Asset & Wealth Management: Hong Kong

— Your destination of choice

pwc

Content

Hong Kong's Asset & Wealth Management landscape

Industry at a glance

The Asset and Wealth Management (AWM) industry in Hong Kong has grown significantly since the early 1990s with assets under management (AUM) representing around US$4 trillion at the end of 2022. Hong Kong's successful development as a best-in-class International Finance Centre (IFC) has been due to a combination of its robust legal system, tax-friendly regime, conducive regulatory environment, deep and liquid capital markets, diverse talent pool, and accessibility to Mainland China and Asia Pacific. These are essential factors that enhance the ecosystem of Hong Kong as a destination of choice for setting up asset management operations and legal fund vehicles, focused on investments not just in Asia Pacific, but globally.

Throughout the past three decades, Hong Kong has strived to become the all-encompassing destination of choice in Asia Pacific to serve a wide investor base, accommodating capital flows of domestic, regional and global entities.

The city has positioned itself with a strong infrastructure which not only includes asset and wealth managers, but also a robust asset servicing ecosystem that includes legal, accounting, fund administration, prime brokerage and other professional services.

The industry continues to undergo a transformation journey around investment products, fund structures, distribution regimes, sustainable finance, human capital and the use of technology, to name a few. With further technological innovation and policy and regulatory changes, asset and wealth managers must proactively refine their business strategy.

US$4 trillion
Assets under management

2,100+
Publicly offered authorised funds

2,000+
Licensed Corporations Type 9 - Asset Management

50,000+
Staff in asset and wealth management business

US$146 billion
Aggregate NAV of MPF schemes

300+
Investment-Linked Assurance Schemes

200+
ESG-approved funds

170+
Exchange Traded Products (ETPs)

12,615
Ultra high net worth (UHNW) individuals

64%
Assets sourced from non-Hong Kong investors

80%
Of the global offshore RMB payments are processed via Hong Kong

150+
Mainland-related firms engaged in asset and wealth management business in Hong Kong

Source: Securities and Futures Commission (SFC), Mandatory Provident Fund Schemes Authority (MPFA), Hong Kong Exchanges and Clearing Limited (HKEX), Wealth X, Brand Hong Kong

A high level multi-step roadmap

Fundamentals to consider from starting up to fully operational

Setting up and running an asset management company, and launching new fund products, can be seamless and efficient if the founder or organisation meticulously considers each detail to align with both near term and long-term objectives. Many aspects must be considered, from entity formation and licensing, to the choice of legal fund vehicles and distribution strategy. In every industry, start-ups naturally face an uphill battle to differentiate themselves and offer a unique product or service.

This is no different for the asset and wealth management industry, and managers should deliberate meticulously and plan ahead to ensure a successful establishment.

In this guide, we outline the key aspects one should consider when setting up asset management activities in Hong Kong, whether the objective is to operate in the public or private markets.

