

IS HONG KONG BACK?

Emily Chan Tan

I want to start today with talking about the Federal Reserve, because Hong Kong moves in lockstep with the Fed, as everybody knows. Fed Chair Jerome Powell acknowledged the high level of uncertainty stemming from the Trump administration's turmoil. He's referring to the tariffs and all the policies. Now, while keeping borrowing rates unchanged, this allows policymakers to see how the policy changes affects the economy. Hefty tariffs, mass deportations, and the downsizing of the federal workforce, these are some of the policies that we are coming to get to grips with. Now, Hong Kong follows US monetary policy due to the linked exchange rate. Government officials have long stood by this, saying the peg brings stability to Hong Kong. Oli, if I can start a discussion with you, how is this beneficial to Hong Kong?

Oliver Weisberg

Thank you. Look, I think—just a couple of comments to make. Obviously Goodwin and I, when we agreed to do this panel this week—we're super excited about being the kickoff for the week. This is an incredible week for Hong Kong, and one of the things that we'll hopefully talk about in the panel today is a few parts about Hong Kong - specifically the peg - that really are part of the bedrock of why this is an incredible place to live, an incredible place to do business, raise family, and open up operations and so forth. I think, as Emily mentioned, with the convertible currency, Hong Kong is—this is just a core part of the bedrock about why this is a good place to do business. One of the other things we'll talk about today is—this is a chance, actually, for both foreign and Chinese investors to trade together. Stock Connect is a great example. It's been around for over a decade and trades about 400 billion US dollars a year. So, I can't emphasize—that's one of the core aspects of why Hong Kong is a great place to do business.

Emily Chan Tan

Goodwin, with this linked exchange rate, the Hong Kong monetary policy is dictated by that of the Fed. So, since you're invested into property, how does this impact the local economy? The property market? And if I can ask you, in Hong Kong here, have property prices bottomed?

Goodwin Gaw

Let's go back to the peg for a sec, right? So, the peg, essentially—it's a bit of an enigma, I suppose. From 1997 post-handover to 2019, I think real estate guys in Hong Kong think we're all geniuses. We're not. Real estate is not—you don't

have to be very smart to be in real estate. So, I say we're relatively dumb, but then we all look like geniuses because of the Hong Kong peg. Because at that time, for the longest time, US was going lower, and lower, and lower on interest rate, right, near zero for multiple reasons—especially after the GFC in 2008. At the same token, Hong Kong economy has been more and more linked to China, whether it's export, whether it's domestic consumption, whether it's Hong Kong companies or financial sector investing into China through Hong Kong, through the Stock Connect and all the IPOs, some Chinese companies listing in Hong Kong. Because of that, Hong Kong economy was turbocharged by China. As a result, when you put your cash, Hong Kong dollars, in the bank, you get no interest rate while assets are inflating like no tomorrow. So real estate guys look like geniuses for a long time, and obviously that's completely flipped now. Now, Hong Kong economy is more tied, actually, to China than ever, a little bit less global, because the IPO train hasn't come back yet in the Hong Kong market as a financial gateway - one of the three financial gateways to the world. And because of that, you have a slowing economy, but you have very high interest rate. So real estate is getting squeezed. No matter how much value you can add to asset, or actually how much income you can try to get, even if you can get it—because the economy is slowing, you can't get out of the very high interest rate. There's not enough growth to sustain the high interest rate tied to the US dollar in Hong Kong economy by itself today. But that's actually quick to change, right? If the IPO market starts to come back, it's going to start creating a bit of a FOMO. The fact that MSCI Index is up so much this year, the fact that Hong Kong is up, despite China being down - I mean despite US being down - in the last couple of weeks, it's a sign, right? It's all about the world we live in. It's all formal, right? Just like you guys have an event here—everyone wants to be here because of Milken. It's a formal thing. So how do we get that little spark to create a mini FOMO that turns into a FOMO by itself?

