

BEA (MPF) Value Scheme

Governance Report
For the year ended 31st March, 2024

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

Good governance is essential for the success of any institution, encompassing how an organization exercises its authority and manages resources. It establishes the foundation for effective and efficient operations through accountability, transparency, and informed decision-making. A robust governance framework includes principles, policies, and procedures that guide an institution's operations and service delivery.

At BEA Trustees, we recognize that good governance is vital to our business long-term and sustainable success. We have established a robust governance framework, which cover the company and scheme members' interests. To name a few, they includes continuous monitoring on the investment performance of the MPF scheme assets and data protection to confine the confidentiality of scheme members' personal data.

There are three key components in BEA Trustees' governance framework. Firstly, an effective board that will steward the company and take care of the members' interest. Secondly, a robust regulatory compliance and risk management to ensure all operations of BEA Trustees are complied with regulations. Thirdly, regular reviews on scheme assets investment and operational efficiency to fulfil the fiduciary duty of trusteeship to the beneficiary of BEA MPF schemes. By adhering to these three key components, BEA Trustees can foster a culture of excellence, and our stakeholders and MPF customers can build trust and confidence on us through this strong foundation.

To achieve the company stewardship, it is relied on a well-established Board of Directors and discuss in the following section of "**BEA Trustees' Board of Directors**". For the oversight of regulatory compliance and risk management, a Risk Management Committee ("RMC") is established and the Board delegates its authority to RMC for the risk management issue. The section of "**Establishment of Committee & Delegation of Authority**" will discuss RMC. For the scheme assets performance, the Director & Chief Executive of BEA Trustees will attend monthly meeting with investment manager and the performance will be presented during every board meeting. The discussion of investment performance will be presented in Section 2 "**Scheme Assessment Areas**" of this governance report.

BEA Trustees' Board of Directors

BEA Trustees is helmed by an effective board, which assumes responsibility for stewardship of the company and the best interest of MPF scheme members. The key responsibilities of the Board of Directors of BEA Trustees (the "Board") includes directing and supervising the company's affairs, providing long-term strategic direction, delegating the day-to-day operation and administration duties to Chief Executive and ensuring compliance with relevant rules and regulations in performing duties necessary to fulfil BEA Trustees' obligations.

In order to achieve these responsibilities, the Board is responsible for ensuring a true and fair view of the company's financial statements in accordance with prevailing accounting standards and laws. The Board also oversees corporate governance matters, including the development, implementation, and monitoring of governance policies. BEA Trustees shall keep the Board informed about market developments and regulatory changes, and the Board in return shall steer BEA Trustees to seek emerging opportunities and act strategically.

i. Board Composition

The Board currently has 6 Directors, including 1 Executive Director, 3 Non-Executive Directors (the "NEDs") and 2 Independent Non-Executive Directors (the "INEDs"). 33% of the Directors are INEDs.

The majority of NEDs and INEDs in the Board is to ensure the independence of the decisions of the Board, and they bring a full spectrum of seasoned expertise as well as financial and strategic advices to the Board. All NEDs are senior representatives from BEA Group, without day-to-day executive roles in the Trustee's management. The Chief Executive of BEA Trustees, appointed by the Board as Executive Director, oversees BEA Trustees' businesses and financial performance.

One of the NEDs is the Chairperson of the Board. The separation of the roles of the Chairperson and Chief Executive of BEA Trustees enhances accountability and responsibility of each position. The Terms of Reference of the Board of Directors govern their respective responsibilities.

INEDs provide unbiased advices during Board discussions and on thematic reviews carried out by BEA Trustees. Currently, the INEDs of BEA Trustees are lawyer and accountant, with sophisticated expertise related to finance and pension sector.

In 2023, BEA Trustees has made a proposal in strengthening the independence assessment of the INED. Starting from the financial year of 2024, BEA Trustees will consider INEDs who have been serving longer than nine years as long serving. Long serving INEDs are subject to further review by Risk and Compliance Section and annual confirmation of their independence should be obtained. The new assessment has taken into account the criteria set out by MPFA's circular letter "Review of the Implementation of Governance Principles by MPF Trustees" and market practices including the Hong Kong Exchange's Listing Rules. BEA Trustees shared this enhanced framework to MPFA in January 2024.

ii. Board Process

BEA Trustees owns the duty on providing quality information to the Directors in order to assist them in performing their duties and responsibilities to the Board effectively. Pursuant to the MPFA's recommendation on Governance Principles for MPF Trustees, Principle 4 – Ensure Board's members to perform their duties, BEA Trustees has established framework and strictly adheres to the preparation of the Board Meeting. The Board meets semi-annually to monitor BEA Trustees' operations, with meetings typically held in person to facilitate productive discussions, decision-making, and collaboration. When necessary, meetings will conduct virtually. The Board Meetings, together with updates by mean of Board Paper circulations, shall promote communication and transparency among Board members, enabling them to achieve the Board's oversight role on BEA Trustees.

