



# Fund Expense Ratio (FER) of MPF Funds

23 November 2016





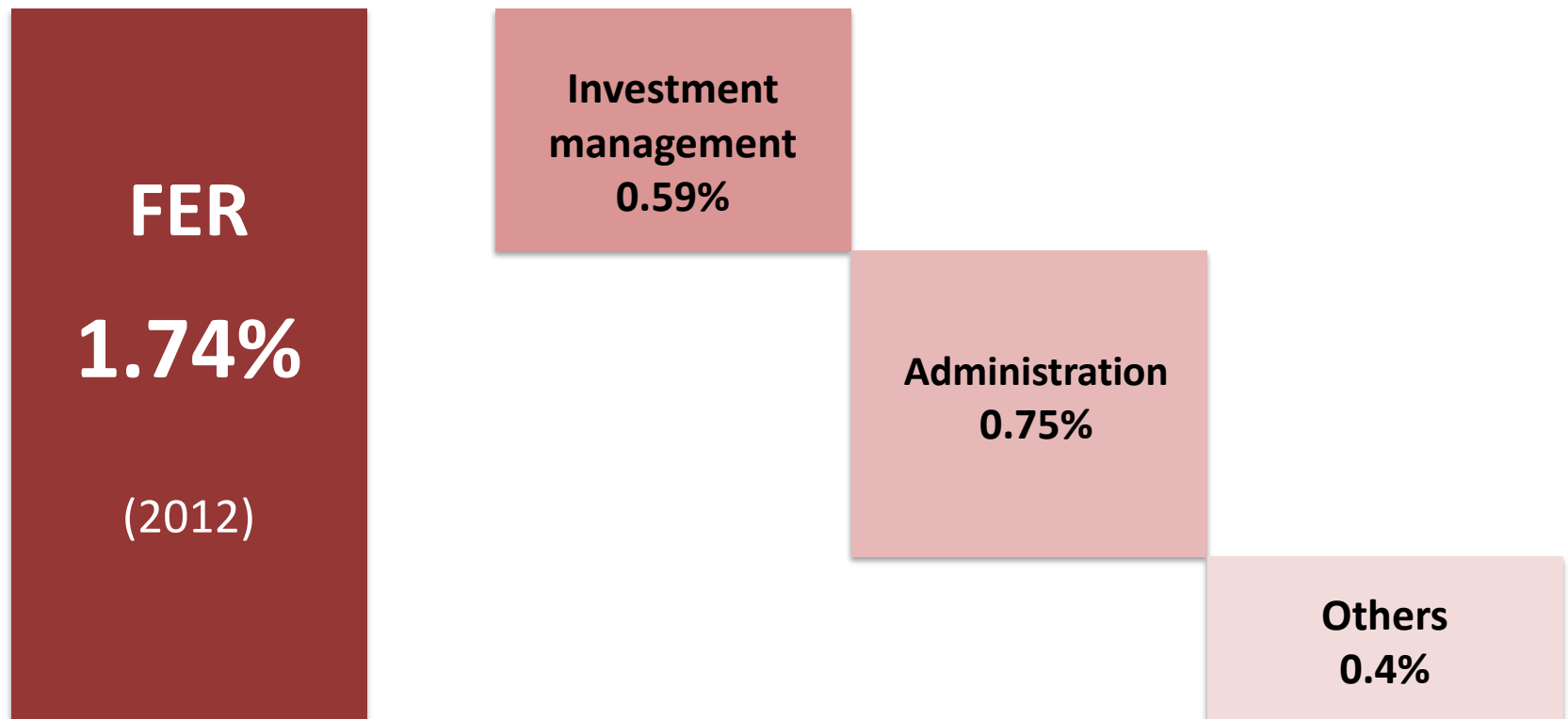
# Fee charged by MPF service providers

- MPF schemes provide services that go far beyond simple investment management
  - ✓ Have to provide a basket of services
  - ✓ Apart from investment management fees, scheme members also have to pay for scheme administration
- MPF System is privately managed
  - ✓ Trustees, investment managers and other service providers are private companies and must charge fees to cover the costs of their operations
- Fees are deducted from the fund's assets





# Components of FER



\*According to the study by an independent consultant commissioned by the MPFA in 2012

# What is FER

## A comparison tool



FEE COMPARATIVE PLATFORM

- Home
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- 簡體中文
- Glossary
- Help