Emily Chan Tan

Yeah, as we talk about the peg, we hear about investors - Bill Ackman, Kyle Bass, George Soros - they have long bet against the peg. But so far, it's proving to be a losing bet. What do you guys say?

Goodwin Gaw

Yeah, betting against a very rich HKMA with the China government behind it, right? So, that's a tough bet to make.

Oliver Weisberg

Yeah, agreed, yeah.

Emily Chan Tan

Now, we've talked about the stock market, the Hang Seng and the MSCI China. The markets are on a bull run here—we have the Connect programs. International investors can buy into the A-share market on the mainland via the Northbound Connect. Mainland investors can buy into Hong Kong via the Southbound Connect. Oli, given Hong Kong's integration with China, does the rising tide lift all boats?

Oliver Weisberg

Thanks, Emily. Look, I think, you know, as I mentioned, having been living and working here for almost 30 years, I've seen—I've had an interesting lens and prism to see the growth of China, the growth of Hong Kong. I think if you look at the structure of Hong Kong, things are very robust. We're super excited. I think this week in Hong Kong is a testament that

Hong Kong is very much the place to be. I couldn't be more excited about everybody here this week. I think as it relates to the capital markets, I think we've slowly seen over the last couple of months, an increased visitation of foreign investors, whether that's private equity funds, hedge funds, long-only—this is the core to bringing Hong Kong to the place it should be.

Emily Chan Tan

Goodwin, we've seen China's property market in a slump that's persisted. We've been watching how the mainland authorities are trying to impose policies to try and bring it out of the troubles that it's in - the decline in prices, investment and sales. How does this shape your investment strategy?

Goodwin Gaw

Well, I think to understand China, right—it's not a homogenous market. It's just like US is not a homogenous market, right? You have the Rust Belt, of course, you have the coast, and then you have the low tax states like Texas and Florida booming. So, you got to have to look at China the same way, right? You have tier one, tier two, and tier three cities, right? Tier one cities like Shanghai, Beijing, Shenzhen - there's no supply-demand imbalance to speak of. Even in the residential sector. You may have overly indebted developers or national developers where the balance sheets are broken, but then the projects actually in Shanghai, Beijing, and Shenzhen are not broken in terms of demand side. So, those cities will probably be on a very different trajectory to recovery because banks are encouraged to lend back to the private sector by the central government, and they're going to look for healthier projects to lend, right? They're going to lend first to commercial projects that—where cash flow is not impacted that much with a lower and lowering interest rate. And then you actually—they're going to go then pick the projects in the tier one cities where demand is there, right, to absorb the supply. And we've all seen the story anywhere in the world. Real estate is a cyclical game, but in cities where demand is not the issue, when there's a recur—when there's a bit of a bottoming out, you buy. Hong Kong is actually on sale. Hong Kong has never been on sale like this. Today, if you want to buy a luxury home in particular—just think about—because the dollar peg is actually artificially even curbing the prices even more, despite the likely demand from China side coming over the border in the very near future when more and more companies will start listing in Hong Kong. So, it's interesting. So, China is not homogenous. You can't play—but I think most interesting, especially for international investors, should be—Hong Kong would be the first step; it's US dollar based, it's a stable coin essentially pegged to the US dollars. Right now it's in a bit of a funk because of the currency—being the strong currency, artificially pushing Hong Kong prices even further down relative to the supply-demand dynamics. So, it's actually quite interesting if you're a contrarian investor and you—or you think Hong Kong is such a great quality of life place - which it is—we can talk about that next, right? The quality of life in Hong Kong is superb, with access to beaches and hiking trails and the infrastructure. Put all that together—one of the three tax-free havens in the world parallel to, I would say, Monte Carlo and Dubai. You should all have a place in Hong Kong.

