

HAPFS Announcement Introducing the New Time Deposit Fund

We are pleased to announce the upcoming launch of our new investment option, the Time Deposit Fund (TDF), resulting from the collaborative efforts of the Hospital Authority and the Hospital Authority Provident Fund Scheme office. The TDF has been meticulously designed to offer you a low-risk opportunity to earn predictable returns. The TDF will be available for subscription on a quarterly basis starting from 15 December 2023, providing you with an additional avenue to fulfill your investment needs.

Indicative rates of the TDF will be shared with members during the subscription period via HA Chat, HA intranet and the Invesco website. The actual deposit rate will be determined and confirmed upon placing the deposit and will not be changed throughout the tenure. It is important to note that the actual deposit rate may vary from the indicative rate due to market conditions and the bank's policies.

Key Features and Highlights

The key features and highlights of the TDF are summarized in the following table.

Eligibility
<ul style="list-style-type: none">All existing members of the Scheme, except bankrupt and extended members, are eligible to subscribe to the TDF.
Subscription Process
<ul style="list-style-type: none">To subscribe to the TDF, you will need to switch out of the existing assets and transfer your investments to the TDF within the designated subscription window. (Not applicable to future monthly contributions and "Employee Voluntary Contributions")The subscription period for the initial launch will begin on <u>15 December at 9:00 a.m.</u> and conclude on <u>19 December at 5:00 p.m.</u>Subsequent subscription windows will open every March, June, September, and December each year, with the cutoff time at 5:00 p.m. on the 23rd of that quarter-end month.During each subscription period, you will have the option to select a tenor of 3 months, 6 months, or 12 months. However, it is important to note that near-retirees are not allowed to select a tenor that would mature during or after their retirement month.All subscription instructions submitted during the initial subscription window will be deemed irrevocable, and no withdrawals or changes can be made subsequently.Please note that subscriptions can only be made exclusively through the Invesco website; they cannot be made via Invesco's hotline or Interactive Voice Response System (IVRS).

Fund Switching

- You have the freedom to switch your funds held under the six lifestyle funds into the TDF without any restrictions or limitations.
- Switching assets to the TDF can only be done through the Invesco website and cannot be facilitated through Invesco's hotline or IVRS.
- Once your investments are successfully placed in the TDF, they cannot be redeemed or switched out before reaching maturity.
- When your time deposits reach maturity, you have the option to switch out of the TDF. You can provide instructions through the Invesco website during the **same month** as the maturity date before the cut-off date on the 23rd of that month.
- When the quarterly subscription window is open, you can choose to move to the six lifestyle funds and/or another series of the TDF.

Default Fund

- If you do not provide specific instruction for a matured time deposit, a one-month TDF will be established as the default option when the fund reaches maturity.

Termination

- Once a time deposit is made, it cannot be cancelled before the designated maturity date. The funds locked within the time deposit cannot be redeemed or switched out before reaching maturity.
- If you decide to leave the HA before the maturity of the TDF, you will only receive the payouts, including the full interest for the entire duration, after the maturity and redemption of the TDF from the bank.
- If you have both lifestyle funds and the TDF when you leave the HA, the lifestyle funds will be redeemed and paid out as usual. The funds locked within the TDF can only be redeemed and withdrawn from the bank once they reach maturity.
- In situations where you are entitled to Long Service Payment (LSP), Minimum MPF Benefits (MMB), or the unvested portion of accrued benefits (collectively referred to as "Special Benefits") upon leaving the HA, these Special Benefits will be settled by withdrawing the corresponding amount from the redemption proceeds of the lifestyle funds. If the total balance of the redemption proceeds in the lifestyle funds is insufficient to fully settle all the Special Benefits, the payment for the remaining balance of the Special Benefits will be deferred until the TDF matures. It is important to note that you will only receive the balance of the payouts after the TDF has matured and all the remaining Special Benefits have been settled.

Expense

- The expense ratio is set at 0.06% per annum, which will be reviewed on a regular basis.

