

3rd Quarter 2018

MPF FUNDS DO NOT PERFORM EQUALLY



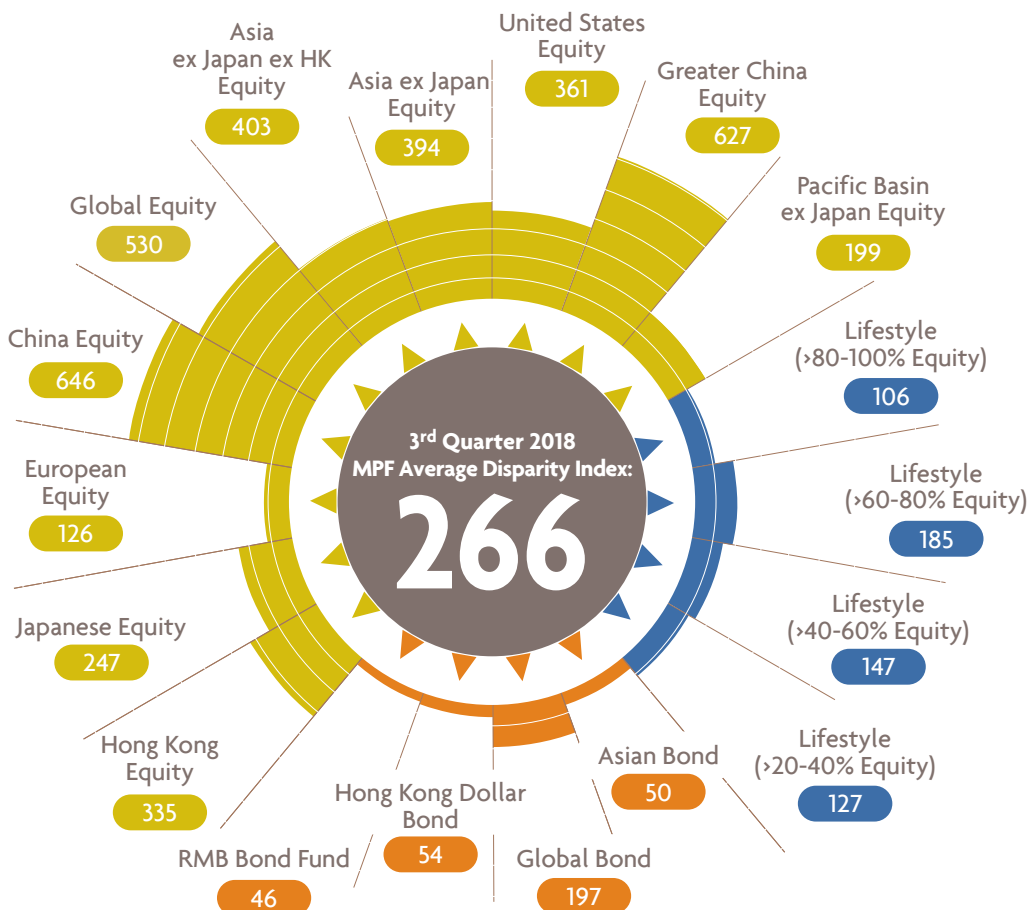
MPF Average Disparity Index

266

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 2018, the average return difference for 3rd quarter 2018 is about HK\$266. Its MPF Average Disparity Index is 266.[△] 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 2018 on the last trading day of 2nd 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 3rd quarter 2018 on the last trading day of 2nd quarter 2018

[△]The hypothetical examples are for illustration purpose only

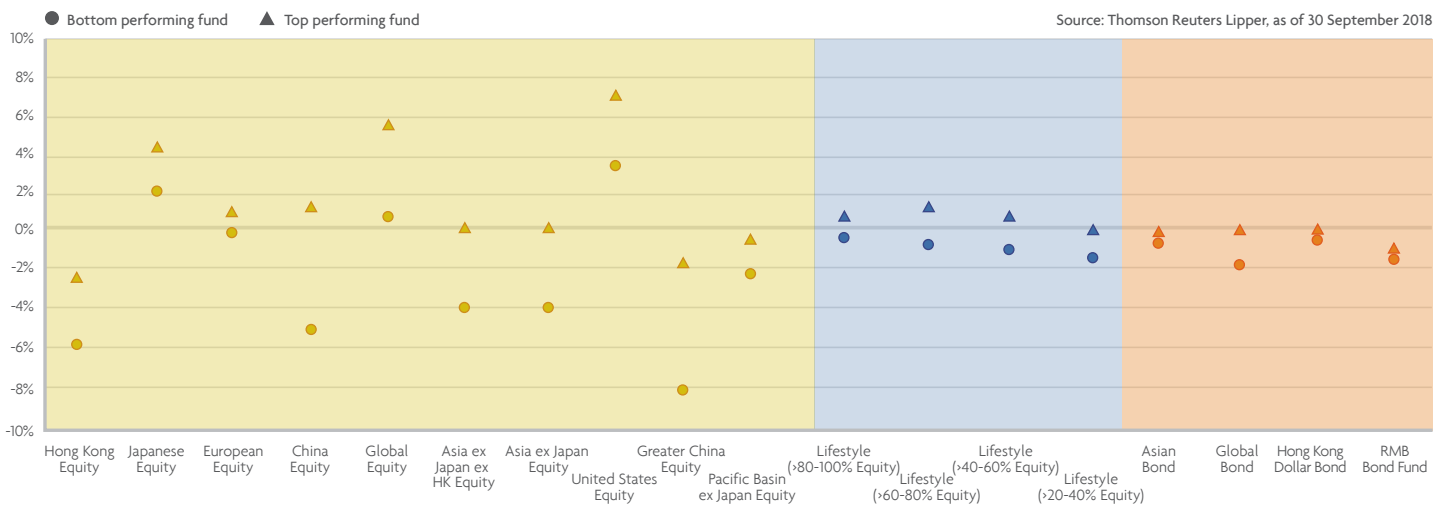
Sun Life MPF Average Disparity Index narrowed to 266 in 3rd quarter of 2018, down from 390 in the previous quarter. Of the 18 fund categories, 12 saw disparity reduced from the last quarter. The three categories that recorded the biggest reduction in disparity are US Equity (from 854 to 361), European Equity (from 552 to 126) and Hong Kong Equity (from 723 to 335). The three categories that recorded the biggest widening in disparity are China Equity (from 431 to 646), Greater China Equity (from 536 to 627) and Global Bond (from 164 to 197).

