

Hong Kong: *A Strategic Base* for Fund Managers Amid Regional Instability

Introduction

The escalation of conflict in the Middle East has once again underscored how tightly linked global markets are—and how vulnerable concentrated geographic exposure can make them. Energy prices have swung wildly, key trade routes have faced disruptions, and sovereign risk premiums have climbed, all of which are prompting asset managers, institutional investors, and family offices to take a hard look at their operational setups. The goal is clear: build more resilience through better diversification across regions while maintaining access to growth opportunities.

In this shifting landscape, Hong Kong stands out as a particularly compelling choice for managers and allocators aiming to derisk effectively in Asia. It brings together deep and liquid capital markets, a regulatory framework aligned with international standards, an ideal time zone that bridges Europe, the Middle East, and Asia-Pacific, a trusted English common-law legal system, and seamless connectivity to the world's second-largest economy. These fundamentals—combined with fresh incentives outlined in the Hong Kong Government's 2026-27 Financial Budget—position the city as a neutral, efficient, and increasingly competitive hub.

This article explores why fund managers may want to reconsider or expand their presence in Hong Kong, drawing on the structural advantages that have endured through cycles and the targeted enhancements now making it even more attractive.

Why Hong Kong Stands Out as the Optimal Asian Operational Base

Geopolitical shocks have a long history of redirecting capital flows toward jurisdictions that offer predictability, transparency, and diversified exposure. The current environment—with tangible effects on energy security, supply chains, and infrastructure—has intensified that dynamic. Investors are actively reducing over-reliance on any single region while preserving the ability to pursue opportunities globally.

For fund managers who have spread operations across multiple financial centers in recent years—often chasing tax advantages, streamlined licensing, or proximity to specific capital pools—the focus now is on identifying the strongest anchor for Asian activities. Hong Kong delivers a rare combination: immediate, real-time access to Asia's primary growth drivers without compromising connectivity to mandates in the West or the Middle East. Its free-flowing capital regime, sophisticated derivatives markets, and robust oversight from the Securities and Futures Commission (SFC) support agile risk management and swift capital deployment when dislocations create openings.

Institutional allocators are increasingly shifting away from traditional long-only approaches toward more adaptive strategies—systematic, macro, multi-strategy, and alternatives—that better navigate volatility. Hong Kong's mature ecosystem, with experienced service providers and deep liquidity across asset classes, is well-equipped to support these sophisticated mandates in ways that emerging centers are still building toward.

Hong Kong's Demonstrated Resilience Through Sentiment Cycles

The social unrest of 2019–2020 and the introduction of the National Security Law understandably created hesitation, prompting some managers and wealth flows to explore alternatives like Singapore. Yet the anticipated structural exodus proved far more cyclical than permanent. Hong Kong's irreplaceable role as the premier gateway to mainland China, its internationally respected regulatory framework, and its status as Asia's leading capital-raising venue fueled one of the fastest recoveries seen in the industry.

By 2024, Hong Kong's total assets under management (AUM) had grown around 13% year-on-year to approximately USD 4.53 trillion, surpassing Singapore's roughly USD 4.46 trillion. Net inflows into SFC-authorized funds surged dramatically, private wealth AUM increased 15% to around HKD 10,404 billion, and the momentum carried into 2025 with strong IPO activity—funds raised in the first half alone reached significant levels amid a broader rebound that saw Hong Kong reclaim its position as a top global fundraising venue. Global firms such as Point72, Adams Street, and Ardian have continued expanding their physical footprints in Central, reflecting sustained confidence.

How the 2026-27 Financial Budget Reinforces Hong Kong's Edge

Hong Kong has long offered compelling structural benefits—unrivaled market access, legal certainty, and regulatory sophistication—but recent competition from other centers highlighted areas where tax treatment could be improved. The 2026-27 Budget, delivered against this backdrop, takes an offensive approach: not just matching rivals but differentiating through targeted, meaningful enhancements.

These measures focus on three key groups: traditional and alternative fund managers (spanning private equity, venture capital, hedge funds, credit, and more), virtual asset and crypto-focused managers, and single/multi-family offices. Draft legislation is slated for the first half of 2026, with most changes effective from the 2025/26 year of assessment—giving managers ample time to factor them into planning.

