

# 4<sup>th</sup> Quarter 2020

## MPF FUNDS DO NOT PERFORM EQUALLY

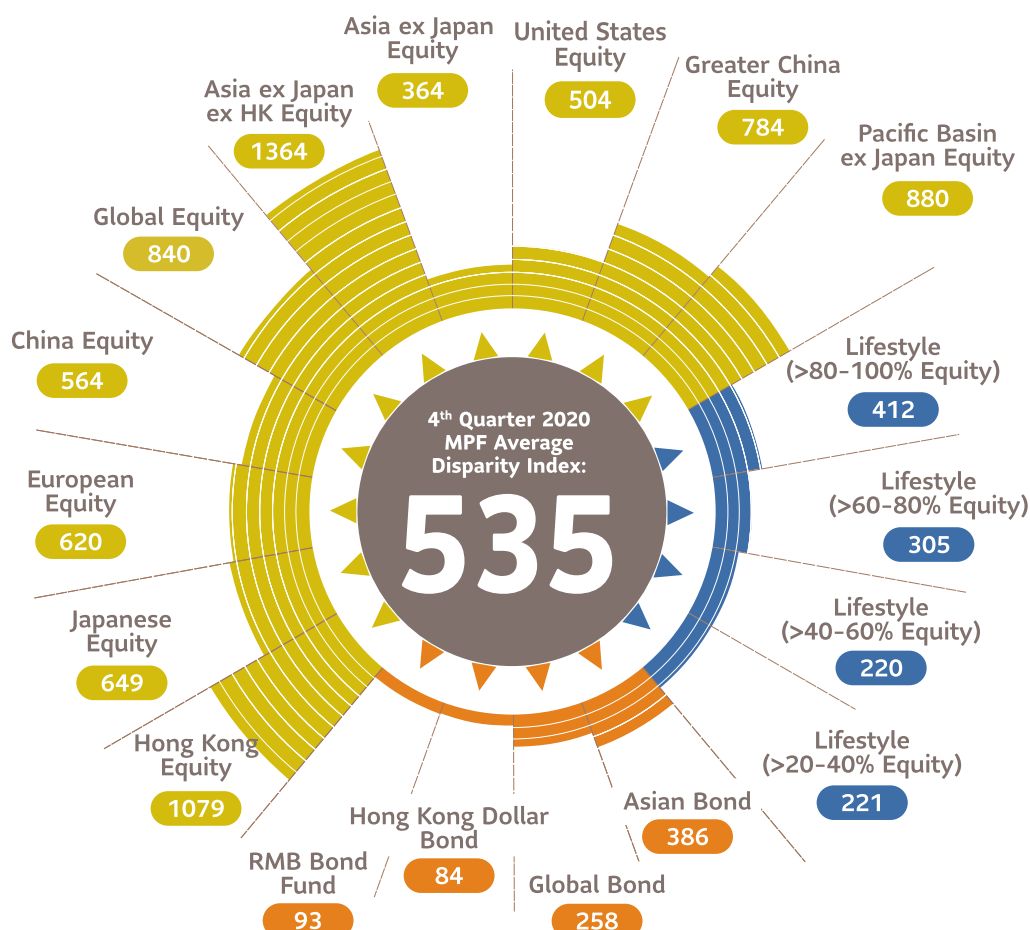
MPF Average  
Disparity Index

# 535

### 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 3<sup>rd</sup> quarter 2020, the average return difference for 4<sup>th</sup> quarter 2020 is about HK\$535. Its MPF Average Disparity Index is 535<sup>Δ</sup>. The larger the index value, the bigger the average return difference between two members' investment.

