



redefining / standards



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## Principal MPF – Smart Plan (the “Plan”)

### DIS Pre-Implementation Notice to Participating Employers and Members

**Attention: This notice is important and requires your immediate attention. If you are in any doubt about the contents of this document, you should seek independent professional advice. Principal Trust Company (Asia) Limited accepts responsibility for the information contained in this document.**

This notice only summarises the changes to the Plan with regard to Default Investment Strategy (“DIS”). Details of the DIS are set out in the First and Second Addenda of the Offering Document of the Plan (the “Offering Document”). Members should refer to the Offering Document for details of the DIS. The Offering Document and the First and Second Addenda will be available on our website at [www.principal.com.hk](http://www.principal.com.hk) or you may request copies of them by contacting our Customer Service Hotline at (852) 2802 2812 or (852) 2885 8011.

You should consider your own risk tolerance level and financial circumstances before investing in the DIS. You should note that the Principal Core Accumulation Fund (“CAF”) and the Principal Age 65 Plus Fund (“A65F”) (collectively the “DIS Funds”) may not be suitable for you, and there may be a risk mismatch between the CAF and the A65F and your risk profile (the resulting portfolio risk may be greater than your risk preference). You should seek financial and / or professional advice if you are in doubt as to whether the DIS is suitable for you, and make the investment decision most suitable for you taking into account your circumstances.

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Dear participating employers and members,

We are writing to you because important changes to the Mandatory Provident Fund Schemes Ordinance will take effect on 1 April 2017 (“**Effective Date**”). From the Effective Date, the default investment arrangement of the Plan will be the DIS replacing the Relevant Existing Default Fund (as defined below) of the Plan.

You should read this notice carefully because the changes made to the MPF legislation may affect the investment of both your accrued benefits and future contributions. Capitalised terms not defined in this notice have the same meanings as ascribed to them in the Offering Document of the Plan.

#### 1. What is DIS?

- DIS is a default investment arrangement as stipulated in accordance with the Mandatory Provident Fund Schemes Ordinance. **For members who do not make a fund choice for their MPF account, their accrued benefits and future investments (i.e. future contributions and accrued benefits transferred from another MPF scheme) (the “Future Investments”) will be invested in the DIS.** The DIS is also available as an investment choice itself for members.
- The DIS is not a fund – it is a strategy that uses two constituent funds, namely the CAF and A65F to automatically reduce the risk exposure as the member approaches retirement age. The DIS Funds will invest in a globally diversified manner and invest in different assets (e.g. equities, bonds, money market instruments, etc.). Details of the investment objectives and policies of each of the DIS Funds are set out in the **Appendix** to this notice. The DIS Funds are subject to fee and expense caps as imposed by the legislation.

## 2. How does DIS affect you?

If you have accounts in the Plan that are set up before the Effective Date (“**pre-existing account**”), depending on whether you have previously made any fund choices, it may affect you in different ways:

- If you have already given a valid investment instruction for the accrued benefits and Future Investments in your pre-existing account or you are 60 years old or above before the Effective Date, you will not be affected by the implementation of the DIS.
- If **all** your accrued benefits in a pre-existing account are invested in the existing default fund (Principal Cash Fund (prior to 10 January 2011) and the Principal – MPF Conservative Fund (on and after 10 January 2011 but before 1 April 2017) of the Plan) (each a “**Relevant Existing Default Fund**”) as at the 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**”) 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 period, your accrued benefits in the Relevant 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 risk of the Relevant Existing Default Fund 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.
- There are special circumstances. Where the accrued benefits in the pre-existing account are transferred from another account within the Plan (e.g. in the case of cessation of employment, where accrued benefits in your contribution account are transferred to a personal account within the Plan), 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 Investments may be invested in the DIS after the implementation of the DIS, unless otherwise instructed. Please refer to the section headed “C. Implications for New and Pre-existing Accounts on or after DIS Implementation” below for further details.

