

**Top Fund Awards 2016
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Good afternoon, ladies and gentlemen,

Thank you for inviting me to this special occasion.

I would like to congratulate all the award recipients who, over the past year, have achieved exceptional performance in their respective categories of funds, including MPF funds. Your achievements have translated automatically into good investment outcomes for MPF scheme members.

The MPF System just celebrated its 16th anniversary on 1 December, and I would like to take this opportunity to have a brief review of how the System had performed during that period.

The MPF System has been doing its job in helping the working population prepare for their retirement and accumulate retirement wealth, despite facing some public discontent with certain elements. From the inception of the System to September 2016, the MPF System achieved an annualized return of 3.3% (net of fees and charges), exceeding the corresponding inflation rate of 1.8% over the same period.

In dollar terms, as at the end of September 2016, the System accumulated HK\$655 billion in total assets, including HK\$517 billion in MPF contributions (net of amounts withdrawn) and HK\$139 billion in investment returns, net of fees and charges. There is no doubt that the System has added value to scheme members' retirement savings.

The value of MPF has been increasingly recognized by members and employers as indicated by the increasing voluntary contributions (or "VC") and

special voluntary contributions (or “SVC”) being made to the System. In fact, voluntary contributions have been growing rapidly over the years and now account for about 24% of the total contributions and there is a real vote of confidence by MPF scheme members.

Looking ahead, in the midst of the interest rate normalization and new Administration in the US, the year of 2017 promises to be another challenging year for the financial markets. On behalf of our scheme members, we would like to count on your expertise to deliver good results for us.

On our part at the MPFA, we have been making tireless efforts to make MPF better.

To assist scheme members, particularly those who do not want to, make fund choices themselves, in managing the long-term risks associated with investing MPF savings, we have proposed mandating each MPF scheme to provide a Default Investment Strategy, or DIS in short. The proposal was passed by the Legislative Council this May and will be launched in April 2017.

The DIS is a ready-made investment solution with fee caps using two mixed assets constituent funds – the Core Accumulation Fund and the Age 65 Plus Fund – to achieve de-risking as members age.

We believe the automatic, age-dependent, de-risking approach of the DIS with fee caps will benefit scheme members, especially those who find it difficult to make investment choices.

Investment returns are subject to market fluctuations. Fees, however, are known in advance. As far as scheme members’ interests are concerned, obviously, the lower the fees, everything else the same, the higher the net returns.

At the Global Forum on Private Pensions, which was held in Hong Kong last month, representatives from different overseas jurisdictions pointed out that private pension systems around the world are facing the same challenge of how to reduce fees.

Over the past years, to help bring down the level of fees, the MPFA has made use of different means and introduced a range of initiatives, including enhancing

and standardizing fee disclosure to facilitate comparison and informed decision, implementing the Employee Choice Arrangement (or “semi-portability of MPF”) to allow better working of market forces, streamlining and simplifying administrative processes to cut down administrative costs, requesting trustees to offer low fee funds, and working with trustees to merge less efficient schemes and funds.

Over the past eight years, the average Fund Expense Ratio (or “FER”) of MPF funds has dropped 24% to a record low of 1.56%. More low-fee funds have also become available to scheme members. However, I believe that there is still room for further fee reduction of MPF funds.

According to a recent study conducted by the MPFA, it was found that funds with a higher FER are not necessarily associated with better investment performance. Some of the results of the study even show that funds of higher FER tend to be associated with poorer investment performance and vice versa.

The same study also found that larger and older funds do not necessarily have lower FERs. Despite benefitting from economies of scale, larger funds and older funds generally have higher FER than smaller funds and younger funds.

Containing fees is a challenge that private pension systems worldwide are facing. It is important for the industry in Hong Kong to keep up the efforts and explore every possibility in reducing fees for the MPF System.

We understand that running an MPF scheme involves a lot of administrative work that goes far beyond simple investment management. The MPF System is a savings scheme involving 4.1 million scheme members, more than 9 million accounts and millions of transactions a year, a lot of them being paper based. Its administration costs make up a significant portion of total fees and expenses.

In this regard, one of MPFA’s long-term goals is to standardize, streamline and automate the administration of MPF schemes (tentatively called “eMPF”). We have already conducted a review and developed a preliminary conceptual model of the eMPF infrastructure. We will move ahead in this direction with a view to making scheme administration simpler and less costly.

To achieve good retirement saving outcomes for our scheme members, low fees alone will not be sufficient. It is beyond doubt that the expertise and experience

of the investment fund industry will continue to play an important role in the management of MPF funds.

Over the last few years, the industry has worked with the MPFA in developing and designing the DIS. This is a complex and technical task. In this respect, I wish to express our appreciation of the professional effort and contributions from the investment management industry. I look forward to your continual support in the years to come.

Once again, thank you for inviting me to the ceremony today and let me congratulate all the award recipients for their achievements in the past year, and I wish you a prosperous year ahead.

Thank you.