

Principal MPF – Simple Plan

Governance Report for the year ended 31 December 2024

(If there is any inconsistency between the English and Chinese version,
the English version shall prevail.)

Exclusive Distributor



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Section 1: Trustee's Governance Framework

About the Trustee

Principal Trust Company (Asia) Limited ("Principal"), the Trustee, was incorporated in Hong Kong in 1997 and has been acting as trustee of retirement assets in Hong Kong since 2000. Principal provides one-stop shop services on retirement scheme management, including corporate trustee, fund and scheme administration services. The Trustee collects contributions in accordance with the scheme rules of the Principal MPF - Simple Plan (the "Scheme" or "SIMPLE") and invests the contributions in the Constituent Funds ("CFs").

Trustee's Governance Framework

Good governance refers to the way in which an institution exercises authority and manage resources properly. It is essential for ensuring accountability, transparency, and effective decision-making. A good governance framework is a set of principles, policies, and procedures that guide how the institution operates and delivers services.

A good governance framework should include several key components. First and foremost, it ensures the Trustee operates in compliant to the regulatory requirements. Secondly, it should promote accountability and transparency, such that the decision-making processes are clear and accountable. Thirdly, it should also encourage participation, with information flow efficiently via proper reporting mechanism. Lastly, it should also promote effectiveness and efficiency, with periodic evaluation to ensure the resources are deployed in an effective and efficient manner.

Principal adopts a top-down approach in the governance structure, where the Board of Directors is responsible for defining the organization's mission and vision, and setting overall objectives and strategic direction. The Management team, in turn, formulates the strategies and plans necessary to achieve those objectives and oversees their implementation. The Board also establishes committees to manage specific areas of the business, which are responsible for executing policies and procedures related to their respective areas of responsibility. All staff members, from all business functions, are expected to participate in the implementation of these plans and contribute to the overall success of the organization. In this way, the top-down approach provides a clear and structured framework for decision-making, accountability, and effective communication, ensuring that the organization's objectives are achieved in a consistent and sustainable manner.

Trustee Board Structure

The Board is ultimately responsible for the sustainable performance of the Trustee, including the consistent achievement of business plans and compliance with statutory as well as corporate obligations. The Board is also ultimately responsible for the development and implementation of the Trustee's corporate governance practices.

i. Directorship Composition

The Board comprises four (4) Directors (which consist of one (1) Executive Director

and three (3) Non-Executive Directors (“NEDs”)) and two (2) Independent Non-Executive Directors (the “INEDs”):

Name	Title
Mr. CHEONG Wee Yee (Thomas) (c)	Executive Vice President, Principal Asia
Mr. LAU Martin Kin Yeung	Chief Executive Officer
Mr. Uday JAYARAM*	Executive Managing Director & Head of SE Asia
Mr. John Michael EGAN*	Vice President & Chief Financial Officer, Principal International
Mr. LAM Heung Yeung Herman	INED
Mrs. Hong Mei KNIGHT (May)	INED

(c) denotes Chairperson of the Board

* denotes overseas residence

The ED represents the senior management staff of the Trustee, with extensive experience and knowledge in the MPF operations. The NEDs are representatives from the regional group office, with extensive experience and knowledge in the MPF industry. The INEDs are experienced industry veterans who provide an independent view on our business operation and best practices for corporate governance. To further strengthen corporate governance and achieve an appropriate degree of checks and balances of the Board, it is our practice to appoint NEDs as the Chairman of the Board.

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

The role of an INED is to bring an “independent” view to the Board’s deliberations, and to broaden the level of experience and balance of expertise on the Board.

At present, there are two INEDs on the Board, and the term of an INED is three (3) years. The fixed tenure ensures the discipline to review the effectiveness of the INEDs for re-appointment.

iii. Board Meeting Format

The Board meets four (4) times a year on a quarterly basis. Board meetings are usually held in person, except for Directors who reside overseas to join virtually.

Furthermore, to ensure the INEDs can keep abreast of the latest development in the MPF market and bring an independent view for deliberations, the Board only appoints INEDs who reside locally in Hong Kong with a close connection to the MPF community. The INEDs are committed to attend the Board meetings in person where feasible, unless there is unavoidable conflict of other engagements, in which event they will join virtually.

iv. Coverage of Business Functions

At each quarterly Board meeting, a wide range of topics are discussed, to ensure good coverage of all the critical business functions with latest updates.