iii. Key Matters Reserved to the Board for Decision

During every semi-annual Board meeting, a comprehensive array of topics is addressed to provide adequate coverage of all business functions. The key areas reserved for the Board's consideration and decision include, but are not limited to:

Corporate strategy

- MPF Investment Review & Strategy – presented by BEA Union Investment Management Limited
- MPF Business Updates
- Performance of BEA MPF Funds

Financial

- BEA Trustees' Financial Results

Industry development

- MPF Market Updates (including eMPF Platform and ESG integration)
- Trust Market Updates

Corporate governance

- Compliance and Risk Management (incl. Compliance monitoring and complaints)
- ESG-related issues

Set out below are the key matters that have been approved by the Board during the Period:

- Annual Reviews to the Governance and Business Plan and Terms of Reference of the RMC
- Approval of Investment Manager's update of Deeds of Undertaking
- Change of Money Laundering Reporting Officer for BEA Trustees
- Licence Application to SFC for carrying on Regulated Activity Type 13 under the Securities and Futures Ordinance (Cap. 571)
- Reports and Financial Statements for the schemes and funds under BEA Trustees' trusteeship
- Appointment and Resignation of Director
- Service Agreement with external services providers

iv. Board Effectiveness and Diversity

The Board consists of members with extensive experience and balance of skills that is appropriate to the requirements of the BEA Trustees' business. Every year, Risk and Compliance Section of BEA Trustees will assess the effectiveness of the Board of Directors by considering the structure, size and composition of the Board that are relevant to BEA Trustees' strategy, governance and business needs.

BEA Trustees is currently considering and planning the composition of INEDs to explore the possibility of expanding expertise in the Board. A conclusion on the INED composition shall be ready in the next financial year.

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 our 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 is held monthly and comprised of the senior executives representing every business function:

Director & Chief Executive	Chairman
Deputy Head of Personal Banking	Member
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
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 plays a pivotal role in overseeing and managing risk-related issues within BEA Trustees. One of its primary responsibilities is to meticulously review and monitor the risk profiles of BEA Trustees, considering the company's risk appetite and both current and anticipated risk exposures. This includes staying abreast of regulatory updates concerning risk management and evaluating their potential implications for the organization.

Another crucial task of the RMC involves scrutinizing the outcomes of stress tests conducted to assess major risks. Additionally, the committee reviews audit and cybersecurity reports to identify any control weaknesses that could compromise our ability to withstand adverse conditions, particularly concerning profitability, capital adequacy, and liquidity. When necessary, the RMC recommends and implements measures to mitigate these potential impacts.

Furthermore, the RMC oversees the development and implementation of BEA Trustees' recovery and resolution plans, ensuring the company is prepared to navigate through crises effectively. The committee is also responsible for promptly reporting significant issues to BEA's board of directors and, if warranted, escalating matters to regulatory authorities.

Beyond these responsibilities, the RMC plays a pivotal role in approving resource allocation decisions and ensuring adequate resources are allocated to address major risks effectively. By fulfilling these duties, the RMC ensures that BEA Trustees maintains robust and effective risk management practices that align with regulatory requirements and safeguard the company's stability and resilience in the face of potential challenges.

ii. Highlights of RMC's Activities during The Period

During the Period, 12 RMC meetings were held on a monthly basis. The RMC discussed major risk issues arising from the following matters, suggested the corresponding ways of risk mitigation and monitored the progress of the risk management process. In the reported period, key issues discussed were:

- The implementation of eMPF Platform
- The implementation of the new SFC Type 13 Regulated Activity ("RA13")

Section 2: Scheme Assessment Areas

I. Value for Money Assessment

At BEA Trustees, we are dedicated to delivering value for money to our members within the MPF system, aligning closely with the mission of the MPFA. While the Fund Expense Ratio (“FER”) is a critical metric for assessing costs to members, we recognize that value extends beyond mere cost efficiency. Thus, we rigorously monitor our fund performance to ensure reasonable returns while maintaining a low and justifiable FER.

Our evaluation of value for money encompasses more than quantitative measures such as FER and fund performance. Recognizing the long-term nature of our members' relationships with us, we strive to provide diverse and suitable investment fund options that cater to their evolving investment preferences and risk tolerances. In addition, we prioritize delivering efficient, user-friendly services to enhance the overall investment experience for our members.

Our commitment to delivering value for money is continuous. We regularly assess and refine our MPF schemes to meet the dynamic expectations and needs of our members, remaining vigilant to market changes and evolving member demands. By focusing on continuous assessment of the various quantitative and qualitative measures, we ensure that we not only meet but also exceed members' expectations, fulfilling our fiduciary responsibilities as a trusted MPF trustee.