## 3. Do you need to do anything?

- Apart from the above, there are other circumstances where your accrued benefits or Future Investments may be affected by the implementation of the DIS. If you have any query on how it will affect you and what actions you need to take, you should visit our website at [www.principal.com.hk](http://www.principal.com.hk) or call the Trustee’s customer service hotline at (852) 2802 2812 or (852) 2885 8011.
- If you receive the DIS Re-Investment Notice after the Effective Date, you are advised to pay special attention to the contents and make appropriate arrangement.

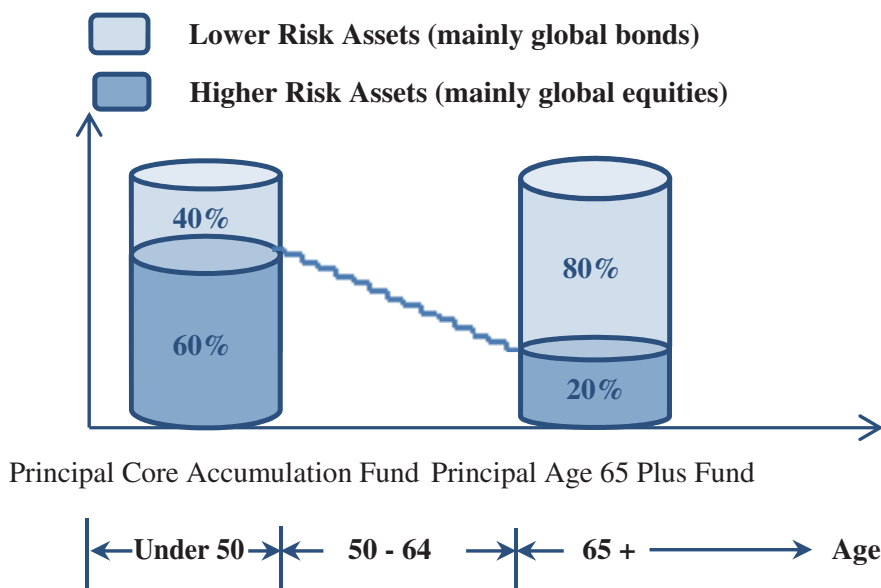
**A. What is DIS?**

DIS is a ready-made investment arrangement mainly designed for those members who are not interested or do not wish to make a fund choice, and is also available as an investment choice itself, for members who find it suitable for their own circumstances. For those 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 MPF schemes.

(a) Objective and Strategy

The DIS aims to balance the long term effects of risk and return through investing in two constituent funds, namely the CAF and the 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 net asset value 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.

*Diagram 1: Asset Allocation between the DIS Funds according to the DIS*



*Note: The exact proportion of the portfolio in higher / lower risk assets at any point in time may deviate from the target glide path due to market fluctuations.*

(b) Annual 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 existing accrued benefits and Future Investments will be invested in the CAF.
- (2) When a member is between the ages of 50 and 64, all existing 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 (see Diagram 2 below). The de-risking of 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 existing accrued benefits and Future Investments will be invested in the A65F.
- (4) If the relevant member has reached 60 years of age before 1 April 2017, unless the member has given a specific investment instruction (as defined in section F below), the member's accrued benefits (including Future Investments) will be invested in the same manner as at 31 March 2017.
- (5) For a deceased member, de-risking will cease once the Trustee has received proof of the death of the member to the Trustee's satisfaction. If de-risking has already been taken place between the death of the member and the time at which the Trustee received the satisfactory proof of such death, such de-risking will not be undone, although no further de-risking will take place in respect of the deceased member.

If the Trustee does not have the full date of birth of the relevant member:

- If only the year and month of birth is available, the annual de-risking will use the last calendar day of the birth month, or if it is not a business day, the next available business day.
- If only the year of birth is available, the annual de-risking will use the last calendar day of the year, or if it is not a business day, the next available business day.
- If no information at all on the date of birth, member's accrued benefits will be fully invested in A65F with no de-risking applied.