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

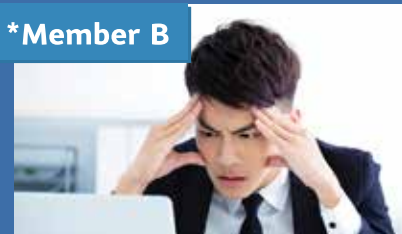


#### \*Member A



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 4<sup>th</sup> quarter 2020 on the last trading day of 3<sup>rd</sup> 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 4<sup>th</sup> quarter 2020 on the last trading day of 3<sup>rd</sup> quarter 2020

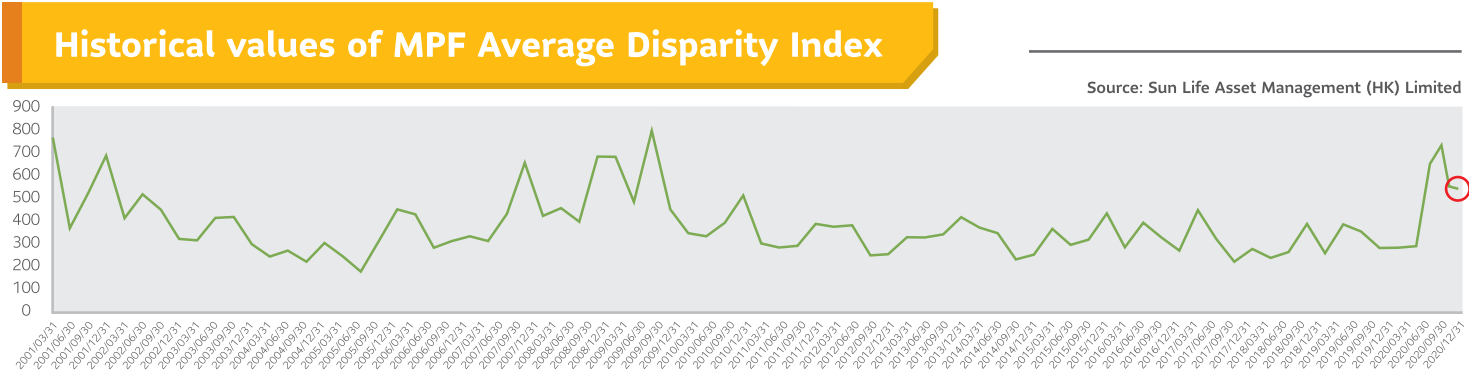
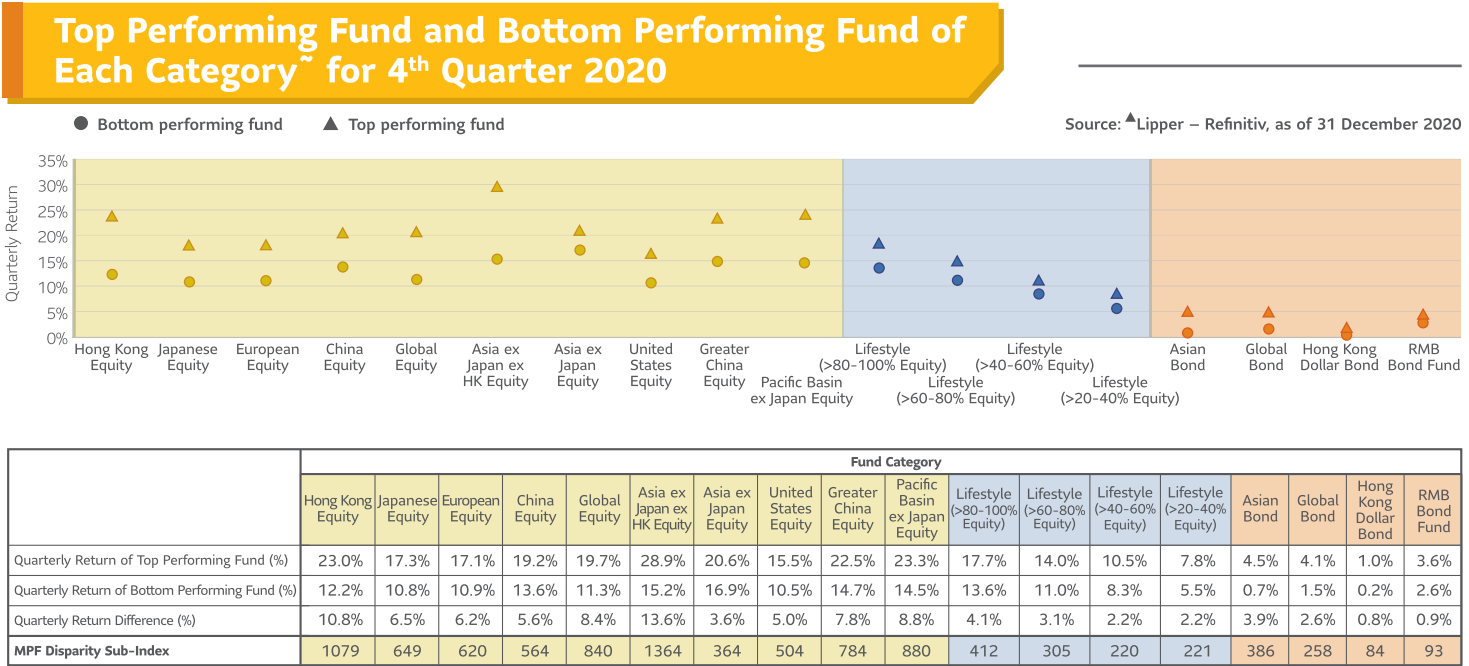
\*The hypothetical examples are for illustration purpose only

