

BEA (MPF) Value Scheme

Governance Report
For the year ended 31st March, 2023

Section 1: Trustee's Governance Framework

About the Trustee

BEA (MPF) Value Scheme ("Value Scheme") is a mandatory provident fund scheme launched by The Bank of East Asia, Limited ("BEA") for the purpose of managing contributions made by the scheme members for the provision of retirement benefits to the scheme members.

Bank of East Asia (Trustees) Limited ("BEA Trustees") is a member of BEA Group. BEA Trustees has been providing trustee services to large retirement schemes for over 40 years.

Trustee's Governance Framework

Every institution requires good governance as a vital element of its success. This entails how an organisation exercises its authority and manages its resources. Good governance lays the foundation for an effective and efficient operation by establishing accountability, transparency, and effective decision-making. A governance framework comprises principles, policies, and procedures that guide an institution's operations and service delivery.

Several key components make up a good governance framework. Firstly, regulatory compliance should be a top priority to ensure that the institution operates within legal and ethical boundaries. Secondly, accountability and transparency are crucial to build trust and confidence in the decision-making processes of the organisation. A well-defined and documented decision-making process ensures that relevant stakeholders are informed and involved in the process. Thirdly, effective communication through proper reporting mechanisms and channels promotes participation and ensures that stakeholders have access to the necessary information to provide input or feedback. Lastly, periodic evaluation ensures that the institution's resources are deployed in an effective and efficient manner, and corrective measures are taken when necessary.

At BEA Trustees, we advocate good governance is critical to the success of our business. In this regard, we have established a sound governance framework in order to protect and grow the MPF savings of our members in an efficient and effective way. It provides a framework for decision-making and ensures that resources are managed effectively and efficiently. To achieve good governance, it is our commitment to comply with regulatory requirements, and ensure accountability, transparency and effective communication through periodic evaluation. By incorporating these components, we believe this can build trust and confidence with our stakeholders and MPF customers and promote a culture of excellence.

The Structure of BEA Trustees' Board of Directors

The Board of Directors of BEA Trustees (the "Board") is responsible for overseeing the conduct of the business and management of the company. They have a duty to ensure compliance with relevant rules and regulations and perform any other duties necessary to discharge their obligations and responsibilities. To achieve this, the Board comprises experienced professionals with diverse skills and backgrounds, who bring a wide range of perspectives to BEA Trustees.

One of the critical responsibilities of the Board is to have a sound understanding of BEA Trustees's business activities and associated risks and ensure that they are properly managed and governed. They must keep abreast of market developments, changes in regulations and assess the impact of

these on the business operations. This requires a proactive approach to identify and manage emerging risks to ensure the long-term sustainability of the company.

The Board is also responsible for ensuring the true and fair presentation of the company's financial statements in accordance with the prevailing accounting standards and laws. This requires a robust financial reporting framework with adequate internal controls to mitigate the risk of fraud or errors. In addition, they oversee corporate governance matters, including the development, implementation, and monitoring of corporate governance policies. By maintaining a strong culture of governance, the Board aims to promote transparency, accountability, and ethical behaviour throughout the organisation.

i. Directorship Composition

The Board comprises various members, including but not limited to, two Non-Executive Directors (the “NEDs”) and two Independent Non-Executive Directors (the “INEDs”)¹:

Name	Title
Mr. Adrian David Li Man-kiu	Director (Chairman)
Mr. Joseph Pang Yuk-wing	Non-Executive Director
Mr. Henry Chan Cho-yip	Director & Chief Executive
Mr. Tong Hon-shing	Director
Ms. Cheung Man-kok (alias: Christine Koo)	Independent Non-Executive Director
Ms. Winnie Cheung Chi-woon	Independent Non-Executive Director

The NEDs are high-ranking representatives from BEA Group who do not belong to the executive management team of the Trustee. They serve as a bridge between the Group and the Trustee, while ensuring impartial representation on the Board. Director & Chief Executive is delegated by the Board to manage the day-to-day MPF operations. Meanwhile, the INEDs are seasoned industry veterans who provide an objective perspective on our business operation and advocate for best practices in corporate governance.

ii. Independent Non-Executive Director(s) (the “INED(s)”)

An INED plays an important role in providing an unbiased perspective during the Board's discussions and augmenting the level of experience and expertise present on the Board.

To ensure that the INEDs possess an in-depth knowledge of the latest trends in the MPF market and can provide an impartial viewpoint during the Board's deliberations, the Board only appoints INEDs who are based in Hong Kong and have a close association with the MPF market.

At present, there are two INEDs on the Board. BEA Trustees reviews the effectiveness of the INEDs on an annual basis.

