managers, as the former increasingly utilises alternative approaches to generate returns - going beyond the established asset class silos of equities and fixed income.

Within private markets, there has been a trend of crossovers between asset managers which highlights the connectivity. For example, there has been a trend of increasing allocations of private capital to private credit opportunities, growing real estate investment to private equity, and a focus on infrastructure in real asset regeneration. Moreover, there has been an upsurge in partnerships and collaboration as asset managers seek out partners to provide specialist expertise in certain asset classes.

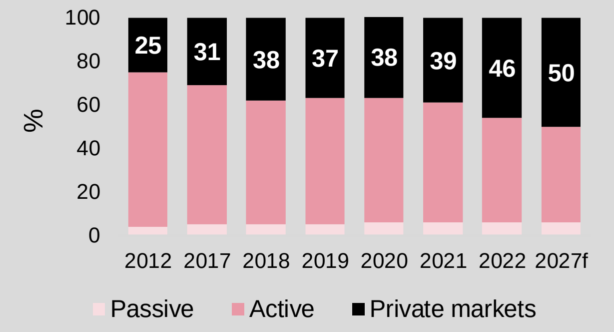
The lucrative side of private markets

Projected global asset management revenues by 2027	
Passive	US$40 billion
Active	US$273 billion
Private markets	**US$309 billion**

Source: PwC, Asset and wealth management revolution 2023: The New Context

The search for the next leg of growth in the industry is taking asset managers into new asset classes and markets, but this is not an easy undertaking as firms will need to grapple with added complexity and operational challenges.

Share of total revenues of private markets

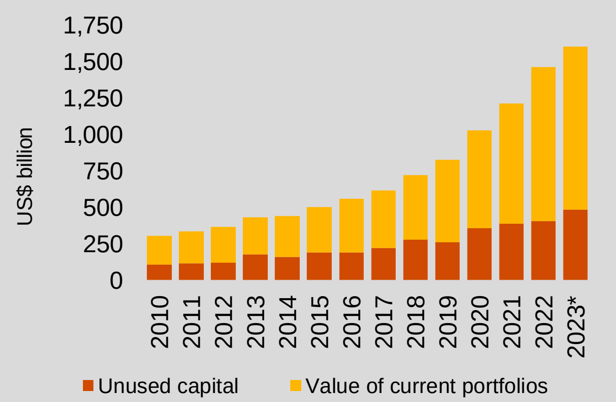


Source: PwC, Asset and wealth management revolution 2023: The New Context

The rapid growth of private credit

Across the globe, a large shift in dynamics towards the sourcing and lending of capital through alternative providers is happening in a big way. As lending activities by banks continue to be restrained by capital and liquidity related regulations, asset managers have been moving in to fill the void. Growth in private credit has been strong in the U.S and in Europe, where there is a drive to broaden the role of capital markets. As the demand for capital in economies far outstrip the supply of capital from traditional providers, investment continues to flow into private markets and the expansion of non-bank lending has showed no signs of slowing.

Global private credit AUM



Source: Preqin
* To March 2023

Broadening investor access

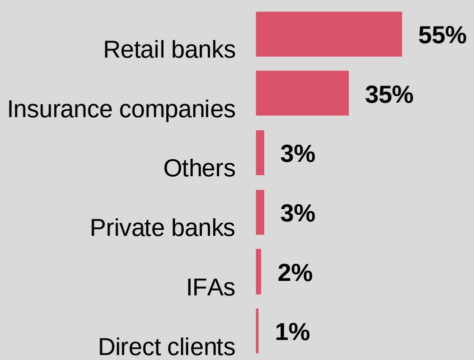
Evolution of distribution channels

As distribution channels and the associated operating infrastructure evolve, industry players are increasingly enabling investors access to a broader suite of products. For investors, these developments will have a positive net effect as they gain exposure to a wider variety of asset classes and niche markets.

In Hong Kong SAR (Hong Kong), the proliferation and ongoing specialisation of digital-first wealth advisors and platforms have been apparent, enabling non-institutional investors to purchase investment funds and acquire investment advice in an efficient manner. The new breed of market players are armed with big data and market analytics, enabling them to offer investors access to holistic wealth management advice and portfolio management services, which can be fully delegated or assisted.