Entity formation	To set up an entity in Hong Kong, incorporation documents have to be submitted to the Hong Kong Companies Registry (CR), followed by a registration with the Business Registration Office of the Inland Revenue Department (IRD) for the Business Registration Certificate. Most small to medium sized companies in Hong Kong are set up as 'private companies limited by shares', as it is the most common business vehicle for conducting business and trade in Hong Kong.
Licensing regime	Asset and wealth managers that intend to carry on regulated activities (RA) are required to apply for the relevant type(s) of license from the Securities and Futures Commission (SFC). The SFC is the regulator empowered by the Securities and Futures Ordinance (SFO) to oversee companies which conduct regulated activities.
Choice of fund vehicles	In selecting a fund vehicle, managers look for structures known for their efficiency of establishment, cost effectiveness, flexibility, and investor familiarity for ease of fund-raising. The decision whether to set up an offshore or onshore structure depends on the target investor base, tax and other considerations. Hong Kong has the capability to cater to both public and private funds through three different Hong Kong-domiciled fund vehicles: Unit Trusts, Open-ended Fund Companies (OFC) and Limited Partnership Funds (LPF).
Tax considerations	Hong Kong operates a territorial system of taxation whereby only profits sourced in Hong Kong from a trade, profession or business carried on in Hong Kong are generally subject to profits tax. Capital gains and dividends are generally not taxable. The city's tax system is administered by the Inland Revenue Department (IRD) under the Inland Revenue Ordinance (IRO). For funds, Hong Kong offers a profits tax exemption regime that applies to both Hong Kong and non-Hong Kong domiciled funds.
Strategy and operations	The design and implementation of a holistic strategy that focuses on strategic positioning, operational excellence and capital efficiency is key in keeping up with disruption and developments, driven by technological innovation, policy and regulatory changes and changing investor preferences. With this, asset managers must often revisit and refine their operating model to remain fit for the future and stay ahead of the curve.
Distribution and engaging the investor	Investors today expect more when it comes to the breadth and depth of the investment advice they receive. At a minimum, investors expect an integrated platform that provides a holistic view of their portfolio, serving as a one-stop access to market updates and latest research. The importance of a robust client engagement cannot be overemphasised, as it helps to build trust, connect with investors to gain insights and feedback, and promote transparency.

A deep dive into the fundamentals

Entity formation

To set up a legal entity and establish a business presence in Hong Kong, incorporation documents have to be submitted to the Hong Kong Companies Registry (CR), followed by registering with the Business Registration Office of the Inland Revenue Department (IRD) for a Business Registration Certificate.

Most small to medium sized companies in Hong Kong are set up as 'private companies limited by shares', as it is the most common business vehicle for conducting business and trade in Hong Kong.

Types of companies – at a glance

Private company limited by shares

The minimum requirements to establish and maintain a company are:

- a Business Registration Certificate
- one shareholder
- one director
- a company secretary
- significant controller register
- a Hong Kong registered office address
- an Hong Kong registered auditor

A Hong Kong company must hold an annual general meeting (AGM) in respect of each financial year and file an annual return with the CR.

Branch office

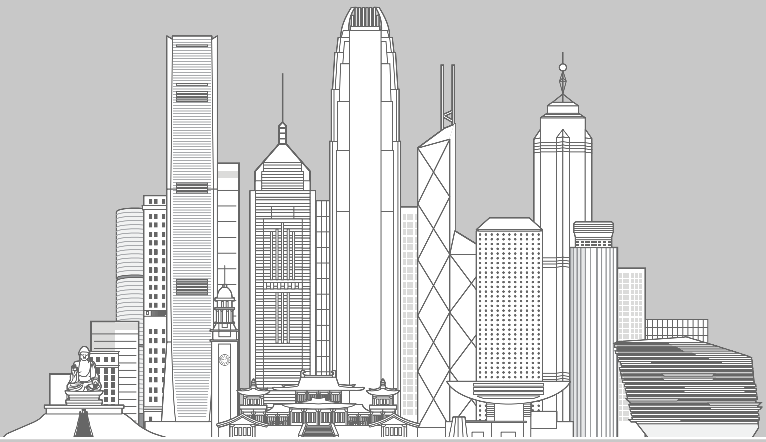
To set up a branch office in Hong Kong, the foreign company must first register as a non-Hong Kong under Part 16 of the Companies Ordinance (i.e. a Hong Kong branch) with the CR, and also apply for a Business Registration Certificate with the IRD within 1 month after establishing a place of business in Hong Kong.

A non-Hong Kong company is required to appoint at least one Authorised Representative in Hong Kong, to accept service of process and any notices required to be served on the company as required by the Companies Ordinance.

Representative office

A representative office (RO) is not treated as a legal entity and its foreign parent company bears all liabilities for the actions of the RO. The RO operates as a cost centre or a temporary administrative office in Hong Kong. It cannot engage in profit generating activities such as engaging in business.

The representative office need not be registered with the CR. However, it must apply for a Business Registration Certificate with the IRD.



After laying down the foundations by setting up an entity, other considerations and challenges will need to be addressed. Below focus areas are not intended to be exhaustive and a snapshot only of some of the key areas.

