Fuelling Startup Success:

Attracting and Cultivating Home-based Alternative Investment Funds

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Executive summary

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Hong Kong's financial landscape has long been recognised for its diversity, resilience and adaptability, earning its reputation as one of the world's leading financial hubs. It thrives on a dual blend of attracting global capital across public and private markets while serving as a vibrant hub for businesses, including regional headquarters, small and medium enterprises (SMEs), and an expanding startup ecosystem. At the centre of this strength lies Hong Kong's asset and wealth management (AWM) sector, which manages over HKD 31.1 trillion (USD 4.0 trillion) in assets—65% of which originates from international sources. These core advantages position Hong Kong to play a pivotal role in channelling capital into high-growth sectors and serve as a vital gateway between global investors and regional opportunities.[1]

As the global financial landscape evolves, alternative investments—particularly venture capital (VC), private equity (PE), and private credit (PC)—are playing an increasingly strategic role in shaping both the AWM landscape and the innovation trajectory of economies. These investment vehicles are becoming central to how family offices and ultra-high-net-worth individuals manage wealth, diversify risk, and create long-term value. Moreover, when deployed effectively, they serve as patient, risk-tolerant capital that empowers early-stage ventures to scale and enables mature industries to pivot, advancing long-term economic growth and transformation.

Across the globe, governments are accelerating efforts to cultivate vibrant startup ecosystems by implementing policies that encourage innovation and facilitate access to private market investment. In parallel, institutional investors and wealth managers are allocating greater portions toward alternative assets, reflecting a growing appetite for impact, diversification, and long-term growth.

Against this backdrop, Hong Kong's continued competitiveness depends on its ability to align with these global shifts. While its robust public markets remain to underpin its fundraising strength, offering a full suite of alternative investment strategies is also essential for reinforcing its status as a leading AWM hub. This synergy can position Hong Kong as a natural bridge between global investors and entrepreneurial ventures, fostering a mutually reinforcing cycle of financial and economic activity.

This opportunity is reinforced by the momentum in Hong Kong's startup ecosystem, which has seen expansion in recent years. It is well supported by progressive government policies, a business-friendly environment, and its strategic location at the heart of Asia, with unparalleled access to Mainland China and, in particular, the Greater Bay Area (GBA). Under the National 14th Five-Year Plan, Hong Kong is positioned to be an international innovation and technology (I&T) centre. The Hong Kong SAR Government has been attaching much importance to enhancing the I&T ecosystem in Hong Kong by rolling out various initiatives in recent years. As of 2024, Hong Kong was home to almost 4,700 startups in high-growth sectors such as fintech (13.1%), information, computer & technology (11.1%), and e-commerce (8.7%).[2] Additionally, Hong Kong is emerging as a Web3 hub, with policies encouraging Web3 startups and industry collaboration. These startups are at the forefront of innovation, increasingly seeking funding to scale their operations and compete on a global stage.

The interaction between Hong Kong's alternative investment landscape and its startup ecosystem fosters a dynamic, self-sustaining relationship and creates a cross-sectoral impact. Emerging trends in technology, investment, and sustainability further emphasise the urgency of these efforts. For instance, greater investment in greentech is essential to address climate challenges. These evolving trends are reshaping both financial and entrepreneurial landscapes, creating new opportunities for integration.

1 Securities and Futures Commission. (2024). Asset and Wealth Management Activities Survey 2023. Retrieved January 27, 2025, from https://www.sfc.hk/-/media/EN/files/COM/Reports-and-surveys/AWMAS-2023_E.pdf
2 StartmeupHK. (2024). Hong Kong's startup ecosystem. Retrieved January 27, 2025, from https://www.startmeup.hk/about-us/hong-kongs-startup-ecosystem/

However, despite progress over the last few years, the ecosystem can benefit from enhancement in some areas. Among others, local participation in alternative investment funds remains limited, and international capital often bypasses Hong Kong in favour of more established innovation hubs. As a result, startups face increasing challenges in scaling due to a lack of private market funding at the right stage and structure. This imbalance between capital supply and entrepreneurial demand risks constraining both sectors' growth potential.

To propel its startup ecosystem toward sustainable growth, Hong Kong should embrace a forward-looking strategy that integrates local innovation with global expertise. This approach should aim to showcase Hong Kong's ingenuity and entrepreneurial potential on the global stage while attracting Mainland and international players to participate and establish their presence in the city. By fostering cross-sector and regional collaborations, the city can solidify its status as a leading hub for financial services and cultivate a high-quality, sustainable startup ecosystem, appealing to a wide range of local, Mainland and international business stakeholders and investors. Ultimately, this approach will yield mutual benefits, strengthening Hong Kong's position in the global economic landscape across sectors.

As a continuum of its efforts to strengthen Hong Kong's role as a leading AWM hub, the Financial Services Development Council (FSDC) established a Working Group comprising industry experts to formulate strategies to strengthen financing aspects within private markets, with a focus on alternative assets, which are crucial for the sustainable growth of the city's startup ecosystem. While enablers such as research and development, infrastructure, and talents are vital, this report prioritises actionable recommendations to enhance financing mechanisms and attract global capital as an aim for a sustainable and scalable ecosystem with international recognition. These recommendations are:

Instilling stakeholder confidence through higher certainty

(i) Recommendation 1: A strategic and forward-looking policy vision to promote Hong Kong as a global hub for alternative investment funds

A strategic policy vision can signal Hong Kong's long-term commitment to innovation, while positioning the city as a regional leader in VC and alternative investments through a unified framework that encourages risk-taking, attracts global startups and talent, and leverages its financial strengths and regional connectivity.

A robust foundation for alternative investments

(ii) Recommendation 2: Introducing tailored regulatory regime for PE, VC, and PC

Introducing a tailored licensing regime as a complementary framework to further facilitate and ease the setup process for alternative investment fund managers by better aligning regulations with their unique private market investment models.

(iii) Recommendation 3: Modernising tax and regulatory frameworks to support alternative investments

Refining the tax treatment of co-investments by allowing special purpose vehicles majority-owned by tax-exempt funds to qualify for exemptions, and enhancing the Unified Fund Exemption regime to include single-investor funds.

Accelerating growth through innovation, expanding participation and ensuring long-term societal benefits

(iv) Recommendation 4: Optimising public funds to drive growth in PE, VC, and PC

Encouraging a dual-track approach to mobilise public capital—acting as a cornerstone investor in PE/VC and leveraging co-investments in PC—to address funding gaps and support innovation. Such efforts could align with economic priorities, attract top fund managers, and strengthen long-term competitiveness.

(v) Recommendation 5: Driving innovation growth through reimagined funding and technology transfer

A comprehensive funding strategy—supporting research and development, testing/certification, and adoption incentives—to help start-ups bridge the gap between research and commercialisation, attracting private investment. Strengthening university technology transfer offices with external expertise, global partnerships, and market-driven approaches could further scale innovation.

(vi) Recommendation 6: Diversifying through the inclusion of specific alternative investment options in the MPF scheme

Building on the current consideration of listed private equity funds, the MPF's investment options could be prudently expanded to include select alternative assets. Over time, carefully exploring additional asset classes such as private credit may further enhance portfolio diversification. To manage risk, a clear allocation cap should be set for these investments, ensuring safeguards remain in place for retail investors.

Introduction

Introduction

The importance and strategic value of nurturing a startup ecosystem: catalysts for innovation and societal transformation

Startups are far more than just small businesses—they are catalysts for transformative change, driving innovation, addressing societal challenges, and reshaping the future of global economies. Their agility and willingness to embrace risks allow them to adapt quickly to emerging needs, delivering fresh solutions that have the potential to transform entire industries. Beyond their ingenuity, startups also play a crucial role in creating economic value. In 2023 alone, the global startup ecosystem was estimated to have created USD 7.6 trillion in value—more than double the figure from 2020—underscoring its expanding role as a major force in the world economy.[3,4]

Hong Kong's potential as a global innovation hub is undeniable, but unlocking it fully requires a thriving startup ecosystem. This means uniting diverse players—entrepreneurs, investors, policymakers—fostering cross-border collaborations across industries, and embracing global trends. For Hong Kong, the key lies in cultivating startups and supporting them with vibrant "home-based" investment funds that drive economic growth and align with the city's strategic goals.

A modern approach to "home-based" startups and funds

In an increasingly interconnected world, the concept of "home-based" must evolve beyond traditional geographic boundaries to reflect the realities of global innovation and investment. While "home-based" startups and investment funds are often tied to local origins—such as being founded by Hong Kong residents or headquartered here. Instead, it should stretch to include international players who put down stakes in the city and actively boost its economy.

For startups, being "home-based" should mean weaving into Hong Kong's fabric—hiring local talent, running research and development (R&D) locally, or teaming up with regional businesses. Take Cyberport: it is a hub where startups, local and global alike, thrive by plugging into the city's ecosystem. At the same time, Hong Kong's positioning as an international platform makes it a compelling base for global and Mainland startups seeking regional or global expansion. These efforts do not just enrich Hong Kong's innovation scene—they open doors for local investment funds to back high-potential ventures.

Similarly, for the definition of "home-based" investment funds, while locally founded and managed funds undeniably fit the traditional mould, international funds with non-satellite operations in Hong Kong and commit to meaningful economic contributions, such as establishing fund management offices in the city, investing in local startups, and strengthening the local financial ecosystem, should also warrant inclusion. This broader approach finds support in practices from other markets. For instance, in Canada, the Investment Canada Act encourages foreign investment firms to establish operations that stimulate economic growth, recognising their role in the domestic landscape.[5] In Israel, its financial ecosystem benefits from international VC funds that set up local offices to invest in its tech sector, enhancing its global innovation standing.[6]

3 Startup Genome. (2023). Global Startup Ecosystem Report 2023. https://startupgenome.com/report/gser2023
4 Startup Genome. (2024). State of the global startup economy. Retrieved January 27, 2025, from https://startupgenome.com/article/state-of-the-global-startup-economy
5 Innovation, Science and Economic Development Canada. (n.d.). Investment Canada Act. https://ised-isde.canada.ca/site/investment-canada-act/en
6 Israel Innovation Authority. (n.d.). Stimulus to boost Israeli high-tech. https://innovationisrael.org.il/en/press_release/stimulus-to-boost-israeli-high-tech/

This expanded perspective aligns with Hong Kong's strategic ambitions of attracting foreign direct investment and developing a resilient alternative investment ecosystem. Encouraging international funds to establish a presence in the city—while ensuring substantive investment and operational commitments—will enhance Hong Kong's stature as a premier hub for PE, VC and PC. Beyond capital, these funds introduce expertise, global networks, and industry best practices, delivering significant benefits to local startups and the wider economy.

Catalysts for global transformation

As the world moves toward a more digital and sustainable future, cities with strong startup ecosystems will play a defining role in shaping global industries. Reports analysing global startup trends consistently highlight artificial intelligence, healthcare and biotechnology, and sustainability-focused technologies as key sectors drawing notable investments in recent years. Startups in these sectors have responded swiftly to global challenges.

During the COVID-19 pandemic, healthtech and biotech startups led the way in developing telehealth platforms, life-saving vaccines, and advanced diagnostic tools, addressing critical global needs at speed.[7] Despite a general slowdown in the VC fundraising market, health-related startups experienced a comparatively smaller decline in funding during 2023. This sustained investor confidence reflects the long-term potential of the sector to drive innovation and respond to future healthcare challenges.[8]

The global energy transition toward sustainability has created fertile ground for greentech startups to thrive. According to the Startup Genome Report, late-stage cleantech startups raised funds 2.5 times faster in the second half of 2023 than in the first half of 2020.[9] This growth signals increasing investor confidence in sustainable technologies, driven by global demand for climate action, renewable energy, and carbon reduction solutions.[10] The rising importance of sustainability-driven entrepreneurship presents significant opportunities for both startups and investors.

Hong Kong has aligned itself with this global trend by implementing measures to build a robust greentech ecosystem and position itself as a key player in driving sustainability-focused innovation. Initiatives such as the Green Tech Fund provide financial backing for R&D projects that enhance environmental protection and support the global energy transition. To date, 33 projects have been approved under the Green Tech Fund, with a total funding allocation of approximately 147 million.[11,12]

Other emerging trends in generative AI (GenAI) further highlight the transformative potential of startups. GenAI startups, for example, accounted for 18% of global VC funding in 2023, with applications ranging from personalised healthcare to streamlining logistics and media workflows.[13] Hong Kong has been at the forefront of embracing GenAI, with both public and private sectors actively integrating AI-driven innovations. The financial services industry, a cornerstone of Hong Kong's economy, is poised to benefit significantly from AI adoption across front- and back-end operations.[14] Notably, the "Generative Artificial Intelligence Sandbox", launched by the Hong Kong Monetary Authority last year, is running 15 use cases, further demonstrating Hong Kong's commitment to leveraging AI to enhance its competitiveness in the global digital economy.

7 European Parliamentary Research Service. (2021). The rise of digital health technologies during the pandemic. Retrieved January 27, 2025, from https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/690548/EPRS_BRI(2021)690548_EN.pdf
8 Carta. (2024). Health tech 2024. Retrieved January 27, 2025, from https://carta.com/data/health-tech-2024/
9 Startup Genome. (2024). Global Startup Ecosystem Report 2024. Retrieved from https://startupgenome.com/report/global-startup-ecosystem-report-2024
10 ibid
11 HKSAR Government. (2024, December 23). Green Tech Fund approves three projects in fourth round of applications
. Retrieved from https://www.info.gov.hk/gia/general/202412/23/P2024122000336.htm
12 Green Tech Fund. (n.d.). Project statistics. Retrieved January 27, 2025, from https://www.gtf.gov.hk/en/project_information/project_statistics.html
13 Startup Genome. (2024). Global Startup Ecosystem Report 2024. Retrieved from https://startupgenome.com/report/global-startup-ecosystem-report-2024
14 Hong Kong Monetary Authority. (2024). Generative artificial intelligence in the financial services space. Retrieved from https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2024/GenAI_research_paper.pdf

Hong Kong has made significant commitments to strengthening its innovation and technology ecosystem to sustain its innovation-driven growth. The city dedicated over HKD 100 billion to more than 70 government initiatives.[15] These efforts focus on building world-class infrastructure, promoting R&D, and attracting global talent. The city's startup ecosystem thrives on its accelerators and coworking spaces, robust financial services sector, diverse stakeholders in private markets and its strategic position as a gateway to Mainland China and Southeast Asia. The Global Startup Ecosystem Report 2024 highlights Hong Kong as an emerging ecosystem valued at USD 59 billion, with the highest number of unicorns among such ecosystems in the past decade.[16]

Despite these efforts, the city falls short of joining the top 40 global ecosystems, which already features seven Asian cities, including four from China- being Beijing (8th), Shanghai (11th), Shenzhen (28th), and Hangzhou (35th).[17] This underscores the need for Hong Kong to address critical gaps to compete with regional and global leaders.