*Diagram 2: DIS De-risking Table*

| Age                 | Principal Core Accumulation Fund (“CAF”) | Principal Age 65 Plus Fund (“A65F”) |
|---------------------|--|-------------------------------------|
| <b>Below 50</b>     | 100.0%                                   | 0.0%                                |
| <b>50</b>           | 93.3%                                    | 6.7%                                |
| <b>51</b>           | 86.7%                                    | 13.3%                               |
| <b>52</b>           | 80.0%                                    | 20.0%                               |
| <b>53</b>           | 73.3%                                    | 26.7%                               |
| <b>54</b>           | 66.7%                                    | 33.3%                               |
| <b>55</b>           | 60.0%                                    | 40.0%                               |
| <b>56</b>           | 53.3%                                    | 46.7%                               |
| <b>57</b>           | 46.7%                                    | 53.3%                               |
| <b>58</b>           | 40.0%                                    | 60.0%                               |
| <b>59</b>           | 33.3%                                    | 66.7%                               |
| <b>60</b>           | 26.7%                                    | 73.3%                               |
| <b>61</b>           | 20.0%                                    | 80.0%                               |
| <b>62</b>           | 13.3%                                    | 86.7%                               |
| <b>63</b>           | 6.7%                                     | 93.3%                               |
| <b>64 and above</b> | 0.0%                                     | 100.0%                              |

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

(c) Fees and out-of-pocket expenses of the CAF and A65F

The aggregate of the payments for services of the 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. It includes, but is not limited to, the fees paid or payable for the services provided by the Trustee, the administrator, the investment managers, and the sponsor of the Plan and the underlying investment funds of the respective DIS Funds, and any of the delegates from these parties and such fees are calculated as a percentage of the NAV of each of the DIS Funds and its underlying investment fund(s), but does not include any out-of-pocket expenses incurred by each DIS Fund and its underlying investment fund(s).

The total amount of all payments that are charged to or imposed on the DIS Funds or members who invest in DIS Funds, for out-of-pocket expenses incurred by the Trustee on a recurrent basis in the discharge of the Trustee’s duties to provide services in relation to the DIS Funds, shall not in a single year exceed 0.2% of the NAV of each of the DIS Funds. For this purpose, 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.

Members should note that out-of-pocket expenses that are not incurred on a recurrent basis may still be charged to or imposed on the CAF and the A65F. Such fees are not subject to the statutory caps mentioned in the preceding paragraphs.

(d) Key Risks Relating to the DIS

Members should note that the DIS is subject to various risks and limitations, including:

(i) Limitations on the strategy

- *Age as the sole factor in determining the asset allocation under the DIS*

The DIS does not take into account factors other than age, such as market and economic conditions nor member's personal circumstances.

- *Pre-set asset allocation*

The CAF and A65F have to follow the prescribed allocation between higher risk assets and lower risk assets at all times. Such prescribed allocation will limit the ability of the investment manager of the underlying funds of each of the CAF and A65F to adjust asset allocations in response to sudden market fluctuations.

- *Annual de-risking between the CAF and A65F*

Members should note that de-risking for each relevant member will generally be carried out on a member's birthday, regardless of the prevailing market conditions. Members should be aware that the de-risking operates automatically regardless of the wish of a member to adopt a strategy which might catch market upside or avoid market downside.

- *Potential rebalancing within each of the CAF and A65F*

In order to maintain the prescribed allocation between the higher risk assets and lower risk assets within each of the CAF and A65F, the investments of each of the CAF and A65F may have to be continuously rebalanced.

- *Additional transaction costs*

Due to (a) the potential rebalancing of assets and (b) the annual reallocation of accrued benefits for members under the de-risking process, the DIS may incur greater transaction costs than a fund / strategy with more static allocation.

(ii) General investment risk related to DIS

Although DIS is a statutory arrangement, it does not guarantee capital repayment nor positive investment returns. Members should note that the DIS which invests in the DIS Funds is subject to the general investment risks that apply to mixed asset funds.

(iii) Risk on early withdrawal and switching

Since the DIS has been developed having regard to the long-term balance between risks and likely returns, and assumes retirement at the age of 65, any cessation of the strategy (for example through early withdrawal of accrued benefits or switching into other funds) will affect that balance.

