

## Q & A

### 1. Multi-manager (MM) Funds

Q1. Does the management fee of 1.875% p.a. charged on the newly-introduced MM funds include the subscription fee to non-Fidelity constituent funds?

A1. (Fidelity) The agreed management fee is all inclusive. There is no subscription fee to non-Fidelity constituent funds.

Q2. Does the MM funds pay the ask-price or the bid-price of non-Fidelity constituent funds?

A2. (Post-forum reply from Fidelity) There is no differentiation of bid/ask price for non-Fidelity constituent funds.

Q3. What is the current total asset size of the MM funds?

A3. (Fidelity) The MM funds were launched in January 2006 and the accumulated asset sizes are therefore small. However, the constituent funds themselves are existing specialist investment funds in market and their asset sizes are big. (Post-forum note from Fidelity: the constituent funds sizes ranged from approx. HK\$19m to HK\$2,700m as at April 2006).

### 2. Fund Performance on Fidelity Retirement Master Trust (FRMT, the MPF subscribed by CUHK)

Q4. The accumulated returns on funds like Equity Fund (EF) and Global Equity Fund are low compared to benchmarks. They did not seem to reap the benefits of the high growth performance in H-shares and in some high growth markets like Korea respectively. What were the reasons?

A4. (Fidelity) Being the investment funds of a retirement plan, FRMT funds are designed to strike a balance between risk and return in a longer-term prospective. Investments in volatile and high risk markets should be restricted to a small proportion only. Members should view FRMT funds as a long-term investment tool, looking for long-term steady growth rather than short-term fluctuations.

Q5. FRMT funds are performing in the industry median. Members are expecting that the funds should be performing in the industry top, or much better than the median while maintaining at similar risk level. Will the University consider changing or adding a new service provider that can match the members' expectation?

A5. (Bursary) The University is concerned about the interest of all staff who join either the University-run 1995 Scheme or the MPF Scheme which is run by the MPF Scheme service provider, HSBC/Fidelity. If majority of members in MPF Scheme wishes to change or add a new service provider, Bursary will relay the members' wish to the University for consideration. However, members should note that fund performance should be assessed on a long-term basis, bearing in mind the possibility of reverse performance after a fund manager is replaced. In addition, members should note that change, if any, will not be immediate as sufficient time must be allowed for the University to consult concerned parties, study the impact, enhance computer systems to cope for switching, etc.

Q6. If the University decides to change to or add a new service provider, can the University include in its consideration whether the prospective service-provider(s) would provide index funds for member's choice and the fee charges are competitive?

A6. (Bursary) The University noted the suggestions.

### **3. Fees on Capital Preservation Fund (CPF)**

Q7. The average return on Capital Preservation Fund (CPF) is 1% p.a. while management fee is 1.475% p.a., much higher than the return. Is there any room for reducing the management fee on CPF?

A7. (Fidelity and HSBC) The low return on CPF is due to the low interest rate in the market for the past years. Besides the investment is restricted to money markets only which will limit the amount of return on the fund. Regarding the management fee, there is cost involved in administration and maintenance of members' records. The amount of work is the same as that of other FRMT funds.

Q8. According to the MPFA regulations, MPF Scheme service provider cannot deduct any fees from CPF unless the return is above the MPFA's set prescribed saving rate

(“set rate”) and only that part of the fee which is equaled to the difference between the return and the set rate can be deducted. Any uncharged fees can be deducted from future return difference.

Accordingly, is there any management fee owed by members on CPF?

- A8. (Fidelity) Any outstanding management fee is recoverable only in the immediate following year. (Post-forum reply from Fidelity: There is outstanding fee from the past 12 months on CPF due to the above reason)

#### **4. Investment fund switching**

- Q9. Under the existing mechanism processing investment fund switching, all the existing funds will be sold to purchase the newly opted funds even though there is no % change in some opted fund(s). Can member make the investment fund switching in terms of unit instead of % to avoid selling of investment funds whose opted % has not changed after the switching so that unnecessary risk on price changes or hidden cost, if any, can be avoided?

- A9. (HSBC) Under the existing practice, in some circumstances, only some of the investment units in the investment funds will be redeemed and the redemption proceeds will be re-invested in the investment funds so that the new allocation among the investment funds is in the new proportions as specified. In other situations, all of the investment units in existing holdings will be redeemed. The FRMT fund switching has been designed to rebalance the % of the investment funds after the switching. Since MPF Scheme is a retirement scheme and in view of convenience to most members, the investment switching result has to be easy to understand.

(Post-forum reply from HSBC: Switching (redemption and subscription) will be done on the same dealing day without bid and offer spread. If member chooses a new allocation % for his/her existing funds, part of the units from the funds will be redeemed in accordance with the new investment allocation (refer [example](#) attached). If member chooses a completely different fund from his existing holdings, then all the member’s units from the existing holdings will be redeemed and subscribed to the new fund.)

#### **5. Others**

Q10.Can Fidelity post on its website the resume including past experience and investment achievement of its FRMT funds managers for members' information?

A10.(Fidelity) The FRMT funds performance reflects not only the funds managers' choice of investment but also the valuable information researched and analyzed by team of investment analysts. The request will be brought back to Fidelity's senior management for consideration.

Q11.Can Fidelity add more fund choices, for example, its retail funds, to the Special Voluntary Contribution (SVC) account?

A11.(Fidelity) The retail funds offered by Fidelity are being operated on a platform which is separate from the platform of investment funds for MPF Scheme, including the SVC account. MPF scheme is a retirement scheme and the range of investment funds is restricted to suit general public. Retails funds, however, can be aggressive which are suitable for more sophisticated investors. Accordingly, it is not possible to combine the two platforms of investment funds. If members want to subscribe to Fidelity's retail funds, Fidelity is offering a discount to University's MPF members and the front end fee is only at 2%.

Q12.Can Fidelity reduce the minimum contribution amount to SVC?

A12.(Fidelity) Fidelity noted and will consider.