LCQ12: Offering index funds as investment choices for Mandatory Provident Fund scheme members

Following is a question by the Hon Ho Kai-ming and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (April 17):

Question:

There are views that as equity funds which track the performance of the reference indices (index funds) are passively managed funds, they generally charge lower management fees. As such, Mandatory Provident Fund (MPF) trustees should offer more index funds as investment choices for MPF scheme members. In this connection, will the Government inform this Council:

(1) whether it knows the number of index funds available under each registered MPF scheme in each of the past three years, and the most recent fund expense ratio as well as the annualised rates of return (i.e. one year, three years, five years and 10 years) of each index fund; and

(2) whether it will take measures to push MPF trustees to offer more index funds as investment choices for MPF scheme members, in the hope that fund management fees may be reduced through market competition; if so, of the details?

Reply:

President,

(1) Based on the information provided by the Mandatory Provident Fund Schemes Authority (MPFA), the number of passively managed funds offered by MPF schemes over the past three years is shown in Table 1 of the Annex.

As at the end of February 2019, the fund expense ratio (FER) and the annualised return of these passively managed funds are shown in Table 2 of the Annex.

(2) The MPFA has been encouraging the market to offer more passively managed funds and requiring trustees to consider including index funds when applying for approval to set up new constituent funds. MPF trustees have governance responsibilities to review the suitability of existing MPF products for MPF scheme members regularly. The MPFA will continue to explore with trustees the offering of more passively managed funds as investment options to scheme members.

Although the fees of index funds are generally lower, equity index funds mainly invest in stock markets, which are generally subject to a higher degree of risk. Therefore, scheme members should not regard equity index funds as the only tool for investment. The MPFA often encourages scheme members to review their MPF investment portfolios on a regular basis, taking into account the risks of different Constituent Funds and select value-for-money MPF products in order to achieve better savings outcomes.

The MPFA has been requiring MPF trustees to regularly review the fee levels of their MPF products. Since the introduction of the FER in July 2007 and up to March 2019, the average FER of MPF funds has dropped from 2.06 per cent to 1.52 per cent. During this period, the Default Investment Strategy legislation was enacted in May 2016 and 138 MPF funds had reduced their fees.