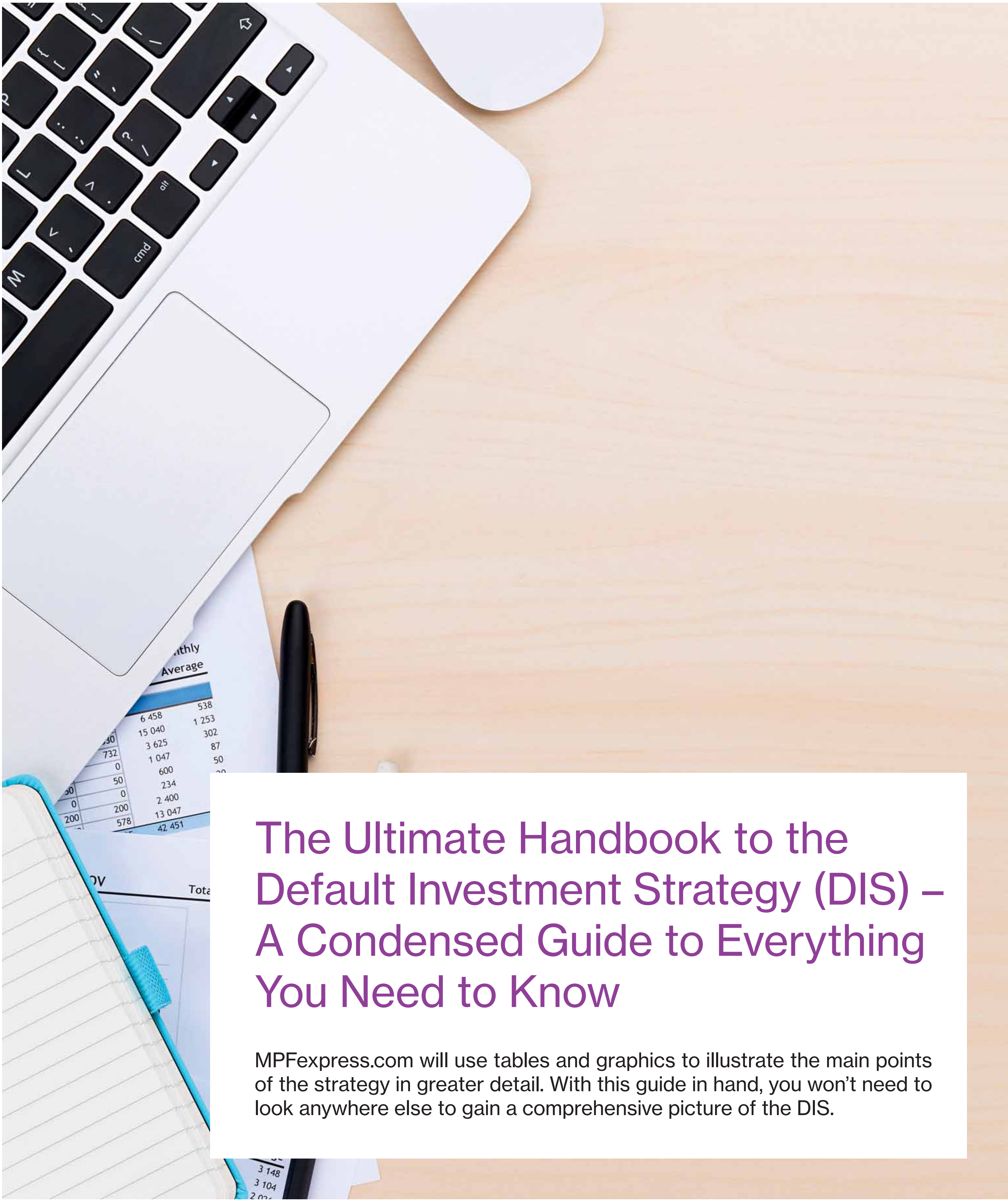


The Ultimate Handbook to the Default Investment Strategy (DIS) – A Condensed Guide to Everything You Need to Know

MPFexpress.com will use tables and graphics to illustrate the main points of the strategy in greater detail. With this guide in hand, you won't need to look anywhere else to gain a comprehensive picture of the DIS.

