STATE STREET GLOBAL ADVISORS

10 SEPTEMBER 2014

# Responding to MPFA Consultation Questions – Providing Better Investment Solutions for MPF Members Consultation Paper

## INFORMATION OF RESPONDENT


NAME: **MS. TING LI, CFA, FRM**
TITLE: **SENIOR MANAGING DIRECTOR AND HEAD OF ASIA EX-JAPAN**
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### Q1. Do you support the direction of introducing a core fund in the manner set out in paragraph 36 (a) to (d) above?

☑ Yes ☐ No

**Comments:**

We support the direction of introducing a core fund as set out in paragraph 36 (a) to (b). With the goal to ensure that all MPF scheme members have access to a standardized low-fee core fund that is designed in a manner consistent with the overall objective of retirement savings, we are of the view that a **single common default fund** for all MPF schemes would be in the best interest of MPF scheme members in the long run. Such a fund should use **low cost passively managed vehicles as underlying investments**, and a **mechanical glide path asset allocation design based on target retirement age** as key features. The single default fund in the form of **target date funds** would effectively build up size and scale warranting lower overall costs to the investors while serving the main purpose of the MPFA core fund proposal.

The importance of investing for retirement cannot be underestimated. Globally, SSgA has been solving retirement-related investment problems and risks faced by today's retirement plan participants: **cost management**, **asset allocation**, **inflation** and the **challenge of delivering retirement income** to participants. To date in Hong Kong, we have been working with **10 MPF sponsors** either as **investment manager** and/or as **ITCIS provider** for their existing **low cost CFs which use passively managed ETFs** as underlying vehicles.

There are key issues related to default retirement funds, which we can address due to our experience and expertise, thereby

- **Broad diversification:** Through our investment capabilities, participants have access to strategies that cover the full range of asset classes and span the entire risk spectrum.
- **Low cost and lower risk:** Because investment costs strongly influence long-term outcomes, lower cost indexing strategies are rapidly gaining ground as a way to help participants get more from their investment dollars.
- **Investment discipline:** Our investment strategies are backed by rigorous research—both practical and academic – and supported by risk management capabilities and global operating platform, which afford effective investment strategies, trading liquidity and minimized costs.

Our retirement-related investment philosophy is geared toward improving retirement outcomes for participants. That is true whether we are delivering effective vehicles like target date funds or minimizing investment costs through efficient low-cost index solutions.

SSgA

### Q2. Do you agree that the CF that is the default fund should be substantially the same in all MPF schemes?

☑ Yes ☐ No

**Comments:**

In light of the goal to ensure all MPF scheme members have access to a standardized low-fee core fund that is designed in a manner consistent with the overall objective of retirement savings, we believe that the **CF that is the default fund should be identical in all MPF schemes**. As such, a **single common default fund** for all MPF schemes would be in the best interest of MPF scheme members in the long run from a cost perspective. While the demographic investor profile may vary somewhat, the proposed default fund should be sufficiently universal to accommodate the diversity.

Simplification is an emerging trend among DC plans globally. That includes **minimizing the investment line-up** to reduce costs and **seeking lower cost index funds** – fund expenses investors face are not only certain and quite stable, but also have a significant and long-term impact on the final investment outcome. In the default fund context, although it is virtually impossible to tailor investment portfolios to each individual member's investing profile and needs, the underlying investment principles and objectives of retirement savings should largely be universal to all MPF members. Hence, the default fund CFs should not vary across different MPF schemes. This provides the best possible simplicity and transparency to all MPF members that the default fund CFs are simply the same in all MPF schemes.

