

4th Quarter 2019

MPF FUNDS DO NOT PERFORM EQUALLY

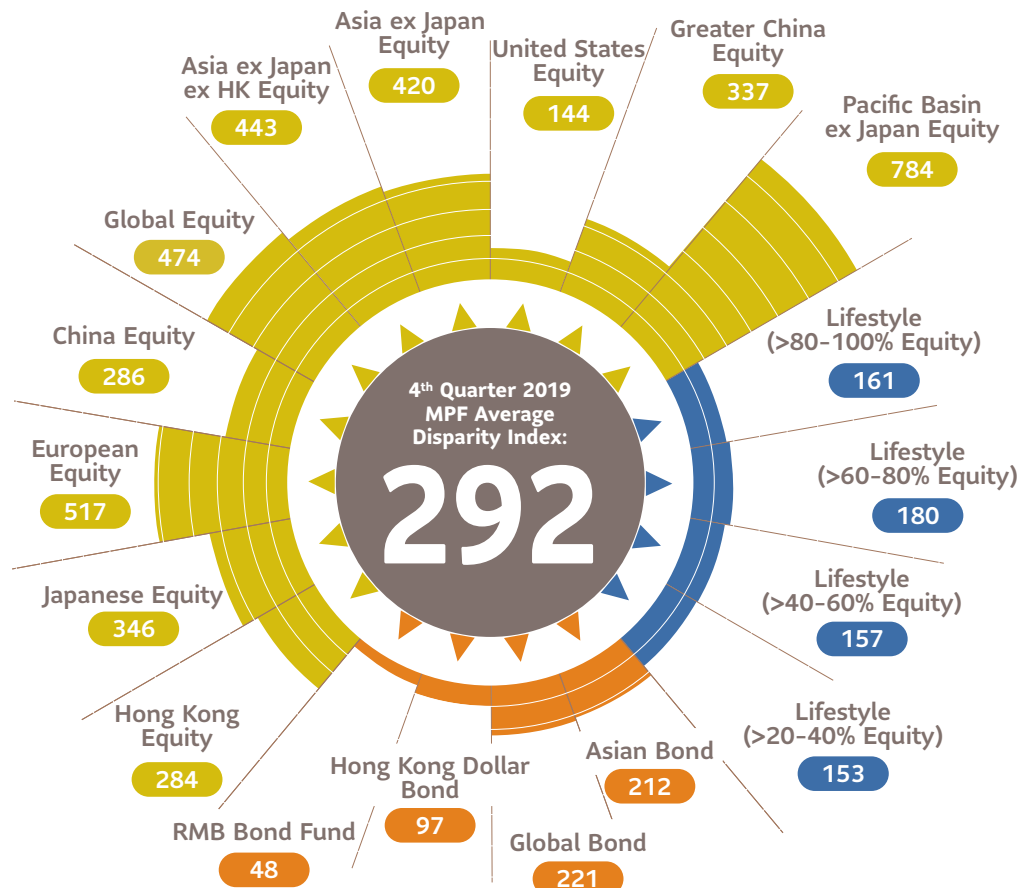
MPF Average Disparity Index

292

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 3rd quarter 2019, the average return difference for 4th quarter 2019 is about HK\$292. Its MPF Average Disparity Index is 292^Δ. The larger the index value, the bigger the average return difference between two members' investment.

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

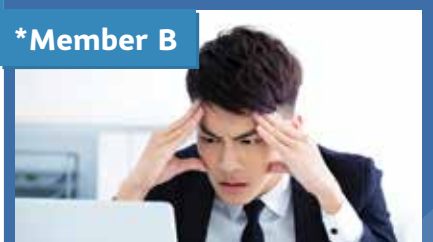


* Member A



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 4th quarter 2019 on the last trading day of 3rd quarter 2019

* 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 4th quarter 2019 on the last trading day of 3rd quarter 2019

^ΔThe hypothetical examples are for illustration purpose only

Sun Life MPF Average Disparity Index at 292 was slightly higher in the 4th quarter of 2019 than previous quarter's 287. Of the 18 fund categories, 11 saw disparity widened from the last quarter while 7 categories narrowed. The three categories that saw disparity widened the most were Japanese Equity (from 133 to 346), Asia ex Japan Equity (from 210 to 420) and Asia ex Japan ex HK Equity (from 298 to 443). Categories that recorded significant narrowing in disparity include United States Equity (from 433 to 144), Greater China Equity (from 620 to 337) and Pacific Basin ex Japan Equity (from 1005 to 784).

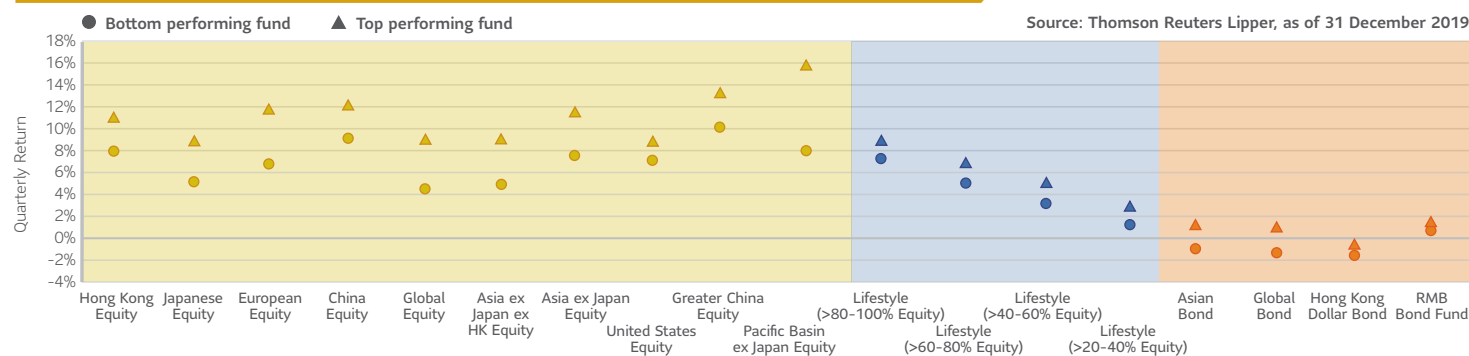
It was a rewarding quarter for equity investors. Of the 94 primary equity indices tracked by Bloomberg, only 15 posted losses, with many indices posting high single-digit to double-digit gains. Strong rally in stocks took some wind out of low risk assets, particularly for developed sovereign bonds. A further indication of investors favoring risk assets can be found from a retreating US dollar and weakness in other safe haven currencies.