Key Considerations Before Subscription

When contemplating a switch to a new fund, it is imperative to acknowledge the possibility of financial losses that may arise from selling existing assets, particularly during periods of market downturn. Please be aware that any losses incurred will be realized immediately. So, before considering subscribing to the TDF, it is important to thoroughly assess all the significant risks outlined in the **Risk Disclosure Statement** located on the last page of this announcement.

Retirement Planning

In addition to the aforementioned risks, we encourage you to thoroughly review your retirement planning including retirement goals, investment horizon, investment strategies and objectives, risk tolerance, current financial situation, future retirement needs, and so on. Retirement planning is a long-term endeavor, and it is important to assess your investments regularly, make necessary adjustments, seize new opportunities, and mitigate potential risks. It is crucial to recognize that market conditions, personal circumstances, and financial goals can evolve over time, so staying informed and proactive is essential. The new TDF is an additional option that you may contemplate in your pursuit of achieving your retirement objectives.

If you have any questions or would like to learn more about the TDF, please refer to the TDF leaflet or Frequently Asked Questions (coming soon) on the HAHR Intranet (<https://hapfs.home>), or do not hesitate to contact the INVESCall member hotline for HA Employees at (852) 3191 8088.

Thank you for your continued trust and support. We look forward to serving you with the TDF.

HAPFS Office
December 2023 (Revised)

Risk Disclosure Statement for Time Deposit Fund

Thank you for considering investing in our Time Deposit Fund ("TDF"). Before making any investment decisions, we strongly recommend that you carefully read and understand the following risk disclosure statement which outlines the potential risks associated with investing in this fund.

LIQUIDITY RISK:

When you invest in a time deposit, your money is locked in for the entire term of the deposit. This means that you cannot access the TDF until maturity, even in the event of an emergency. Furthermore, it may not be ideal to have your money locked up for a long period of time in a time deposit, as you would miss out on the opportunity to earn higher yields or returns from other investments. For example, if a member places a 12-month deposit, they will not be able to liquidate the TDF or switch to another lifestyle fund before the deposit matures.

INHERENT RISK:

There is a possibility of credit and default risks associated with the banks where the time deposits are held. If this happens, you may lose all or part of your deposits, and there will be minimal bank deposit protection. There were multiple instances from the past where banks went out of business, and had trouble to fulfil their obligations.

INTEREST RATE AND REINVESTMENT RISK:

When placing a time deposit, interest rate is typically fixed for the agreed-upon tenor. However, upon maturity, if the prevailing market interest rates decrease or bank adjusts its policies, the reinvestment of the TDF may obtain a lower interest rate. This can result in lower returns or a diminished yield compared to the initial deposit. For example, a 1-year HKD term deposit pays 5%. If interest rates fall by 2% over the next 12 months, investors will only be able to roll over the deposits at 3% at maturity.

INFLATION RISK:

There is a risk that the interest rate may not keep up with rising inflation, resulting in a decrease in the purchasing power of your money. For high inflation, the real return for the time deposit (i.e. return after inflation) would be low. For example, if a time deposit gives 5% interest and inflation rate at the moment is 4% then the real returns earned is a meagre 1%. It may be not a good idea to invest in fixed deposits if it does not provide returns that outpace inflation because it will not be able to keep up with rising living expenses due to high inflation.

MARKET OPPORTUNITY RISK:

By allocating money to the TDF, which offers a fixed rate of interest, its return could be lower than the returns offered by other investment options. If the global economy and financial market turns resilient, other asset classes may deliver higher returns than the TDF. In that case, the member may forego potential market upward movements and the opportunity for higher returns that may be available through other lifestyle funds such as funds investing in equities.

It is important to note that this risk disclosure statement provides a general overview of the potential risks associated with investing in a time deposit fund. It is not exhaustive, and there may be other risks that are not mentioned here. We encourage you to seek professional financial advice and carefully review all relevant documents and disclosures before making any investment decisions.

By investing in the time deposit fund, you acknowledge, understand, and accept these risks. You should only invest funds that you can afford to lose without compromising your financial well-being.