- (iv) Impact on members keeping benefits in the DIS beyond the age of 64

The A65F holds around 20% of its assets in higher risk assets which may not be suitable for all members beyond the age of 64.

- (e) Information on Performance of DIS Funds

The fund performance of the DIS Funds will be published in the fund fact sheets (one of which will be attached to annual benefit statement), members can visit [www.principal.com.hk](http://www.principal.com.hk) or call the customer service hotline for information. Members may also obtain the fund performance information at the website of the Mandatory Provident Fund Schemes Authority ([www.mpfa.org.hk](http://www.mpfa.org.hk)).

## B. Summary of the Existing Default Fund / Arrangement and the DIS

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

|                       | <b>Existing Default Fund / Arrangement (prior to 10 January 2011)</b> | <b>Existing Default Fund / Arrangement (on and after 10 January 2011 but before 1 April 2017)</b> | <b>The DIS comprising CAF and A65F with a de-risking strategy</b> |                            |
|-----------------------|---|---|---|----------------------------|
| Name                  | Principal Cash Fund   | Principal – MPF Conservative Fund   | Principal Core Accumulation Fund                                  | Principal Age 65 Plus Fund |
| Fund Type             | Money Market Fund   | Money Market Fund   | Mixed Assets Fund – Global  | Mixed Assets Fund – Global |
| De-risking Feature    | No  | No  | Yes   | Yes                        |
| Total Management Fees | 0.95% p.a. of NAV   | 0.99% p.a. of NAV   | 0.75% p.a. of NAV   | 0.75% p.a. of NAV          |
| Daily Fee Cap         | No  | No  | Yes   | Yes                        |
| Risk*                 | Low   | Low   | Medium to high  | Low to medium              |
| Guarantee Feature     | No  | No  | No  | No                         |

*\*The risk level categorization is based on relative exposure to equities / bonds (including an assessment of historical performance / volatility of return). The risk profile is for reference only.*

For details of the key features of the existing default fund / arrangement and the DIS, please refer to the Offering Document (or contact the Trustee).

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

- (a) Implications on accounts opened on or after 1 April 2017

When members join the Plan or set up a new account in the Plan on or after 1 April 2017, they have the opportunity to give a specific investment instruction (as described in section F below) for their Future Investments. If members fail to or do not want to submit to the Trustee a specific investment instruction at the time of their requests to join / set up a new account in the Plan, the Trustee shall invest any of their Future Investments into the DIS.

(b) Implications on accounts opened before 1 April 2017

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 1 April 2017

- (1) For a member's pre-existing account with all accrued benefits being invested into the Relevant Existing Default Fund which was generally resulted from no investment instruction being given on the existing accrued benefits (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 specific investment instruction to the Trustee before the accrued benefits are invested into the DIS.

For details of the arrangement, members should refer to the DIS Re-investment Notice.

- (2) For a member's pre-existing account which, as at 31 March 2017:
- (i) has part of the accrued benefits in it invested in the Relevant Existing Default Fund (as a result of no valid investment instruction being given in respect of that part of the accrued benefits), or
  - (ii) has all of the accrued benefits in it invested in constituent funds other than the Relevant Existing Default Fund after scheme restructuring whereby all or any of the accrued benefits in the pre-existing account were transferred to the pre-existing account from an account in another MPF scheme in a restructuring to which the MPFA consented under section 34B(5) of the Mandatory Provident Fund Schemes Ordinance, or
  - (iii) has all of the accrued benefits in it invested in the Relevant Existing Default Fund after fund termination,

unless the Trustee has received any specific investment instructions (as defined in Section F below), the member's accrued benefits as well as Future Investments paid to the member's pre-existing account on or after 1 April 2017 will be invested in the same manner as at 31 March 2017. Where the member's pre-existing account has zero balance as at 31 March 2017, if the pre-existing account would fall under either (i), (ii) or (iii) had there been accrued benefits in the pre-existing account as at 31 March 2017, unless the Trustee has received specific investment instructions, Future Investments in the member's pre-existing account on and after 1 April 2017 will be invested in the manner as described under (i), (ii) or (iii) (as the case may be).