15 StartmeupHK. (n.d.). Government funding scheme & support. InvestHK. Retrieved January 27, 2025, from https://www.startmeup.hk/startup-resources/government-funding-scheme-and-support/
16 Startup Genome. (2024). Global startup ecosystem report 2024. Retrieved from https://startupgenome.com/reports/gser2024
17 Startup Genome. (2024). Global startup ecosystem report 2024. Retrieved from https://startupgenome.com/reports/gser2024

The rise of private markets and alternative asset classes

The rise of private markets and alternative asset classes

The expansion of global startup ecosystems has heightened the need for diverse funding sources to support innovation and growth. Private markets and alternative asset classes, including private equity, venture capital, and private debt (which includes PC), have emerged as significant components of modern funding structures, facilitating capital access for startups and investment opportunities for asset managers. These markets differ from traditional financing, such as bank loans (which can require collateral and fixed repayment terms), by offering adaptable capital suited to the varying demands of startups across their development stages. Data indicates that private markets have grown in scale and scope, providing a mechanism to address the funding requirements of early-stage ventures as well as more mature enterprises.

Hong Kong's leading position in the global AWM sector exemplifies the prominence of these markets. According to Preqin's latest data, Hong Kong ranks 5th worldwide and 2nd in Asia, behind Mainland China, as of June 2024, with fund managers overseeing US$240 billion in AUM across private equity, venture capital, and private debt (including PC).[18] Within Asia, Hong Kong holds the top rank for private debt AUM, despite a 6th-place standing globally, underscoring its capacity and potential for further expansion in this asset class. This prominence also invites a deeper examination of how such alternative investments sustain startup ecosystems across their evolving growth trajectories.

As private markets continue to expand in both scale and scope, it is important to recognise their structural characteristics – both opportunities and constraints. Compared to public markets, private assets are typically less transparent, with fewer pricing benchmarks and less frequent valuations, complicating performance assessment, especially in uncertain market conditions. The customised nature of private investments may also lead to differences in governance and reporting practices, which may not be familiar to all investors, highlighting the need for a thoughtful approach to product structuring and investor communication, especially when engaging a broader investor base with varying levels of investment experience.

Liquidity is another consideration. Private market investments often involve longer holding periods and limited exit options, which may not suit all investor needs. While institutional investors are generally equipped to manage this, offering such exposure through other investment vehicles with expanding access requires careful planning.

It is important to emphasise that this report does not seek to elevate one asset class above another. Rather, it aims to reflect the evolving demands of the market and assess the respective roles that different forms of capital, whether private or traditional, play in supporting innovation and economic development. Each financing vehicle offers distinct benefits and trade-offs, and their effectiveness often depends on the specific context in which they are deployed. As private markets continue to grow in relevance, a well-balanced ecosystem—featuring a diverse set of financial products across asset classes and a clear understanding of their inherent dynamics is essential for navigating their potential and positioning them effectively within the broader investment landscape.

For Hong Kong, this approach enhances its ability to mobilise capital toward high-impact sectors, supports a broader range of investor preferences, and ultimately strengthens its position as a comprehensive, resilient, and globally competitive AWM hub.

18 Preqin data. (accessed on 28 February 2025).
(To avoid double counting of available capital and unrealized value, fund of funds and secondaries are excluded)

The role of diverse alternative investment strategies across various funding stages

The mobilisation of financial resources is fundamental to fostering innovation and economic growth within startup ecosystems. Building on our 2021 research into the healthcare and biotechnology sectors,[19] which highlighted the financial industry's vital role in directing capital towards high-potential industries—a perspective that may naturally extend to the wider startup ecosystem, where tailored funding solutions for each developmental stage are just as vital.

Alternative investment strategies, encompassing VC, PE, PC and others, each target distinct challenges and opportunities faced by startups as they evolve.[20] Unlike traditional financing mechanisms—such as bank loans, which impose collateral obligations and rigid repayment terms—these strategies provide adaptable capital suited to each phase of a startup's lifecycle.[21] The financing needs of startups evolve considerably across their development:

1. **Inception stage**: Early-stage ventures often rely on seed funding from angel investors, crowdfunding, or VC for initial development and market validation.

2. **Launch stage**: As startups test their products or services in the market, Series A funding becomes critical to refine business models, expand teams, and establish a foothold. A recent study by the Hong Kong Green Finance Association highlighted the particular importance of early-stage funding at this phase for tech companies as it enables them to transition from pilot projects to scaled production.[22]

3. **Growth stage**: During rapid scaling, Series B and C funding rounds, often led by VC or PE players, provide the capital necessary to expand operations, enter new markets, and optimise efficiencies.

4. **Maturity/ exit stage**: At maturity, startups seek strategic exits through mergers, acquisitions, or IPOs. PE firms and institutional investors are instrumental in preparing companies for this phase by driving operational improvements and maximising valuation.

This lifecycle demonstrates the complementary roles of VC, PE and PC in nurturing startups (Figure 1).

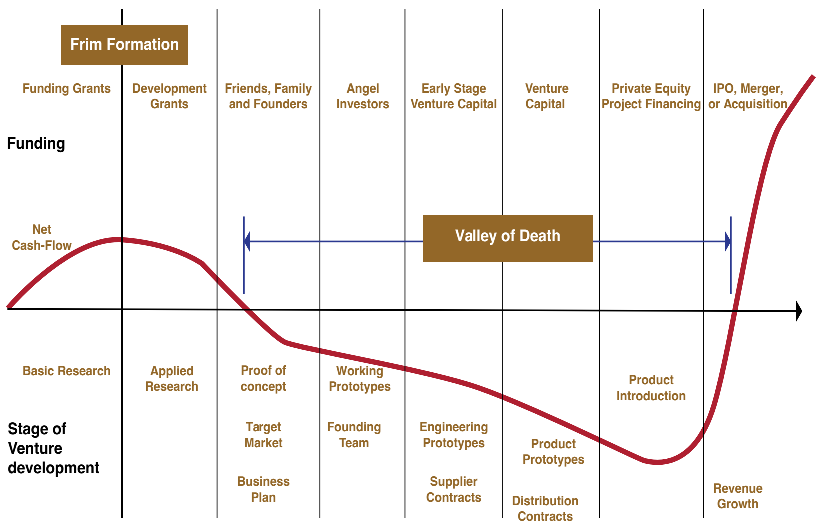


Figure 1 [23]

19 Financial Services Development Council. (2021). Strengthening Hong Kong's role as a global biotech and healthcare financing hub. https://www.fsdc.org.hk/media/c2cpcpld/20211115-fsdc-research-report-healthcare-financing_en.pdf
20 Ernst & Young (EY). (2024). IVCA monthly PE/VC roundup: December 2024. EY. https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/newsroom/2025/ey-ivca-monthly-pe-vc-roundup-december-2024.pdf
21 Tukel, C. (2025). Types of funding for startups. Tukel Inc. https://www.tukelinc.com/blog/funding_types_for_startups
22 Hong Kong Green Finance Association. (2024, November). Green technology landscape in Hong Kong: Opportunities for finance. https://www.hkgreenfinance.org/wp-content/uploads/2025/01/GTIEng14_1.pdf
23 Lange, J., Rezepa, S., & Zatrochová, M. (2024). The role of business angels in the early-stage financing of startups: A systematic literature review. Administrative Sciences, 14(10), Article 247. https://doi.org/10.3390/admsci14100247

PE and VC: powering startup growth

Among the various alternative funding strategies, PE and VC stand out as pivotal forces driving growth and innovation at each stage of the startup lifecycle. VC fosters early-stage innovation by absorbing financial risk, allowing startups to experiment, innovate, and scale.[24] Global giants like Google, Meta and Alibaba exemplify how VC-backed startups can become industry leaders. Beyond funding, VC firms act as hands-on partners, refining business models, improving operations, and identifying scalable opportunities.

PE firms, in contrast, focus on scaling mature companies, optimising operations, and driving profitability. In Hong Kong's fast-growing sectors like fintech, biotech, and health tech, PE and VC firms accelerate growth, positioning the city as a key player in Asia's innovation landscape. By channelling resources and expertise into promising startups, PE and VC firms create an environment where entrepreneurial ventures can thrive, scale, and compete on a global stage.

Enhancing productivity and building networks

The impact of PE and VC firms is evident in measurable outcomes. According to a study from the World Economic Forum, PE-backed firms outperform the broader market in job creation, productivity and workforce development, ensuring their workforce is equipped with the skills required for future industries.[25] Recent evidence from Europe also highlights the role of PE-backed companies in driving innovation and economic growth. These firms employed 10.9 million people globally in 2022[26]—a number exceeding the population of approximately 63% of countries worldwide. [27] Sectors such as Information Communications Technology (ICT) and biotech & healthcare have particularly benefited from PE investments. For example, the ICT sector alone generated over 104,000 new jobs, achieving an impressive growth rate of 13.8%.[28]

Separately, the contributions of PE and VC firms extend far beyond financial investment. Startups often face critical challenges, including operational inefficiencies, limited market access, and gaps in strategic direction. By acting as active partners, PE and VC firms also provide mentorship and access to seasoned professionals with deep industry expertise. This holistic support ensures that startups can overcome early barriers and position themselves for long-term success.

Equally important is the network-building role that PE and VC firms play. By connecting startups with key stakeholders—such as clients, strategic partners, and top talent—these firms foster ecosystems where innovation thrives. For instance, Silicon Valley exemplifies how a dense network of relationships among investors, entrepreneurs, and corporate leaders creates a self-reinforcing cycle of success. This is also evident in regions like the Nordic countries, where dense networks drive innovation with an aim of global solutions. In Sweden, for instance, the ecosystem encourages entrepreneurs to develop scalable solutions that address global challenges and meet international demand from the outset. Such a mindset has contributed to the emergence of globally successful, VC-backed startups such as Spotify and Klarna, boosting economic growth and cementing the country's status as a startup hub. Startups that succeed often reinvest their resources and expertise back into the ecosystem, amplifying the economic impact and fuelling the next generation of entrepreneurs.

24 Breuer, W., & Pinkwart, A. (2018). Venture capital and private equity finance as key determinants of economic development. Journal of Business Economics, 88, 319-324.
25 World Economic Forum. (2024, January). Private equity holds the key to creating quality jobs for millions. Retrieved from https://www.weforum.org/stories/2024/01/private-equity-holds-the-key-to-creating-quality-jobs-for-millions/
26 Invest Europe. (2024). Private equity at work: Employment & job creation across Europe. Retrieved from https://www.investeurope.eu/media/x1ohmcz2/101310_ie_pe_at-work_report_online_240417.pdf
27 World Population Review. (2024). Total population by country 2024. Retrieved from https://worldpopulationreview.com/countries
28 Invest Europe. (2024). Private equity at work: Employment & job creation across Europe. Retrieved from https://www.investeurope.eu/media/x1ohmcz2/101310_ie_pe_at-work_report_online_240417.pdf

GBA integration: cross-boundary innovation and synergy

For Hong Kong, fostering a similar network effect could unlock untapped potential. By leveraging its position as an international financial hub and its proximity to Mainland China, Hong Kong's PE and VC firms can create strong cross-border connections that support scaling and market access for startups. These networks are essential for startups operating in strategic sectors such as fintech, where collaboration with banking institutions, regulators, and technology providers is critical for growth.

A recent report underscores how geopolitical tensions have significantly altered cross-border capital flows, with many Western investors reducing their exposure to China, Mainland China's share of global deal value dropped from 6% in 2020 to just 2% in 2024.[29] Against this backdrop, Hong Kong's role as a strategic gateway is increasingly critical, facilitating capital flows and investment opportunities between global markets and the region.

Being an integral part of the GBA is key for Hong Kong to build a thriving regional I&T ecosystem. A standout initiative is the "Linked Development of Shenzhen and Hong Kong Venture Capital Investments in Qianhai", which exemplifies cross-border financial integration. Guided by the "Eighteen Measures" policy framework, this initiative strengthens collaboration between VC and PE markets in Hong Kong and Shenzhen, creating an efficient investment landscape to support startups and technology firms.[30]

The "Eighteen Measures" simplify regulatory processes, enhance financial service interoperability, and introduce a regulatory sandbox for innovative financial products. These measures, alongside infrastructure projects like the Hong Kong-Shenzhen Innovation and Technology Park in Lok Ma Chau, improve access to capital and foster collaboration between Hong Kong's financial expertise and Shenzhen's technological strength.

Streamlining cross-border investment processes and aligning standards and regulatory frameworks accelerates the commercialisation of joint research and ensures an enhanced flow of innovative products to market. That said, other regulatory and technical barriers still require exploration. These efforts could further be extended to other cities in the Mainland, as appropriate, to enhance cross-boundary collaboration and foster a more integrated regional innovation network.

29 Boston Consulting Group. (2024). Global principal investors report 2024: Sovereign wealth funds and public pension funds are reshaping private markets. https://web-assets.bcg.com/ff/f1/546dac984f18a0718586db716d9d/gpi-report-dec-2024-edit.pdf

30 Financial Services and the Treasury Bureau. (2022, September 8). Supporting the linked development of Shenzhen and Hong Kong venture capital investments in Qianhai to give full play to the dual-engine function of the two places in the Greater Bay Area. Retrieved February 19, 2025, from https://www.fstb.gov.hk/en/blog/blog080922.htm

PC: catalysts of market efficiency and alternative financing

Aside from PE and VC, PC funds are often viewed through the lens of high finance, but their contributions to the broader financial and business ecosystems are far more nuanced. These investment vehicles play pivotal roles in fostering liquidity, stabilising markets, and bridging critical financing gaps for businesses that may not otherwise have access to capital.

Funding businesses beyond traditional banking

PC funds operate in a space largely underserved by traditional financial institutions, addressing a critical gap for companies that fall outside the risk appetite of banks or lack the track record that is more conducive to traditional financing. These funds specialise in providing bespoke financing solutions to businesses—particularly SMEs—that may struggle to access conventional financing. Their tailored approach, flexibility, and speed in execution make them indispensable partners in driving innovation, fostering growth, and supporting broader economic resilience.

One of the defining characteristics of PC is its adaptability to the unique needs of borrowers. Unlike traditional bank loans, which can come with more rigid terms and more stringent collateral requirements, PC agreements can be more focused on the specific operational and financial circumstances of businesses.[31] One example of this flexibility is venture debt, a subset of PC tailored specifically for venture-backed startups. Unlike traditional loans, venture debt is designed to support these companies' rapid growth trajectories, often with terms that accommodate their unique cash flow patterns and growth milestones. By offering loans that extend a startup's cash runway by three to nine months, venture debt allows these companies to focus on scaling operations and achieving key milestones without the immediate pressure of an equity raise.[32]

For SMEs, this flexibility can mean the difference between stagnation and growth. Many mid-sized technology businesses, for example, while viable and innovative, are often excluded from bank financing due to regulatory constraints or a lack of tangible assets to secure loans. PC funds bridge this gap by offering more customised loan structures, flexible methods of debt services (such as the use of payment in kind interest), financing secured by non-traditional assets and, potentially, featuring equity sweeteners. These bespoke solutions allow businesses to focus on scaling operations, entering new markets, or developing innovative products without being hindered by inflexible financing terms.

