Circular

3 September 2026

Circular on SFC-authorised funds with exposure to private market assets

1. The Securities and Futures Commission (SFC) has observed that investment funds may, for asset allocation and yield enhancement purposes, gain exposure to private credit and private equity (collectively, private market assets) via: direct exposure through investments in bank or non-bank direct lending in the form of loans or equities to unlisted companies (direct exposure)[1]; or indirect exposures[2] including through investments in business development companies (BDCs)[3], collateralised loan obligations (CLOs)[4] or financial derivative instruments[5].

2. This circular provides guidance to management companies of funds that are authorised by the SFC for offering to the public in Hong Kong (Funds)[6] in this regard. Funds with direct or indirect exposure to private market assets are required to observe the enhanced disclosure requirements set out in this circular. A Fund may be subject to enhanced scrutiny by the SFC in some cases and be classified as a complex product for distribution, where appropriate.

3. Direct investment in private market assets generally carries higher inherent risks than publicly listed securities, as these assets are typically illiquid, hard to value, and subject to limited regulatory oversight; they also have higher credit risks and thus higher risk of default. While indirect exposures to the private market assets may not present the same level of risk as direct investments, recent market developments have raised concerns about these indirect exposures, such as the rising default risks of underlying investments for private credit funds, widening price-to-NAV discount for listed BDCs, etc. In addition, certain indirect exposures may lack transparency about the underlying private market assets, as they involve layered structures or complex financial instruments such that retail investors may not reasonably understand the features and risks of these indirect exposures.

4. Considering that retail investors in Hong Kong may have limited familiarity with private market assets and their associated risks, fund managers should ensure that investors are provided with a clear, sufficiently complete and balanced picture of the characteristics, nature and extent of risks associated with various types of exposures a Fund may have to private market assets. Fund managers should also, among other things, ensure that the distributors chosen are appropriate for covering the target market of their Funds.

[1] Direct investments in/exposures to private assets fall within the investment limit of 15% of a Fund's total net asset value (NAV) under 7.3 of the Code on Unit Trusts and Mutual Funds (UT Code).
[2] The examples of indirect exposures set out in paragraph 1 above are non-exhaustive, and subject to review and update by the SFC from time to time in view of market developments.
[3] BDCs are close-ended funds registered under the US Investment Company Act of 1940, which primarily invest in debt and equity of small and mid-sized companies in the US.
[4] CLOs are securities backed by a pool of debt, typically leveraged loans and broadly syndicated loans, or direct lending to unlisted companies.
[5] For example, Total Return Swaps on indices with exposure to leveraged loans or broadly syndicated loans (TRSs), or Significant Risk Transfers with underlying assets that are corporate loans (SRTs).
[6] Except for listed closed-ended alternative asset funds (LAFs). For LAFs, please refer to the circular on LAFs: https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=25EC9

Enhanced disclosure in offering documents

5. If a Fund may have direct or indirect exposure to private market assets, its fund manager should ensure that the Fund's offering document (including the key facts statement (KFS)) clearly discloses:

   (i) the extent and the means of access of exposure (eg, up to [x]% of the Fund's NAV is invested in listed BDCs which primarily invest in private market assets; [x – y%] of the Fund's NAV will gain exposure to private loans via investment in senior tranche of CLOs);
   (ii) the nature and characteristics of the underlying private market assets (eg, the minimum credit rating of the CLOs in which the Fund invests, TRSs on an index comprising unsecuritised broadly syndicated loans); and
   (iii) in the offering documents (and where appropriate, the KFS), the key risks associated with the Fund's exposure to the specific types of private market assets it directly or indirectly invests in, including the impact and implications to the Fund and its investors (e.g. the limited liquidity and lack of transparency of the underlying private market assets of the BDCs can make them more challenging to value, and these valuation uncertainties may negatively impact the BDC's NAV and hence the Fund's NAV).

Complex product designation

6. A Fund will be considered as a complex product if its total direct and indirect exposures to private market assets amount to 50% or more of the Fund's NAV. On a case-by-case basis, the SFC may also designate a Fund as a complex product, taking into account factors including, without limitation:

   - the aggregate direct and indirect exposures to private market assets of the Fund;
   - the Fund's overall investment strategy, portfolio composition, and liquidity and/or risk profile;
   - the extent, nature and characteristics of the specific asset types in which the Fund invests (eg, the tranches and credit ratings of CLOs; the structure, tranches and underlying assets of SRTs); and
   - any distribution restrictions, requirements or other conditions as may be imposed by the Fund's home regulators.

   In assessing whether the complex product designation is warranted[7], the SFC will adopt a holistic approach taking into account the specific circumstances of the case.

7. A Fund classified as a complex product will be subject to the SFC's prevailing requirements for the sale of complex products[8] including but not limited to ensuring the suitability of the Fund for its investors irrespective of whether solicitation or recommendation is involved.

[7] In cases where the Fund's aggregate direct and indirect exposures to private market assets are less than 50% of the Fund's NAV.
[8] Paragraph 5.5 of the SFC's Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and Chapter 6 of the SFC's Guidelines on Online Distribution and Advisory Platforms, and the relevant Frequently Asked Questions.

Target market identification and distributor selection

8. The SFC wishes to remind fund managers to observe the requirements set out in the "*Circular to Product Providers of SFC-authorized unit trusts and mutual funds, SFC-authorized investment-linked assurance schemes and SFC-authorized unlisted structured investment products – Guidance on Internal Product Approval Process*"[9], which outlines, among others, the requirements regarding target market identification and distributor selection for SFC-authorised funds.

9. Fund managers should carefully identify the target market to ensure that the Fund, including its underlying investments and associated risks, would be generally understood by the target market and that the Fund's investment objectives and risk/return profile match the needs and risk appetite of the target market. They should also ensure that the distributors chosen are appropriate for covering the target market identified, have the necessary product knowledge to understand the Fund (including whether the Fund is a complex product) and to assign an appropriate product risk rating (if applicable) for the Fund, and advise investors accordingly.

10. Fund managers are further reminded that the marketing materials of SFC-authorised funds must comply with the Advertising Guidelines Applicable to Collective Investment Schemes Authorized under the Product Codes[10], which provide, among other requirements, that advertisements of a Fund should be fair and present a balanced picture of the Fund with adequate risk disclosures.

Others

11. When seeking the SFC's authorisation for any new funds that may have direct or indirect exposure to private market assets, the fund may be subject to the SFC's closer scrutiny. In some cases, the SFC may not process the fund under the Fund Authorisation Simple Track (FASTrack).

12. For existing SFC-authorised funds that may have direct or indirect exposure to private market assets, fund managers are expected to undertake a review of their funds, take appropriate actions including updating the Fund's offering documents as soon as practicable, and ensure necessary and proper communications with the distributors in light of the guidance provided under this circular (in particular, with respect to paragraphs 9 and 10 above). Fund managers are encouraged to consult the SFC at the earliest opportunity if they are in doubt regarding complex product classification of their Funds.

13. If you wish to seek clarification of any aspects of this circular, please contact the relevant case officers in charge.

Investment Products Division
Securities and Futures Commission

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[9] Issued by the SFC on 30 April 2014 and subsequently updated on 4 March 2016. Please refer to: https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=16EC11

[10] Latest version issued by the SFC in April 2013. Please refer to: https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/guidelines/advertising-guidelines-applicable-to-collective-investment-schemes/Advertising-Guidelines--Applicable-to-Collective-Investment-Schemes-Authorized-under-the-Product-Cod.pdf