HSBC

April 2017

# Frequently Asked Questions to Participating Employers and Members of the HSBC Mandatory Provident Fund Schemes

From 1 April 2017 ("Effective Date"), the default investment arrangement of the HSBC Mandatory Provident Fund — SuperTrust Plus ("SuperTrust Plus") and the HSBC Mandatory Provident Fund — ValueChoice ("ValueChoice") is the Default Investment Strategy ("DIS") replacing the original default fund which was "MPF Conservative Fund".

## General

**1. What is DIS?**

DIS is a default investment arrangement as stipulated in accordance with the Mandatory Provident Fund Schemes Ordinance. For members who are not interested or do not wish to make a fund choice for their MPF account or their investment instructions fail to meet the requirement of a specific investment instruction upon enrolment or set up a new account, their accrued benefits, new contributions and accrued benefits transferred from another Registered Scheme will be invested in the DIS. The DIS is also available as an investment choice itself for members.

The DIS is a strategy that uses the Core Accumulation Fund ("CAF") and the Age 65 Plus Fund ("A65F") to automatically reduce the investment risk exposure as the member approaches retirement age. They will invest in a globally diversified manner and invest in different classes of assets (e.g. equities, bonds, money market instruments, etc.) and they are subject to fee and expense caps as imposed by the legislation.

**2. Is the DIS required by law to be offered in every Registered Scheme?**

Yes. The DIS is required by law to be offered in every Registered Scheme and is designed to be substantially similar in all Registered Schemes. Subject to a number of reasons, e.g. difference in investment and geographical allocation of the CAF and the A65F; difference in fee level and out-of-pocket expenses; different timings for the annual de-risking according to members' age and date of birth, contribute to the differences in risk and return of the DIS in every Register Scheme.

Members should consider his/her own risk tolerance level and financial circumstances. The CAF and the A65F may not be suitable for all members. Before investing in the DIS, members should seek financial and/or professional advice if he/she is in doubt as to whether the DIS is suitable for him/her, and make the investment decision most suitable for himself/herself taking into account his/her own circumstances.

**3. What are Core Accumulation Fund and Age 65 Plus Fund?**

Core Accumulation Fund: The CAF provides capital growth to members by investing in a globally diversified manner and will invest around 60% in higher risk assets (generally mean equities or similar investments) and remainder in lower risk assets (generally mean global bonds or similar investments) of its net asset value.

Age 65 Plus Fund: The A65F provides stable growth for the retirement savings to members by investing in a globally diversified manner and will invest around 20% in higher risk assets and 80% in lower risk assets of its net asset value.

The CAF and the A65F are mixed assets funds investing in equities and bonds. Members should note that the DIS which invests in such funds is subject to the general investment risks that apply to mixed asset funds and does not guarantee capital repayment nor positive investment returns. Additionally, there are a number of attributes of the design of the DIS which affect the types of risks associated. For the details, please refer to Q7 below.

The CAF and the A65F can be standalone investments. Members should note that, if they choose the CAF and/or the A65F as standalone investments (rather than as part of the DIS), the de-risking to automatically reduce the risk exposure as the member approaches retirement age will not be applicable.

**4. Is an active or passive strategy adopted when managing the CAF and/or the A65F?**

Both CAF and A65F adopt an active management style and both active and passive investment vehicles will be used as appropriate with a view to add value in a low risk way from both asset allocation (within prescribed bands) and stock selection.

**5. What is "automatically reduce the investment risk exposure as the member approaches retirement age"?**

To manage investment risk, the DIS will automatically reduce the exposure to higher risk assets and correspondingly increase the exposure to lower risk assets as the members get older. Such de-risking is to be achieved by way of reducing the holding in the CAF and increasing the holding in the A65F over time.

- When a member is below the age of 50, all accrued benefits, new contributions and accrued benefits transferred from another Registered Scheme will be invested in the CAF.
- When a member is between the ages of 50 and 64, all accrued benefits, new contributions and accrued benefits transferred from another Registered Scheme will be invested according to the allocation percentages between the CAF and the A65F as mentioned in the DIS De-risking Table. The de-risking of the accrued benefits, new contributions and accrued benefits transferred from another Registered Scheme will be automatically carried out as described above.
- When a member reaches the age of 64, all accrued benefits, new contributions and accrued benefits transferred from another Registered Scheme will be invested in the A65F.