- Management Updates
- Business Strategy and Product Development
- Investment Performance Review
- Finance
- Audit
- Legal & Compliance
- Risk
- Information Technology
- Business Development
- Operations
- Human Resources

v. Experience and Skills of Directors

As the market evolves over time, it is essential to ensure the Board composition possesses immense experience and skills to cope with the changing environment. The Board therefore review the experience and skills of the directors on an annual basis.

On an annual basis, all directors would formally complete an evaluation questionnaire to identify any areas of improvement for the Board, which would be properly addressed at the Annual Board Retreat, besides the quarterly Board meetings.

vi. Review of Board Effectiveness

Besides possessing immense experience and skills, maintaining a high level of effectiveness is equally important. This is to ensure that the Board meetings are held efficiently, and the decisions are made effectively.

The Directors would formally complete an evaluation questionnaire, and the assessment would be reviewed at the Annual Board Retreat.

Establishment of Committee(s) & Delegation of Authority

While the Board retains ultimate responsibility for the strategic direction and control, it has established various committees to facilitate the delivery of strategic direction and operation.

At the Board level, a dedicated Risk Management Committee is established to oversee risk management:

i. Board-level Risk Management Committee

The Board is ultimately responsible for establishing and overseeing risk management, which includes setting our risk appetite and strategy which should be in line with the long term interests of Principal and are embedded in the corporate culture of Principal

as well as our parent group (i.e. Principal Financial Group); providing appropriate risk management systems and ensuring their effective operation; and approving and reviewing the adequacy and effectiveness of risk management policies for material risks on a regular basis; ensuring sufficient resources are in place for risk management.

This Board-level Risk Management Committee is comprised of the full Board to assume such responsibilities.

As part of the Board meeting matrix, the Board-level Risk Management Committee therefore convenes four (4) times a year.

The Board has also established a number of committees at the Management level, with the delegation of authority to such committees. The Board is kept appropriately and fully informed on all material issues, through detailed reports and/or meeting minutes, in a timely manner.

i. Management Committee

The Management Committee is responsible for overall leadership and execution of the strategy, initiatives, and standards. It oversees the operating and financial performance, and it ensures resource management practices are properly executed.

Under the leadership of the Chief Executive Officer, the Management Committee comprises other senior executives of the Trustee and affiliates, and it is delegated by the Board to deliver the strategic direction and goals determined by the Board.

The Management Committee meets on a monthly basis.

ii. Executive Risk Management Committee

The Executive Risk Management Committee (“ERMC”) is responsible for overseeing risk management. Chaired by the Chief Risk Officer, the ERMC comprises the Management Committee members, and Internal Audit will be invited to join as an observer.

The Executive Risk Management Committee meets four (4) times a year.

iii. Fiduciary Committee

The Fiduciary Committee is responsible for reviewing all fiduciary activities undertaken by the Trustee on behalf of scheme members and investors, and it serves as a forum for discussion and decision making on behalf of the Trustee.

In particular, the Fiduciary Committee reviews and monitors investment related matters, including investment compliance, fund performance, and environmental, social and governance (“ESG”) integration.

Chaired by the Chief Executive Officer, the Fiduciary Committee comprises other senior executives of the Trustee. The Chief Executive Officer has ultimate accountability for decisions made in the Fiduciary Committee.

The Fiduciary Committee meets on a monthly basis.

iv. AML Committee

The AML Committee was established to ensure adequate and appropriate AML/CTF¹ programs in place and to advise on matters in relation to AML/CTF, including ongoing monitoring of the implementation of the AML/CTF programs, overseeing suspicious transactions reporting, and conducting appropriate training for employees.

Chaired by the Chief Compliance Officer, the AML Committee comprises other senior executives of the Trustee and affiliate companies, as well as the AML Compliance Officer and Money Laundering Reporting Officer.

The AML Committee meets four (4) times a year.

