Asset & Wealth Management: Hong Kong

— Your destination of choice

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The Asset and Wealth Management ("AWM") industry in Hong Kong has grown significantly since the early 1990s with assets under management ("AUM") now representing over US$4.5 trillion. Hong Kong's successful development as a best-in-class AWM centre 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. These are essential factors that enhance the AWM ecosystem of Hong Kong as a destination of choice for setting up fund management operations and legal fund vehicles, focused on investments not just in Asia, but globally.

Throughout the past three decades, Hong Kong has strived to become the all-encompassing AWM centre of choice in Asia 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.

Going forward, the industry will continue to undergo a transformation journey, which will touch investment products, fund structures, distribution regimes, sustainable finance, human capital and the use of technology, to name a few. With such change and disruption expected driven by technological evolvement and policy and regulatory changes, asset and wealth managers must proactively refine their business strategy as the environment evolves. Moreover, they will require a place to conduct operations in a business-friendly location which is forward looking, encouraging market development and product innovation. Hong Kong is this attractive place to be.

US$4.5 trillion
Assets under management

2,200
Publicly offered authorised funds

1,900
Licensed Corporations Type 9 - Asset Management

47,000
Licensees and registrants

50+
ESG-approved funds

150+
Exchange Traded Products ("ETPs")

64%
Assets sourced from non-Hong Kong investors

US$150 billion
Aggregate Net Asset Value of MPF schemes

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

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Fundamentals to consider from starting up to your desired future state

Starting a management company and launching new fund products is a complex process and not an easy undertaking. 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 AWM industry, and asset and wealth managers should deliberate meticulously and plan ahead to ensure a successful launch.

In this guide, we outline the key aspects one should consider when setting up a presence in Hong Kong, whether the objective is to operate in the traditional or alternative assets space or launch public or private funds. While this guide highlights some of the key areas and first steps in setting up and launching fund products in the city, there are other focus areas for consideration, from seeding arrangements, capital raising, cybersecurity and service provider selection, to name a few.

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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. There are various principal types of companies, with the private company limited by shares being the most common type.

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 regulated activities and companies which conduct regulated activities.

Choice of fund vehicles

In selecting a fund vehicle, asset and wealth managers look for structures known for their efficiency of establishment, cost effectiveness, flexibility, and investor familiarity for ease of fund-raising. Ultimately, the decision whether to set up an offshore or onshore structure depends on the target investor base, tax and other considerations. With regard to Hong Kong, the city 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 simple 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 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.

Distribution

The basic blocks of an effective marketing and distribution strategy to target investors will primarily be determined by whether the asset and wealth manager operates in the public funds or private funds space. Intermediaries and fund distributors play a key role in the value chain and the concentration of these players presents both opportunities and challenges.

Business strategy

With the ever-evolving dynamics in the AWM industry, the design and implementation of an agile and effective operating model is essential in keeping up with disruption and developments, driven by technological evolvement, policy and regulatory changes, and changing investor preferences and needs.

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Entity formation

Hong Kong possesses a wide range of competitive advantages that have long established the city as one of the world's most attractive destinations for doing businesses. The city is one of the most reputable AWM centres in the world and acting as the gateway to Mainland China, setting up an entity in Hong Kong as a base for further expansion is an optimal option. 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. There are various principal types of companies, with the private company limited by shares being the most common type.

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

A non-Hong Kong company (i.e. a foreign company) must be registered as a non-Hong Kong company under Part 16 of the Companies Ordinance (i.e. a Hong Kong branch) with the CR and 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.

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After laying down the foundations by setting up an entity, other considerations and challenges will need to be addressed.

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

How PwC can help you?

