

The Hon. Mr Paul CHAN Mo-po, GBM, GBS, MH, JP
Financial Secretary
25/F, Central Government Offices
2 Tim Mei Avenue
Tamar

3rd January 2022

Dear Paul,

Suggestions for the 2022-23 Budget Speech Consultation Session – Financial Services

The Hong Kong Venture Capital and Private Equity Association (HKVCA) is pleased to have been invited to attend the consultation session for the financial services section of the 2022-23 Budget Speech. We have the following suggestions, aimed largely at attracting more private equity and venture capital practitioners to reside in Hong Kong as well as measures to vitalize the fund management industry in the long run.

i) Hong Kong Growth Portfolio (HKGP)

The HKVCA supports the establishment of the HKGP as a mechanism to invest in companies with a Hong Kong nexus through private equity and venture capital managers. The first phase of investment was deployed to three large-scale Pan-Asian managers focusing on late stage/buyout strategies which we applaud. However, in order for these funds to reach those early-stage Hong Kong tech companies, the HKVCA recommends that the remaining mandates be allocated to home-grown Hong Kong-based fund managers or managers with substantial commitment to Hong Kong pursuant to the following strategies:

- **Venture:** Venture capital firms are the key financiers behind startups. It is their capital that supports the technology sector as well as nurtures early-stage companies. Local VC firms have strong links with numerous startup communities, and have very effective access to unique deal flows.

Nevertheless, some local VC funds and startups lack the essential ability to expand their teams and deploy follow-on investments to their better performed investees due to limited capital. Investing in VC funds could increase their resources accordingly, as well as deploy capital to investees. This new capital would strongly support job creation in both the VC and technology industries, working to develop talent locally and attract more experts from overseas.

- **Distressed/Private Credit:** Money can also be allocated to fund managers who commit capital to distressed businesses/industries. There are a number of PE funds applying mezzanine, NPL and distressed debt financing strategies in Hong Kong, and we can and have

leveraged their expertise to support those companies during the pandemic, thereby helping to lower the unemployment rate in certain vulnerable industries, in particular to support Hong Kong SMEs to overcome the challenges.

- **State-owned GPs with a Hong Kong Presence:** Some China/state-owned companies are willing to work with Hong Kong GPs to build greater links between Hong Kong and mainland China and foster deals, especially within the GBA.
- **Impact Investing:** Committing capital to ESG/climate-change focused private funds is an effective way to promote green finance at the institutional level. However, this ambition is not achievable without government support. With ESG funds still struggling to raise money from mainstream LPs, we recommend that sovereign wealth funds inject capital into impact PE/VC investment funds regularly.

ii) **Quarantine Requirements**

AmCham and other business chambers have conducted a number of surveys which clearly indicate that talent is increasingly considering leaving Hong Kong if pandemic restrictions are not lifted. Likewise, a number of senior management representatives from global financial institutions have reported that they are struggling to retain staff under the current COVID-19 rules. To ensure there is not a sustained, long-term impact on Hong Kong's role as an international finance center, it is increasingly essential that Hong Kong relax travel restrictions with the mainland and the rest of world for those industry practitioners who are fully vaccinated, allowing them to conduct business as needed.

iii) **Private Equity Policies in Hong Kong**

The HKVCA appreciates the various government agencies that have reached out to us on ways to optimize private equity policies ahead of implementation. We are discussing with both IRD and the HKMA issues around application of the concession tax rate for carried interest, including auditor reports, IRD annex forms, etc.

The industry welcomes a "light touch" approach similar to that of the unified tax exemption. We also recommend expanding the scope to private credit funds and fund of funds in the near future.

iv) **MPF Investing Strategy**

Apart from LPFs and tax concession, we suggest expanding the current MPF investing strategy to private funds, in particular to listed PE funds. Returns from PE funds outperform public equities and other asset classes. The flexibility of the investment horizon and the GP-LP alignment structure result in the generation of returns, even amid recession. The addition of PE funds as an option under the MPF

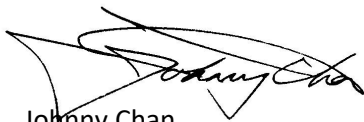
scheme would enable Hong Kong employees to achieve better risk diversification and enjoy higher long term returns, as well as serving to strengthen the financial centre position of Hong Kong.

Conclusion

The HKVCA appreciates that the government has been open to hearing feedback from our industry and has implemented a number of favorable policies. The Association would be keen to submit further comments providing additional details around the proposals discussed in this letter, proposals which we believe enhance Hong Kong's position as a PE fund hub.

We are at your disposal should you wish to discuss further as you finalize the budget speech.

Your Sincerely,



Johnny Chan
President & Executive Director, HKVCA

About the HKVCA

The HKVCA is a member-based trade association was established in Hong Kong in 1987. It currently has 480 members, of whom 300 are Hong Kong based private equity managers. Our members work 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 startups as well as the world's 10 largest private equity firms.