Subject: Comment on MPF Core Fund
From: [illegible] to: mpfinvest 10/01/2014 02:09 AM

Dear Sirs

I have much pleasure in submitting my comments on the Consultation Paper on the Core Fund.

Q1. YES
It is not enough just to have a Core Fund which should set the norm in the market and is the one to beat on performance, not only as to net return and absolute fees. MPFA should monitor the market to ensure that there is genuine competition which will only happen if there is an outsider wanting to break in and capture market share. I have worked on the fees and 0.75% should be the gold standard for good steady returns.

Chart 3. It would be helpful if Target Date Fund returns could be split between those which cater to young/high risk tolerance and mature/low risk tolerance.
In paragraph 24, are you saying that some providers are using bad schemes – then it is up to MPFA to pressure those to close down or change to better ones.
Paragraph 25, I question whether the survey is accurate because those who did not make a choice are unlikely to respond.
Paragraph 26. There is probably too much choice at the moment and choice means duplication and that increases total cost.
Paragraph 28. Professionals like me charge far too much to advise individuals as amounts involved are too small. Better for providers/employers to spend their resources on professionals to advice their employees generally or get those professionals working on the schemes like the old ORSO schemes. I still think that the old ORSO schemes gave the best value for money.

Q2. No
The principles behind a Core Fund should be the same for all providers and that should be the ability of the member to accept risk of investment over his working life. The present lump sum on retirement should be modified so that the retirement lump sum (which will become more and more substantial) can become a meaningful income stream to supplement his retirement. One Core Fund will not suit everybody.

Q3. No
If it is too standard, then there will be no competition or improvement or innovation.

Q4. Yes
The "standardized default fund" should have regard to the risk appetite of the member and there must be provision to provide some income during retirement out of that lump sum. I think that the appropriate age bands are 20-40, 41-50, 51-55. Thereafter cater for retirement income.

Q5.
I suggest that there should be an Advisory Committee which is obliged to report every 3 years on the latest developments in the market so best practice can become the norm and it can also report on ad hoc basis if needed.

Q6. Yes
I have done substantial work a few years ago trying to set up a new low cost provider and then

0.75% was my target and every indication was that it was reachable using index funds and third party providers. The downside was the need to find HK$150M capital. The only way to keep the incumbents honest was to have genuine competition which only comes about wen an outsider tries to break in and capture market share.

Q7. No
There is little scope to drive down total expenses when a great deal of it is driven by compliance mandated by MPFA. One way for MPFA to understand those drivers is for MPFA to own and run a provider and so can tell me why in table 1, a Money Market Fund – Conservative Average FER is so much lower than the non-Market one. I would respectfully ask that MPFA review its own requirements and work with the providers to see whether current practice really yields value.

Q8. Yes
In paragraph 70, I agree that passive investment strategies combined with lean and mean services are likely to win out in the long term but I am against mandating it. Some members will always believe that highly proprietary high cost funds will be better for him. So full disclosure against the gold standard is the only remedy here.

Q9.
I generally agree that competition in a free market will win the day when set against the gold standard as described by bets practice.

Q10. Yes
I do not regard any of the examples as adequate because their acronyms do not have a good ring to it. Need something along the lines of SMART.

Q11. No
I agree that new amounts should be invested in the new core fund, but I am not persuaded that past contributions must be made to switch over without the agreement of both the employer and employee.

Q12. No
If a member is in the last years before retirement (say after he is 60) I am not convinced that it really helps to force him to convert.

I will be happy to discuss any of my comments at length and I have no objection to using my name.

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