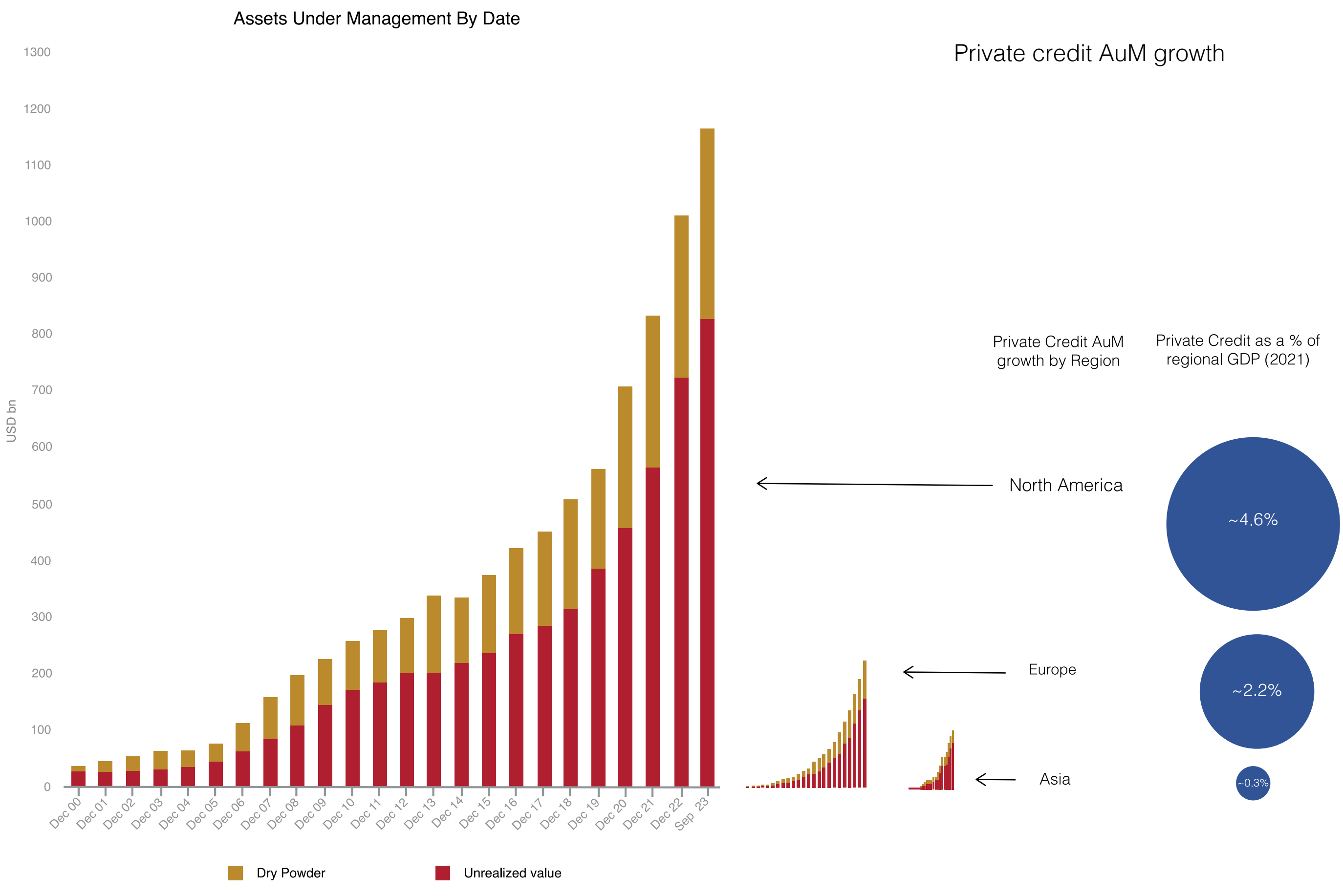
PC's role becomes more apparent during periods of economic uncertainty. When traditional banks tighten their lending practices—often driven by heightened regulatory pressures or increased risk aversion—PC funds can step in to provide much-needed liquidity.[33] This countercyclical behaviour was particularly evident during the COVID-19 pandemic. As bank lending contracted, PC funds played a role in stabilising the financial ecosystem by extending credit to distressed but viable companies.

31 PricewaterhouseCoopers. (2024). Private credit in Asia Pacific: Navigating the region. PwC Hong Kong. https://www.pwchk.com/en/asset-management/navigating-the-region-apr2024.pdf
32 J.P. Morgan. (2024, October 17). Venture debt: How venture debt financing works. https://www.jpmorgan.com/insights/banking/commercial-banking/venture-debt-how-venture-debt-financing-works
33 International Monetary Fund. (2024). The rise and risks of private credit. In Global Financial Stability Report: The Last Mile: Financial Vulnerabilities and Risks (Chapter 2). https://www.imf.org/-/media/Files/Publications/GFSR/2024/April/English/ch2.ashx

In 2022, PC funded USD 333 billion globally, with significant allocations directed toward high-growth sectors such as technology.[34] The ability of PC to fund businesses during challenging times underscores its position in economic resilience. This trend is also reflected in the broader private market landscape, in which the global PE/VC investment market experienced a 5% year-on-year rebound in 2024, reaching a total of USD 56 billion. This resurgence in deal value was bolstered by an extraordinary 54% surge in deal volume, primarily fuelled by PC deals, which saw an impressive 256% increase.[35] This growth highlights the pivotal role PC continues to play in providing liquidity during periods of economic strain and in driving recovery and growth in global investment markets.

Asia presents significant growth opportunities for PC despite its market being underdeveloped compared to North America and Europe. While PC AUM in Asia currently stands at USD 90 billion, this is only about 10% of the size of the US market and approximately 30% of the European market.[36] (Figure 2)

Figure 2: Growth trajectory of PC in North America, Europe and Asia [37]



Source: : Preqin, Singularity, AIMA

This disparity highlights a growth opportunity for the region. Favourable demographics, rising demand for alternative financing, and the ongoing retrenchment of banks from higher-risk lending sectors are all factors that suggest PC will play an increasingly vital role in funding SMEs and startups across Asia in the coming years. Additionally, Asia's banking sector, which provides approximately 75% of corporate credit compared to 25% in the US, creates untapped potential for PC to emerge as a complementary financing source.[38]

34 Singularity Capital & Alternative Investment Management Association (AIMA)
35 Ernst & Young (EY). (2024). IVCA monthly PE/VC roundup: December 2024. EY.
https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/newsroom/2025/ey-ivca-monthly-pe-vc-roundup-december-2024.pdf
36 Singularity Capital & AIMA
37 Singularity Capital & AIMA
38 Singularity Capital & AIMA

Consistent performance and investor appeal

The growing appeal of PC is also reflected in its performance. Historically, PC has delivered annualised returns of approximately 10%, with loss ratios lower than those of high-yield fixed-income securities.[39] This combination of steady returns and reduced risk has drawn institutional investors such as pension funds and insurance companies, as well as high-net-worth individuals. In Asia, non-Asian investors currently contribute 77% of the capital raised by PC managers, with North American investors accounting for 30% and European investors contributing 19%.[40] However, local capital pools, including Asian pension funds and insurers, are expected to increase their allocations to PC in response to geopolitical tensions and favourable GDP growth projections in the region.

PC funds are increasingly channelling capital into sectors aligned with broader economic trends. The technology sector, for instance, has emerged as a key beneficiary of PC. Since 2020, outside APAC, PC has surpassed conventional syndicated loans in financing large leveraged buyouts (LBOs) and growth-stage companies.[41] In Asia, PC is also emerging as a key source of capital for high-growth industries.

As PC continues to evolve, its role in complementing traditional banking and public markets cannot be overstated. The ability of PC funds to provide tailored financing solutions supports individual businesses and strengthens the broader financial ecosystem by addressing unmet demand for capital. PC funds serve as an available source of financing for businesses during periods of stress. Their ability to align debt service terms with borrowers' cash flows reduces liquidity mismatches, enabling businesses to weather economic challenges while pursuing long-term objectives. This stability particularly benefits PE and VC-backed companies, which often face funding challenges during expansion or volatile market conditions. The interconnectedness of alternative investment funds can be a key driver of market resilience and economic dynamism, especially in markets like Hong Kong. That said, as the sector continues to grow, it is important to remain mindful of its interlinkages with the broader financial system. For instance, some PC lenders rely on bank credit lines for liquidity, which may merit attention. Ensuring the development of well-regulated and qualified PC fund markets can support the sector's sustainable growth and contribute to long-term financial stability.

Alternative funding: addressing startups' critical challenges

The demand for funding spans the entire lifecycle of a startup, from seed and early-stage development to growth and late-stage expansion. Yet, securing capital remains one of the most pressing challenges for startups both globally and within Southeast Asia. According to a survey focused on the region, fundraising difficulties were voted as the biggest challenge in both 2022 and 2023, followed by achieving profitability and addressing talent acquisition gaps.[42]

Private markets, through vehicles like VC, PE, PC, as well as more recently, sovereign wealth funds (SWFs), have emerged as key funding sources for startups. These capital sources are particularly well-suited to ventures with higher risk profiles and intangible assets like intellectual property and R&D. Their risk tolerance and adaptability provide startups with essential resources to navigate the volatile journey of innovation and growth. In addition, they can operate through a staged financing model, particularly in VC, allowing startups to access capital incrementally as their needs evolve. Early-stage funding focuses on product development and market validation, while later rounds support scaling, market expansion, and eventual exits. This structure ensures optimal allocation of funds and also reduces financial risks for both investors and startups.

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39 Goldman Sachs Asset Management. (2024). Understanding private credit.
https://am.gs.com/en-hk/institutions/insights/article/2024/understanding-private-credit
40 Singularity Capital & AIMA
41 Deloitte. (2024). Private credit and banks: How can banks adapt to the growth of private credit? Deloitte Insights.
https://www2.deloitte.com/us/en/insights/industry/financial-services/alternative-lending-effect-on-banks.html
42 InnoVen Capital SEA. (2024). 2024 Startup Outlook Report. Retrieved from
https://innovencapital.com/public/uploads/files/20240620/af8604d39144a1432679e18949670404.pdf

Globally, private markets have seen remarkable growth, with asset under management (AUM) expanding at an average annual rate of nearly 14% since 2013.[43] This growth has been fuelled by both demand and supply-side trends. On the demand side, startups increasingly rely on private markets for flexible, staged financing that aligns with their evolving capital needs. Meanwhile, on the supply side, public sector stakeholders, institutional investors, family offices, and high-net-worth individuals (HNWIs) are allocating more capital to private markets, drawn by their potential for higher returns to fulfil mid- and long-term funding commitments and for portfolio diversification.

SWFs are playing an increasingly critical role in shaping the private market ecosystem. With AUM surging from USD 1.2 trillion in 2000 to USD 12 trillion by mid-2024,[44] SWFs are leveraging their vast resources to support high-growth startups and innovation-led sectors such as technology, sustainability, and healthcare. For example, Saudi Arabia's Public Investment Fund (PIF), with over USD 925 billion in assets, has prioritised investments in fintech, renewables, and manufacturing, driving its Vision 2030 strategy to diversify the national economy.[45] Similarly, Abu Dhabi's Mubadala Investment Company, which manages USD 280 billion in assets, has strategically invested in cutting-edge technology startups across global markets.[46]

Furthermore, SWFs are fostering cross-border partnerships and driving global innovation. For instance, the collaboration between Saudi Arabia's PIF and the Hong Kong Monetary Authority, exemplifies how public investors are facilitating cross-border innovation.[47] Their proposed joint investment fund, announced in 2024, focuses on high-growth sectors such as renewables, fintech, and healthcare, showcasing Hong Kong's capacity to connect global capital with regional opportunities.

Startups are staying private longer

A notable trend in the global entrepreneurial landscape is the increasing length of time startups remain private. In 2024, the median age of startups from first funding to going public reached 7.5 years, compared to just 5.5 years two years earlier.[48] While this shift was previously seen as a positive outcome of abundant private capital, recent developments suggest a more complex picture—shaped by both structural changes in the financing ecosystem and tighter public market conditions in the global arena.

On the supply side, the availability of late-stage private capital continues to grow. Globally, in 2024, year-to-date PE activity increased by 36% in value and 18% in volume compared to the same period in 2023.[49] According to Preqin, PE AUM is projected to more than double, rising from USD 5.8 trillion in 2023 to USD 11.97 trillion by 2029. While North America will continue to dominate with a 68% share of the anticipated AUM, the APAC region is expected to account for 10%, signalling its growing influence in global PE markets.[50] Late-stage VC funding has also surged, in 4Q 2024, this category reached USD 61 billion, marking a 70% quarter-over-quarter increase, according to Crunchbase data. Moreover, a notable portion of capital (19%) was allocated to billion-dollar rounds, up from 15% in 2023, largely driven by investments in the AI sector.[51] The scale of investments highlights the increasing willingness of private investors, such as sovereign wealth funds, pension funds, family offices and others, to back mature startups at levels previously associated with public markets.

43 McKinsey & Company. (2024). McKinsey global private markets review 2024: Private markets—a slower era. Retrieved from https://www.mckinsey.com/~/media/mckinsey/industries/private%20equity%20and%20principal%20investors/our%20insights/mckinseys%20private%20markets%20annual%20review/2024/mckinsey-global-private-markets-review-2024.pdf?shouldIndex=false
44 EQT Group. (2024). The rise and rise of sovereign wealth funds. Retrieved January 27, 2025, from https://eqtgroup.com/thinq/wealth/the-rise-and-rise-of-sovereign-wealth-funds
45 Public Investment Fund. (2025). PIF | Home | Public Investment Fund. Retrieved January 27, 2025, from https://www.pif.gov.sa/en/
46 Mubadala Capital. (2025). About Mubadala Capital. Retrieved January 27, 2025, from https://www.mubadalacapital.ae/en
47 Hong Kong Monetary Authority. (2024, October 31). PIF and Hong Kong Monetary Authority sign memorandum of understanding for investment fund at FII8. https://www.hkma.gov.hk/eng/news-and-media/press-releases/2024/10/20241031-10/
48 CB Insights. (2024). Venture trends 2024. Retrieved from https://www.cbinsights.com/research/report/venture-trends-2024/
49 EY. (2024). Private Equity Pulse: Key takeaways from Q3 2024. Retrieved from https://www.ey.com/en_gl/insights/private-equity/pulse
50 Nguyen, T. B. N. (2024). APAC may beat global markets in PE returns recovery: Preqin. DealStreetAsia. Retrieved from https://www.dealstreetasia.com/stories/apac-private-equity-performance-preqin-421350
51 Teare, G. (2025). Startup funding regained its footing in 2024 as AI became the star of the show. Crunchbase News. Retrieved from https://news.crunchbase.com/venture/global-funding-data-analysis-ai-eoy-2024/#Late-stage%20Q4%20boom

At the same time, demand-side dynamics are also evolving. Industry practitioners have observed that many startups are opting to delay public listings due to reduced IPO activity and tighter listing conditions, particularly in major markets like the US and China. Rather than a purely strategic choice, the extended private lifecycle is increasingly shaped by limited access to liquidity through traditional exits.

