

The true cost of ETF investing:

A guide for MPF and insurance portfolio managers

How a Total Cost of Ownership (TCO) approach can enhance long-term returns for retirement savers and policyholders

For trustees and investment managers overseeing MPF schemes and insurance portfolios, the mandate is clear: deliver sustainable, long-term returns while rigorously managing costs. In today's environment of compressed yields and market volatility, every basis point matters. Yet many institutional portfolios may be leaking value through an often-overlooked channel: the structural costs embedded in investment vehicles themselves.

Across Asia, institutional investors are increasingly turning to ETFs as core building blocks for portfolios. The Asia Pacific ETF market now stands at approximately **US\$1.7 trillion**¹, with pension funds and insurers among the most active adopters. This growth is driven by ETFs' inherent advantages: low expense ratios, intraday liquidity, transparency, and diversified exposure across geographies and asset classes.

However, for trustees and investment committees fulfilling fiduciary duties to members and policyholders, selecting the right ETF requires looking beyond the headline expense ratio. The true measure of cost – and ultimately, of value delivered – lies in a more comprehensive framework: **Total Cost of Ownership (TCO)**. This framework reveals how vehicle domicile, tax treatment, and trading alignment can materially impact net returns over the long term.

This article explores how MPF providers and insurance companies in Hong Kong and Singapore can leverage TCO analysis – and specifically, the structural advantages of Hong Kong-listed ETFs – to enhance portfolio efficiency and fulfil their fiduciary mandate.

Why ETFs have become essential tools for institutional portfolios

The growing adoption of ETFs among pension funds and insurers is no coincidence. These vehicles offer distinct advantages for large, long-horizon portfolios:

- **Cost efficiency:** ETFs typically feature lower expense ratios than actively managed funds
- **Diversification:** A single ETF can provide exposure to hundreds of underlying securities
- **Liquidity:** Exchange-traded nature allows for precise position sizing and tactical adjustments
- **Transparency:** Daily holdings disclosure enables precise risk monitoring

In Hong Kong's MPF market, the expansion of approved Index-Tracking Collective Investment Schemes (ITCIS) has given trustees an expanding toolkit for constructing cost-effective default investment strategies and constituent funds. Providers now have access to a growing range of ITCIS covering major equity markets, enabling more diversified product offerings for scheme members.

Yet as adoption grows, so too does the responsibility to evaluate these instruments comprehensively. The question facing investment committees is no longer simply "Which ETF has the lowest expense ratio?" but rather "Which ETF delivers the highest net return after all costs – including tax – are accounted for?"

¹ Source: Simplify Asset Management, "Simplify Asset Management Partners with Molokai Management to Unlock International ETF Distribution, Targeting Asia's \$1.7 Trillion Market," Business Wire via Morningstar, January 24, 2026, <https://www.morningstar.com/news/business-wire/20260123608374/simplify-asset-management-partners-with-molokai-management-to-unlock-international-etf-distribution-targeting-asias-17-trillion-market>



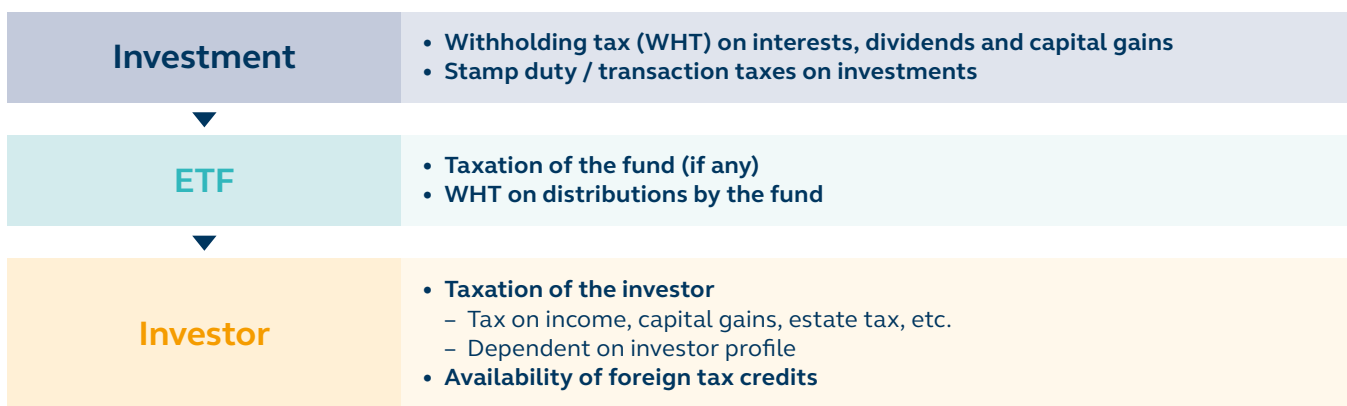
Beyond TER – Understanding the full cost picture

The Total Expense Ratio (TER) captures fund management fees, index license fees, and fund administration costs. It is an important metric, but it tells only part of the story. A complete TCO framework encompasses both trading costs (bid-ask spread, broker commissions) and holding costs (tracking difference, taxation).

