

3rd Quarter 2017

MPF FUNDS DO NOT PERFORM EQUALLY



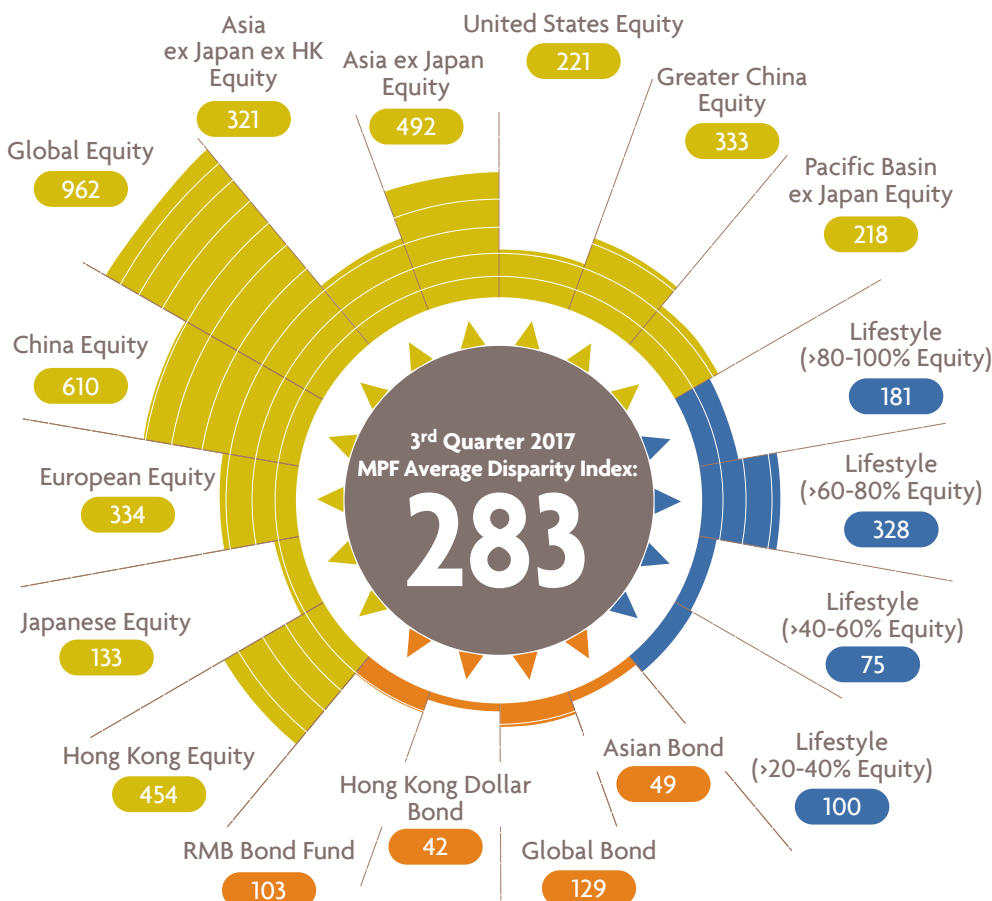
MPF Average Disparity Index

283

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 2nd quarter 2017, the average return difference for 3rd quarter 2017 is about HK\$283. Its MPF Average Disparity Index is 283.[^] The larger the index value, the bigger the average return difference between two members' investment.

MPF Disparity Sub-indices[^] by fund category#
(displayed up to a whole number):

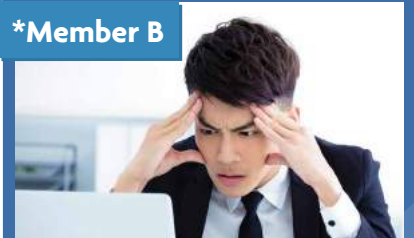


*Member A



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 3rd quarter 2017 on the last trading day of 2nd quarter 2017

*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 3rd quarter 2017 on the last trading day of 2nd quarter 2017

*The hypothetical examples are for illustration purpose only

For the 3rd quarter of 2017, the MPF Average Disparity Index widened to 283 from 220 in the previous quarter. Global financial markets continued their upward trajectory albeit at a slightly bumpier ride. Compared to the second quarter, of the 18 categories~ covered in the MPF Average Disparity Index, 10 have seen dispersion of returns widened, while 8 have narrowed. Among categories that have seen expanded dispersion most of them are equity biased.

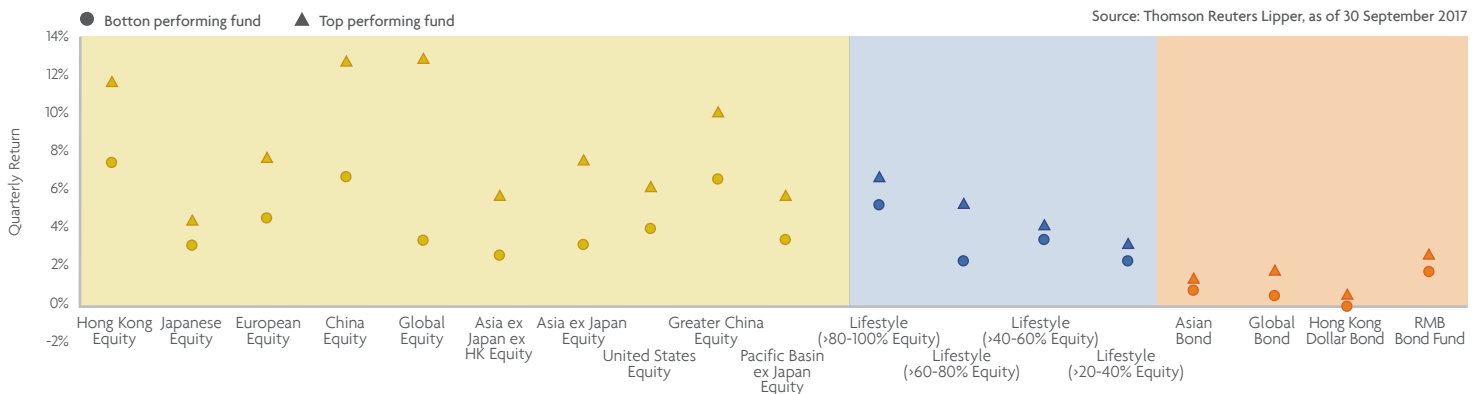
In the 3rd quarter, Global Equity category is the widest MPF Disparity Sub-Index with a reading of 962, which is considerably wider than 469 in the previous quarter. The MPF Disparity Sub-Index with the narrowest reading is Hong Kong Dollar Bond category at 42, which has not changed much from the previous quarter.