### Q3. Do you agree that it is appropriate that the core fund be based on a standardized default fund?

☑ Yes ☐ No

**Comments:**

The fundamental objective of the core fund is to provide MPF members, especially those who do not make a fund choice, with a standardized low fee default fund solution. The best possible way to achieve this fundamental objective is to have a **single standardized default fund as the core fund for all MPF schemes**. A standardized default fund would effectively serve the main purposes as the following:

- standardized investment profiles of the core fund transparent to all MPF members
- more likely to build size and to achieve economies of scale to keep costs and fees as low as possible
- a single core fund as the industry benchmark to facilitate fees and performance comparisons of other MPF funds to increase market competition and to drive fee reduction

**Q4. Do you agree 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? If not, what other option would you propose?**

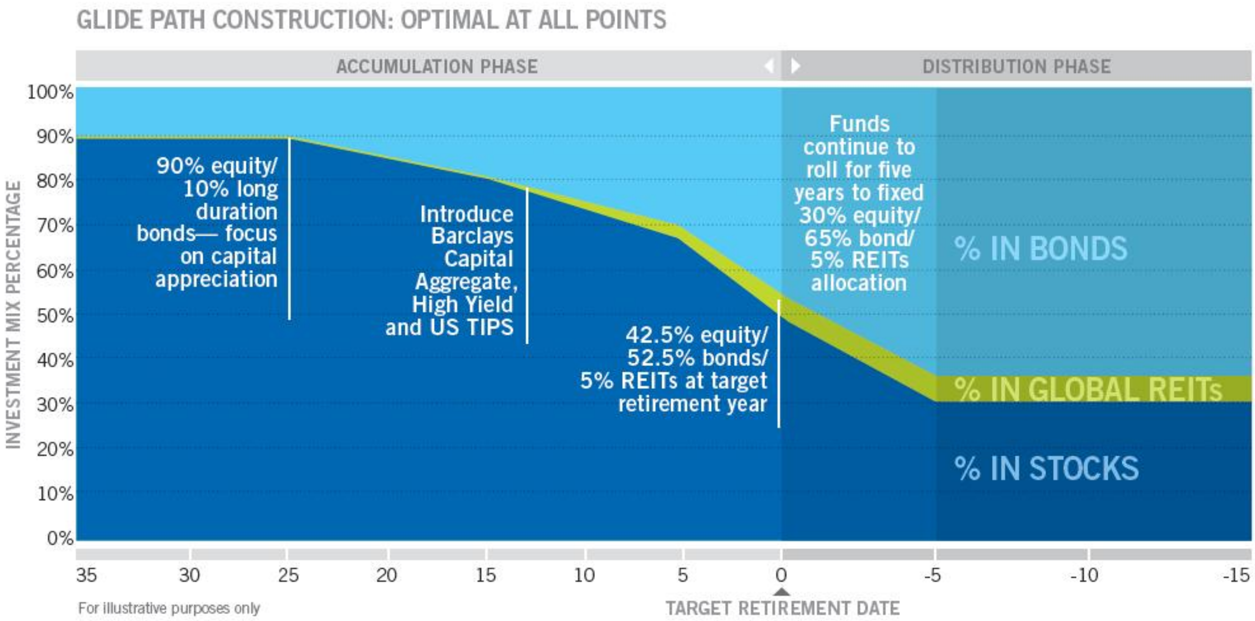
☑ Yes ☐ No

**Comments:**

**Key risks facing MPF members and how a well-structured glidepath design addresses those risks**

The risks facing MPF members typically would evolve overtime, therefore depending on where they are relative to retirement, MPF members' most important risk will be different. As such we address four critical risks facing MPF members' savings for retirement. During the accumulation or savings phase, there is the risk of not generating sufficient portfolio growth to fund retirement (**shortfall risk**). During the distribution or retirement phase, in which MPF members are drawing from their savings, there is the **longevity risk** of outliving ones assets, **inflation risk** that could cause assets to lose purchasing power, and the risk of wealth degradation in down markets (**market risk**). These risks have a profound impact on the ability of an individual's accumulated wealth to provide sufficient retirement income.