### Analysis of FER (Fund Expense Ratio)

Analysis of FER									
Fund Type	No. of Funds	Average FER	Highest FER	Constituent Fund / Scheme	MPF Trustee	Lowest FER	Constituent Fund / Scheme	MPF Trustee	Details
Equity Fund	181	1.57%	2.22%	FWD MPF Comprehensive Scheme Asian Equity Portfolio / FWD MPF Master Trust Comprehensive Scheme	FWD	0.63%	Haitong Hong Kong SAR Fund - Class T / Haitong MPF Retirement Fund	HTHK	<a href="#">More</a>
Mixed Assets Fund	185	1.72%	2.10%	FWD MPF Comprehensive Scheme Stable Growth Portfolio / FWD MPF Master Trust Comprehensive Scheme	FWD	0.70%	Invesco Global Stable Fund / SHKP MPF Employer Sponsored Scheme *	RBC IST	<a href="#">More</a>
Bond Fund	50	1.36%	1.89%	BCT (Industry) Global Bond Fund / BCT (MPF) Industry Choice	BCT	0.77%	Asian Bond Fund / AIA MPF - Prime Value Choice	AIAT	<a href="#">More</a>
Guaranteed Fund	25	2.08%	3.48%	Guaranteed Fund / MASS Mandatory Provident Fund Scheme	MassMutual	1.30%	Principal Capital Guaranteed Fund - Class D / Principal MPF Scheme Series 800	PRIN	<a href="#">More</a>
Money Market Fund - MPF Conservative Fund	38	0.64%	1.13%	Manulife MPF Conservative Fund - Advanced / Manulife MPF Plan - Advanced Manulife MPF Conservative Fund - Basic / Manulife MPF Plan - Basic	RBC IST RBC IST	0.21%	MPF Conservative Fund / Fidelity Retirement Master Trust	HTHK	<a href="#">More</a>
Money Market Fund - non MPF Conservative Fund	10	1.04%	1.35%	Sun Life MPF RMB and HKD Fund - Class A / Sun Life Rainbow MPF Scheme	Sun Life	0.60%	BOC-Prudential MPF RMB & HKD Money Market Fund / BOC-Prudential Easy-Choice Mandatory Provident Fund Scheme	BOCIP	<a href="#">More</a>
Others	4	1.28%	1.39%	Principal HK Dollar Savings Fund - Class I / Principal MPF Scheme Series 800	PRIN	1.02%	Principal HK Dollar Savings Fund - Class D / Principal MPF Scheme Series 800	PRIN	<a href="#">More</a>
<b>Overall</b>	<b>493</b>	<b>1.68%</b>	<b>3.48%</b>			<b>0.21%</b>			

Reduction in average FER since the launch of the platform in 2007: 24.27%  
\*click for details

No (%) of constituent funds in different ranges of FER								
	1% or below	1.01% to 1.25%	1.26% to 1.5%	1.51% to 1.75%	1.76% to 2%	2.01% to 2.25%	2.26% to 2.5%	above 2.5%
End 2013	59 (11.7%)	45 (8.9%)	52 (10.3%)	90 (17.9%)	122 (24.3%)	73 (14.5%)	33 (6.6%)	29 (5.8%)
End 2014	83 (16.2%)	53 (10.4%)	63 (12.3%)	102 (20.0%)	99 (19.4%)	61 (11.9%)	26 (5.1%)	24 (4.7%)
End 2015	72 (13.8%)	79 (15.1%)	85 (16.3%)	114 (21.8%)	105 (20.1%)	38 (7.3%)	18 (3.4%)	11 (2.1%)
1 Nov 2016	76 (15.7%)	69 (14.3%)	85 (17.6%)	115 (23.8%)	90 (18.6%)	34 (7.0%)	3 (0.6%)	11 (2.3%)





# Limitations of FER



Only a comparison tool



A lagging figure



Not appropriate to be compared to the fees of retail funds or overseas pension systems

# Where to find FER

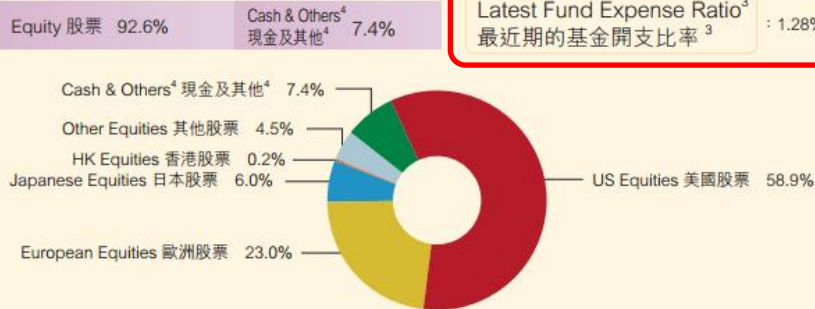
## Fund Fact Sheet

### Investment Objective 投資目標

To achieve long-term capital appreciation within a controlled risk-return framework through investing mainly in global equities with some exposure in global debt securities/money market instruments.

透過以全球股票為投資對象，亦有少量比重投資全球債券/貨幣市場，在波動程度備受管理範圍內，盡量為投資提供長期資本增值。

### Portfolio Allocation 投資組合分佈



### Fund Information 基金資料

Fund Size 基金資產值 : 114.09 Million (HK\$) 百萬(港元)  
 Launch Date 推出日期 : 4/1/2010  
 NAV per unit (HK\$) 每單位資產淨值(港元) : 12.4304