We believe reasons for the wide disparity in performance among equity funds is two-fold. Firstly, heightened geopolitical concern arising from tension between North Korea and the US led to different market reaction. North Korea conducted two intercontinental ballistic missile launches during the quarter, plus a nuclear test in early-September. Asian equity markets generally fell in response, with South Korea taking the biggest tumble, whereas US and European markets reacted relatively mutely. The difference in market reaction across the world helps explain the wide dispersion in the Global Equity category, being the result of different funds' geographic allocation.

Secondly, wider disparity among equity funds was also due to a retreat in cyclical stocks in the technology and industrial sectors. Strong performance of technology stocks in the past year had led to many funds overweighting the sector. A downshift in the sector would inevitably affect such funds negatively. Instead, equity funds that are less exposed to technology stocks were relatively immune and outperformed.

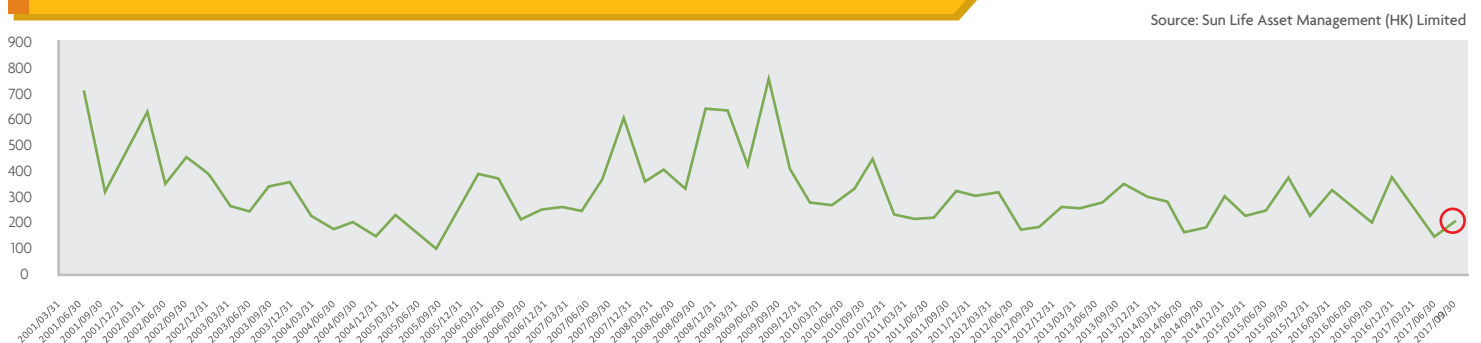
MPF Disparity Sub-Index among China equity funds also widened significantly from 385 prior to 610 for this quarter. Difference in return could be due to different exposure to Hong Kong shares and China shares. The Hang Seng Index returned 6.95% during the quarter, outperforming the Hang Seng China Enterprises Index's (the so-called "H-Shares Index") 5.26%. As such, funds overweighing Hong Kong shares generally outperformed during the quarter.

Top Performing Fund and Bottom Performing Fund of Each Category~ for 3rd Quarter 2017



	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 (>40-60% Equity)	Lifestyle (>60-80% Equity)	Lifestyle (>20-40% Equity)	Asian Bond	Global Bond	Hong Kong Dollar Bond	RMB Bond Fund
Quarterly Return of Top Performing Fund (%)	11.7%	4.3%	7.5%	12.7%	12.8%	5.6%	7.8%	6.0%	9.9%	5.7%	6.8%	5.4%	4.2%	3.1%	0.9%	1.6%	0.4%	2.5%
Quarterly Return of Bottom Performing Fund (%)	7.1%	3.0%	4.2%	6.6%	3.1%	2.4%	2.9%	3.8%	6.6%	3.5%	5.0%	2.1%	3.4%	2.1%	0.4%	0.3%	0.0%	1.5%
Quarterly Return Difference (%)	4.5%	1.3%	3.3%	6.1%	9.6%	3.2%	4.9%	2.2%	3.3%	2.2%	1.8%	3.3%	0.8%	1.0%	0.5%	1.3%	0.4%	1.0%
MPF Disparity Sub-Index	454	133	334	610	962	321	492	221	333	218	181	328	75	100	49	129	42	103

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 September 2017
- ▶ **Data Cut Off** = 5th business day after quarter end
- ▶ **# Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 30 September 2017), was included 18 categories[~], 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 September 2017
 - 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

[~] 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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