**6. What are fee and expense caps?**

The CAF and the A65F are subject to fee and expense caps as imposed by the legislation:

- Management fees (includes fees payable to the Investment Manager, the Sponsor, the Administrator and the Trustee): it is subject to a statutory daily limit equivalent to 0.75% per annum of the net asset value of each of the CAF and the A65F divided by the number of days in the year.
- Out-of-pocket expenses on a recurrent basis (include annual audit expenses, printing or postage expenses relating to recurrent activities): it shall not exceed 0.2% per annum of the net asset value of each of the CAF and the A65F.

Members should note that out-of-pocket expenses that are not incurred on a recurrent basis may still be charged to or imposed on the CAF and the A65F by the Trustee. Such fees are not subject to the statutory caps mentioned in the preceding paragraphs. Therefore, the Fund Expense Ratio (FER) of the CAF and A65F may be higher than 0.95%.

**7. What are the key risks of the DIS?**

Saved for the general investment risks that apply to mixed asset funds, there are a number of attributes of the design of the DIS which affect the types of risks associated, e.g., age is the sole factor in determining the asset allocation under the DIS, the CAF and the A65F have to follow the prescribed allocation between higher risk assets and lower risk assets at all times and such prescribed allocation will limit the ability of the Investment Manager, annual de-risking will generally be carried out automatically regardless of the prevailing market condition and impact on members who are beyond age of 64 to continue to invest in the DIS keeping around 20% of net asset value in higher risk assets etc. For details, please refer to the principal brochure of the SuperTrust Plus and/or the ValueChoice.

**8. Do the original default fund ("MPF Conservative Fund"), the CAF and the A65F have the same risk rating?**

The MPF Conservative Fund and the A65F have the same risk level, i.e. low risk, while the CAF has a medium risk. Risk levels are determined by taking into account relevant factors including price volatility, asset allocation and liquidity also, the risk levels are for reference only and will be reviewed periodically.

**9. Did HSBC MPF set up new funds to get prepared for the DIS?**

As part of the implementation of the DIS, HSBC MPF converted 3 of our Constituent Funds namely Stable Growth Fund and ValueChoice Stable Growth Fund under the SuperTrust Plus and ValueChoice respectively and Flexi-Managed Fund under the SuperTrust Plus through changing their investment objectives and asset allocations to become the CAF or the A65F on 1 April 2017. A DIS Pre-implementation Notice has been sent to all participating employers and members starting from December 2016 explaining this change, and that the annual management fees for these funds would also be reduced to 0.75% of net asset value with an effective date of 1 October 2016.

These 3 Constituent Funds were identified to be converted for the DIS purpose because they shared similar asset allocations with the prescribed allocation of CAF and A65F under DIS. The Trustee has considered the changes to be in members' interest, as these would not only help simplify the investment choices under, and maintenance and operation of, the SuperTrust Plus and the ValueChoice, but may also help enhance operational efficiency. In addition, the changes would help streamline the offers and maintain a clean product shelf. Participating employers/members might apply to the Trustee to switch out the accrual balance and/or change the investment allocation from the relevant constituent funds if he/she did not like to be involved in the changes.

A new constituent fund meeting the requirements of the A65F was be set up under the ValueChoice.

## Communication related to the DIS

**1. How did HSBC MPF communicate with customers about the DIS?**

Starting from December 2016, HSBC MPF sent the DIS Pre-implementation Notice to all participating employers and members via post/eCommunication channels. The notice aims to provide the DIS related information, including: features, investment objectives and risks, asset allocation, fee and expense caps and the possible impacts on members' MPF accounts. The same notice has been posted on HSBC MPF website as well.

Details of the DIS are set out in the updated Principal Brochure of the SuperTrust Plus and the ValueChoice, which have been posted on HSBC MPF website.

Members may request copies of Principal Brochure by contacting the HSBC MPF Employer Hotline (852) 2583 8033 or HSBC MPF Member Hotline (852) 3128 0128.

**2. What is DIS Re-investment Notice?**

DIS Re-investment Notice aims to explain to the affected members about the impacts on his/her MPF account since the implementation of the DIS and make appropriate arrangement. If a member who is under or becoming 60 years of age on 1 April 2017 and all accrued benefits in his/her MPF account under the SuperTrust Plus and/or the ValueChoice which was set up before the Effective Date are being invested in the original default fund (i.e. "MPF Conservative Fund" of the SuperTrust Plus and the ValueChoice) which was generally resulted from no investment instruction being given, the notice will be sent to him/her in or before early October 2017.