### Fund Descriptor 基金類型描述

Equity Fund — Global  
 股票基金 — 環球

Latest Fund Expense Ratio<sup>3</sup> : 1.28%  
 最近期的基金開支比率<sup>3</sup>

### Fund Risk Indicators<sup>1</sup> 基金風險標記<sup>1</sup>

Annualised Standard Deviation 年度標準差 : 10.57%

### Fund Performance Information<sup>2a</sup> 基金表現資料<sup>2a</sup>

Annualised Return 年度回報				
1 Year 1年	3 Years 3年	5 Years 5年	10 Years 10年	Since Launch 自成立起
-0.31%	5.31%	3.28%	N/A 不適用	3.55%

Cumulative Return 累積回報				
1 Year 1年	3 Years 3年	5 Years 5年	10 Years 10年	Since Launch 自成立起
-0.31%	16.81%	17.52%	N/A 不適用	24.30%

Calendar Year Return <sup>2b</sup> 曆年回報 <sup>2b</sup>								
2008	2009	2010	2011	2012	2013	2014	2015	Year to Date 年初至今
N/A 不適用	N/A 不適用	3.22%	-12.35%	12.23%	18.75%	0.82%	1.08%	1.17%

### Top 10 Portfolio Holdings 投資組合內十大資產

FRESENIUS MEDICAL CARE AG	2.50%
ALPHABET INC	2.21%
HOME DEPOT INC	2.21%
PHILIP MORRIS INTERNATIONAL INC	2.17%
AUTOZONE INC	2.08%
DOLLAR GENERAL CORPORATION	2.05%
BRITISH AMERICAN TOBACCO	1.82%
CHECK POINT SOFTWARE TECHNOLOGIES LTD	1.81%
ACCENTURE PLC	1.72%
ALLIANCE DATA SYSTEMS CORPORATION	1.70%

### Commentary 評論

- The Federal Open Market Committee left rates unchanged at its meeting in January as expected, and reduced its expected number of rate hikes from four to two, as the Federal Reserve (Fed) acknowledged a slowdown in growth towards end of 2016 in its statement. During March, global stock markets experienced a rally as the dollar grew weaker.
- European Central Bank (ECB) president Mario Draghi reiterated that the ECB would do what was necessary to push inflation back to its target of 2%. The ECB then launched further policy easing in March, stimulating growth in European economies.
- Asia ex Japan equities posted a slight gain for the quarter despite ongoing volatility. Major player China experienced an economic slowdown and significant currency outflows, which affected other Asian countries as well.
- 聯邦公開市場委員會確認經濟增長放緩至2016年底，一如預期於1月的會議中維持息率不變，並調低2016年預期加息次數，由4次減至2次。3月，美元較為疲弱，環球股市上揚。
- 歐洲央行行長德拉吉重申歐洲央行於需要時將會用盡方法推動通脹回復至其2%的目標。因此，歐洲央行於3月推出進一步寬鬆政策，刺激歐洲經濟增長。
- 儘管持續波動，亞洲（日本除外）股票錄得輕微升幅。主要持分者中國的經濟放緩及大量資金外流，影響其他亞洲國家。



# Where to find FER

## Fee Comparative Platform on MPFA website

MPF Trustee	Scheme	Constituent Fund	Fund Type	Latest FER	OCI 1 Year	OCI 5 Year
BEA	BEA (MPF) Value Scheme	BEA Asian Equity Fund	Equity Fund	1.01%	\$11	\$57
BEA	BEA (MPF) Value Scheme	BEA Global Equity Fund	Equity Fund	1.01%	\$11	\$57
BEA	BEA (MPF) Value Scheme	BEA Greater China Equity Fund	Equity Fund	1.01%	\$11	\$57
China Life	China Life MPF Master Trust Scheme	China Life Hong Kong Equity Fund	Equity Fund	1.03%	\$11	\$58
Manulife	Manulife Global Select (MPF) Scheme	Manulife MPF Hang Seng Index Tracking Fund	Equity Fund	1.03%	\$11	\$58
BOCIP	BOC-Prudential Easy-Choice Mandatory Provident Fund Scheme	BOC-Prudential CSI HK 100 Tracker Fund	Equity Fund	1.03%	\$11	\$59
HSBC	Hang Seng Mandatory Provident Fund - ValueChoice	ValueChoice European Equity Fund	Equity Fund	1.04%	\$11	\$59
HSBC	HSBC Mandatory Provident Fund - ValueChoice	ValueChoice European Equity Fund	Equity Fund	1.04%	\$11	\$59
BOCIP	My Choice Mandatory Provident Fund Scheme	My Choice Hong Kong Equity Fund	Equity Fund	1.04%	\$11	\$60
PRIN	Principal MPF Scheme Series 600	Principal Hang Seng Index Tracking Fund - Class N	Equity Fund	1.04%	\$11	\$60
PRIN	Principal MPF Scheme Series 800	Principal Hang Seng Index Tracking Fund - Class N	Equity Fund	1.05%	\$11	\$60
BOCIP	My Choice Mandatory Provident Fund Scheme	My Choice Global Equity Fund	Equity Fund	1.05%	\$11	\$60
HSBC	Hang Seng Mandatory Provident Fund - ValueChoice	ValueChoice Asia Pacific Equity Fund	Equity Fund	1.05%	\$11	\$60
HSBC	HSBC Mandatory Provident Fund - ValueChoice	ValueChoice Asia Pacific Equity Fund	Equity Fund	1.05%	\$11	\$60
BEA	BEA (MPF) Value Scheme	BEA Greater China Tracker Fund	Equity Fund	1.06%	\$11	\$61
HTHK	Haitong MPF Retirement Fund	Haitong Asia Pacific (excluding HK) Fund - Class T	Equity Fund	1.06%	\$11	\$61
Sun Life	Sun Life Rainbow MPF Scheme	Sun Life FTSE MPF Hong Kong Index Fund - Class A	Equity Fund	1.06%	\$11	\$61
Sun Life	Sun Life Rainbow MPF Scheme	Sun Life FTSE MPF Hong Kong Index Fund - Class B	Equity Fund	1.06%	\$11	\$61
				1.07%		
				1.07%		
				1.07%		
				1.07%		



