

Name of respondent / 回應者名稱: Margaret Law

Name of organization / 機構名稱: Northern Trust

Q1: Yes / 支持

Q1 Comment / 意見: -

Q2: Yes / 同意

Q2 Comment / 意見: We have seen instances where the default fund can have different asset allocation and implementation strategies (active versus index management). This is usually when schemes have differences such as member demographics, risk appetite, member benefits, etc. These differences are more prevalent when companies set up schemes specific for their own staff. However, in the case of MPF where master trust schemes are subscribed by various companies, then we agree that having a default fund substantially the same across the MPF schemes would make sense.

Q3: Yes / 是

Q3 Comment / 意見: Please refer to our response in Question 2 above.

Q4: No / 不同意

Q4 Comment / 意見: We agree that investment allocation should automatically change as participants in the fund age. However, age 65 may be too short a time horizon. More recently, we are seeing target date funds change the target to accommodate 'through retirement', instead of 'to retirement'. If age 65 is standard retirement, the final allocation target should be hit 8-10 years later.

Q5 Comment / 意見: In our experience, having a series of target date funds of 5 year vintages, allows for effective administration while still achieving allocation and risk variances between vintages. By selecting specific asset classes and providing the components from which individual product providers can invest and select their own asset allocation, this allows for similar assets across schemes but with the flexibility in constructing the weighting of the assets amongst the schemes. This also allows for scalable investment components used to establish each scheme's core fund.

De-risking can start well before retirement, but should not finish until 8-10 years past 65. As such, the fund should maintain at least some equity exposure in the terminal profile. Individual providers should differentiate themselves, drive ways to increase return, reduce costs or both.

Q6: Yes / 同意

Q6 Comment / 意見: In the US, there has been a focus to provide fee transparency to the scheme's participants. As a result, costs with the scheme have been driven down. In the UK,

recent regulations have capped the fees within a scheme to 0.75%. In both cases the investment management approach has shifted to more passive to keep the fees lower.

However, we would also like to note that specific to HK, the average Fund Expense Ratio (FER) of 1.74% is made up of investment management fees of 0.59%, administration fees of 0.75% and scheme sponsor charge, trustee profit, member rebates and other expenses totalling 0.4% in accordance with the "Study of Administrative Costs in the Hong Kong Mandatory Provident Fund System" (Cost Study) published in 2012. Administration cost alone has made up 43% of the total TER. Although the use of passive approach in the core fund may lower the investment management fee, the reduction in investment management fee alone is not sufficient to push down the total fee to or under 0.75%. The reduction in the total impact must be accompanied with the reduction in the administrative and trustee fees as well.

Q7: Yes / 同意

Q7 Comment / 意見: We agree that it is reasonable to keep the total expense impact for the core fund at or lower than 1% over the medium term. This reduction in fees should come from both administrative, investment management and trustee fees. According to an Australian study conducted by Grattan Institute, the median expense ratio for the OECD countries is only around 0.40% in 2012.

Q8: Yes / 同意

Q8 Comment / 意見: The reason index management makes a lot of sense is that it provides a cost and risk efficient solution for the member who does not have the time or expertise to make their own investment selections. Using index managed solutions provides market exposure at a very low cost.

A study undertaken by Eugene Fama and Kenneth French entitled Luck Versus Skill in the Cross-Section of Mutual Fund Returns; only top 16% of active manager would be skilled enough to generate 1.25% or greater out-performance over the long run before fees. The out-performance is attributable to risk rather than skills. This can be achieved by simply investing in some value and momentum strategy index funds which are "cheap and widely available". This is not limited to the market cap index strategies, but also other passive strategies such as fundamentally weighted indices, GDP weighted indices, and risk weighted indices strategies which provide investor different exposures in the equities market in a cheaper way.

At Northern Trust, we believe in the passive approach and the majority of our DC products are passive U.S. Collective funds or fund of funds. In US, we offer standalone index DC funds and multi asset class funds such as Target Date Retirement Funds, Strategic Allocation Fund, and Real Asset Fund. In EMEA and APAC, our UCITS range of index funds is available to the DC scheme members.

According to the Callan's 2014 Defined Contribution Trends survey, it stated the target date funds comprise about 73% of default investment options for "non-participant directed monies." It also found that more than two-thirds (71%) of plans offer target date funds with some amount of passive management in the underlying fund allocation. Lower fees are one reason plan sponsors favor indexing in target date funds.

Q9 Comment / 意見: There are certain asset classes like short term fixed income and high yield fixed income where the markets make it difficult to manage passively.

Q10: Yes / 同意

Q10 Comment / 意見: To the extent the fund is the same across schemes it makes sense to have the same name - something like "MPF Retirement 20XX Fund" (states that is for retirement at a specific time). Ideally if members could understand from the name that it is an all-in-one investment option designed to help them prepare for retirement and that they do not have to invest in more than one fund.

Q10 Preference / 較可取的名稱: -

Q11: Yes / 同意

Q11 Comment / 意見: We agree with the approach of re-enrollment, where all participants are subject to being mapped to an age appropriate default/target date unless they actively re-acknowledge their alternate choice. This includes anybody who made a previous election.

Q12: Yes / 同意

Q12 Comment / 意見: -