Operations	Compliance	Human Capital
• How do you ensure you have adequate internal controls and a good corporate governance structure in place?	• How do you keep abreast of the latest tax, accounting and regulatory developments in Hong Kong and ensure you are compliant?	• How will you source talent and make sure that they are onboarded in a seamless manner?
• Which core functions could be considered for outsourcing?	• How do you ensure directors and employees receive ongoing professional training?	• How do you ensure appropriate tools and working practices are in place to support your staff?
• Do you have an integrated accounting and payroll solution and a comprehensive financial reporting process?	• Do you have sufficient and appropriate resources to manage relevant company secretarial and labour law issues?	• In what ways can you empower your workforce with digitalised platforms and solutions to enhance work efficiency?

Fundamentals to consider:

- Structuring an appropriate legal entity.
- Primary setups to facilitate commencement of business, e.g. opening a bank account.
- Employment and remuneration structures (and applicable mobility policies).
- Accounting and payroll administration.
- Pension set-up and contribution matters.
- Management of company secretarial services.
- Employment relationships (both contentious and non-contentious) including employment contracts, employee entitlement and protection, employee documentation, termination disputes and redundancies.

Licensing regime

Depending on the nature of the business, a company and related individual should apply for one or more RA license(s) to conduct the proposed regulated activities. RAs are defined in the SFO and comprise the following types of regulated activities.

Type 1	Dealing in securities
Type 2	Dealing in futures contracts
Type 3	Leveraged foreign exchange trading
Type 4	Advising on securities
Type 5	Advising on futures contracts
Type 6	Advising on corporate finance
Type 7	Providing automated trading services
Type 8	Securities margin financing
Type 9	Asset management
Type 10	Providing credit rating services
Type 11	Dealing in OTC derivative products or advising on OTC derivative products*
Type 12	Providing client clearing services for OTC derivative transactions*
Type 13	Providing depositary services for relevant collective investment schemes (CIS)*

Source: SFC
*Type 11 and 12 RAs will take effect upon the commencement of new a licensing regime for these RAs. Type 13 RA will take effect 2 October 2024.

The processing of an application submitted to the SFC by a new industry participant normally takes approximately:

- **7 business days** (for a provisional licensed representative application);
- **8 weeks** (for a normal licensed representative application);
- **10 weeks** (for a responsible officer application); or
- **15 weeks** (for a licensed corporation application).

Source: SFC

The company is required to fulfil the following principal requirements in order to obtain a license.

A legal structure	Fit and proper criteria	Substantial shareholders	Responsible Officers (ROs)

• Hong Kong incorporated company
• An overseas company registered with the Hong Kong Companies Registry (i.e. a branch)
	• Demonstrate that it is fit and in the following criteria:
	  • financial status or solvency
	  • relevant educational or other qualifications or experience
	  • competent, honest and fair
	  • reputation, character, reliability and financial integrity
		• Fit and proper substantial shareholders, senior management and other employees
		• A substantial shareholder not having a ‘close link’ with the corporate licence applicant may be allowed to provide less information in the application form
			• Appoint not less than two ROs to directly supervise the conduct of each RA being applied for
			• At least one of the proposed ROs must be an Executive Director

Manager-in-charge of core functions (MICs)	**Senior management**	**Licensed Representatives (LRs)**	**Financial resources**

• MICs of overall management oversight function and the key business line function must be ROs	• The senior management that holds the responsibility for ensuring the maintenance of standards of conduct and adherence to procedures includes:
	  • Directors of the corporation,
	  • ROs of the corporation, and
	  • MICs
		• All personnel carrying on regulated activities need to be licensed as a LR (if not an RO)
		• Subject to similar fit and proper requirements as ROs
			• Maintain paid-up share capital and liquid capital at all times not less than the specified amounts according to the Securities and Futures (Financial Resources) Rules

Fundamentals to consider:

- Regulatory and legal requirements and assess areas requiring support.
- What relevant license(s) should be obtained, including any exemptions which the manager may qualify for.
- Preparation of application documents.
- Assessment of compliance with fit and proper criteria and competency requirements.
- Review and monitoring of ongoing regulatory obligations.
- Market intelligence tools for monitoring regulatory and compliance changes.

