HKRSA 香港退休計劃協會
The Hong Kong Retirement Schemes Association

NEWS BULLETIN

July 2020

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INTRODUCING THE NEW
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Designed with a fresh new look & mobile-friendly layout, providing you a more streamlined experience that makes the resources we provide clearer and easier to navigate.

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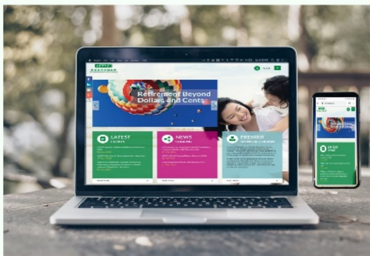

Theme of the Year!

INTRODUCING OUR
THEME OF THE YEAR

To a lot of people, retirement planning is usually about the financial aspects after ending one's career. But in fact, with increasing life expectancy, retirement can last for many more years nowadays and retirement planning should go beyond just finances to make every day more fulfilling. It can include a wide range of activities – some goal-driven, some purpose-driven and some enjoyment-driven. And this is why we chose the theme *"Retirement Beyond Dollars & Cents"* for this year!

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Retirement Beyond Dollars and Cents HKRSA 2020

Looking through COVID-19 – assessing long-term global economic prospects

Speaker: Mr Philip Saunders

The coronavirus (COVID-19) pandemic is having an unprecedented global impact, with many parts of the world's population under lockdown and many countries closing borders. The pandemic and the associated demand shock coincided with an oil price war, which has aggravated the problem of an oil glut caused by sharply lower demand. The fall in the oil price added to the stress in credit markets already evident from the COVID-19 related fall in global demand. Market weakness itself has become a third shock, primarily through the mechanism of dramatically tighter liquidity conditions as investors have desperately sought to raise cash and de-lever.

These three shocks have combined to result in disorderly price action and dislocation across all asset classes. At this point, 'growth' assets such as equities and credit have been shunned and 'defensive' assets, such as government bonds and US dollar cash, favoured.

Policymaker support

Policymakers globally have moved to provide support by announcing widespread stimulus measures and supplying vast amounts of liquidity to the market. The US Federal Reserve alone expanded its balance sheet by almost US$1 trillion in the space of just two weeks in March. The combined monetary and fiscal support amounted to c.12% of global GDP by then and it was only increasing. In the US and Europe, the amount of stimulus was over 50% of GDP, already greater than the stimulus delivered during the global financial crisis (GFC).

Macroeconomic outlook

Central scenario – growth recovers after a period of significant disruption and weakness

Notwithstanding the short-term shock to growth, over the medium term the balance of probabilities suggested that the impact of the COVID-19 pandemic could be more modest than was feared by markets. Policies of strict isolation appeared to be working to break the spread of the disease and have been adopted broadly by governments across the world. The response by policymakers has been unusually rapid and the quantum of fiscal and monetary measures have a strong chance of success in curtailing the impact of the deep recession.

Developments in China appeared to be constructive. The spread of the virus has been contained by the strict lockdown measures enforced by the authorities, and the probability was that the interruption to global supply chains – to which China remains critical – should be limited to the first half of the year.

Future return prospects

The sharp moves in markets have led to material changes to our proprietary capital market assumptions. With the exception of US 10-year Treasuries, anticipated future returns across asset classes have significantly increased as a result of more attractive equity and credit valuations.

Gold should be well supported on the back of an overvalued US dollar, coupled with the vast quantity of liquidity supplied by central banks to markets and exceptionally low short and longer-term interest rates.

Longer term, we maintain our view that Asian equities will benefit from positive structural trends as China transitions towards a more consumer-led economy.

Conclusions

The triple shocks of the coronavirus pandemic, the oil price war and a liquidity market event have resulted in market volatility exceeding that of the GFC.

While the volatility was unsettling, it has created buying opportunities for both single asset class and multi-asset investors. Future return prospects for growth assets have improved materially. The debt default rates and dividend yields required to invalidate those higher return prospects are substantial against historic standards, giving us confidence that returns could be higher, but at the price of persistent volatility in the short term.

We believe current valuations present buying opportunities in selective areas and investors should work through markets and securities to uncover the genuine long-term opportunities, while being highly mindful of the wide range of potential short-term mark to market outcomes from here.