1. Fund Performance Monitoring

We have instituted a comprehensive and ongoing Fund Performance Monitoring Mechanism aimed at systematically overseeing and evaluating the performance of all Constituent Funds (“CFs”) on our MPF Schemes. This proactive approach is designed to ensure that all funds under their purview meet or exceed expected benchmarks and deliver value to stakeholders. The monitoring mechanism is stratified into distinct protocols for non-index tracking CFs, index tracking CFs, and the Default Investment Strategy (“DIS”), each with tailored criteria to accurately gauge performance.

Our Fund Performance Monitoring Mechanism is not merely diagnostic but also prescriptive. Upon identifying underperforming CFs, we would initiate a thorough review process and require the Investment Manager (“IM”) to provide explanation on the performance of CFs.

We will further collaborate with BEA Union Investment Management Limited (“BEA Union”), i.e. the Investment Manager of the Scheme, to discuss the findings and develop corrective action plans. The corrective action plans will enforce changes aimed at realigning the performance of the underperforming fund. This may include adjusting the investment strategy, reallocating assets, or making management changes.

The management team of BEA Trustees Mandatory Provident Fund Schemes Authority's (“MPFA”) will update the Board regarding the fund performance of CFs and/or other issues through different channels including regular reports and meetings, to ensure an effective ongoing surveillance of the implemented measures.

For the financial year ended 31st March, 2024, the following CF triggered the performance monitoring based on our Fund Performance Monitoring Mechanism.

Name	Observation(s)	Remedial Action(s)
BEA Core Accumulation Fund	As of 31 st March, 2024, the 1-year net performance of CAF exceeded the positive side of the threshold against the Reference Portfolio (i.e. benchmark).	No adverse impact. BEA Trustees requested IM to explain the excess. The outperformance was attributed to the good performance of the underlying APIFs.

2. 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.

The Greater China Tracker Fund was terminated on 15th June, 2023, as a result of our internal review on product proposition.

3. 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.

According to the latest assessment results as of 31st December, 2023, which is published on MPFA's MPF Fund Platform¹, the weighted average FER of the Scheme was 0.95%.

The Scheme FER further lowered to 0.89%² as of the financial year ended 31st March, 2024, mainly due to the significant reduction year-on-year in the FER of MPF Conservative Fund, as well as the termination of Greater China Tracker Fund in mid 2023.

¹ Sources: MPF Fund Platform (https://mfp.mpfa.org.hk/eng/mpp_list.jsp) with latest information as of 31st May, 2024.

² Unaudited FER.

The latest Scheme FER of 0.89% is notably lower than the weighted Market Average FER of 1.41%³. This proves our commitment to maintain competitiveness among the peer groups in the MPF market.

At BEA Trustees, we regularly review the fee levels of the CFs on our Schemes. We evaluate various parameters and criteria including, but not limited to, the fee level compared with the market by fund category, investment performance to ensure the fee is justifiable, range of fund choice, quality services and other value-added services.

4. Mitigation of Conflict of Interests

The Management Team of BEA Trustees has the duty to ensure the absence of conflicts of interest within the Investment Manager. As an affiliated company, BEA Union Investment Management Limited (“BEA Union”), 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 BEA Union act independent of each other.

5. Member Experience

Investing in MPF entails a prolonged commitment, encompassing the phases of accumulation during a member’s working years and the eventual drawdown upon retirement. On the other hand, it is also a long-term partnership with the employer clients. It is therefore essential to deliver exceptional service throughout this long-term journey, for both employers and employees (members).

We 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 an evolving MPF System and a dynamic investment market, effective communication and a superior customer experience are paramount. We are committed to keeping MPF members and employers well-informed and engaged through a multifaceted approach that includes educational seminars, enhanced digital platforms, and continuous updates on investment opportunities and market conditions.

The MPF system is undergoing significant transformations to better serve its members. As regulatory changes and technological advancements (e.g. the launch of eMPF) reshape the landscape, it is crucial for members and employers to stay abreast of these developments. Concurrently, the investment market is characterized by rapid shifts, driven by economic fluctuations, geopolitical events, and technological innovations. Understanding these changes and their implications on retirement savings is essential for making informed investment decisions.

³ Sources: Mandatory Provident Fund Schemes Statistical Digest Quarterly Report 3/2024. 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, 2022 to 30th June, 2023 which was published in the MPFA website on 31st March, 2024.

To support our members and employers in navigating these changes, we offer a comprehensive series of physical seminars and webinars throughout the year. These sessions are designed to provide insights into the latest trends in the investment market, updates on MPF regulations, and strategies for optimizing retirement savings. By offering these educational opportunities, we aim to empower our members with the knowledge they need to make sound financial decisions.