Officially launched on 1 April 2017, the DIS expects to have significant impact on the MPF scheme. However, as financial, family and health situations differ among members, the DIS is not a one-size-fits-all solution for everyone, so members must consider different factors before they decide to invest according to the strategy. How will the DIS affect you? What are the major facts you need to know? We will answer your questions here one by one.

The implementation of the DIS mainly affects four types of MPF accounts (refer to table 1), and among these most attention should be given to existing accounts without investment instructions. If members had not indicated their investment choices when they joined the MPF scheme and if they failed to provide new investment instructions to their trustees within a specified time period, the trustee will invest the accumulated benefits and new contributions according to the DIS.

Members can choose to invest in the DIS

On the other hand, the DIS has no direct impact on existing accounts with investment instructions. Then why should all members keep an eye on the DIS? This is because the DIS is not only helpful to members who lack the knowledge and skills in MPF management, it also fits members who do not have time to manage their own accounts. The investment returns and performance of the DIS may even be better than those of actively managed accounts administered by members themselves. Therefore, if members consider the DIS a suitable investment strategy, they can take the initiative and choose DIS as one of their investment choices.

Accounts affected by the DIS

Figure 1 Which types of MPF accounts will be affected by the DIS?

Account type	Particulars of the account type	Will the member receive DRN?	Potential impact/required action
Type 1: Existing account without investment instructions	Currently invested according to the default investment arrangements (DIA) under different schemes, but will be invested according to the DIS	Trustees started sending out DIS Re-investment Notices (DRN) to this type of account since April 2017	**1) If you think the DIS is suitable for you:** No need to fill out any forms because the benefits in your MPF account will be automatically invested according to the DIS within 14 days after a specified date if the trustee does not receive your reply (the "Option 2 From") **2) If you decide to opt-out:** fill out the Option 2 Form and deliver the form to the trustee on or before the date specified on the DRN (42 days after the issuance of the DRN). However, if the trustee receives a member's Option 2 Form 42 days after the issuance of DRN, the trustee needs to invest the MPF account balance according to the DIS first, before executing the member's investment instructions
Type 2: Existing accounts that have no investment instructions for new MPF contributions	Mostly MPF contribution accounts that were left unattended when the account holders left their jobs. In compliance with the law, the trustee will automatically open a personal account for this kind of account holder. In general, this type of account has no investment instructions for new MPF contributions	The trustees have already taken multiple actions to inform account holders to confirm their investment instructions. Members will not receive any DRN	**Accumulated MPF benefits:** continue to be invested according to the original investment instructions. **Newly deposited MPF benefits:** to be invested according to the DIS
Type 3: Existing accounts with investment instructions	Investment instructions were given (including accumulated/ newly deposited MPF benefits)	Members will not receive any DRN	All MPF benefits will be invested according to the original instructions. However, if members consider the DIS a suitable strategy, they can choose to invest according to the DIS, or invest in the Core Accumulation Fund or the Age 65 Plus Fund under the DIS
Type 4: Accounts opened after 1 April	MPF contribution accounts newly opened for new jobs, for example, accounts opened as members change jobs or get employed for the first time	-	Personal accounts without investment instructions opened for MPF account consolidation purpose will be invested according to the DIS

Characteristics of the DIS

The 'Automatic De-risking' Feature of DIS

Of the three major characteristics of the DIS, the operating mechanism of "risk decreases with age" is considered to be the core feature of the strategy. Under the mechanism, when a scheme member approaches the age of retirement, his/her investment strategy will be automatically adjusted to reduce exposure in higher-risk assets.