If members would like to know whether he/she will receive the notice, he/she may contact the HSBC MPF Member Hotline (852) 3128 0128.

## Annual de-risking

**1. How will the members be informed about the annual de-risking?**

The annual de-risking takes place when a member reaches the age of 50 until 64. It will automatically carry out each year on a member's birthday and switch among the CAF and the A65F according to the allocation percentages mentioned in the DIS De-risking Table. Trustee will issue a notice to the relevant member at least 60 days prior his/her 50th birthday informing on the commencement of the annual de-risking. Unless otherwise, the Trustee receives the specific investment instruction from the relevant member to switch out of the DIS, annual de-risking will be carried out every year.

If there is any exceptional circumstance (e.g. market closure or suspension of dealing), on the member's birthday which makes it impossible for the investments to be moved on that day, the investments will be moved on the next available dealing day.

**2. Will the de-risking move to next birthday if the member's birthday is not a dealing day?**

No. If a member's birthday is not on a dealing day, then the de-risking will be moved on the next available dealing day. If a member's birthday falls on 29 February and in the year which is not a leap year, then the de-risking will be moved on 1 March or if it is not a dealing day, the next available dealing day.

**3. Will the de-risking defer if contribution instruction is received on the annual date of de-risking?**

When one or more of the specified instructions (including but not limited to subscription, redemption, or switching instructions) are being received prior to or on the annual date of de-risking for a relevant member and being processed on such date, the annual de-risking may be deferred and the annual de-risking will only be completed after completion of these specified instructions, provided that in any case, the annual de-risking will be carried out as soon as practicable. For the avoidance of doubt, where the instruction is to switch out of the DIS (e.g. an instruction to change the investment mandate in respect of the existing investments or a withdrawal instruction), if the instruction is given and completed before de-risking takes place, no de-risking will take place until and unless the relevant member switches back into the DIS. In any event, the specified instructions will be effected within the relevant timeframes as set out in the "Trustee Service Comparative Platform" in the MPFA's website.

**4. How will the members be informed about the completion of the de-risking?**

Once the de-risking process is completed, a statement will be issued no later than 5 dealing days.

**5. Can a member request to stop the annual de-risking immediately due to sudden market fluctuation on the annual date of de-risking?**

Regardless of the prevailing market conditions, de-risking for each relevant member will generally be carried out on a member's birthday. Members can submit specific investment instruction to switch out or exit the DIS and the same procedure to amend investment options will be applied that the specified investment instruction will be effected within the relevant timeframes as set out in the "Trustee Service Comparative Platform" in the MPFA's website.

**6. If a member only knows the year and month of birth or only year of birth, how will the annual de-risking be carried out?**

- If only the year and month of birth is available, the annual de-risking will use the last calendar day of the birth month, or if it is not a dealing day, the next available dealing day.
- If only the year of birth is available, the annual de-risking will use the last calendar day of the year, or if it is not a dealing day, the next available dealing day.

7. **If a member updates his/her date of birth, will the adjustment in asset allocation be carried out immediately?**

   Please note that if there is any change to a member's date of birth and if his/her investment allocation for new contributions and accrued benefits transferred from another Registered Scheme and/or accrued benefits (if applicable) are invested in the DIS, his/her investment allocation may be re-allocated and/or rebalanced to a new investment portfolio according to the DIS De-risking Table. We will carry out the relevant re-allocation and/or rebalancing to a new investment portfolio upon his/her upcoming birthday if the next annual de-risking is within 60 days from his/her record update. Otherwise, the relevant adjustment will be implemented as soon as practicable.

## Investment Arrangement related to DIS

1. **Is it a must for a new member/an existing member to choose the DIS when he/she sets up a new account on or after the Effective Date?**

   No. He/She can may choose to invest his/her new contributions and accrued benefits transferred from another Registered Scheme to

   - DIS; or
   - One or more constituent funds of their own choice from the list under the sub-section headed "Description of Constituent Funds" in Part II - Fund Structure (including the CAF and the A65F as standalone investments) of the principal brochures of SuperTrust Plus and/or the ValueChoice and according to their assigned allocation percentage(s) to relevant fund(s) of their choice.

2. **Can members switch in or switch out of the DIS at any time?**

   Yes. Members should, however, bear in mind that the DIS has been designed as a long-term investment arrangement.

