Name of respondent / 回應者名稱: -

Q1: No / 不支持

Q1 Comment / 意見: While I do agree with most of the principles as set out in the Consultation Paper, there are various areas that I personally do not agree. In my humble opinion, it is important to first define the role of the Default Fund and what MPFA is trying to achieve with it. To me, a Default Fund is for the defaulters who do not make investment choice but their contribution remains mandaroty, hence I would suggest the objectives being (i) capital preservation, and (ii) stable income generation, rather than forcing defaulters to invest in risky asset (higher allocation when young) and reduce risk over time. An inflation hedge strategy could achieve (i) and (ii) despite it might deliver relatively lower return than an asset allocation strategy (with risk reduction over time), yet it would largely avoid any severe damage in case of any tail risk event at/near retirement age.

Q2: Yes / 同意

Q2 Comment / 意見: Personally I would agree that the default fund should be substantially the same in all schemes. This "consistency" should include: (i) investment strategy, (ii) fee structure, (iii) reporting requirements. Again, an inflation hedge strategy could better achieve this consistency across all schemes as this only requires one CF per scheme. Different schemes will have different managers to construct such strategy, and hence certain divergence of risk-adjusted return profile would remain, but that also create certain level of competition among all default fund managers, while keeping MPF system as a privately run Pillar 2 as it was originally designed (i.e. no centralization and no government involvement in fund and admin management).

Q3: Yes / 是

Q3 Comment / 意見: Further on Q2 above, centralization of default fund is a good way (and arguably the only way) to achieve economy of scale. If the centralized default fund also adopt the inflation hedge strategy, that means the system only require one single CF (and even with Target Date or Life Cycle approach, the number of Default CFs would be a lot less than separately managed by each scheme).

Q4: No / 不同意

Q4 Comment / 意見: As commented in previous questions, an inflation hedge strategy could be a good alternate invesmtent option. The said strategy still allocates to risky asset (equity) and is benchmark agnostic; its return would be higher in upward trending equity market (via higher allocation to equity) and it would become defensive in downward trending equity market (via lower allocation to equity). Stock selection should at all time focus on dividend as a theme, and bond management should be flexible in duration management but also focus on yield enhancement.

Tail rish event will still happen, and that will still hurt the said strategy (unless the manager is smart and bold enough to reallocate to very high cash level in a timely manner). The MPFA should consider allowing the use of derivative the risk management, in particular equity and bond index futures, or even options (for covered call positions).

Q5 Comment / 意見: More research work is required in order to compare the inflation hedge strategy vs risk reducing over time strategy. While the former might achieve a lower return than the latter strategy, it for sure would largely reduce the volatility along the time. I used an analogy before: going to work from Taikooshing to Central, one can drive along Eastern Corridor or take a tram. Driving might be faster but risk of traffic and accident along the way, whereas taking a tram is slow pace but stead speed.

Q6: No / 不同意
Q6 Comment / 意見: It should be lower. Setting a fee cap at 75bp will turn out to be a fee floor, i.e. even if there is room for further reduction, the scheme will not reduce to lower than 75bp.

In addition, if the new default fund adopts a centralized approach, that would create real economy of scale, and there should be more room for fee reduction.

Also members are bearing the FER, not only the total fee, hence capping total fee alone or both is not practical. Fee cap should be on FER, which is what members are bearing.

Q7: No / 不同意
Q7 Comment / 意見: This should be a near term (my view: 1yr) approach, not medium term (my view: 3yrs). If the new default fund is centralized, this could even be an immediate approach at inception.

Q8: No / 不同意
Q8 Comment / 意見: Diagree. Passive and/or index based strategies are not cheap, and on the other hand active strategies can be prized at relatively low fee especially if there is real scale (e.g. centralization).

Also it is important to point out that, passive/index strategies only give you beta, and net of fee will mean underperformance at all time.

The larger part of the FER is admin as well as sponsor's fee (and rebate). As per E&Y report in 2012, fund manager's fee is approximately 1/3 of the current average FER (and I am sure there is room for reduction as well).

Q9 Comment / 意見: All asset classes should be open for both active and passive/index approaches.

Q10: No / 不同意
Q10 Comment / 意見: First and foremost, drop the word "Core". Default is for defaulters and let it stay as "Default".

If it is a Target Date approach that requires multiple CFs, then it is not "Fund" but maybe "Arrangement/Option".

If it is a strategy that only requires one CF (e.g. inflation hedge), then keep it simple as "XYZ Default Fund", and XYZ denotes the scheme name in abbreviation.

If it is centralized, then simply "MPF Default Fund/Approach/Option".
Q10 Preference / 較可取的名稱: -

Q11: Yes / 同意
Q11 Comment / 意見: Agree.

However, the MPFA should also consider the risk and impact on those members who stay in the old (original) default fund. With a significant outflow (transfer) to the new option, the original fund will shrink in size and hence FER will increase, which will be borne by the members who stay.

In addition, a significant outflow from the original fund on a single day (i.e. inception date of the new option) will have investment impact on the old fund, depends on what type the old fund is. For example, a Conservative Fund / HKD MMF will need to break the term deposit contracts, a Lifestyle Fund will need to sell down equity and bond positions to facilitate the transfer, and a Guaranteed Fund will break the guarantee condition for those defaulters who transfer out to the new option.

Q12: Yes / 同意
Q12 Comment / 意見: See Q11.

Additional comments (no such box for input):
I do not see why one sponsor would need more than one scheme. This duplicates all the set up cost and does not achieve good scale.