Oliver Weisberg

Yeah, just dovetailing on that—you know, look, I think when Goodwin and I were thinking about some of the messages we wanted to send to you guys today is—Goodman, sort of the Hong Kong homegrown success story. I came over from the States, built a business, run Blue Pool Capital, Joe Tsai's family office here. I think when investors ask me, "Should I open an office in Hong Kong?" "Should I spend time here?" There's a couple of things—and I think we've touched the point on the bedrock of the peg—it's really about a place to raise a family and a place to do business. And as Goodwin mentioned, there's a couple of examples. There's phenomenal schools here—there's just a terrific school system. Number two, there's incredible health care. You have access to the Greater Bay Area: Zhuhai, Macao, Hong Kong. You have growing sports organizations and businesses here - Kai Tak just opened. These are things that when I'm in New York—and Goodwin and I have the luxury of being in the right rooms in New York and London—and this is just not well advertised for Hong Kong.

On top of that, an incredibly deep job market. So, when folks want to open operations here, that's just incredibly important. Obviously, that ties in with, with the school system—you know, incredibly attractive tax—favorable tax place to live. This is the kind of, you know, city a family could put a family member here at some point to really put a beachhead. And then, as Goodman mentioned, just the natural beauty of Hong Kong—it's just an incredible place. So, I think if there's a few things that you can leave this room today, please leave with those. I think those are a gentle, kind reminder of what makes Hong Kong an incredible place to do business.

Goodwin Gaw

Oli, you may look white and Jewish, but you're definitely Chinese and Hong Kong.

Oliver Weisberg

Yes, yes.

Emily Chan Tan

So, if Hong Kong is so great, then why are we seeing this trend of Hong Kong residents traveling north? For us here in Hong Kong, it's called [The following exchange was in Chinese. An accurate transcription is unfortunately not available], northbound travel. Both of you, please answer the question: What is so good about the northbound travel? And do you think that this is a trend that we can reverse?

Goodwin Gaw

What's interesting is, right—the border, it's becoming more porous. The infrastructure is in place with the high-speed train that you can actually jump in, cross the border on Hong Kong side on the high-speed train, in Tsim Sha Tsui, and in less than an hour, 20 minutes, you've been Shenzhen and then you've been Guangdong. So, in the short term, it may look bad, right, for even wealthy Hong Kong [inaudible] to actually go to Shenzhen on the weekend, to go do their shopping, and eating, and facial, and so forth. But if you think a little bit deeper, right—if you think medium term, the fact that the Greater Bay Area, as we call it—which is a combination of Hong Kong for financial sector, financial gateway, Macau for entertainment, Shenzhen for high tech, and then Guangzhou for manufacturing hub to the world. Those four combined is actually a 2 trillion US dollar economy by itself—probably number 10 in the world by GDP size, if it were an independent country—86 million people, compared to 30 million people for California. If you put that all in perspective, then this—the fact that the wealthy class are willing to go to Shenzhen to shop because they think it's so convenient now—it's a matter of time this whole—I call it blood swapping—will actually happen where these four big economies, currently linked by world class infrastructure, with the bridges and the high speed trains, will eventually be one big whole economy and one big whole geography. And when that happens, you're going to have retirees having a higher quality of life living on a golf course for a fraction of the price in Zhuhai versus Hong Kong, freeing up real estate space and homes for the high-tech, high salary financial sector executives, or high-tech executives, to actually come to Hong Kong and do that swap. When that swap happens more and more, with more and more porous border, it will just just make the Greater Bay Area even a bigger and stronger story. And all the infrastructure—the hard stuff—is actually in place for that to happen. And the people's mentality are starting to change—that's actually a good thing. Might be short term pain for the retail sector in Hong Kong today.

