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1. CORPORATE FINANCE

1.1 What is Corporate Finance?

- Application of **a range of economic and financial principles** to maximize the overall value of a business
- An **art** more than a science
- **Financial solutions** for companies are tailored to meet the individual company's specific strategic and financial needs

1.2 Why is Corporate Finance Important?

- Helps companies achieve their goals, a major one of which is **maximizing the wealth** or overall value of the business
- Critical to the financial and securities markets which depend upon **corporations' need for cash**
- Professionals work with different companies to help them achieve the **optimum financial solutions** for their particular needs

1.3 The Work of Corporate Finance Professionals

- The **work involved** includes:
  - ➢ Providing strategic and financial advice to corporations
  - ➢ Valuing companies, specific assets or specific company securities
  - ➢ Raising capital in the form of debt, equity and hybrid combinations
  - ➢ Lending to companies
  - ➢ Business and financial restructuring
  - ➢ Advising on merger and acquisition strategies
- To perform the work, individuals require a high level of local and international financial/legal/taxation **knowledge**, including:
  - ➢ Accounting and financial analysis
  - ➢ Corporate and securities law
  - ➢ Taxation
  - ➢ International experience
- **Personal skills** required to carry out corporate finance work include:
  - ➢ Strategic problem-solving
  - ➢ Relationship and communication skills
  - ➢ Negotiation skills
  - ➢ Ability to operate under pressure
- **High-order personal values** are important, including:
  - ➢ Competence, self-discipline, honesty
  - ➢ Integrity, trust and determination

2. ASSET MANAGEMENT

2.1 What is Asset Management?

- Assets managed by investment professionals
- The assets are managed funds, also known as collective, pooled or investment funds
- Managed funds include: unit trusts, mutual funds, retirement or corporate funds and private equity funds
- Investment professionals (fund or asset managers) invest the pooled monies in assets such as equities, debt securities, real estate and/or cash
- **Hong Kong attracts fund managers** for many reasons, including:
  - Central location in Asia
  - Clear and respected regulatory regime
  - Just and equitable legal system
  - English language and administration skills
  - Simple and low-tax system
  - A route to the mass market of mainland China
  - A world class communications system
  - A highly liquid stock market
  - A deep pool of professionals supporting the fund management industry

2.2 Why is Asset Management Important?

- Individual savings are held in pension funds, unit trusts and mutual funds
- According to the Investment Fund Fact Book 2019, mutual funds worldwide involved the **management of USD46.7 trillion in total net assets**. Accordingly, decisions made by large global fund managers can affect particular stocks, market sectors or entire countries
- Fund managers can invest in a broader range of investments than individuals can
- Key benefits of managed funds are **access to professional investment management** services and **diversification**
- The SFC has set standards on diversification in the **Code on Unit Trusts and Mutual Funds**, which include the following requirements:
  - A fund is limited to holding **10% of total net assets** in the securities of a single issuer
  - A fund is limited to holding 10% of the ordinary shares of a single issuer

- Benefits enjoyed by the asset management industry include:
  - *Access to greater investment opportunities*: for a relatively modest investment (USD1K to USD25K), individuals can get exposure to anything up to 40 or 50 stocks. Certain investment opportunities may only be available to large investors
  - *Cost benefits:* fund managers benefit from economies of scale reflected in volume discounts, administration and other fees
  - *Technology:* fund managers have greater access to sophisticated technology bringing greater efficiency and effectiveness to the investment management process
  - *Liquidity:* most managed funds can process redemptions on a daily basis
  - *Convenience:* fund managers deal with all aspects of investing procedures, including custody, administration, settlement and voting

2.3 The Work of Asset Management Professionals

- The **work involved** includes:
  - Developing asset allocation strategies
  - Analysing past, and forecasting future, performance of markets, companies and securities
  - Analysing all publicly available information on specific companies
  - Valuation of securities
  - Buying/selling large amounts of securities at best prices
  - Monitoring performance of and managing exposure to specific securities

- To perform the work, individuals require a high level of local and international financial **knowledge**, including:
  - Macro- and micro-economic analysis, including global economic and political analysis
  - Statistical and quantitative analysis
  - Accounting knowledge and financial analysis skills
  - Valuation of a wide variety of financial assets
  - Finance and investment portfolio theory

- **Personal skills** required to carry out asset management work include:
  - Analytical skills
  - Relationship and communication skills
  - Teamwork

- **High-order personal values** are important, including:
  - Competence, self-discipline, honesty
  - Integrity and trust

3. FINANCIAL ADVISING

3.1 What is Financial Advising?

- **A process to help individuals** identify and achieve their personal and financial goals through a comprehensive financial plan
- Financial advising (aka financial planning) is **an ongoing process** of relating a client's changing needs and financial position to the changing environment
- Financial products provide different risk/return combinations and it is a financial planner's job to match financial strategies and actions to a **client's goals**. These goals can include:
  - Enjoy a particular level of income or savings
  - Achieve a certain asset value or return on asset
  - Save/invest within an acceptable risk level
  - Achieve liquidity and flexibility needs
  - Maximize after-tax returns within acceptable risk levels

3.2 Why is Financial Advising Important?

- It is **a structured process** to help individuals and families meet their financial goals and objectives
- Accumulated savings of the baby boomer generation, members of whom are enjoying increased life longevity, has stimulated **demand for financial advisory** services
- Increased **international mobility** has placed more emphasis on international tax planning
- Increased **sophistication of investment products** requires individuals to source expert investment advice
- The **wealth creation phase** helps clients accumulate savings for retirement, while providing finance for all forms of family expenditure
- The **wealth protection phase** helps clients who are reaching or have reached retirement, to live the lifestyle that they planned for

3.3 The Work of Financial Advisers

- The **work involved** includes:
  - Establishing a **client's current financial position**
  - Establishing a **client's** short- medium- and long-term goals and **objectives**
  - Preparing an **investment strategy** and risk recommendations to meet client objectives
  - Selection of **investment and insurance products** relevant to a client's investment strategy
  - Presenting and **implementing the investment plan**
  - Ongoing monitoring and management of client investments and expectations

- To perform the work, individuals must be familiar with many investment matters, including:
  - Investment theory and practice, including asset allocation
  - Product knowledge
  - Financial product selection
  - Risk assessment
  - Management of different types of risks faced by clients
  - Securities, corporate and tax laws

- **Personal skills** required to carry out financial advisory work include:
  - Empathy
  - Confidentiality
  - Communication skills
  - Discretion when dealing with personal client issues
  - Sensitivity when communicating good and bad news to clients in times of market volatility

- Given the professional trust relationship between a financial adviser and his/her client, **personal values** should include:
  - Competence, self-discipline and honesty
  - Integrity and trust
  - Loyalty, sensitivity, tolerance and respect

- **Ethical requirements for financial professionals** have been stipulated by a number of professional associations, and include:
  - Acting in the best interest of clients, avoiding any conflicts of interest
  - Preserving client confidentiality at all times
  - Protecting and promoting market integrity
  - Honesty at all times

4. INTERDEPENDENCE OF FUNCTIONS IN THE FINANCIAL MARKETS – AN ILLUSTRATION