Investors switched to a risk-on mode after senior trade representatives from both the US and China side agreed to a phase one resolution to the grueling trade war that began in early-2018. The announcement fueled hope of reaccelerating of global economic growth and improving corporate earnings in 2020. Economically sensitive sectors, such as commodity, industrial and technology registered strong gains. At the same time, markets highly dependent on global trade benefitted the most from the trade truce. Among developed markets, US, Japan, Germany, South Korea and Taiwan recorded solid gains. Among developing markets, Russia, Brazil and China (that is, H shares listed in Hong Kong, and domestically listed A shares) were some of the notable beneficiaries.

Given the aforementioned, equity funds that overweight in technology, industrial and commodity sectors; and those that tilt towards US, Europe, Japan, South Korea and Taiwan compare to their peers would tend to outperform in their categories. It is interesting that two Asian equity categories, namely Asia ex Japan and Asia ex Japan ex HK, saw widened disparity while another Asian equity category being Pacific Basin ex Japan recorded narrowed disparity. The fact that highly similar categories of funds have such diverse performance results highlight the dynamism of actively managed funds and the importance of choosing funds that demonstrated the ability of delivering consistent outperformance.

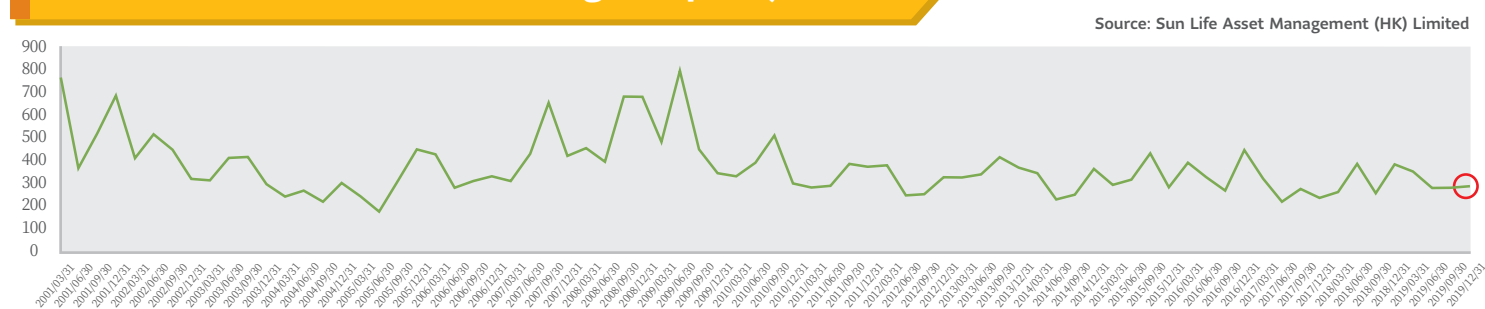
As for fixed income funds, those with higher exposure to corporate and developing sovereign bonds would outperform peers that lean towards developed sovereign issues. In fact, bond funds that focused on investing in the safest issues were among the few losers for the quarter.

Top Performing Fund and Bottom Performing Fund of Each Category for 4th Quarter 2019



	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 (%)	10.8%	8.8%	11.8%	12.1%	9.0%	9.2%	11.9%	8.7%	13.5%	15.8%	8.7%	7.0%	4.9%	2.9%	1.5%	1.1%	-0.4%	1.5%
Quarterly Return of Bottom Performing Fund (%)	8.0%	5.3%	6.6%	9.2%	4.3%	4.8%	7.7%	7.2%	10.1%	8.0%	7.1%	5.2%	3.3%	1.3%	-0.6%	-1.1%	-1.3%	1.0%
Quarterly Return Difference (%)	2.8%	3.5%	5.2%	2.9%	4.7%	4.4%	4.2%	1.4%	3.4%	7.8%	1.6%	1.8%	1.6%	1.5%	2.1%	2.2%	1.0%	0.5%
MPF Disparity Sub-Index	284	346	517	286	474	443	420	144	337	784	161	180	157	153	212	221	97	48

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** = $(\text{Price}_{\text{end of this quarter}}) / (\text{Price}_{\text{end of last quarter}}) - 1$
- ▶ **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** = $10,000 \times \left[\begin{array}{c} \text{Average net-of-fee} \\ \text{return of the} \\ \text{top performing} \\ \text{MPF funds of each of} \\ \text{18 fund categories} \\ \text{per quarter} \end{array} - \begin{array}{c} \text{Average net-of-fee} \\ \text{return of the} \\ \text{bottom performing} \\ \text{MPF funds of each of} \\ \text{18 fund categories} \\ \text{per quarter} \end{array} \right]$
- ▶ **Data Source** = Thomson Reuters Lipper, as of 31 December 2019
- ▶ **Data Cut Off** = 5th business day after quarter-end
- ▶ **Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 31 December 2019), 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 31 December 2019
 - 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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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.

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