



## Consultation on "Providing Better Investment Solutions for MPF Members"

24/06/2014

**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?**

Yes

No

Comments: While we support the objectives in principle, that is to have a standardized investment approach with good value for defaulters, we do not agree with certain areas as proposed in the consultation paper (e.g. the name "core fund", imposition of fee cap).

**Question  
2**

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

Yes

No

Comments: As commented in Q1 above, we do support the idea to have the default option to have better consistency among all schemes. We however disagree that the new default option to be overly prescriptive. Scheme sponsors should continue to have the discretion to structure the new default option in accordance to a consistent approach as set by the MPFA, and to allow the underlying investment managers to construct the portfolios and implement the strategies.

**Question  
3**

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

Yes

No

Comments: We strongly disagree. MPF System was designed to be a privately-run Pillar 2 pension system. Excessive prescription or intervention e.g. standardization or centralization of the system (or part of) is not beneficial to the long term development of the system. It is important to clearly define the objective of the default option e.g. to balance long-term risks and returns, to preserve capital, to outperform inflation etc. Once the objective is clearly defined, together with a consistent approach as set by the MPFA, then it is the Sponsors' responsibility to create the fund(s) accordingly and the Investment Manager(s) to manage with their best capabilities.

**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?**

Yes

No

Comments: In principle, we would support the idea that the default option should reduce risk over time, i.e. following a glide path. However, what shape of the glide path is optimal for HK public remains uncertain, and there is no perfect solution.

The shape of the glide path should address the demography of Hong Kong, which will require input from other Government departments (e.g. Census and Statistic Dept). In addition, the shape of the glide path should be reviewed on a regular but not too frequent basis (e.g. align with the Population Census every 10 years).

At our head office in Munich, we have a specialized unit "risklab" that is dedicated in asset allocation, risk management, and investment strategy. risklab has done and published extensive research work (<http://www.risklab.com/en/meta/publikationen/index.html>) and should you require our input, it is our pleasure to assist.

On a separate note, an inflation hedged strategy with capital preservation as primary objective would be a good alternative. Defaulters by definition are those members who make contribution but do not make investment choice. Capital preservation could well be a key consideration for these members. Indeed the return at retirement might not be as good as other strategies with different risky asset allocation over time, but such strategy would minimize drawdown if a member retires when the market performs poorly.

In addition, such strategy could well be used as post-retirement investment, with low volatility and stable income.

**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?**

Comments: If the default option is a strategy that reduces risk over time, the key is to determine a Central Glide Path, which not only serves as a market benchmark, but also setting the allocation "check points" along the time line (i.e. what allocation % at a certain age). Whether the implementation is via Target Date approach or Life Cycle approach, this should be left to the Scheme Sponsors to design and appoint the appropriate manager to manage accordingly.

**Question  
6:**

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

Yes

No

Comments: We strongly disagree. While we agree that the new Default Arrangement should be good value, the fee cap is too aggressive especially with additional admin/setup expense at inception of the new arrangement. We would suggest making reference to the existing "low fee fund" requirement (i.e. total fee 1.00% and FER 1.30%) and allow a period (e.g. 3 years) to achieve that fee cap target.

**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?**

Yes

No

Comments: See Q6. In addition, should a fee cap is imposed, a fee cap on both Total Fee and FER is redundant and it will create unnecessary admin work. Suggest only capping one of the two, and in that case FER is a preferred choice given this is what the members are indeed bearing.

We would also suggest reviewing the fee structure after a period. The fee disclosure of all CFs in all schemes should be compared on a level playing ground, hence the fee should be disclosed and broken down in full, in order for members to understand what they are bearing.

**Question  
8:**

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

Yes

No

Comments: No. The implementation of strategies and the construction of the portfolios should be left

to the managers.

In addition, if passive/index strategies are deemed at low cost then this is not true. Also passive/index strategies only expose investors to beta but not adding alpha.

<b>Question 9 :</b>	<b>Are there particular asset classes which you think would not appropriately be invested on a passive, index based approach?</b>
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Comments: All asset classes should be allowed to be managed in active or passive approach.

<b>Question 10 :</b>	<b>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?</b>
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Yes

No

Your preference:

"MPF Core Fund" (having regard to its use as a core investment approach for retirement savings)

"MPF Basic Investment Fund" (emphasizing its design as a basic investment approach for retirement savings)

"MPF Simple Investment Fund" (emphasizing its design as a simple investment process for retirement savings)

"MPF Default Investment Fund" (reinforcing that its primary design is built around the default investment strategy for those who do not, or do not want to make an investment choice in saving for retirement)

"MPF "A" Investment Fund" (or some other term which removes any implications about the nature of the strategy)

Comments: We agree that the name of the new Default Arrangement should be standardized across schemes, but none of the above suggestions is appropriate. Given the strategy is one that reduces risk over time, there will be more than one default fund within a scheme, hence the word "Fund" is not appropriate. The word "Core" is misleading and will easily be misinterpreted as a "must have" allocation. We therefore propose "XYZ Default Option/Arrangement" with "XYZ" denotes the scheme's name in abbreviation.

On a separate note, if the default option is an inflation hedge strategy (with capital preservation and stable income as objectives) then one fund would suffice, and in that case we would propose as "XYZ Default Fund".

**Question  
11 :**

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

Yes

No

Comments: We support the general principle for dealing with implementation and transitional issues as set out in para.78 and 79. The transition from old to new default option will allow relatively good scale for the new default option to start with.

However, the MPFA should also consider the risk and impact on those members who stay in the old (original) default fund. With a significant outflow (transfer) to the new option, the original fund will shrink in size and hence FER will increase, which will be borne by the members who stay.

In addition, a significant outflow from the original fund on a single day (i.e. inception date of the new option) will have investment impact on the old fund, depends on what type the old fund is. For example, a Conservative Fund / HKD MMF will need to break the term deposit contracts, a Lifestyle Fund will need to sell down equity and bond positions to facilitate the transfer, and a Guaranteed Fund will break the guarantee condition for those defaulters who transfer out to the new option.

**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?**

Yes

No

Comments: See Q11.

**Information:**

Name (optional):

Email Address (optional):

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Please tick the box if you are submitting views on behalf of an organization and provide the name of your organization.

Name of the organization: **Allianz Global Investors**

By submitting the form above, you acknowledge that you have read, understood and agreed to the Personal Information Collection Statement and the Privacy Policy Statement.

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