# International Organisation of Pension Supervisors







## ► Working paper (no.15)

- ✓ Among different private pension systems in the world, Hong Kong was a pioneer in developing and using a synthetic indicator of fund fees
- ✓ The FER was regarded as an effective tool to help scheme members compare fund fees





# MPFA efforts to drive fees down

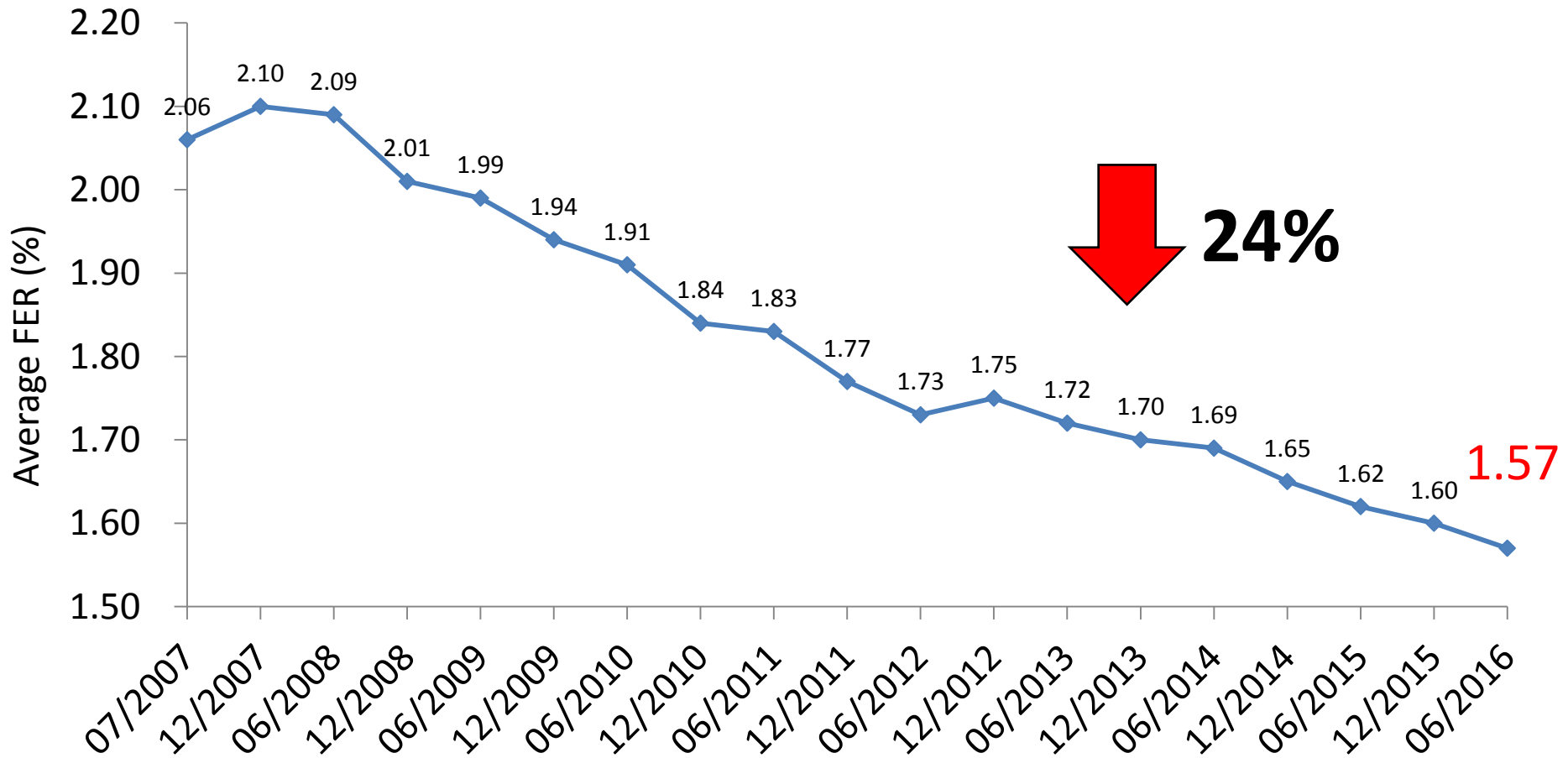
-  Laying down requirements on fee disclosure to increase transparency
-  Launching the Low Fee Fund List
-  Introducing the Employee Choice Arrangement
-  Simplifying scheme administration work
-  Encouraging trustees to merge less efficient schemes and funds
-  Implementing the Default Investment Strategy with fee caps



