

China Life MPF Master Trust Scheme (“China Life Scheme”)

Frequently Asked Questions for MPF Default Investment Strategy (“DIS”)

A. Basic Features of DIS

1. What is DIS?

DIS is a ready-made investment arrangement mainly designed for those scheme members who are not interested or do not wish to make a fund selection, and is also available as an investment choice itself for members who find it suitable for their own circumstances. For those scheme members who do not make an investment choice, their future investments will be invested in accordance with the DIS.

The DIS is required by law to be offered in every MPF scheme and is designed to be substantially similar in all schemes.

The DIS is not a fund – it is a strategy that uses two constituent funds, namely the China Life Core Accumulation Fund ("CAF") and the China Life Age 65 Plus Fund ("A65F") to automatically reduce the risk exposure as the member approaches retirement age, according to the pre-set allocation percentages at different ages.

2. What is the implementation date of DIS?

The implementation date will be 1st April 2017 (“Effective Date”).

3. Does the DIS has a maximum fee level?

The aggregate of the payment for services of CAF and A65F must not, in a single day, exceed a daily rate of 0.75% per annum of the net asset value ("NAV") of each of the DIS funds divided by the number of days in the year. The recurrent out-of-pocket expenses incurred by each DIS fund shall not in a single year exceed 0.2% per annum of the NAV of each of the DIS funds.

4. What are out-of-pocket expenses?

Out-of-pocket expenses include, for example, annual audit expenses, printing or postage expenses relating to recurrent activities (such as issuing annual benefit statements), recurrent

legal and professional expenses, safe custody charges which are customarily not calculated as a percentage of NAV and transaction costs incurred by a DIS fund in connection with recurrent acquisition of investments for the DIS fund (including, for example, costs incurred in acquiring underlying investment funds) and annual statutory expenses (such as compensation fund levy where relevant) of the DIS fund.

B. DIS investment

1. What is the strategy of DIS?

The DIS aims to balance the long term effects of risk and return through investing in two constituent funds, i.e. CAF and A65F, according to the pre-set allocation percentages at different ages. The CAF will invest around 60% in higher risk assets (higher risk assets generally mean equities or similar investments) and 40% in lower risk assets (lower risk assets generally mean bonds or similar investments) of its NAV whereas the A65F will invest around 20% in higher risk assets and 80% in lower risk assets. The DIS funds adopt globally diversified investment principles and use different classes of assets, including global equities, fixed income, money market and cash, and other types of assets allowed under the MPF legislation.

2. Can I choose the CAF and/or A65F as standalone investment?

Yes. You can. If you choose the CAF and/or A65F as standalone investments, those investments/benefits will not be subject to the de-risking process. If your accrued benefits are invested in any combination of (i) CAF and/or A65F as standalone investments and (ii) the DIS (no matter by default or by your investment instruction), accrued benefits invested under (i) will not be subject to the de-risking process whereas for accrued benefits under (ii) will be subject to the de-risking process. In this connection, you should pay attention to the different on-going administration arrangements applicable to accrued benefits invested in (i) and (ii).

3. I'm going to join China Life Scheme after Effective Date, can I choose a combination of both DIS and any of the individual funds?

No. Members who join the China Life Scheme or set up a new account in the China Life Scheme on or after Effective Date may choose to invest their future investments into EITHER:

- (1) the DIS; or
- (2) one or more Constituent Funds ("CFs") of their own choice (including CAF and A65F as standalone investments)

4. Can I switch into/out of my accrued benefits into/from DIS and/or change my investment mandate to invest in DIS?

Yes. Member can switch into or out of the DIS and change his investment mandate to invest in DIS at any time. In giving a switching request for rebalancing, a member must switch the entire accrued benefits in respect of his/her member account (i.e. mandatory and voluntary contribution accounts, Smart Easy Personal Contributions account and personal account) to EITHER any or all of the constituent funds (“individual fund choice”) or DIS. A combination of both the individual fund choice and the DIS is not allowed in switching request for rebalancing.

5. I’m currently have all my accrued benefits investing in DIS. Can I switch out only part of the accrued benefits from DIS to other individual funds?

No. In giving a switching request for rebalancing, a member must switch the entire accrued benefits in respect of his/her member account (i.e. mandatory and voluntary contribution accounts, Smart Easy Personal Contributions account and personal account) to EITHER any or all of the constituent funds (“individual fund choice”) or DIS.

C. De-risking

1. What is de-risking?

Accrued benefits invested through the DIS will be invested in a way that adjusts risk depending on a member’s age. The DIS will manage investment risk exposure by automatically reducing the exposure to higher risk assets and correspondingly increasing the exposure to lower risk assets as the member gets 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. The asset allocation stays the same up until 50 years of age, then reduces steadily until age 64, after which it stays steady again.

