

资产管理行业 的 发展趋势及对策

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Development Trends and Appropriate Strategies for the Asset Management Industry

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An Overview

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- ◆ The Need for a Fairly-Priced Annuity Product
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Introduction

- ◆ Close to zero rates of interest mean that assets are over-priced and hence their prices are sensitive to any increase in the rates of interest.
- ◆ Fierce competition in the asset-management market— institutional funds, private wealth management, pension and retirement accounts
- ◆ Difficulty in beating the market consistently (size is necessary to reduce transactions cost but makes it more difficult to out-perform the market)
- ◆ Return to basics--reducing costs by reducing portfolio turnover (and hence transactions costs) as well as client turnover (and hence transactions and marketing costs)
- ◆ The need for instruments for long-term investment such as long-term bonds and in particular instruments that can be used to hedge against inflation (i-bonds issued by the Hong Kong Government and U.S. Treasury Inflation-Protected Securities (TIPS))

Introduction

- ◆ For pension and retirement accounts, safety and security should be valued over liquidity and out-performance returns
- ◆ Given the lengthening life expectancy of the populations in Hong Kong and on the Mainland, how should the asset management industry serve the pension and retirement needs of the people?
- ◆ What are the desirable characteristics of a pension product?
- ◆ A fairly-priced annuity
- ◆ A reverse mortgage product can improve the well-being of pensioners and retirees

The Desirable Characteristics of a Pension Product

- ◆ A low-management fee, low entry threshold and transaction cost, high short-term exit transaction cost, stable long-term returns, and if possible, positive real returns (hedged against inflation)
- ◆ According to BrightScope, a financial research company, the total costs of U.S. 401(k) retirement plans, including fees and administrative expenses, were 0.8 percent of assets in 2011.
- ◆ Fees can make a huge difference. A balance of \$25,000 earning 7 percent over the next 35 years will grow to at 0his person paid 0.5 percent in fees, even if she stopped making new contributions, her account would grow to \$227,000 if the fee were 0.5% per annum but only \$163,000, or 28 percent less, if the fee were 1.5% per annum.

The Desirable Characteristics of a Pension Product

- ◆ Liquidity is not important for pension and retirement accounts, whereas safety and security are
- ◆ Diversification can reduce risks
- ◆ The importance of low turnover of the investors and of the assets held by the fund
- ◆ Size matters as it allows economies of scale (overhead, administrative and management costs can be spread over a large portfolio) and risk reduction through diversification.

The Supply of Suitable Long-Term Investment Products

- ◆ Long-term bonds to be issued by the Hong Kong Mortgage Corporation
- ◆ Long-term Renminbi-denominated bonds issued by sovereign and quasi-sovereign Mainland Chinese entities
- ◆ Inflation-indexed bonds (i-bonds issued by the HKSAR Government and Treasury Inflation-Protected Securities (TIPS) issued by the United States Government)
- ◆ Potentially inflation-protected bonds issued by the Chinese Central Government and other governments (approximately 20 countries in the World have issued inflation-indexed bonds)
- ◆ Long-term corporate and convertible bonds of enterprises with good credit ratings and performance records

The Supply of Suitable Long-Term Investment Products

- ◆ An appropriate asset allocation should include real estate, alternative investments and venture capital.

The Need for a Fairly-Priced Annuity Product

- ◆ As a worker retires, he or she should normally convert his or her retirement fund into an annuity, that is, an instrument that has a monthly payout for as long as the worker lives.
- ◆ There are many variations—joint annuity with spouse, graded annuity (with monthly payout rising over time)—however, the expected present value should be the same.
- ◆ Typically, annuities are offered by insurance companies.
- ◆ Again, scale matters. As the larger the pool of annuitants, the closer is their actual average lifetime to the expected lifetime, and the insurance company can cover costs without having to charge a fee premium.

The Need for a Fairly-Priced Annuity Product

- ◆ It is actually ideal for life insurance companies to offer annuities: if actual average life turns out to be longer than expected life, then the insurance companies will make a profit on their life-insurance business which can help to offset a possible loss on their annuity business.
- ◆ The key to success is keeping the transactions costs, the overhead costs and the marketing costs low.

A Reverse Mortgage Product That Works

- ◆ A reverse mortgage can be decomposed into three bundled transactions.
- ◆ First, the property is sold to an investor (it can be an institution or an individual).
- ◆ Second, the seller leases it back at a fixed rent for as long as he lives.
- ◆ Third, the sale proceeds will be invested in an annuity which will make a fixed amount per month to the seller/lessor who will in turn make monthly payments to the owner of the property and can use the remainder as disposable income.
- ◆ This allows the seller to continue to live in the property for as long as he lives.

A Reverse Mortgage Product That Works

- ◆ It is clear that for a reverse mortgage scheme to be work, there must be a fairly-priced annuity product.
- ◆ The market price of the property must be greater than the expected present value of the lease payments which should also be priced at market rates for long leases (taking into account the life-expectancy of the seller/lessor).
- ◆ Increases in property taxes (rates) can be an issue—the Government can grant relief for pensioners and retirees above a certain age, say 65, for owner-occupied units and for such quasi-owner-occupied units.
- ◆ Reverse mortgages may work even when the rates of interest are low because the low annuity payout may be offset by the low rental rate.

Concluding Remarks

- ◆ There is a huge latent demand for good and dependable pension and retirement products
- ◆ The long-term nature of pension and retirement products means that a low management fee and a low turnover of the assets can greatly increase the ultimate rate of return to the investor
- ◆ Inflation protection, fairly priced annuity, and workable reverse mortgage can further enhance the well-being of retirees
- ◆ The existing Mandatory Provident Fund contribution rates are totally inadequate to provide even a minimal bare-bones retirement