To balance these sometimes competing factors, SSgA's proposed allocation models target higher levels of risk and return when the time horizon is long and MPF members are able to weather short-term market downturns. Conversely, we strive to manage risk while achieving a moderate level of growth in later years when MPF members are at or near retirement and wealth preservation is an important objective. The result is **a full suite of Target Retirement Strategies** that provides efficient allocations at every stage along the investment horizon as shown in the sample glidepath chart below. This is a conceptual illustration of the glidepath allocation models. Actual allocations of the default fund would be customized to relevant local characteristics and requirements:



The table below further describes how we propose to manage the specific risks described above within a well-constructed sample **glidepath**.

| | |
|---|---|
| **Shortfall Risk** | **Shortfall risk is the risk of not saving enough or generating sufficient investment returns to fund retirement consumption at a reasonable level.**<br>• Taking the research we have done in the U.S. as a reference, we constructed and back-tested a range of portfolios for younger investors. We found that a portfolio comprising 10% long-duration bonds and 90% international and domestic equities provides a better risk return trade-off relative to a more aggressive starting point (e.g., 99% equity). This portfolio achieves approximately 95% of the return of an all-equity portfolio with 90% of the risk. By selecting the most efficient aggressive starting point, we are able to hold our initial glidepath allocation longer than other providers and follow a graduated versus linear risk-reduction policy, which translates into higher levels of expected wealth creation.<br>• Younger investors have more opportunities for growth by holding equity risk fairly constant at the front end of the glidepath. As a participant nears retirement we reduce risk within equities and increase diversification throughout the portfolios, looking to generate returns from more stable asset classes that are higher in the capital structure than equities. This process allows us to more effectively use our risk budget seeking wealth in early years and protect wealth in retirement.<br>• On top of our investment offering, we work with plan sponsors to develop a tailored communications effort designed to raise awareness among the participant base. |
| **Longevity Risk** | **Risk of outliving retirement assets.**<br>• Based on the same research we conducted in the U.S., for 65-year old men and women, life expectancy is currently estimated at 85 and 88 years, respectively. However, given the fact that many participants' balances will be used to support both the individual and a beneficiary, we factor in a dual-life expectancy, which moves the target age to 93.[1]<br>• With longevity risk in mind, our glidepath and ending allocation are designed to maximize risk-adjusted expected returns.<br>• Maintaining a constant combined equity, commodity and real estate exposure within the Target Retirement Strategy offers protection against longevity risk while retaining a focus on the importance of wealth preservation. |
| **Inflation Risk** | **Risk that retirement assets may lose purchasing power.**<br>• Hold a constant allocation to commodities throughout the glidepath.<br>• Begin building TIPS and Global REITs exposures 10 to 15 years before retirement to offset decreased equity exposures and begin hedging inflation risk in retirement.<br>• During key retirement years a moderate exposure to equities is maintained as well as allocations to inflation protected bonds, commodities and REITS. |

*(cont'd)*

1. *Life expectancies are based on the Annuity 2000A actuarial tables.*

*(cont'd)*

| | |
|---|---|
| **Market Risk** | **Risk of wealth degradation in down markets.**<br>• Highlighting the importance of downside protection, we reduce allocations to riskier asset classes while achieving a moderate level of growth in later years, when participants are at or near retirement and wealth preservation is an important objective.<br>• At retirement, our glidepath gradually reduce risk in the five years after retirement.<br>• Of special note, we reduce risk within our equity allocations in the retirement and income portfolios by underweighting small- and mid-cap stocks relative to a pure capitalization based benchmark. We also provide more diversified exposure within the fixed income asset classes, reducing duration (or interest rate risk) and increasing sector diversification by including allocations to short-term government bonds, TIPS and broad U.S. investment grade bonds.<br>• Analysis of more aggressive portfolios (relative to our income landing point) showed some additional benefits in the median case, but the shortfall risk also increased. We found that mitigating longevity risk by incorporating higher allocations to either equities or real estate did not compensate for the escalation in downside risk. |

**Q5. Do you have any preliminary views on the technical issues set out in paragraph 48, in particular whether consistency is required on all aspects of default fund design in all schemes or can some elements be left to the decision of individual product providers?**

**Comments:**

The fundamental objective of the core fund is to provide MPF members, especially those who do not make a fund choice, with a standardized low fee default fund solution. We are of the view that a **single common default fund for all MPF schemes** would be in the best interest of MPF scheme members in the long run from operating and cost perspectives.