Choice of fund vehicles

The fund domiciliation question

In recent years, the 'onshorisation' trend of funds has been prevalent, as several developments in the global funds space have impacted the way asset managers approach the fund domiciliation question. Cayman Islands structures are currently still the most popular with investors for offshore structures, as the jurisdiction is known for its speed and efficiency of establishment and cost-effectiveness. However, the debate whether to have an offshore or onshore structure is now not as clear cut, as the former continues to face pressure with greater scrutiny on transparency, compliance and economic substance. Asset managers are increasingly looking to onshore vehicles to match with the jurisdiction where they either do business or invest.

Hong Kong fund structures

Hong Kong provides various legal fund vehicles catered to the industry, with a corporate structure in the form of Open-ended Fund Companies (OFC) and a limited partnership model in the form of Limited Partnership Funds (LPF), complementing the long standing unit trust structure. A unit trust is established under a trust deed and the most common form of unit trust structure in Hong Kong is the two party trust deed. A unit trust is generally set up for asset protection, estate planning, or asset management purposes. Obligations are enacted pursuant to the provisions of the trust deed, the Trustee Ordinance and general common law. Selecting an appropriate trustee for the unit trust is crucial as they will manage the trust assets and ensure compliance with legal requirements. With the aforementioned Hong Kong fund structures, asset and wealth managers have flexibility and the ability to align the domicile of the fund with their commercial substance.

Key features	Open-ended Fund Company (OFC)	Limited Partnership Fund (LPF)
Number of Directors required	2, with at least 1 director independent of the custodian	1 general partner and at least 1 limited partner
Directors' residence requirement	No	No residence requirement for general partner or limited partner
Fund manager	Requires a Type 9 (asset management) licensed Investment Manager under SFC	If no regulated activities under SFO is involved, there is no need to appoint an external licensed investment manager
Auditor	An auditor must be appointed	An auditor must be appointed
Custodian	A custodian must be appointed	No requirement to appoint a custodian, but the GP is under duty to ensure the proper custody of LPF's assets
Minimum capital requirement of the Fund	N/A	N/A
Public availability of Shareholder lists	No	No
Re-domiciliation	Yes	Yes

Hong Kong-domiciled funds – a segue into Mainland China

In various jurisdictions, policymakers have a natural tendency to encourage the use of home domiciled funds, and for Hong Kong, this is no different. Hong Kong-domiciled funds are favoured for the Wealth Management Connect (WMC) scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), and given the vast addressable market for this scheme, it would be practical for asset and wealth managers to have a line up of Hong Kong-domiciled funds in their product suite to realise the compelling opportunities that await.

Ongoing enhancements to the WMC scheme have attracted significant interest from investors and indicate the willingness of policymakers to refine and innovate distribution channels to ensure that the city's market continues to evolve and grow.

Elsewhere, the Mutual Recognition of Funds (MRF) scheme with Mainland China, enables Hong Kong-domiciled funds to be distributed onshore in China to retail and institutional investors.

Mutual Recognition of Funds (MRF)

Facilitates cross-border distribution of Hong Kong-domiciled funds to other jurisdictions, and for asset managers in other jurisdictions to offer funds to investors in Hong Kong. Hong Kong has signed bilateral agreements with the following jurisdictions to date:

Mainland China	May 2015
Switzerland	Dec 2016
France	Jul 2017
United Kingdom	Oct 2018
Luxembourg	Jan 2019
Netherlands	May 2019
Thailand	Jan 2021

Wealth Management Connect (WMC)

Facilitates cross-boundary investment in wealth management products by individual investors within the Guangdong-Hong Kong-Macao GBA region:

Residents of the Mainland cities in the GBA can invest in eligible investment products in Hong Kong and Macao.

