

Updating Your Study Manual

Instructions for Inserting Version 1.3

The followings serve as the instructions for updating **Topic 1: Overview of the Fund Management Industry** Study Manual 12 for the Licensing Examination for Securities and Futures Intermediaries. Please be reminded that only the updated sections are provided for downloading. You may replace the relevant sections with this updated version for the study manual you possess.

Instructions:

1. Download and print out the following pages.
 2. **Remove** the original front page and **Insert** the updated front page.
 3. **Remove** pages 1-19 to 1-20 and **Insert** new pages 1-19 to 1-20.
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STUDY MANUAL FOR

PAPER 12

ASSET MANAGEMENT

of

The Licensing Examination
for Securities and Futures Intermediaries

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lower than the retail equivalent. Private client funds are priced somewhere between the two levels.

It is important to know that the investment management fee does not represent the total cost of investing in the managed fund. Aside from the fees mentioned earlier (which may apply on entry or exit from the fund or switching), there is an additional annual trustee fee which is payable separately. A performance fee may also be applied.

2.3.4 Performance fee

Performance fees apply to certain funds that invest in alternative investment strategies. Where applicable, the fund generally charges an annual performance fee on a “high on high” basis based on the fund’s net asset value. In general, a target net asset value (or return) is set in advance and only if the actual net asset value (or return) exceeds the target can the fund manager receive the performance fee. In Hong Kong, performance fee is not popular.

Quick check 1:

Complete the following table.

	<i>Retail</i>	<i>Private client</i>	<i>Wholesale</i>
Offer document			
Minimum investment amount			
Front-end fee/redemption fee			
Ongoing commission			
Annual management fee			

Answer:

	<i>Retail</i>	<i>Private client</i>	<i>Wholesale</i>
Offer document	Prospectus	Prospectus	Information memorandum
Minimum investment amount	Varies between fund managers. Lower than private client or wholesale	Higher than retail, lower than wholesale	Depends on the fund

Front-end fee/redemption fee	Front-end fees and redemption fees vary according to the fund and decrease with time	No front-end or redemption fee	No front-end or redemption fee
Ongoing commission	Fee agreed between the investor and the financial advisor	Fee agreed between the investor and the financial advisor	Fee agreed between the investor and the financial advisor
Annual management fee	Depends on the fund type	Lower than retail, higher than wholesale	Lower than retail

3 Participants in the managed funds industry

Many types of participants work in Hong Kong’s fund management industry, contributing to its efficiency and effectiveness. The roles are outlined below.

3.1 Investors

Investors are fundamental to the fund management industry. Investors include individuals, employers, institutions and trustees who provide money to be invested in managed funds. They are the de facto owners of the fund units and therefore bear all investment risks.

Traditionally, the marketing of managed funds was product-centred. Today, marketing campaigns are increasingly customer-centric. This means that the managed funds’ provider focuses on client needs and wants and develops products to satisfy them. To do so, marketers segment their actual and potential customer base by geography, demographics or psychographics.

3.2 Promoters

The role of promoters is to design, develop and maintain managed fund products. Essentially, they establish the managed fund and will oversee operations so that the products are marketable. This involves:

- promoting their products either directly or indirectly via distributors