**Our view to the core fund glidepath investment philosophy and approach**

The primary objective of the core fund is a standardized and holistic investment solution that provides MPF members with opportunities for growth, diversification, capital preservation and, ultimately, meaningful levels of real income replacement in retirement. We have outlined the principal tenets of our proposed approach to the development of the **glidepath**, **selection of asset classes** and **determination of the underlying funds** for inclusion:

The overall objective for our proposed **Target Retirement Strategies** is to provide meaningful levels of real income replacement for retirement while mitigating the effect of short-term volatility near or during retirement. In consideration of MPF members' retirement savings goals and needs, our target date investment philosophy seeks to address four key risks that MPF members face in their workforce savings plans:

- **Shortfall risk**: The risk of not generating sufficient portfolio growth to fund retirement
- **Longevity risk**: The risk of outliving one's savings
- **Volatility risk**: The risk of substantial wealth degradation due to a negative market event
- **Inflation risk:** The risk of significant erosion in purchasing power due to elevated inflation levels

To balance these sometimes competing factors, our proposed allocation model targets higher levels of growth when the time horizon is long and MPF members are able to weather short-term market downturns. Conversely, we strive to manage volatility and inflation more aggressively—while achieving more moderate levels of growth—as MPF members approach retirement when wealth and consumption preservation are increasingly important. A hallmark of our proposed target date solutions is the attention we give to creating optimal portfolios for both younger MPF members as well as those nearing retirement.

The broad equity/fixed allocations in the glidepath are driven by the risk and return objectives for each fund. In determining the mix, we take into account:

- The time horizon of each fund, which translates into a specific risk/return objective.
- Our current capital market assumptions and their impact on the forward looking risk/return of the portfolio.
- The need to differentiate the risk/return profiles for each portfolio so as to offer distinctly different options for MPF members.

The most important factor in determining the asset allocation mix is the **time horizon of each fund**. Funds with longer time horizons are assigned initial risk and return objectives which reflect the need to outpace inflation, the ability to take on more short-term volatility, and a reduced need for regular income. This results in larger starting equity allocations. Funds with shorter time horizons are assigned risk and return objectives that reflect a lower tolerance for volatility and an increased need for regular income, and therefore lower equity allocations.

Secondly, the asset allocations take into account our **current capital market assumptions**. The asset mix must reflect the market environment from which we have recently emerged and the potential for lower return expectations and heightened volatility for capital markets going forward.

Finally, we attempt to differentiate the **risk and return objectives** for each portfolio so as to offer distinctly different options for MPF members throughout their investment time horizon.

**Approach to asset class allocation**

The SSgA proposed Target Retirement Strategies allocate across the **global stock**, **bond**, and **real asset** classes. The strategies also allocate to **global real estate** and **commodities**. Implementation is achieved by investing in SSgA's passively managed commingled funds/ETFs. Wherever possible, we invest in one strategy per asset class in order to achieve broad diversification and avoid unintended overlap in exposures. The characteristics and returns of the underlying funds are similar to those of their respective benchmarks. Subject to any regulatory requirements, the Target Retirement Strategies target to allocate assets across the following underlying asset classes along the glidepath:

| | Asset Class | | Asset Class |
|---|---|---|---|
| 1 | Developed Markets Large Cap Equity | 6 | Long-Term Government Bonds |
| 2 | Developed Markets Small/Mid Cap Equity | 7 | Inflation-Protected Bonds |
| 3 | Emerging Markets Equity | 8 | High Yield Bonds |
| 4 | Global Real Estate | 9 | Short-Term Bonds |
| 5 | Core Aggregate Bonds | 10 | Commodities |

In seeking to provide high levels of real income replacement and address the key risks facing participants, we believe there are several features that are foundational to our approach and make our proposal unique relative to other target date providers:

**The broad range of asset classes that we include:**
At SSgA we have built one of the most well-diversified target date fund families in the market today, allowing us to hedge key risks, manage volatility and seek growth where appropriate. Expanding beyond core traditional asset classes, and including exposures such as long government bonds, commodities, high yield, TIPS and REITs, allows us to meet our investment objectives and address key concerns being faced by DC participants. In an effort to meet our investment objectives and address key issues risks facing participants, we consistently look for additional opportunities to increase diversification as new asset classes become available and investible. Further, we populate our off-the-shelf target date funds with index components as these funds provide highly liquid, cost-effective exposures to the asset classes we utilize.