- Advise on appropriate legal entity structure
- Assist with primary setups to facilitate commencement of business, e.g. opening a bank account
- Advise on employment and remuneration structures and analyse applicable mobility policies
- Accounting and payroll administration and pension set-up and contribution matters
- Act as company secretary and provide company secretarial services
- Advising on all aspects of the employment relationship (both contentious and non-contentious) including employment contracts, employee entitlement and protection, employee documentation, termination disputes and redundancies

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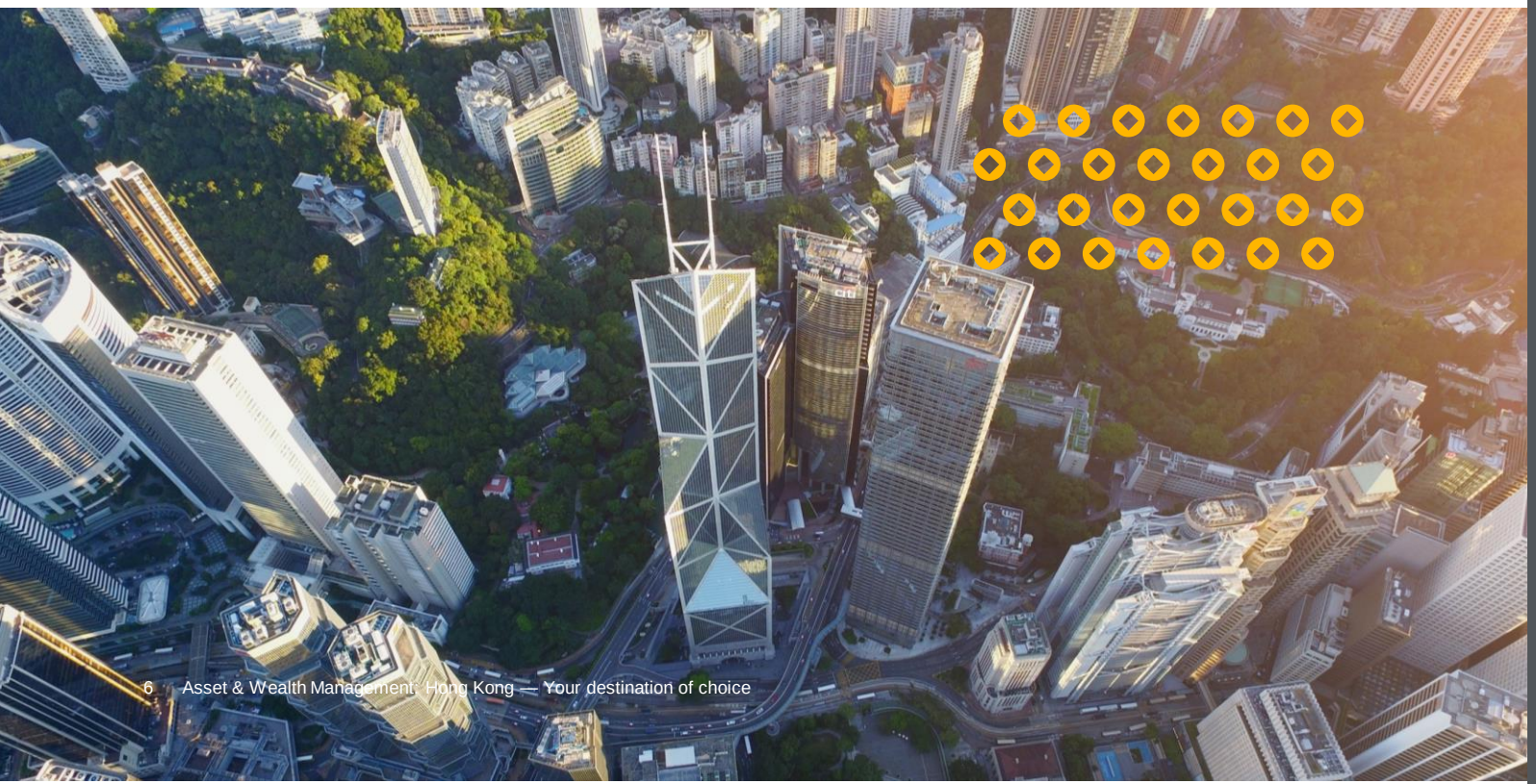
Licensing regime

Depending on the nature of the business, a company and related individual should apply for one or more RA licence(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



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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	Licenced 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 licenced 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

How PwC can help you?