In summary, under the DIS:

- (1) When a member is below the age of 50, all accrued benefits and future investments will be invested in the CAF.
- (2) When a member is between the ages of 50 and 64, all accrued benefits and future investments will be invested according to the allocation percentages between the CAF and A65F as shown in the DIS de-risking table (as per DIS De-risking Table below). The de-

risking on the existing accrued benefits and future investments will be automatically carried out as described above.

- (3) When a member reaches the age of 64, all accrued benefits and future investments will be invested in the A65F.

DIS De-risking Table

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%

Note: The above allocation between CAF and A65F is made at the point of annual de-risking and the proportion of CAF and A65F in the DIS portfolio may vary during the year due to market fluctuations.

2. When will the annual de-risking take place?

The annual de-risking of DIS of China Life Scheme will take place on a scheme member's birthday which is a dealing day. If a member's birthday does not fall on a dealing day, annual de-risking will be carried out on the next available dealing day.

3. Will the trustee notify me in written before I attain 50 years old about the commencement of annual de-risking if I am investing in DIS?

Yes. The trustee will, to the extent practicable issue a notice to a member at the age of 49 (at least 60 days before a member's 50th birthday) informing de-risking will commence on that member reaching the age of 50. Besides, a confirmation statement will be sent to member no later than 5 business days after the completion of the de-risking to that member.

D. Risks associated with DIS

1. Are there any risks associated with DIS?

Yes. Members should note that DIS of China Life Scheme is a statutory arrangement. Though the pre-determined asset allocation and risk reduction strategy of DIS of China Life Scheme do reduce risks over the long term, there are still investment risks. The pre-determined asset allocation may limit the ability of the investment manager to adjust asset allocations in response to market fluctuations. There are also risks associated with its strategy. There is neither capital guarantee nor positive investment returns and there will be usual investment volatility especially in the short term.

DIS of China Life Scheme only takes into account age in risk tolerance and does not consider other factors such as financial needs, market and economic situations in making investment choice. DIS of China Life Scheme may not be flexible enough to accommodate the needs of different members.

Please refer to the section "Key Risks Relating to the DIS" in Appendix 1 of Schedule 3 of the Second Addendum to the Principal Brochure of China Life Scheme for details of the risks specific to DIS of China Life Scheme.

E. Difference between Former and Existing Default Fund/Arrangement and the DIS under China Life Scheme

1. What are the differences between Former and Existing Default Fund/Arrangement and the DIS?

Please find below the summary of the key features of the former and existing default fund/arrangement and the DIS for reference:

	Former and Existing Default Fund/ Arrangement	The DIS (comprising 2 constituent funds with de-risking feature)
Name	<u>Former Default Fund</u> China Life MPF Conservative Fund <u>Existing Default Fund</u> China Life Balanced Fund	China Life Age 65 Plus Fund China Life Core Accumulation Fund
Fund Type	<u>China Life MPF Conservative Fund</u> Money market fund <u>China Life Balanced Fund</u> Mixed assets fund	<u>China Life Age 65 Plus Fund</u> Mixed assets fund <u>China Life Core Accumulation Fund</u> Mixed assets fund
De-risking Feature	No	Yes
Daily Fees Cap	No	Yes
Total Management Fees for Constituent Funds and Approved Pooled Investment Fund(s)	<u>China Life MPF Conservative Fund</u> 0.95% p.a. of Net Asset Value <u>China Life Balanced Fund</u> 1.6% p.a. of Net Asset Value	<u>China Life Age 65 Plus Fund</u> 0.75% p.a. of Net Asset Value <u>China Life Core Accumulation Fund</u> 0.75% p.a. of Net Asset Value

Expected Risk Profile	<u>China Life MPF Conservative Fund</u> Low <u>China Life Balanced Fund</u> Medium to high	<u>China Life Age 65 Plus Fund</u> Low to medium <u>China Life Core Accumulation Fund</u> Medium to high
Guarantee Feature	No	No

F. Implications for New and Pre-existing Accounts on or after DIS Implementation

1. What are the implications for new accounts opened on or after Effective Date?

When members join China Life Scheme or set up a new account in the China Life Scheme on or after Effective Date, they have the opportunity to give an investment instruction for their future investments. If members fail to or do not want to submit to the Trustee an investment instruction at the time of their requests to join / set up a new account in the China Life Scheme, the Trustee shall invest any of their future investments into the DIS.

2. What are the implications on pre-existing accounts opened before Effective Date?

There are difference implications to members’ pre-existing accounts opened before Effective Date.

