HK私投募資VCA
香港創業及私募投資協會
The Association for Private Capital in Asia

April 12, 2022

Dear Paul,

Suggestions for Dealing with the Exodus of Talent

The Hong Kong Venture Capital and Private Equity Association (HKVCA) is pleased that the HKSAR government has implemented policies aimed at strengthening the private equity and venture capital (PE and VC) industry in recent years. These policies, including implementation of a limited partnership fund regime, the concession tax rate for carried interest and creation of the Hong Kong Growth Portfolio, have helped cement Hong Kong as a PE fund hub in the Asia Pacific region.

The HKVCA works to promote and protect the interests of PE and VC practitioners in Asia, and in particular in Hong Kong. One of the missions of the Association is to encourage more institutional investors, PE and VC firms, as well as service providers, to establish operations in Hong Kong. However, the inability to travel in the last two years has created a major issue for both locally-based fund managers and their investors. With most countries having quarantine-free travel measurements in place, continuing this restrictive policy discourages and badly hampers the industry in Hong Kong. Thus, we hope the government will consider the following suggestions aimed at dealing with an ongoing exodus of talent:

i) Relaxation of Quarantine Requirements for Inbound Travelers

The 7-day quarantine requirement remains a significant issue for our industry. Fund managers are reluctant to travel abroad to conduct due diligence or raise funding, while investors are avoiding investing in Hong Kong-based managers who they cannot meet in person.

Due to these restrictions, a number of fund managers have taken the decision to move their Asian headquarters to Singapore where there is no requirement for quarantine and they can connect with their business partners, and pursue opportunities, in person. As the uncertainty around lifting the restrictions remains, a significant of numbers of Hong Kong professionals have now relocated to Singapore permanently.

With such a large amount of business exiting Hong Kong, international event organisers focused on the industry have shifted their annual conferences to Singapore with effect this year. For instance, AVCJ had hosted their flagship PE/VC forum in HK annually since their establishment; and SuperReturn Asia, who had been running their annual Asia conference in HK since year 2006. But now both event organisers moved their 2022 event to Singapore. A number of events organized alongside these industry conferences are now being hosted in Singapore instead.

In addition to losing business and opportunities to Singapore, many mainland China-focused fund managers have declined to travel to Hong Kong, again because of the quarantine requirements, and some have decided to remain in mainland China with operations moved to Shanghai and/or Shenzhen instead.

ii) Lifting of the Flight Suspension Mechanism

International business travellers face extreme difficulty reserving flights under the suspension mechanism, which discourages airlines from flying to Hong Kong daily. In order to avoid suspension, airlines are scheduling flights with less frequency.

Although some fund managers might under some circumstances be willing to bear 7 days of quarantine, they remain unable to book flights to Hong Kong as they could prior to the pandemic. This continues to be a serious issue for Hong Kong despite the fact that most countries are completely open to incoming travellers. Again, the choice being made by industry professionals is to fly to Singapore or other countries rather than Hong Kong.

iii) Talent Leaving with their Families

Both local Hong Kongers and expats, including junior and mid-level staff, are departing Hong Kong permanently with their families. These people are well-educated and highly professional, a fact recognized by Singapore and other Asian countries. These permanent departures create not just an immediate talent problem, but a long term one as well as future talent leaves the territory.

We recommend that the Hong Kong government implement effective polices aimed at retaining talent and their families. While some measure of tax breaks would be part of a solution, non-monetary incentives are also important if we hope to retain talent in the longer run.

<u>Conclusion</u>

The HKVCA is gratified that the government has been open to hearing our industry's feedback on many important financial policies. The Association would be keen to submit further comments to provide additional details around the discussion in this letter, proposals which we believe are necessary to prevent a greater exodus of talent and significant weakening of Hong Kong's economic standing as a regional financial centre in the long run.

Your Sincerely,

徐純仁

Rebecca Xu
Co-founder & Managing Director, Asia Alternatives;
Chairwoman, HKVCA

About the HKVCA

The HKVCA is a member-based trade association which was established in Hong Kong in 1987. It currently has 480 members of whom 300 are Hong Kong based private equity managers across the full spectrum of the industry from venture capital, through growth capital and growth buyouts to institutional fund investors, fund of funds and secondary investors. The HKVCA represents small teams investing in start-ups as well as the world's 10 largest private equity firms.