Among holding costs, taxation is often the most significant – and most misunderstood – component. ETF investors can be subject to tax at three levels:

1. **Investment:** Withholding tax on dividends and interest from underlying securities
2. **Fund:** Withholding tax on distributions paid by the ETF
3. **Investor:** Tax on income and capital gains based on investor profile

An investor's ETF returns can generally be subject to tax at three levels



For institutional investors in Hong Kong and Singapore, this three-tier structure creates a critical consideration: the domicile of the ETF determines the tax treatment of its distributions.

Consider a Hong Kong MPF fund investing in Japanese equities. If the exposure is gained through a US-listed ETF, dividends flowing from Japanese companies to the ETF may be subject to Japanese withholding tax. When the US ETF distributes income to the Hong Kong investor, a further 30% US withholding tax may apply – even though Hong Kong itself imposes no withholding tax on dividends. The result is a significant, recurring drag on returns that never appears in the TER.

This is not merely a theoretical concern. For Asian equities held via US-domiciled ETFs, the cumulative tax leakage can reduce after-tax returns by 10 to 27 percentage points compared to holding the same exposure through a Hong Kong-listed ETF, according to EY analysis commissioned by HKEX. For a long-horizon portfolio, this compounding drag represents a guaranteed negative alpha for members and policyholders – a direct challenge to fiduciary responsibility.

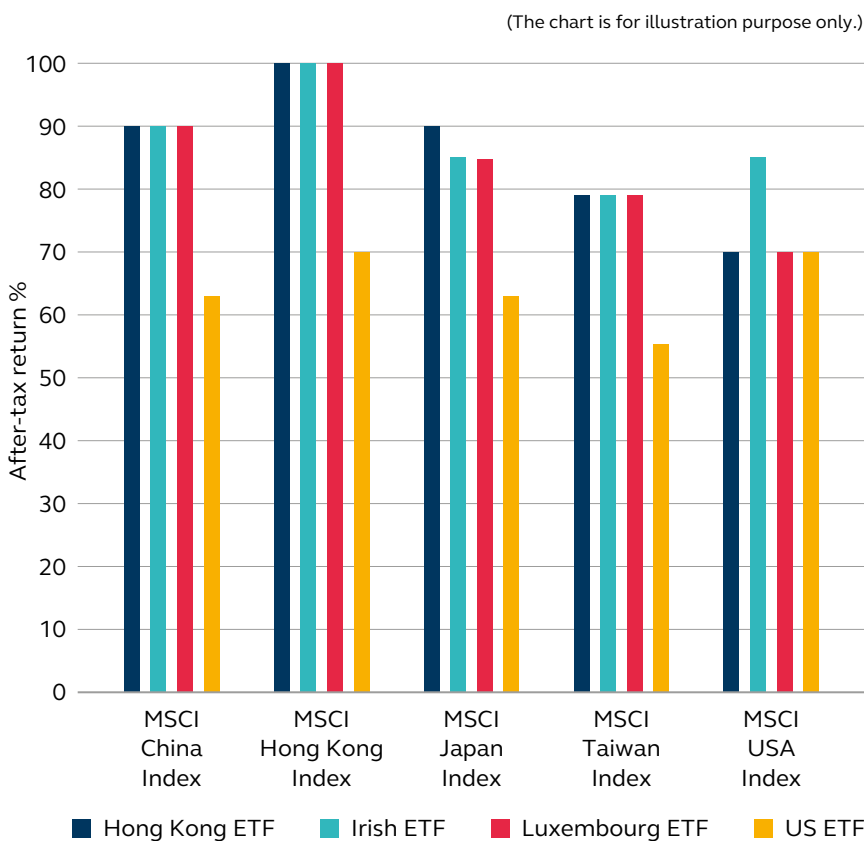
Quantifying the advantage – Hong Kong-listed ETFs and location alpha

The concept of "Location Alpha" captures the additional net return achievable by matching the ETF's domicile to the investor's jurisdiction and the underlying assets' markets. For investors in Hong Kong and Singapore, Hong Kong-listed ETFs offer structural advantages that translate directly into enhanced after-tax returns.