The three characteristics of the DIS:

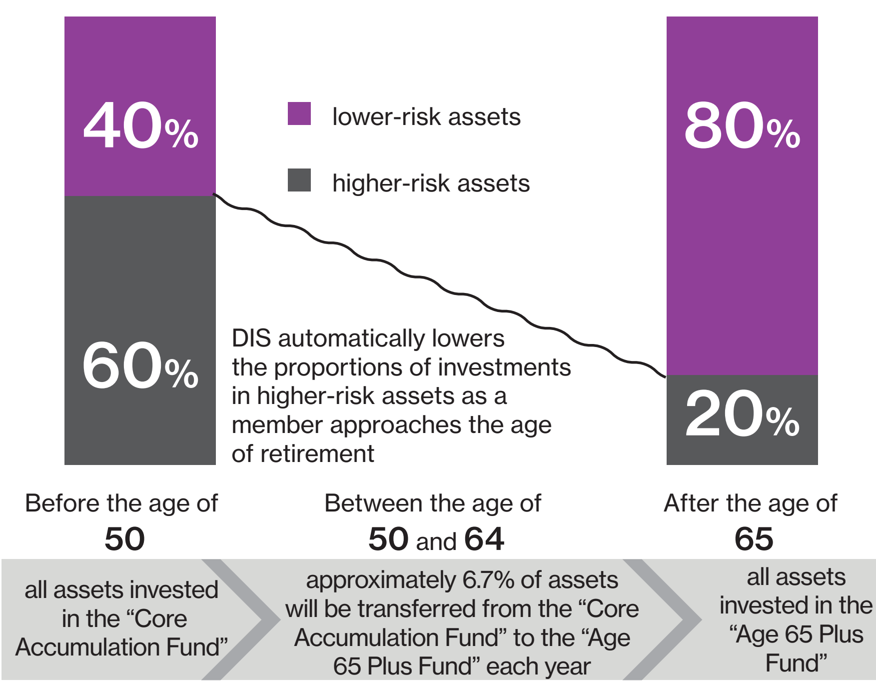
1. The investment risk will be lowered automatically as a member ages

The DIS comprises two mixed asset funds that invest in different asset classes and markets in varying proportions to reduce investment risks.

The Core Accumulation Fund: approximately 60% of the fund's assets are invested in higher-risk assets (mainly global equities), and the rest in lower-risk assets (mainly global bonds).

The Age 65 Plus Fund: approximately 20% of the fund's assets are invested in higher-risk assets (mainly global equities), and the rest in lower-risk assets (mainly global bonds).

Figure 2 The Main Characteristics of Default Investment Strategy



Source: MPFA

Figure 3
MPF Default Investment Strategy De-risking table

Age	Core Accumulation Fund	Age 65 Plus Fund
Below 50	100.0%	0.0%
50	93.3%	6.7%
51	86.7%	13.3%
52	80.0%	20.0%
53	73.3%	26.7%
54	66.7%	33.3%
55	60.0%	40.0%
56	53.3%	46.7%
57	46.7%	53.3%
58	40.0%	60.0%
59	33.3%	66.7%
60	26.7%	73.3%
61	20.0%	80.0%
62	13.3%	86.7%
63	6.7%	93.3%
64 or above	0.0%	100.0%

2. Fee caps

Fees and expenses such as management fees, and recurrent out-of-pocket expenses such as administrative expenses cannot be higher than 0.75% and 0.2% of net asset value of the fund, respectively.

Figure 4 Fees and expenses of Core Accumulation Fund and Age 65 Plus Fund

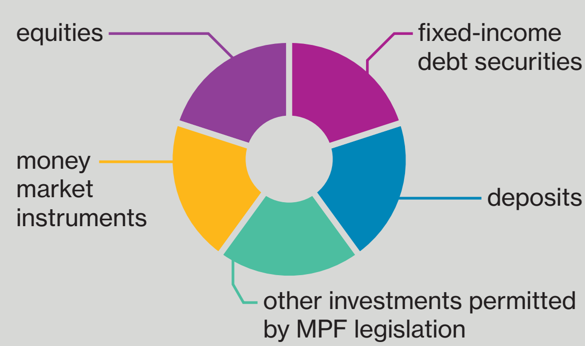
Management fees (including fees for trustee, investment manager, etc.)	and	Recurrent out-of-pocket expenses (including annual audit fees, printing expenses and postage, etc.)
Not more than **0.75%** per annum of the net asset value of the fund (calculated on a daily basis)		Not more than **0.2%** per annum of the net asset value of the fund

Source: MPFA

3. Globally diversified investment

Diversifying investment across different markets can help reduce over-concentration risks in a single market; it may also help to achieve a higher potential return.

