

Get to know MPF Investment

On MPF Funds and Investment

Is it riskier to invest in equity funds than in bond funds as MPF investment?

Given that the price fluctuations of stocks are on average higher than that of bonds over the long-term perspective, the risks of equity funds are generally higher than other types of funds, including bond funds over a short period of time. However, when interest rate volatility is high or the credit rating of bond issuers is downgraded, bond funds may be as volatile as equity funds.

Why is that I still suffered a loss despite investing in "Growth Funds"?

"Growth Funds" are MPF funds normally with heavy holding of equity in their asset mix. Due to the volatilities of the underlying stocks and markets, "Growth Funds" may exhibit large price fluctuations, and therefore, scheme members may make a gain or suffer a loss in any period of time. In fact, all investments carry a certain degree of risk. As higher potential return comes with a higher risk, the higher the return you expect from a fund, the higher the risk you have to prepare to take.

Why is that the MPF Conservative Fund cannot fully preserve my contribution capital?

The MPF Conservative Fund is a conservative investment investing in low risk Hong Kong Dollar assets, including short-term bank deposits and bonds. Although the risk level of the MPF Conservative Fund is relatively low, it does not mean there is no risk at all. Its performance may be affected by fluctuations of interest rate, its return may not beat inflation, or may even be negative.

On Operation and Procedures

Why have my MPF contributions been invested into a "Default Fund" by the trustee?

When you join an MPF scheme, you have to specify your investment mandate in the MPF scheme application/enrolment form and your trustee will invest your MPF contributions according to your instruction. If you have not specified the investment mandate clearly in the form or have not chosen an investment mandate, your trustee may according to relevant provisions of the trust deed invest your contributions in the "Default Fund".

- The "Default Fund" in each MPF scheme is an MPF fund that is designated by the approved trustees. It can be any type of MPF fund.
- Individual scheme members may consider if the "Default Fund" meets their needs and risk tolerance level.
- Scheme members may refer to the relevant investment education materials such as factors to consider when choosing funds (as one of the six major decision points in the MPF investment journey) provided by the MPFA.

Why does the switching of MPF funds sometimes take more than a week?

The time required to complete a request to switch between constituent funds ("CF") within a scheme may vary with the method of instruction used. In general, the processing time of fund switching through trustees' Interactive Voice Response System and the Internet is shorter than through instructions in paper form.

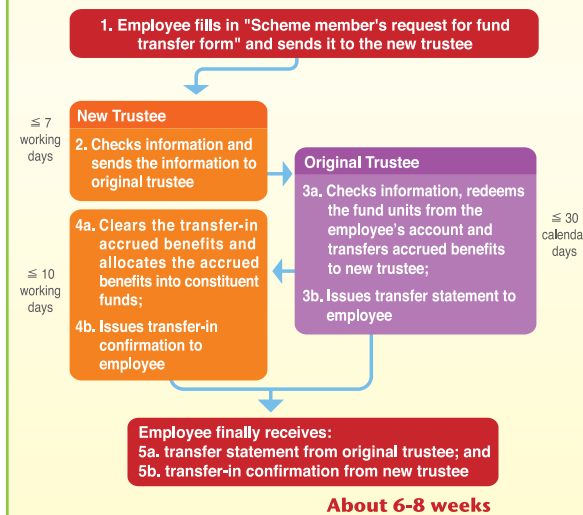
Some CF invest in approved pooled investment funds ("APIF") which are operated by different investment managers. Transactions between CF and APIF are processed on a cleared fund basis. Therefore, it takes time to redeem units from the APIF level to the CF level and re-allocate the subscription from the CF level to the APIF level.

Why does it take so long to complete a transfer request and the transacted price is different from that when I placed the transfer request?

A transfer involves some administrative procedures and both the original and new trustees. After receiving a transfer request, the new trustee needs to verify the information submitted (and open an account for you if you do not have one with it) before sending the information to the original trustee for verification.

