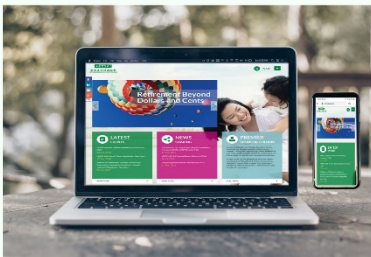


Our new look!

INTRODUCING THE NEW HKRSA.ORG.HK

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.

TRY NOW



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 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!



2020 Premier Sponsors



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.

Policy maker support

Policy makers 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.

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

PREMIER SPONSOR ARTICLE SERIES

Jun 2020

Ninety One 晉達

Climate changing for asset owners

Climate change is one of the greatest risks ever faced by humanity. According to the Intergovernmental Panel on Climate Change (IPCC), the UN body for assessing climate science, we have until late 2020 to radically reduce carbon emissions if we are to limit global warming to the critical level of 1.5°C above pre-industrial temperatures.

It is vital that asset owners address climate risk to ensure that asset managers do so on their behalf. This means integrating carbon analysis into investment research and decision making, and assessing both the transition risk associated with a shift to a decarbonised economy, and the physical risk posed by climate change itself.

Why target 1.5°C, rather than 2°C?

Scenario	1.5C	2.0C	3.0C
Relative sea level rise (m) by 2100	0.1	0.6	2.1
Percentage of global population living in coastal zones at risk of flooding	1%	10%	25%
Percentage of global population living in coastal zones at risk of flooding by 2100	1%	10%	25%
Global mean temperature increase by 2100	1.1	2.6	4.8
Global mean sea level rise (m) by 2100	0.1	0.6	2.1
Global mean sea level rise (m) by 2100	0.1	0.6	2.1

A central role for asset owners

Asset owners have long been beneficiaries, which makes them particularly subject to the long-term challenges facing society and the planet, including climate change. Many of them already consider environmental, social and governance (ESG) factors to be important – as evidenced by the fact that as of the end of 2019 there were over 2,800 signatories, including 432 asset owners, to the UN-backed Principles for Responsible Investment (PRI), the first of which states that institutional investors should integrate ESG risks into investment analysis and decision-making.

But going up to the PRI is not air and it isn't itself. The corporation is to be the counterpart and counterpart on a climate risk. Some of this is being faced on asset owners by regulators and governments, but much will also come from asset owners themselves.

1. Pension funds

The stewards of long-term retirement assets have led the way in integrating ESG issues over the past few decades. Pension funds founded the PRI. But they can't wait. For example, in the UK, just 3% of the top corporate pension funds have developed and implemented a climate-change policy by the end of 2019. Globally, the Asset Owners Disclosure Project (AODP) assessed the world's 100 largest public pension funds and found that:

- Climate change related risks are largely underfunded and unassessed by global pension funds.
- The vast majority of pension funds are failing to align with the Paris agreement.
- Around half of global pension funds undertake company engagement on climate change.

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Climate changing for asset owners

2. Sovereign wealth funds

Sovereign wealth funds (SWFs) are state-owned investment funds that typically invest globally across all of the major asset classes and instruments. Total SWF assets under management are some US\$1.1 trillion¹. But just 1% of this is estimated to be allocated to "green" assets. Nonetheless, over the last 10 years SWFs have increased their focus on climate change, spurred particularly by the 2015 Paris Agreement, under which signatory nations are committing their own plans to achieve climate targets. In 2018, six SWFs representing US\$1 trillion² agreed to a climate-change charter, which commits them to investing in companies that factor climate change into their strategies. They also committed to publishing data on how they are reducing their own carbon footprints.

3. Insurers

Insurers are at the front line of climate change and have been active in researching and mapping it longer than perhaps any other industry. According to Swiss Re, climate change is a key driver of "a new normal of higher frequency, more severe localized natural disasters, many related to extreme weather, that is causing ever greater damage"³. In 2016, economic losses from natural disasters amounted to US\$155 billion⁴, the fourth highest total ever despite a rather single event during the year.

In the life insurance sector, where providers' liabilities can stretch for generations, many insurance companies have found their portfolios remain sustainable investments, including renewable energy. But the vast pool of assets, around US\$1.9 trillion⁵, could be channelled more effectively towards addressing climate risk.

Invest positively to hedge against climate change

In many ways, asset owners have led efforts by the investment community to address climate risk, along with both their own to lower and their wider responsibility to society and future generations. But is there more they can do?

Others to manage the portfolio impacts of climate change still tend to focus on mitigating risks, avoiding carbon sectors (i.e. divesting) and applying ESG screens. In our view, there is a significant opportunity that is largely untapped: investing in positive action on climate change – that is, allowing capital to companies and projects that are enabling the positive transformation that must be undertaken to shift the global economy to a lower carbon model. Doing so will not only benefit society by helping to accelerate climate risk and provide exposure to an area of long-term structural economic growth.

The fact is that the world still has a massive task ahead in transition from today's unsustainable economy to one that is cleaner, greener and more efficient. Industrial production and more energy efficient buildings.

With swathes of economic activity on hold during the pandemic, decarbonisation may be delayed in the near term. But given the still urgent need for climate action, we see no change in the need to leverage potential growth drivers of select businesses across all three pathways to a more sustainable, lower carbon economy: renewable energy, electrification and resource efficiency. In a growth-challenged world, that may prove a lifeline for asset owners.

Endnotes

¹ https://www.pensionsavers.com/news/2019/02/01/2019-swfs-are-worth-1-1-trillion-usd/

² https://www.pensionsavers.com/news/2019/02/01/2019-swfs-are-worth-1-1-trillion-usd/

³ https://www.pensionsavers.com/news/2019/02/01/2019-swfs-are-worth-1-1-trillion-usd/

⁴ https://www.pensionsavers.com/news/2019/02/01/2019-swfs-are-worth-1-1-trillion-usd/

⁵ https://www.pensionsavers.com/news/2019/02/01/2019-swfs-are-worth-1-1-trillion-usd/

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Climate changing for asset owners

Important information

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About HKRSA

The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to promote the interests and best practices of retirement schemes in Hong Kong, including pension and provident retirement funds. The HKRSA is a not-for-profit, non-political association, which represents retirement schemes and their members, providing a forum for discussion of issues of current and topical interest.

About Ninety One

Ninety One Investment Management is an independent global asset manager dedicated to delivering compelling outcomes for its clients, managing £13.4bn in assets (as at 31.03.20). Established in South Africa in 1991, almost three decades of organic growth later, we offer distinctive active strategies across equities, fixed income, multi asset and alternatives to millions of advisors and individual investors around the world.

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HKRSA x Metro Finance FM104 – Retirement Planning and Education 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

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



理財教育系列：
退休有術 (working title)
Metro Broadcast Corp. Ltd.



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/>