Against the backdrop of a new breed of technology-driven actors disrupting the distribution landscape, market incumbents, mainly retail banks and insurance companies, are also undergoing a digital transformation journey in response to increasing competition and are ramping their use of technology in the distribution space.

Distribution channels in Hong Kong – Current state of play



Source: Hong Kong Investment Funds Association (HKIFA). Data as at the end of June 2022
Note: Estimated percentage of fund sales distributed via that channel based on gross sales

In some jurisdictions, policymakers have been among the drivers of the establishment of initiatives to broaden the range of distribution channels. In particular, exchange based distribution platforms have sprung up in various parts of the world enabling investment funds to be transacted and settled via stock exchanges. Under this model, stock exchanges are able to bring asset managers and investors together and often providing clearing and settlement. In the context of Hong Kong, Hong Kong Exchanges and Clearing (HKEX) recently announced that they are developing an Integrated Fund Platform (IFP) for the distribution of retail funds covering the full distribution cycle and value chain. Initially, the integrated fund platform will be a business-to-business service model, and will consist of three main components.

Communication Hub	Business Platform	Information Portal
A network that connects different parties in the fund distribution ecosystem, such as fund managers and distributors, to facilitate transactions.	Platform covering fund order routing, subscriptions and redemptions, payments and settlements, and various optional nominee services.	Portal helping the investing public with access to more information and greater transparency on investment options.

Source: HKEX

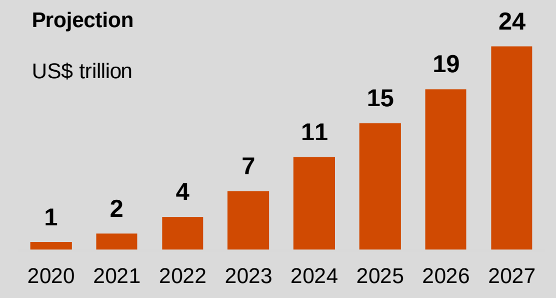
The Mandatory Provident Fund (MPF) System is also undergoing its biggest digital transformation journey with the eMPF platform. There could be merit in exploring how the eMPF platform and the HKEX Integrated Fund Platform (IFP) could be combined to form an ecosystem comprising a range of asset classes and encompassing public and private funds. This goes a long way in empowering individuals and promoting financial wellness to investors so that they can build a sustainable and diversified portfolio for the future. The recent trends and developments are a natural evolution in the fund distribution landscape in Hong Kong which will broaden the range of channels for investors. Moreover, developments are prompting a rethink in how innovation can provide pathways for investors to access a wider range of investment products as the democratisation of investing trend gains traction in Hong Kong. Disruption is already underway challenging the old notion that “funds are bought, not sold”.

Broadening investor access

Tokenisation coming to the fore in Asia

Globally, tokenisation is gradually changing the way capital is raised and how investment products are developed and distributed. The technology can also be leveraged in accelerating financial inclusion and inclusive growth through the capital markets. Categorised as the process through which any kind of assets - tangible or not - are issued as or converted into a digital form and then stored on and transferred over a blockchain, tokenisation can help open a number of investment markets.

Tokenised assets global market size



Source: Finoa

Distributed ledger technology (DLT), including blockchain, will become a key enabler as it opens the door to asset tokenisation. The benefits of tokenisation and a distributed ledger infrastructure will be particularly significant for the industry, as efficiency gains and cost savings are realised from the technology underpinning the broader digital assets universe. Looking forward, asset and wealth managers will be impacted by the tokenisation of real world assets in three major areas:

1. **Product development and innovation:** For asset and wealth managers, tokenising existing fund products is merely a first step and only provides marginal benefit. The real opportunity is created through leveraging this technology to design new products that bring additional utility and benefits to investors. Examples include widening the range of investor access to products at a lower price point or providing new digital asset native investors with sound and regulated product alternatives to crypto currencies.