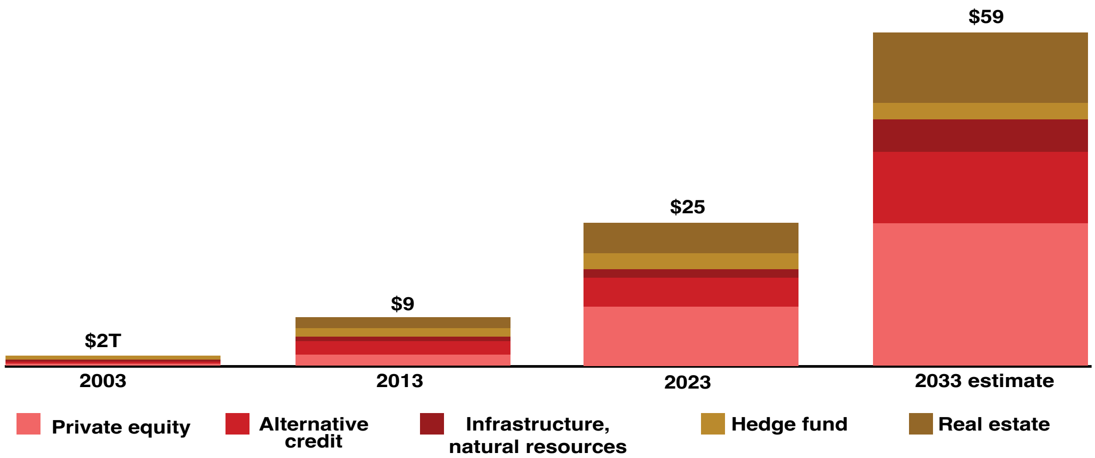
Startups also weigh the trade-offs of going public more cautiously. Public markets impose stricter disclosure requirements and subject firms to short-term shareholder pressures, potentially limiting operational flexibility. For firms in sectors with significant intangible assets—such as fintech, e-commerce, and renewable energy—remaining private can help protect sensitive information and long-term strategies, especially in competitive APAC markets. In this evolving environment, the trend of staying private longer reflects both opportunity and constraint—a convergence of abundant private capital and narrower public exit windows. For investors and policymakers alike, understanding this nuance is critical when assessing the health and trajectory of the startup ecosystem.

The growing appeal of private markets and alternative asset classes among investors

For investors, private markets now serve as a vital complement to public markets, offering investment and funding opportunities. In 2024, global VC in late-stage startups reached USD147 billion,[52] exceeding the total capital raised through IPOs.[53]

Private markets represent a potential opportunity for higher returns, diversification, and resilience during economic uncertainties. As a result, institutional investors and, HNWIs are increasingly drawn to alternative investments in PE, VC, PC, and real assets. This shift has reshaped financial markets globally, with AUM in private markets expanded at an impressive CAGR of nearly 9% through 2033, outpacing the growth of public market AUM by more than double (Figure 3).

Figure 3: Global alternative assets under management, USD trilions



Source: Bain & Company [54]

52 Teare, G. (2025, January 7). Startup funding regained its footing in 2024 as AI became the star of the show. Crunchbase News. Retrieved from https://news.crunchbase.com/venture/global-funding-data-analysis-ai-eoy-2024/#Late-stage%20Q4%20boom
53 KPMG China. (2024, December 11). Chinese Mainland and Hong Kong IPO markets 2024 review and 2025 outlook. Retrieved from https://kpmg.com/cn/en/home/insights/2024/12/china-hk-ipo-markets-2024-review-and-2025-outlook.html
54 Bain & Company. (2024, August 21). Avoiding wipeout: How to ride the wave of private markets. Retrieved from https://www.bain.com/insights/avoiding-wipeout-how-to-ride-the-wave-of-private-markets/

This growing institutional interest highlights the reliance on private markets for higher absolute returns to fulfil mid- and long-term funding commitments amid a backdrop of uncertain public market returns. Highlighting the attractive returns of private markets, PE and VC in the US, for instance, has outperformed S&P500.[55]

Furthermore, the rise of "unicorns"—private companies valued at over USD1 billion—illustrates the investment potential. By December 2024, over 1,245 unicorns globally, emphasising the depth of private capital and the preference for long-term private ownership that shows the potential.[56]

Zooming into the landscape in APAC and Hong Kong

The growing preference for private markets by both startups and investors has redefined how innovation is funded and scaled globally. This shift is particularly pronounced in the APAC region, where rising financial sophistication and economic growth have created fertile ground for private market investments.

PE and PC have gained significant traction across APAC, each capturing 15% of investor interest in 2023.[57] Asia also accounted for 23.7% of the world's PE dry powder,[58] highlighting the scale and depth of investment opportunities within its growing economies. Despite global headwinds, PE buyout investments in the APAC region remained robust in 2023, reaching approximately USD147 billion. For the first time since 2017, buyouts accounted for the largest share of deal value in the region, representing around 48% of the total.[59]

Within APAC, Hong Kong's position as a leader in private markets is further evidenced by its financial ecosystem's depth and sophistication. Hong Kong's asset and wealth management business amounted to nearly HKD 31.2 trillion as of end-2023, with an increase in net fund inflow by over 3.4 times year-on-year. By mid-2024, Hong Kong ranked second in Asia for PE capital under management, with assets exceeding USD 233.9 billion.[60] The city is also home to Asia's largest hedge fund hub and a premier cross-boundary wealth management centre, serving as a gateway for global investors into APAC.

Hong Kong's strategic appeal extends beyond its financial infrastructure. The city is home to approximately 650 PE and VC firms, with nearly 60% serving as regional headquarters.[61] Its regulated fund structures, including 435 open-ended fund companies and nearly 1,000 limited partnership funds,[62] offer fund managers operational flexibility and tax efficiency, further enhancing the city's competitive edge as a preferred hub for fund domiciliation, investment structuring, and cross-border capital flows. A defining factor in Hong Kong's prominence is its close integration with Mainland China, which provides unparalleled access to one of the world's largest and fastest-growing markets. By early 2024, the cumulative assets of Hong Kong-domiciled funds distributed in Mainland China through the northbound scheme had reached USD 2.95 billion, facilitating cross-border capital flows.[63]

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55 S&P Dow Jones Indices. (2024, September). 2023 private markets review: Cambridge Associates benchmarks versus public indices. Retrieved from https://www.spglobal.com/spdji/en/documents/education/education-2023-private-markets-review-cambridge-associates-benchmarks.pdf
56 KPMG China. (2024, December 11). Chinese Mainland and Hong Kong IPO markets 2024 review and 2025 outlook. Retrieved from https://kpmg.com/cn/en/home/insights/2024/12/china-hk-ipo-markets-2024-review-and-2025-outlook.html
57 Deloitte China. (2024). Asia Pacific Private Equity 2024 Almanac. Retrieved from https://www2.deloitte.com/cn/en/pages/deloitte-private/articles/asia-pacific-private-equity-almanac-2024.html
58 ibid
59 Bain & Company. (2024). Asia-Pacific private equity report 2024: Staying the course amid upheaval. Retrieved from https://www.bain.com/insights/asia-pacific-private-equity-report-2024/
60 Invest Hong Kong. (2025, January 21). Fact sheet: Hong Kong FinTech landscape. https://www.hongkong-fintech.hk/en/insights/news/news-2024/fact-sheet-hong-kong-fintech-landscape/#:~:text=Private%20Funding%20%E2%80%93%20Hong%20Kong%20has,cross%2Dborder%20wealth%20management%20centre
61 HKSAR Government (2024, June 21). Speech by SFST at Partners Group Hong Kong Office Grand Opening Event (English only) (with photo). https://www.info.gov.hk/gia/general/202406/21/P2024062100583.htm
62 HKSAR Government (2024, June 21). Speech by SFST at Partners Group Hong Kong Office Grand Opening Event (English only) (with photo). https://www.info.gov.hk/gia/general/202406/21/P2024062100583.htm
63 Ignites Asia. (2024). China offers long-awaited reforms for Mainland-HK MRF scheme. Retrieved from https://www.ignitesasia.com/c/4486954/586794/china_offers_long_awaited_reforms_mainland_scheme?referrer_module=emailMorningNews&module_order=0&code=Y0dGMGNtbGpheTU1ZFVCbWJHVnBjMmh0WVc0dVkyOXRMQ0F6TlRnNU5USTBMQ0F4TnpNeE9UY3hNRFEw

The importance of private markets and the role of fund managers in shaping this growth cannot be overstated. However, sustaining this momentum requires a closer examination of areas that could further enhance the ecosystem's resilience. From ensuring balanced capital flows to fostering innovation and refining the environment for commercial growth, there are opportunities to solidify Hong Kong's position as a global leader in private markets. The next section will explore these critical considerations, setting the stage for a deeper understanding of the evolving landscape and the measures needed to support long-term advancement.

Challenges facing the ecosystems of startups and alternative investments

Challenges facing the ecosystems of startups and alternative investments

Funding landscape imbalance and diversification needs in the startup scene

In the alternative investment ecosystem, the interplay between funding allocations and the breadth of the start-up portfolio is deeply interconnected.VC and start-up growth fuel each other in a feedback loop that determines the market's health and vibrancy. When one side falters, the effects ripple across innovation, growth, and economic resilience.

Despite its reputation as a global financial hub and a gateway to Asia, Hong Kong faces an intriguing challenge. It seems primed to nurture a thriving startup culture, yet its investment ecosystem tells a different story. The city's VC market, while mature in infrastructure, tends to favour safer bets over risky, high-reward ventures. This cautious approach limits diversification and suppresses the energy that defines leading startup hubs around the world. Without a wider portfolio of scalable startups, Hong Kong struggles to attract the consistent investment needed to spark transformational growth.

The key to a thriving startup ecosystem lies in creating a virtuous cycle of home-based success. Startups that succeed globally but maintain ties to their roots can reinvest their capital, expertise, and networks back into the local market, inspiring the next wave of entrepreneurs. Similarly, home-based VC firms that actively back local startups can provide the steady support needed to break the cycle of stagnation. By focusing on building this local foundation, Hong Kong can unlock its potential as a global leader in innovation and economic resilience.

Funding imbalance and early-stage gaps

The engagement with industry stakeholders and the Working Group highlighted a funding imbalance in Hong Kong. While growth capital for established businesses is abundant, a scarcity of seed funding for startups and early-stage ventures is observed. In 2023, seed and early-stage investments—including seed, grant, angel, and Series A funding—constituted merely 12% of all VC investments in Hong Kong.[64] This disparity creates a challenging environment for new businesses, stifling innovation at its inception.

This challenge is not unique to Hong Kong; other markets face similar issues but have identified their own approaches to nurturing startup ecosystems and bridging the early-stage funding gap. For instance, Malaysia has introduced co-investment programmes, where government funds collaborate with local PE and VC firms to support early-stage ventures.[65] Singapore, on the other hand, has leveraged its SWFs to play an active role in angel investments, both locally and internationally.[66] Meanwhile, Gulf countries have strategically utilised their sovereign wealth funds to drive diversification. Saudi Arabia's Wa'ed Ventures and Prosperity7 Ventures exemplify this, targeting high-risk, high-reward sectors like AI, biotech, and climate technology, while simultaneously nurturing domestic ecosystems through programmes tailored to their unique economic landscapes and development goals.[67]

64 Deloitte. (2023). Turning innovations into wealth: How to fill the commercialisation gap in Hong Kong. https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/technology-media-telecommunications/deloitte-cn-hktf-2023-turning-innovations-into-wealth-en-240123.pdf
65 Sasakawa Peace Foundation. (n.d). The emergence of angel investment networks in Southeast Asia: Report III - Country profiles for angel investment networks in Southeast Asia. https://www.spf.org/en/global-data/user47/AINvTHREE.pdf
66 Sasakawa Peace Foundation. (n.d). The emergence of angel investment networks in Southeast Asia: Report III - Country profiles for angel investment networks in Southeast Asia. https://www.spf.org/en/global-data/user47/AINvTHREE.pdf
67 World Economic Forum. (2024, December 18). 5 reasons small businesses and startups are thriving in the Gulf. World Economic Forum. https://www.weforum.org/stories/2024/12/5-reasons-small-businesses-and-startups-are-thriving-in-the-gulf/

Hong Kong's approach blends some elements of these strategies but faces unique challenges. Government initiatives in recent years like programmes that support R&D under the Innovation and Technology Fund and the Hong Kong Investment Corporation (HKIC) demonstrate a commitment to fostering early-stage innovation. Public institutions such as HKSTP and Cyberport provide critical seed funding and resources, acting as foundational pillars of the startup ecosystem.

For instance, HKSTP's structured programmes, ranging from the Ideation Programme to the Elite Programme, offer end-to-end support, addressing funding, mentorship, and scalability.[68]

1. **Ideation Programme:** Targets entrepreneurs with innovative ideas, offering up to HKD 100,000 in funding, training, mentorship, co-working space, and startup support over a one-year period.

2. **Incubation Programme (including Incu-Bio):** Providing up to HKD 1.29 million financial subsidy in three years for non-biotechnology startups and up to HKD 6 million in four years (HKD 4 million financial subsidy with another HKD 2 million funding for regulatory activities such as clinical trials) for biotech ventures and business development, as well as services such as mentor support and investor matching.

3. **Acceleration Programme:** Provides support in market promotion, business expansion, and enterprise development, etc. to outstanding start-ups and companies. Start-ups receive funding of up to HKD 4.8 million.

4. **Elite Programme:** Funds technology enterprises which have growth potential and plan to expand R&D activities in the Science Park. Designed for mature startups (valuations of USD 50–100 million) seeking to expand globally. This invitation-only programme provides funding support of up to HKD 21.5 million in funding and acts as a springboard for international success

These programmes collectively highlight the importance of tailoring financing and support to the specific needs of startups at different stages of their journey. By addressing resources gaps across the startup lifecycle—ideation, development, scaling, and commercialisation—these programmes ensure that entrepreneurs have access to the resources they need to succeed at every critical milestone.

However, these initiatives must contend with systemic barriers: the limited vibrancy of local home-based VC firms, a scarcity of scalable startups, and a lack of corporate engagement. Unlike regions such as the Gulf, where sovereign wealth funds actively de-risk early-stage investments, Hong Kong relies more heavily on grassroots initiatives and public-private partnerships. While this dual approach has its strengths, its sustainability in the long term needs to be assessed. Solely relying on public funding, or public institutions like HKSTP and Cyberport to perpetually provide seed capital is unlikely feasible or scalable, as these entities operate within their own operating and financial constraints.

To create a sustainable startup ecosystem, Hong Kong should focus on stimulating private-sector participation, fostering a culture of VC investment, and engaging corporations to play a more active role in innovation. By diversifying funding sources, this way can only enable the city to move toward a more self-sustaining, dynamic ecosystem that supports startups on a larger scale.

68 Hong Kong Science & Technology Parks Corporation. (2024). Startup support programmes, incubators and accelerators. HKSTP. https://www.hkstp.org/en/programmes

Commercialisation and its implications for Hong Kong's ecosystem

Hong Kong is home to a wealth of intellectual talent, with the potential to become a global leader in high-value, innovation-driven industries. The city's academic institutions—five of which rank among the global top 100, including two top-40 medical schools—constitute a hub of advanced research and technical expertise.[69] Recognised as the 18th most innovative economy in the 2024 Global Innovation Index,[70] and complemented by an 8th global ranking in intellectual property protection,[71] Hong Kong excels in research infrastructure, market sophistication, and knowledge creation. Its testing and certification sector provides a robust framework for validating technologies. Yet, despite these strengths, the city struggles to translate innovation into scalable commercial outcomes, a persistent weakness that constrains its startup ecosystem and long-term economic potential.