Figure 5 Diversified investment



Source: MPFA

Reference Portfolio

Since the DIS adopts two mixed asset funds – the Core Accumulation Fund and the Age 65 Plus Fund – with varying proportions of higher- and lower-risk assets, we must first understand what kinds of assets these two funds invest in to gain a more comprehensive picture of the DIS. To help members compare the investment returns and performances of DIS funds, the MPF industry has joined with asset management experts and index providers to develop reference portfolios for the Core Accumulation Fund and the Age 65 Plus Fund. The two reference portfolios have been approved by the MPFA. Furthermore, Willis Towers Watson, the owner of MPFexpress.com, is the designated company responsible for providing the daily performance data of the reference portfolios. If members want to see timely, accurate daily performance data of the reference portfolios, please visit www.mpfexpress.com.

Reference portfolio of Core Accumulation Fund:

Reference portfolio of Core Accumulation Fund: 60% FTSE MPF All-World Index (HKD unhedged total return) + 37% Citi MPF World Government Bond Index (HKD hedged total return) + 3% cash or money market instruments providing a return at MPF Prescribed Savings Rate (HKD unhedged total return) *

*Including the reinvestment of dividend/interest/other income

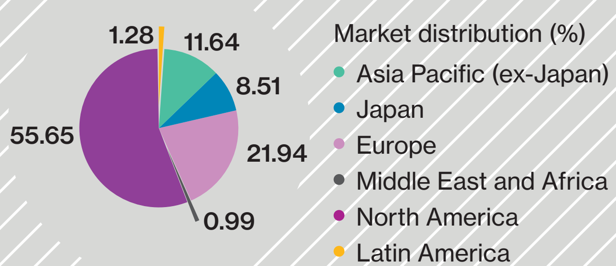
Reference portfolio of Age 65 Plus Fund:

20% FTSE MPF All-World Index (HKD unhedged total return) + 77% Citi MPF World Government Bond Index (HKD hedged total return) + 3% cash or money market instruments providing a return at MPF Prescribed Savings Rate (HKD unhedged total return) *

*Including the reinvestment of dividend/interest/other income

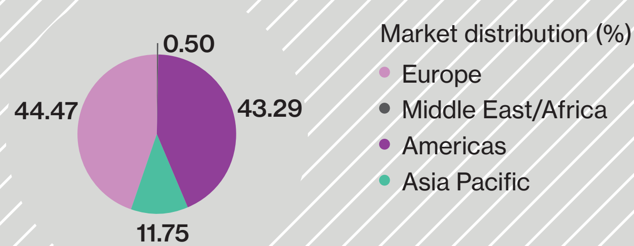
As seen from the reference portfolios, the FTSE MPF All-World Index and Citi MPF World Government Bond Index are major components of the Core Accumulation Fund and the Age 65 Plus Fund. The geographical allocations of the two indices are shown below. Just like investment returns, past performance is not a guarantee of future returns, but looking at the geographical breakdown helps us better understand the type of assets the indices invest in.

Figure 6 FTSE MPF All-World Index



As at 28 April 2017 Source: FTSE Russell

Figure 7 Geographical distribution of Citi MPF World Government Bond Index



As at 31 March 2017 Source: Citibank

Default Investment Strategies of Trustees

Now members may have gained a deeper understanding of the operating mechanism and components of the DIS. However, the DIS under different MPF schemes are different. In the comparison table of existing Default Investment Arrangements (DIA) and Default Investment Strategies (DIS) of MPF schemes below, you can see what types of funds the trustees adopted in DIA before the implementation of the DIS. You can then decide if the implementation of DIS is suitable to you. For example, since the DIS is a mixed asset fund, if the original DIA was invested in a conservative fund and the implementation of the DIS will lead to a change in the investment arrangement, a member may have to bear heightened investment risks due to the change.

According to relevant information, most DIS are actively managed with a goal to outperform benchmark returns (that is, the returns of the reference portfolios); a smaller number of DIS adopt a passive management approach to track the refenence portfolio returns. In addition, few MPF schemes permit members to invest part of their contributions in accordance with the DIS when they join the schemes; most schemes do not allow partial investment in the DIS. This implies that if members choose to invest in the DIS, they have to invest the full amount of their MPF benefits in the strategy. Details of DIS vary under different MPF schemes, and members should take time to understand the details before making MPF management and asset allocation decisions.