Oliver Weisberg

Yeah, no, I think Goodwin—I think porous is the right word, because these things are not mutually exclusive. Things are growing northbound, which is great for Hong Kong. You know, I think one of the themes that we all like about Hong Kong is what we sort of call "go-mode." You can come here—I was in the lobby this morning, bumped into a friend—actually, Goodwin, and I did f—om New York. He's like, "I have nine meetings today." It's an extremely efficient place to do business, and I think the Greater Bay Area just unlocks that. I was at the Milken cocktail with you guys yesterday—as folks may know, my business partner and I are involved in basketball—we own the Brooklyn Nets. There's an event—we're playing some games in October in Macau, and I had to rush to Macau last night for a dinner. I went to your conference, got in the car, was at dinner in 75 minutes. So, the ability to move around the Greater Bay Area is actually here and now. And Goodwin remembers when we moved here, you'd have to make a day trip to do those kinds of things. I think Shenzhen, Guangzhou—Shenzhen is where Tencent is. There's some incredible tech companies there. So, I think what you're going to see is—on your point about northbound, I would flip that around and say it's actually going to be—in not even that far away from now, you feel it right now. And so, I think when Hong Kong—I've always used when I was living in the States, sort of a gateway into China. You come here, you fly in, take the Cathay flight, you spend the day in China, you come back. And so the ability to actually do business between Shenzhen, Guangzhou and the GBA was never as more efficient as it is now.

Emily Chan Tan

You brought up infrastructure and connectivity, and we all saw what happened this weekend over in London. I hope none of you were affected by the shutdown, the power outage at just to the side of the London Heathrow Airport—basically brought the airport to its knees. Hong Kong here—the connectivity in terms of four major international airports, just all kind of in a small cluster. We have Hong Kong, Chek Lap Kok Macau—in Shenzhen, it's Bao'an airport. In Guangzhou, it's Baiyun Airport. In terms of the connectivity, Goodwin, talk about how that serves the city here, bringing people in for big conferences like this. We missed out when it came to Taylor Swift. I think we missed out on Lady Gaga as well. But talk to us about the Hong Kong infrastructure.

Goodwin Gaw

Well, okay, about concert right? Last night, Hong Kong Airport hosted—the airport Convention Center hosted—the NewJeans, right? The group that's in the news, the hottest Korean K-pop group, decided to do their farewell concert, amidst the legal issues they have, in Hong Kong, right? And then I saw—I was at the concert, and I saw so many people from China, a lot from Korea—so you do have multiple backups, right? The fact that the other day, I landed in Hong Kong International Airport, and then I was going to Macau to see a robot show - Zhang Yimou, the robot show with the—

Oliver Weisberg

Oh yeah. It's so good.

Goodwin Gaw

Incredible how these robots—they look like humanoids. "I, Robot," it looks like. But literally, I got off my plane, and I was in the middle of Macau in 35 minutes, right. When you fly into Hong Kong, you see—I think it is the longest across water bridge of anywhere in the world. So that's in-place. So, this connectivity means all these airports are more and more connected. So, as capacity—as demand grows, you're going to have Hong Kong like this be a major airline international

gateway, with some of the other airports supporting a domestic route—or also low cost carriers, plenty of capacity to use beyond Hong Kong Airport. So these airports will likely work together. You see all the shopping centers being built at the Chek Lap Kok Airport—which will house medical center, diagnostic, KidZania. So that entertainment—it's still early days, but that integration likely will go together with a Greater Bay Area integration, and all this connectivity will actually become seamless and more porous over time.

Oliver Weisberg

Yeah. Look, I think, you know—as I think about sort of how to describe Hong Kong—this week is about, and this panel is about, where Hong Kong is and where it's going. As I think about its role—and I must say one of the other families we work with came up with this phrase which I think is fantastic—is Hong Kong is a global broker. It's a place to come do business efficiently. And I think, as Goodwin said, being able to move around is, you know—for a lot of people, it's about logistics. I think when people talk about the future of Hong Kong versus Singapore and Tokyo and, kind of, where to put an office—that's a great example. One of our private equity portfolio companies is going to open an office in Hong Kong. They've decided this is where they're going to put their AsiaPac headquarters. They may also have a Tokyo office at some point, and one in Singapore, but Hong Kong will be the base for exactly the reasons that that Goodwin talked about—it is efficient.

