

BY HAND & EMAIL

September 30, 2014

Investment Regulation Department
Mandatory Provident Fund Schemes Authority
Units 1501A and 1508, Level 15
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Attention: Consultation on Providing Better Investment Solutions for MPF Members

Dear Sir/Madam,

I refer to the consultation paper on "Providing Better Investment Solutions for MPF Members".
Enclosed please find the comments on the proposal from Sun Life Trustee Company Limited.

Yours sincerely,


Cynthia Lee
Chief Executive Officer

Response: Sun Life Trustee Company Limited

Question 1

Do you support the direction of introducing a core fund in the manner set out in paragraph 36 (a) to (d) of the consultation paper?

Generally we support the notion to standardize the key features of the default option as it improves scheme members' understanding of the characteristics of the MPF default arrangement in different MPF schemes. However, the determination of the pertinent features of the default option should be developed under the overarching principle of providing sustainable solution appropriate to members' risk tolerance level, up to and beyond the official retirement age of 65.

Question 2

Do you agree that the CF that is the default fund should be substantially the same in all MPF schemes?

Certain features such as investment strategy of the default fund can be substantially the same in all MPF schemes. However, unless there is only one default fund mandated to be used across all MPF schemes, we opine the default fund under different MPF schemes is not necessarily to be exactly the same. A guideline on investment strategy that default fund of every MPF scheme should follow should suffice.

Question 3

Do you agree that it is appropriate that the core fund be based on a standardized default fund?

It will depend on the degree of "standardization". In general, unless the proposal votes for only one default fund among all MPF schemes, we foresee only certain features such as the fund name, the headline fee and the overarching investment principles are required to be standardized.

Question 4

Do you agree that the appropriate investment approach of the core fund is one that automatically reduces risk over time as the member gets closer to age 65? If not, what other option would you propose?

It is generally acceptable that the core fund should reduce risk over time with regards to the risk acceptance level of scheme members, whereas age of a scheme member will be one of the indicators of risk tolerance matrix. However, at what age should risk acceptance level of a

scheme member be reduced to what magnitude might warrant some more studies and discussion.

Question 5

Do you have any preliminary views on the technical issues set out in paragraph 48, in particular whether consistency is required on all aspects of default fund design in all schemes or can some elements be left to the decision of individual product providers?

Similar to question 3, we foresee only certain features of the default fund, such as the fund name, the headline fee and the overarching investment principles are required to be standardized. The proposal should allow flexibility to service providers to construct product or service differentiation for members' benefits. Such flexibility might include the use of life cycle approach vs target date fund approach, passively vs actively managed core fund, and etc.

Question 6

Do you agree that keeping total fee impact for the core fund at or under 0.75% is a reasonable initial approach?

We are of the view that the proposed fee level of 0.75% or lower and fund expense ratio ("FER") of 1.0% or lower might only be feasible when the fund size grows sufficiently large to gain from economies of scale in the long term. We consider the current asset size of the Hong Kong MPF market is not large enough to benefit from economies of scale to support the proposed fee levels. Therefore, we do not believe that the proposed fee level of 0.75% or lower and FER of 1.0% or lower is a sustainable approach that will deliver a win-win result to the industry and members.

Question 7

Do you agree that keeping total expense impact (i.e. FER) for the core fund at or under 1.0% over the medium term is a reasonable approach?

Same as question 6, we do not believe that the proposed fee level of 0.75% or lower and FER of 1.0% or lower is a reasonable approach, considering the current size and stage of Hong Kong MPF market.

Question 8

Do you agree that passive, index based, investment strategies should be the predominant investment approach in the MPF core fund?

We believe that passive, indexed based investment strategies might be one of the investment approaches adopted by the MPF core fund. However, individual product provider should be

given the flexibility in using other investment strategies if such other investment strategies can deliver better value at a reasonable fee level.

Question 9

Are there particular asset classes which you think would not appropriately be invested on a passive, index based approach?

In general, there should not be any asset class limitation. However, any asset class that is speculative in nature and volatility-prone would not be an appropriate vehicle for this purpose.

Question 10

Do you agree that the name of the core fund should be standardized across schemes? If so, do you have any preference amongst the possibilities set out in paragraph 77 of the Consultation Paper?

- MPF Core Fund
- MPF Basic Investment Fund
- MPF Simple Investment Fund
- MPF Default Investment Fund
- MPF "A" Investment Fund

We prefer to standardize the name of the core fund as MPF Default Investment Fund which should be easily understood by scheme members as a default arrangement.

Question 11

Do you agree with the general principle for dealing with implementation and transitional issues as set out in paragraphs 78 and 79?

While all MPF scheme members should be made aware of the new default fund arrangement, we are of the view that the core fund as default option arrangement should only be applicable to new MPF scheme members. Existing members who currently invest in the prevailing default fund should remain intact unless they made a specified investment choice to switch to the new default fund. We do not support to switch their current holdings and future investment choices to the new default fund arrangement without their consent.

Question 12

Do you agree with the proposal in paragraph 81 as to how to deal with the transition for existing MPF members of default funds?

Similar to question 11, we are of the view that we should not switch the investment choices of existing members who are currently investing in default fund to the new default fund arrangement, unless the concerned members have made specified investment choices.