This commercialisation bottleneck is evident across Hong Kong's innovation landscape. Universities contribute 53% of the city's gross domestic expenditure on R&D (GERD), while private sector investment lags at 41% [72]—a stark contrast to economies like Israel (over 90%) and South Korea (over 80%).[73] This imbalance highlights an underutilisation of research capabilities and a limited private sector role in driving innovation to market. Stakeholders note that promising innovations frequently stall at the proof-of-concept stage, with universities and research institutions lacking the entrepreneurial expertise, industry networks, and resources to bridge the lab-to-market divide. As our 2021 report observed, this disconnect results in a significant drop-off, where startups struggle to secure funding or partnerships at critical junctures.[74]

Hong Kong's VC environment exacerbates these challenges. Local investors often prioritise startups with established market traction, leaving early-stage ventures underserved—a cautious approach that diverges from the risk-tolerant culture of hubs like Silicon Valley. This reluctance creates a funding cliff, particularly in high-capital sectors such as biotech and artificial intelligence, where prolonged development cycles demand sustained investment. In biotech, for instance, Hong Kong boasts strong research talent and IP protections but lacks the translational research infrastructure and venture investment needed to compete with global leaders, as FSDC's 2021 analysis underscored.

Institutional and corporate dynamics further impede progress. While Hong Kong's universities are globally esteemed, their focus often leans toward academic publications rather than practical applications, leaving researchers ill-equipped with the entrepreneurial skills or industry connections required for commercial success. Technology transfer offices (TTOs) across Hong Kong universities, intended to facilitate commercialisation, remain underdeveloped and disconnected from active industry participation. Stakeholders contrast this with ecosystems like Israel and Boston, where universities act as startup incubators supported by private networks. In contrast, recent research reveals that around 85% of startups in Hong Kong rely on public incubators,[75] underscoring the need for a more diversified and market-driven incubation landscape for sustainable growth

69 Hong Kong Special Administrative Region Government. (2024, June 5). HK universities rank in top 100. News.gov.hk. https://www.news.gov.hk/eng/2024/06/20240605/20240605_172523_814.html

70 World Intellectual Property Organization. (2024). Which are the most innovative economies in 2024? Global Innovation Index 2024. https://www.wipo.int/en/web/global-innovation-index/2024/index

71 Hong Kong Special Administrative Region Government. (2024, July 1). Impressive and major achievements of the implementation of "One Country, Two Systems" since Hong Kong's return to the motherland - Continuously demonstrating immense superiority of "One Country, Two Systems". https://www.info.gov.hk/gia/general/202407/01/P2024063000424.htm#:~:text=According%20to%20the%20World%20Competitiveness,is%20an%20international%20aviation%20hub

72 Census and Statistics Department. (2022). Report on Annual Survey of Economic Activities: Report for all sectors. Census and Statistics Department, Hong Kong. https://www.censtatd.gov.hk/en/wbr.html?ecode=B11100102022AN22&scode=580

73 World Intellectual Property Organization (WIPO). (2024). End of year edition – Against all odds, global R&D has grown close to USD 3 trillion in 2023. WIPO. https://www.wipo.int/web/global-innovation-index/w/blogs/2024/end-of-year-edition

74 FSDC (2021, November). Fuelling Further Growth of Biotech and Healthcare Industries: Leveraging Hong Kong's Financial Infrastructure, https://www.fsdc.org.hk/media/c2cpcpld/20211115-fsdc-research-report-healthcare-financing_en.pdf

75 Our Hong Kong Foundation & Public Policy Institute. (2024). Building Hong Kong as a cradle for successful entrepreneurship. Alibaba Entrepreneurs Fund. Retrieved from https://www.ent-fund.org/uploads/doc/full_report2024.pdf

Funding gaps also loom large. While early-stage grants and seed funding provide initial support for prototypes and proof-of-concept projects, many startups face a funding cliff when they attempt to scale.[76] The capital required for large-scale testing, product refinement, or market entry is often unavailable, leaving promising ventures to flounder. This challenge is especially pronounced in high-capital sectors like biotech and AI, where prolonged development cycles demand sustained investment.

Corporate engagement, a vital catalyst elsewhere, remains limited. Globally, corporate VC constitutes 35%–40% of total investment, providing startups with capital, accelerators, and market access.[77] In Hong Kong, however, direct corporate investment is minimal, and while mentorship programs exist, a supportive culture has yet to mature. This gap leaves startups navigating market entry largely unaided, stifling ecosystem vibrancy. Addressing these structural deficiencies—through enhanced private sector involvement, bolstered translational infrastructure, and a shift toward entrepreneurial capacity—could position Hong Kong as a global innovation leader, harnessing its inherent strengths to drive sustained economic advancement.

Regulatory and tax framework

Hong Kong's tax frameworks for alternative investment vehicles have made notable strides, particularly with the introduction of the unified funds exemptions regime, which includes profits tax exemption for privately offered funds, in 2019.[78] These developments have enhanced Hong Kong's competitiveness as a financial hub. However, industry stakeholders continue to advocate for further refinements to elevate its attractiveness as a premier destination for fund management.

Building on the Government's commitment in the 2023-24's Budget Speech to refine regulatory and tax arrangements for the asset and wealth management sector [79]—and following the recently completed consultation by the Financial Services and the Treasury Bureau (FSTB)—it is timely to consider actionable measures. Feedback from industry stakeholders suggests several potential areas to explore, including enhancing the existing unified fund tax exemption, refining the eligibility of carried interest for tax exemption, and revising taxation practices for PE and PC funds. These considerations are particularly important given Hong Kong's dynamic and interconnected role with other offshore jurisdictions. Addressing these areas could alleviate current limitations in the tax regime, ensuring Hong Kong's framework remains competitive, agile and responsive to evolving industry demands.

Tax incentives play a critical role in attracting fund managers to Hong Kong and driving growth in the alternative investment sector. As the global investment landscape evolves, it is essential for Hong Kong's tax policies to align with international benchmarks. Competitive and adaptive tax policies enable the city to attract and retain a diverse range of fund managers and strengthen its position as a leading financial centre.

While Hong Kong has made efforts in modernising its tax policies, the regulatory framework for PE and VC funds may benefit from further attention. The existing regulatory framework rightly prioritises market stability and investor protection — objectives that are particularly critical in the context of public markets, where liquidity, continuous pricing, and a broad investor base necessitate robust safeguards.

76 Deloitte. (2023). Turning innovations into wealth: How to fill the commercialisation gap in Hong Kong. Deloitte China. https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/technology-media-telecommunications/deloitte-cn-hktf-2023-turning-innovations-into-wealth-en-240123.pdf
77 Deloitte. (2022). Corporate venture capital for financial institutions. Deloitte US. Retrieved from https://www2.deloitte.com/us/en/pages/mergers-and-acquisitions/articles/financial-institution-cvc.html
78 Inland Revenue Department. (2020). Profits tax exemption for funds (Departmental Interpretation and Practice Notes No. 61). The Government of the Hong Kong Special Administrative Region. https://www.ird.gov.hk/eng/pdf/dipn61.pdf
79 HKSAR Government. (2023, February 22). The 2023-24 Budget. Hong Kong Special Administrative Region Government. https://www.budget.gov.hk/2023/eng/pdf/e_budget_speech_2023-24.pdf

Industry practitioners frequently highlight the need for a distinct, purpose-built regulatory structure that better reflects the specific operational dynamics and risk profiles of PE and VC funds.[80] These strategies differ markedly from other asset classes. Unlike hedge funds, which typically focus on short-term trading and liquid positions, PE and VC funds pursue long-term value creation through investments in unlisted or early-stage companies. Their lifecycle spans capital-raising, due diligence, active ownership, and eventual exits — often over several years — and they primarily serve professional and institutional investors capable of assessing and absorbing such risks.

These structural and operational differences suggest that a more differentiated regulatory approach could complement existing safeguards without undermining broader policy objectives. By aligning regulatory expectations more closely with the nature of private capital strategies, Hong Kong could streamline fund operations, reduce compliance friction, and enhance its competitiveness as a leading hub for private investment across Asia's rapidly expanding markets.

Talent attraction and fostering innovation

Hong Kong's alternative investment and startup ecosystems stand at a critical juncture where effective talent management, innovation and raising awareness are crucial for its sustainable growth. As the financial and entrepreneurial landscape continues to evolve and progress in development, driven by global mobility, technological advancements, and the rise of emerging sectors, Hong Kong faces increasing competition for talent. Traditionally competing with financial centres such as New York and London, Hong Kong now also faces challenges from rapidly emerging jurisdictions across the GCC and several European and Asian cities. These regions actively attract specialised talent with competitive compensation packages, quality-of-life incentives, and supportive environments for startups, creating a highly competitive global market for talent.

As technology increasingly permeates alternative investments, both as investment themes and operational tools, a skills gap has emerged. While Hong Kong has a solid talent pool—reflected in its rising position in global talent rankings[81]—there is a growing demand for professionals who can blend financial expertise with technological acumen. The World Economic Forum in 2023 estimated that 44% of workers' core skills will require updating and reskilling in the next five years.[82] This need for reskilling is expected to be particularly acute in the alternative investment sector, where proficiency in data analytics, artificial intelligence, and blockchain technologies is becoming increasingly vital.

Similarly, a survey revealed that over 63% of surveyed entrepreneurs in Hong Kong consider the lack of innovative talent a key challenge in running their businesses in the city.[83] Startups require a diverse range of skills, from technical expertise such as coding and product development to business-focused abilities such as fundraising, scaling operations, and navigating alternative financing methods Attracting new talent and upskilling the existing workforce to meet evolving demands requires a multifaceted approach, combining education, industry collaboration, and policy support. However, the shortage of specialised university programmes or initiatives focusing on entrepreneurship, startup management, and related areas such as fintech and alternative

80 Hong Kong Venture Capital and Private Equity Association. (2024). Policy address 2024 recommendations. Retrieved from https://www.hkvca.com.hk/wp-content/uploads/2024/08/2407_HKVCA-Policy-Address-2024-recommendations.pdf
81 Hong Kong Special Administrative Region Government. (2024, September 19). Hong Kong soars in World Talent Ranking 2024. https://www.info.gov.hk/gia/general/202409/19/P2024091900285.htm
82 World Economic Forum. (2023, May 22). These are the top 10 job skills of tomorrow – and how long it takes to learn them. https://www.weforum.org/agenda/2023/05/future-of-jobs-2023-skills/
83 Deloitte. (2023). Turning innovations into wealth: How to fill the commercialisation gap in Hong Kong. https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/technology-media-telecommunications/deloitte-cn-hktf-2023-turning-innovations-into-wealth-en-240123.pdf

investments. This constrains the pipeline of qualified professionals needed to drive innovation and growth. Additionally, challenges such as the high cost of living and geopolitical tensions are compounded by the evolving regulatory landscape, particularly in areas like sustainable investing and virtual assets. This environment demands a new breed of professionals equipped with interdisciplinary knowledge, a blend of expertise that is currently in short supply.

To address these talent challenges, closer and more strategic collaborations between the industry and educational institutions are essential. Developing targeted curricula and training programmes can bridge the divide between academic knowledge and practical industry needs. On the other hand, Hong Kong should also build a robust talent pipeline with entrepreneurial and innovative mindsets from a young age. Introducing entrepreneurship into school curricula can help cultivate problem-solving skills, creativity, and an understanding of business fundamentals early in life.

Policy recommendations

Policy recommendations

Instilling stakeholder confidence through higher certainty

Hong Kong, with its AWM sector stands as a cornerstone of its status as an international financial centre, is uniquely positioned to become a leading global ecosystem where innovative start-ups, businesses, and alternative investments, especially VC, converge. By leveraging its strategic location, world-class financial infrastructure, and proximity to fast-growing Asian markets, the city can elevate from a traditional financial hub to a global leader in innovation-driven growth. The dynamic interplay can unlock transformative opportunities, drive cross-sectoral collaboration, and accelerate economic diversification, fulfilling Hong Kong's financial and non-financial objectives.

However, despite progress in driving towards this vision, the ecosystem can benefit from enhancement in some areas. Among others, start-ups face increasing challenges in scaling up, alternative investment funding from local sources remains limited, and international private capital often bypasses Hong Kong in favour of more established global innovation hubs.

The stakes are high. By integrating robust funding channels—anchored by AWM—with innovative enterprises, Hong Kong can create a self-reinforcing cycle where start-ups gain access to vital capital, and alternative asset classes grow alongside the ecosystem. This synergy solidifies Hong Kong's position as a forward-looking, innovation-driven financial centre, and nurtures home-based enterprises with global impact. Success in this area would drive sustained economic growth, create high-value jobs, and enhance the city's reputation as a global hub for entrepreneurship, which, in turn, would energise the city's financial ecosystem and attract further investment.

Recommendation 1: A strategic and forward-looking policy vision to promote Hong Kong as a global hub for alternative investment funds

Investor and stakeholder confidence hinges on market stability, regulatory clarity and a supportive policy environment. The Hong Kong Government must play a central role in fostering this confidence by signalling its commitment to long-term investment in innovation and entrepreneurship.

Building on existing frameworks, such as the Innovation and Technology Blueprint, the Government should devise strategic polices to guide the development of a robust start-up ecosystem, supported by enhanced financial capabilities that not only provide opportunities for local enterprises but also blend in international elements for broader stakeholders' participation.

To galvanise stakeholders and attract investment, a well-defined and forward-looking strategic vision should be articulated. It should outline clear and actionable steps and establish a roadmap for long-term growth in the start-up and alternative investment funds spaces, particularly VC capabilities.

Core pillars/ messages in the vision

To be effective, the vision must emphasise the interdependence between start-ups and alternative investments through addressing the following key areas:

a) **Fostering an innovation-driven and risk-taking culture among the population**

While Hong Kong possesses the expertise, infrastructure, and institutional capacity to lead in innovation, there is a need to cultivate a stronger culture that embraces bold ideas and entrepreneurial thinking. In particular, encouraging a mentality that addresses global challenges and demands will foster a more outward-looking, internationally competitive innovation ecosystem. To achieve this, fostering deeper collaboration between academia, industry, and the public sector can bridge the gap between research and scalable business opportunities. Additionally, promoting creativity and calculated risk-taking from an early stage will help nurture future-ready talent for an innovation-driven economy. That said, targeted safeguards should also be introduced to support start-ups in navigating challenges and building resilience while encouraging bold ventures.