Sun Life MPF Average Disparity Index stood at 535 in Q4 2020, slightly decreasing from the reading of 547 in the previous quarter. Of the 18 fund categories, 10 saw disparity widened from the last quarter while 8 categories narrowed. The three categories that saw disparity widened the most were Global Equity (from 403 to 840), Asia ex Japan ex HK Equity (from 1051 to 1364) and Hong Kong Equity (from 819 to 1079). Categories that recorded significant narrowing in disparity include China Equity (from 1308 to 564), Asia ex Japan Equity (from 1004 to 364) and European Equity (from 1011 to 620).

Global stock markets stayed upbeat in Q4 2020. Investment sentiment received a significant boost from encouraging breakthroughs in vaccine development and completion of the U.S. presidential election. Of the 93 primary equity indices tracked by Bloomberg, 90 posted gains and only 3 registered losses. There had been clear signs of sector rotation with capital shifting towards underperforming markets and sectors that were ravaged by the pandemic. Europe, one of the biggest laggards in the previous quarter, shone in this quarter. ASEAN markets picked up in Asia. Emerging markets also significantly outperformed developed markets. In Q4, disparity for Global Equity category widened from 403 to 840. Funds that overweighed Europe and Asia benefitted from sector rotation. Prospect of a more comprehensive recovery due to advancement in vaccines means the worst hit sectors by the pandemic could see more encouraging earnings re-ratings. Industries such as energy, materials, financials, consumer discretionary and travels took the lead. Perhaps managers of US Equity funds have already been so positioned, as performance disparity for the category further narrowed from 598 to 504. With UK and the European Union finally reached a Brexit deal, European markets were broadly high. Performance disparity for European Equity category narrowed from 1011 to 620.

Improved sentiment amid US presidential election results and positive vaccine development further supported Asia ex Japan equity markets. Sector rotation lifted previous laggards such as Indonesia, the Philippines and Thailand as these markets outperformed in Q4 2020. South Korea was the best-performing market, powered by strong gains from the tech sector. Taiwan also outperformed. Malaysia, China and Hong Kong recorded modest gains and underperformed. In Q4, disparity for Asia ex Japan ex HK Equity category widened for the second consecutive month, jumping from 1051 to 1364. Funds overweight in Korea and Taiwan continued to lead. In Hong Kong, traditional cyclical sector rebounded strongly while new economy sector receded. Fund managers positioned differently for sector rotation causing disparity for Hong Kong equity category widened from 819 to 1079. In China, tensions with the US, and anti-trust moves weighed on sentiment broadly. Disparity for China equity category narrowed, from 1308 to 564.

As for fixed income, disparity for most bond fund categories widened in Q4, except Global Bond category which further narrowed. The yield of 10-year Treasury rebounded sharply in Q4. Corporate bonds continued to outperform government bonds therefore funds with higher exposure to corporate bonds continued to lead in performance. In Q4, default cases of China's state-owned enterprises increased and slightly affected investment sentiment.



## 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** = Lipper - Refinitiv, as of 31 December 2020
- ▶ **Data Cut Off** = 5<sup>th</sup> business day after quarter-end
- ▶ **Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 31 December 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 31 December 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.





## 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.

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