**Our systematic and rigorous approach to asset class forecasting:**
A key input to our target date construction process is the development of strategic asset class forecasts. We believe the inputs to the creation of the efficient portfolios should reflect our firm's long-term strategic asset class forecasts, and we believe these forecasts should be transparent, forward looking and consistent across all of our strategic asset allocation products. At SSgA we base our portfolios on long-term asset class forecasts that we update on a quarterly basis. We use these forecasts in all of our strategic asset allocation products, which total more than $169.6 billion in assets (as of Dec 31, 2013), and formally utilize the forecasts to test our allocations on an annual basis. Further we publish these forecasts quarterly and distribute them broadly across our client base.

**The focus we have given to determining the optimal starting point:**
An important question in glidepath construction is determining the optimal starting point, and many providers utilize a short cut to the construction of the most aggressive portfolios by allocating 1% to a core bond portfolio and 99% to an all-equity mix typically made up of international and domestic equities. At SSgA, we constructed and back-tested

a range of portfolios for younger investors. We found that a portfolio comprising 10% long-duration bonds and 90% international and domestic equities provides a better risk/return trade-off. This portfolio achieves approximately 95% of the return of an all-equity portfolio with 90% of the risk. The inclusion of long-duration bonds is consistent with the duration of a young person's future liabilities, their ability to bear rate risk and their need to diversify high equity allocations.

**Our graduated risk-reduction policy:**
Glidepaths can take many shapes, but one common approach that we see in the marketplace is a straight line reduction in risk. In developing our glidepath, we employed an alternative method. In conjunction with our investment teams, we conducted scenario analysis to test the efficacy of many different glidepaths in achieving retirement security. Through this work, we constructed a glidepath that more thoughtfully reduces risk through time and meaningfully increases the expected median balance at age 65. It is important to recognize that straight line approaches focus almost exclusively on setting the risk at the retirement point, then evolving risk as a function of age. As such, they do not consider acceptable participant outcomes or the optimality of the glidepath.

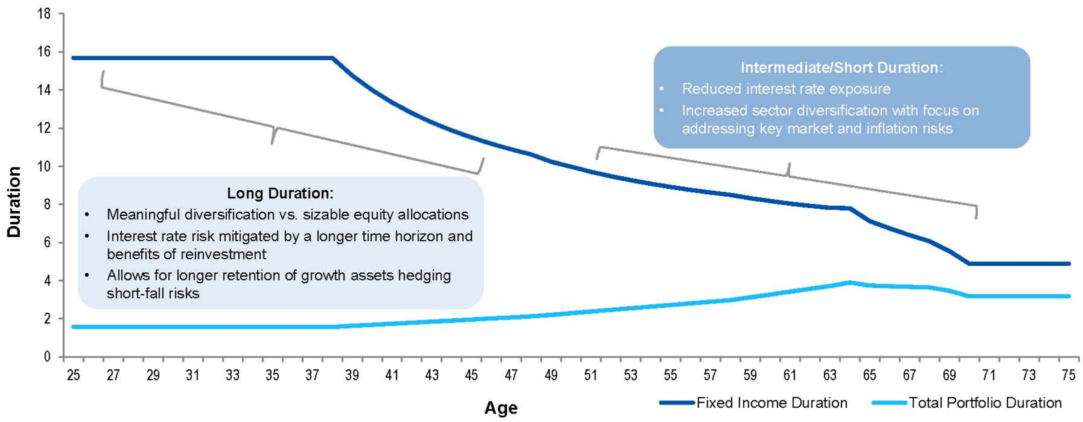
**Risk management within Equities:**
At SSgA we also explicitly manage sub asset class exposure. Because we disaggregate our equity exposure into component parts and add additional fixed income strategies in later years, we can ensure that the portfolio we implement is not only efficient and well diversified but also in concert with the investment objective of the participant at each life stage. For example, consistent with our focus on appreciation in the early years, we carry a structural overweight to small-cap equities. We reduce this overweight over time and move to an underweight in the income portfolio designed specifically for older investors, who are focused heavily on principal protection.