Enhancements for Traditional and Alternative Fund Managers: Closing Competitive Gaps

The Unified Fund Exemption (UFE) regime—already a strong feature—is being meaningfully upgraded to address previous limitations and align more closely with offshore and competing onshore jurisdictions.

- *Broader Definition of "Fund"*: The scope now explicitly includes pension funds, endowment funds (including Section 88-exempt charities), and vehicles where a governmental entity, central bank, or international organization is the sole investor. Critically, "funds-of-one"—single-investor structures managing at least HKD 240 million in qualifying assets, where the investor does not control day-to-day operations—become eligible. This opens the UFE's tax benefits to ultra-high-net-worth individuals and families who prefer fund-like vehicles without broad distribution.
- *Expanded Qualifying Investments*: The list grows to encompass overseas immovable property, emission derivatives and carbon credits, insurance-linked securities, equity in non-corporate private entities (business trusts, partnerships, LLCs, Japanese TK/TM structures, etc.), loans and private credit, digital assets (with narrow carve-outs for certain cryptographically secured interests), precious metals, and specified commodities (capped at 15% trade volume). For credit and special-situations managers, this materially simplifies structuring private credit or direct-lending funds in Hong Kong. The inclusion of commodities and metals also supports macro/diversification strategies that thrive in volatile periods.
- *Removal of the 5% Incidental Transactions Threshold*: All profits from qualifying investments now qualify for exemption without tracking "core" vs. "incidental" buckets—reducing administrative burden and eliminating risks from active management. An exclusion list targets specific items (e.g., Hong Kong property trading/development), but the default shifts toward broader inclusion.
- *Refined Anti-Round-Tripping Rules*: Resident natural persons, tax-exempt UFE funds, certain exempt resident entities (life insurers, etc.), and qualifying institutions see relaxed restrictions. For financial institutions and similar entities, the beneficial interest threshold rises from 10% to 20%, though a "control or significant influence" test applies. These changes ease genuine participation by Hong Kong investors without opening doors to abuse—helping managers tap local institutional and private capital more effectively.
- *Carried Interest Concession Expansion*: The regime becomes significantly more generous and flexible. HKMA certification is eliminated, unlicensed managers of excepted funds qualify, distribution options widen (including via personal investment companies for employees), hurdle-rate references drop, and eligible sources now include UFE-exempt profits, offshore income, and certain taxable items. This preferential treatment for carried interest—often the largest component of senior professionals' economics—strengthens Hong Kong's appeal for talent retention and attraction.

Single and Multi-Family Offices: Achieving Parity with Institutional Structures

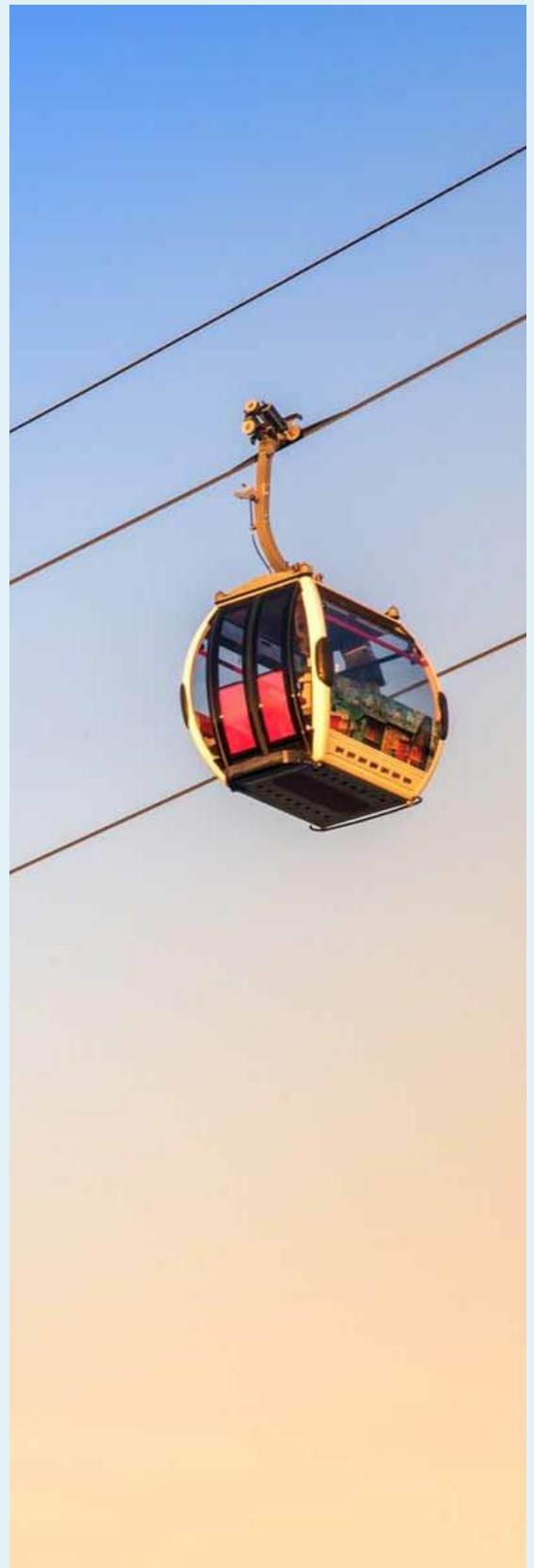
Parallel enhancements to the Family-owned Investment Holding Vehicle (FIHV) regime bring it closer to fund-level treatment: broader qualifying investments (including private credit, digital assets, commodities, overseas real estate), relaxed profit eligibility, expanded special-purpose entity definitions, adjusted private-company transaction tests, and tailored anti-round-tripping provisions.

