

17 February 2025

Circular on listed closed-ended alternative asset funds

1. This circular clarifies the requirements of the Securities and Futures Commission (SFC) when it considers authorising closed-ended collective investment schemes (Alternative Funds) which seek a listing on the Stock Exchange of Hong Kong Limited (SEHK) (Listed Alternative Funds), and the requirements applicable to the distribution of these funds by intermediaries.
2. Alternative Funds invest mainly in private, illiquid assets, which may not meet the liquidity and other investment requirements under Chapter 7 of the Code on Unit Trusts and Mutual Funds (UT Code) (alternative assets).
3. Listed Alternative Funds and their offering documents should be authorised by the SFC under sections 104 and 105 of the Securities and Futures Ordinance (SFO) and 8.11 and relevant requirements as set out in this circular in 8.7 of the UT Code and listed under Chapter 20 (Investment Vehicles – Authorised Collective Investment Schemes) of the Main Board Listing Rules¹ (Listing Rules) (SFC-authorised Listed Alternative Funds).

Factors considered by the SFC for authorising Listed Alternative Funds

Overarching considerations

4. Unless otherwise specified in this circular, SFC-authorised Listed Alternative Funds should meet the applicable requirements under the Overarching Principles Section (OP) and the UT Code² in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products.
5. The fund for which authorisation is sought should be sizeable with an expected market capitalisation of HK\$780 million³ (US\$100 million) at the time of listing.
6. The SFC may also consider:
 - (a) the performance of fund(s) investing in relevant alternative assets managed by the management company;
 - (b) the fund's dividend policy;

¹ The SFC does not, in general, expect collective investment schemes to be listed under Chapter 21 of the Listing Rules.

² Including but not limited to (i) appointing a management company that is acceptable to the SFC and complies with Chapter 5 of UT Code on an ongoing basis, and (ii) appointing a trustee or custodian that is acceptable to the SFC and complies with Chapter 4 of UT Code on an ongoing basis.

³ The SFC may consider applications for authorisation where the market capitalisation of a fund and/or the AUM of the management company invested in relevant alternative assets on a group-wide basis is lower than the respective expected minimum amounts as stated in paragraphs 5 and 8(b) on a case-by-case basis. The applicant should provide supporting information to establish that the subject alternative fund is sizeable and/or the management company is sufficiently experienced and resourced, as the case may be.

Note: In general, depending on its investment strategy, a Listed Alternative Fund should preferably be able to generate regular income on a continuous basis;

- (c) the fund's underlying investments, whether these are sourced or co-invested by firms with relevant experience; and
- (d) where the fund seeking authorisation is currently listed in another jurisdiction(s), the factors set out in paragraph 16 of this circular.

Management company

7. The management company of an SFC-authorised Listed Alternative Fund must satisfy the requirements set out in Chapter 5 of the UT Code. References to the key personnel of the management company and those of the investment delegate having the required experience and resources in 5.5 of the UT Code should be taken to mean having the required experience and resources to manage relevant alternative assets. Such experience and resources may be assessed on a group-wide basis as set out in Note 1 to 5.5(a) of the UT Code.
8. The SFC will consider, among others, the following factors when assessing the acceptability of the management company. It should:
 - (a) have the requisite competence and experience on a group-wide basis in managing a public listed vehicle and complying with applicable regulatory requirements, or be able to demonstrate the ability to do so;
 - (b) have sizeable assets under management (AUM) of at least HK\$780 million (US\$100 million⁴) invested in relevant alternative assets on a group-wide basis; and
 - (c) have a good track record of regulatory compliance.

Listing agent

9. The fund seeking authorisation must appoint a listing agent under Chapter 20 of the Listing Rules⁵. The SFC reserves the right to require a listing agent in relation to an SFC-authorised Listed Alternative Fund to be regarded as a sponsor where appropriate⁶.

⁴ 8.7(a) (iii) of UT Code. Please also refer to footnote 3 above.

⁵ 20.06 of Listing Rules.

⁶ In such case, the listing agent must have the requisite licences and qualifications to act as a sponsor and must comply with all applicable sponsor obligations including those under Practice Note 21 and Chapter 3A of the Listing Rules and the SFC Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct). In particular requirements under paragraph 17 of the Code of Conduct.