3. **Are there any rules to follow when a member switches in or switches out of the DIS?**

   Yes. No partial switching of the DIS is allowed (e.g. it will not be possible for a member to elect to have new contributions and accrued benefits transferred from another Registered Scheme invested in the DIS while the existing accrued benefits invested outside of the DIS, or vice versa). Where the relevant member's existing investment is under the DIS, he/she may only switch out of the DIS if his/her specific investment instruction will result in the existing accrued benefits, new contributions and accrued benefits transferred from another Registered Scheme invested outside of the DIS. Conversely, where the relevant member wishes to switch into the DIS, he/she may only do so if his/her specific investment instruction will result in the existing accrued benefits, new contributions and accrued benefits transferred from another Registered Scheme invested in the DIS.

4. **Why a member cannot switch in his/her existing accrual benefits to the DIS while switching out his/her new contribution and accrual benefits transferred from another Registered Scheme of the DIS or vice versa?**

   DIS is designed as an easy-to-understand default investment arrangement for those MPF members who are not well equipped or not interested to make complicated investment decisions. Hence, it is believed that simplicity is one of the reasons for members to choose DIS and is also the key to the success of DIS.

   Partial switching to and from the DIS within the same MPF account will be more likely to cause confusion to members and it may be hard for members to track and understand which portion of his/her MPF assets will be subject to the annual de-disking automatically and which portion will not, which makes the DIS hard to understand and manage.

For MPF members who would like to actively manage his/her MPF portfolio, he/she may consider choosing the CAF and/or the A65F as standalone investments (rather than as part of the DIS) of their own choice, the de-risking to automatically reduce the risk exposure as the member approaches retirement age will not be applicable. Members will enjoy the same management fee as the DIS if CAF and/or A65F is/are chosen as standalone investments.

5. **How can a member submit a specific investment instruction to switch in or switch out of the DIS?**

   Same as the normal procedure to amend investment options, member can submit the instruction through investment option form, Personal Internet Banking or IVRS (interactive voice response system).

6. **Apart from switching in and switching out of the DIS, are there any other DIS related options available to members?**

   If a member's new contributions and accrued benefits transferred from another Registered Scheme are subject to the DIS, he/she may choose to exit the DIS and have all new contributions and accrued benefits transferred from another Registered Scheme paid to the relevant MPF account after such exit invested per the investment allocation immediately before he/she exits the DIS. For the avoidance of doubt, in such case, no subsequent re-balancing or de-risking of the investment allocation will be done with regard to existing accrued benefits, new contributions and accrued benefits transferred from another Registered Scheme paid to the relevant MPF account.

   If a member would like to exit the DIS that the investment allocation will be in the same manner immediately before he/she exits the DIS also no subsequent re-balancing or de-risking will be done, he/she may submit the relevant paper form to the Trustee.

## Implementation of DIS

1. **How will the DIS affect those members who invested in Stable Growth Fund and Flexi-Managed Fund under the SuperTrust Plus and ValueChoice Stable Growth Fund under the ValueChoice immediately before the conversion of these 3 constituent funds for the DIS purpose?**

   For the DIS purpose, Stable Growth Fund and Flexi-Managed Fund under the SuperTrust Plus were converted to the CAF and the A65F and ValueChoice Stable Growth Fund under the ValueChoice was converted to the CAF by changing names, investment objectives and asset allocations from 1 April 2017 onwards. Members' investment in these constituent funds have been automatically converted to the CAF and/or the A65F where applicable and there is no change in the total number of units held in the respective constituent funds due to the conversion.

   Effected from 1 October 2016, the management fees of the above 3 constituent funds have been lowered to 0.75% p.a.

2. **What were the unit prices of the CAF and the A65F under the SuperTrust Plus and the CAF under the ValueChoice when the conversion took effect on 1 April 2017?**

   Since 1 April 2017 was not a dealing day, no unit prices on that day were available as the usual practice.

3. **What is the issue price of the A65F under the ValueChoice when it will be setup on 1 April 2017?**

   Since 1 April 2017 was not a dealing day, the issue price of the A65F under the ValueChoice will be the same unit price of Flexi-Managed Fund under the SuperTrust Plus on 31 March 2017. For the DIS purpose, Flexi-Managed Fund was converted to the A65F from 1 April 2017.

4. **Will a member's change of investment allocation delay due to the implementation of DIS?**

   No. In any event, the specific investment instruction will be effected within the relevant timeframes as set out in the 'Trustee Service Comparative Platform' in the MPFA's website.