Section 2: Scheme Assessment Areas

I. Value for Money Assessment

MPFA always strives to ensure MPF value for money. At Principal, it is also our priority to ensure good value for money for our members. Set out below our assessment on the value for money based on Fund performance, Fee level, Services to Scheme Members and Range of Funds offered to scheme members:

Table 1 - Summary of VFM Assessment

	Assessment criteria	Assessment results	Follow-up actions / plans
1	Fund performance	Principal Asset Management Company (Asia) Limited (“PAM”) employs a thorough, well-structured, proprietary process to identify, select, and monitor the underlying funds. A rigorous Watchlist Mechanism (“Watchlist”) is in place, based on the above quantitative and qualitative assessments. In the year of 2024, several Constituent Funds triggered the Watchlist.	Please refer to Table 3 for more information on the Follow-up Actions / Plans.
2	Fee level	Except for DIS strategies, other funds’ fee levels are higher than the industry average numbers in their respective category.	After Principal’s funds are launched to the eMPF Platform in May 2025, the MPF administration fees will be reduced.

¹ AML/CTF denotes anti-money laundering and counter-terrorist financing

3	Services to scheme members	<p>We offered the following services:</p> <ul style="list-style-type: none"> • Member hotline • Customer service centres • Member benefit statements • Unlimited fund switching • Quarterly market outlook video <p>We consider the services we offered are sufficient.</p>	N/A
4	Range of funds	<p>In the year of 2024, the CF fund choices in the Scheme remained the same as the previous year.</p> <p>The range of investment fund choices on the Scheme is viable and appropriate to meet with the different risk profiles and the demographic structure of our scheme members.</p>	N/A

Table 2 - Assessment on Fund Performance

Name of constituent fund (CF)	Name of benchmark / performance target	Annualized net return (% per annum)							
		1 year		5 years		10 years		Since launch	
		CF	Benchmark	CF	Benchmark	CF	Benchmark	CF	Benchmark
Principal - MPF Conservative Fund	MPF Prescribed Savings Rate	3.58	0.81	1.48	0.33	0.91	0.18	0.73	0.37
Principal Age 65 Plus Fund	MPF DIS Reference Portfolio - Age 65 Plus Fund	2.96	3.30	0.88	0.53	N/A	N/A	1.81	1.81
Principal Balanced Fund	Willis Towers Watson Composite Benchmark (>60% - 80% Equity)	7.68	7.67	1.33	1.12	2.47	2.77	3.23	N/A
Principal Core Accumulation Fund	MPF DIS Reference Portfolio - Core Accumulation Fund	8.82	9.54	5.02	5.09	N/A	N/A	5.42	5.82
Principal Dynamic Asia Pacific Equity Fund	FTSE MPF Asia Pacific ex Japan Hedged Index TR	14.33	9.30	1.94	1.82	3.91	3.49	3.09	N/A
Principal Dynamic Global Bond Fund	FTSE World Government Bond Index (35% HKD hedged)	-3.91	-3.21	-3.34	-3.80	-2.03	-1.46	-0.38	0.32
Principal Dynamic Global Equity Fund	FTSE MPF All-World (35% HK\$ hedged)	15.22	16.29	7.04	8.97	6.51	8.03	3.64	5.47

Principal Dynamic Hong Kong Equity Fund	FTSE MPF Hong Kong	15.55	18.08	-5.27	-4.85	-0.92	0.03	4.05	4.48
Principal Growth Fund	Willis Towers Watson Composite Benchmark (>80% - 100% Equity)	10.40	10.62	2.30	2.38	3.40	3.89	4.02	N/A
Principal Stable Fund	Willis Towers Watson Composite Benchmark (>20% - 40% Equity)	2.37	1.67	-0.74	-1.47	0.53	0.37	1.33	N/A

Table 3 - Follow-up Actions / Plans to Improve Value for Scheme Members

Name of constituent fund	Investment manager	Follow-up actions / plans
Principal Dynamic Global Equity Fund	Principal Asset Management Company (Asia) Limited	PAM is closely monitoring the underlying funds' positioning and its impact on overall fund performance on both short- and long-term basis. The manager has augmented the investment management team by bringing in experienced professionals to provide portfolio management research, additional oversight and strategic direction. The investment team has been conducting a holistic review of the existing underlying investment managers and other available APIs in the market. Based on the review and re-selection results, a set of reallocation plan is currently being executed. The portfolio has exited some funds with lower risk-adjusted return in the long-term. The manager has also extended the flexible use of ITCISs to improve nimbleness in tactical allocation and reduce active risk, and introduced currency forward hedging at CF level to manage the currency exposures more efficiently.