In addition, core development sectors can be identified, emphasising Hong Kong's strengths and achievements in innovation and technology. It is important to showcase how the city has already embraced transformative initiatives, such as its fintech advancements, including the adoption of Web3 and blockchain, its comprehensive regulatory framework for virtual assets, and its ongoing progress in greentech, artificial intelligence, biotech, healthcare or other cutting-edge sectors. Highlighting tangible efforts can build international credibility towards Hong Kong's innovation ecosystem and demonstrate a clear pathway for future growth.

b) Positioning Hong Kong as a regional and international hub for VC/ alternative investment funds

Access to capital is critical to building a successful start-up ecosystem, and Hong Kong must position itself as a premier destination for regional and global VC/ alternative investments. One effective strategy is to encourage local and public capital to invest in a mix of Hong Kong, Mainland China, and international high-potential start-ups. This diversification would enable local capital managers to gain international exposure and credibility in global VC markets, improving their ability to identify and back transformative opportunities.

Hong Kong can also introduce targeted incentives to attract VC firms and encourage investments in high-risk, high-reward technologies with the potential to drive economic growth. Such as programmes that help de-risk early-stage investments through co-investment and catalyse private capital inflows into innovative sectors. By supporting transformative ventures in Hong Kong, the Mainland, and globally, the city can integrate itself into the global innovation ecosystem while ensuring benefits for its own economy.

c) Attracting global talent and innovation

As Hong Kong strengthens its position as a leading alternative investment hub, it will naturally attract high-quality startups, drawing top-tier entrepreneurs, innovators, and other industry stakeholders. This will create a self-sustaining cycle of investment and innovation, driving long-term economic growth. By identifying key sectors to focus on, such as biotech and healthcare, fintech, green finance and others, Hong Kong can attract specialised talent to fuel high-impact industries. For instance, Hangzhou has cultivated a thriving startup ecosystem by offering financial support, including startup funding of up to RMB 10 million, interest-free loans, tax incentives and streamlined administrative processes like the "one trip only" reform for overseas talents. Hong Kong can reference a similar vision. The inflow of advanced technologies and expertise can enhance the local ecosystem and foster global-local collaborations, reinforcing the city's role as a global hub for next-generation industries and VC.

d) Capitalising on Hong Kong's global connectivity

Hong Kong's strategic location, with its proximity to Mainland China, especially the GBA, and other targeted overseas markets, presents opportunities for cross-boundary/border collaborations. As a platform of choice for international start-ups and investors to access both the Chinese and broader Asian dynamic growth opportunities, and equally for Mainland and regional innovators to scale globally, Hong Kong can position itself as a critical link in the global innovation network.

The overarching principle of the policy vision

The proposed strategic policy vision should serve as a cornerstone of Hong Kong's transformation into a global hub for alternative investment funds. This vision needs to go beyond setting goals; by providing a unified framework that could incorporate subsequent recommendations (Recommendations 2–6) with a shared purpose: fostering innovation, attracting investments, and driving sustainable economic growth.

By clearly articulating Hong Kong's long-term priorities for innovation and entrepreneurship, the vision establishes confidence among key stakeholders, including investors, start-ups, and global talent. This clarity ensures that stakeholders view Hong Kong as a forward-thinking and reliable partner in innovation and alternative investments.

Crucially, the vision should be actionable, laying a strategic foundation for Recommendations 2–6, which are proposed for consideration as targeted measures to operationalise the vision. These recommendations—ranging from regulatory enhancements to start-up empowerment—are not standalone initiatives; they are interconnected components of a cohesive framework, working in unison to solidify Hong Kong's position as a global leader in finance and innovation.

A robust foundation for alternative investments

Recommendation 2: Introducing a tailored regulatory regime for PE, VC, and PC

To strengthen Hong Kong's position as a global hub for alternative investments, we propose to introduce a tailored regulatory regime for PE, VC, and PC fund managers. While the existing Securities and Futures Ordinance (SFO) has been effective in safeguarding market integrity, the dynamic nature of private markets calls for greater flexibility. Industry feedback has highlighted that current licensing requirements may create operational challenges and compliance burdens for firms with fundamentally different business models and risk profiles. A complementary tailored regime would help accommodate these differences, reduce inefficiencies, and enhance Hong Kong's appeal to international fund managers of varying size seeking to establish a presence for regional investments across the GBA, Mainland China, and Southeast Asia.

Current regulatory context

The SFO provides a principles-based framework that effectively regulates traditional asset managers, supporting orderly market development and safeguarding both institutional and retail investors. However, its broad application may not fully reflect the distinct operational characteristics of alternative investment funds. Unlike hedge funds—which frequently trade in public markets to capture short-term opportunities—PE and VC firms focus on long-term, strategic investments in private companies, while PC firms primarily manage credit risk rather than engage in active securities trading.

PE and VC firms:
PE and VC firms focus on long-term strategic investments in private companies, prioritising value creation over frequent securities trading. Under the current SFO framework, these firms often require a combination of Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) licenses to capital raise, advise or manage investments in non-Hong Kong private companies. It is noted that under the activity-based framework, a Type 9 license may, in certain cases, cover incidental advising or dealing activities for the managed fund, subject to exemptions.

That said, PE and VC firms operate with distinct business models, investment horizons, and risk profiles compared to hedge funds or other public market managers. Consequently, the qualifications and experience required of Responsible Officers (ROS) in PE/VC firms, such as expertise in deal structuring and due diligence, are more aligned with private market dynamics than with portfolio management in listed markets. Hence, applying a uniform Type 9 licensing standard across all manager types may not fully reflect these differences

Additional complexity arises from the SFO's definition of "securities". The inclusion of shares and debentures of non-Hong Kong private companies, but the exclusion of those of Hong Kong-incorporated private companies, creates unnecessary inconsistencies for firms managing global portfolios. Its broad definition also captures "collective investment scheme", which is widely defined to catch most investment structures involving more than one investor.

The current regime poses operational challenges for VC firms, especially early-stage VC managers who often raise initial capital from close associates and professional investors to build a track record before scaling. Industry participants in Hong Kong increasingly support the adoption of statutory exemptions or simplified licensing processes for qualifying VC fund managers. The U.S VC fund adviser exemption or Singapore's VC Fund Manager framework provide relevant models,[84,85] where streamlined regimes or exemptions are applied to VC managers who meet specific conditions, such as managing smaller-scale funds or serving accredited investors only. Implementing similar measures in Hong Kong would reduce regulatory burdens and attract more domestic and international VC fund managers to the city.

PC firms:
PC firms engage in specialised activities such as direct lending, distressed debt management, and structured finance, which differ from securities-focused scope. While the Type 9 license plays a vital role in upholding regulatory standards for securities portfolio management, its application to these firms may not fully align with their core operations. For instance, compliance often requires additional training to build staff expertise in securities oversight, an inefficient adjustment for teams primarily skilled in credit analysis.

Regulatory enhancements and interim measures

In this context, a tailored licensing regime contemplating the operational realities of alternative investment firms can foster a more efficient environment. Such a framework would recognise their unique business models and specialised activities. For example, PC firms focusing on direct lending, distressed debt investment, and structured finance would benefit from a regulatory framework that emphasises credit risk management rather than securities portfolio management. Similarly, PE and VC firms could operate under a structure tailored to their long-term investment strategies and advisory functions rather than rules for traditional asset managers.

For VC firms specifically, there is clear scope to streamline or entirely exempt licensing requirements for managers of smaller funds targeting professional and institutional investors. Drawing inspiration from the U.S. and Singapore (Annex 1), Hong Kong can consider a simplified registration process for VC fund managers who meet defined conditions, such as fund size or investor profiles. This would reduce compliance burdens and foster a stronger VC ecosystem for both domestic and international VC firms. Similar regulatory flexibility can be explored for PE fund managers, subject to appropriate assessment and safeguards. The EU, for example, offers lighter-touch regimes or exemptions for PE managers under a certain threshold.[86]

84 U.S. Securities and Exchange Commission. (2023). Exemptions for advisers to venture capital funds, private fund advisers with less than $150 million in assets under management, and foreign private advisers.
https://www.sec.gov/rules-regulations/2011/06/exemptions-advisers-venture-capital-funds-private-fund-advisers-less-150-million-assets-under
85 Monetary Authority of Singapore. (2022). Fund management licensing.
https://www.mas.gov.sg/regulation/capital-markets/apply-for-licensing-or-registration-of-capital-market-entities/fund-management-licensing
86 EUR-Lex. (n.d.). Access to EU Law. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011L0061

The licensing regime should also be reviewed to remove inefficiencies in cross-border operations. The SFO's definition of "securities" has created ambiguities that complicate compliance for firms managing global portfolios. Clarifying and simplifying these requirements would reduce regulatory friction and support multi-jurisdictional operations, while maintaining robust investor protection.

A tailored licensing regime would enhance investor confidence by fostering a transparent and well-regulated environment. Institutional investors, who prioritise stability and regulatory oversight, would be reassured that PE, VC, and PC firms are subject to a framework designed specifically for their activities and risk profiles.

It is important to emphasise that a tailored licensing regime is not designed to replace the existing SFO framework, but to complement it in a manner that supports the evolving alternative investment landscape. Maintaining a level playing field and avoiding investor confusion or regulatory arbitrage are essential. The proposed regime would serve as an additional, flexible solution for fund managers operating under the current Type 4 and Type 9 licenses. Those well-served by the existing framework can continue without disruption or the need to apply for a new license. This ensures that the proposed complementary pathway does not create additional bureaucratic burdens for market participants.

The tailored regime offers an alternative for PE, VC, and PC firms—particularly emerging and smaller-scale managers—whose business models focus more on long-term, private investments rather than frequent trading in public securities. A carefully scoped and principles-based licensing framework, developed in close consultation with both the industry and regulators, could address these differences without undermining regulatory consistency. This flexibility would allow Hong Kong to support a diverse range of investment strategies and its continued growth as a hub for alternative investment funds.

Any refinement to the licensing regime will likely require an amendment to the SFO, which raises the question of the timing of such an initiative. Pending such legislative amendments, the issuance of a PE / VC Manager Code of Conduct more reflective of such industry's investment and operational models could provide a more appropriate benchmark against which to regulate such managers in the interim. Whilst it is acknowledged that the Fund Manager Code of Conduct remains broadly relevant across asset classes due to its principles-based nature, a supplementary Code—designed in close dialogue with the industry and regulators—can offer additional clarity for private capital managers, particularly given the distinct characteristics of PE and VC strategies, This approach would be consistent with precedents such as Virtual Asset Fund Managers, where tailored guidance has been introduced within the existing licensing framework.

Recommendation 3: Modernising tax and regulatory frameworks to support alternative investments

A supportive regulatory framework is crucial for fostering the growth of PE, VC, and PC investments in Hong Kong. While the Unified Fund Exemption (UFE) regime has provided a foundation for tax incentives, certain limitations within its scope hinder the city's ability to get to full speed in developing this market. Recently, the FSTB concluded a consultation on this matter, signalling potential reforms to address these gaps. These changes are instrumental in aligning Hong Kong with international standards and attracting a broader range of fund managers and investors.

Internationally, jurisdictions such as Luxembourg have integrated PC into their regulatory frameworks, providing tax exemptions that enhance their standing as competitive financial centres.[87] The FSTB's recent consultation demonstrates a comparable understanding of such significance, particularly its role in addressing financing gaps

87 Hogan Lovells. (2024. Oct). Luxembourg: A new hub for private credit funds. Hogan Lovells. Retrieved January 24, 2025, from https://www.hoganlovells.com/en/publications/luxembourg-a-new-hub-for-private-credit-funds

unserved by traditional banking institutions. Prompt implementation of the proposed inclusion of PC within the UFE regime would enable Hong Kong to capitalise on this increasingly vital component of the alternative investment landscape. Beyond this immediate step, additional measures warrant consideration by the Government to further strengthen Hong Kong's position as a premier hub for sophisticated investment strategies.

Reform tax treatment for co-investment structures

Currently, the extent of tax exemption granted to a special purpose vehicle (SPE) equals the percentage of the tax-exempt fund(s)' ownership of the SPE. However, in co-investment arrangements, non-fund co-investors often hold significant stakes in SPEs, making the profits attributable to these stakes taxable. This creates inefficiencies and discourages the use of Hong Kong structures for co-investments.

A proposed "de minimis rule" suggests granting full tax exemption to an SPE if tax-exempt funds hold at least 95% of its beneficial interest, yet this threshold may be challenging to meet in practice. In most co-investment arrangements, co-investors typically hold more than 5% of the vehicle's interest.[88] A more practical solution would be to adjust the threshold to "more than 50%," allowing SPEs with a majority interest held by tax-exempt funds to qualify for full tax exemption. This reform would mirror industry standards, encourage the adoption of Hong Kong-based SPEs for co-investments, and bolster the city's competitiveness as a fund structuring jurisdiction.

Expand UFE definition to include single-investor funds

Another area that warrants consideration is the current definition of a "fund" under the UFE regime. The current interpretation excludes single-investor funds, commonly known as "fund-of-one" structures, which are widely used internationally to offer institutional investors tailored solutions. These vehicles provide customised investment opportunities, such as bespoke sidecar arrangements that complement broader fund strategies.[89] However, under Hong Kong's current interpretation of the "pooling of capital" requirement, such structures are disqualified from tax exemption, as they do not strictly meet the criteria of pooling contributions from multiple participants. This limits flexibility for fund managers and limits Hong Kong's attractiveness to sophisticated investors.

We fully acknowledge the underlying rationale of this requirement, which is based on the concept of "collective investment schemes" under the SFO. Nevertheless, it is believed there is a case for a more nuanced and targeted approach that allows certain types of fund-of-one arrangements to benefit from tax exemption under clearly defined circumstances. As an initial step, a limited carve-out can first be considered for institutional investors with long-term horizons—such as sovereign wealth funds, pension funds, and endowments—where commercial intent, substance, and governance are evident. This approach would maintain the integrity of the UFR while enhancing Hong Kong's competitiveness as a fund domicile—particularly for jurisdictions and investors that increasingly demand tailored investment platforms.

Promote and strengthen the appeal of Hong Kong-domiciled fund vehicles

Beyond these targeted enhancements to the tax and regulatory regime, continued efforts to promote and strengthen the appeal of Hong Kong-domiciled fund structures - such as Open-Ended Fund Companies (OFCs) and Limited Partnership Funds (LPFs) - remain important. These vehicles are well-suited to alternative investment strategies, and efforts have been made to improve their accessibility. For example, private OFCs can typically be registered within 7-14 business days under a one-stop process;[90] while LPF certificates generally can be issued within four

88 Baker McKenzie. (2025, January). Hong Kong: Proposed enhancements to tax concessions for privately offered funds, family-owned investment holding vehicles and carried interest. Baker McKenzie. Retrieved January 24, 2025, from https://insightplus.bakermckenzie.com/bm/attachment_dw.action?attkey=m-dcZqXo%2B8YiYdNn3MzBvs4GnO7k8q%2FaKKIsGiH8cxYVzXJCssz%2FuIqLPyMSieQACCV2pLkwZGtpKtJOd2MfMko9Zo8JkyHs%3D&nav=S%2FnRcy978SuNtQZ8I-7euTyHPDOfVmDt1NvYVYP68%2F8cETXtzR6RrOtnqPovkiaejra0MfrW190I%3D&attdocparam=FNRldQ%2F68hrxq4L%2B%2BGI9KbUpUHGhK5RAQ%2BjmaEk-dgQeySMfTN0fVqFxycOIcs29pBh%2BIE3uCn7go8Q%3D%3D&fromContentView=1

89 Hong Kong LPF Association

90 Securities and Futures Commission. (2024, July). Presentation materials on OFC (Version 20240729). https://www.sfc.hk/-/media/files/PCIP/FAQ-PDFS/Presentation-materials-on-OFC-Jul-2024-20240729.pdf?rev=1246cd3bf7714c31b8aef202ae3b1071

working days.[91] These efficiencies reflect a responsive regulatory framework, with further enhancements under regular review. Building on this foundation, increased global promotion and sustained regulatory clarity could support further adoption and elevate Hong Kong's competitiveness as a fund domicile.