¹ Mr. Wan Chi-tak ceased to be the director of BEA Trustees with effect from 30th December, 2022. Mr. Ng Kai-man was appointed as the director of BEA Trustees with effect from 1st August, 2023.

iii. Meeting of the Board of Directors

The Board meeting is held semi-annually to monitor BEA Trustees' business operations. Typically, these meetings take place in person, allowing for productive conversations, decision-making, and collaboration among Board members.

During the Board meeting, the members of the Board can provide consistent oversight and guidance to BEA Trustees, ensuring that the company operates efficiently and effectively. The Board meeting also promotes open communication and transparency among the Board members, enabling them to work together to achieve the organisation's goals.

iv. Coverage of Business Functions

During every semi-annual Board meeting, a comprehensive array of topics is addressed to provide adequate coverage of all vital business functions and receive the latest updates, including but not limited to:

- MPF Investment Review & Strategy
- MPF Business Updates
- Performance of BEA MPF Funds
- BEA Trustees' Financial Results
- MPF Market Updates
- Trust Market Updates
- Compliance and Risk Management

v. Board Composition

As the market evolves over time, it is essential to ensure the Board composites of members who possess immense experience and skills to cope with the changing environment. The Risk & Compliance Function of BEA Trustees therefore reviews the Board composition on an annual basis to ensure that the Board has a balance of skills and expertise for providing effective leadership to BEA Trustees.

Directors are selected based on the experiences and skills that are relevant to the business activities of BEA Trustees. In addition, the experiences and skills of the director must be in the opinion of the Mandatory Provident Fund Schemes Authority ("MPFA") that they are necessary for the successful administration of mandatory provident fund schemes.

vi. Review of Board Effectiveness

In addition to having vast experience and skills, it is essential to maintain a high level of effectiveness to ensure that Board meetings are efficient and decisions are made with efficacy.

A comprehensive review of the effectiveness of the Board of Directors from different aspects is conducted on an annual basis by the Risk & Compliance Function of BEA Trustees. Referring to the review conducted in the past years, the Board is effective in overseeing the MPF business of BEA Trustees.

Establishment of Committee(s) & Delegation of Authority

The Board has established the Risk Management Committee (“RMC”) to strengthen its oversight and monitoring functions by reviewing and monitoring critical issues related to the BEA Trustees’ operations. The RMC provides valuable input and recommendations to the Board, enabling it to make well-informed decisions based on sound advice.

To ensure the Board keep informed about any significant issues related to the Trustee's operations, detailed reports and meeting minutes are promptly compiled, keeping the Board updated with the information that it needs to fulfil its oversight responsibilities and make informed decisions.

i. Risk Management Committee

Chaired by the Director & Chief Executive of BEA Trustees, the Risk Management Committee (“RMC”) is held on a monthly basis and comprised of the senior executives representing every business functions:

Director & Chief Executive	Chairman
Senior MPF Administration Manager - Section Head	Member
Senior MPF Marketing & Customer Services Manager - Section Head	Member
Senior Risk & Compliance Manager - Section Head	Member
Senior Fund Accounting Manager - Section Head	Member
Senior Trustee Services Manager - Section Head	Member
Senior Corporate Accounting Manager - Section Head	Member
MPF Administration Manager	Member
Marketing Communications Manager	Member
Risk & Compliance Manager	Member
Fund Accounting Manager	Member
Private Trust Managers / Trust Operation Manager	Member
Assistant Corporate Accounting Manager	Member
Risk & Compliance Manager / Assistant Risk & Compliance Manager / Risk & Compliance Support Officer	Secretary

The RMC is responsible for assisting in the daily management of the Company’s risk-related issue, including but not limited to:

- the review and monitoring of BEA Trustees’ risk profiles taking into consideration the risk appetite and the prevailing and forward-looking aspects of risk exposures;
- the review of regulatory updates related to risk management and assessing their potential implications for BEA Trustees' risk management;
- the review of the results of stress-testing for the major risks, the audit or review reports in relation to cybersecurity risk management and control weakness and the assessment on BEA Trustees’ capability to withstand the stressed conditions particularly in terms of profitability, capital adequacy and liquidity. If considered necessary, appropriate actions shall be taken to mitigate the potential impacts; and
- the oversight of BEA Trustees’ recovery and resolution planning.

The RMC is responsible for reporting significant issues to the Board of BEA. The RMC may also escalate significant issues to regulators if necessary. Other duties of the RMC include reviewing and approving prioritization and resource allocation decisions, ensuring adequate

resources are allocated to handle major risks. Overall, the RMC plays a critical role in ensuring that BEA Trustees's risk management practices are robust and effective.

