



# 2<sup>nd</sup> Quarter 2018

## MPF FUNDS DO NOT PERFORM EQUALLY

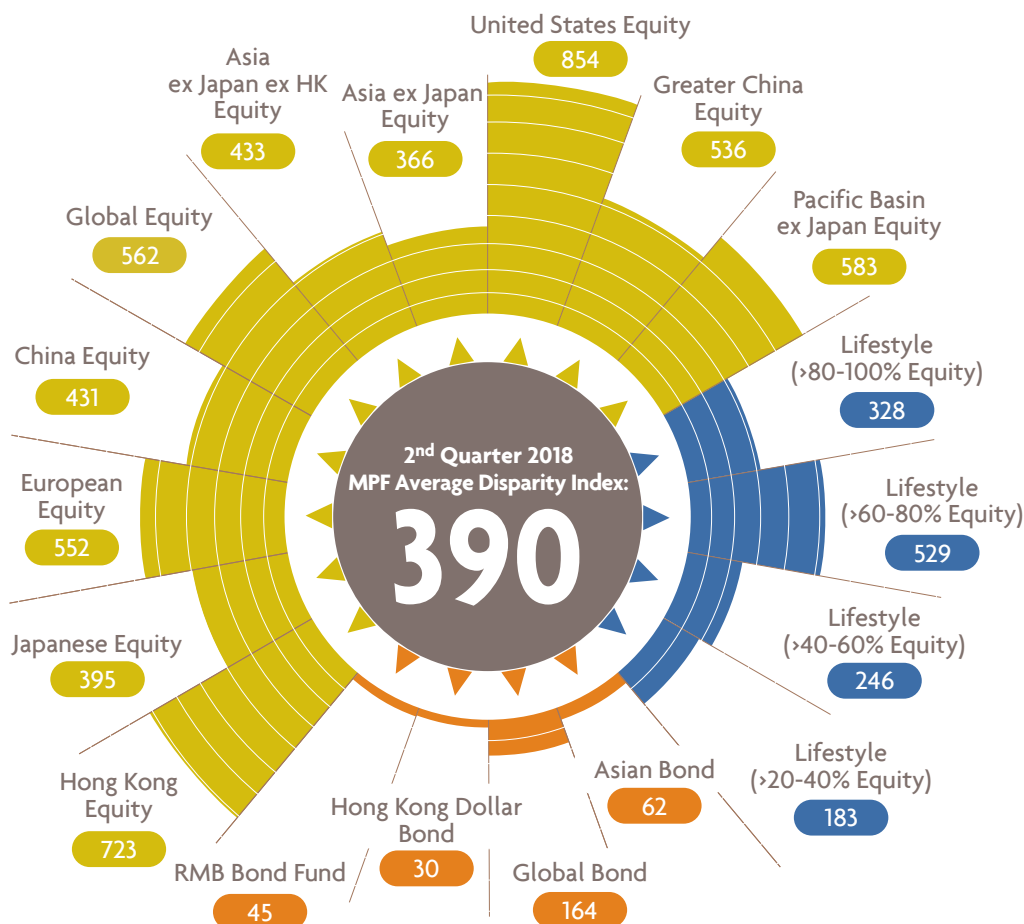
MPF Average Disparity Index

# 390

### Why is the MPF Average Disparity Index relevant to me?

The index value represents the average return difference, in dollar over a calendar quarter, per a hypothetical HK\$10,000 MPF investment, between Member A and Member B who respectively invests HK\$10,000 evenly in the top performing fund and the bottom performing fund of each of the 18 categories\* as show below on the last trading day of 1<sup>st</sup> quarter 2018, the average return difference for 2<sup>nd</sup> quarter 2018 is about HK\$390. Its MPF Average Disparity Index is 390.<sup>^</sup> The larger the index value, the bigger the average return difference between two members' investment.

MPF Disparity Sub-indices<sup>^</sup> by fund category#  
(displayed up to a whole number):

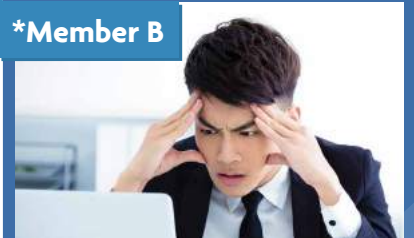


#### \*Member A



Invests a hypothetical HK\$10,000 evenly in the **TOP PERFORMING FUND** of each of the 18 categories that having the highest quarterly return in 2<sup>nd</sup> quarter 2018 on the last trading day of 1<sup>st</sup> quarter 2018

#### \*Member B



Invests a hypothetical HK\$10,000 evenly in the **BOTTOM PERFORMING FUND** of each of the 18 categories that having the lowest quarterly return in 2<sup>nd</sup> quarter 2018 on the last trading day of 1<sup>st</sup> quarter 2018