Retirement schemes of tomorrow: Governance, investments and a focus on member outcomes

Speaker: Mr Paul Colwell | Ms Edwina Ho | Mr Kevin Jeffrey

With the World Economic Forum estimating that pension gap will hit US$400 trillion by 2050, pension schemes need to take significant steps immediately to plug this gap. As industry participants, we have a responsibility to improve the financial wellbeing for all members of Hong Kong schemes. Whether you are an asset manager, a consultant, OCIO provider, corporate sponsor or trustee - each has an important role to play. Retirement schemes should focus on improving their governance, investments and member experience.

Importance of better governance

Ensuring that members' pension scheme is fit for purposes is critical. The defined benefit versus defined contribution scheme debate will continue, but there is no *'one size fits all'* scheme. There are pros and cons to each, and employers should undertake a comprehensive assessment to ensure that the scheme they pick works and benefits both the employer and employee.

Given recent events, we are likely to experience significant market uncertainty going forward. To shield portfolios, trustees will need to put governance structures in place to ensure effective decisions are made quickly and efficiently. Delayed decision making can have a material impact. Schemes must step up their game, delegate, or simplify. By adopting the OCIO model, trustees' time can be freed up to focus on important strategic decisions.

While the MPF system has many benefits including the provision of service platforms, we should not dismiss the ORSO system, which is more outcome-driven and has several benefits over MPF, such as greater flexibility over the selection of investment managers and asset classes, as well as lower costs. As an industry body, the HKRSA and stakeholders can work together to shape the retirement schemes of tomorrow by lobbying for change - to take the best parts from each system and create a new system greater than the sum of its parts.

Making your investments sweat harder

Many long-term investors have adopted the 60-40 equity bond portfolio to hedge against market volatility. However, more diversified unconstrained portfolios have proven to achieve similar returns over the same period, with as much as half the risk – a great feature in these uncertain times. Schemes should look to adopt similar portfolios to spread the risk across multiple asset classes and sectors.

Recently, sustainability has become a hot topic and interest will increase exponentially as climate change becomes an even greater issue for society. Hong Kong has been slow to embrace sustainable investing and those who do not start incorporating sustainability into their investment approaches could face significant reputational damage.

In addition, schemes should look out for the asset classes of tomorrow, such as private markets and opportunities in China. New opportunities will be driven by new technologies, blockchain and tokenisation. These will allow investors to invest assets they could not access before, by providing the means for them to own a fraction of any asset, such as a portion of real estate, or a share of an artwork.

Engaging the membership

Improving the membership experience is essential to getting members more engaged with their DC retirement savings. Schemes must strike a balance between members who want more control and those who are not informed investors. A one-size fits all approach will not work and trustees should customise scheme offerings based on age, contribution size/rate, wealth levels and income.

When communicating with members, schemes should leverage the power of mobile and smart technologies as it provides multiple touch points to engage, especially with the younger population of their membership base. Furthermore, schemes will gain access to valuable data and insights that can be used to further enhance the membership experience.

As well as social, physical and emotional wellbeing, employers are starting to take a greater interest in their employees' financial wellbeing, offering financial literacy training as part of the employment package. Retirement scheme providers must therefore provide flexible and innovative solutions that can help employers to meet the financial wellbeing needs of their employees.

Considering the three areas discussed, retirement schemes will not only be able to future proof their operations, investment portfolios and member experience, but will be in a position to help current and future generations create enough wealth to retire comfortably. The retirement schemes of tomorrow must be different from today.

Premier Sponsor Column (June 2020)

We are delighted to have articles contributed by Ninety One to provide us insights on how can we better plan for our retirement. Stay tuned for more articles in Aug 2020!

HKRSA x Metro Finance FM104 – Retirement Planning and Eduation Programme "退休有術"

1st Episode –
General Discussion on Retirement Protection System
(概述退休保障制度)

Date: 15 August 2020 (Sat)
Time: 23:00-24:00
(Re-run)
19 August 2020 (Wed) 23:00-24:00

理財教育系列：
退休有術 (working title)

Metro Broadcast Corp. Ltd.

*on-air schedule subject to change of current COVID-19 situation and the final decision of Metro Finance FM104

Upcoming HKRSA event

AGM

Date & Time: 17 September 2020 6:00pm

Venue: Deacons, 5/F Alexandra House

24th Annual Dinner Register now

Date & Time: 12 November 2020 (6:30pm onwards)

Venue: Concord Room, Renaissance Harbour View Hotel

APIC Submit (co-host by APIC & HKRSA)

Date & Time: 23-24 NOvember 2020

Upcoming external event

HKIB Annual Banking Conference 2020

Date & Time: 28 September 2020 (9:00am-5:15pm)

Venue: N101, Hong Kong Convention and Exhibition Centre

Event website: http://bankingconference.hkib.org/hkib2020/