2. **Operational efficiencies**: Combined with new forms of digital money like Central Bank Digital Currencies (CBDC) and stablecoins, blockchain and tokenisation technology enable enhanced operational and transactional efficiencies. Blockchain technology can be integrated into KYC and AML systems and suitability assessments to improve the efficiency of compliance processes. Furthermore, the technology can be used to improve processes for fund redemptions, distribution and subscriptions.

3. **Portfolio management:** As tokenised assets broaden the form of investable assets, asset managers will need to establish new portfolio management processes. The emergence of programmable smart securities present new opportunities for product manufacturers to increase returns and reduce risk through the usage of this technology. This may be especially valuable for private assets, where fractionalisation of illiquid assets, and the ability for asset owners to issue more bespoke security types may open up innovative investment strategies.

For now, the use of tokenisation by asset and wealth managers is still in the early adoption phase, especially in Asia, and the industry is likely to be challenged to replace a proven method of launching and servicing funds - one with an established legal and regulatory framework - with new technology. Nevertheless, various global players have already launched or planning to roll out tokenised funds in the region. The technology will certainly play a pivotal role in enhancing the distribution network and broadening investor participation.

Broadening investor access

Embarking on the investor education journey

Education and knowledge will be the key enablers and accelerators in the democratisation of retail investing, especially in Hong Kong. The younger generation of investors are starting to take more control over their own financial planning and detaching from traditional dependence on financial professionals. There is also a fundamental shift in how investors view and manage their savings and pension plans. AUM of the MPF System is close to US$140 billion (as of September 2023) and is home to more than 10 million accounts (including contribution, personal and tax-deductible voluntary accounts). Going forward, policymakers should consider refining the MPF System further to ensure it caters to the evolving needs of scheme members.

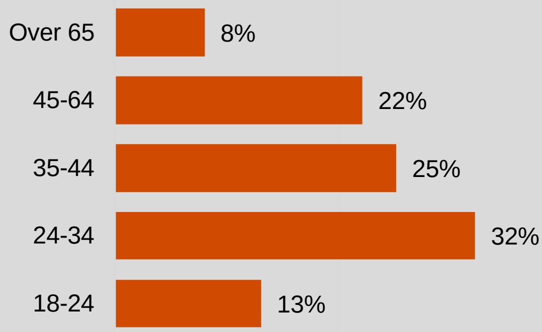
The MPF System in numbers

Annualised Net IRR of the MPF System since 1 Dec 2000	**2.2%**
Number of Approved Trustees	**13**
Number of Registered Schemes	**26**
Number of Approved Constituent Funds	**404**
Current average Fund Expense Ratio (FER)	**1.35%**

Source: MPF Schemes Statistical Digest, September 2023

As investor participation increases with the development of new channels and products, consumers need to feel empowered over their investment decisions. This can be achieved through improved investor education into financial markets, financial products, investment risks as well as enhanced fee transparency. The demographic shift of retail towards younger ages further highlights the importance of early exposure into investment knowledge and principles. According to a survey by the World Economic Forum (WEF), 55% of retail investors learned about investing only after entering the workforce and 74% of retail investors would invest more provided with more investment education opportunities.

Global age distribution of retail investors



Source: World Economic Forum Insight Report 2022

In targeting the younger generation, fintech solutions are revolutionising the experience of investor education and access to knowledge. In Asia, super-apps, often enhanced with gamified features, have grown in popularity as they provide all-in-one access into investment, payment, banking and other services. The convergence of digital and physical channels is set to lead investor education and democratisation for the next generation.