Hong Kong / Macao SAR ← Southbound Connect — Mainland Cities in the GBA

Hong Kong / Macao SAR — Northbound Connect → Mainland Cities in the GBA

Residents of Hong Kong and Macao can invest in eligible wealth management products distributed in the GBA.

Facilitating cross border opportunities

Hong Kong has played a vital role in the development of Mainland China's multifaceted capital markets. Market access mechanisms and initiatives such as the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connects have also accelerated fund flows from Mainland China to the Hong Kong stock market, providing ample liquidity support, as well as more investment options for institutional and retail investors in both jurisdictions. Moreover, these market channels have provided international investors access to the capital markets in Mainland China through connections established between the Mainland and Hong Kong markets.

Unique market access channels to and from Mainland China

2002	Qualified Foreign Institutional Investor (QFII)	Invest in onshore equity and bond markets.
2003	Closer Economic Partnership Arrangement (CEPA)	Preferential trade and investment policies.
2006	Qualified Domestic Institutional Investor (QDII)	Allows domestic institutional investors in Mainland China to invest in offshore securities markets.
2010	Qualified Foreign Limited Partnership (QFLP)	Provides qualified offshore investors access to the onshore private equity market.
2011	Renminbi Qualified Foreign Institutional Investor (RQFII)	Extension of QFII to allow renminbi funds raised to invest onshore.
2012	Qualified Domestic Limited Partnership (QDLP)	Provides qualified Mainland investors, such as institutional investors and high net-worth individuals, access to trade in overseas markets.
2014	Shenzhen Qualified Domestic Investment Enterprise (QDIE)	Shenzhen initiated scheme similar to the QDLP.
2014	Shanghai-Hong Kong Stock Connect	International investors can trade Shanghai listed stocks through HKEX and Chinese investors can trade Hong Kong listed stocks through Shanghai Stock Exchange (SSE).
2015	Mutual Recognition of Funds (MRF)	Chinese and Hong Kong retail funds can be distributed to each other's market.
2016	Shenzhen-Hong Kong Stock Connect	Extension of Stock Connect to cover Shenzhen Stock Exchange (SZSE).
2017	Bond Connect	Allows investors from Mainland China and overseas to trade in each other's bond markets.
2021	Wealth Management Connect (WMC)	Retail investors in the Greater Bay Area (GBA) can carry out cross boundary investment in wealth management products.
2022	Inclusion of ETFs in Stock Connect	Expanded scope on Stock Connect to include ETFs.
2022	Swap Connect	Programme which aims to enhance the interconnection of the derivatives market in Mainland China and Hong Kong.

Fundamentals to consider:

- Selection of fund structure and domicile.
- Fund documentation including PPMs, subscription and redemption forms, constitutional documents (LPAs and M&As).
- Fund terms, marketing, documentation standards, investor negotiations and closing.
- Structure and set up of a management business including setting up incentive schemes, seeding arrangements, shareholders' agreements.
- Service provider evaluation, selection and governance.
- Internal control and risk management policies and procedures.
- How best to approach planning for and managing the fund launch.

Tax considerations

Hong Kong's tax system, which is territorial in nature and administered by the IRD under the Inland Revenue Ordinance ('IRO'), is known for its attractive, low and simple rates. It offers both clarity and certainty to those operating in the city. This is key to ensure Hong Kong remains competitive in attracting leading multinational corporations and emerging businesses spanning various industries. Profits tax is payable by every person (defined to include corporations, partnerships, trustee, whether incorporated or unincorporated, or body of persons) carrying on a trade, profession, or business in Hong Kong on profits arising in or derived from Hong Kong from that trade, profession, or business.

In general, the tax residence of a person and the fact that the entity is set up outside Hong Kong are irrelevant, and there is no distinction between residents and non-residents when it comes to liability to profits tax, except in a tax treaty context. Gains and receipts that are capital in nature are not subject to profits tax. Dividends from local companies chargeable to tax are exempt, whereas dividends from overseas companies are generally offshore in nature and not subject to tax in Hong Kong (subject to fulfilling the conditions under the Refined Foreign-Sourced Income Exemption Regime). The tax treatments of public and private companies are the same.