## DIS Re-investment Notice (DRN)

**1. When will DRN be sent?**

Starting from 7 April 2017, HSBC MPF will send the DRN to the affected members who maintain a valid corresponding address with the Trustee via post. If he/she cannot receive the DRN in 2 week-time, he/she may contact the HSBC MPF Member Hotline (852) 3128 0128.

If a member who has changed his/her corresponding address or he/she has never informed the Trustee about his/her corresponding address, please complete and send the Personal Details Change Form or the Employee/Personal Account Holder/Self-Employed Application Form (as the case may be) which is available on HSBC MPF website to update his/her personal details. After the record has been updated, please contact the HSBC MPF Member Hotline to request the issuance of the DRN as soon as practicable.

Please be reminded that members are required to complete and send the Option 2 Form which is enclosed in the DRN within 42 days counting from the issue date of his/her DRN if he/she wishes the accrued benefits in his/her account and new contributions and accrued benefits transferred from another Registered Scheme to stay invested in the existing constituent funds.

For any affected members who do not wish to be involved in the DIS, he/she may submit a specific investment instruction within 42 days counting from the issue date of his/her DRN.

**2. What should a member do if he/she receives the DRN?**

DRN aims to explain to the affected members about the impacts on his/her MPF account since the implementation of the DIS and making appropriate arrangement. Therefore, members should read it carefully and:

- complete and send the Option 2 Form which is enclosed in the DRN within 42 days counting from the issue date of his/her DRN if he/she wishes the accrued benefits in his/her account and new contributions and accrued benefits transferred from another Registered Scheme to stay invested in the existing constituent funds. This Option 2 Form can be returned by post with the enclosed postage-paid envelope to the address indicated on the envelope. Please allow sufficient time for the mailing to ensure the Option 2 Form will reach us within 42 days counting from the issue date of his/her DRN to avoid any investment automatically being re-invested according to the DIS. We may not be able to receive and process his/her request if the member does not submit the Option 2 Form to the specific channel that was mentioned above. Moreover, late submission beyond the deadline will not be processed.
- no action is required if he/she wishes the accrued benefits in his/her account and/or new contributions and accrued benefits transferred from another Registered Scheme to re-invest in the DIS. The re-investment will be automatically carried out to re-invest according to the DIS in 14 days after the expiry of 42 days counting from the DRN issue date.
- submit specific investment instructions within 42 days counting from the issue date of his/her DRN if he/she wishes to invest of their own choice. Please be reminded that he/she is required to submit the specific investment instructions covering the accrual benefits in his/her account and new contributions and accrued benefits transferred from another Registered Scheme if he/she would like to invest his/her existing investments and new contributions in different investment options.

3. **What will happen to his/her MPF account if a member does not respond after receiving the DRN?**

   If no response is received within 42 days counting from the DRN issue date, member's accrued benefits in his/her account and/or new contributions and accrued benefits transferred from another Registered Scheme will be automatically re-invested according to the DIS in 14 days after the expiry of the 42 days counting from the DRN issue date. Any specific investment instruction received after the 42 days counting from the DRN issue date can only be carried out after the benefits have been first invested according to the DIS, provided that such specific investment instruction is still a valid instruction.

4. **How will a member be informed when the re-investment to the DIS is completed?**

   Once the re-investment to the DIS is completed, a confirmation letter will be issued.

5. **What will happen to his/her MPF account if a member submits a change of investment allocation within 42 days counting from DRN issue date?**

   Members can submit specific investment instructions within 42 days counting from the issue date of his/her DRN if he/she wishes to invest of their own choice. Such specific investment instructions will be effected within the relevant timeframes as set out in the 'Trustee Service Comparative Platform' in the MPFA's website.

6. **Can the DRN be re-issued if a member lost it?**

   The DRN can be re-issued and members may contact the HSBC MPF Member Hotline (852) 3128 0128 for the arrangement. Please be reminded that members are strictly required to respond in a pre-defined timeline, for any re-issued request, it is important to raise as soon as possible.

Issued by The Hongkong and Shanghai Banking Corporation Limited and HSBC Provident Fund Trustee (Hong Kong) Limited

Note: Investment involves risks. Past performance is not indicative of future performance. The value of financial instruments, in particular stocks and shares, and any income from such financial instruments, may go down as well as up. For further details including the product features and risks involved, please refer to the relevant 'Principal Brochure'.