There are special rules to be applied for pre-existing accounts and these rules only apply to members who are under or becoming 60 years of age on Effective Date,

- (i) a member’s pre-existing account with all accrued benefits being invested into the former default fund (China Life MPF Conservative Fund) or existing default fund (China Life Balanced Fund) and no specific investment instruction is given on those accrued benefits generally (known as “DIA account”):

There are special rules and arrangements to be applied to determine whether accrued benefits in a DIA account will be transferred to the DIS. If your pre-existing account is considered as a DIA account, you will receive a notice called the DIS Re-investment Notice explaining the impacts on your pre-existing account and giving you an opportunity to give a

specified investment instruction to the Approved Trustee before the accrued benefits are invested into the DIS.

- (ii) a member's pre-existing account with part of the accrued benefits in the former default fund or existing default fund:

If part of the accrued benefits of your pre-existing account was invested in the former default fund or existing default fund, unless the Trustee has received any investment instructions, your accrued benefits will be invested in the same manner as accrued benefits were invested immediately before Effective Date. Future investments will be invested in the same manner as the investment mandate immediately before Effective Date.

- (iii) the accrued benefits in the pre-existing account are transferred from another account within the China Life Scheme (e.g. in the case of cessation of employment, where accrued benefits in your contribution account are transferred to a personal account within the China Life Scheme), your accrued benefits in the pre-existing account will be invested in the same manner as they were invested immediately before the transfer but your future contributions or accrued benefits transferred from another scheme may be invested in the DIS after the implementation of the DIS, unless otherwise instructed.

Members who have reached 60 years of age before Effective Date, you will not be affected by the implementation of the DIS.

Members who have already given a valid investment instruction for the accrued benefits and future investments in your pre-existing account before Effective Date, you will not be affected by the implementation of the DIS.

3. What's a DIS Re-Investment Notice?

If **all** your accrued benefits in a pre-existing account are invested in EITHER the former default fund ("China Life MPF Conservative Fund") OR the existing default fund (currently "China Life Balanced Fund") of the China Life Scheme as at Effective Date and you have not given a valid investment instruction for the pre-existing account, you will receive a separate notice (i.e. the "DIS Re-Investment Notice") which will be sent to you on or before the end of September 2017.

The DIS Re-Investment Notice will explain that if you do not make an investment choice by replying within a specified timeline, your accrued benefits in the former default fund or existing default fund will be redeemed in whole and re-invested in accordance with the DIS. Therefore, if you receive the DIS Re-Investment Notice, please pay special attention to the contents and make appropriate arrangement. You should note that the risks of the former default fund, i.e. China Life MPF Conservative Fund and the existing default fund, i.e. China Life Balanced Fund are low and medium to high respectively and may be different from that of the DIS and you may be exposed to market risks as a result of any reinvestment of your accrued benefits in the DIS.

4. I am an existing member of China Life Scheme and have never given any investment instruction, will I be affected?

Yes. If **all** your accrued benefits in a pre-existing account are invested in EITHER the former default fund (“China Life MPF Conservative Fund”) OR the existing default fund (currently “China Life Balanced Fund”) of the China Life Scheme as at Effective Date and you have not given a valid investment instruction for the pre-existing account, you will receive a separate notice (i.e. the “DIS Re-Investment Notice”) which will be sent to you on or before the end of September 2017.

The DIS Re-Investment Notice will explain that if you do not make an investment choice by replying within a specified timeline, your accrued benefits in the former default fund or existing default fund will be redeemed in whole and re-invested in accordance with the DIS. Therefore, if you receive the DIS Re-Investment Notice, please pay special attention to the contents and make appropriate arrangement. You should note that the risks of the former default fund, i.e. China Life MPF Conservative Fund and the existing default fund, i.e. China Life Balanced Fund are low and medium to high respectively and may be different from that of the DIS and you may be exposed to market risks as a result of any reinvestment of your accrued benefits in the DIS.

5. Upon receipt of DIS Re-Investment Notice, what if I wish to choose other funds instead of DIS?

Upon receipt of Re-Investment Notice, if no reply on investment choice had been received from the scheme member after the expiry of a 42-day opt-out period, the member’s accrued

benefits will be transferred to and invested into the DIS within 14 days after the opt-out period. You can submit the investment instructions to Trustee if you wish to choose other funds.

G. Fund Performance of DIS CFs

1. How can I obtain the information on performance of DIS CFs?

The fund performance of CAF and A65F will be published in the fund factsheet. One of the fund factsheets will be attached to the annual benefit statement and will be sent to members. Members can visit www.chinalifetrustees.com.hk or call our enquiry hotline number 3999 5555 for information. Members may also obtain the fund performance information at the website of the MPFA (www.mpfa.org.hk).

To provide a common reference point for performance and asset allocation of the CAF and A65F, an MPF industry developed reference portfolio is adopted for the purpose of the DIS. The fund performance will be reported against a reference portfolio published by the Hong Kong Investment Funds Association, please visit www.hkifa.org.hk for further information regarding the performance of the reference portfolio.