Lastly, Hong Kong has an extensive network of international tax agreements. As at March 2024, Hong Kong has signed comprehensive double taxation agreements (CDTAs) with 49 jurisdictions and is in negotiations with 16 jurisdictions.

Rates - at a glance

Profits tax rates	**Headline rates** – 16.5% for corporations and share of partnership profits by corporate partners; 15% for individuals and share of partnership profits by individual partners (Where conditions apply, subject to two-tier rates, i.e. first HKD2,000,000 of assessable profits at half of the headline rate, with remaining assessable profits at headline rate)
Withholding tax rates	**WHT rates (%) (Dividends / Interest / Royalties)** Resident: 0 / 0 / 0 Non-resident (non-treaty rate): 0 / 0 / 4.95 to 16.5

In the context of Hong Kong's AWM industry, policymakers have been sensitive to the needs of asset and wealth managers, adopting a proactive approach to ensure the city remains competitive with the introduction of legislative changes supporting the city's development. This is essential given the industry is growing at an exponential rate.

Notable ground-breaking changes in recent times include the introduction of a profits tax exemption regime for funds that applies to both Hong Kong and non-Hong Kong domiciled funds, the introduction of a carried interest tax concession and the family-owned investment holding vehicle tax concession.

Funds tax exemption	Carried interest tax concession	Family-owned investment holding vehicle tax concession
• Hong Kong offers a profits tax exemption regime for funds that applies to both Hong Kong and non-Hong Kong domiciled funds. Because of its broad coverage (applying to all privately-offered funds) and unifies all previous profits tax exemptions for private funds into one regime, it is commonly referred to as the Unified Fund Exemption regime (or UFE). • The UFE applies for years of assessment commencing on or after 1 April 2019. • Note that publicly offered funds are exempt from tax (where conditions apply) in Hong Kong under another regime.	• Hong Kong offers concessional tax treatment for carried interest, providing a 0% profits tax rate on eligible carried interest. The concession applies to amounts received by or accrued to a qualifying person on or after 1 April 2020. • Eligible carried interest derived from qualifying transactions by eligible carried interest recipients providing investment management services in Hong Kong to a Hong Kong Monetary Authority certified investment fund can make use of the concessional tax treatment provided substantial activities requirements are met.	• Hong Kong offers concessional tax treatment for family-owned investment holding vehicle, providing a 0% profits tax rate on qualifying transactions. • The concession applies for years of assessment commencing on or after 1 April 2022. • Profits derived from qualifying transactions and incidental transactions (subject to the 5% threshold) by qualified family-owned investment holding vehicles and family-owned special purpose entities whose investment activities are managed by an eligible single family office in Hong Kong can make use of the concessional tax treatment provided substantial activities and net asset value requirements are met.

Fundamentals to consider:

- Tax and transfer pricing planning and management of funds and fund management entities at all stages of the fund lifecycle.
- Review of legal documents relating to fund formation and management (e.g. PPM, LPA, service agreements) from a tax perspective.
- FATCA/CRS filings for the fund and its fund management entities.
- Tax (and transfer pricing) compliance services for funds and fund management / advisory entities.
- Tax health checks and operational review.

Strategy and operations

Strategy

An effective strategy is the cornerstone to success in any business, but given the pace of change in the industry, a strategic model which enables strategic agility, technological innovation and human capital development is paramount. While there are various critical components to enable the optimal strategic model, leaders should equip the workforce with enhanced tools and skills to drive productivity. Recent advances in generative AI highlight how emerging technology can transform the entire value chain whether from operations, finance, research and analytics, risk management, investor relations or compliance.

Investor and shareholder needs are ever-evolving, so ensuring the strategic model is fit for purpose to support future growth is vital. Industry players must adopt client-focused approaches and deepen relationships with principal stakeholders to uncover new areas of growth. With this, industry players can also look to M&A and strategic partnerships to capitalise on shared revenue opportunities, build capabilities, broaden distribution channels and expand into emerging asset classes or investor segments.