Emily Chan Tan

I have to bring up a tough subject, and this is geopolitics. We've seen Trump tariffs. We're watching all the policies come through. Hong Kong has been lumped together with China now—want to ask about how business sentiment has been affected. Oli, if I could start with you.

Oliver Weisberg

Look, I think, you know, as I mentioned, I've been in Hong Kong for almost 30 years. I'm very bullish on this place, and it will continue to be a place that will have our firm and for the next—you know, for as long as I can look ahead. So, I think we're really excited. You know, clearly, as you mentioned, Emily, geopolitics—you know, we read the press every day. We're just focused on moving forward.

Goodwin Gaw

Obviously, it's hard to be in business, to be a fiduciary, not to not to be highly in tune with geopolitics. But I think there's a Chinese saying, right? As we say, if money can solve a problem, it's not really a problem. So tariffs is really, tariffs—if it's tariffs versus ideology, tariffs is something that is a solvable issue, and that's how we're looking at business. Obviously we have to be cautious because it does affect sentiment, fund flow—where the capital—where it's coming from, or where it's going. But ultimately, it's a negotiation. It's a deal, right? So, you just have to factor that into how you allocate your capital.

Oliver Weisberg

Yeah and look, I would just say one more thing is—I think Hong Kong has shown as a society, as a culture, to be resilient. And so, I think that's something that is really—what's incredible about living here.

Goodwin Gaw

And it is a window, right? Hong Kong is a window for China to do business with the world, for the world to do business with China, right? Whether it's a Stock Connect, whether it's a currency peg—which is essentially a stable coin to US dollar. So, it's still the second largest economy in the world, right? If US gets a little bit too expensive, China is becoming an interesting place to look for value and look for returns.

Emily Chan Tan

The US State Department is urging Americans to exercise extreme caution when traveling to Hong Kong. Is Hong Kong safe? [Audience laughter]

Goodwin Gaw

I think it's clear to see from this room and the backdrop of the harbor—and those of you probably flew Cathay Pacific, I hope you did to Hong Kong. Think about how that compares to your British Airways, or your United Airlines, or your American Airlines.

Oliver Weisberg

Yes.

Emily Chan Tan

What about the brain drain? Is that finished? It started during the protests in 2019—there was a bit of a scare with the NSL, of course, with COVID. After about five rough years here in Hong Kong.

Goodwin Gaw

I will be a bit not PC on this one, right? Even in our small sample size within YPO, we have plenty of friends who actually were singing the virtue of Singapore during COVID. And then how many of them actually moved back to Hong Kong? Because they say it's a flat island in Singapore, right? You don't have 400 miles of hiking trails. You don't have 42 beaches in Hong Kong. You're not minutes away from either a beach or on your boat, and you're not minutes away from hiking trails. I mean, everything else speaks for itself—despite the concrete jungle—which is when you fly down in Hong Kong, if you're lucky enough to fly into Chek Lap Kok through the top of Hong Kong Island—sometimes when they—depends on the wind direction, it's quite spectacular. It's like a man-made art wonder, right, in terms of how three dimensional—and then you look at how much green space Hong Kong has relative to this concrete art form, it's remarkable. And then if you have the chance, go to Tsim Sha Tsui, look back on the Hong Kong side, on the harbor—there's nothing quite like it. And for those of you who are swimmers, come to Hong Kong for the cross harbor swim—there's nothing quite like it when you actually swim across the harbor, floating in the middle of the harbor, looking both on both sides. It's unreal. It's hard to describe.

Oliver Weisberg

Yeah, I mean, Emily, look, I think I would look at everyone's calendars for the week in Hong Kong to demonstrate the strength of Hong Kong. Between Milken and Basel and everything going on this week, I think the facts are there that Hong Kong is the place to be.

Goodwin Gaw

And we always joke, right? If we have to hold investor conference, Hong Kong is a tough place, because you cannot get people to stay focused with you. They have 20 meetings they will run to. And you can hit 20 meetings on a matter one day or half a day.