- Help determine which relevant license(s) should be obtained, including any exemptions which the manager may qualify for
- Provide advice to management on the preparation of the application documents
- Help management to assess compliance with fit and proper criteria and competency requirements
- Advise management on ongoing regulatory obligations
- Provide support to address enquiries raised by the regulator after submission
- Ongoing regulatory support post licensing
- Market intelligence tools for monitoring regulatory and compliance changes

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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 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. With these, asset and wealth managers have flexibility and the ability to align the domicile of the fund with their commercial substance in Hong Kong.

Unit Trust	Open-ended Fund Company ("OFC")	Limited Partnership Fund ("LPF")
• The manager and the trustee are the key operating parties. • The trustee must act in the best interests of the investors, and exercise a supervisory role. • The assets of a retail fund must be held by the trustee. • A trust has no separate legal personality and is not deemed a person under the IRO. • The most common form of unit trust structure in Hong Kong is the two party trust deed. • Publicly offered unit trusts must be authorised by the SFC and are subject to the requirements of the SFC Products Handbook which includes the Code on Unit Trusts ("UT Code"). • The auditor appointment must be independent of the management company and trustee.	• An Instrument of Incorporation ("IoI") serves as the constitutive document. • Private OFCs can invest in all asset classes without limit. Public OFCs are subject to relevant restrictions consistent with other public funds. • Custodian should meet the eligibility requirements set out in the UT Code for SFC-authorized funds or be an intermediary licensed or registered for Type 1 regulated activity. • Streamlined approach for the establishment of an OFC, where the procedures represent a registration rather than a authorization process. • Can be an umbrella fund structure which provides flexibility for investment managers to establish sub-funds with different strategies. • Minimum of two directors. • Must appoint a Hong Kong domiciled, SFC licensed manager.	• Constituted by a limited partnership agreement and must have a registered office in HK. • Eligible recipients will be able to enjoy a carried interest tax concession arising from eligible transactions. • The GP must ensure that there are proper custody arrangements for the assets of the fund as specified in the limited partnership agreement. • Registered with the Registrar of Companies and obligation to file an annual return. • No minimum capital requirement or statutory investment restrictions. • GP has ultimate responsibility for management and control of the LPF. • The GP must appoint an investment manager (which can be the GP itself) which is a HK resident, a HK incorporated or registered non-HK company.

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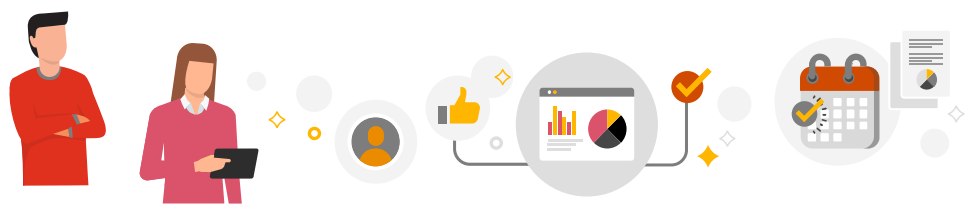
Hong Kong-domiciled funds – a segue into Mainland China

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 will be 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 as a result of China's gradual opening of its capital markets. 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.



How PwC can help you?

- Advising on structuring funds, choosing the domicile and drafting fund documentation including PPMs, subscription and redemption forms, constitutional documents (LPAs and M&As)
- Advising on fund terms, marketing, documentation standards, investor negotiations and ongoing support following closing
- Advising on structuring and setting up a management business including setting up incentive schemes, seeding arrangements, shareholders' agreements
- Audit your legal fund vehicle
- Service provider evaluation, selection and governance
- Advise on internal control and risk management policies and procedures
- A structured approach to planning for and managing the fund launch

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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, which offers both clarity and certainty to those operating in the city. This key to ensuring 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, and sole proprietorships) 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 is 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. The tax treatments of public and private companies are the same.

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, 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

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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, and the introduction of a carried interest tax concession.

Funds tax exemption	Carried interest 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. • Carried interest derived from qualifying transactions by eligible carried interest recipients providing investment management services in Hong Kong to an Hong Kong Monetary Authority certified investment fund can make use of the concessional tax treatment provided substantial activities requirements are met.