Members can view the DPN, offering documents of different schemes (or sales documents) and information about the DIS provided by trustees to scheme members via the MPFA's link.
Link: http://minisite.mpfa.org.hk/DIS/en/introduction/index.html
To learn more about the charges of DIS under different trustees, please visit the "DIS Fund List" via the link below.
Link: http://cplatform.mpfa.org.hk/MPFA/english/dis_fund_list.jsp

Figure 7 Comparison of existing Default Investment Arrangements (DIA) and Default Investment Strategies (DIS) under different MPF schemes

Trustee	MPF scheme	Fund type of existing Default Investment Arrangement (DIA)*	Default investment strategy	
			Actively/ Passively Managed	Are members allowed to invest part of their MPF contributions according to the DIS when they join the MPF scheme?
AIA Company (Trustee) Limited	AIA MPF – Prime Value Choice	Guaranteed fund	Passive	✓
Bank Consortium Trust Company Limited	BCT (MPF) Industry Choice	Mixed asset fund	Active	✓
	BCT (MPF) Pro Choice	Mixed asset fund	Active	✓
	Allianz Global Investors MPF Plan	MPF conservative fund	Active	✓
	Invesco Strategic MPF Scheme	Mixed asset fund	Active	✓
	AMTD MPF Scheme	Mixed asset fund	Active	✓
Bank Of Communications Trustee Limited	BCOM Joyful Retirement MPF Scheme	Mixed asset fund	Active	X
Bank of East Asia (Trustees) Limited	BEA (MPF) Industry Scheme	Mixed asset fund	Active	X
	BEA (MPF) Master Trust Scheme	Mixed asset fund	Active	X
	BEA (MPF) Value Scheme	Mixed asset fund	Active	X
BOCI-Prudential Trustee Limited	BOC-Prudential Easy-Choice Mandatory Provident Fund Scheme	Mixed asset fund	Active	✓
	My Choice Mandatory Provident Fund Scheme	Mixed asset fund	Active	✓
China Life Trustees Limited	China Life MPF Master Trust Scheme	Mixed asset fund	Active	X
FWD Pension Trust Limited	FWD MPF Master Trust Basic Scheme	Guaranteed fund	Active	X
	FWD MPF Master Trust Comprehensive Scheme	Guaranteed fund	Active	X
HSBC Institutional Trust Services (Asia) Limited	Fidelity Retirement Master Trust	Mixed asset fund	Active	✓
	Haitong MPF Retirement Fund	Equity and money market fund	Active	✓
HSBC Provident Fund Trustee (Hong Kong) Limited	Hang Seng Mandatory Provident Fund – SuperTrust Plus	MPF conservative fund	Active	X
	Hang Seng Mandatory Provident Fund – ValueChoice	MPF conservative fund	Active	X
	HSBC Mandatory Provident Fund – SuperTrust Plus	MPF conservative fund	Active	X
	HSBC Mandatory Provident Fund – ValueChoice	MPF conservative fund	Active	X
	Sun Life MPF Master Trust	Other[1]	Active	X
Manulife Provident Funds Trust Company Limited	Manulife Global Select (MPF) Scheme	Guaranteed fund	Passive	X
MassMutual Trustees Limited	MASS Mandatory Provident Fund Scheme	Other[2]	Active	X
Principal Trust Company (Asia) Limited	Principal MPF Scheme Series 600	MPF conservative fund	Active	✓
	Principal MPF Scheme Series 800	MPF conservative fund	Active	✓
	Principal MPF – Simple Plan	MPF conservative fund	Active	✓
	Principal MPF – Smart Plan	MPF conservative fund	Active	✓
RBC Investor Services Trust Hong Kong Limited	Manulife MPF Plan – Advanced	MPF conservative fund	Passive	X
	Manulife MPF Plan – Basic	MPF conservative fund	Passive	X
	SHKP MPF Employer Sponsored Scheme[3]	MPF conservative fund	Active	X
Sun Life Trustee Company Limited	Sun Life Rainbow MPF Scheme	Mixed asset fund	Active	X

*Before the introduction of the DIS, if a scheme member does not provide investment instruction to the trustee, the trustee will invest his/her MPF benefits in specified funds in accordance with the regulations of his/her scheme.
Note 1: A member's MPF investments are allocated to different constituent funds according to the age of the member.
Note 2: A member's MPF investments are evenly distributed among constituent funds.
Note 3: This scheme is operated by certain employers and is only available to employees employed by the operating employer or affiliated companies.