# **Fees and Expenses of MPF Funds: An Overview of the Fund Expense Ratio and Its Trends**

## **Major Findings**

# FER reduction trend is persistent

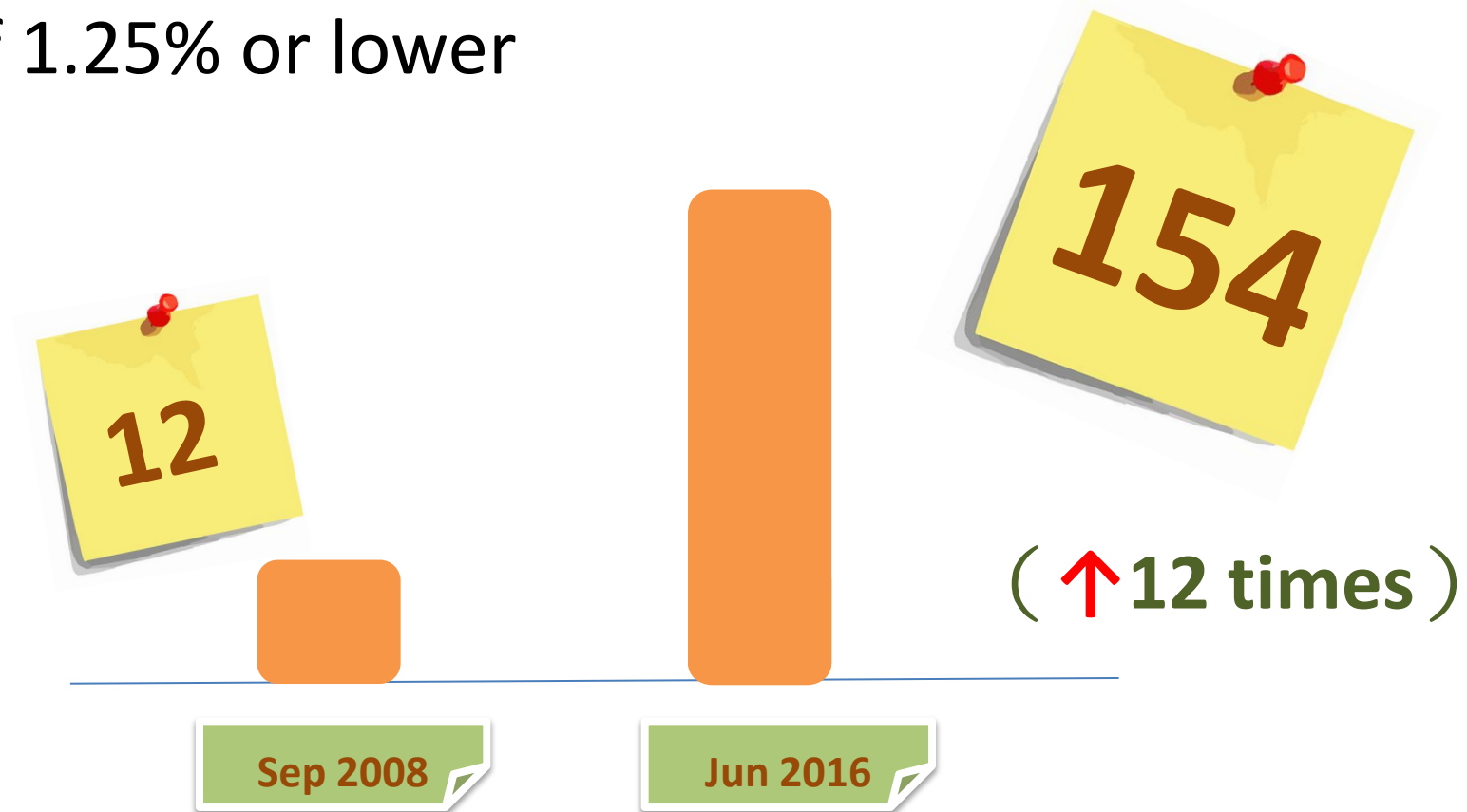


# Downward trend of FER for all fund types

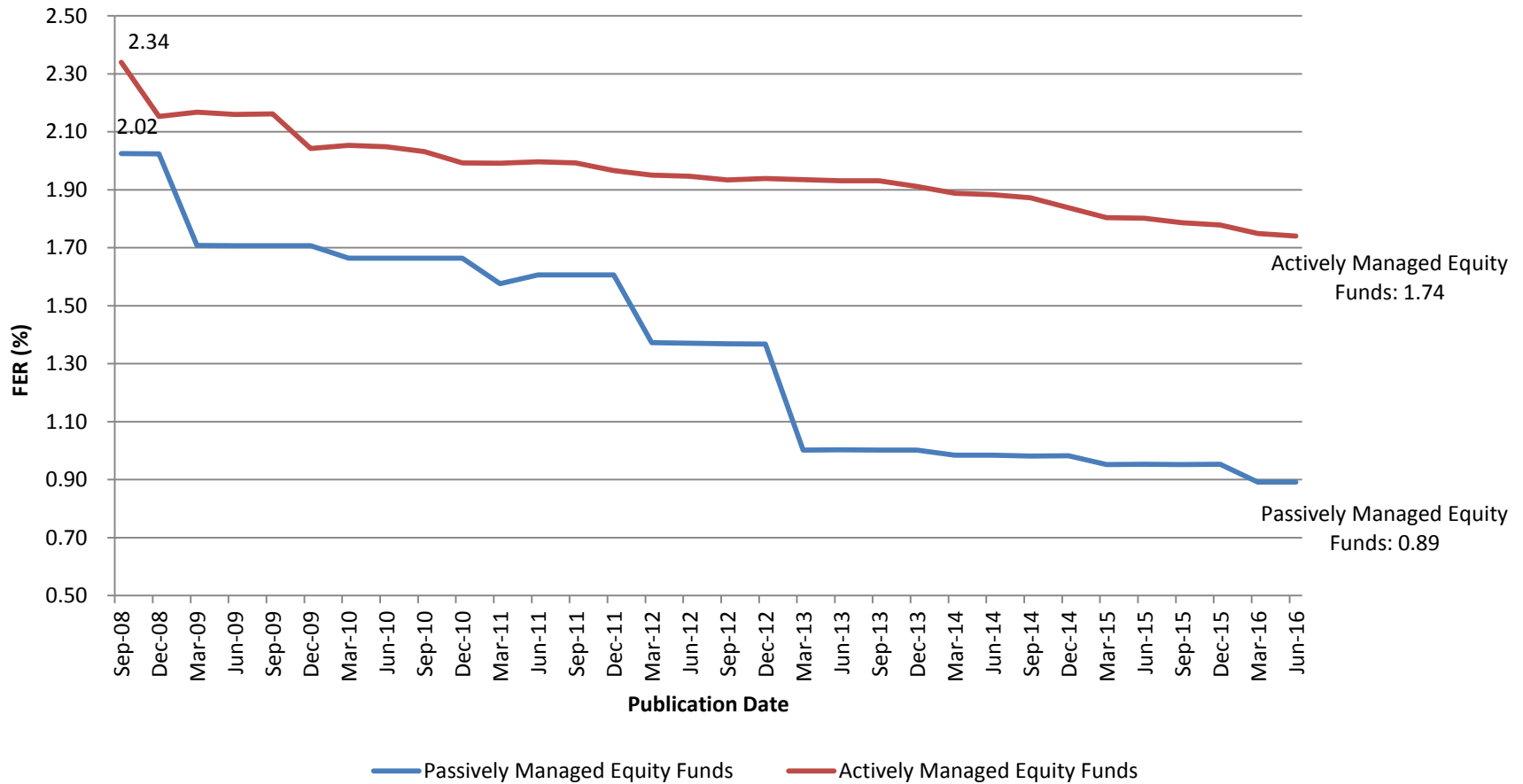
Fund Type	Average FER		
	Jul 2007	Jun 2016	Reduction
Equity Fund	2.07%	1.58%	↓24%
Mixed Assets Fund	2.11%	1.72%	↓18%
Bond Fund	2.12%	1.38%	↓35%
Guaranteed Fund	2.55%	2.08%	↓18%
MPF Conservative Fund	1.48%	0.69%	↓53%