How PwC can help you?

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

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Distribution strategy

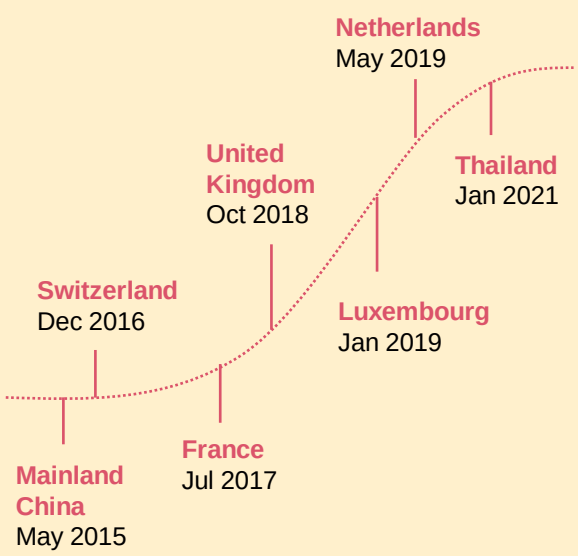
Currently, traditional retail banks dominate the sale of mutual funds, while there is no leading channel for private funds, with these being distributed through a number of channels. Going forward, traditional distribution channels will remain important for mutual funds. However, emerging channels bolstered by technological developments are expected to create disruption given their differentiated service innovation, ease and convenience of transacting, and relevance to a younger cohort of investors who are more inclined to transact through digital venues. Fund distribution in Hong Kong will likely see some level of fragmentation as retail banks face increasing competition from e-Platforms and direct sale ("B2C") channels. On the latter, asset managers opting to utilise direct distribution are required to take direct responsibility for aspects such as investor suitability, Anti-Money Laundering ("AML"), cybersecurity, and data privacy, to name a few, rather than relying on the distributing banks.

Hong Kong as a springboard to tap into Mainland China and beyond

Market developments such as the MRF scheme and WMC scheme in the Guangdong-Hong Kong-Macao GBA have attracted significant interest from investors and indicate the willingness of policymakers to innovate distribution channels to ensure that the city's market continues to evolve and grow.

Mutual Recognition of Funds ("MRF")

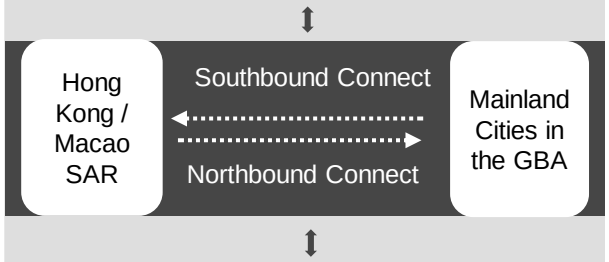
Facilitates cross-border distribution of Hong Kong-domiciled funds to other jurisdictions, and for asset managers in other jurisdictions to offer funds to investors in Hong Kong. Hong Kong has signed bilateral agreements with the following jurisdictions to date:



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 distributed by banks in Hong Kong and Macao by opening designated investment accounts with these banks.



Residents of Hong Kong and Macao can invest in eligible wealth management products distributed by Mainland banks in the GBA by opening designated investment accounts with these banks.

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Non-Hong Kong investors are a major source of funding for the AWM industry in Hong Kong, accounting for 64% of AUM, illustrating that the city is a major international fund management centre. In particular, the city has successfully enabled foreign players to access Mainland China's investor base, as Chinese household wealth, which is still primarily invested in real estate and bank deposits, continues to create significant opportunities for asset and wealth managers, as structural and regulatory reforms take shape in Mainland China. Given Hong Kong's role as the gateway to international markets for Mainland China, the city will also naturally be the first port of call for Chinese investors to access a broader range of foreign investments, directly or indirectly.

Various ways into (and out of) Mainland China

2002	*Qualifying Foreign Institutional Investor (QFII)
2010	China Interbank Bond Market (CIBM) Direct
2010	Qualified Foreign Limited Partner ("QFLP")
2011	*Renminbi QFII (RQFII)
2012	Qualified Domestic Limited Partner ("QDLP")
2014	Shanghai-Hong Kong Stock Connect
2015	Mutual Recognition of Funds ("MRF")
2016	Shenzhen-Hong Kong Stock Connect
2017	Bond Connect
2021	Wealth Management Connect ("WMC")

*The inbound investment schemes of QFII and RQFII were merged as of 1 November 2020
Note: The above is not an exhaustive list

How PwC can help you?

- Understand the business activities and provide advice on creating a roadmap for a successful distribution strategy
- Assist in obtaining required authorisations for marketing in jurisdictions earmarked for distribution
- Provide an assessment of the fund registrations you have performed in your chosen jurisdictions
- Provide assistance with selection of distributors, assessing their compliance with regulations
- Benchmarking of a distributors' efficiency and effectiveness in fund distribution
- Advise on the adoption, regulatory compliance and risk management of technologies and operational procedures

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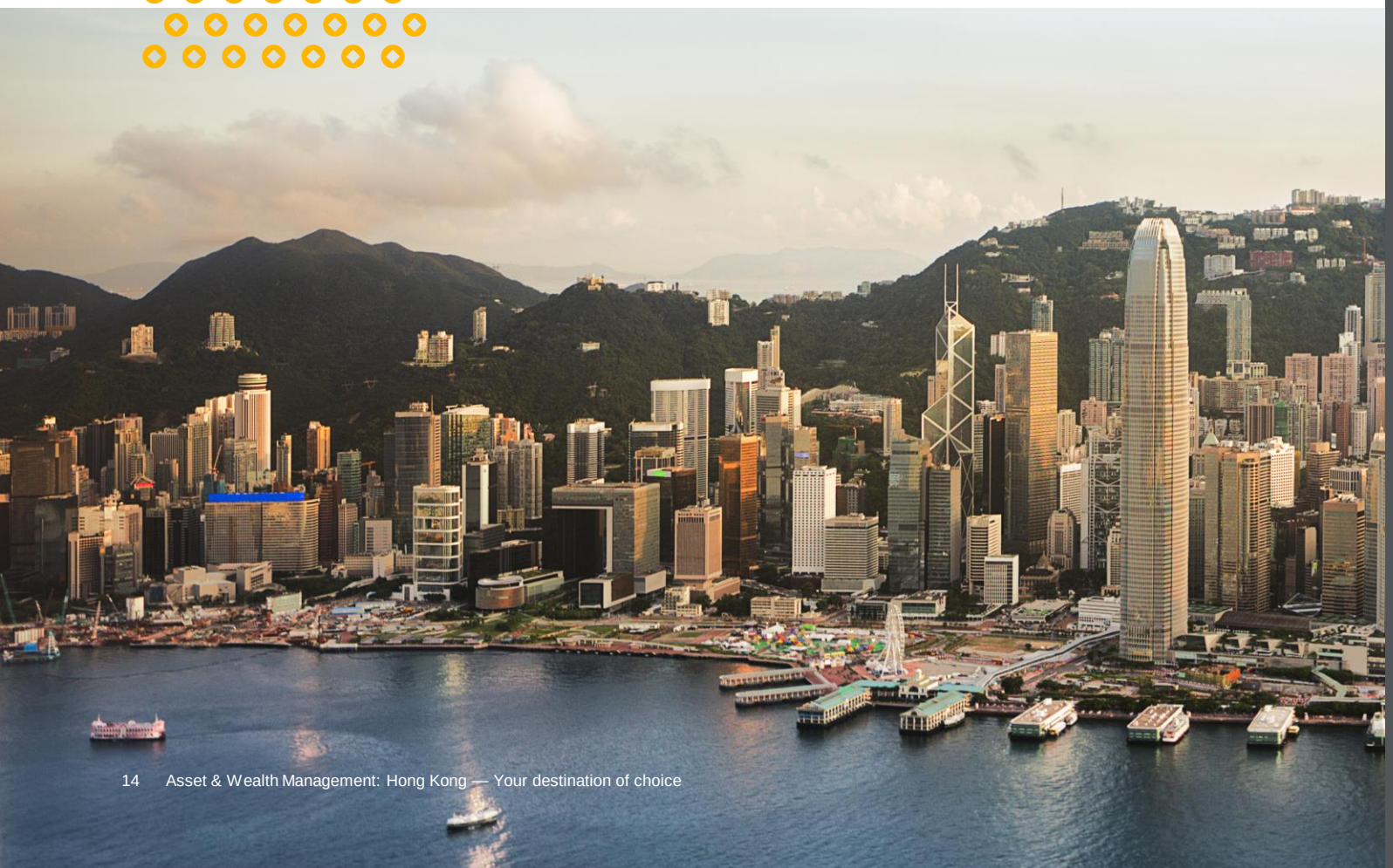
Business strategy

