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Urgent
Return Receipt

To: raymondtam@cpu.gov.hk
cc:
Subject: follow up ideasafter meeting

Dear Raymond,
After last meeting of our Committee, I would like to further express my idea in diversification of investment strategic in fiscal reserve.

I observe the different investment models of Singapore (SGIC and Temasek) and China (SAFE Investment "Hui Jin") and have the following viewpoints,

1. Given that China's and thus Hong Kong's economies are likely to be firm to strong in the next few years, CNY and HKD currency trend is stable to appreciation bias and therefore needs of excessive short term liquidity in foreign currency reserve to defend the weak side of the USD/HKD Currency Board System at the expense of investment return strategy should be due for review. The current size of Monetary Reserve is perhaps "sufficient".

2. SGIC and Temasek, via direct investement and their subsidiary funds such as private equity and venture capital funds, have successfully captured the economic boom in China and Hong Kong in various sectors such as properties, port facilities and pre-IPO strategic shareholdings not just limited to State Owned Banks. Of course there have been unsuccessful examples too such as Shouzhou Technology Park, but it is a matter of timing, fund manager skill-set and policy and economic environment. The fact is that Singapore 's Reserve has attained good retrun by an allocation of reserve strategy Hong Kogn is not adopting.

3. China's SAFE Investemnt company is now transforming from a Financial System Restructuring engine into a commercially run restructuring and private equity fund, with a view to exercise shareholding infleuence to ask for better management and thus return from financial institutions that SAFE has a stake and also there has been an expression of view that they may sell non-core shareholdings such as securities companies if price is realistic and materialise their investemnt.

4. Singapore's asset allocation strategy with a certain portion moving into long term investment, even to non-financial assets is now highly appreciated and becomes a model of great study interest among investor world,

5. Hong Kong has to prepare possible changes in the Currency Board System once CNY is fully convertible tho' it can be agrued that this is still a remote issue. If CNY is fully convertible at an exchange rate substantially below 1 USD= 7.8 CNY, Hong Kong's foreign currency reserve may suffer a very substantial loss. Monetary Reserve is agruely inevitable, but not our fiscal reserve. To establish a stategic investment portfolio in China asset equities in fact can be a natural hedge for our reserve's exchange value when change of our CBS becomes realistic.

6. Many funds in SGIC and Tamasek are independently managed by private sector trained professional fund managers with specific mandates in turn of risk and expected return, thus a separate independent investment company can be set up with specific mandate to fit Hong Kong's need

7. SGIC and Tamsek have subsidiary private equity funds which invest in commercially viable growing industries and companies, and provide funds to entrepreneurs who need pre-listing financing for expansion before their companies are fully fledged and due for listing. Hong Kong thus can use part of our fiscal reserve to help our SMEs and comemrcially viable new sectors.

Regards,

Andrew Fung