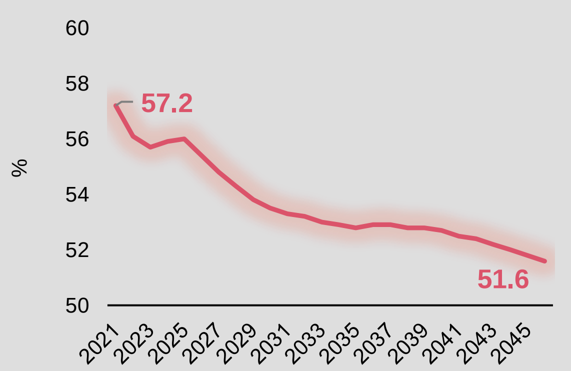
Unleashing talent potential in the industry

Dynamic shifts to Hong Kong's workforce

The global workforce has shifted significantly over the past few years for both organisations and their employees. All businesses, regardless of industry, are being heavily impacted by market dynamics, technological advancements, environmental responsibility and social conscience. Employees have new criteria and concerns in selecting jobs, employers and working environments. Following these rapid changes, workforces are faced with a plethora of challenges such as increased competition for talent, misalignment of employee expectations, and skill gaps etc.

Specifically, Hong Kong has been facing significant talent challenges in recent years due to emigration waves and exacerbated by low birth rates and an ageing population. As the proportion of elderly persons in the total population rises, the overall labour force participation rate is projected to trend downwards.

Hong Kong labour force participation trend



Source: Census and Statistics Department Hong Kong 2023. Note: Excludes foreign domestic helpers

Amid this labour shortage, the Hong Kong government has introduced various talent and labor schemes opening up avenues for professionals internationally to live and work in the city. While government efforts are a step forward in reversing the city's talent issues, the long term success of these schemes relies on the ability of businesses and employers to adapt to the evolving demands under the new people context.

Working under the new people context

Unlocking the full potential of Hong Kong's workforce will require institutions to navigate through proactively reshaping and re-establishing employer and employee dynamics.

1. **Upskilling and development:** Battling with a shrinking working-age population consequently creates widening skills gap in the workforce. As a result, opportunities for skill development will become increasingly crucial for employees to remain competitive and adaptative. Upskilling and reskilling opportunities are the necessary long-term investments that employers must provide to help employees advance in their careers and protect them against dynamic trends and risks.

2. **Technology:** Advancements in technology including Artificial Intelligence (AI) and automation are transforming Hong Kong's work landscape. While automation is displacing some human tasks, it also acts as a facilitator to improve workforce productivity and job satisfaction. As reported in PwC's Hong Kong Workforce Hopes & Fears Survey 2023, Hong Kong employees perceive AI to predominantly contribute positive impact on their jobs, increasing their work efficiency and providing opportunity to learn advanced and valuable skills. Organisations need to adapt to and capitalise on emerging technology to provide employees with outlets for innovation and entrepreneurship.

3. **Corporate social responsibility:** Corporate social responsibility (CSR) is now a business imperative and institutions must consider their social, economic, and environmental impact as part of their commercial strategy. This may include developing initiatives surrounding ESG, diversity and inclusion, workplace health and safety, or volunteer programs. On top of impacting employees' attitudes and work engagement, CSR builds trust between employees and employers, creating more valuable and effective working relationships.

4. **Holistic well-being:** Against the backdrop of macroeconomic and geopolitical challenges, the well-being of professionals in Hong Kong is being impacted by a nuanced combination of factors encompassing all aspects of an individual's life: physical health, financial security, career satisfaction, emotional health, personal relationships, etc. It is becoming increasingly important for organisations to address workplace well-being. This is characterised by supporting workplace flexibility, creating supportive work environments, and promoting work-life balance. Achieving holistic well-being enables individuals to realise their own capabilities, work more productively and cope with work and personal stress. Ultimately, this provides employees with the mental bandwidth to upskill technical skills, soft skills and meta skills, thereby enhancing workforce adaptability.

Engineering success through the Human Resources department

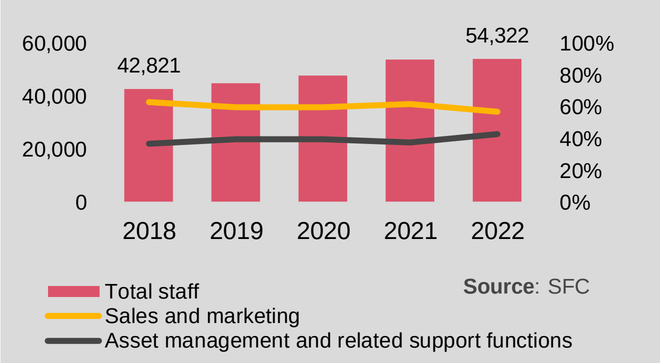
As institutions look forward to new opportunities, establish targets, and revise business strategies, revisiting the role of the Human Resources (HR) department is no exception. HR managers in Hong Kong traditionally focus on administrative and operational responsibilities such as compensation, payroll, leave entitlements, etc, as opposed to roles that engage with the firm's larger business strategy. In response to the evolving economic and social changes in the workforce, HR departments can consider taking the lead in transforming workforce strategies and this will involve closer alignment in their company's commercial strategic planning.

