



## DIS, a lazy option? Definitely NOT!

The Default Investment Strategy (DIS) introduced under the MPF system is 5 years old. In this issue, we highlight how well DIS has done against the objectives for its introduction on 1 April 2022, and what you might want to do to ensure your employees are well informed about the DIS. Happy 5th anniversary, DIS!

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- Feature article
- Market changes
- Member education resources
- Investment performance highlights

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## DIS over 5 years

- Grown at a rate of **43% p.a.** from HK\$15.4 billion in June 2017 to **HK\$85.0 billion** in March 2022
- According to MPFA Chairperson, Ayesha Macpherson Lau, **one-in-four accounts** at end March 2022 invest according to the Default Investment Strategy or alternatively invest in the two funds under DIS!
- Please see P.2 for DIS refresh.

## Has DIS done well?

We think yes. It has, thus far, fulfilled the objectives of DIS:



### Automatic reduction of investment risk as members approach retirement age

1. Automatic de-risking was designed for members who are **not investment savvy** or who are not prepared to devote time to monitoring their investments.
2. DIS also became the default allocation for new hires who do not or do not feel able to return a valid fund selection (prior to DIS, MPF providers had different default arrangements).

The significant increase in account holders over the last 5 years can be attributed to both of the above factors.



### Capped fees

DIS fees are capped at 0.95%, lower when compared to the average fund expense ratios of 1.52% for equity funds and 1.41% for mixed assets funds as at December 2021. Lower fees translate to higher benefits on a like-for-like basis.



### Global investment for risk diversification

DIS funds are **globally diversified** whilst mixed assets funds in the MPF market with similar asset distributions tend to have more of a Hong Kong bias. This difference in geographical spread of equities (and lower fees) can be seen if we compare the performance of the mixed assets funds and the DIS funds over the last 5 years:

Median return	Equity Content	5-year Avg p.a.	Annual return since the previous 31 March				
			2018	2019	2020	2021	2022
<b>Core Accumulation Fund</b>	<b>60%</b>	<b>7.1%</b>	<b>9.0%</b>	<b>1.6%</b>	<b>-4.6%</b>	<b>29.6%</b>	<b>2.9%</b>
<b>Mixed assets funds</b>	60% - 80%	5.0%	15.5%	-2.9%	-9.1%	35.2%	-7.4%
<b>Age 65 Plus Fund</b>	<b>20%</b>	<b>3.0%</b>	<b>3.1%</b>	<b>2.4%</b>	<b>3.7%</b>	<b>8.5%</b>	<b>-2.3%</b>
<b>Mixed assets funds</b>	20% - 40%	2.6%	9.2%	-1.5%	-2.1%	15.3%	-6.3%
<b>Composite CPI</b>	<b>N/A</b>	<b>1.9%</b>	<b>2.6%</b>	<b>2.1%</b>	<b>2.3%</b>	<b>0.6%</b>	<b>1.7%</b>

Source: WTW MPF Performance Book and Hong Kong Census & Statistics Department

It is important to note that all funds shown above have **beaten inflation** over this period on a cumulative basis, which is one of the aims for any mixed assets fund – to maintain purchasing power.

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## What this means for HR practitioners?

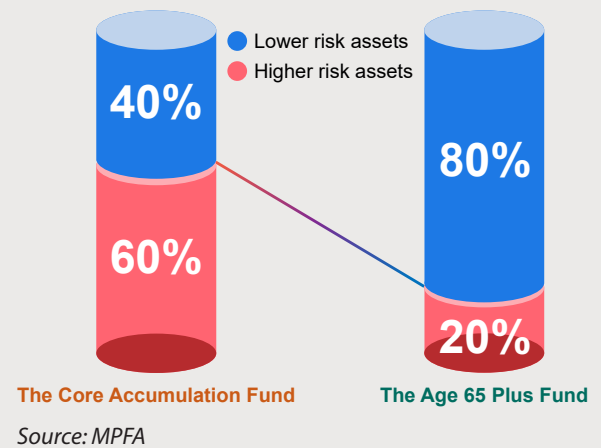
You should think about your own Company's experience, and whether further DIS communication is appropriate, e.g.:

- reminding members to review their own MPF arrangements and considering the suitability of the DIS; or
- retirement savings principles in general.

Talk to us to see how this can be coordinated with your MPF provider and what topics would best suit your workforce.

## A quick refresh on the DIS

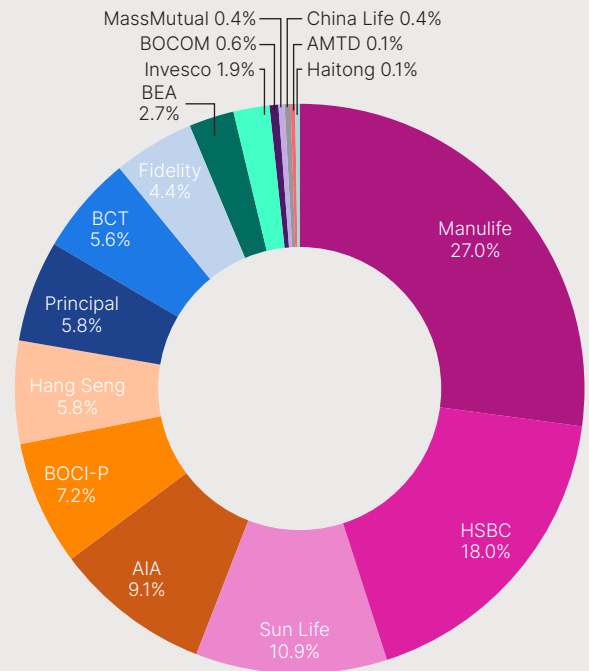
- Under DIS, every MPF provider must provide 2 funds, a Core Accumulation Fund ("CAF" made up of 60% equities and 40% bonds & cash) and an Age 65 Plus Fund ("A65F" made up of 20% equities and 80% bonds & cash).
- Before age 50, all holdings are invested in CAF to capture higher returns. From age 50, a portion of the CAF holdings are automatically moved to A65F annually until all assets are invested in A65F on the member's 64th birthday.
- From age 64, all assets will be invested in the A65F.



