



澳門金融管理局  
AUTORIDADE MONETÁRIA DE MACAU

## **Investment management review of the Macao SAR Fiscal Reserve, January - June 2014**

The Monetary Authority of Macao (AMCM) announced the preliminary financial figures of the Macao SAR Fiscal Reserve as of 30 June 2014. The total size of the Fiscal Reserve stood at MOP242.03 billion, which consisted of MOP116.46 billion as the Basic Reserve, MOP125.20 billion as Excess Reserve and an accumulated profit of MOP0.37 billion for the first six months of the year of 2014.

According to the “Regulations of the Fiscal Reserve” approved by Law No.08/2011 dated 19<sup>th</sup> August, the AMCM is responsible for the investment management of the Fiscal Reserve, with an Advisory Board to assist in the formation of investment strategy and a Supervisory Board, which audits the accounting statements and gives opinions on the annual report of the Fiscal Reserve. At the same time, the Audit Commission of the Macao SAR government as well as an external auditor also perform periodic audit on the operations and accounts of the Fiscal Reserve. The balance, operating results and asset classifications of the Fiscal Reserve are published monthly in the “Official Gazette” as stipulated by law.

### **Review for the period of 2012-2013**

The Fiscal Reserve was officially established at the beginning of 2012. According to the relevant regulations, an absolute majority of the portfolio at that time was classified as Basic Reserve, which was required to provide full coverage for 1.5 times of the annual expenditure indicated in the latest fiscal budget. As a result, at the time of establishment, after a deduction of MOP98.8 billion worth of Basic Reserve, the Excess Reserve only amounted to MOP58.26 million. An Excess Reserve of this scale provided very limited buffer for the overall portfolio in terms of risk buffer. Management of the Fiscal Reserve in its first year of operations, therefore, adopted a relatively defensive investment strategy.

From the year 2013, with the injection of annual fiscal surplus, the size of the Fiscal Reserve recorded a substantial expansion and this provided more flexibility in asset allocation for the investment portfolio. To this end, the AMCM stepped up its efforts in portfolio diversification and progressively invested into various asset classes denominated in different currencies, including an increase in allocation to Renminbi money market instruments, fixed income instruments issued by quasi-sovereign and public entities, as well as those issued by highly-rated financial institutions. These strategic moves pushed up portfolio returns as foreign currency revaluation gains and interest incomes rose steadily. Profits for the Fiscal Reserve in the year 2013 amounted to MOP4.91 billion, equivalent to an increase of 256% versus that of 2012.



澳門金融管理局  
AUTORIDADE MONETÁRIA DE MACAU

### **Developments in the first half of 2014**

Into the year 2014, the size of the Fiscal Reserve further expanded from fiscal surplus injection, which provided the portfolio larger buffer in adopting a comparatively more aggressive investment strategy – Equities investment were initiated in 2014. Drawing on the experience of institutional investors of similar profile, the AMCM decided to hire external asset managers for the equity portfolio, after considering internal resources rationalizations and an overall cost efficiency improvement. Investment into equities during the first half of 2014 mainly focused on emerging markets, with investment returns benchmarked at internationally-recognized emerging market indices. However, on the developed equity market front, the portfolio adopted a more prudent strategy and gained exposure through accumulation of “equity index linked instruments” to enhance returns from potential rallies in underlying equity indices, with capital protected, nevertheless.

For the first six months of 2014, asset allocation in both bond market and money market provided a reasonable return for the Fiscal Reserve. However, periodic volatilities in the exchange rate of Renminbi dragged the overall performance in the first 3 months of this year, resulting in a quarterly loss of MOP1.07 billion. A gradual reverse in the Renminbi exchange rate later helped generate an overall portfolio gain of MOP1.44 billion for the second quarter. Such strong rebound in the second quarter brought the accumulated 6-month result for the Fiscal Reserve back to a profit of MOP0.37 billion, with a total asset size of MOP242.03 billion as of 30 June 2014.

### **Measures for further diversification of investment portfolio**

Looking forward into the second half of the year, the AMCM will continue to increase investments in equity aiming to improve medium- to long-term return of the Fiscal Reserve, of which, after having introduced emerging markets equities and equity linked instruments, global equity mandates will also be strategically implemented. On the Mainland Chinese markets, a USD500 million investment quota for “Qualified Foreign Institutional Investors” was approved by related regulatory bodies in China, with investments targeted at large-cap and small- to mid-cap A shares listed on the Shanghai or Shenzhen Stock Exchange. Currently the selections of external asset management companies and securities brokers are in progress.

The uncertainties in global financial markets still persist since, on one hand, some of the advanced economies have started to gradually exit from their quantitative easing of monetary policies and, on the other, growth is slowing in emerging-market economies. To increase medium- to long-term return with



澳門金融管理局  
AUTORIDADE MONETÁRIA DE MACAU

contained risk levels appears to pose a major challenge for the investment management of the Fiscal Reserve. The AMCM will well respect the advices from the Advisory Board and continue to listen to feasible proposals on reserves investment through various channels, including frequent exchange of ideas with international financial institutions, with the objective to strive for reasonable enhancement of return on the Fiscal Reserve's portfolio.

**Monetary Authority of Macao**

31 July 2014



澳門金融管理局  
AUTORIDADE MONETÁRIA DE MACAU

**TABLE 1. ASSET BREAKDOWN OF THE FISCAL RESERVE AS AT 30 JUN 2014**

	(% )	Of Which :		
		Bond Market	Money Market	Equity Market
U.S. Dollar	<b>26.3%</b>	16.2%	7.7%	2.4%
H.K. Dollar	<b>16.4%</b>	5.5%	10.9%	
Offshore Renminbi	<b>38.8%</b>	10.1%	28.7%	
Onshore Renminbi	<b>11.1%</b>	11.1%	0.0%	
Australian Dollar	<b>6.7%</b>	3.7%	0.0%	3.0%
Macao Pataca	<b>0.3%</b>		0.3%	
Euro & Others	<b>0.4%</b>	0.4%	0.0%	
<b>Total</b>	<b>100.0%</b>	<b>47.0%</b>	<b>47.6%</b>	<b>5.4%</b>

**TABLE 2. INVESTMENT- INCOME BREAKDOWN OF THE FISCAL RESERVE, JAN - JUN 2014**

(10<sup>6</sup> Patacas)

	JAN 2014	FEB 2014	MAR 2014	APR 2014	MAY 2014	JUN 2014	<b>JAN-JUN 2014</b>
Money Market	137.2	209.8	231.4	221.2	233.3	235.7	<b>1,268.6</b>
Bond Market	297.6	322.2	264.0	289.7	340.5	278.2	<b>1,792.2</b>
Foreign Exchange	491.4	-1,252.3	-1,776.1	-1,042.8	224.3	479.3	<b>-2,876.2</b>
External Equity Mandate	(N.A.)	(N.A.)	(N.A.)	-33.7	56.4	160.8	<b>183.5</b>
<b>Total Investment-Income</b>	926.2	<b>-720.3</b>	<b>-1,280.7</b>	<b>-565.6</b>	854.5	1,154.0	<b>368.1</b>