The effective management and development of HR teams are the backbone to a successful workforce and organisation. Alignment between HR managers and business strategy is essential for engineering employee success, creating sustainable growth, achieving corporate targets, and remaining resilient.

Importance of Hong Kong's wealth of talent

Hong Kong's ambitions to uphold its position as an International Finance Centre relies on the retention and attraction of international and local talent. Diversity in Hong Kong's workforce, in terms of cultural background, professional skillset and industry exposure, promotes international circulation, builds trust between global partners and facilitates exchange of financial and non-financial expertise. In the development of Hong Kong's asset and wealth management industry, talent further serves a cornerstone role. The growth of the industry relies on talent as the key driver in achieving breakthroughs in both traditional markets and emerging areas.

Asset and wealth management business staff profile



Source: SFC

Institutions need to ramp up efforts to foster talent by providing ample resources and support for professional development. Moreover, creating working environments that are inclusive and conducive for overseas and local talent is crucial. Leveraging its locational proximity to the Greater Bay Area (GBA), the city should enhance cross-border workplace mobility and open up opportunities for regional talent attraction.

While Hong Kong's attractions are widely recognised locally, the city must continue to promote its all-rounded commercial, professional and lifestyle attractions on a global scale. Aside from its commercial appeal, Hong Kong is home to robust education systems, a vibrant culture, diverse urban and natural landscapes and vast entertainment and cuisine options. These features uniquely enhance Hong Kong's livability and environment for sustainable talent progression and long-term settlement.

Hong Kong's multi-faceted roles

Elevating its super-connector role

Since the inception of the industry in Hong Kong, asset and wealth managers have always faced change and disruption, and some were arguably much more metamorphic than those they are experiencing now. On a positive note, industry players in Hong Kong have shown remarkable resilience in adapting to the changing landscape and evolving conditions over the years. Hong Kong has a long list of competitive advantages that have long established itself as one of the world's most attractive destinations for setting up a business and investment activity.

For decades, Hong Kong has served as a vital gateway between East and West, enabling global capital to access Asia and in particular Mainland China, and in return facilitating Chinese capital to invest in international markets.

While geography plays a large part, Hong Kong has continuously reinforced its competitiveness with a series of business friendly reforms and market initiatives to broaden, deepen and enhance its "super-connector" status.

Hong Kong is irreplaceable as a critical gateway for inbound and outbound capital flows, providing investors frictionless and efficient access to investment opportunities in public and private markets, for institutional and retail investors from all over the world.

The city has compelling potential for asset and wealth managers operating in the territory to generate alpha and mine new sources of growth and wealth. Hong Kong's unmatched connectivity with Mainland China has unlocked a host of economic opportunities. With Mainland China unquestionably a market too big to be ignored for many international players, Hong Kong has provided the infrastructure and channels for cross-border portfolio investment flows to and from Mainland China.

Hong Kong has also played a vital role in Mainland China's ambitions to internationalise its economy and has been helping businesses and investors in Mainland China to "go global". To this day, new market access channels continue to be developed and expanded, enhancing connectivity between Hong Kong and Mainland China, benefiting asset owners and asset managers on both sides.