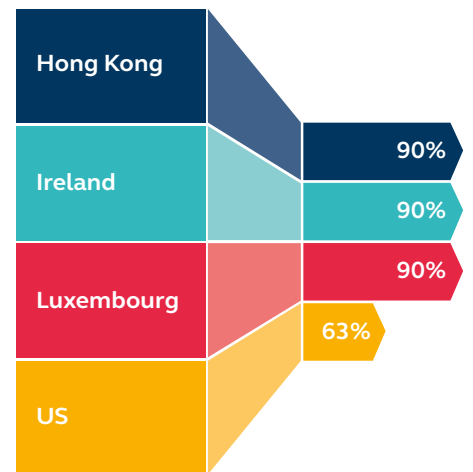
For Hong Kong investors:

- Hong Kong imposes no withholding tax on dividends received by local investors
- Many Asian markets have favourable tax treaties with Hong Kong
- The result: higher after-tax income retention

Illustrative example: MSCI China Index exposure²



For Hong Kong investors, by investing in MSCI China Index through a Hong Kong ETF, the after-tax return from ETF distribution should be 90% of the ETF distribution before all level of taxes**, versus 63% using a US ETF.



** This includes portfolio level, ETF level and investor level, and does not take into account any fees to intermediates.

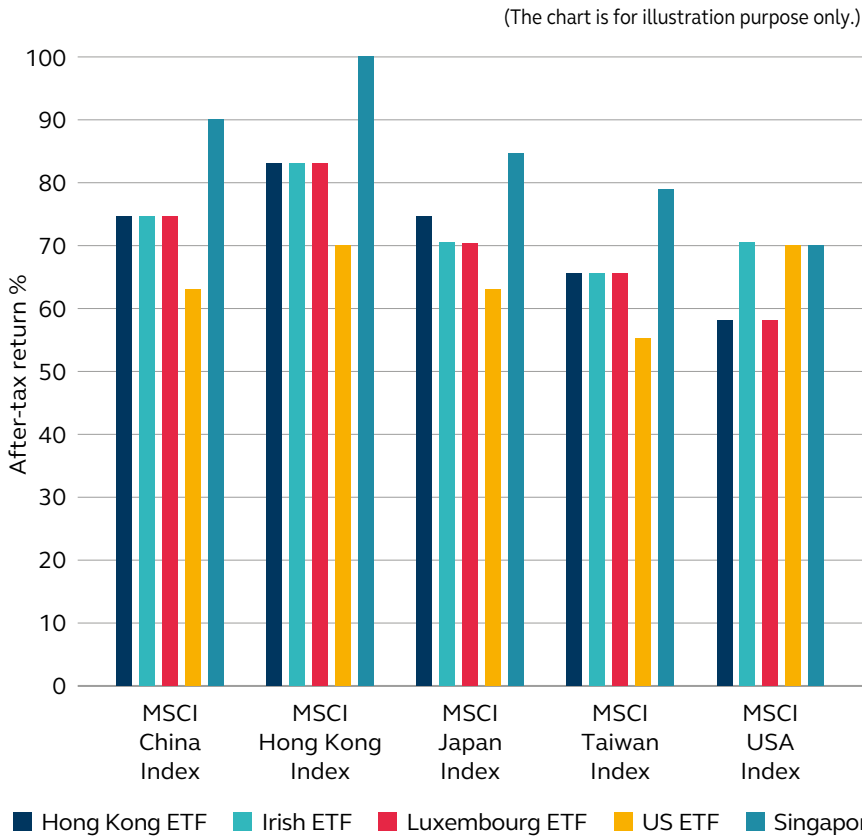
² Source: EY ETF Tax Reports for Hong Kong and Singapore investors, September 2025



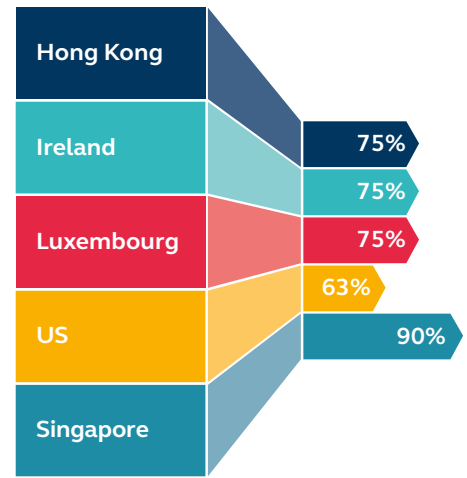
For Singapore investors:

- Singapore’s tax treaties with Asian markets, combined with Hong Kong’s ETF structure, can reduce overall tax leakage
- Comparison with US-listed alternatives shows meaningful differences

Illustrative example: MSCI China Index exposure³



For Singapore investors, by investing in MSCI China Index through a Hong Kong ETF, the after-tax return from ETF distribution should be 75% of the ETF distribution before all level of taxes**, versus 63% using a US ETF.