The Investment Corner on our website is a vital resource for members seeking detailed and up-to-date information on market trends and asset class outlooks. We are committed to continuously enhancing this platform, ensuring it provides valuable insights and analysis. Regular updates and expert commentary help members understand the broader economic landscape and how it impacts their investments. This proactive approach helps members stay informed and make strategic adjustments to their portfolios.

Recognizing the importance of convenience and accessibility, we have made significant enhancements to BEA Online (website) and BEA Mobile (mobile app) platforms. These improvements are designed to offer a more user-friendly experience, enabling members to manage their MPF accounts with ease. By leveraging technology, we aim to provide our members with seamless access to their retirement savings.

II. Sustainable Investing Strategy and Implementation Progress

The Board holds the critical responsibility of overseeing the integration of environmental, social, and governance (ESG) factors into the Scheme's investment and risk management processes. This oversight includes assigning clear roles to management to ensure progress against set goals is effectively reported.

The establishment of a robust governance framework is essential in monitoring the management of ESG risks by the Investment Manager of the Scheme. During regular monitoring, any material issues related to ESG and stewardship must be promptly reported to the Director & Chief Executive of BEA Trustees. These issues are then discussed in the Risk Management Committee to determine necessary remedial actions to mitigate potential risks.

As the Investment Manager of the Scheme, BEA Union operates under close scrutiny by both the Management Team and the Board of BEA Trustees. This scrutiny ensures that BEA Union upholds its commitment to adopting sustainable investing practices in the management of MPF funds. BEA Union considers sustainable investing an integral element of its fiduciary duties to clients. The core principle of sustainable investing is the integration of ESG factors into investment decisions to achieve better risk-adjusted returns over the long term. ESG factors can significantly impact the underlying investments of MPF funds and should be evaluated alongside traditional financial measures to provide a comprehensive view of an investment's value, risk, and return potential.

BEA Union has established an ESG Committee composed of senior leaders across various business functions within the organization. This committee provides strategic advice and leadership on ESG-related matters, sets ESG targets and goals, and reviews high-priority or emerging ESG-related risks. The committee also oversees both internal and external communications regarding the ESG strategy. Integration of ESG factors into the investment process and risk management framework is a fundamental practice at BEA Union. Investment teams actively seek to identify material ESG risks and issues relevant to each strategy, considering risks across different sectors, regions, and asset classes. Insights from ESG research and stewardship activities facilitate informed investment decision-making aligned with specific investment objectives, requirements, and the ESG risk appetite of each strategy.

For *equity portfolios*, the Equity Investment Team integrates ESG analysis into fundamental equity research. Analysts identify the most material ESG issues, both positive and negative, that could influence the sustainability of a company's business model and investment case. This ESG analysis is a crucial component of evaluating various aspects of investment research, including industry analysis, management quality assessment, and company strategy analysis. Understanding how companies address ESG issues aids analysts in their fair value analysis by adjusting financial forecasts such as sales, operating costs, or valuation models through metrics like weighted average cost of capital, return on equity, valuation discount/premium, and terminal value.

For *fixed income portfolios*, the Fixed Income Investment Team incorporates ESG analysis into BEA Union's proprietary credit research model. The engagement dialogue with companies and relevant ESG factors may vary across industries. The team aims to understand the current ESG status and future planning of ESG policies and their implementation. An overall assessment is made on a company's ESG performance and commitment, referencing ESG information from Union Investment, third-party providers, and the team's internal assessment. Where deemed material, adjustments are made to financial estimates in BEA Union's proprietary credit research model.

ESG issues impact investment portfolios from both top-down asset allocation and bottom-up security selection perspectives. The BEA Union Investment Committee, which manages *multi-asset portfolios*, recognizes the necessity of an integrated approach that considers ESG factors in both contexts. ESG issues are discussed in Investment Committee meetings, particularly when deciding on asset allocation to enhance the long-term sustainability of investment strategies while achieving desired investment outcomes for clients.

For *money market portfolios*, which primarily involve deposit placement, BEA Union holds the view that deposit-taking banks in Hong Kong are mostly listed companies already compliant with ESG disclosure requirements set by the HK Exchange.

The Board believes that BEA Union has achieved a sufficient level of ESG integration in managing the constituent funds via the underlying APIF and/or ITCIS. We do notice that BEA Union has not yet released their first PRI Transparent Report and PRI Assessment Report, which are due to be released in Q4 2024. The Board will continue to monitor ESG risks and regularly review the ESG integration strategy of the Investment Manager to ensure ongoing alignment with sustainability goals and regulatory requirements.

Board Endorsement

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