- (3) For a member's pre-existing account which, as at 31 March 2017, has all of the accrued benefits in it invested in constituent funds other than the original default investment arrangement for whatever reasons (e.g. as a result of switching instructions or accrued benefits from another account within the Plan being transferred to the pre-existing account) and no investment mandate has ever been given for the pre-existing account in respect of Future Investments, unless the Trustee has received any specific investment instructions, the member's accrued benefits will be invested in the same manner as they were invested immediately before 1 April 2017, while the Future Investments paid to the member's pre-existing account on or after 1 April 2017 will be invested in the DIS.



## **D. Rules and Procedures Applicable to Investment through the DIS**

### **(a) Fund Choice Combination**

Members who join the Plan on or after the 1 April 2017 may choose to invest their Future Investments into:

- (1) the DIS; and / or
- (2) one or more constituent funds of their own choice from the list under Section 5 of the Offering Document (including the CAF and the A65F as standalone investments) and according to their assigned allocation percentage(s) to relevant fund(s) of their choice.

Members should note that, if they choose the CAF and / or A65F as standalone investments, those investments / benefits will not be subject to the de-risking process. If a member's 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 member's specific 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, members should pay attention to the different on-going administration arrangements applicable to accrued benefits invested in (i) and (ii). In particular, members will, when giving a fund switching instruction, be required to specify to which part of the benefits (namely, under (i) or (ii)) the instruction relates.

### **(b) Switching / transfer in and out of the DIS**

Members can switch into or out of the DIS at any time, subject to the rules of the Plan. In particular, members may elect to not invest their Future Investments in the DIS while having the existing accrued benefits invested in the DIS, or vice versa. Partial switching in / out of the DIS is allowed. Members should, however, bear in mind that the DIS has been designed as a long-term investment arrangement. For the avoidance of doubt, DIS will cease to apply to any benefits withdrawn or transferred out of the Plan, whether or not the withdrawal is a partial withdrawal and regardless of the circumstances (e.g. refund / payment of statutory long service pay / severance pay). Benefits invested in the DIS and remaining in the Plan will continue to be subject to the DIS. Also, Members may change their investment mandate to invest in the DIS at any time.

For the avoidance of doubt, where a member gives a switching instruction with regard to his / her existing investment, such instruction only applies to existing investments and not Future Investments.

## **E. Rules and Procedures of Annual De-Risking**

The de-risking is to be achieved by annual adjustments of asset allocation gradually from CAF to A65F under the DIS. Save for the circumstances set out in this section, switching of the existing accrued benefits among CAF and A65F will be automatically carried out each year on a member's birthday and according to the allocation percentages as shown in the DIS De-risking Table as shown in Diagram 2 above. If:

- (a) the member's birthday is not on a business day, then the investments will be moved on the next available business day, or
- (b) the member's birthday falls on 29 February and in the year which is not a leap year, then the investments will be moved on 1 March or the next available business day.

If there is any exceptional circumstance, e.g. market closure or suspension of dealing, on the member's birthday which makes it impossible for the investments to be moved on that day, the investments will be moved on the next available business day when there is no such exceptional circumstance.

If the relevant member notifies the Trustee of his / her updated birthday, then the Trustee will as soon as practicable adjust the allocation between the CAF and the A65F according to his / her updated birthday, and effect the de-risking in the future years according to the DIS de-risking table in Diagram 2 above and his / her updated birthday.

If the Trustee receives one or more of the specified instructions, including but not limited to subscription (e.g. contribution or fund transfer-in), redemption (e.g. fund transfer-out or withdrawals) or switching instructions on or before the date on which the annual de-risking is to take place and such specified instruction(s) are being processed on the date on which the annual de-risking is to take place, while the annual de-risking will only take place after completion of these instructions, the annual de-risking will be completed on the original de-risking date. In particular, members should refer to the cut-off time and the required time to complete (after the date of receipt of completed instruction) as set out in the "Trustee Service Comparative Platform" in the MPFA's website (collectively, the "**required timeframe**") before submitting a valid switching instruction or change of investment mandate instruction in order to ensure that the instruction can be processed on or prior to the de-risking date. Any valid switching instruction or change of investment mandate instruction received by the Trustee before the annual de-risking but not meeting the required timeframe may only be completed after the annual de-risking.

