Name of respondent / 回應者名稱: -

Q1: Yes / 支持

Q1 Comment / 意見: Standardization of the core fund across the MPF schemes has its benefits, however, we believe some flexibility should also be allowed in the design of the core fund in each scheme. For example, we would welcome standardization in terms of de-risking glide path, fee cap, asset class involved, but other aspects like the specific APIFs/ITCISs used, whether there may be some added features of return enhancement or volatility limitation should be allowed to vary across schemes, in order to leave some room for competition and product innovation.

We agree that the core fund should be made available to all MPF scheme members to choose from by choice or by default. However, whilst we don't disagree that low fee is an important feature for the core fund, we must take into consideration the fees of underlying investments as well as the costs of running such a product to realistically set such an aggregate fee cap.

Lastly, we have reservations in presenting the core fund as 'good value', because generally the public view value as represented by cost as well as the expected return profile. While the former can be made certain, the latter would forever be uncertain. As such, presenting the core fund as a product of 'good value' may make members confuse over the second aspect regarding return.

Q2: Yes / 同意

Q2 Comment / 意見: As mentioned in our comments to Q1, we agree that the core fund of each scheme should have similar portfolio structure, made up of substantially similar building blocks and following a preset de-risking glide path. However, flexibility in the choice of underlying funds and aspects of enhancing the risk/return profile should be allowed to encourage innovation and competition between schemes.

Q3: Yes / 是

Q3 Comment / 意見: One caveat is that as there is a variety of default funds across different MPF schemes at the moment, the transitional arrangement for the existing clients who are currently investing and have their contributions in these default funds would need to be very careful in order to avoid complaint and potential legal issues.

Q4: Yes / 同意

Q4 Comment / 意見: We agree with an automatic system of de-risking via varying the asset mix between equity and bonds as the members get closer to the retirement age.

A more sophisticated approach is to build a target volatility glide path into such de-risking model, e.g. the expected volatility at each 'step-down' age is calculated at spot to determine the appropriate equity/bond portion at the time. However, this approach may involve more system building in advance, which could imply more costs, and also lead to less standardization of results.

Q5 Comment / 意見: (a) The target date approach is not preferred because a new target date fund would need to be created regularly and hence economies of scale is harder to be achieved, whereas economies of scale should be more easily achieved for the life cycle approach, which technologically is also not difficult to be adopted. Another benefit is that the life cycle approach is customized for each individual member;

(b) n/a

(c) The initial building blocks should include global equity, global bond, money market, and possibly some home bias elements (such as Hong Kong or Greater China equities);

(d) As a rule of thumb, more developed markets with good liquidity may be more appropriately managed in a passive manner as inefficiencies and displacement happen relatively less, thus more difficult to extract alpha from such markets;

(e) Our view is to take a more conservative line on this: let the de-risking start at 50;

(f) 20% in equity at age 65 as we agree that some equity portion should be retained at a member's retirement;

(g) As mentioned in our comments to Q1, aspects such as the specific APIFs to be used, or whether there may be some added features of return enhancement or volatility limitation, should be allowed to vary across schemes, in order to leave some room for competition and product innovation.

Q6: No / 不同意

Q6 Comment / 意見: We agree with the direction of setting a fee cap. However, at the beginning stage of the core fund, we would argue that the management fee should be set as 1%, which would be consistent with the current fee level of the 'low fee fund list' on the MPFA website. We believe this is a more reasonable approach at least at the beginning stage of the core fund initiative. Setting the management fee at or under 0.75% would have huge ramifications on the business of being a scheme provider in the HK market, especially under the current increasing stringent regulatory environment and the various fixed costs that were only able to come down very gradually. A more reasonable approach is for the management fee to be reduced gradually after the core fund is adopted.

Q7: No / 不同意

Q7 Comment / 意見: At the beginning stage of the core fund, we believe a FER set at 1.3% would be more reasonable, given the one time set up cost and the initial scale. Also, 1.30% is currently the FER level for most 'low fee' funds in the HK MPF space. A more reasonable approach is for the FER figure to be reduced gradually after the core fund is adopted.

Q8: No / 不同意

Q8 Comment / 意見: Our view is that this decision should be left to each MPF scheme, in order to encourage innovation and competition between schemes. While a passive investment approach would mean a lower investment management fee, an active approach may be able to bring along a better expected risk/return profile and hence improve the value of such a core fund. As such, some balance between both approaches may be the best for the members.

Q9 Comment / 意見: Our view is that if the liquidity or trading volume of some asset classes is very thin, it may mean that there would be a huge bid/ask spread for the ETF concerned and that the FER of operating such ETFs may be high.

Q10: Yes / 同意
Q10 Comment / 意見: We prefer the name "MPF Default Investment Fund", given that this retains the meaning of the origin of this fund.
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: No / 不同意
Q11 Comment / 意見: Agree with paragraph 78 that all members should be offered a choice to reselect and the accrued benefits and future contributions of members who have made a clear fund choice in the past should not be affected by the core fund.

Disagree with paragraph 79 for the following reasons:
i) many of the scheme providers have shown concerns that they cannot identify the members who were 'truly' defaulted in the default fund;
ii) we should fully respect those members who intended to invest into the existing default fund because of its features;
iii) for the 'true' defaulters, they may be satisfied with the current default options and may find them suitable based on their needs;

Thus moving all members' assets from the existing default fund to the core fund (even at the end of a noticing period) will cause issues. In principle, we believe that all members should be notified of the core fund arrangement, but should not be forced into fund switching if no actions are taken within the notice period. Rather, their assets should only be moved into the core fund should they give their consents.

Q12: No / 不同意
Q12 Comment / 意見: As mentioned in our response to Q11, we do not agree with moving existing member's accrued benefits and future contributions, which are in the existing default funds, into the core fund if they do not make an active choice within the notice period. We believe their assets should only be moved into the core fund should they give their consents.

[illegible] our general opinion is that relying on negative confirmation on such important decisions could generate a lot of complaints and potential litigation, and may not be in the best interest of the members.

Apart from the reasons that we gave in our response to Q11, which make the issue of such transfer complicated, the root cause is that the nature of the existing default funds differs greatly across each scheme provider, which means the risk profile between the existing default option and the new core fund could differ greatly.