Management of MPF account

8 FAQs about DIS

Lastly, let us tackle the eight most-frequently asked questions members encounter when they handle DIS matters:

Q1

If I switch assets into or out of the DIS, will the trustee impose any additional fees or charges?

Answer: Under section 34 of the Mandatory Provident Fund Schemes (General) Regulation, trustees cannot charge fees or impose financial penalties on scheme members for switching or transferring accrued benefits other than necessary transaction costs.

Q2

If I choose to invest my newly contributed MPF benefits according to the DIS, can I change my investment options and transfer these benefits to other funds in the future?

Answer: Yes. This is similar to general fund switching. Please contact your trustee to learn more about the procedures and if switching in your scheme is governed by regulations.

Q3

Can a member invest according to the DIS and also invest in other MPF funds in the same MPF account concurrently?

Answer: It depends on the governing rules of individual schemes and if the scheme has this option available. Please contact your trustees for more information.

Q4

Can a member choose to invest in the Core Accumulation Fund and/or the Age 65 Plus Fund individually? Or can a member include the funds in his/her investment portfolio?

Answer: Members can set up their own investment portfolios by investing their benefits partially or wholly in the Core Accumulation Fund, Age 65 Plus Fund and other funds. Investing in the Core Accumulation Fund and/or Age 65 Plus Fund as a fund choice rather than as part of the DIS gives you the benefit of fee caps, but the feature of automatic reduction of investment risk according to a member's age will no longer apply.

If a member wants to invest according to the DIS while at the same time chooses to invest in the Core Accumulation Fund and/or Age 65 Plus Fund under the same MPF account, this investment approach will be subject to the governing rules of individual schemes. Please contact your trustees for more information.

Q5 If I choose to invest my accrued MPF benefits according to the DIS, can I later instruct the trustee to switch out of the DIS or change the investment instructions so that I can invest part of the benefits in other funds, but retain the remaining balance in the DIS?

Answer: It depends on the governing rules of individual schemes and if the scheme has this option available. Please contact your trustees for more information.

Q6 Will the trustee give members prior written notice to remind members of the date of de-risking before it is carried out every year?

Answer: No. The trustee will only send members a written notice of the date of the first de-risking before they reach the age of 50.

Q7 On which day will the trustee carry out the annual de-risking for scheme members who have invested according to the DIS?

Answer: The annual de-risking will be carried out every year when a member is between the age of 50 and 64. In general, the de-risking will be executed every year on a member's birthday, or on the next working day if the birthday falls on a non-working day.

Q8 Can members initiate adjustments on the proportions of their investments in the Core Accumulation Fund and the Age 65 Plus Fund?

Answer: If a member's MPF benefits are invested according to the DIS, the proportions of investments in the Core Accumulation Fund and the Age 65 Plus Fund must follow the requirements of the law. That is, the proportions of investments in the Core Accumulation Fund and the Age 65 Plus Fund must be invested according to the percentages linked with a member's age as specified in the MPF legislation. Members cannot initiate adjustments on the proportion of the two funds.

However, if a member invests in the two funds as a fund choice instead of according to the DIS, the trustee will not apply the annual de-risking to this member. In these circumstances, the decision of the proportions of the two funds will be at the member's discretion, subject to the governing rules of the scheme.

In conclusion, the DIS – a brand-new investment solution under the MPF scheme – not only expects to enhance the whole MPF system, but it is also an answer to the market's demand for a fee cap on MPF funds. Members should take the time to understand the DIS and find out if their MPF accounts are affected by the new mechanism. Furthermore, always bear in mind that all investment decisions should be based on personal investment objectives and risk tolerance.