** This includes portfolio level, ETF level and investor level, and does not take into account any fees to intermediates.

³ Source: EY ETF Tax Reports for Hong Kong and Singapore investors, September 2025



These differences are not confined to China exposure. Similar patterns appear across major Asian equity markets including Japan, Taiwan, and Korea. For a diversified Asian equity allocation, the cumulative impact on portfolio-level returns can be substantial.

Beyond tax efficiency, Hong Kong-listed ETFs offer two additional TCO advantages:



1. Stamp duty waiver:

Effective 17 November 2023, all Hong Kong-listed ETFs are exempt from stamp duty on transfers. This reduces creation and redemption costs for market makers, contributing to tighter bid-ask spreads and lower trading costs for investors.



2. Tracking difference minimisation:

By trading Asian underlying assets during Asian market hours, Hong Kong-listed ETFs can price their portfolios more accurately, reducing the tracking difference that arises when US-listed ETFs must price Asian holdings based on stale prices.

The strategic advantage of Asian trading hours

For institutional investors managing large portfolios, execution quality matters. The ability to trade during active market hours for the underlying assets provides three distinct benefits:



US-listed ETFs with Asian underlying face an inherent structural challenge: by the time US markets open, Asian markets have closed for the day. This time zone misalignment can lead to wider bid-ask spreads and less efficient pricing, particularly during periods of regional volatility.

For MPF and insurance portfolios with long investment horizons, these operational efficiencies compound over time, contributing to better tracking of benchmark indices and more predictable outcomes for members and policyholders.

Implementation – A framework for portfolio managers

For investment committees seeking to apply TCO analysis to their ETF selection process, a structured approach is essential:



Step 1 Conduct a portfolio audit

Review existing Asian equity exposures to identify holdings accessed through non-Asian domiciled ETFs. Quantify the potential tax leakage using jurisdiction-specific data.



Step 2 Leverage available analytical tools

The HKEX ETF Tax Calculator enables investors to model after-tax returns across different ETF domiciles and underlying markets. This free tool, supported by EY's methodology, provides institutional-grade analysis tailored to the investor's domicile.



Step 3 Evaluate the full ecosystem

Beyond tax efficiency, consider:

- Market maker coverage: Hong Kong's ETF market benefits from 36 active market makers supporting liquidity
- Product diversity: With over 230 ETFs and leverage and inverse products listed⁴, covering equities, fixed income, commodities, and thematic strategies, portfolio managers can implement diverse allocations
- ITCIS expansion: The growing roster of approved index-tracking schemes enables more diversified product construction for scheme members

This diversity enables pension managers to implement precise asset allocation strategies within a single, tax-efficient marketplace.



Step 4 Integrate into manager selection and monitoring

For portfolios using external managers, incorporate TCO considerations into due diligence questionnaires and ongoing performance reviews. Ask whether managers are optimising vehicle selection based on domicile efficiency.

⁴ Source: HKEX, data as of 27 February 2026.

Fiduciary duty in practice

For MPF trustees and insurance investment committees, fiduciary responsibility extends beyond asset allocation and manager selection. It encompasses the structural decisions that determine how much of a portfolio's gross return is preserved for beneficiaries.

The evidence is clear: for Asian equity exposure, the choice of ETF domicile materially impacts net returns. By applying a Total Cost of Ownership framework – and leveraging the structural advantages of Hong Kong-listed ETFs – institutional investors can:

- Reduce unavoidable tax leakage
- Improve tracking accuracy
- Enhance long-term compounding for members and policyholders

In an environment where every basis point counts, this is not merely good practice – it is fiduciary duty in action.

To explore your portfolio's specific potential:

Access the EY ETF Tax Report for Hong Kong investors at



Access the EY ETF Tax Report for Singapore investors at



Use the HKEX ETF Tax Calculator to model after-tax returns for your specific allocations



Visit the HKEX ETF Education and Resources page for TCO primers and market data



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