Name of respondent / 回應者名稱: MPF Ratings Limited

Q1: Yes / 支持

Q1 Comment / 意見: MPF Ratings believe that a standardized core fund should be in the long term interest of members. Approximately 30% of schemes currently use a conservative fund as their default. Over the long term this erodes real wealth to the detriment of members. MPF Ratings supports initiatives that balance out long term objectives with risk. MPF Ratings also focuses its views on the concept of value for money. There are schemes already, such as Schroders and Fidelity who already use some sort of life-cycle and age adjustment. By introducing fee caps, one effectively penalises innovation and also does not allow the market to dictate fees. We would prefer to see full transparency on fees rather than fee cap of 0.75% and the FER cap of 1% under point (d).

Q2: No / 不同意

Q2 Comment / 意見: In MPF Ratings'view, a default fund should balance out risk with long term returns. The industry, just like markets, evolves over time. By mandating substantially similar default funds, one risks capping innovation. MPF Ratings understands the logic put forward by the MPFA to have a similar default fund, that is to minimize the potential impact to the members' accrued benefits (from both employers and members' contributions), given the current mechanism that employers can enrol their employees into different schemes.

Q3: No / 否

Q3 Comment / 意見: Please refer to question 2

Q4: Yes / 同意

Q4 Comment / 意見: This is not necessarily a simple yes/no response. Doubtless, as members approach retirement age, they should consider reducing risk, but bear in mind, living ages are now increasing too, so education is as important, so too is seeking professional advice as each member's needs are different. At least a dozen schemes offered their Conservative (Money Market) Fund as the default. While Conservative Funds may appear to be the "least risky" option, for the average MPF Scheme member (who has 25 years to retire), it would appear to have the "highest risk" of failing to achieve a member's retirement objectives.

MPF Ratings agrees 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, but this is not the only approach that should be considered. Noting paragraph one, both a series of target date funds that adjust risk in each target date CF over time, or a life cycle approach that varies the member's holdings of different CFs over time, can cater for various risk profiles of members at different ages.

Q5 Comment / 意見: (a) MPF Ratings believe as long as both investment strategies balance long-term risks and returns, it should matter less whether the default fund should be a series of target date CFs (that adjust risk in each target date CF over time), or a life cycle approach (that varies the member's holdings of different CFs over time). Education and advice is equally important as member needs vary from person to person.
(b) The two age cohorts commonly used for target date CFs in other countries are 10 year brackets and 5 year brackets. Volatility is only smoothed out through time. We would suggest closer to ten years would make more sense than five years.
(c) The default fund should be truly multi-asset. Unfortunately legislation presently constrains the available asset classes. Yes, adding more asset classes can be more complex, it may be more costly, however, one needs to look at overall risk adjusted performance, net of fees. By simply dictating a market cap, members will miss the opportunity to be truly diversified. Put another way, capping fees, might lower costs, but may not provide the best outcomes for members.
(d) Passive should be introduced where markets are most efficient and therefore alpha generation is more difficult. In those markets, fees become more sensitive. Again, by simply capping fees, the opportunity to invest in less efficient markets that have greater change of alpha generation is missed.
(e) De-risking should not be focussed on age solely, but on asset valuations.
(f) See previous comments. Every members' needs are different and people are living longer. There is still a good chance that a 65 year old still has 20 years to live. Education and advice is important.
(g) While the main framework of default fund should be regulated and framed, MPF Ratings believes innovation is important for the industry to continue to flourish.

Q6: No / 不同意
Q6 Comment / 意見: In MPF Ratings' views, low fees do not translate to a better investment outcome or quality scheme.
In MPF Ratings' 2014 annual ratings assessment, for "Fees and Charges" category, out of the 9 gold-rated schemes, only 3 schemes were in top quartile. 5 schemes were in 2nd quartile, and 1 scheme was in 3rd quartile. For "Investment" (which MPF Ratings looked at both absolute and risk-adjusted performance), 6 schemes were in top quartile and the other 3 schemes were in 2nd quartile. All the 9 schemes are either in top or 2nd quartile in terms of qualitative assessments (covering governance and transparency, administration services to member and employers, education, advice and user of technology).
MPF Ratings has a clear focus on "Value for Money". A scheme should be well balanced across various criteria, of which fees are just one of the components.
Low fees may also affect the quality of services that schemes are currently delivering to employers and members. MPF Ratings would prefer to see market forces dictate fees, but transparency of fees is the key.
Besides, the fee cap also indirectly "penalises" schemes that offer age dependent funds as their default. These schemes have shown innovation when the overall market has been reluctant to

do so. They are potentially going to be "penalised" by having to recreate something but with lower costs.
The "Core" default fund may direct a lion's share of MPF money in the future. This diversion of money, coupled with the fee cap could stifle product innovation even further. Fee cap will mean schemes will price around the cap and offers little incentive for active management, which ultimately adds incremental value for members.

Q7: No / 不同意
Q7 Comment / 意見: See response to question 6

Q8: No / 不同意
Q8 Comment / 意見: Passively-managed funds generally incur lower management fees and fund expense ratios than actively-managed funds. Given the fee cap of 0.75% on all ongoing fees (for trustees, administration and distribution, investment management and custody) both at the constituent fund level and at any underlying APIF or index fund level, and the FER cap of 1%, passive investment strategies appear to be the most cost efficient way to run the core fund. However, as mentioned under question 6, low fees do not translate to a better investment outcome or quality scheme. Low fees may also affect the quality of services that schemes are currently delivering to employers and members. MPF Ratings would prefer to see market forces dictate fees, but transparency of fees is the key.

Q9 Comment / 意見: See response to question 5 (d)

Q10: Yes / 同意
Q10 Comment / 意見: No further comments from MPF Ratings.
Q10 Preference / 較可取的名稱: 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)

Q11: Yes / 同意
Q11 Comment / 意見: No further comments from MPF Ratings.

Q12: Yes / 同意
Q12 Comment / 意見: No further comments from MPF Ratings.