The AWM industry in Asia is predicted to experience a significant rise in AUM over the coming years, and developments in the global economic environment have pushed asset and wealth managers to the forefront of societal and economic change. In the context of Hong Kong, the secular trend is also taking shape as asset and wealth managers are pursuing growth in revenue, margins and profits, in tandem to strategic priorities which reflect ESG and sustainability issues. The need for increased and sustainable long-term investment returns, to make a difference across the pressing issues facing the world today and tomorrow, will require asset and wealth managers to refine their operating models to ensure these are not just fit-for-growth, but fit-for-purpose and aligned with societal changes.

An effective operating model is the cornerstone to success in any business, but given the pace of change in the AWM industry, a model which enables strategic agility, technological innovation and human capital development linking the often siloed front, middle and back-office is paramount. While there are various critical components to enable the optimal model, management should equip the leaders, business and functions with enhanced tools and skills to drive productivity. Given the AWM industry is at an inflection point, whereby investor and shareholder needs are changing, ensuring the operating model is scalable, before external pressures build further will support future growth. The continued prevalence of ESG investing has also added another dimension, meaning other stakeholder needs have come to the forefront. Incorporating ESG elements across the operating model is a must as investor demand and evolving regulations continue to require asset and wealth managers to upgrade core processes to embrace ESG investing.



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Considerations for a future-fit operating model and next steps

Strategic positioning	Technology transformation	Human capital
• Cost pressures from regulations and compliance • Products and services continuously evolve • Competitive service offerings from a new breed of players	• Transformation of core and non-core business functions • Push for innovation creating efficiencies • Automation to drive a quantum leap	• Younger cohort of workers seeking firms that reflect their values • The future of jobs as Artificial Intelligence becomes mainstream • Need for tech-savvy talent and embedding a digital culture

Asset and wealth managers must proactively refine their operating model as the environment evolves and they will need to act on the following…

• Alignment with investors' interests • Refocus strategic position • Front to back office synergies	• Investment in digital and tech • Develop data core competencies • Explore benefits from blockchain	• Attract new talent • Upskill current talent • Revisit firms' culture

How PwC can help you?

- Analyse changing market and investor needs to understand the key opportunities and challenges
- Assess the competitive landscape and detect trends which could impact the operating model
- Assess and design a cost efficient and scalable operating model to meet your business objectives
- Assess technology solutions to automate and optimise your operating model
- Win over stakeholders to ensure that organisation's strategy, processes and culture is aligned

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Shaping your future together

Our holistic team

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Establishing and managing your investment management activities in Hong Kong

Hong Kong's dynamism alongside broader developments in Asia's financial markets make the city the destination of choice for setting up or expanding investment management activities. Hong Kong's status as an international financial centre, the core competency of its economy, and its strategic importance to Mainland China's ongoing liberalisation policies, ensures the city is well placed to realise compelling opportunities ahead.

Setting up and launching a fund 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. Whether the plan is to operate in the traditional or alternative assets space, or to launch products in the public or private space, Hong Kong is seen as the nexus of Asia for asset and wealth managers to capture the opportunities in the region. AUM in the Asian region, including traditional and alternative investments are expected to accelerate 7.4% CAGR during 2020-2025, reaching US$26.2 trillion in 2025 making up approximately one-fifth of global AUM, and any organisation with a presence in Hong Kong is well placed to reap the benefits.

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Our team 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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