# Number of low FER funds increased substantially

- ▶ The number of funds with an FER of 1.25% or lower



# Passively managed equity funds reported a lower FER



# Other findings



**Higher FER  $\neq$  Higher returns**

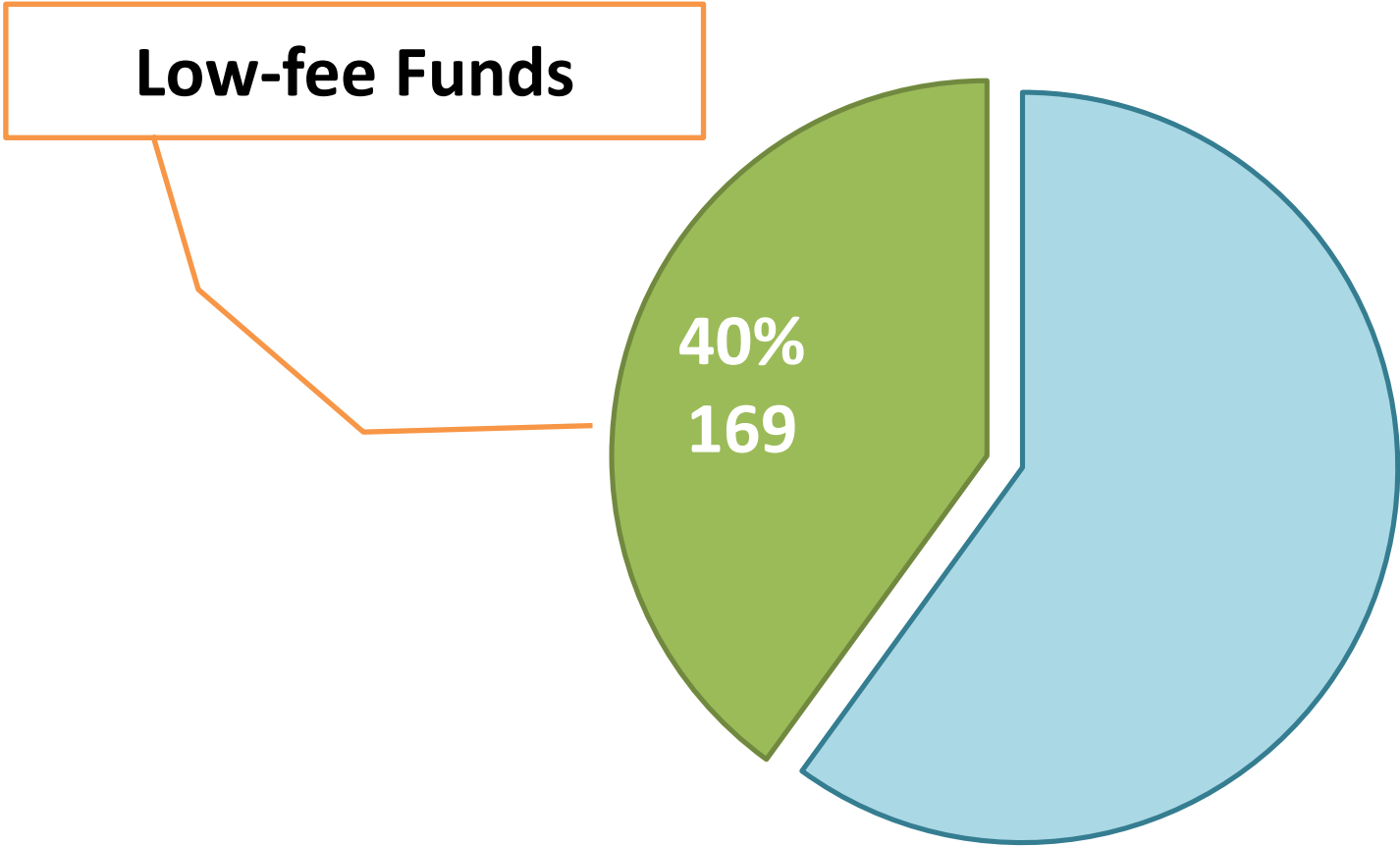


**Larger funds, older funds  $\neq$  Lower FERs**



**Larger FER reductions  $\neq$  Higher growth of inflows**

# Choice of Low-fee Funds



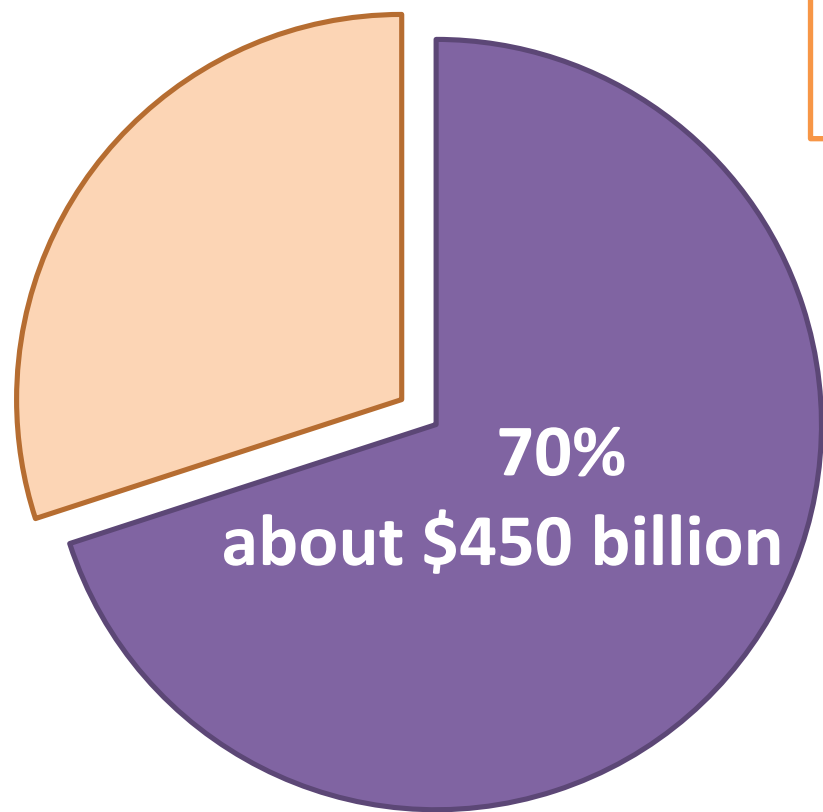
**Number of funds**

Oct 2016 : 429





# Portable MPF assets



**Portable MPF assets**

**Total MPF asset value**

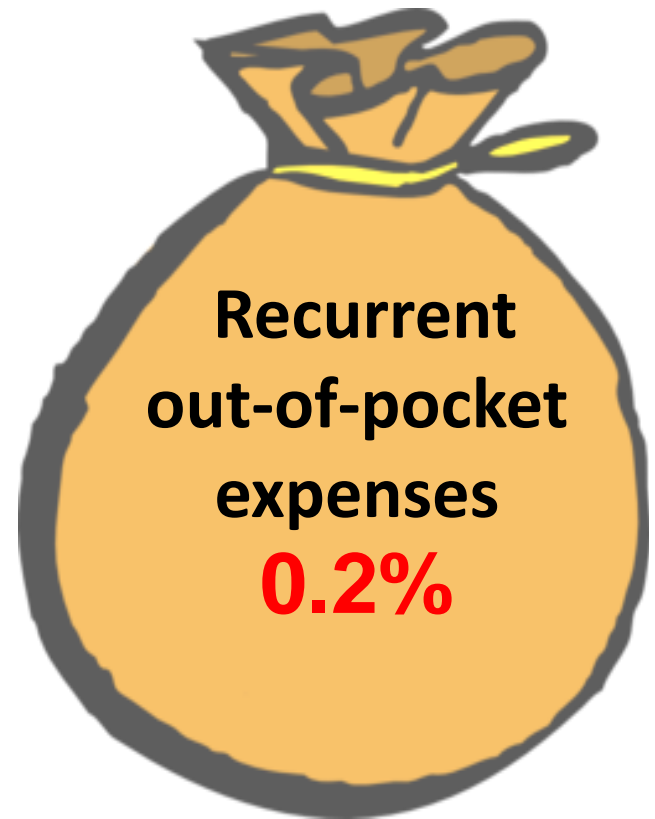
Sep 2016 : \$655 billion



# Default Investment Strategy

# Default Investment Strategy

► DIS has fee caps



# Default Investment Strategy

Fee caps will have a **benchmarking effect**, enhancing competition and bringing about further MPF fee reduction



# Conclusion

Private pension systems around the world are facing the same challenge of how to reduce fees