The smallest amount of units of the A65F and / or the CAF that can be issued in the annual de-risking under the DIS shall be a fraction of not less than one-ten thousandth.

Members should be aware that the above de-risking will not apply where the member chooses CAF and A65F as standalone investments (rather than as part of the DIS).

## **F. Rules and Procedures relating to Investment Instructions**

An instruction to invest accrued benefits and Future Investments, change investment mandate for Future Investments or switch investments for existing accrued benefits must be in a form of a specific investment instruction.

A specific investment instruction means:

- (a) an instruction for investment allocations which meets the following requirements:
  - the minimum investment allocation in any constituent fund selected must be 5%;
  - must be an integer (e.g. 6% and not 6.5%); and
  - the total (or in the case of any switching instruction, the switch-in total) must be 100%.
- (b) any confirmation by a member (whether made verbally or through hard copy submission, online submission, email, IVRS (interactive voice recording system) or mobile apps) with regard to any investment arrangements of the existing accrued benefits and / or Future Investments.

Any investment mandate, change of investment mandate or switching instruction must meet the requirements for a "specific investment instruction".

The specific investment instruction for employer's mandatory and voluntary contributions may be different from the specific investment instruction for employee's mandatory and voluntary contributions or special voluntary contributions. Where no specific investment instruction is given in respect of a particular type of contribution, contribution falling under that type will be invested in the DIS.

**G. Means to obtain further Information**

Members may obtain information about the DIS through visiting [www.principal.com.hk](http://www.principal.com.hk) or calling the customer service hotline at (852) 2802 2812 or (852) 2885 8011.

The trust deed and Offering Document of the Plan will be amended to reflect the DIS. The updated Offering Document (together with the First and Second Addenda) will be available on our website at [www.principal.com.hk](http://www.principal.com.hk) or you may request a copy of it by contacting our Customer Service Hotline at (852) 2802 2812 or (852) 2885 8011.

