BCT 銀聯集團

A Quick Guide for You - DIS

(For appointed intermediaries' reference only, not for public distribution)

The Mandatory Provident Fund Schemes (Amendment) Bill 2015 was passed by the Legislative Council in May 2016, which provides for the introduction of the Default Investment Strategy ("DIS") in every MPF scheme. The DIS is designed mainly for MPF members **who do not have time**, or **do not know how to manage** their MPF investment. They can also actively select the DIS or funds under the DIS if they find that the solution suits their own circumstances. The DIS will be launched on 1 April 2017. This leaflet introduces the key features of the DIS and explains in general terms how this will impact members' MPF accounts.

DIS 1, 2, 3

1 ONE Investment Solution

Ready-made and low cost

2 TWO Constituent Funds

Core Accumulation Fund ("CAF")
核心累積基金

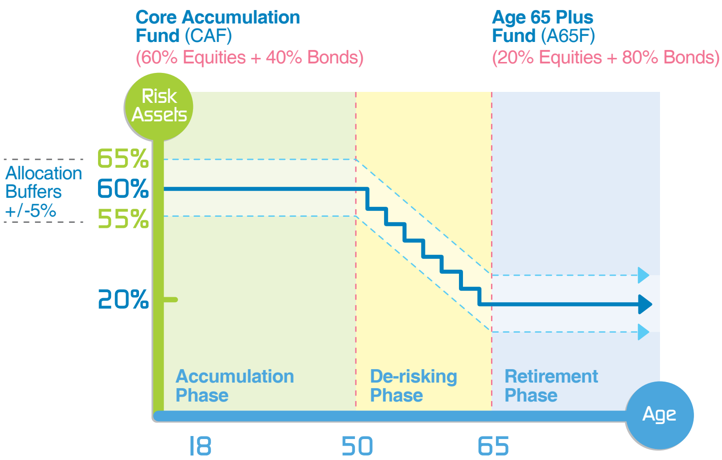
Age 65 Plus Fund ("A65F")
65 歲後基金

3 THREE Features

1. **Fee cap:** Management fee: 0.75% p.a. of NAV
   Out-of-pocket expenses: 0.20% p.a. of NAV
2. **Age-based** de-risking
3. **Globally diversified** investment principle

How does "Age-based de-risking" work?

The DIS manages the investment risk exposure by **automatically** reducing risk as members get older. As an MPF member approaches retirement age, the investment strategy will be progressively adjusted to reduce the proportion of higher risk assets.



De-risking Phase

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 and above	0.0%	100.0%

- **Aged below 50:** All MPF contributions will be invested in the CAF.
- **Aged 50 to 64:** The accrued benefits in the CAF will be gradually shifted into the A65F, at a rate of around 6.7% of assets every year. (as illustrated in the above table)
- **Aged 64 and above:** All MPF assets will be held in the A65F.

How Does DIS Affect Members?

They HAVE NOT given investment instruction

- Their MPF assets may be affected.
- If they are under or become 60 years old on the effective date (i.e. 1 April 2017).

They are NOT SURE if they have given investment instruction

- Contact BCT as soon as possible to review their MPF investment instructions.

They HAVE GIVEN investment instruction

- In general, there is no impact.
- There are some exceptions. Their account(s) may be affected if they haven't specified investment instruction for all MPF assets and future contributions.

If your clients are not sure which situation they are in, they may call our Member Hotline 2298 9333.

Timeline and Transitional Arrangement

Jan 2017 **DIS Pre-implementation Notice ("DPN") & Important Note**

DIS Re-investment Notice ("DRN")

Pre-launch — 1 April 2017 — **DIS**

To all members

To provide information about the DIS, including its features, investment objectives and risks, fees, asset allocation and potential impact on members' MPF accounts.

To relevant members only

To explain how the relevant members' MPF accounts will be affected, and the options available to them.

Learn about "Opt-out Approach"

The relevant members need to opt-out from the arrangement if they don't agree to take it. If no reply is given within 42 days of the date of the DRN, any MPF assets already accumulated, future contributions and MPFs transferred from another scheme in the future will be invested in accordance with the DIS.

DIS Re-investment Notice ("DRN")

BCT → Relevant members

Relevant members can opt-out from DIS

Re-invest in DIS if no opt-out indication

→ DIS

1 April 2017

Within **6 months** after commencement date

Within **42 Days**

Within **14 Days**

Quick questions you may ask...

Are returns of the DIS under different schemes identical?