Recent proposals to enhance the carried interest tax regime, including expanding the scope of the UFE regime to include PC are encouraging. Continued improvements to the city's fund regime would help address the evolving needs of fund managers. Paired with efforts to enhance the appeal of Hong Kong-domiciled fund vehicles, these changes would align with global best practices and position the city as a more agile and competitive player on the international stage.

Accelerating growth through innovation, expanding participation and ensuring long-term societal benefits

Recommendation 4: Optimising public funds to drive growth in PE, VC, and PC

PE, VC, and PC fill critical financing gaps left by traditional banking channels. PE and VC fuel growth by investing in startups, growth-stage companies, and distressed businesses, while PC complements this by providing bespoke financing for LBOs, pre-IPO bridging, special situations financing for distressed (or potentially distressed) businesses or assets and trade finance.

As banks tighten lending due to stricter regulatory requirements and rising interest rates, PC has emerged globally as an agile and essential funding source. Together, PE, VC, and PC can form an integrated framework that addresses financing gaps and strengthens Hong Kong's economic resilience and competitiveness as a global financial centre.

Despite Hong Kong's reputation as a global financial hub, the public sector's engagement with these asset classes has been underutilised. Current initiatives, such as the Innovation and Technology Venture Fund, focus on co-investing in individual portfolio companies alongside private sector partners. While this approach has had some success, its limited scale and scope have constrained its broader impact. A more comprehensive strategy is needed—one that allows public funds to adopt a dual-track approach. This includes committing capital at the fund level as LPs for PE and VC, as well as leveraging co-investment opportunities to drive PC market development.

The HKD 10 billion I&T Industry-Oriented Fund (ITIF) announced in the Chief Executive's 2024 Policy Address is a step in this direction. This fund-of-funds approach is designed to channel market capital into emerging and future industries of strategic importance, such as life and health technology, AI and robotics, semiconductors, advanced materials, and new energy. By systematically building an I&T ecosystem, the ITIF could serve as a model for effective public-private collaboration to expand Hong Kong's alternative investment landscape.

91 Companies Registry. Frequently asked questions – Limited Partnership Fund (LPF). https://www.cr.gov.hk/en/legislation/lpf/faq_new.htm

A comparable example is the Shenzhen Angel Fund of Funds, China's largest angel investment fund, which reached RMB 10 billion in 2023.[92] With over RMB 6.2 billion deployed through sub-funds, it has successfully addressed early-stage financing gaps while fostering Shenzhen's innovation ecosystem. Shenzhen's hybrid approach—combining policy and commercial funds—ensures scalability and sustainability, effectively attracting private capital. Another compelling example is Israel, where the government has proactively partnered with VCs through co-investment models and risk-sharing initiatives managed by the Israel Innovation Authority. These programmes have helped de-risk early-stage investments and catalysed private capital inflows into innovative sectors.[93]

Strategic fund-level commitments to drive growth

Public funds, particularly the HKIC, are well-positioned to act as cornerstone investors in PE and VC funds. By allocating a portion of their portfolios to these asset classes at the fund level, public funds can provide fund managers with the resources to scale their operations and deploy capital effectively. However, to ensure alignment with Hong Kong's broader economic objectives, these fund-level commitments must be tied to specific strategic conditions, and fund managers receiving public funding should demonstrate a clear commitment to advancing the city's economic development. Key considerations include:

- Establishing or expanding regional headquarters: Fund managers should set up or expand their regional headquarters in Hong Kong, or ensure that a significant portion of deployed capital is directed toward businesses with a strong operational presence in the city.
- Investing in local companies and startups: Public fund investments should prioritise Hong Kong-headquartered firms or startups with substantial local operations, ensuring direct contributions to local talent development and economic activities.
- Developing local talent in key sectors: Portfolio companies benefiting from public investment should hire and train local talent, particularly in technology, VC management, and green finance, to strengthen Hong Kong's innovation and financial ecosystem.

The newly planned ITIF may also provide a concrete example of how fund-level commitments can be aligned with strategic objectives. By requiring fund managers to focus on industries like AI, robotics, and advanced materials, the ITIF will need to ensure that public funding supports sectors critical to Hong Kong's future economic competitiveness. Additionally, the ITIF's focus on attracting world-class fund managers and fostering innovation highlights the potential for public funds to play a catalytic role in transforming Hong Kong into a global leader in innovation and technology.

To maximise the impact of these commitments, public investments could harness insights from seasoned industry experts, drawing on international models like New Zealand's fund of funds,[94] which blends global market alignment with precise, visionary capital deployment while cultivating local expertise in alternative investments like PE, VC, and PC. While there have been cases where the Government seeded local VC managers, extending similar strategic investments to more local PE and PC managers is essential to cultivating a balanced and robust alternative investment ecosystem.

92 Picante Today. (2023, June 7). Shenzhen Angel FoF expands market and achieves new 10 billion yuan milestone as China's largest angel investment government guidance fund. Picante Today.
. https://picante.today/blog/2023/06/07/shenzhen-angel-fof-expands-market-and-achieves-new-10-billion-yuan-milestone-as-chinas-largest-angel-investment-government-guidance-fund/#google_vignette
93 Israel Innovation Authority. (n.d.). Opportunities for investors. https://innovationisrael.org.il/en/collaboration_opportunities/investors/
94 New Zealand Growth Capital Partners. (n.d.). Elevate Venture Fund. https://www.nzgcp.co.nz/funding/elevate-venture-fund#investments

In parallel, sector-specific funding initiatives could be explored as a means to accelerate growth in emerging or strategically important industries. For instance, in the healthcare sector, allocating a portion of flagship funds to Hong Kong-based fund managers might support the clinical development of original biotech assets and help scale promising startups. Such targeted support could, over time, enable local companies to achieve significant growth, potentially following the trajectory of success stories like Legend Biotech. By aligning capital deployment with sectoral strengths and strategic outcomes, public investments can deepen the local innovation ecosystem and create long-term, globally competitive economic value for Hong Kong.

Expanding co-investment opportunities for PC

While fund-level commitments are ideal for PE and VC, co-investments represent a more effective strategy for the PC market. PC often involves bespoke, transaction-specific financing arrangements, making it well-suited for direct partnerships between public funds and experienced private sector managers. Through co-investments, public funds such as the HKIC can partner with experienced PC managers to target high-value opportunities,

leveraging their expertise while sharing risks. This approach would inject much-needed capital into underserved sectors, address key funding gaps, and diversify public fund portfolios. It would also signal confidence in the market, encouraging institutional investment in PC.

Co-investment opportunities in PC could focus on critical areas such as infrastructure development, special situations financing, and trade finance. These areas align closely with Hong Kong's economic priorities and long-term competitiveness. For instance, infrastructure financing could support the development of critical projects that enhance Hong Kong's position as a global financial and logistics hub. Special situation financing could provide the capital needed to stabilise struggling businesses or assets, preserving jobs and economic stability. Trade finance, meanwhile, can facilitate smoother cross-border transactions, which are vital to Hong Kong's role as a key player in international trade.

By adopting co-investment opportunities for PC, public funds like HKIC can target high-value opportunities, leverage industry expertise, and share risks. This approach would inject much-needed capital into underserved sectors, address key funding gaps, and diversify public fund portfolios. It would also signal confidence in the market, encouraging further institutional investment in PC.

Currently, global peers such as AustralianSuper may offer a valuable blueprint reference for this strategy.[95] In recent years, these funds—among the largest pension funds globally—have expanded their allocations to PC by partnering with external fund managers rather than building in-house capabilities. Similarly, Singapore's Temasek recently established a wholly owned PC investment platform, underscoring the growing recognition of PC as a key driver of portfolio diversification and long-term returns[96] (More details on the development of PC in other jurisdictions are provided in Annex 1). By adopting a similar framework, HKIC can ensure the efficient deployment of resources while fostering the development of a robust PC market in Hong Kong.

95 AustralianSuper. (December, 2023). AustralianSuper increases Churchill allocation. Retrieved January 3, 2025, from https://www.australiansuper.com/-/media/australian-super/files/about-us/media-releases/australiansuper-increases-churchill-allocation.pdf
96 Temasek. (December 2024). Temasek establishes wholly owned private credit platform. Retrieved January 3, 2025, from https://www.temasek.com.sg/en/news-and-resources/news-room/statements/2024/temasek-establishes-wholly-owned-private-credit-platform

Recommendation 5: Driving innovation growth through reimagined funding and technology transfer

To establish Hong Kong as a global innovation hub, it is crucial to address the structural inefficiencies in funding mechanisms that hinder start-up growth and the commercialisation of local innovations. Insights from industry practitioners, including start-up founders and investors, highlight a key concern: while Hong Kong possesses a solid foundation for innovation, systemic barriers prevent start-ups from scaling and attracting private investment.

A key challenge is the commercialisation gap—the difficulty start-ups face in turning promising technologies into market-ready products. Without sufficient funding to validate and launch their innovations, start-ups struggle to meet investor expectations for scalability and profitability. This creates a vicious cycle where private investors hesitate to fund unproven ventures, leaving start-ups unable to secure resources.

Public financing has a role to play in breaking this cycle. A reimagined funding approach that addresses the critical stages of the innovation lifecycle can help start-ups overcome the "valley of death" between research and commercialisation, secure market validation, and attract private investment.

Reimagined funding scheme with a multiplier effect

The Government has made commendable progress in promoting innovation and technology through initiatives like the Smart Government Innovation Lab (Smart LAB) launched in April 2019. By matching the specific needs of government departments with innovative solutions from industry players, the Smart LAB has laid a strong foundation for public sector innovation and services transformation through technology fora, proof-of-concept trials, and adoption of advanced technologies like AI, blockchain, robotics and IoT.

However, it is a need to expand support for start-ups and the broader innovation and technology ecosystem, particularly by addressing structural challenges in funding mechanisms. Existing programmes offered by the Government supports trials of R&D projects, but they focus primarily on early-stage prototypes and PoC.

Therefore, an enhanced funding framework is needed to bridge the gap between research and commercialisation. This expanded framework could adopt a three-pronged strategy, allocating funding to R&D, testing and certification, and adoption incentives. Such a scheme would ensure comprehensive support across the innovation lifecycle—equipping start-ups to develop market-ready solutions, meet essential regulatory standards, and gain market validation through mechanisms like government adoption incentives. These measures would accelerate the transition of local innovations from concept to commercial success, driving growth across Hong Kong's I&T ecosystem. The three areas of focus are:

1. A focus on R&D

Allocate funding to R&D, equipping start-ups with the resources to create high-value, market-driven solutions. Investments in foundational research would strengthen Hong Kong's position as a hub for cutting-edge innovation while complementing initiatives like Smart LAB's efforts to identify and test promising technologies. Cross-border collaboration should also be prioritised, particularly through platforms like the Hetao Shenzhen–Hong Kong Innovation and Technology Zone, which has emerged as a catalyst for joint research since its launch in 2021. Enhancing data and biological sample mobility within The Loop could streamline collaborative work, attract international research consortia, and position Hong Kong as a key node in the global innovation network.

2. **Support for testing and certification**

   Support start-ups in meeting essential quality, safety, and regulatory standards through easy access to funding for testing and certification processes. This step enhances the credibility of local innovations, ensuring their competitiveness in both local and global markets.

3. **Incentives for adoption**

   Introduce mechanisms, such as a consumption voucher system, to incentivise government departments and related organisations to adopt local technologies. These adoption incentives would create immediate demand for home-based solutions, validate their market potential, and attract follow-on private investment. For instance, a government contract facilitated through vouchers could significantly enhance a start-up's credibility, valuation, and growth trajectory.

   By addressing these areas, the enhanced funding framework would create an efficient pathway for start-ups to develop, validate, commercialise, and scale their innovations. This approach ensures that public funding can also drive real-world adoption and market impact.

Optimising fund deployment

To maximise the effectiveness of the revised funding scheme, clear mechanisms for tracking outcomes should be implemented. Key metrics, such as the adoption of local technologies by government departments and the economic impact of funded projects, would provide valuable insights into the scheme's success. This data-driven approach would allow for adjustments over time, ensuring resources remain aligned with the evolving needs of the I&T ecosystem. By focusing on straightforward, actionable metrics, the funding scheme avoids unnecessary complexity while maintaining accountability and adaptability.

Strengthening technology transfer offices (TTOs)

In its 2021 research paper on the biotech and healthcare industries, the FSDC highlighted the critical role of TTO in bridging the gap between academia and industry. The paper also identified several structural and operational challenges limiting the effectiveness of Hong Kong's TTOs compared to international benchmarks. These include insufficient external representation, a lack of commercialisation expertise, and fragmented efforts across universities.[97] While the Chief Executive's 2023 Policy Address doubled TTO funding to HK$16 million per university, continuous improvement remains essential to fully realise the potential of academic research and innovation.

Research on successful innovation ecosystems, such as those associated with Stanford University and the University of Cambridge, underscores the importance of external collaboration.[98] Many of Stanford's globally recognised spin-offs have thrived through the university's proactive engagement with industry stakeholders and VC networks.[99] Whilst Cambridge Enterprise, for instance, provides tailored commercialisation advice, access to funding networks, and long-term support for spin-offs.[100] These partnerships help address challenges such as market strategies, IP management, and scaling innovations—key to overcoming the "valley of death" between research and market adoption.

97 Financial Services Development Council. (2021). Strengthening Hong Kong's role as a global biotech and healthcare financing hub. https://www.fsdc.org.hk/media/c2cpcpld/20211115-fsdc-research-report-healthcare-financing_en.pdf
98 Liang, W., Elrod, S., McFarland, D. A., & Zou, J. (2022). Systematic analysis of 50 years of Stanford University technology transfer and commercialization. Patterns, 3(9).
99 Liang, W., Elrod, S., McFarland, D. A., & Zou, J. (2022). Systematic analysis of 50 years of Stanford University technology transfer and commercialization. Patterns, 3(9).
100 Cambridge Enterprise. (n.d.). Home – Cambridge Enterprise. University of Cambridge. Retrieved January 2, 2025, from https://www.enterprise.cam.ac.uk/

In contrast, industry feedback generally suggests that Hong Kong's university TTOs tend to prioritise academic metrics over market-oriented strategies. This perceived misalignment may limit their ability to attract industry partnerships, secure funding, and facilitate the commercialisation of academic research.

Fostering more effective communication between TTOs and industry stakeholders could help bridge this gap. Structured dialogue platforms—such as industry advisory boards, innovation forums, and collaborative workshops—could allow TTOs to engage with corporate leaders, venture capitalists, and start-up founders. These interactions may enable TTOs to better understand market needs, identify potential gaps, and refine their commercialisation strategies. By aligning academic research with industry demand, such efforts could strengthen partnerships and support the translation of research into impactful innovation.