Section 2: Scheme Assessment Areas

I. Value for Money Assessment

At BEA Trustees, our dedication to ensuring value for money for our members in the MPF system aligns with the MPFA's mission. While the Fund Expense Ratio ("FER") is a crucial indicator of cost to members, we understand that low cost alone may not always translate to good value. Therefore, we continuously monitor our fund performance to ensure reasonable returns while keeping our FER low and justifiable.

Our assessment of value for money goes beyond quantitative measures like FER and fund performance. As many members rely on us throughout their careers, we strive to offer appropriate and adequate investment fund choices that meet their changing investment needs and risk profiles. We also prioritise the provision of efficient and user-friendly services to ensure a satisfactory investment journey.

Our commitment to value for money is ongoing, and we constantly evaluate our MPF schemes to meet members' expectations and needs. We remain alert to changing market conditions and evolving member needs. Our focus on FER, fund performance, and qualitative factors enables us to provide good value for money and uphold our fiduciary duties as a MPF trustee.

1. Review of Fee

The Trustee calculates the FER in accordance with Code of Disclosure for MPF Investment Funds. We would also compare the FER of the current financial year with that of previous year and observe any changes.

In order to assess and measure whether the constituent funds ("CFs") under the Schemes are able to deliver "value-for-money" for scheme members, BEA Trustees has adopted a holistic approach to review the fee levels of BEA MPF funds through the Cost Effectiveness Monitoring Mechanism on a half-yearly basis. In this mechanism, FER and fund performance are used as the indicators to measure cost effectiveness.

The weighted average FER of Value Scheme was 0.80% as at 31st March, 2023, which was lower than the weighted average FER of the MPF market (i.e. 1.33%¹). This demonstrated that BEA Trustees maintains competitive among the peer groups in the MPF market.

2. Mitigation of Conflict of Interests

The Management Team has the duty to ensure the absence of conflicts of interest within the Investment Manager. As an affiliated company, BEA Union Investment Management Limited, serving as the Investment Manager in this case, operates as an independent entity with its own board of governance and reporting structure. Deed of Undertaking has been signed to ensure that BEA Trustees and Investment Manager act independent of each other.

¹ Sources: Mandatory Provident Fund Schemes Statistical Digest Quarterly Report 3/2023. The Overall FER was drawn from Table III.5.3, which was compiled on the basis of the FERs of MPF constituent funds with their financial year end dates falling within the period from 1st July, 2021 to 30th June, 2022 which was published in the MPFA website on 31st March, 2023.

3. Fund Performance Monitoring

BEA Trustees has established an on-going Fund Performance Monitoring Mechanism in order to monitor and review the performance of CFs. The monitoring mechanism addresses short term, medium term, and long term performance of the CFs against their respective benchmarks as well as the peer group quartile ranking.

BEA Trustees reviews the performance and risk characteristics of the CFs with the monitoring mechanism quarterly. For the underperforming CFs or those exhibit abnormal risk characteristics, the Investment Manager of the Scheme, BEA Union Investment Management Limited (“BEA Union”), is required to provide detailed explanation. Based on the explanation, we would take necessary and appropriate follow-up actions with BEA Union to ensure remedial actions are taken to correct the underperformance.

In addition, BEA Trustees holds review meetings on an ongoing basis with BEA Union to discuss the overall performance of the CFs. Comprehensive assessment on CF level in different horizons will be reviewed during the meeting. Any fund performance issues and the assessment results are reported to the Board of Directors for their attention.

For the financial year ended 31st March, 2023, the following CF triggered the performance monitoring in various time intervals based on the existing Fund Performance Monitoring Mechanism:

Name of Fund	Investment Manager	Action Taken
BEA Greater China Tracker Fund	BEA Union	BEA Trustees requested BEA Union to provide explanation and take remedial action. We would continue to monitor the performance difference and tracking error of this CF according to the existing Fund Performance Monitoring Mechanism.

4. Review of Investment Fund Choices (Range of Constituent Funds)

At BEA Trustees, we review our CFs range based on the market changes and regulatory development on an on-going basis. We also review our existing product offerings according to the market conditions (e.g. reference with the new funds launched by other service providers).

In addition, we conduct regular review at least annually regarding the suitability and adequacy of CF under the Scheme in terms of number of funds, fund types and investment risk levels in order to maintain our competitiveness in the market.

No new CFs were launched during the reporting financial year.

5. Member Experience

MPF investment is a long-term engagement, as it covers both the accumulation phase during the member's working life and the decumulation phase during the retirement of the member. To BEA Trustee, this means long-term partnership with our members, and we strive for excellence in servicing our members. We therefore perform regular review on the Comparison Table generated from MPFA Trustee Service Comparative Platform to ensure we maintain a high quality of service standard.