The original trustee will verify your information (e.g. notice of termination, if applicable), and redeem the units belonging to you. After that, the original trustee will transfer the accrued benefits redeemed to the new trustee. And the new trustee will buy units in fund(s) as instructed by you. As funds are traded on a "forward pricing" mechanism, both MPF trustees and scheme members are unable to know the trading price when placing a transfer request. Also, as it takes time to complete all necessary administrative procedures before the fund units are traded, the trading price may have gone up or down.

The procedures and process for transfer of accrued benefits are listed as below for easy reference:



- Scheme members should be aware that in the course of the transfer, there will be an "out of market" risk, i.e. the risk that you are unable to take advantage of the favorable market movements, during the period between the time the fund units are redeemed by the original trustee and the time new units are bought by the new trustee.

Why is that the amount of accrued benefits I received is significantly lower than that when I gave the instruction to withdraw my accrued benefits?

It takes time for the trustee to verify your application, including to check the identity of the applicant and relevant documents which prove that the applicant fulfills the condition for withdrawal, and complete administrative procedures before the fund units are redeemed. As funds are traded on a "forward pricing" mechanism, both MPF trustees and scheme members are unable to know the trading price when placing a withdrawal request. Also during the course of time, the market may have gone up or down and therefore, the final price of units redeemed may be higher, or lower, than the time you placed the withdrawal request. There may also be charges upon withdrawals of benefits.

Would my MPF benefits be affected if my trustee goes bankrupt?

No. The assets of the MPF schemes under the trusteeship of the trustee are segregated from the assets of the trustee. Accordingly, in case an MPF trustee goes bankrupt, your assets and those of other scheme members will not be affected.

- All trustees must be approved by the MPFA before they can act as trustees for MPF schemes. For a corporate applicant, the requirements for approval include capital adequacy, financial soundness, fitness and propriety of each controller, adequacy of knowledge and experience of the directors (including independent directors) and the chief executive officer, adequacy of insurance and soundness of internal control measures. Each application for approval as a trustee is examined in detail to ensure that the statutory approval requirements are satisfied.
- The MPFA has strict supervision on MPF trustees to ensure that they are in full compliance with the MPF law and regulations.

On Fund Fees

Will the balance of an MPF account drop to zero if no further contributions are made while management fee is being collected continuously?

Management fee is deducted on a percentage basis rather than a fixed fee, so it is impossible that the account will drop to zero. For the majority of MPF funds, management fees are collected through deduction of the fund assets and will be reflected in the fund price.

- Unit deduction occurs in some of the MPF Conservative Funds and certain classes of MPF funds.

Is there any protection imposed to regulate the charging of fees on MPF Conservative Funds so as to ensure that it will not be eaten up by the fees charged?

The fee charging arrangement of MPF Conservative Funds is different from that of other MPF funds. The trustees calculate a monthly Prescribed Savings Rate ("PSR") based on the average interest rates offered by the three local note-issuing banks for a Hong Kong Dollar savings account. Where the rate of return offered by an MPF Conservative Fund for a particular month is equal or lower than the PSR, the trustee cannot charge any administrative fees. However, if the fund return exceeds the PSR in any month within the next 12 months, the trustee can collect the uncharged administrative fees.

Why has my trustee not been able to provide fees and expenses of the constituent funds in my account?

Generally speaking, there are two payment methods applied in the deduction of fees and expenses, including:

- deducting fees and expenses from the assets of the fund ("Fund Level Deduction"); and
- deducting fees and expenses from the members' accounts by way of units deduction ("Member Level Deduction").

Currently, most of the MPF funds adopt the Fund Level Deduction method for deducting fees and expenses.

- For Fund Level Deduction, administrative expenses (such as investment management fee, trustee fee, scheme administration fee and custodian fee) charging on an annualized rate basis is the major component of the fees of an MPF fund. The exact amount of administrative expenses levied entails complicated calculation, and is based on the net asset value of the fund as a whole. As the expenses are charged by deducting the asset value of the fund and not directly deducted from individual scheme members' accounts, the exact amount payable by you is not available.
- The fees and charges of a constituent fund is calculated as the Fund Expense Ratio and is set out in the Fund Fact Sheet made available for each scheme member twice yearly. It is also available on the "Fee Comparative Platform" on the MPFA website (<http://cplatform.mpf.org.hk>).