Considerations for future-fit organisations

Strategic positioning
Focus on core competencies and meeting investor expectations

Technology transformation
Consider use of disruptive and emerging technologies

Product pivot
Tailor products to changing investor expectations

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

Workforce of the future
Retain and attract talented individuals with improved productivity

Operational excellence
Deliver at scale amid cost and competitive pressures

Distribution refresh
Embrace distribution networks and get closer to the investor

Exit strategies
Seize the opportunity to secure the future for stakeholders

Operations

The operating model of an asset and wealth manager is designed to ensure effective investment management, investor satisfaction and operational efficiency. The right operating model may vary depending on the size, scope, and specialisation of the firm. Only by developing a fit for purpose operating model can firms thrive. By creating an integrated operating model which streamlines the workflow across the front office, middle office to back office functions, industry players will be better positioned to act on sudden market changes - including shifts in investor behaviors and demands, as well as emerging trends and developments.

More so than ever, asset and wealth managers are expected to leverage new technologies that enable their business to grow at a lower cost. A shift in investor expectations has also led to industry players expanding into new client segments and diversifying their product offering, requiring a ramp-up in the scale of operations. Revisiting the current operating model often is essential to ensure that one remains relevant. Firms that do not evolve operationally over time face disruption, risk irrelevance or, even if successful in growing, become too complicated to be managed effectively.

Front office	Middle office	Back office
▪ Sales and Marketing ▪ Investor Relations ▪ Research and Analytics ▪ Investment Strategy ▪ Trade Execution	▪ Risk Management ▪ Trade and Order Management ▪ Valuation and Pricing ▪ Treasury Management	▪ Settlement and Reconciliation ▪ IT and cybersecurity ▪ Performance and Reporting ▪ Compliance ▪ Data Management

Pain points across the value chain

▪ Time consuming and tedious fundraising and networking process. ▪ Lower yield and outreach success rates to investment opportunities. ▪ Investment and deals sourcing is resource intensive.	▪ Fragmentated steps within the workflow and requires various third parties at different stages. ▪ A lack of a 'single source of truth' posing a challenge to pull information together. ▪ Data inconsistency and insufficiency.	▪ Manual 'business as usual' processes handling increasingly complex operations. ▪ New regulatory requirements leading to high costs to adapt ▪ Ever-evolving threats in cybersecurity.

With many moving parts, one approach that is swiftly growing in prominence is the outsourcing of certain parts of the value chain. With this outsourcing model, the resulting simplification of end-to-end activities enables an asset manager to focus on its core objective, investment management. Industry players are streamlining the often siloed front, middle and back-office operations to create efficiency gains, cost savings and scalability benefits.

Outsourcing to specialised vendors and service providers not only provides expertise and more eyes on what matters, but it also enables the asset and wealth managers to focus on the areas they have key expertise in. Industry players need to think about their operations strategically to fuel their growth and remain fit for the future. A resilient firm should be able to weather change and be agile to prepare for an ever-evolving environment.

Ensuring a fit for purpose operating model

Tools and technology The toolkit required to enable efficient execution of processes and analytics for insights	**People and organisation** Roles and responsibilities of people and reporting lines	**Workflow processes** How information flows across levels and people
Incentives and metrics Key performance indicators used to measure performance	**Culture and wellbeing** How people think and feel and what drives a common goal	**Governance interactions** Decision making processes and operating guidelines

The cybersecurity challenge

Organisational security is also top of mind of most strategic leaders and industry players are increasingly developing and implementing a robust infrastructure around information protection that includes sensitive, private and confidential data.

Paying close attention to cybersecurity, social media, and systems access and security are a must. Many firms are vulnerable to cyberattacks, and asset and wealth managers are particularly attractive targets in the eyes of cybercriminals. An approach to cybersecurity should be proactive rather than reactive, with the key being to understand and manage risks before trouble strikes.