\*The hypothetical examples are for illustration purpose only

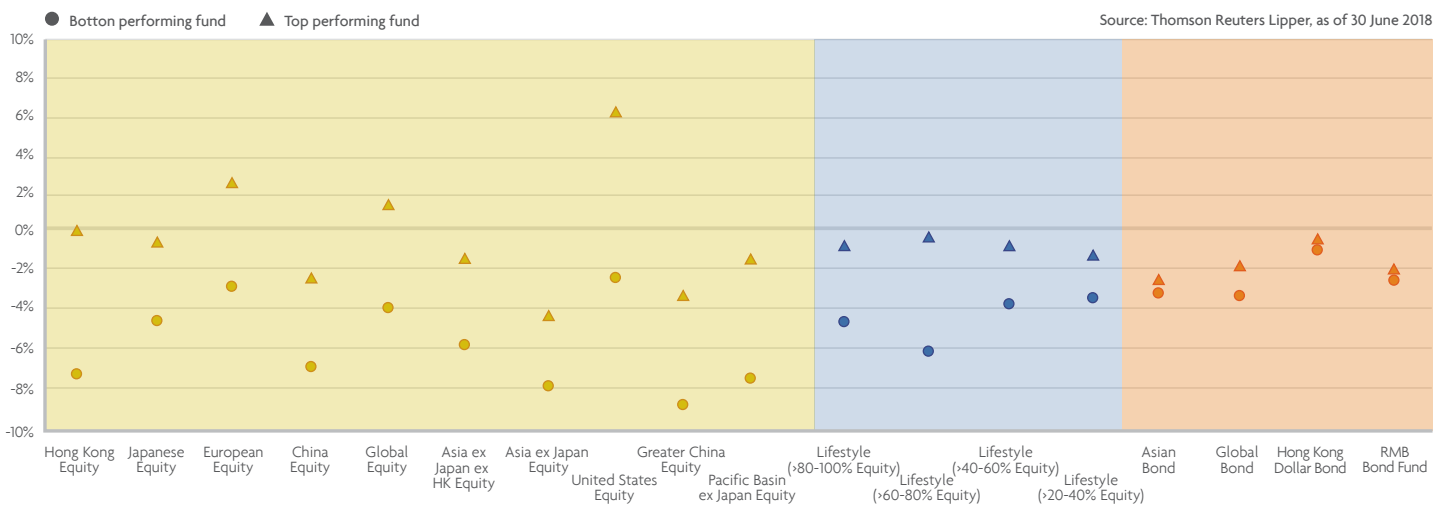
Sun Life MPF Average Disparity Index jumped to 390 in 2nd quarter of 2018, from 271 in the previous quarter. Of the 18 fund categories, 7 of them have disparity in excess of 500 points. In comparison, there were only 2 categories with disparity exceeding 500 points in the 1st quarter. Top-three categories in terms of biggest disparity are: US Equity (at 854), Hong Kong Equity (at 723) and Pacific Basin ex Japan Equity (at 583). On the other hand, the three categories with smallest disparity are: Hong Kong Dollar Bond (at 30), RMB Bond (at 45) and Asian Bond (at 62).

Widening of disparity is broadly seen across equity (with the exceptions of China Equity and Japanese Equity) and mixed asset fund categories. Categories that have recorded sizable widening of disparity of returns include Hong Kong Equity (from 216 in Q1 to 723 in Q2), European Equity (from 285 in Q1 to 552 in Q2), Greater China Equity (from 248 in Q1 to 536 in Q2), Lifestyle - >60-80% (from 190 in Q1 to 529 in Q2) and Lifestyle - >80-100% (from 119 in Q1 to 328 in Q2).

Overall market volatility has increased in the second quarter with growing rhetoric of trade wars and geopolitical developments in Europe, which benefitted developed sovereign bonds and the US dollar as investors trimmed risky bets and took shelter under safe haven instruments. As a result, those Lifestyle funds with relative overweight exposure to emerging market assets including currencies, fixed income and stocks tended to underperform as the stronger US dollar exerted downward pressure on these asset classes. Meanwhile, equity funds that held overweight positions in technology and consumer discretionary stocks should have benefited as these sectors continued doing well, while financials and telecom stocks fared poorly. Such diverse outcome across markets and sectors allow savvy investment managers demonstrate skills that set them apart from the ordinary.

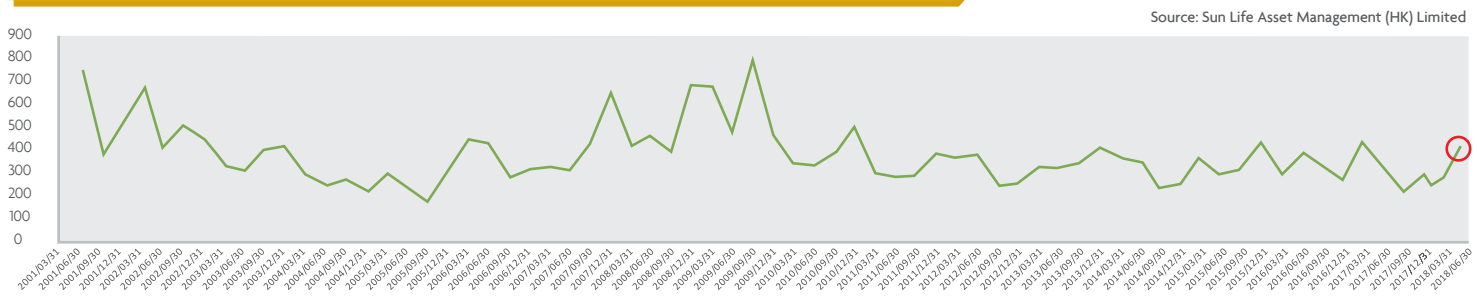
Categories with highest quarterly returns are all developed markets, being US Equity and European Equity. Weakness in China and Hong Kong markets dragged Greater China Equity, Asia ex Japan Equity and Hong Kong Equity to the bottom of quarterly returns. Global equity funds that were heavily exposed to the Asian markets would likely be under greater downward pressure.

