MPF Default Investment Strategy Q & A

1. What is MPF Default Investment Strategy ("DIS")?

Ans: DIS is a ready-made investment arrangement mainly designed for those members who are not interested or do not wish to make a fund choice, and is also available as an investment choice itself for members who find it suitable for their own circumstances. For those members who do not make an investment choice, their contributions and accrued benefits transferred from another scheme will be invested in accordance with the DIS. The DIS is required by law to be offered in every MPF scheme and is designed to be substantially similar in all schemes. By March 31, 2017, the default investment arrangement of the Scheme is investing in all the constituent funds in equal shares. With effect from April 1, 2017, the default investment arrangement of the Scheme will be changed to DIS.

2. How are assets allocated for DIS?

Ans: The DIS aims to balance the long term effects of risk and return through investing in two constituent funds ("CFs"), namely the Core Accumulation Fund ("CAF") and the Age 65 Plus Fund ("A65F"), according to the pre-set allocation percentages at different ages. The CAF will invest around 60% in higher risk assets (higher risk assets generally mean equities or similar investments) and 40% in lower risk assets (lower risk assets generally mean bonds or similar investments) of its net asset value whereas the A65F will invest around 20% in higher risk assets and 80% in lower risk assets.

Both CFs adopt globally diversified investment principles and use different classes of assets, including global equities, fixed income, money market and cash, and other types of assets allowed under the MPF legislation.

3. What is the de-risking mechanism for DIS?

Ans: Accrued benefits invested through the DIS will be invested in a way that adjusts risk depending on a member's age. The DIS will manage investment risk exposure by **automatically** reducing the exposure to higher risk assets and correspondingly increasing the exposure to lower risk assets as the member gets older. Such de-risking is to be achieved by way of reducing the holding in CAF and increasing the holding in A65F throughout time. The asset allocation stays the same up until 50 years of age, then reduces steadily until age 64, after which it stays steady again.

Member should be aware that the above de-risking will not apply where a member chose the CAF and A65F as individual fund choices (rather than as part of the DIS).

4. Under what circumstances would Accrued Benefits to be invested in DIS?

Ans:

(A) <u>New accounts set up on or after 1 April 2017:</u>

When members join the Scheme or set up a new account in the Scheme, they have opportunity to give a specific investment instruction for their future contributions and accrued benefits transferred from another scheme. They may choose to invest their future contributions and accrued benefits transferred from another scheme into :

(a) - the DIS; or

- one or more constituent funds of their own choice from the list under Clause 3.1 of the Principal Brochure (including the CAF and the A65F) and according to their assigned allocation percentage(s) to relevant fund(s) of their choice.

Member should note that, if investments/benefits in CAF or A65F are made under the member's specific investment instructions for investment in such fund (as a standalone fund choice rather than as part of the DIS offered as a choice) ("standalone investments"), those investments/benefits will not be subject to the de-risking process. If a member's accrued benefits are invested in any combination of (i) CAF and/or A65F as standalone investments and (ii) the DIS (no matter by default or by specific investment instruction), accrued benefits invested under (i) will not be subject to the de-risking mechanism whereas for accrued benefits under (ii) will be subject to the de-risking process. In this connection, members should pay attention to the different on-going administration arrangements applicable to accrued benefits invested in (i) and (ii).In particular, member will when giving a fund switching instruction, be required to specify to which part of the benefits (namely, under (i) or (ii))the instruction relates.

(b) If members do not give valid specific investment instruction and no clarification is received by the Trustees, his/her future contributions and accrued benefits transferred from another scheme will be automatically invested in the DIS.

(B) Existing account set up before 1 April 2017:

There are special rules to be applied for accounts which exist or are set up before April 1, 2017 ("Pre-existing Accounts") and these rules **only apply to Member who is under or becoming 60 years of age on April 1, 2017:**

(a) For member's Pre-existing Account with all accrued benefits being invested according to the original default investment arrangement and no valid Specific Investment Instruction on those Accrued Benefits is given

If the accrued benefits in a member's Pre-existing Account are only invested according to the original default investment arrangement of the Scheme (i.e. investing in all the constituent funds in equal shares), special rules and arrangements will be applied, in due course, to determine whether the accrued benefits in such account will be transferred to the DIS and whether the future contributions and accrued benefits transferred from another scheme for such account will be invested in DIS. If the member's Pre-existing Account is the one described above, a notice called the **DIS Re-investment Notice** ("the DRN") may be sent to the member within 6 months from April 1, 2017 explaining the impact on such account and giving the member an opportunity to give a specific investment instruction to the Trustee before the accrued benefits, future contributions and accrued benefits transferred from another scheme are invested into the DIS. **Members should note that the risk inherent in the arrangement, in particular, the risk of the original default investment arrangement** (i.e. investing in all the constituent funds for which the risk levels are ranged from "low" to "high" in equal shares) **may be different from that of the DIS**(for which the risk level of the DIS CFs are ranged from "low to medium" to "medium to high")**. They will also be subject to market risks during the redemption and reinvestment process.**

For details of the arrangement, members should refer to the DRN.