**Principal Trust Company (Asia) Limited**

12 December 2016

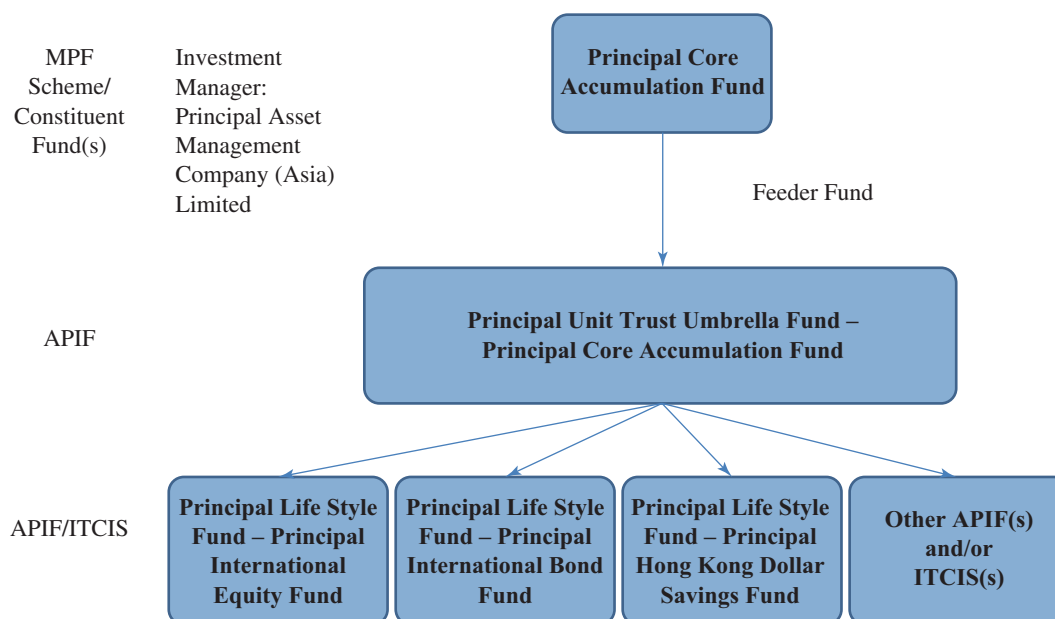
## Appendix

### Principal Core Accumulation Fund

**Investment objective:** The investment objective of the constituent fund is to provide capital growth to members by investing in a globally diversified manner.

The constituent fund targets to hold 60% of its underlying assets in Higher Risk Assets (such as global equities), with the remainder investing in Lower Risk Assets (such as global bonds and money market instrument). The asset allocation of Higher Risk Assets may vary between 55% and 65% due to differing price movements of various equity and bond markets.

**Investment structure:** In order to achieve the investment objective, the constituent fund will invest in a unit trust APIF, Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund, which in turn invests in two or more passively or actively managed Approved Index-Tracking Funds and / or unit trust APIFs as allowed under the Regulation. The investment manager of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund has the discretion, subject to the limits set out in the paragraph “Investment strategy” below, to determine the allocation percentages of the investments of the underlying fund into passively or actively managed Approved Index-Tracking Funds and / or unit trust APIFs. Please refer to the following product structure chart illustrating the fund structure of the Principal Core Accumulation Fund:



**Investment strategy:** Through such underlying investment, the constituent fund will hold 60% of its net assets in Higher Risk Assets (such as global equities), with the remainder investing in Lower Risk Assets (such as global bonds and money market instruments). The asset allocation to Higher Risk Assets may vary between 55% and 65% due to differing price movements of various equity and bond markets. While the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund may invest into actively and / or passively managed underlying APIFs and / or ITCIS, the constituent fund and the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund itself will be managed to a target of 60% Higher Risk Assets and 40% Lower Risk Assets, with strict adherence to the ranges above. With this strategy, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund may allocate the assets among the approved ITCISs and / or unit trust APIFs in such proportions at its discretion in the interest of the unitholders of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund.

**Asset allocation:** There is no prescribed allocation for investments in any specific countries or currencies.

**Financial futures, option contracts and security lending:** Neither the constituent fund nor the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund will enter into any securities lending agreement, repurchase agreement or enter into any financial futures contracts or financial options contracts.

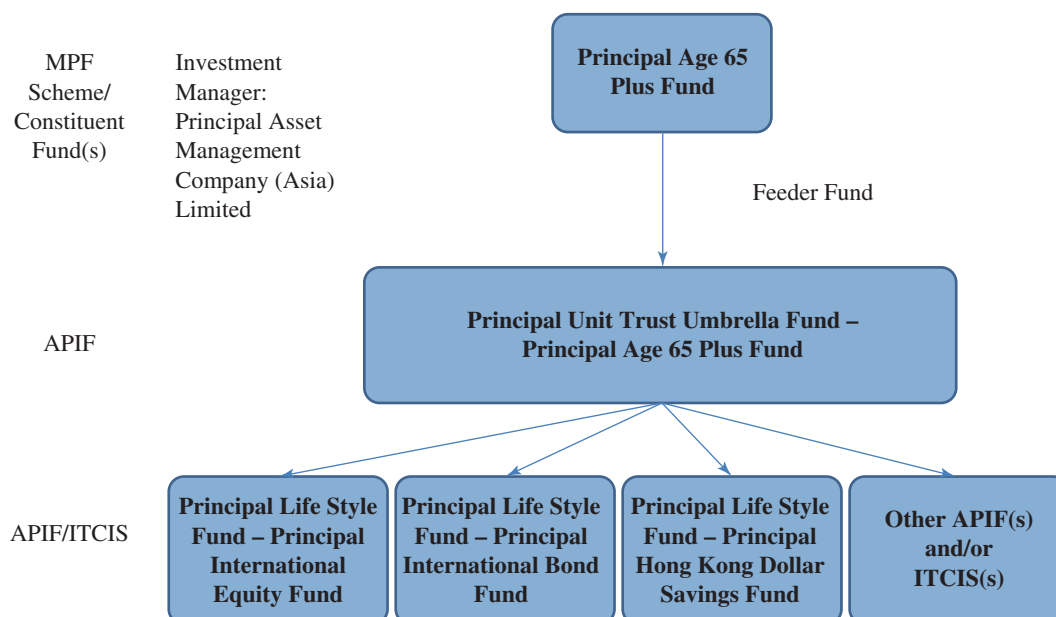
**Effective currency exposure to Hong Kong dollars:** The constituent fund will maintain an effective currency exposure to Hong Kong dollars of not less than 30% through currency hedging operations at the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund level.