Hong Kong in numbers

150+ licensed banks	**US$3.9 trillion** market capitalisation of stock market	**2,600+** listed companies on HKEX
23.4% contribution of financial services sector to GDP	**275,000+** professionals in financial services sector	**900+** mainland private enterprises listed on HKEX
>70% of global offshore RMB settlements processed	**US$80.5 billion** sustainable bonds and loans issued in Hong Kong reached in 2022	**150+** authorised insurers
2,000+ type 9 asset managers	**Around 650** private equity and venture capital firms	**800** fintech companies

Source: Hong Kong Trade Development Council (HKTDC), Securities and Futures Commission (SFC), Hong Kong Insurance Authority (HKIA), Hong Kong Exchanges and Clearing Limited (HKEX), Hong Kong Monetary Authority (HKMA), The Government of the Hong Kong SAR

Hong Kong's multi-faceted roles

Enhancing its wealth management centre status

Hong Kong has experienced tremendous wealth creation driven by robust economic growth and rising levels of affluence driven mainly from business owners and entrepreneurs. Hong Kong has one of the highest wealth per capita globally and is home to more than 12,000 Ultra-High-Net-Worth (UHNW) individuals (defined as those with net worth of USD 30 million or more). This number of UHNW individuals in Hong Kong is more than New York, nearly twice that of London and more than three times that of Singapore.

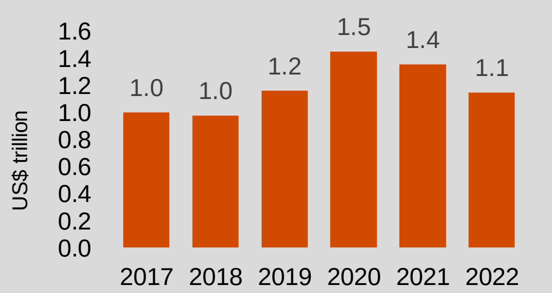
UHNW individuals in 2022

1	**Hong Kong**	**12,615**
2	New York	11,845
3	London	6,370
4	Los Angeles	6,205
5	San Francisco	4,385
6	Chicago	4,235
7	Singapore	4,160
8	Paris	3,995
9	Tokyo	3,710
10	Washington	3,465

Source: Altrata, World Ultra Wealth Report 2023

With Asia becoming the primary engine of private wealth generation globally, Hong Kong has developed into one of the world's pre-eminent wealth management centres.

Private banking and private wealth management business in Hong Kong



Source: SFC, Asset and Wealth Management Activities Surveys

Most of the wealth creation taking place in the region will naturally find its way to Hong Kong directly (i.e. setting up family offices or through holding companies) or indirectly (i.e. capital deployment through Hong Kong's public and private markets).

The number of family offices being set up in Hong Kong is clearly on the ascendancy and the city is fast becoming a prime destination of choice. The depth and breadth of the financial services industry in Hong Kong has created a holistic infrastructure for the family office sector to draw on and recent policy initiatives have further enhanced the city's positioning.

Developing family offices – recent initiatives

Introducing a new Capital Investment Entrant Scheme (CIES)
Offering tax concessions
Providing market facilitation measures
Establishing the Hong Kong Academy for Wealth Legacy
Promoting art storage facilities at the Hong Kong International Airport
Developing Hong Kong into a philanthropic centre
Further expanding the role of the FamilyOfficeHK team in Invest Hong Kong
Launching a new Network of Family Office Service Providers

Source: The Government of the Hong Kong SAR

As wealth management and wealth creation gains traction in Asia, Hong Kong is positioned as a core pillar to this growth. Family offices play a crucial role in the development of Hong Kong's wealth management industry.

Hong Kong's multi-faceted roles

As Hong Kong continues to serve the sophisticated needs of international family businesses and family offices, the city establishes itself not only as an optimal destination for wealth creation but also furthers its financial hub status.

The rise of family offices in Singapore has raised the debate: Hong Kong vs Singapore – which city will dominate the family office sphere? This expansion of wealth should be viewed as complementary rather than rivalrous. Ultimately, wealth owners have a global lens and seek for diversity in their financial portfolio, rather than exclusivity. High-Net-Worth Individuals (HNWI) and families are building a network with other industry professionals and family offices through regional hubs across Asia to capture expertise in risk management, investment opportunities and succession planning.

