

Sun Life Asset Management (HK) Limited (“SLAMHK”) has reviewed the Consultation Paper and would like to provide the following comments for the MPFA’s consideration.

Q1. Do you support the direction of introducing a core fund in the manner set out in paragraph 36 (a) to (d)?

SLAMHK supports the direction of introducing a universal strategy for the fund that can be used as a default option for members. We also believe the strategy of this fund should be easily understood by an average member, and that it should not be viewed as “*the* fund” for all. As such, we prefer not to call such strategy the “core fund”, which implies a value judgment to the product.

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

We support that a default option should be largely similar in certain features among MPF providers. These features include the de-risking glide paths, product design (e.g. target date funds or an administrative approach), max. FER, and even the fund name. However, it is to the benefits of members that there remains a degree of product differentiation, such that there is still healthy competition among providers that could lead to continued product/service improvement in the long term.

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

It depends on what being “based on a standardized default fund” means. In general, we favor the administrative approach over target date funds. We would also suggest the consideration of having substantially similar underlying instruments for all default funds (e.g. all use the same group of ITCISs or all choose their own mix of ITCISs within the same pool), which could foster product similarity, and at the same time allow for differentiation.

Q4. Do you agree that the appropriate investment approach of the core fund (default option) is one that automatically reduces risk over time as the member gets closer to age 65? If not, what other option would you propose?

SLAMHK agrees that the default fund should have a de-risking mechanism. However, we have reservation over how “risk” is defined in this context. Currently, risk is essentially defined as “volatility”, and it is further assumed that 1. equity investment is more volatile than fixed income investment over any time period and any market environment, and 2. all members of the same age group have the same risk profile/appetite. In our opinion, this definition is incomplete and these assumptions are flawed. Therefore, we believe simply rebalancing among equity and fixed income without any *active investment decisions* and without any consideration of individual risk preference is not the best approach.

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?

As mentioned in Q2 and Q3, we support the idea that the default option should be standardized in certain aspects, but there should be room for product differentiation. After all, the default option is part of the overall scheme that a provider has to offer, so those who want to make a choice should be able to make their decision based on, among many other things, how competitive the default option of a provider is.

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

SLAMHK is of the view that keeping the total fee impact at 0.75% is not a reasonable approach. While we agree the default option should offer good value to members, “value” is more than just “low fee”. We should strike a balance between practicality, fee and quality. Administratively capping the fees at an unreasonably low level could discourage potential and existing service providers, choke off competition and innovation, and ultimately hurt members in the long term.

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

Same as Q6, SLAMHK is of the view that keeping the total expense impact at 1% is not a reasonable approach.

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

If taking passive, index based, investment strategies as the predominant investment approach is for the lower management fee, then there must be a significant cost advantage of ITCIS over actively managed APIFs – which may not be the case. If taking this approach is for product similarity, then we support the consideration of having substantially similar underlying instruments for all default funds (e.g. all use the same group of ITCISs or all choose their own mix of ITCISs within the same pool), which could foster product similarity, and at the same time allow for differentiation.

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

In general, any asset class that cannot be effectively and cost-efficiently tracked is not appropriate. Any asset class that does not have the necessary liquidity and accessibility also is not appropriate. More volatile asset class, however, should not be ruled out completely. It is because one should not look at a particular asset class on a standalone basis, but in a portfolio context. Even an individually volatile asset class can add diversification benefits to a well-balanced portfolio of various asset classes. Having said this, exposure to more volatile asset classes should be limited to a certain percentage of the overall portfolio.

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

SLAMHK is of the view that the name of the default option should be standardized across schemes, and we prefer not to call such strategy the “core fund”, which implies a value judgment to the product. “Default option” or “default fund” could be a couple of good choices.

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

SLAMHK holds a neutral view on this issue.

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?

SLAMHK holds a neutral view on this issue.