## Market changes

### Market Share as of 31 March 2022

As of 31 March 2022, the number of MPF schemes is 27. The ranking remains unchanged compared with last quarter.



## Member education resources

Given the defined contribution nature of the MPF scheme, it is vital to provide sufficient member education so that employees can obtain the best value from their contributions and their employer contributions.

At WTW, we are keen to provide regular short educational articles to members on hot topics and recent events. Recent articles published by WTW are available on MPFexpress.com [\[Click Here\]](#). Visit our website to find out more.

Article	Content
Volatile investment markets three things to consider in the context of your MPF savings	Investment markets continue to be very volatile, made worse recently by the Russian invasion of Ukraine, surging inflation and many central banks starting to tighten their monetary policies. This volatility can also have a direct effect on your MPF savings.
Adding ESG elements in MPF to follow the investment trend	When thinking about our investments, including those made within the MPF system, most people tend to focus on financial factors such as risk and return. However, in recent years, investors in other parts of the world, including Europe and the United States, are increasingly considering other factors too, namely those which bring a positive impact and contribution to the world.
Impact of Hong Kong's ageing population on retirement protection	Population ageing is a common issue worldwide. If the trend continues, it will impose a heavy financial burden on public retirement protection systems. In Hong Kong, this highlights the importance of MPF.
Compare and select wisely amongst the different TVC promotions	When MPF members choose to enjoy the tax deduction brought by Tax Deductible Voluntary Contributions (TVCs), they should compare providers' promotional offers carefully.
How Fintech can improve MPF members' user experience	In the MPF world, significant resources have been invested in Fintech development to improve the efficiency of administration and members' user experience.

# Highlight of investment performance up to 31 March 2022

The **annualised performance** over 1-year and 5-year periods ended 31 March 2022 of each MPF fund type was as follows:

Performance ended 31 March 2022		1-year period			5-year period		
Fund category	Fund type	Highest % p.a.	Average % p.a.	Lowest % p.a.	Highest % p.a.	Average % p.a.	Lowest % p.a.
Mixed Assets funds	Equity content > 80% funds	-5.2	-8.0	-10.8	6.9	5.9	4.9
	Equity content 60% - 80% funds	-5.0	-7.6	-10.7	6.4	4.8	0.3
	Equity content 40% - 60% funds	-5.3	-7.3	-8.6	5.1	3.8	2.8
	Equity content 20% - 40% funds	-5.4	-6.6	-7.5	3.6	2.5	2.0
Default Investment Strategy funds	Core accumulation funds	3.6	2.9	1.7	7.8	7.0	6.5
	Age 65 Plus funds	-1.8	-2.4	-3.1	3.4	3.0	2.6
Equity funds	Hong Kong equity funds	-17.7	-24.9	-29.2	8.8	2.5	0.3
	Hong Kong equity (Index Tracking) funds	-20.7	-21.5	-25.0	1.9	0.6	-0.2
	China equity funds	-27.3	-29.1	-30.6	4.0	0.6	-4.2
	Greater China equity funds	-17.7	-21.5	-24.8	11.2	7.4	4.0
	Asian ex Japan ex HK equity funds	-11.6	-13.2	-17.8	6.4	5.4	3.7
	Asian ex Japan equity funds	-8.6	-13.8	-18.2	7.9	5.9	-0.5
	Pacific Basin ex Japan equity funds	-2.0	-10.1	-16.1	9.1	5.1	-0.5
	Global equity funds	9.5	5.0	-11.1	12.3	8.7	4.5
	United States equity funds	15.8	12.4	3.3	16.3	13.3	11.8
	European equity funds	4.9	2.3	-4.6	9.5	4.6	1.6
	Japanese equity funds	-4.5	-5.1	-5.7	5.1	4.4	3.4
Bond funds	Hong Kong Dollar bond funds	-3.0	-3.3	-3.9	1.4	1.1	0.4
	Asian bond funds	-2.9	-4.1	-4.7	2.1	1.5	0.9
	Global bond funds	-5.0	-6.4	-8.1	1.3	0.3	-1.4
	RMB bond funds	2.6	2.1	0.6	3.9	3.0	2.4
Money Market funds	MPF conservative funds	0.4	0.1	0.0	1.3	0.5	0.1
	Hong Kong Dollar money market funds	-1.0	-1.0	-1.0	0.6	0.5	0.5
	RMB and HKD money market funds	4.2	3.5	3.1	3.3	2.5	2.0
Others	Guaranteed funds	1.0	-4.0	-7.8	1.9	0.7	-0.2

Source: MPFA website / MPFexpress.com / WTW MPF Performance Book

Data as at 31 March 2022

Disclaimer: The information and data included in this table are provided for general information purposes only and do not constitute investment advice, nor should they be construed as an offer or solicitation or recommendation to invest in or deal in any scheme, fund, product, service provider or service referred to. As such, the information provided should not be relied upon for any investment or other financial decisions and no such decisions should be taken without seeking specific professional advice. Any use of or reliance on any information or materials contained herein is entirely at the reader's own risk and WTW and its affiliates accept no responsibility and will not be liable for any consequences howsoever arising from any such use or reliance. In addition, please be reminded that past performance is not an indication of future performance.