Our Service Pledge to members can be found at our BEA MPF webpage:

https://www.hkbea.com/pdf/en/mpf/Service%20Pledge/Service%20Pledge_BEAT_eng.pdf

In addition to the items listed in the Service Pledge, we also launched several new customer experience initiatives during the year:

- i. The enhancement of the online application platform (i.e. e-Application) by adding a new function that allows customers to consolidate/transfer the MPF accrued benefits to BEA MPF via BEA MPF webpage and BEA App with e-Signature. Please refer here for details: <https://www.hkbea.com/mpfein/en>;
- ii. The enhancement of the "Investment Corner" under BEA MPF webpage to provide more comprehensive investment information to our customers. Please refer here for details: <https://www.hkbea.com/html/en/bea-mpf-investment-corner.html>.

II. Sustainable Investing Strategy and Implementation Progress

The Board is responsible for overseeing the integration of environmental, social and governance ("ESG") factors into the investment and risk management processes and assign management with a clear role in reporting progress against goals set.

Governance framework has been established to monitor management of ESG risks by the Investment Manager of the Scheme. During the regular monitoring, any material issues relating to ESG and stewardship will be reported to the Director & Chief Executive of BEA Trustees immediately once identified. Any material issues will be discussed in the RMC to determine remedial actions to mitigate any potential risks identified.

Being the Investment Manager of the Scheme, BEA Union is therefore under close scrutiny by our Management Team and the Board to ensure BEA Union upholds its commitment to adopt sustainable investing in the investment and risk management process of MPF funds.

BEA Union regards sustainable investing as an integral element in fulfilling the fiduciary duties towards the clients. The core of the principle of sustainable investing is the integration of ESG factors into the investment decisions as to achieve better risk-adjusted returns over the long term. ESG factors can have material impacts on the underlying investment of the MPF funds, and these issues should be considered alongside traditional financial measures to provide a comprehensive view of the value, risk and return potential of an investment.

BEA Union has established an ESG Committee, composed of senior leaders across different business functions within BEA Union. The ESG Committee provides strategic advice and leadership to BEA Union's ESG-related matters, sets ESG targets and goals, considers and

reviews high-priority or emerging ESG-related risks and oversees the internal and external communications on the ESG strategy.

BEA Union integrates ESG factors into investment process and risk management framework. Investment teams seek to identify material ESG risks and issues relevant to each strategy covered, taking into account risks and issues of different sectors, regions and asset classes. The insights derived from the ESG research and stewardship activities are used to facilitate portfolio managers' investment decision-making, aligned with specific investment objectives, requirements and ESG risk appetite of the respective strategy.

For *equity portfolios*, the Equity Investment Team integrates and merges ESG analysis into fundamental equity research. Analysts identify the most material ESG issues (both upside and downside) that can influence the sustainability of a company's business model and the investment case. They form part of the evaluation in the different aspects of investment research including industry analysis, management quality assessment and company strategy analysis. Understanding of how companies address these ESG issues help analysts in their fair value analysis, by adjusting forecasted financials such as sales or operating costs or valuation models through weighted average cost of capital, return on equity, valuation discount/premium, terminal value, etc.

For *fixed income portfolios*, the Fixed Income Investment Team incorporates ESG analysis into BEA Union's proprietary credit research model. The engagement dialogue with the companies and the relevant ESG factors may differ across industries. In the process, the team seeks to understand the current ESG status as well as the future planning of ESG policy and its implementation. Overall assessment is made on the company's ESG performance and commitment, making reference to the ESG information provided by Union Investment and third-party providers together with the team's internal assessment. Where it is concluded to be material, there will be adjustments in the financial estimates in BEA Union's proprietary credit research model.

ESG issues affect investment portfolios from both top-down asset allocation and bottom-up security selection. The BEA Union Investment Committee, who manages the *multi-assets portfolios*, recognises the need for an integrated approach, taking ESG into account from both perspectives. ESG issues are considered and discussed in Investment Committee meetings when deciding asset allocation in order to improve the long-term sustainability of the investment strategies while continuing to achieve the desired investment outcomes for clients.

For *money market portfolios*, which are mostly for deposit placement. BEA Union opines that deposit-taking banks in Hong Kong are largely listed companies which already fulfilled ESG disclosure set out by the HK Exchange.

The Board opines that BEA Union has sufficient level of ESG integration into their investment and risk management processes in managing the CF via the underlying APIF and/or ITCIS. The Board will continue to monitor the ESG risks and review the ESG integration strategy of the Investment Manager regularly.

Board Endorsement

The Board of Bank of East Asia (Trustees) Limited hereby confirms and endorses the above Governance Report for Value Scheme.