As various investment approaches (active, passive, hybrid, etc.) can be adopted for different DIS funds under different schemes

Standardized investment strategy ≠ **Identical investment outcomes**

Can members choose to invest in the DIS?

- Yes. The DIS, the CAF and the A65F are also for members to choose as active choice(s).
- But they should note the de-risking feature does not apply if they choose the stand-alone fund(s) – i.e. the CAF and the A65F.

Active Investment Option	De-risking Applies
DIS (the strategy)	✓
Core Accumulation Fund (CAF)	✗
Age 65 Plus Fund (A65F)	✗

Can members get out or change their mind?

- Yes, members can switch into, or out of the DIS at any time.
- You should, however, remind members that the DIS has been designed as a long-term investment solution. If they switch into or out of the DIS, they may be negatively affecting the balance between risk and return attributes.

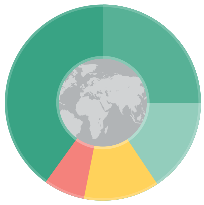
What are the risks and likely returns?

- Both the asset allocation and the risk reduction strategy do reduce risks over the long-term, but even then, there are investment risks; returns are not guaranteed in any way and there will be usual investment volatility, particularly in the shorter term.
- The risks specific to the two constituent funds are set out in the relevant parts of the Principal Brochure.

Is the DIS right for all?

- It depends on each member's personal circumstances.
- The DIS is only one of the fund options, just like other fund options, in the MPF scheme.
- If they want a solution for their individual circumstances, you may help them understand their financial resources, needs and attitude to risk and then select MPF funds that best meet those needs and risk profile.

DIS, Target Date Funds, Mixed Asset Funds – What's the Difference?



The upcoming DIS adopts a globally diversified investment principle, and invests mainly in equities and bonds. At first glance, it appears to be very similar to the target date funds and mixed asset funds already available in the market. So what is the difference between the three? Let's briefly list out each product's features:

	DIS	Target Date Fund	Lifestyle / Mixed Asset Fund
Key Features	• It uses two funds, both of which adopt a globally diversified investment approach investing mainly in global equities and global bonds • Biased towards developed markets (such as the US and Europe) • Maximum equity portion of portfolio is 60%	• A lifecycle investment solution that adopts a globally diversified investment approach by investing in a wide range of asset classes (equities, bonds and cash) • Biased towards Asian markets (such as Hong Kong) • In general, equity portion of portfolio could be close to 100%	• Adopts a globally diversified investment approach investing mainly in global equities, global bonds and bank deposits • Generally biased towards Asian markets (such as Hong Kong) • Funds with different proportions in portfolio's asset mix are available • In general, equity portion of portfolio could reach 90%
De-risking Mechanism	Age-based de-risking takes place through administrative means over 15 years without consideration of market factors.	• An investor only needs to decide on the year of retirement, and the experienced fund manager will formulate an appropriate asset mix throughout his/her working life. • With consideration of market conditions, the fund manager will gradually shift the portfolio mix from aggressive, higher risk investments (such as equities), to more conservative, less risky investments (such as bonds), as the retirement date approaches. • The de-risking process generally takes place over about 7 years before the target date.	Nil. The member may de-risk through fund switching.
Fees	It has a fee cap: • Management fee: 0.75% p.a. of NAV • Out-of-pocket expenses: 0.20% p.a. of NAV	Fees are generally higher as this type of fund is actively managed.	Fees are generally higher as this type of fund is actively managed.
Flexibility	The de-risking mechanism is age-based. Under the strategy, members cannot decide on the allocation of the two funds or the date of the de-risking.	The fund is actively managed with flexible asset allocation and stock selection according to market conditions.	A member may invest in one or more lifestyle/mixed asset funds, with asset mix proportion that fits his/her risk tolerance and preference.

As the table above illustrates, each product has its advantages and limitations. Fee level is one, but not the only factor. After all, the DIS or specific funds under the solution are only additional fund options for members. To make informed investment decisions, you can advise members to use BCT's retirement planning tools **(https://www.bcthk.com/en/retirement-planning/introduction)** to better understand their own retirement objectives and risk tolerance.

If your clients have any queries about the DIS, including how it will affect them, please ask them to call our Member Hotline 2298 9333. More information is also available on **www.bcthk.com**.

BCT 銀聯集團

18/F Cosco Tower, 183 Queen's Road Central, Hong Kong

Member Hotline 2298 9333 | Employer Hotline 2298 9388 | www.bcthk.com

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