**Risk management within Fixed Income:**
We employ a similar approach in fixed income - utilizing a broad array of Fixed Income strategies (e.g. Long Government, High Yield, Short-Term Gov't/Credit) which afford us greater flexibility in managing against the key risks at different points along the glidepath. In contrast, many of our top competitors take a more simplified approach within fixed income by holding a concentrated position in the Barclays Aggregate Index. Below, we reflect on our Fixed Income exposures at different points in time and how they improve the efficiency of our total portfolio allocation.

In the longest-dated funds we allocate 10% of the portfolio to Long Government bonds and 90% to 'risky' assets (i.e. equities). While this fixed income allocation on a standalone basis introduces higher levels of interest rate risk (given a Long Government duration of close to 16), it's important to consider total portfolio duration (or dollar-weighted duration). With 90% of the portfolio in risky assets, the total portfolio duration is only 1.6 (10% of 16). The benefit of assuming this modest level of interest rate risk is improved diversification with a relatively low allocation to Fixed Income. To provide the same level of diversification with a lower level of duration, a manager would need to allocate additional assets away from risky assets and thereby increase longevity risk; the risk of not accumulating enough assets for retirement. In addition, long bonds may provide additional returns given the long time to retirement and the dollar-weighting effect of constant contributions.

As the target date funds move towards the stated retirement date and the fixed income exposure increases (as a percentage of the Target Date fund) we are de-risking within fixed income; reducing our interest rate exposure and building in more sector diversification through allocations to High Yield, TIPS, Barclays Aggregate, and short-term Government/Credit. The chart below details duration on both a Fixed Income standalone and total portfolio basis.

## Fixed Income Allocations




| Target Retirement Fund<br>*Years to Retirement* | 2055<br>*41* | 2050<br>*36* | 2045<br>*31* | 2040<br>*26* | 2035<br>*21* | 2030<br>*16* | 2025<br>*11* | 2020<br>*6* | 2015<br>*1* | 2010<br>*-4* | Income<br>*-5* | Yield to Worst | Duration (Mod Adj.) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| US Aggregate Index Bonds | – | – | – | 1.0 | 6.0 | 11.0 | 13.0 | 17.0 | 25.0 | 20.0 | 20.0 | 2.5% | 5.6 |
| US Long Term Gov't Index Bonds | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 2.5 | – | 3.8% | 15.7 |
| US 1-3 Gov't/Credit Index Bonds | – | – | – | – | – | – | – | – | – | 15.0 | 20.0 | 0.6% | 1.9 |
| US High Yield Very Liquid Index Bonds | – | – | – | – | – | 0.5 | 3.5 | 5.8 | 6.2 | 7.0 | 7.0 | 5.4% | 4.3 |
| US Inflation Protected Index Bonds (TIPS) | – | – | – | – | – | – | 2.5 | 4.7 | 8.8 | 18.0 | 18.0 | 2.4% | 7.7 |
| ***Fixed Income Allocation (Total)*** | ***10.0*** | ***10.0*** | ***10.0*** | ***11.0*** | ***16.0*** | ***21.5*** | ***29.0*** | ***37.5*** | ***50.0*** | ***62.5*** | ***65*** | | |
| *Fixed Income Duration* | *15.68* | *15.68* | *15.68* | *14.76* | *11.88* | *10.23* | *9.08* | *8.23* | *7.79* | *5.55* | *4.88* | | |
| *Total Portfolio Duration ($ Weighted)* | *1.57* | *1.57* | *1.57* | *1.62* | *1.90* | *2.20* | *2.63* | *3.12* | *3.90* | *3.47* | *3.17* | | |
| *Effective Convexity* | *3.46* | *3.46* | *3.46* | *3.16* | *2.21* | *1.68* | *1.36* | *1.13* | *0.95* | *0.49* | *0.34* | | |
| *Yield to Worst* | *3.83%* | *3.83%* | *3.83%* | *3.71%* | *3.32%* | *3.18%* | *3.29%* | *3.28%* | *3.09%* | *2.37%* | *2.18%* | | |
| ***Equity Allocation (including REITS/Commodities)*** | ***90.0*** | ***90.0*** | ***90.0*** | ***89.0*** | ***84.0*** | ***78.5*** | ***71.0*** | ***62.5*** | ***50.0*** | ***37.5*** | ***35*** | | |

Source: SSgA Target Retirement Strategies strategic asset allocation roll-down schedule as of close of business December 31, 2013
The information contained above is for illustrative purposes only.
Please refer to the disclosure slide for additional risk disclosures.

