

Form for Responding to Consultation Questions

Q1. Do you support the direction of introducing a core fund in the manner set out in paragraph 36 (a) to (d) above?

Yes

Comments: The current proposal envisages the introduction of multiple new funds from each MPF provider, which will serve to provide greater proliferation of funds and confusion on choices.

It is better to have a "centralized" series of core funds that all providers can access. This can be established by the MPFA, with investment advice from third party actuarial firms such as Towers Watson or Mercers, and investment management from the HK Monetary Authority. Provided these funds are established with sufficient independence from existing providers of MPF products, I believe they would gain wide and positive acceptance from Members of MPF schemes. There is however a great danger that "core funds" get mistaken for "lifestyle" or "target date" funds. Greater clarity on the impact of the differences of these is needed.

Q2. Do you agree that the CF that is the default fund should be substantially the same in all MPF schemes?

No

Comments: Having identical funds available for all 20 schemes is pointless. It is better to have a single centralized fund series able to be accessed by all schemes.

Q3. Do you agree that it is appropriate that the core fund be based on a standardized default fund?

Yes

Comments: Subject to the answers above, and also there needs to be concern expressed that the core fund, in becoming a default fund also, does not become the ONLY fund used. Much greater clarity on the differences in fund choices will be needed.

Q4. 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?

No

Comments: There are a number of different ways to achieve this, e.g. "glide path", "auto-redirection", etc. It is very likely however, that these will not prove suitable to most users. The reason being, that with ever changing investment market conditions, it is inevitable that on occasions, switching to "de-risk" (e.g. reduce equities, increase bonds and fixed income, etc.) a portfolio will occur at a time that is unfavourable to the direction of switching, i.e. when equity prices are rising and/or bonds are falling.

The most appropriate core fund/default fund, is one that adopts a standard set of investment guidelines, with a balance between equities, bonds and fixed income, and cash deposits, aiming to provide a low, but above inflation average return over multiple time periods. It should not aim to cater for impending

retirement given the very wide spread of ages of those members of MPF schemes likely to buy into the fund.

The investment approach of one MPF Member may be entirely different from another of the same age, depending on whether it is intended to use the resulting accumulated fund to produce income in retirement or for other purposes. It may also be different depending on the level of experience of individual investors. There is no "one-size-fits-all" approach able to be taken in this area.

Q5. 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?

Yes

Comments: The content of paragraph 48 adequately demonstrates why it is inappropriate to follow this route! There are too many complexities, and variables that need to be covered, and if it is expected that EACH MPF provider is required to adopt a similar series or range of funds, this will serve only to add to the proliferation of fund choices and the confusion of scheme members, who are already unfamiliar with most of the technicalities of MPF products.

It may also be very dependent on whether it is required that all product providers are required to establish such funds, or whether there is an "opt out clause" of some sort. Design differences in funds with a similar investment objective, are very limited. Usually the most likely difference is on the level of fee charged and the resulting Total Expense Ratio. Investment options might vary from direct investment into securities or use of a fund of funds or fund of ETFs approach. Ultimately, it is not in the best interests of developing the MPF industry to compel all providers to adopt an identical approach.

Q6. Do you agree that keeping total fee impact for the core fund at or under 0.75% is a reasonable initial approach?

No

Comments: Fees that are enforced to be below economic levels, especially in the early days of fund establishment, can be very damaging to the development of a competitive industry, as it tends to mean fewer participants. Only when funds reach sufficient size can lower fees be adopted. The preference therefore is that a scale for fees be adopted somewhat similar to the following:

Below HK\$1bn - no fee restriction

HK\$1bn – HK\$5bn – say 1%

HK\$5bn+ - say 0.75%

This could work best if the reduced fee levels were to be applicable to the excess over the AUM threshold of each fund, rather than to the fund as a whole.

Q7. 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?

No

Comments: As for Q6 above, enforcement of lower fees has the opposite effect on creating a competitive industry due to fewer participants being willing to partake of the business. Adopting a scale of fees, based on size of Assets Under Management (AUM) of each fund, makes more sense as it then enables economies of scale in a larger fund to benefit the investor.

Q8. Do you agree that passive, index-based, investment strategies should be the predominant investment approach in the MPF core fund?

Yes

Comments: Development of a series of fund of ETFs (in particular) for the MPF would certainly be an advantage, however, there are few existing stand-alone ETFs or Index Funds currently available to the MPF and product providers, that would meet the criteria for a core fund. A portfolio of them can be created, but this would then require additional levels of management activity to redirect, or vary allocation over time, for which an additional fee would need to be charged. The MPFA could work with an index provider such as FTSE to develop a dedicated HK Retirement Fund Index, which if using investible assets would enable ETFs and/or Index Funds to be created.

Account would also need to be taken of the HK SFCs requirements for authorizing such funds, and for the HKEx requirements for allowing such funds to be listed on the HK Stock Exchange. This can tend to give preferential treatment to index funds rather than ETFs, however there are many conflicting factors involved.

Q9. Are there particular asset classes which you think would not appropriately be invested on a passive, index based approach?

Yes

Property – It is too illiquid for use in retirement schemes.

Q10. 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 above?

Yes

Your preference: Either of:

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

Comments: As the clear preference of this response is for there to be "centralized core funds" maybe established as a series of funds, with access provided to all MPF providers and their schemes, having simple names of funds that don't get replicated by other funds from other providers will ease the administration in future.

Q11. Do you agree with the general principle for dealing with implementation and transitional issues as set out in paragraphs 78 and 79?

Yes

Comments: Prior notice will need to be given to members affected by this arrangement, but it also needs to be made clear that once this occurs, they can at a later date, choose to switch to others funds should they choose. It is also the case that MPF schemes should be allowed to make switches between the range of fund choices in a scheme, more frequently than is generally currently offered. This applies to both fund switches and Employee Choice Arrangements.

Q12. Do you agree with the proposal in paragraph 81 as to how to deal with the transition for existing members of default funds?

Yes

Comments: None.

Information of Respondent

Name: Stewart Aldcroft

Organisation: Cititrust Limited

Address: 39th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong

Telephone: