Sun Life
Asset Management
永明資產管理

3rd Quarter 2020

MPF FUNDS DO NOT PERFORM EQUALLY

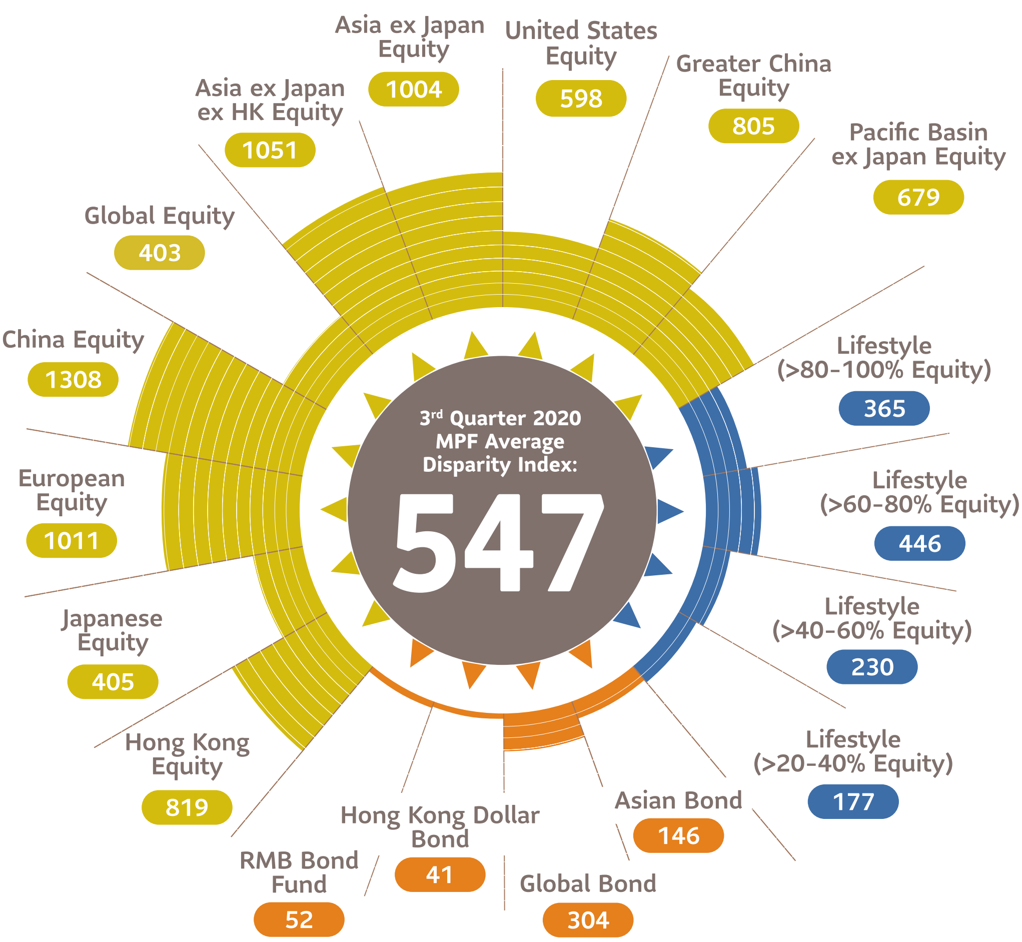
MPF Average Disparity Index

547

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 shown below on the last trading day of 2nd quarter 2020, the average return difference for 3rd quarter 2020 is about HK$547. Its MPF Average Disparity Index is 547△. The larger the index value, the bigger the average return difference between two members' investment.

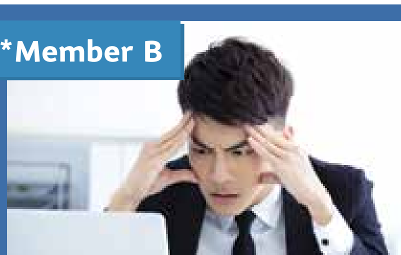
MPF Disparity Sub-indices^ by fund category#
(displayed up to a whole number)



***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 2020 on the last trading day of 2nd quarter 2020

***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 2020 on the last trading day of 2nd quarter 2020

*The hypothetical examples are for illustration purpose only

Sun Life MPF Average Disparity Index stood at 547 in Q3 2020, retreating from a decade-high of 745 in the previous quarter. Of the 18 fund categories, 7 saw disparity widened from the last quarter while 11 categories narrowed. The three categories that saw disparity widened the most were Asia ex Japan ex HK Equity (from 855 to 1051), European Equity (from 883 to 1011) and Lifestyle (>40-60% Equity) (from 132 to 230). Categories that recorded significant narrowing in disparity include Pacific Basin ex Japan Equity (from 2119 to 679), United States Equity (from 1410 to 598) and Global Equity (from 949 to 403).

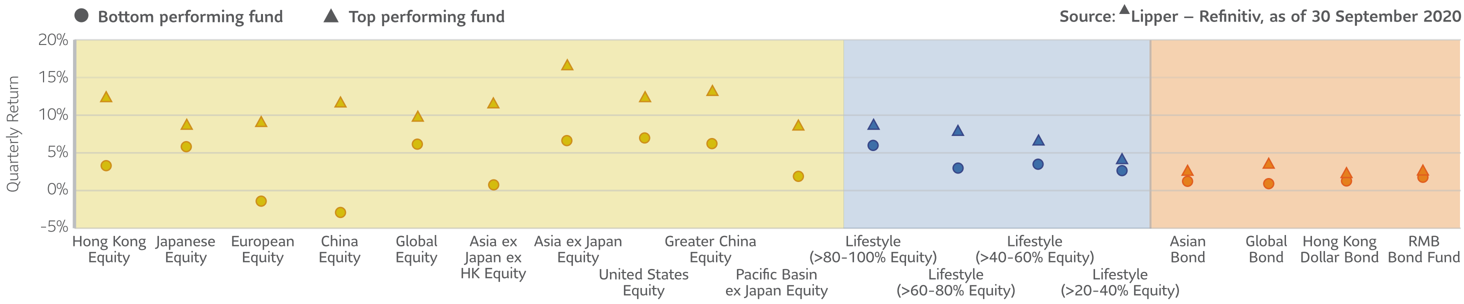
Results in Q3 emphasized the importance of geographic diversification. Of the 93 primary equity indices tracked by Bloomberg, 47 posted gains and the remaining 46 registered losses. US equities continued to rally in Q3 despite broad-based pullback in September as risk appetites slipped. Overall, the US economy's recuperation continued, and the Federal Reserve's latest message reconfirmed its highly accommodative stance. The Fed will now use average inflation targeting in setting policy interest rate, allowing for temporary overshoots in inflation. That signaled interest rates in the US would remain very low for an extended period of time. In the previous quarter, growth sectors performed far better than value sectors. But there was less dispersion in sector performance in Q3. Therefore, performance disparity for US Equity category narrowed from 1410 to 598. Meanwhile, European equities were among the biggest laggards during the quarter. The rate of improvement in economic data slowed over the quarter and worries took hold over sharp rebound in COVID-19 infections in many European countries. UK equities lagged behind other regions. Renewed concerns around a disorderly Brexit weighed on sentiment. In Q3, disparity for European Equity category widened from 883 to 1011. Funds that overweight Germany and underweight UK outperformed in the quarter.

Asia ex Japan equities registered strong gains in Q3, led by Taiwan. India, Korea and China also outperformed. India experienced relatively good monsoon rain fall and the government passed agricultural and labor reforms. The positive news outweighed further increase in the number of daily new infection cases of COVID-19, and persistent tension with China along the Himalayan border. In China, economic data signaled ongoing recovery and Q2 corporate earnings results were positive. Conversely, ASEAN markets underperformed as Thailand, Indonesia, the Philippines and Singapore all finished in negative territory. Hong Kong remained lackluster for the second consecutive quarter. In Q3, disparity for Asia ex Japan ex HK Equity category widened the most among all categories, jumping from 855 to 1051. Funds with more exposure in northern Asian markets outperformed. However, disparity for the Pacific Basin ex Japan Equity category narrowed sharply from the previous quarter, down from 2119 to 679. Performance of Australian equities were largely flat and less critical to performance dispersion.

As for fixed income, disparity for all bond fund categories decreased further in Q3. However, disparity for Global Bond category and Asian Bond category remained at higher levels than before. Difference in exposure to government versus corporate issues continued to be the key to such disparity. In Q3, corporate bonds outperformed government bonds, as overall "risk on" sentiment in markets resulted in further credit spread tightening over the quarter. Funds with higher exposure to corporate bonds continued to lead in performance.