Oliver Weisberg

Yeah, so Emily, look, I think you know, this week is a demonstration to answer your question. And so you can see the content, the volume of people coming. I think we were at the Milken cocktail party last night—a lot of people had come to Hong Kong I hadn't seen for a couple years. So, I think the facts really lay out the answer to your question.

Emily Chan Tan

What are some of the factors that contributed to Blue Pool Capital setting up shop in Hong Kong? Hong Kong has a low tax rate, it's simple. There's no sales tax, no VAT, no investment withholding tax, no capital gains, no estate tax, no wine tax, no tax on dividends or interest from savings. This competitive tax regime is definitely a plus for Hong Kong.

Oliver Weisberg

Yeah, no look, thanks for asking the question. Blue Pool is based in Hong Kong—I run the family office for Joe Tsai. You know, I had come out here a long time ago working in private equity. Goodwin and I were both—he was doing real estate stuff, I was doing PE stuff—and ended up working on the original Alibaba deals—worked with with Joe for a long time. And when we're thinking about where to set up, it seemed like the perfect place because we're an investment business—we do invest here, but we invest a lot overseas to achieve some diversification, and this is just a great pool for talent. Our analysts, associates, managing directors, this is where they want to live, for all the reasons we've talked about. So, we're in Causeway Bay, and we have no plans to move.

Emily Chan Tan

Goodwin, tax concessionary and exemption schemes have been granted for market participants like hedge funds and PE funds set up locally here. What does Hong Kong's regulatory environment and the tax environment play in your setup here?

Goodwin Gaw

Well, as I mentioned, as I briefly touched on earlier, right, Hong Kong is a tax haven. You mentioned all the reasons why Hong Kong is a tax haven on parallel to Monte Carlo and Dubai. But what Hong Kong has in addition to any of those, even Singapore, is actually—it's a money center. And when it's a money center, you do get access to the most sophisticated investment banks, private banks, advisors, and also large IPO offerings, large bond offerings—it's all here. And if there's any doubt about China—increasingly or still see Hong Kong as a laboratory, one country, two systems, look no further than crypto, right? The fact that Dubai, obviously, is very open about telling the crypto investors and the crypto-based family office to go to Dubai—Hong Kong is doing exactly the same thing, even though China, on the other side is against crypto and against blockchain for the time being, right? So, that's a testament, as a fact, to say Hong Kong is definitely one country, two systems—and we have seen, actually, with the recent Hong Kong government drive, quite a few very significant crypto family offices are actually relocating from Dubai or consolidating from Zurich into Hong Kong—sizable ones, and I think will you read about that in the next six to nine months.

Emily Chan Tan

We only have time now for some final thoughts, and I want to ask you both to wrap up here. What are the biggest challenges operating in Hong Kong, be it regulatory or geopolitical? Give us something to, you know, think about as we leave.

Goodwin Gaw

False perception, right? I mean, I think if you come to Hong Kong, you see the meetings you get, the people you meet who is based in Hong Kong, the amount of business you can do in one to two days, and buy some art and maybe apartment on the side. It's a lot going forward. If you see it for yourself, it's hard to then—you realize how the deception you might be reading in the Western media.

Oliver Weisberg

Yeah, no, I think Goodwin and I globetrot a lot. We both travel a lot, and we're in rooms like this, at conferences like this, and I think, as Goodwin said, false perception is a challenge. We're excited to take that challenge. The more conferences, the more weeks like this, it'll be in the rearview mirror. And so, I think that burdens on all of us. I think for folks in the office that are here from overseas, I'm around. I love Hong Kong. If you're thinking about opening a family office or a business, come talk to the two of us. We've both chosen this place for all the reasons we talked about. But let's have a great week.

Emily Chan Tan

Thank you to you both. Ladies and gentlemen, please help me to thank Goodwin Gaw and Oli Weisberg, and hope that they gave you something to think about. Is Hong Kong back? Thank you very much.

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