Listing⁷ and dealing

10. An SFC-authorised Listed Alternative Fund should have procedure(s) and mechanism(s) for it to be widely held⁸. There should be an open market in the units or shares of the fund, which normally means the public holds at least 25% of the total units or shares of the fund at all times⁹.

Investments

11. Subject to paragraph 12, the requirements under Chapter 7 of the UT Code do not generally apply to an SFC-authorised Listed Alternative Fund.
12. In general:
- (a) we expect an SFC-authorised Listed Alternative Fund to invest in a well-diversified portfolio of alternative assets comprising assets with varying investment life cycles where appropriate;
 - (b) we do not expect the borrowing of an SFC-authorised Listed Alternative Fund to exceed 30% of its net asset value (NAV);
 - (c) for an SFC-authorised Listed Alternative Fund adopting a fund-of-funds structure, we expect that:
 - (i) the value of the fund's investment in units or shares of each underlying fund does not exceed 20% of the fund's NAV;
 - (ii) the investment objective and strategy of each underlying fund aligns with those of the SFC-authorised Listed Alternative Fund; and
 - (iii) an underlying fund's objective may not be investing primarily in other funds.

Distribution policy

13. The distribution or dividend policy of an SFC-authorised Listed Alternative Fund must be disclosed in its offering documents and must not result in structural decumulation of its capital.

⁷ SFC-authorised Listed Alternative Funds will be put under a standalone product category on the websites of the SFC and Hong Kong Exchanges and Clearing Limited (HKEX). They will have their own distinctive stock short names. Distinct stock code ranges will be designated for these funds.

⁸ 8.11(b) of the UT Code.

⁹ 8.08(1)(a) of Listing Rules.

Publication of NAV per unit or share

14. To enable investors to appraise the premium or discount of an SFC-authorised Listed Alternative Fund's secondary trading price on SEHK to its NAV¹⁰, it is expected to calculate and publish the fund's NAV on the fund's website at least on a quarterly basis.

Valuation

15. An SFC-authorised Listed Alternative Fund must comply with requirements under the UT Code in relation to valuation¹¹, in particular those under 8.7¹²(o), (p) and (q), and disclose the applied key valuation assumptions and parameters in its annual reports¹³.

Funds listed outside Hong Kong

16. The SFC may authorise for listing on SEHK a well-established Alternative Fund that is (a) currently listed and regularly traded on internationally recognised stock exchange(s) open to the public and (b) subject to comparable regulatory requirements¹⁴.

Disclosure

17. The offering documents, including the product key facts statement (KFS), of an SFC-authorised Listed Alternative Fund should disclose the details of its investment objectives and policy¹⁵, frequency for the publication of the fund's NAV, valuation policies and models, as well as key risks associated with the closed-ended nature of the fund¹⁶, the nature of the alternative assets and investments in illiquid assets. Items under 8.7 (r) to (u)¹⁷ of the UT Code should also be disclosed in the offering documents where applicable, with disclosures reflecting the details of the SFC-authorised Listed Alternative Fund as appropriate.

¹⁰ See expectation on trading discount in 8.11(c) of UT Code.

¹¹ 6.11, 6.11A, 6.11B, 6.11C and 6.12 of UT Code.

¹² We expect 8.7(o), (p) and (q) to be complied with by an SFC-authorised Listed Alternative Fund regardless of whether it is a hedge fund under 8.7 of the UT Code or not. References under these provisions to "hedge fund assets" should be taken to mean underlying assets of the SFC-authorised Listed Alternative Fund. 8.7 (o), (p) and (q) generally require that (i) the investments of the fund must be independently and fairly valued on a regular basis. Where appropriate, internationally recognised accounting standards and the industry's best practices should be applied on a consistent basis; (ii) full particulars of the valuation frequency, the valuation methods of the fund's investments, the identity and qualifications of the valuation agent(s), the experience of the valuation agent(s) in evaluating assets of the fund and the relationship of the agent(s) with the fund's management company or its group of companies must be disclosed in the offering document and annual reports; and (iii) the offering document of the fund must include a warning to the effect that some of the underlying investments of the fund may not be actively traded and there may be uncertainties involved in the valuation of such investments. Potential investors must be warned that the NAV of the fund may be adversely affected under such circumstances.

