

FTSE MPF Reference Portfolios for Hong Kong MPF Default Investment Strategy (DIS)

v1.5



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Section 1

Introduction

1. Introduction

1.1 FTSE MPF Reference Portfolios for Hong Kong MPF Default Investment Strategy (DIS)

1.1.1 The FTSE MPF Reference Portfolios (RPs) are used for performance measurement and reporting purposes as set out in paragraph D2.3 of the MPFA Code on Disclosure for MPF Investment Funds. In January 2019 the Mandatory Provident Fund Schemes Authority (MPFA) recognised the revised RPs in the Joint Submission made by the Hong Kong Investment Funds Association (HKIFA) and the Hong Kong Trustees' Association (HKTA). The Joint Submission includes implementation of the revised RPs where FTSE Russell replaces Willis Towers Watson as the RP administrator effective from 1 April 2019 (the "Effective Date").

1.1.2 The MPF Reference Portfolios for Hong Kong MPF Default Investment Strategy (DIS) Index does not take account of ESG factors in its design.

1.2 FTSE Russell

FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, FTSE (Beijing) Consulting Limited, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings.

1.3 Index Series objectives

1.3.1 The RPs are designed to measure cross-asset market returns for portfolios with a global market and multi-asset exposure. The RPs are constructed as an index-level composite based on underlying equity and fixed income indices calculated and maintained by FTSE Russell. The RPs also include a cash component. Further details can be found in the Appendix A: Reference Portfolio Calculations.

1.4 Total return calculation

1.4.1 The RPs are calculated on a total return basis, accounting for both the price changes and interest or dividend accrual for all underlying instruments (equities, bonds and cash). In addition to the Total Return Index Value, the following index statistics are also calculated:

- Daily Return
- Month to Date Return
- Year to Date Return

All values are reported in HK Dollars (HKD).

1.5 Additional notes

1.5.1 FTSE International Limited (FTSE) hereby notifies users of the RPs that it is possible that circumstances, including external events beyond the control of FTSE, may necessitate changes to, or the cessation of, the RPs and therefore, any financial contracts or other financial instruments that reference the RPs or investment funds which use the RPs to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the RPs.

- 1.5.2 RP users who choose to follow the RPs or to buy products that claim to follow the RPs should assess the merits of the RPs rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE nor its subsidiary undertakings (or any person concerned with the preparation or publication of these Ground Rules) for any losses, damages, claims and expenses suffered by any person as a result of:
- any reliance on these Ground Rules, and/or
 - any inaccuracies in these Ground Rules, and/or
 - any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
 - any inaccuracies in the compilation of the Index or any constituent data.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Ltd (FTSE)

- 2.1.1 FTSE is the Benchmark Administrator of the FTSE MPF All-World Index¹.
- 2.1.2 FTSE Fixed Income LLC is the Benchmark Administrator² of the FTSE MPF World Government Bond Index.
- 2.1.3 FTSE is the Benchmark Administrator of the RPs³.
- 2.1.4 FTSE is responsible for the daily calculation, production and operation of the RPs. Please see the Ground Rules or the Index Guide as appropriate for each of the underlying indices for further details on responsibilities with respect to constituent data.
- 2.1.5 These Ground Rules set out the methodology and provide information about the publication of the RPs.

2.2 Amendments to these Ground Rules

- 2.2.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they continue to best reflect the aims of the index. Any proposals for amendments to these Ground Rules will be subject to consultation with the Mandatory Provident Fund Schemes Authority (MPFA), the Hong Kong Investment Funds Association (HKIFA) and the Hong Kong Trustees' Association (HKTA), the FTSE Russell Policy Advisory Board and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index Governance Board before approval is granted.

¹ The term administrator is used in this document in the same sense as it is defined [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation).

² The term administrator is used in this document in the same sense as it is defined in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation) and [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#) (the UK Benchmark Regulation). FTSE Fixed Income LLC administers the Index Series in line with the third country transitional provisions contained within Article 51(5) of the European Benchmark Regulation and the third country transitional provisions as amended by Article 42(5) of the UK Benchmark Regulation.

³ The term administrator is used in this document in the same sense as it is defined [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation).

Section 3

FTSE Russell index policies

3. FTSE Russell index policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below. Additional Index Policies for the calculation and pricing of underlying benchmarks can be found in their respective Ground Rules or the Index Guide as appropriate.