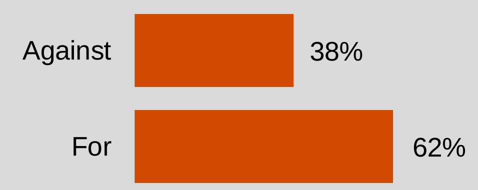
Selecting the location of a family office is a complex exercise. As the family grows and gains assets, a host of factors can be crucial to choosing a family office location. The importance of each consideration will depend on which cohort of wealth the individual or family are from and also their mindset and beliefs.

The patriarch or matriarch typically evaluates a host of factors which can be segmented into "facilitators" and "drivers". "Drivers" are the ultimate driving force behind the decision and the "must-have", such as access to investments spanning both public and private markets, while "facilitators" are complements and the "nice-to-have". Hong Kong is well placed in this regard as it enables wealth owners a way of accessing investment opportunities across all asset classes.

Is Hong Kong still Asia's world city?

Hong Kong has long established its reputation as a leading international finance centre with a highly competitive economy, talent ecosystem and business environment. However, in recent years, a convergence of factors has disrupted markets and raised uncertainty for investors regarding Hong Kong's outlook and prospects. The backdrop of various dynamic and complex social and economic instabilities has prompted many to ask the question: Is Hong Kong still Asia's world city?

Hong Kong has not lost its lustre as an International Financial Centre



Source: PwC Survey from 2023 AWM Annual Conference

As the global economy races to invigorate market activities and navigate through headwinds, Hong Kong paves the way forward with confidence. Hong Kong stands as one of the most resilient and adaptive economies, placing the city on a steady and endured path to success. At the same time, the scale of opportunity ahead for Hong Kong is boundless – wealth management growth, GBA connectivity, private market expansion, virtual asset development, etc.

Looking forward, Hong Kong must continue building out its super-connector role between international markets by diversifying the city's sources of capital and partnership. This can be achieved through leveraging cross-border synergies and strengthening economic and commercial ties with key regions in Asia such as Southeast Asia and the Middle East, which have shown rapid growth in both GDP and wealth. Ultimately, Hong Kong's developments of the asset and wealth management industry should target to grow the broader wealth creation agenda in Asia.

Thrive as the industry transforms

Business not as usual but looking ahead

The asset and wealth management industry has entered a period of self-reflection, with various factors acting as a stimulus for the industry to take stock, reflect and take action. In particular, rising expectations from investors, policymakers, regulators and society as a whole are reshaping the future of the industry.

The overriding message from our research and insights is that asset and wealth managers must evolve their business strategy and operating models - either organically or through transformative M&A - to meet short-term and long-term goals. Moreover, in this uncertain environment, there is an expectation that more asset and wealth managers will continue to outsource their non-core activities in the middle and back office, to focus on their core, investment management.

Asset and wealth managers have been accelerating their investment in disruptive technologies spurred by the opportunity to drive efficiency, strengthen margins and boost growth, and ultimately shifting investor preferences toward digital engagement. Advances in technology will continue to have a significant impact on the industry, notably with the product stack, financial advice and distribution mode.

Pressures today will drive decisions for investment in the future, while shifts in investor preferences will change how asset and wealth managers create and revisit product strategies and distribution tactics across different markets and channels.

The search for growth and yield is taking industry players into new asset classes, geographies and investor segments, with all the expected results: additional complexity, operational demands, regulatory hurdles, new investor demands, fierce competition and risk of being spread too thin across subscale offerings.

The changes asset and wealth managers make must be fundamental, not marginal. A few fixes here or there, embarking on efforts in silos, without clear alignment between key organisational stakeholders will not be enough to thrive in The New Context. Industry stakeholders must adapt to the investors, the technology and the workforce under The New Context now.

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PwC held its 17th annual Asset and Wealth Management Conference encompassing the theme The New Context in November 2023. The conference gathered industry leaders and senior executives to discuss, debate and inspire the latest market trends and developments covering various topics, where PwC subject matter experts and distinguished guests shared their valuable insights. PwC would like to thank all our clients and other stakeholders who generously gave their time to share their intellectual capital and providing diverse perspectives on various topics.

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