Principal Age 65 Plus Fund		The investment team is currently reviewing the strategical allocation in the active components and the underlying funds' positioning and planning to extend more flexibility in rotation between active and passive components to avoid manager style bias under some prevailing market cycles. The manager will closely monitor the fund performance before and after the portfolio change to optimize the risk-return profile.
Principal Core Accumulation Fund		The investment team is currently reviewing the strategical allocation in the active components and the underlying funds' positioning and planning to extend more flexibility in rotation between active and passive components to avoid manager style bias under some prevailing market cycles. The manager will closely monitor the fund performance before and after the portfolio change to optimize the risk-return profile.

Table 4 - Assessment on Fee Level

Name of constituent fund	Launch date	Net asset value (HK\$) ¹	Fund Expense Ratio (FER) ¹ (expressed as a percentage per annum)	Fund category	Industry average FER ²
Principal - MPF Conservative Fund	20/01/2005	312,289,897.59	1.04287%	Money market fund – MPF conservative fund	0.98%
Principal Age 65 Plus Fund	01/04/2017	40,793,979.07	0.83285%	Mixed assets fund	1.32%
Principal Balanced Fund	20/01/2005	251,386,118.82	1.75034%	Mixed assets fund	1.32%
Principal Core Accumulation Fund	01/04/2017	90,752,796.15	0.80098%	Mixed assets fund	1.32%

Principal Dynamic Asia Pacific Equity Fund	19/12/2006	329,994,683.37	1.92983%	Equity fund	1.48%
Principal Dynamic Global Bond Fund	19/12/2006	81,822,928.72	1.55514%	Bond fund	1.23%
Principal Dynamic Global Equity Fund	19/12/2006	297,354,711.91	1.81739%	Equity fund	1.48%
Principal Dynamic Hong Kong Equity Fund	20/01/2005	483,167,719.40	1.78744%	Equity fund	1.48%
Principal Growth Fund	20/01/2005	408,908,408.93	1.76792%	Mixed assets fund	1.32%
Principal Stable Fund	20/01/2005	154,413,062.24	1.71816%	Mixed assets fund	1.32%

Note:

¹ Data as of 31 December 2024.

² Source: Mandatory Provident Fund Schemes Statistical Digest Quarterly Report 12/2024. The Overall FER was drawn from Table II.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 1 April 2023 to 31 March 2024 which was published in the MPFA website on 31 December 2024.

Table 5 - Assessment on Performance of Investment Manager

Name of constituent fund	Investment manager of constituent fund	Investment vehicle	Year of last due diligence review on investment manager of constituent fund	Year of last review on choice of underlying fund(s)
Principal - MPF Conservative Fund	Principal Asset Management Company (Asia) Limited	APIF	2024	2024
Principal Age 65 Plus Fund		APIFs & ITCISs	2024	2024
Principal Balanced Fund		APIFs & ITCISs	2024	2024
Principal Core Accumulation Fund		APIFs & ITCISs	2024	2024
Principal Dynamic Asia Pacific Equity Fund		APIFs & ITCISs	2024	2024
Principal Dynamic Global Bond Fund		APIFs & ITCISs	2024	2024
Principal Dynamic Global Equity Fund		APIFs & ITCISs	2024	2024

Principal Dynamic Hong Kong Equity Fund		APIFs & ITCISs	2024	2024
Principal Growth Fund		APIFs & ITCISs	2024	2024
Principal Stable Fund		APIFs & ITCISs	2024	2024

II. Sustainable Investing Strategy and Implementation Progress

Principal Financial Group is committed to meeting our global clients' values and sustainability preferences by making savings and insurance products, services, and resources more accessible to individuals and businesses, while delivering investment solutions aligned with their unique sustainable investment goals. As the Trustee of the Scheme, it is commitment of Principal to ensure that material ESG factors are appropriately considered where relevant to the underlying investments in the Scheme.