For the accrued benefits of a member's Pre-existing Account which are only invested according to the original default investment arrangement of the Scheme (i.e. investing in all the constituent funds in equal shares), part of those accrued benefits have been invested in the Guaranteed Fund. Where a guarantee value of those accrued benefits investing the Guaranteed Fund of the member greater than its market value to be paid to the member upon the expiry of the 42-days period from the date of issuance of DRN or the expiry of the 60-day period for un-located members, the above rules will not apply for the member (i.e. those Accrued Benefits investing the Guaranteed Fund will remain unchanged). For the future contributions and/or accrued benefits transferred from another scheme for that member on or after the expiry of the 42-days period from the date of issuance of DRN or the expiry of the 60-day period for un-located members, these contributions and/or accrued benefits transferred from another scheme will be invested into the DIS. A member could obtain the valuation result of the accrued benefits investing in the Guaranteed Fund by calling our hotline at 2533 5522 on or after the expiry of the 42-days period from the date of issuance of DRN or the expiry of the 60-day period for un-located members. The valuation result would also be shown in the confirmation statement issued to member not later than 5 business days after the dealing day on which (i) all relevant accrued benefits in Pre-existing Account are invested into the DIS or (ii) the accrued benefits (other than the accrued benefits investing in the Guaranteed Fund) in Pre-existing Account are invested into the DIS.

(b) For a member's Pre-existing Account with part of the accrued benefits in the original default investment arrangement

For a member's Pre-existing Account which is invested part of the accrued benefits in the original default investment arrangement immediately before April 1, 2017, unless the Trustee has received any specific investment instructions, accrued benefits of a member will be invested in the same manner as accrued benefits were invested immediately before the commencement date. Future contribution and accrued benefits transferred from another scheme for a member will be invested in accordance with DIS.

(C) <u>Existing members who has reached 60 years of age before April 1, 2017:</u>

If members have reached 60 years of age before April 1, 2017, their accrued Benefits in Pre-existing Accounts, future contributions and accrued benefits transferred from another scheme will be invested in the same manner as they were invested unless the members otherwise instructs as permitted under the Trust Deed.

Subject to the specific investment instruction given and/or the portion of accrued benefits being investing in the original default investment arrangement, the implementation of the DIS legislation may have impact on Member's accrued benefits and future investment. Member could contact the Trustee if the member would like to have more details whether the member is subject to DIS.

If the Trustee receives instruction from a member on switching or transferring all of the accrued benefits out from DIS to standalone DIS CFs or non-DIS CFs, the de-risking is discontinued.

5. Is there any fee cap for DIS?

Ans: In accordance with the MPF legislation, the aggregate of the payments for services of the CAF and A65F must not, in a single day, exceed a daily rate 0.75% per annum of the net asset value ("NAV") of each of these DIS CFs divided by the number of days in the year.

The above aggregate payments for services (i.e. Management Fees) include, but is not limited to, the fees paid or payable for the services provided by the Trustee, the administrator, the investment manager(s), the custodian and the sponsor and/or the promoter of the Scheme and the Underlying Investment Fund(s) of the respective DIS CF and any of the delegates from these parties and such fees are calculated as a percentage of the NAV of each of the DIS CFs and its underlying investment fund(s), but does not include any Out-of-pocket expenses incurred by each DIS CF and its Underlying Investment Fund(s).

In accordance with the MPF legislation, the total amount of all payments that are charged to or imposed on the DIS CFs or Members who invest in DIS CFs, for Out-of-pocket expenses incurred by the Trustee on a recurrent basis in the discharge of the Trustee's duties to provide services in relation to the DIS CFs, shall not in a single year exceed 0.2% of the NAV of the DIS CFs. For this purpose, Out-of-pocket expenses include, for example, annual audit expenses, printing or postage expenses relating to recurrent activities (such as issuing annual benefit statements), recurrent legal and professional expenses, safe custody charges which are customarily not calculated as a percentage of NAV and transaction costs incurred by a DIS CFs in connection with recurrent acquisition of investments for the DIS CFs (including, for example, costs incurred in acquiring underlying funds) and annual statutory expenses (such as compensation fund levy where relevant) of the DIS CFs.

Out-of-pocket expenses that are not incurred on a recurrent basis may still be charged to or imposed on the DIS CFs, and do not subject to the statutory limit.

6. How can members access information on the performance of DIS CFs?

Ans: The fund performance of the CAF and A65F will be published in the fund factsheet and one of the fund factsheets will be attached to annual benefit statement and sent to members, members can visit www.massmutualasia.com or call the customer service hotline 2533 5522 for information. Members may also obtain the fund performance information at the website of the Mandatory Provident Fund Schemes Authority (www.mpfa.org.hk).

A Member can find the information on the definition and actual figures of fund expense ratio of the DIS CFs at the website of the Mandatory Provident Fund Schemes Authority. The actual figure of fund expense ratio of the DIS CFs could also be located in the fund fact sheet of the DIS CFs.

To provide a common reference point for performance and asset allocation of the CAF and A65F, a MPF industry developed reference portfolio is adopted for the purpose of the DIS. The fund performance will be reported against a reference portfolio published by the Hong Kong Investment Funds Association, please visit www.hkifa.org.hk for further information regarding the performance of the reference portfolio.

The fund performance is calculated in Hong Kong dollar on NAV-to-NAV basis. Past performance is not indicative of future performance. There is no assurance that investment returns and members' accrued benefits may not suffer significant loss. Members should regularly review the performance of the funds and consider whether the investments still suit their personal needs and circumstances.