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### Q6. Do you agree that keeping total fee impact for the core fund at or under 0.75% is a reasonable initial approach?

☑ Yes ☐ No

**Comments:**

Based on our proposed default fund structure of **Target Retirement Strategies** constructed with **low cost passively managed vehicles as underlying investments**, and a **mechanical glide path asset allocation design**, the fees incurred would be effectively kept at the lowest possible levels.

In addition, the concept of a **single standardized default fund for all MPF schemes** would be the most pragmatic approach to build size and to achieve economies of scale over the long term to keep all administrative costs and management fees as low as possible.

From our experience working with the **10 MPF sponsors** either as **investment manager** and/or as **ITCIS provider** to their existing **CFs using passively managed ETFs** as underlying vehicles, 100% of the relevant CFs are included in the MPFA "Low Fee Fund List" with fees at or under 1.0% or total expenses of at or under 1.3% as shown in the table below. This is evident to the fact that passively managed fund structure and underlying vehicles are crucial to bringing the overall fees and costs down.

*(As of 31 July 2014)*

| | MPF Sponsor | Scheme | Constituent Fund | Current Mgt. Fee (% p.a. of NAV) | FER |
|---|---|---|---|---|---|
| 1 | Manulife | Manulife Global Select (MPF) Scheme | Manulife MPF Hang Seng Index Tracking Fund | 0.90% | N/A |
| 2 | AIA | Basic Value Choice | AIA MPF – Hong Kong and China Fund | 0.99% | 0.89% |
| | | | AIA MPF – Eurasia Fund | 0.99% | 0.87% |
| | | Prime Value Choice | AIA MPF – Hong Kong and China Fund | 0.99% | 0.89% |
| | | | AIA MPF – Eurasia Fund | 0.99% | 0.86% |
| | | Simple Value Choice | AIA MPF – Hong Kong and China Fund | 0.99% | 0.88% |
| | | | AIA MPF – Eurasia Fund | 0.99% | 0.81% |
| 3 | BOCI-Prudential | My Choice Mandatory Provident Fund Scheme | My Choice Hong Kong Tracking Fund | 0.70% | 0.78% |
| 4 | Invesco | Invesco Strategic MPF Scheme | Invesco Hang Seng Index Tracking Fund – Class A | Up to 0.875% | N/A |
| | | | Invesco Hang Seng Index Tracking Fund – Class H | Up to 0.825% | N/A |
| 5 | BCT | BCT (MPF) Pro Choice | BCT (Pro) Hang Seng Index Tracking Fund | 0.75% - 0.80% | 1.07% |
| | | | BCT (Pro) Greater China Equity Fund | Up to 0.99% | N/A |
| | | | BCT (Pro) World Equity Fund | Up to 0.99% | N/A |
| 6 | FIL | Fidelity Retirement Master Trust | Fidelity Hong Kong Tracker Fund | 0.70% | N/A |
| 7 | BEA | Master Trust Scheme | BEA Hong Kong Tracker Fund | Up to 0.70% | 1.04% |
| | | Value Scheme | BEA Hong Kong Tracker Fund | Up to 0.70% | N/A |
| | | | BEA Greater China Equity Fund | 0.91% | N/A |
| | | Industry Scheme | BEA Hong Kong Tracker Fund | Up to 0.70% | 0.79% |
| 8 | Principal | Principal MPF Scheme Series 600 | Principal Hang Seng Index Tracking Fund – Class N | Up to 0.99% | 1.12% |
| | | | Principal Asian Bond Fund – Class N | 0.99% | N/A |
| | | Principal MPF Scheme Series 800 | Principal Hang Seng Index Tracking Fund – Class N | Up to 0.99% | N/A |
| 9 | BCOM | BCOM Joyful Retirement MPF Scheme | BCOM HSI Tracking (CF) Fund | 0.80% - 0.85% | 1.55% |
| 10 | FWD | Master Trust Basic Scheme | FWD MPF Basic Scheme US & Hong Kong Equity Portfolio | Up to 1.30% | 1.30% |
| | | Master Trust Comprehensive Scheme | FWD MPF Comprehensive Scheme US & Hong Kong Equity Portfolio | Up to 1.30% | 1.30% |