3.1 Queries and Complaints

FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark_Determination_Complaints_Handling_Policy.pdf](#)

3.2 Recalculation Policy and Guidelines

3.2.1 The Recalculation Policy and Guidelines for Multi-Asset Indices can be accessed using the following link:

[Multi-Asset Recalculation Policy and Guidelines.pdf](#)

3.3 Policy for Benchmark Methodology Changes

3.3.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy_for_Benchmark_Methodology_Changes.pdf](#)

3.4 Real Time Status Definitions

3.4.1 Please refer to the following guide for details of real time status definitions for indices that are calculated in real time.

[Real Time Status Definitions.pdf](#)

Section 4

Index eligibility, pricing and rebalancing

4. Underlying index construction and RPs rebalancing

4.1 Eligibility criteria of underlying indices

The index eligibility criteria for each underlying index to a composite can be found in its Ground Rules or the Index Guide as appropriate. Please see these documents for further details.

4.2 Pricing sources of underlying indices

4.2.1 The pricing methodology for each underlying index to a composite can be found in its Ground Rules or the Index Guide as appropriate. Please see these documents for further details.

4.3 Underlying indices and RPs rebalancing

4.3.1 Typically, rebalancing of index constituents for the underlying indices are determined on a monthly basis for fixed income indices and semi-annually for equity indices. Please see the Ground Rules or the Index Guide as appropriate for the underlying indices for further details.

4.3.2 The RPs are rebalanced daily, whereby the component index weightings are reset to their target levels (Further details on the target levels can be found in the Appendix A: Reference Portfolio Calculations).

Appendix A

Reference portfolio calculations

Reference portfolio (RP) for default investment strategy (DIS)

Definition of the two reference portfolios

The MPF DIS Core Accumulation Fund (CAF) RP is blended based on the following:

- 60% FTSE MPF All-World Index (Unhedged in HKD)
- + 37% FTSE MPF World Government Bond (Hedged in HKD)
- + 3% MPF Prescribed Savings Rate

The MPF DIS Age 65 Plus Fund (APF) RP is blended based on the following:

- 20% FTSE MPF All-World Index (Unhedged in HKD)
- + 77% FTSE MPF World Government Bond (Hedged in HKD)
- + 3% MPF Prescribed Savings Rate

Underlying indices

Further information on the underlying indices can be found in the link below

FTSE MPF All-World Index <https://www.ftserussell.com/products/indices/mpf>

FTSE MPF World Government Bond Index [FTSE Fixed Income Index Guide](#)

MPF Prescribed Savings Rate

MPF Prescribed savings rate is a publicly available rate that can be obtained from the MPF Authority website.

After fees index calculation

Per MPFA regulation that governs MPF DIS and industry consultation the DIS RP is to be calculated on a net-of-fees basis. The fee is set at 0.95%.

Calculation methodology

FTSE MPF DIS CAF RP After Fees

Daily Return = 60% * *FTSE MPF All-World Index Daily Return (Unhedged in HKD)*

+37% * *FTSE MPF World Government Bond Index Daily Return (Hedged in HKD)*

+3% * $\left(1 + \text{MPF Annual Prescribed Savings Rate}\right)^{\frac{\text{No. of days to previous calculation date}}{\text{Total no of calendar days for current year} - 1}}$

-0.95% * $\frac{\text{No. of days to previous calculation date}}{\text{Total no. of calendar days for current year}}$

FTSE MPF DIS A65F RP After Fees

Daily Return = 20% * FTSE MPF All-World Index Daily Return (Unhedged in HKD)

+77% * FTSE MPF World Government Bond Index Daily Return (Hedged in HKD)

+3% * $\left(1 + \text{MPF Annual Prescribed Savings Rate}\right)^{\frac{\text{No. of days to previous calculation date}}{\text{Total no. of calendar days for current year}} - 1$

-0.95% * $\frac{\text{No. of days to previous calculation date}}{\text{Total no. of calendar days for current year}}$

Data history

The RP's will be published by FTSE Russell from the Effective Date. No history for the RPs will be made available by FTSE Russell for the period prior to the Effective Date.

Calculation dates

The RPs will be available every weekday except January 1 and December 25. For avoidance of doubt FTSE will publish index levels for the RPs even during Hong Kong holidays and Typhoon8+/Black Rainstorm.

Appendix B

Further information

For further information on the FTSE MPF Reference Portfolios for Hong Kong MPF Default Investment Strategy please visit www.lseg.com/en/ftse-russell/ or e-mail fi.index@lseg.com. Contact details can also be found on this website.

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