This alignment delivers comparable tax economics while preserving Hong Kong's unique advantages—direct mainland access via Connect schemes, geographic proximity for active oversight, and familiar common-law trust/fiduciary principles. With private banking AUM already showing strong growth (around 14% in H1 2025), these changes should accelerate inflows from families reassessing their structures.

Virtual Asset Funds: Regulatory Clarity Paired with Tax Competitiveness

Digital assets now qualify under the UFE (subject to limited exceptions), placing crypto and virtual asset funds on equal tax footing with traditional strategies. This arrives alongside Hong Kong's maturing VA regulatory framework: established SFC licensing for trading platforms, plus forthcoming stand-alone regimes for dealing, custody, advisory—and likely portfolio management.

Managers who once chose between tax-advantaged but regulatory-light jurisdictions and heavily regulated but tax-disadvantaged ones now have a compelling middle ground. Hong Kong combines both strengths with proximity to Asia's vast retail and institutional base, making it a strong platform for building institutional-grade VA strategies.



How These Tax Measures Amplify Enduring Structural Advantages

The enhancements don't stand alone—they magnify Hong Kong's core strengths:

- *Unmatched China/Asia Gateway*: Regulated channels like Stock Connect, Bond Connect, and Wealth Management Connect, plus expanded QFLP/QDLP programs, provide privileged access to mainland growth themes (tech, consumption, green transition). Better tax efficiency removes previous trade-offs for strategies needing direct exposure.
- *Common-Law Legal System*: Familiar principles for structuring, disputes, and transactions; English as an official language; independent judiciary with international CFA judges; and world-class arbitration via the Hong Kong International Arbitration Centre.
- *Regulatory Maturity*: Decades of precedent and guidance provide comfort to due-diligence-focused institutions—pension funds, endowments, insurers—who prioritize proven oversight over untested regimes, regardless of tax perks elsewhere.
- *Flexible, Modern Fund Ecosystem*: OFC and LPF regimes, experienced administrators/custodians/prime brokers, and professional services firms reduce implementation friction across asset classes.

Conclusion

Hong Kong's reinforced position as a strategic base amid uncertainty rests on fundamentals that have consistently proven durable: unparalleled Asian connectivity, regulatory credibility, operational depth, and adaptability. The 2026-27 Budget demonstrates the Government's proactive commitment to competitiveness, while robust AUM growth, net inflows, and IPO momentum signal genuine market endorsement.

In periods of elevated risk, the most resilient portfolios—and the managers who run them—anchor in places that blend stability, global reach, and exposure to durable growth. Hong Kong increasingly embodies that combination.

We would be pleased to discuss how these developments may impact your firm's footprint, structuring choices, or strategic planning in the region.

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