¹³ According to 11.6A of UT Code, financial reports must be prepared in compliance with the internationally recognised accounting standards which may include HKFRS or IFRS or such other accounting standards acceptable to the SFC.

¹⁴ For SFC-authorised Listed Alternative Funds established outside Hong Kong, other requirements under the UT Code (for example, the requirement under Chapter 4 of the UT Code regarding trustee/custodian) may be waived if applicants are able to demonstrate to the SFC that there are other comparable measures acceptable to the SFC.

¹⁵ C2 of Appendix C to UT Code, and 8.7(k)(vi) of UT Code for funds investing in other funds not authorised by the SFC.

¹⁶ 8.11(g) of UT Code.

¹⁷ 8.7 (r) to (u) generally require disclosure of key warning statements in the front cover of the offering document; relevant matters relating to investment operations and risk management with explanation of investment strategy and risks; and measures and safeguards against conflict of interest.

18. In particular, risks relating to valuation must be disclosed, including:
- (a) the lack of transparency on valuation of alternative assets; and
 - (b) uncertainties involved in the valuation of alternative assets¹⁸ and that such valuation is heavily dependent on assumptions and valuation models.
19. The KFS of an SFC-authorised Listed Closed-ended Alternative Fund should contain disclosures regarding the availability of the key valuation assumptions and parameters applied in valuing illiquid assets. These disclosures must be made available by the management company or Hong Kong representative on request and also on the fund's website.

Investor education

20. The management company of an SFC-authorised Listed Alternative Fund is expected to carry out extensive investor education before launching the fund in Hong Kong¹⁹.

Distribution by intermediaries - Client's knowledge test

21. SFC-authorised Listed Alternative Funds are complex products²⁰. Except for institutional professional investors and qualified corporate professional investors²¹, intermediaries should assess whether clients have knowledge of investing in relevant Alternative Funds or relevant alternative assets prior to effecting a transaction in SFC-authorised Listed Alternative Funds on their behalf²². A one-off knowledge test conducted by an intermediary prior to entering into a transaction in an SFC-authorised Listed Alternative Fund is acceptable. If a client does not possess such knowledge, the intermediary may proceed only if it has provided adequate training to the client on the nature and risk of the relevant Alternative Funds or relevant alternative assets. Intermediaries should also provide clients with risk disclosure statements (which can be a one-off disclosure) specific to the relevant alternative assets and SFC-authorised Listed Alternative Fund. They should also ensure that their clients have sufficient net worth to be able to assume the risks and bear the potential losses of trading SFC-authorised Listed Alternative Funds.
22. In assessing whether a client can be regarded as having knowledge, the following non-exhaustive criteria may be considered:
- (a) whether the client has undergone training or attended courses on relevant alternative assets or Alternative Funds;

¹⁸ 8.7(q) of UT Code.

¹⁹ 7.3 of OP.

²⁰ Note to 5.5 of the Code of Conduct, in particular, paragraph (vi).

²¹ "Institutional professional investors" is defined under paragraph 15.2 of the Code of Conduct as persons falling under paragraphs (a) to (i) of the definition of "professional investor" in section 1 of Part 1 of Schedule 1 to the SFO. "Qualified corporate professional investors" refers to corporate professional investors which have passed the assessment requirements under paragraph 15.3A and gone through the procedures under paragraph 15.3B of the Code of Conduct.

²² Where there has been no solicitation or recommendation, intermediaries do not need to comply with the suitability requirement, or the minimum information and warning statements requirements referred to in paragraphs 5.5(a) of the Code of Conduct.

- (b) whether the client has current or previous work experience related to relevant alternative assets or Alternative Funds; or
- (c) whether the client has prior trading experience in relevant alternative assets or Alternative Funds.

Others

23. Due to a wide array of alternative assets available, the SFC may exercise its discretion to impose additional conditions, modify requirements or allow flexibility from strict compliance with certain requirements under the UT Code, taking into account the fund's nature and investment strategy, on a case-by-case basis as appropriate.

Application and prior consultation

24. Prior consultation with the SFC is required before an applicant applies for authorisation of an Alternative Fund for listing.
25. If you wish to seek clarification of any aspects of this circular, please contact the team supervisor or case officer of the Investment Products Division who is responsible for overseeing the SFC-authorised funds of your fund group or client.

Investment Products Division

Securities and Futures Commission