## Top Performing Fund and Bottom Performing Fund of Each Category ~ for 2<sup>nd</sup> Quarter 2018



	Fund Category																	
	Hong Kong Equity	Japanese Equity	European Equity	China Equity	Global Equity	Asia ex Japan ex HK Equity	Asia ex Japan Equity	United States Equity	Greater China Equity	Pacific Basin ex Japan Equity	Lifestyle (>80-100% Equity)	Lifestyle (>60-80% Equity)	Lifestyle (>40-60% Equity)	Lifestyle (>20-40% Equity)	Asian Bond	Global Bond	Hong Kong Dollar Bond	RMB Bond Fund
Quarterly Return of Top Performing Fund (%)	-0.1%	-0.8%	2.5%	-2.7%	1.6%	-1.6%	-4.2%	6.2%	-3.4%	-1.6%	-1.1%	-0.9%	-1.2%	-1.5%	-2.5%	-1.8%	-0.4%	-2.0%
Quarterly Return of Bottom Performing Fund (%)	-7.3%	-4.8%	-3.0%	-7.0%	-4.0%	-5.9%	-7.9%	-2.3%	-8.8%	-7.4%	-4.4%	-6.1%	-3.7%	-3.4%	-3.1%	-3.5%	-0.7%	-2.4%
Quarterly Return Difference (%)	7.2%	4.0%	5.5%	4.3%	5.6%	4.3%	3.7%	8.5%	5.4%	5.8%	3.3%	5.3%	2.5%	1.8%	0.6%	1.6%	0.3%	0.5%
MPF Disparity Sub-Index	<b>723</b>	<b>395</b>	<b>552</b>	<b>431</b>	<b>562</b>	<b>433</b>	<b>366</b>	<b>854</b>	<b>536</b>	<b>583</b>	<b>328</b>	<b>529</b>	<b>246</b>	<b>183</b>	<b>62</b>	<b>164</b>	<b>30</b>	<b>45</b>

## Historical values of MPF Average Disparity Index



## How is the MPF Average Disparity Index Compiled?

- ▶ **Performance Disparity** = Return difference between the top performing fund and the bottom performing fund by investing a hypothetical HK\$10,000
- ▶ **Quarter Return** =  $(\text{Price}_{\text{end of this quarter}}) / (\text{Price}_{\text{end of previous quarter}}) - 1$
- ▶ **MPF Disparity Sub-index of a category** =  $10,000 \times (\text{net-of-fee return difference between the top performing MPF fund of a category and the bottom performing MPF fund within the same category})$
- ▶ **MPF Average Disparity Index** =  $10,000 \times \left[ \begin{array}{c} \text{Average net-of-fee return of} \\ \text{the top performing MPF funds} \\ \text{of each of 18 fund categories} \\ \text{per quarter} \end{array} - \begin{array}{c} \text{Average net-of-fee return of} \\ \text{the bottom performing MPF} \\ \text{funds of each of 18 fund} \\ \text{categories per quarter} \end{array} \right]$
- ▶ **Data Source** = Thomson Reuters Lipper, as of 30 June 2018
- ▶ **Data Cut Off** = 5<sup>th</sup> business day after quarter end
- ▶ **Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 30 June 2018), was included 18 categories<sup>~</sup>, cover 3 main asset classes Equity, Bond and Mixed Assets
- ▶ **Assumption**
  - The index values are based on fund classification under "Lipper Classification Schemes: Hong Kong Pension Funds" as of 30 June 2018
  - All fund performance is net of fund management fees
  - No trading cost or bid/ask spread
  - The investment of members does not affect fund performance
- ▶ **Measurement Period** = Every calendar quarter
- ▶ **Rounding of Index Value** = Rounded to whole number

<sup>~</sup> Asia ex Japan Equity, Asia ex Japan ex HK Equity, China Equity, European Equity, Global Equity, Greater China Equity, Hong Kong Equity, Japanese Equity, Pacific Basin ex Japan Equity, United States Equity, Lifestyle (20-40% Equity), Lifestyle (40-60% Equity), Lifestyle (60-80% Equity), Lifestyle (80-100% Equity), Asian Bond, Global Bond, Hong Kong Dollar Bond and RMB Bond are included. And Default Investment Strategy (Age 65 Plus Fund), Default Investment Strategy (Core Accumulation Fund), Guaranteed Fund, Hong Kong Dollar Money Market, Hong Kong Equity (Index Tracking), MPF Conservative Fund, Other Fund, RMB and HKD Money Market are excluded.





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