

Press Release
Future Fund established
Friday, December 18, 2015

The Government announced today (December 18) the establishment of the Future Fund with effect from January 1, 2016, with a view to securing higher investment returns for the fiscal reserves.

"The Future Fund will be established administratively and will remain an integral part of the fiscal reserves. It will have an initial endowment of \$219.7 billion notionally held against the Land Fund. Thereafter, the Government may provide periodic top-ups for the Future Fund," a Government spokesman said.

Upon establishment of the Future Fund, the remaining part of the fiscal reserves will be referred to as Operating and Capital Reserves (OCR).

The Future Fund will be placed with the Exchange Fund for an initial 10-year investment period. About 50 per cent of the Future Fund will be set aside for incremental placement with the Exchange Fund's Long-Term Growth Portfolio (LTGP) to be built up gradually over a period of around three years, which includes private equities and investments in properties outside Hong Kong. The rest will be placed with the Exchange Fund's Investment Portfolio (as with the OCR) or other investment assets.

"The LTGP of the Exchange Fund provides an alternative investment option for the Future Fund, which aims to achieve within acceptable risks a return that is higher over the medium to long term than the return for the rest of the fiscal reserves under the present arrangements between the Government and the Hong Kong Monetary Authority (HKMA)," the spokesman explained.

"In line with the long-term investment objectives, the investment returns arising from the Future Fund during the course of the placement shall be retained by the Exchange Fund for reinvestment. Interest on the Future Fund placement with the Exchange Fund shall be due for payment to the Government upon completion of the placement period," he added.

The Future Fund would be subject to the same investment management regime and oversight by the Exchange Fund Advisory Committee. Separately,

the HKMA should consult the Financial Secretary and the Secretary for Financial Services and the Treasury once a year on the asset allocation for the Future Fund.

The management and utilisation of the Future Fund should continue to be bound by the legislative and governance framework under the Resolution on the Land Fund and the Public Finance Ordinance.

As a long-term savings scheme, withdrawal of the Future Fund before December 31, 2025, is not allowed except in emergencies. Expenditure from the Future Fund would require approval of the Legislative Council under the existing legislation.

"As a long-term savings scheme, we hope that the Future Fund can bring about more aggressive returns to support our increasing spending needs in future. It is not a total solution but would help alleviate the pressure of our future generations," the spokesman added.

As unveiled by the long-term projections set out in the Report of the Working Group on Long-Term Fiscal Planning, the Government's overall fiscal position in the short to medium term remains healthy. However, in the face of an ageing population and slowing economic growth, a structural deficit could surface within a decade or so should government expenditure growth keep exceeding Gross Domestic Product and revenue growth. In addition to promoting economic growth and containing expenditure, as well as preserving, stabilising and broadening the revenue base, the Working Group recommended that a savings scheme be established.

The Financial Secretary announced in his Budget Speech for 2015-16 the decision to establish a Future Fund for placement in longer term investments with a view to securing higher returns.

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