Fees of MPF funds should not be compared with fees of retail funds

The average FER is decreasing and has fallen 24% so far

Funds with a higher FER may not have better investment performance

# Conclusion

When two funds have similar investment objectives, the one that charges lower fees would likely have a better return

40% (169) of the funds in the market are Low-fee Funds, and 70% of MPF assets (about \$450 billion) are portable

Scheme members should consider the FER when making investment decisions

DIS is a ready-made investment solution with fee caps



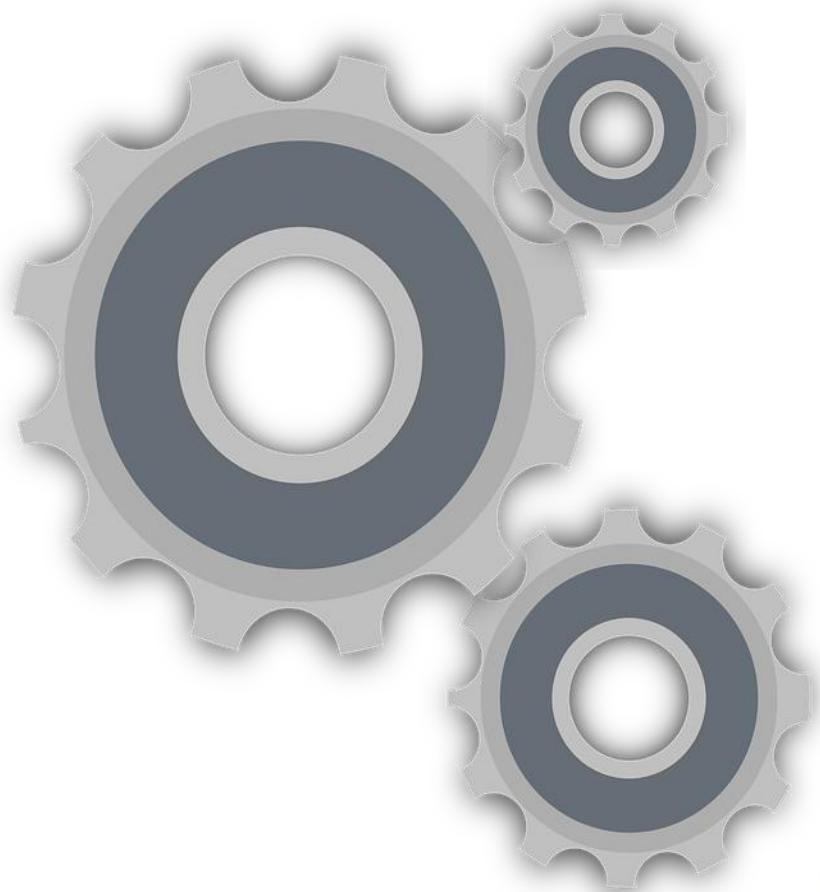
**Active management of MPF accounts by scheme members would bring market forces to bear on providers**



**Scheme members should consider fees when choosing MPF funds**



**With the concerted efforts of scheme members and the MPFA, fund fees would come down further**





# Q&A