### Q7. Do you agree that keeping total expense impact (i.e. FER) for the core fund at or under 1.0% over the medium term is a reasonable approach?

☑ Yes ☐ No

**Comments:**

The FER for the core fund would ultimately be influenced by the **structure** and **nature** of its underlying investment strategy and vehicles. Our proposed core fund structure of **a single common default fund for all MPF schemes**, and **passively managed design** would be the most direct approach to **build economies of scale** over the medium and long term. This would allow the fund level investment management fees to be kept at the lowest possible levels.

In addition, the single common default fund would provide a great deal of **transparency** to MPF members knowing that the core fund at CF level in all MPF schemes would be based on the same underlying default fund. This would directly strengthen market forces to **increase market competition**; and to **enable pricing efficiency** among MPF scheme providers. The outcome of this would be market driven fee reduction over time that benefits MPF members.

### Q8. Do you agree that passive, index based, investment strategies should be the predominant investment approach in the MPF core fund?

☑ Yes ☐ No

**Comments:**

The inclusion of a range of asset classes results in more efficient portfolios. Further, because asset allocation drives the majority of target date fund returns, passively managed, and index funds are appropriate as standard building blocks in MPF core fund. This would allow the core fund to keep investment costs as low as possible.

### Q9. Are there particular asset classes which you think would not appropriately be invested on a passive, index based approach?

**Comments:**

The asset classes in our proposed default fund structure using the glidepath design could all be invested on a passive, index based approach through low cost commingled passive strategies. Wherever possible, we invest in one strategy per asset class in order to achieve broad diversification and avoid unintended overlap in exposures. The characteristics and returns of the underlying funds are similar to those of their respective benchmarks. Subject to any regulatory and local market customization requirements, the Target Retirement Strategies target to allocate assets across the following underlying asset classes along the glidepath:

| | Asset Class |
|---|---|
| 1 | Developed Markets Large Cap Equity |
| 2 | Developed Markets Small/Mid Cap Equity |
| 3 | Emerging Markets Equity |
| 4 | Global Real Estate |
| 5 | Core Aggregate Bonds |

| | Asset Class |
|---|---|
| 6 | Long-Term Government Bonds |
| 7 | Inflation-Protected Bonds |
| 8 | High Yield Bonds |
| 9 | Short-Term Bonds |
| 10 | Commodities |

**Q10. Do you agree that the name of the core fund should be standardized across schemes? If so, do you have any preference amongst the possibilities set out in paragraph 77 above?**

☑ Yes ☐ No

**Comments:**

"MPF Default Investment Fund" is preferred since the name would reinforce 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. While this fund may also be "core" for a number of investors, for some others another fund may better serve as a core option.

**Q11. Do you agree with the general principle for dealing with implementation and transitional issues as set out in paragraphs 78 and 79?**

☑ Yes ☐ No

**Q12. Do you agree with the proposal in paragraph 81 as to how to deal with the transition for existing MPF members of default funds?**

☑ Yes ☐ No

**– END –**

## ABOUT STATE STREET GLOBAL ADVISORS:

State Street Global Advisors, the investment division of State Street Corporation, is one of the largest investment managers in the world, managing approximately US$2.152.48 trillion* as of 30 June 2014 in equity, fixed income, currency, real estate and absolute return. State Street Global Advisors has offices in 27 worldwide locations, 9 investment centres and a 24-hour global trading capability with trading desks in Boston, London and Hong Kong.

**The assets under management include the assets of the SPDR Gold Trust (approximately US$37.133.4 billion as of 30 June 2014), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors, serves as the marketing agent. Please note that AUM totals are unaudited.*