

Exchange Fund Performance in 2006

The Exchange Fund achieved an investment return of 9.5%, or 0.6% above that of the investment benchmark, in 2006. The Fund earned a gross investment income of \$103.8 billion, comprising

- \$31.9 billion from bond investments
- \$35.9 billion from Hong Kong equities
- \$18.7 billion from foreign equities
- a foreign exchange revaluation gain of \$17.3 billion.

Table 1. 2006 market returns

Currencies	
Appreciation (+)/depreciation (-) against US dollar	
Euro	+11.8%
Yen	-0.9%
Bond markets	
US Government Bond (1-3 years) Index	+3.9%
Equity markets	
Standard & Poor's 500 Index	+13.6%
Hang Seng Index	+34.2%

Table 2. Gross investment return of the Exchange Fund in Hong Kong dollar terms¹

	Return on total assets	Return on investment benchmark ²	Alpha	CPI (A) ³
2006	9.5%	8.9%	+0.6%	+1.9%
2005	3.1%	2.9%	+0.2%	+1.3%
1999 – 2006 annualised	6.2%	5.0%	+1.2%	-1.0%
1994 – 2006 annualised	6.6%	N/A	N/A	+1.3%

¹ For the Annual Reports from 2001 to 2003, return on total assets and return on investment benchmark are in US dollar terms.
² Established in January 1999.
³ December year-on-year percentage change in the HK-CPI(A) index. CPI(A) is calculated based on the 2004/2005 base new series.

Table 3. Currency mix of the Exchange Fund's assets on 31 December 2006 – including forward transactions

	HK\$ billion	%
US dollar bloc		
US dollar ¹	909.8	77.4
Hong Kong dollar	130.9	11.1
Non-US dollar bloc	135.7	11.5
Total	1,176.4	100.0

¹ Includes Canadian dollar, Australian dollar and New Zealand dollar.

Since 1994, the Exchange Fund has generated a compounded annual return of 6.6%, which exceeds the compounded annual inflation rate of 1.3% over the period. The investment return of the Exchange Fund has exceeded the

benchmark return in every year for the past eight years, except in 2004 when the actual investment return was the same as the benchmark return.

 > Monetary Stability > Exchange Fund

Chart 1. Investment return of the Exchange Fund (1994-2006)

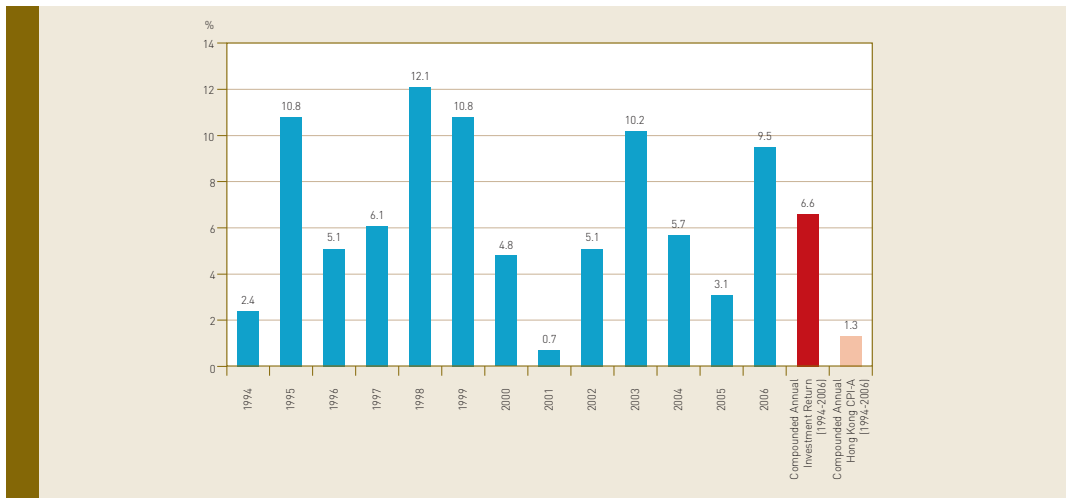


Chart 2. Investment return of the Exchange Fund and the Exchange Fund's investment benchmark (1999-2006)