**Risk and return profile:** The constituent fund, due to its relatively high exposure to equities, has a medium to high risk profile. The investment manager of the underlying fund determines the risk profile of the constituent fund, which is for your reference only. The risk profile is based on relative exposure to equities / bonds (including an assessment of historical performance / volatility of return) and will be reviewed annually. Therefore, the return on the constituent fund may fluctuate, particularly in the short term. In the long term, however, the return is expected to be in line with the constituent fund’s investment objective, and the constituent fund is expected to perform in line with the Reference Portfolio (as defined in Section 6.5A “MPF Default Investment Strategy” of the Offering Document).

### Principal Age 65 Plus Fund

**Investment objective:** The investment objective of the constituent fund is to provide stable growth for the retirement savings to members by investing in a globally diversified manner.

**Investment structure:** In order to achieve the investment objective, the constituent fund will invest in a unit trust APIF, Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund, which in turn invests in two or more passively or actively managed Approved Index-Tracking Funds and / or unit trust APIFs as allowed under the Regulation. The investment manager of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund has the discretion, subject to the limits set out in the paragraph “Investment strategy” below, to determine the allocation percentages of the investments of the underlying fund into passively or actively managed Approved Index-Tracking Funds and / or unit trust APIFs. Please refer to the following product structure chart illustrating the fund structure of the Principal Age 65 Plus Fund:



**Investment strategy:** Through such underlying investment, the constituent fund will hold 20% of its net assets in Higher Risk Assets (such as global equities), with the remainder investing in Lower Risk Assets (such as global bonds and money market instruments). The asset allocation to Higher Risk Assets may vary between 15% and 25% due to differing price movements of various equity and bond markets. While the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund may invest into actively and / or passively managed underlying APIFs and / or ITCIS, the constituent fund and the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund itself will be managed to a target of 20% Higher Risk Assets and 80% Lower Risk Assets, with strict adherence to the ranges above. With this strategy, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund may allocate the assets among the approved ITCISs and / or unit trust APIFs in such proportions at its discretion in the interest of the unitholders of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund.

**Asset allocation:** There is no prescribed allocation for investments in any specific countries or currencies.

**Financial futures, option contracts and security lending:** Neither the constituent fund nor the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund will enter into any securities lending agreement, repurchase agreement or enter into any financial futures contracts or financial options contracts.

**Effective currency exposure to Hong Kong dollars:** The constituent fund will maintain an effective currency exposure to Hong Kong dollars of not less than 30% through currency hedging operations at the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund level.

**Risk and return profile:** The constituent fund, due to its investments being mainly in Lower Risk Assets (such as global bonds and money market instruments), has a low to medium risk profile. The investment manager of the underlying fund determines the risk profile of the constituent fund, which is for your reference only. The risk profile is based on relative exposure to equities / bonds (including an assessment of historical performance / volatility of return) and will be reviewed annually. The return of the constituent fund is expected to be in line with the constituent fund's investment objective, and the constituent fund is expected to perform in line with the Reference Portfolio (as defined in Section 6.5A "MPF Default Investment Strategy" of the Offering Document).