As highlighted in the 2021 FSDC paper, this study does not prescribe a specific operational model for TTOs. However, formalising partnerships with external stakeholders—such as multinational corporations, start-up accelerators, and investment funds—could enhance TTO effectiveness. These partnerships would provide resources, including funding, networks, and infrastructure, while expanding advisory expertise and fostering strategic collaborations. Additionally, targeted training programmes for TTO staff on global commercialisation strategies and market engagement could bridge knowledge gaps and elevate performance.

By integrating external expertise, adopting international best practices, and fostering meaningful partnerships, Hong Kong's TTOs could transform into entrepreneurial hubs that actively drive innovation. These reforms would enhance the commercialisation of academic research, contribute to economic growth, and position the city as a global leader in innovation and technology.

Sector-specific strategies for innovation and global impact

To establish Hong Kong as a global innovation hub, a more effective approach may be to adopt sector-specific strategies that channel funding and technology deployment into high-growth industries—biopharmaceuticals being one such example.

Hong Kong is uniquely positioned at the intersection of world-class academic research and China's expansive biopharma infrastructure, creating a strategic opportunity to drive original innovations with global relevance. Tailored funding mechanisms should reinforce a coordinated approach across research and development, regulatory validation, and market adoption. This would allow emerging biotech ventures to develop high-value therapeutics, supported by resources such as the Hong Kong Science and Technology Park and the Hetao Shenzhen–Hong Kong Innovation Zone, which can provide the facilities and cross-border synergies needed for advanced product validation and early-stage scalability.

Hong Kong can further leverage the scale and maturity of China's biopharma ecosystem to accelerate innovation with greater efficiency. Mainland China has rapidly become a global leader in contract development, clinical research, and manufacturing, supported by a deep pool of scientific talent and robust infrastructure. Collaboration across the border offers access to scale and efficiency that few other regions can match. In 2024 alone, China secured $49 billion in out-licensing deals, representing 28% of global activity, underscoring its stature as a biopharma powerhouse.[101] Strategic integration would also enable the city to participate in large-scale clinical research, helping address unmet medical needs while enhancing the global competitiveness of local innovations.

To fully capitalise on these advantages, Hong Kong may explore a deliberate execution strategy designed to

101 华泰证券研究所. (2025, May 24). 图说研报 | 东风行万里:制药行业的中国时刻. 新浪财经. https://finance.sina.com.cn/stock/stockzmt/2025-05-24/doc-inexrpze9967743.shtml

attract and nurture globally relevant biopharma innovations. This includes identifying promising biotech patents through global scouting networks, fostering cross-border R&D partnerships, and supporting clinical validation in priority therapeutic areas. By focusing on fields with both market demand and scientific potential—such as oncology or central nervous system disorders—Hong Kong can create a pipeline of differentiated assets ready for international commercialisation. These efforts, combined with a more cohesive innovation infrastructure, will reinforce Hong Kong's position as a gateway for biopharma innovation between China and the world, driving economic growth through high-value exports, cross-border investment, and sustainable sectoral development.

Recommendation 6: Diversifying through the inclusion of specific alternative investment options in the MPF scheme

The Mandatory Provident Fund (MPF) is a key component of Hong Kong's multi-pillar retirement framework, designed to provide long-term financial protection for employees through a robust savings scheme. However, evolving market conditions—characterised by a global surge in inflation and increased market volatility in recent years—have amplified the need for retirement systems to diversify into yield-enhancing investment options.

This need is particularly pressing in Hong Kong, where an ageing population, longer life expectancy, and rising healthcare and living costs can pose challenges.[102] The inclusion of specific alternative investment options is not merely about expanding the range of asset classes, but about addressing long-standing structural challenges in Hong Kong's retirement system. Allowing exposure to higher-growth investments can provide individuals the opportunity to build larger retirement savings while reducing reliance on government support, lessening long-term dependence on public welfare, which is a growing fiscal concern.

In response to similar demographic and macroeconomic pressures, pension systems in other jurisdictions have broadened their investment strategies by incorporating alternative investment products to support long-term capital growth and portfolio diversification for their members. For instance, one of Australia's largest superannuation schemes has steadily increased its allocations to alternative investments, including PC, over the past few years (see Annex 1). These global developments underscore the relevance of reassessing the MPF's investment scope in light of evolving financial realities and international best practices.

Given the mandatory and long-term nature of MPF contributions, the current regulatory framework rightly prioritises prudence. However, that prudence should not preclude innovation, particularly when it demonstrably serves the interests of scheme members. In this regard, we welcome the recent initiative by the Mandatory Provident Fund Schemes Authority (MPFA) to explore the inclusion of listed PE funds within the MPF.[103] This follows an earlier announcement by the SFC to authorise and list eligible alternative funds, including PE funds, in Hong Kong.[104] This is a timely and forward-looking step that acknowledges the growing global recognition of the role alternative assets can play in retirement systems.

102 Schroders. (2024). Hong Kong retirement survey 2024: Readiness. Schroder Investment Management (Hong Kong) Limited. Retrieved from https://www.schroders.com/en-hk/hk/individual/retirement-services/hk-retirement-survey-2024/readiness/
103 Chuang, A. (2025, May 23). Hong Kong listing of private equity funds a step closer after MPF inclusion. South China Morning Post. https://www.scmp.com/business/banking-finance/article/3311572/hong-kong-listing-private-equity-funds-step-closer-after-mpf-inclusion
104 SFC. (2025, May 23). SFC facilitates public offerings of private open-ended funds. https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=25PR18

Permitting MPF-authorised funds to allocate a modest portion—potentially up to 10% of their fund's net asset value—to listed PE funds represents a thoughtful and calibrated move.[105] It enables the scheme to benefit from the long-term growth potential of PE while maintaining the liquidity, transparency, and regulatory oversight that listed vehicles offer. It is important to emphasise that this does not advocate the inclusion of standalone PE portfolios, given the inherent risk and complexity such investments pose for the average MPF member. Most contributors are retail investors, and any expansion of investment options must remain aligned with their capacity to understand and absorb financial risk. By contrast, listed PE funds offer a more accessible and regulated means of gaining exposure to private markets and have historically delivered strong risk-adjusted returns relative to public market benchmarks.

Looking beyond listed PE, other alternative asset classes may also warrant consideration over time. As previously discussed, PC, for instance, has garnered increasing traction in mature markets from pension schemes as a source of yield-generating returns with relatively lower correlation with public market instruments, making it potentially an attractive complement to traditional public holdings. While we acknowledge that the MPF framework permits investments in eligible debt instruments under statutory conditions—and that there is currently no universally agreed-upon definition of PC—we believe it is worthwhile to monitor the evolving global treatment of this asset class.

That said, PC remains a relatively nascent and less standardised asset class. It typically involves greater structural complexity, lower liquidity, and less transparent pricing. As such, any consideration of PC within the MPF should be deferred until the local market infrastructure, regulatory safeguards, and institutional readiness have matured sufficiently to support its safe and effective integration.

While the long-term case for diversification is compelling, any expansion of the MPF's investable universe must be approached with caution and grounded by robust evidence. Undertaking feasibility studies to further assess the expected return enhancements and diversification benefits, as well as covering elements such as liquidity characteristics, and the readiness of the market and asset managers to manage this exposure responsibly, is deemed necessary. Moreover, these assessments should examine whether the existing regulatory framework requires calibration to accommodate these instruments in a manner consistent with the retirement plan's core objectives of security and sustainable growth.

The inclusion of listed PE funds represents a measured and prudent development in the MPF's investment strategy. It reflects a growing recognition that the status quo may not be sufficient to meet the long-term needs of contributors. As the financial and demographic landscape continues to evolve, the MPF must remain agile and forward-looking. A cautious, research-driven exploration of other alternatives—such as PC—may follow, guided by rigorous analysis, stakeholder consultation, and an unwavering focus on protecting contributor interests. With thoughtful enhancements, the MPF can deliver better outcomes for millions of members, helping them save more effectively for retirement and ensuring the scheme remains competitive, resilient, and relevant in an increasingly complex financial world.

105 Chuang, A. (2025, May 23). Hong Kong listing of private equity funds a step closer after MPF inclusion. South China Morning Post. https://www.scmp.com/business/banking-finance/article/3311572/hong-kong-listing-private-equity-funds-step-closer-after-mpf-inclusion

Conclusion

Conclusion

Looking ahead, Hong Kong's capital markets remain deep and liquid, and its AWM sector is internationally recognised, the next chapter of growth as an international financial centre will be defined by its ability to channel capital into innovation, entrepreneurship, and long-term value creation.

Alternative investments—particularly PE, VC and PC—is expected to play a more central role in this transition. These asset classes are becoming widely adopted by family offices and ultra-high-net-worth individuals, serving as tools for portfolio diversification and as strategic vehicles for accessing high-growth sectors. By developing a more sophisticated and diversified alternative investment fund landscape, Hong Kong can unlock new sources of economic growth—reinforcing its position as a leading financial centre while fuelling a vibrant, innovation-driven economy.

However, achieving this vision requires addressing several structural challenges. These include persistent funding imbalances, regulatory complexities, talent shortages, and gaps in market infrastructure. Bridging the disconnect between capital supply and the needs of high-potential startups will be critical to unlocking the full potential of the ecosystem.

The insights gathered from industry stakeholders highlight the need for a more balanced and risk-tolerant investment ecosystem. By enhancing the alternative investment funds landscape, refining regulatory frameworks, and fostering deeper engagement among stakeholders, Hong Kong can attract top-tier venture capitalists, fund managers, corporate investors, and high-growth startups. A more diverse and well-structured funding environment will, in turn, create a self-reinforcing cycle of economic expansion, innovation, and global competitiveness.

Moving forward, with bold vision and reforms, strong public-private partnerships, and a sustained commitment to innovation, Hong Kong can establish itself as a world-class hub for alternative investments. By leveraging its strategic position as a gateway to Mainland China and broader Asian markets—while strengthening ties with global financial centres—the city can further enhance its appeal as a premier destination for both AWM and innovation-led enterprises, ensuring its continued relevance in the global financial arena.

Annex 1 – Examples of overseas licensing regimes and other arrangements

Currently, Hong Kong does not provide a dedicated license specifically for PE, VC or PC fund managers. The licensing requirement for such managers is assessed on a case-by-case basis, depending on the specific nature and scope of their business activities. In comparison, other jurisdictions have implemented more tailored licensing frameworks, offering clear and distinct requirements for fund managers handling various asset classes.

Jurisdiction	Overview of licensing schemes[106,107]
China	China's Regulations on the Supervision and Administration of Private Investment Funds (effective from 1 September 2023) establish a comprehensive framework for regulating private funds and their managers. These regulations require **private fund managers to register with the Asset Management Association of China (AMAC) and comply with obligations such as minimum capital requirements and personnel standards.** Non-compliance can result in penalties, including fines, business suspension, or personal accountability for responsible individuals. **Venture capital funds benefit from exemptions, such as reduced filing and inspection requirements, and private funds investing in other private funds (e.g., fund of funds) are exempt from multi-layer investment restrictions.** Additionally, foreign-invested private fund managers (FIE Managers) are subject to the regulations, though further detailed rules are anticipated. Alongside the 2023 AMAC Rules (effective from 1 May 2023), which strengthen registration and filing requirements, these measures aim to promote transparency and sustainable growth in China's private fund industry while ensuring regulatory accountability.
United States	In the United States, investment advisers must register with the SEC under the Investment Advisers Act of 1940 unless they qualify for certain exemptions. **Exemptions are available for advisers managing less than USD150 million in private fund assets or exclusively managing venture capital funds. While exempt advisers are not required to register, they are still subject to SEC oversight,** including filing disclosure forms, adhering to record-keeping requirements, and complying with anti-fraud provisions. This framework provides flexibility while ensuring regulatory accountability for private equity and venture capital fund managers.
Singapore	In Singapore, fund management companies (FMCs) are classified into Licensed FMCs (LFMCs), further **divided into categories serving retail investors, qualified investors, or venture capital funds**. Venture capital fund managers **benefit from a streamlined regulatory framework** with simplified licensing and operational requirements, fostering flexibility for private equity and venture capital management. While the RFMC regime is no longer available, the updated LFMC structure supports diverse fund management needs.

106 Hong Kong LPF Association
107 Norton Rose Fulbright. (2023, August). A new era for private investment funds and their managers in China. Retrieved February 18, 2025, from https://www.nortonrosefulbright.com/en-hk/knowledge/publications/637f63a2/a-new-era-for-private-investment-funds-and-their-managers-in-china

Examining other jurisdictions reveals valuable insights into how they have strategically cultivated their PC markets, with some having established comprehensive frameworks and initiatives over an extended period. By drawing on these examples, Hong Kong could consider adopting similar measures, should they align with its broader policy objectives and market needs. Such an approach could enable Hong Kong to proactively anticipate market trends and further accelerate the development of its PC market.

Jurisdiction	Highlights of measures in developing PC [108]
Australia	Australia, with one of the largest superannuation schemes globally at A$3.4 trillion, has seen a growing shift toward PC investments. Historically focused on equities and fixed income, superannuation funds have increasingly been allocated to PC, initially through overseas managers but now also with domestic managers as the local market matures. AustralianSuper, managing A$300 billion, expanded its partnership with Churchill Asset Management to USD1.5 billion in December 2023 and aims to triple its PC exposure through direct lending and partnerships. Similarly, the Future Fund, with A$211 billion, increased its allocation to PC in 2023, citing attractive yields and opportunities.
United States	In the United States, Business Development Companies (BDCs) have been a key feature of the PC market since their establishment in 1980. Designed as closed-end investment vehicles that enable retail investors to invest in private companies. Over the last decade, the expanding PC market has made BDCs a favoured structure for PC managers, offering retail investors a unique opportunity to access this growing asset class.
United Kingdom	The Financial Conduct Authority introduced rules for the UK Long Term Asset Fund (LTAF) in November 2021 to promote pension fund investments in illiquid assets such as private equity, venture capital, PC, and infrastructure. By June 2023, the FCA finalised rules enabling retail access to LTAFs, expanding participation in these asset classes. Furthermore, the British Business Bank (BBB), through its subsidiary British Business Investments, committed £2.2 billion to 47 PC funds as of March 2023. Acting as one of the UK's earliest institutional investors in PC, the BBB has played a crucial role in building market confidence and driving the adoption of PC.
Singapore	Singapore's sovereign wealth funds, GIC and Temasek, have played a pivotal role in supporting the PC market as anchor investors and co-investors. Temasek has seeded prominent PC managers, including Seatown (USD 1.23 billion in committed capital for PCF I), Keppel (Pierpoint) Credit, EvolutionX (a tech-focused debt platform), and Broad Peak Investment Advisers, driving the growth of PC across Asia.

108 Singularity Capital & Alternative Investment Management Association

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About the FSDC

The FSDC was established in 2013 by the Hong Kong Special Administrative Region Government as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of the financial services industry of Hong Kong and to map out the strategic direction for the development.

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