As more data is generated and shared, it becomes the lifeblood of the interconnected business ecosystem, making it increasingly valuable for firms but also for skilled threat actors. Digitalisation raises an increasing risk of cybersecurity threats and vulnerabilities, and it is critical for asset and wealth managers to develop an effective and agile approach to cybersecurity and privacy.

In the context of Hong Kong, cybersecurity is a major focus of the regulator's supervision of licensed corporations. Licensed corporations are expected to comply with the system security-related requirements specified in the Code of Conduct, in addition to adopting best practices in the industry.

Fundamentals to consider:

- Assessment of the competitive landscape and detect trends which could impact an organisation's strategic imperatives.
- Best practices to win over stakeholders and ensure alignment between organisation strategy, processes and culture.
- Activities to be performed in-house and those to be outsourced.
- Ensure optimal functioning and benchmarking against leading practices.
- Review of compliance process and outcomes.
- Cybersecurity technologies and managing them to deliver operational improvements.

Distribution and engaging with investors

A robust distribution strategy should identify the specific requirements and best practices for the investment funds you wish to distribute. Asset and wealth managers need to be aware of the regulatory landscape, reporting rules and a myriad of other requirements that can evolve over time. The speed of change in the distribution landscape is picking up as a profound shift in the demographics of the investor base and technological innovation accelerate the pace of change. This will impact all stakeholders, from the asset manager, the distributor, right down to the end investor.

In recent years Hong Kong has seen a new breed of technology-driven actors, such as digital-first wealth advisors and platforms, enter the market with new business models and provide new avenues for product manufacturers to distribute their products and solutions. Overall, these developments have a positive impact as new entrants entering enable investors to gain exposure to a wider variety of asset classes and niche markets. With this, market incumbents such as retail banks, private banks and insurance companies have also been enhancing their distribution efforts to ensure they remain fit for purpose in a shifting landscape that raises new decisions on how to reach the end-investor. The increasing need for control over distribution and client relationships is likely to be pivotal in the design of new product strategies and distribution tactics.

The desired client engagement model is also changing as investors' needs and expectations evolve. The industry has become increasingly digitalised with investors looking more towards asset and wealth managers who can tailor portfolios to their needs. At a minimum, investors expect an integrated platform that provides a holistic view of their portfolio, serving as a one-stop access to market updates and latest research. Moreover, investors are also expecting their managers to bring actional insights and in-depth investment advice though multi-channels. Against this backdrop, it is paramount firms refine their strategies, channels, and activities that they employ to communicate and interact with their investors and other stakeholders.

Investor education and empowerment is another theme which has gained traction in the client engagement model. With an ever increasing amount of information presented to investors, decision making can be difficult in a world of fast moving markets and information overload. Therefore, to assist the investor in making investment decisions, industry players, especially digital-first platforms, are offering advice and portfolio management services, which can be fully delegated or assisted.

Fundamentals to consider:

- A roadmap for a successful distribution strategy.
- Assessments of the fund registrations performed and obtaining authorisations for marketing activities.
- Selection of distributors and assessing their compliance with regulations.
- Benchmarking of a distributors' efficiency and effectiveness in fund distribution.
- Providing a seamless client experience journey which is elevated by leading tech solutions.
- Becoming top of mind to target investors and ensuring product suite can cater to their needs.

Shaping your journey

Establishing and managing your investment management activities in Hong Kong

Hong Kong's dynamism alongside broader developments in Asia Pacific's financial markets make the city the destination of choice for setting up or expanding asset management activities. Setting up and launching an asset management business in any jurisdiction is not an easy undertaking, but given the infrastructure already in place for Hong Kong, and the proactive nature of policymakers and industry participants to enhance and refine the city's development blueprint to ensure it remains future-proof, Hong Kong has all the right ingredients to enable any successful launch or expansion.

PwC has the knowledge, experience and network to help you achieve quick and efficient market entry, create a successful distribution strategy, and ensure your management company and legal fund vehicle remains in compliance with all regulatory and tax reporting requirements.

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