The Board is responsible for overseeing the integration of ESG considerations into the investment and risk management processes and assigns management with a clear role in reporting progress against goals set.

As explained in the previous section, the Fiduciary Committee reviews and monitors investment related matters, including the integration of ESG considerations into the investment and risk management processes.

PAM, being the investment manager of the Scheme, is therefore under close scrutiny by the Fiduciary Committee to ensure PAM not only uphold its commitment to sustainable investing, but also appropriately apply its ESG research into the portfolio construction of the APIFs (which are then invested in by the CFs of the Scheme).

PAM reports to the Fiduciary Committee on a quarterly basis on investment matters, including progress updates on ESG implementation (if any). PAM also monitor the overall ESG Scores of the underlying funds versus their respective benchmarks on an ongoing basis. Referencing to MSCI ESG model, which evaluates each CF with a breakdown into MSCI ESG Leaders/Average/Laggards sub-categories and are analogous to the MSCI ESG Ratings, the Fiduciary Committee can therefore monitor not only the Overall ESG Rating of each underlying fund, but also the breakdown of sub-categories and ensure each CF achieves at least 50% in MSCI ESG Average or above. Any anomaly would be reported at the Fiduciary Committee for immediate attention, and PAM would take necessary action to rectify such anomaly.

PAM delegates the investment management functions to affiliated company Principal Global Investors, LLC ("PGI") in managing the underlying funds invested by the CF of the Scheme, and PAM leverages the group resources in investment management and risk management, including sustainability related risks. Disclosure of sustainability related risks is available here, which also includes PAM's Engagement Policy: https://www.principal.com.hk/sites/default/files/general-files/Disclosure_of_ESG_Related_Risks.pdf

Principal Asset ManagementSM, a trade name of PGI, has been a signatory to the Principles for Responsible Investment (“PRI”) , introduced by the United Nations since, December 2010. The Principal Asset Management Sustainable Investing Policy Statement provides an overview of the firm’s approach to sustainable investing, including the consideration of ESG factors, and how the specialized investment team model allows for implementation paths that fit best with each team’s individual investment processes and the needs of their clients.

Consistent with a specialized investment team model, the sustainable investing approach is determined by the specific investment process of the investment team within the underlying asset class. The Principal Asset Management Sustainable Investing Oversight Committee has worked with each investment team to help categorize alignment with the internal framework into traditional and ESG Integrated Strategies.

For listed securities, the consideration of ESG factors currently takes place within the investment process as part of the fundamental research driving security selection. The analysts are best placed to determine the importance of such factors in relation to a specific security or sector. The analysts provide the essential insights into industry and company-specific considerations integrating ESG factors into their final investment thesis. These insights and considerations are crucial to the evaluation of sustainable competitive advantages and risks at a company specific and industry level.

In fixed income, ESG integration within the investment process is utilized for the purposes of risk management and alpha generation. The research teams are organized by areas of industry sector specialization, and the analysts are responsible for providing essential insights into industry trend, and company-specific considerations, which may include certain ESG issues deemed material and relevant to the evaluation of sustainable earnings trends, sentiment, and valuation. Every corporate issuer in the coverage universe is assigned a specific ESG score, with all assessments captured via the ESG Scoring grid. That score is an essential deliverable of the investment thesis. Both industries and issuers are scored using the model.

In signing the PRI Principles, Principal Asset Management publicly commits, where consistent with the fiduciary responsibilities, to:

1. Incorporate ESG issues into the investment analysis and decision-making processes;
2. Be active owners and incorporate ESG issues into the ownership policies and practices;
3. Seek appropriate disclosure on ESG issues from the entities PGI invest in;
4. Promote acceptance and implementation of the Principles within the investment industry;
5. Work with other signatories to enhance effectiveness in implementing the Principles; and
6. Report on the activities and progress towards implementing the Principles.

The Board opines that the investment manager integrates of ESG and sustainability considerations in a manner consistent with its fiduciary responsibility and client preferences. The Board will continue to monitor ESG risks and review the sustainable investing strategy of the investment manager regularly.

Board Endorsement

The Board of Principal Trust Company (Asia) Limited hereby confirm and endorse the above Governance Report for PRINCIPAL MPF – SIMPLE PLAN.