After a rough quarter in Q2, most equity markets recorded gains in Q3 on subsiding volatility. Markets registering the biggest gains include Thailand, Russia and Taiwan. At the same time, US major indexes kept setting new record highs despite escalating trade tension with China. A third interest rate hike by the US Federal Reserve towards end of September appeared well received by the market without causing much jitters. Subdued market volatility tends to facilitate more uniform returns by fund managers regardless of investment styles. This helps to explain the narrowing of disparity for US Equity and European Equity. At the same time, the difference in performance of US equity versus rest of the world helps to explain the wide disparity in Global Equity category, with funds that tilt towards US market more likely to outperform those that tilt towards other markets.

Among equity markets that fell in Q3, China A-share and Hong Kong recorded sizable percentage losses. Because of diverging performance of China, Hong Kong and Taiwan markets, the widening of disparity in the Greater China Equity category could well be the difference of geographical focus among constituent funds. Funds with higher weighting to Taiwan would reasonably outperform funds that have higher weighting to China/Hong Kong.

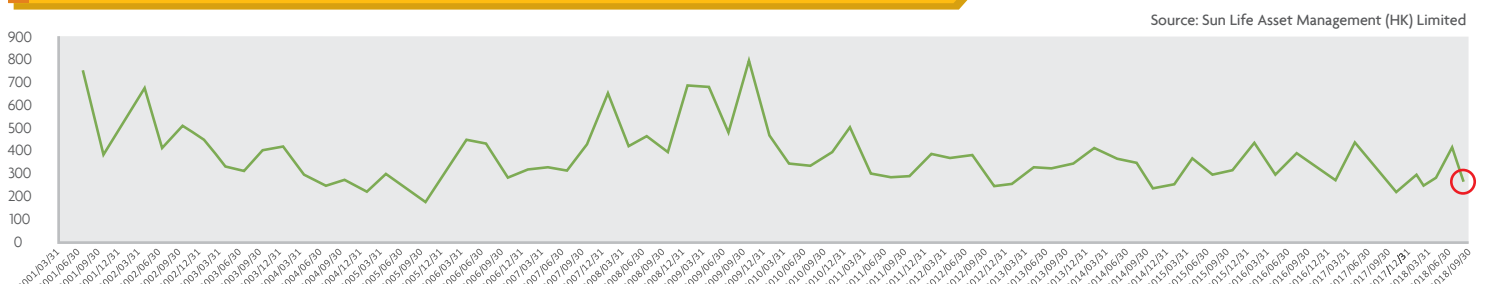
Of the four fixed income categories, three saw disparity widened namely Global Bond, HK Dollar Bond and RMB Bond. Rate hike by the US Fed together with reduction of its balance sheet, also referred to as quantitative tightening, has saw Treasury yield curve shift up with yields on 10-year Treasuries firmly above 3-percent since mid-September. Higher bond yields hurt those funds with longer duration much more than those with shorter duration. This helps to explain widened disparity for bond funds.

Top Performing Fund and Bottom Performing Fund of Each Category ~ for 3rd 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 (%) | -2.6% | 4.5% | 1.0% | 1.4% | 5.7% | 0.1% | 0.0% | 7.1% | -1.8% | -0.3% | 0.5% | 1.0% | 0.4% | -0.1% | -0.3% | 0.0% | 0.1% | -1.2% |
| Quarterly Return of Bottom Performing Fund (%) | -5.9% | 2.0% | -0.3% | -5.1% | 0.4% | -4.0% | -4.0% | 3.5% | -8.1% | -2.3% | -0.6% | -0.9% | -1.0% | -1.4% | -0.8% | -1.9% | -0.5% | -1.7% |
| Quarterly Return Difference (%) | 3.4% | 2.5% | 1.3% | 6.5% | 5.3% | 4.0% | 3.9% | 3.6% | 6.3% | 2.0% | 1.1% | 1.9% | 1.5% | 1.3% | 0.5% | 2.0% | 0.5% | 0.5% |
| MPF Disparity Sub-Index | 335 | 247 | 126 | 646 | 530 | 403 | 394 | 361 | 627 | 199 | 106 | 185 | 147 | 127 | 50 | 197 | 54 | 46 |

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 2018
- ▶ **Data Cut Off** = 5th business day after quarter end
- ▶ **Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 30 September 2018), 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 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

[~] 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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