Top Performing Fund and Bottom Performing Fund of Each Category~ for 3rd Quarter 2020

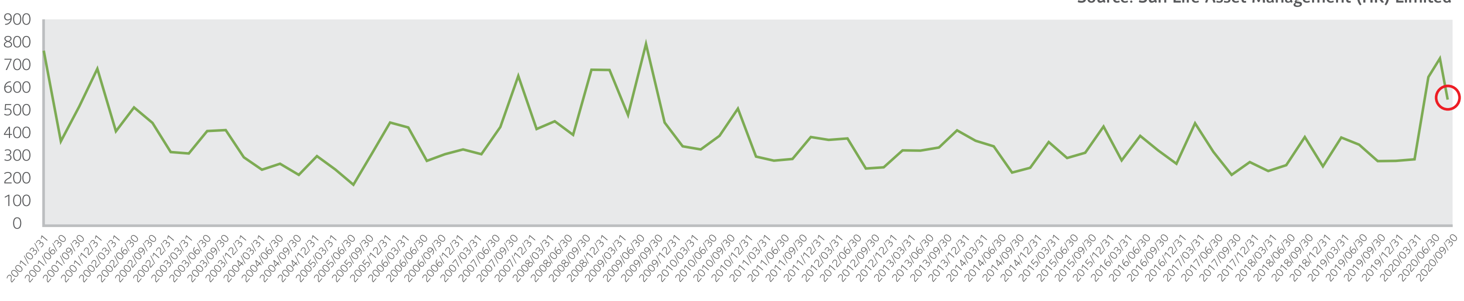
Source: ^Lipper – Refinitiv, as of 30 September 2020



	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 (%)	11.7%	9.3%	9.5%	10.8%	9.8%	10.7%	16.5%	12.7%	14.2%	9.3%	9.5%	7.9%	6.4%	4.8%	2.5%	3.7%	1.4%	2.9%
Quarterly Return of Bottom Performing Fund (%)	3.5%	5.2%	-0.7%	-2.3%	5.7%	0.2%	6.5%	6.8%	6.2%	2.5%	5.8%	3.5%	4.1%	3.0%	1.1%	0.6%	1.0%	2.4%
Quarterly Return Difference (%)	8.2%	4.1%	10.1%	13.1%	4.0%	10.5%	10.0%	6.0%	8.1%	6.8%	3.7%	4.5%	2.3%	1.8%	1.5%	3.0%	0.4%	0.5%
MPF Disparity Sub-Index	819	405	1011	1308	403	1051	1004	598	805	679	365	446	230	177	146	304	41	52

Historical values of MPF Average Disparity Index

Source: Sun Life Asset Management (HK) Limited



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** = $(\text{Price}_{\text{end of this quarter}}) / (\text{Price}_{\text{end of last quarter}}) - 1$
- **^MPF Disparity Sub-index of a category** = 10,000 x (net-of-fee return difference between the top performing MPF fund of a category and the bottom performing MPF fund within the same category)
- **ΔMPF Average Disparity Index** = 10,000 X [Average net-of-fee return of the top performing MPF funds of each of 18 fund categories per quarter − Average net-of-fee return of the bottom performing MPF funds of each of 18 fund categories per quarter]
- **Data Source** = Lipper - Refinitiv, as of 30 September 2020
- **Data Cut Off** = 5th business day after quarter-end
- **#Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 30 September 2020), 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 2020
  - 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.

Value of MPF Average Disparity Index = **Average return of all the TOP PERFORMING funds of 18 categories~** - **Average return of all the BOTTOM PERFORMING funds of 18 categories~**

Disclaimer

The performance information presented herein is hypothetical and does not represent the actual performance of any investors or any funds and does not represent future actual performance. The hypothetical performance information is based on back-tested performance of hypothetical investments over the time periods indicated and does not reflect trading in actual accounts. Hypothetical performance is calculated by simulating historical investment returns by applying a set of rules for buying and selling funds, backward in time and hypothetically investing in the funds that are chosen.

Actual performance may be materially lower than that of the hypothetical investments illustrated herein. Hypothetical performance results have certain inherent limitations. Such results do not represent the impact that material economic and market factors might have on if actual investment were made. Certain assumptions have been made concerning hypothetical investment illustrated herein and are unlikely to be realised.

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