

4th Quarter 2018

MPF FUNDS DO NOT PERFORM EQUALLY



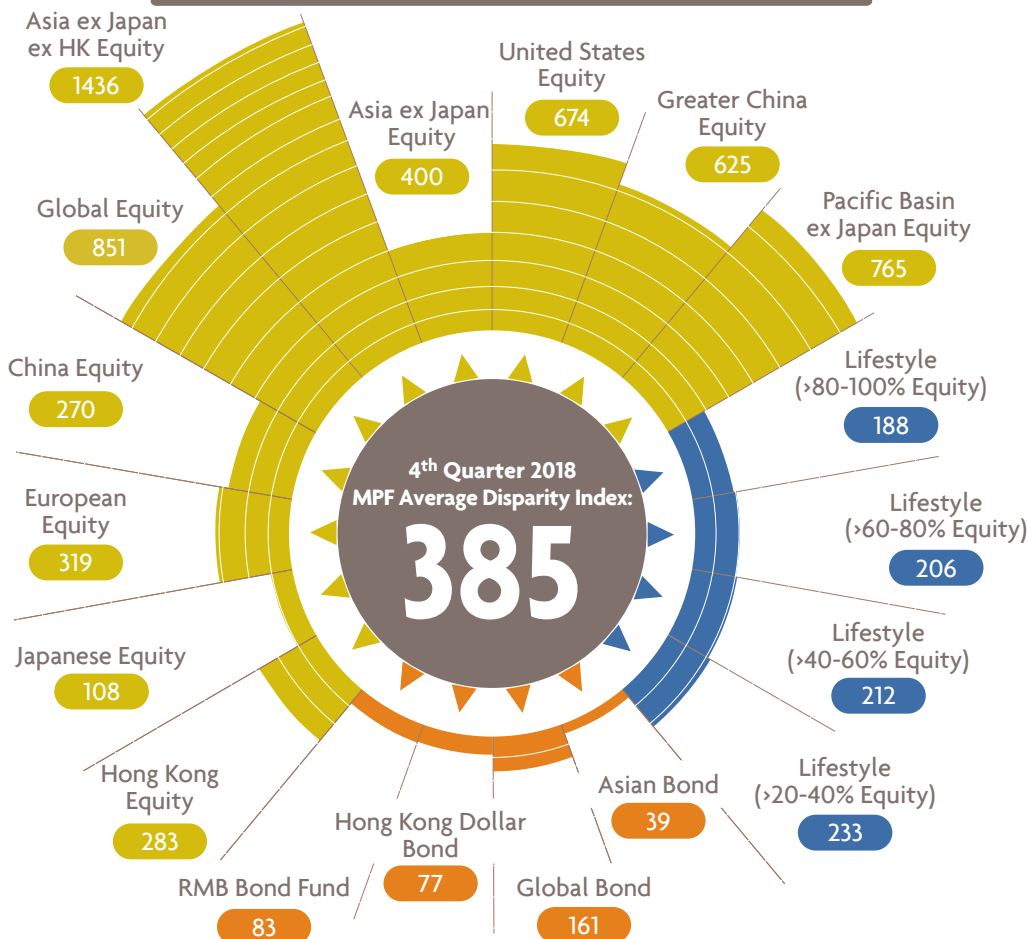
MPF Average Disparity Index

385

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 3rd quarter 2018, the average return difference for 4th quarter 2018 is about HK\$385. Its MPF Average Disparity Index is 385. 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):

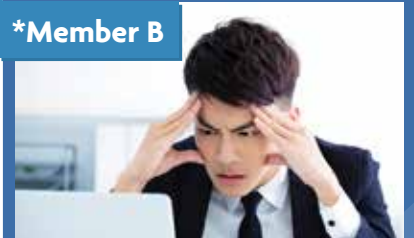


*Member A



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 4th quarter 2018 on the last trading day of 3rd 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 4th quarter 2018 on the last trading day of 3rd quarter 2018

*The hypothetical examples are for illustration purpose only

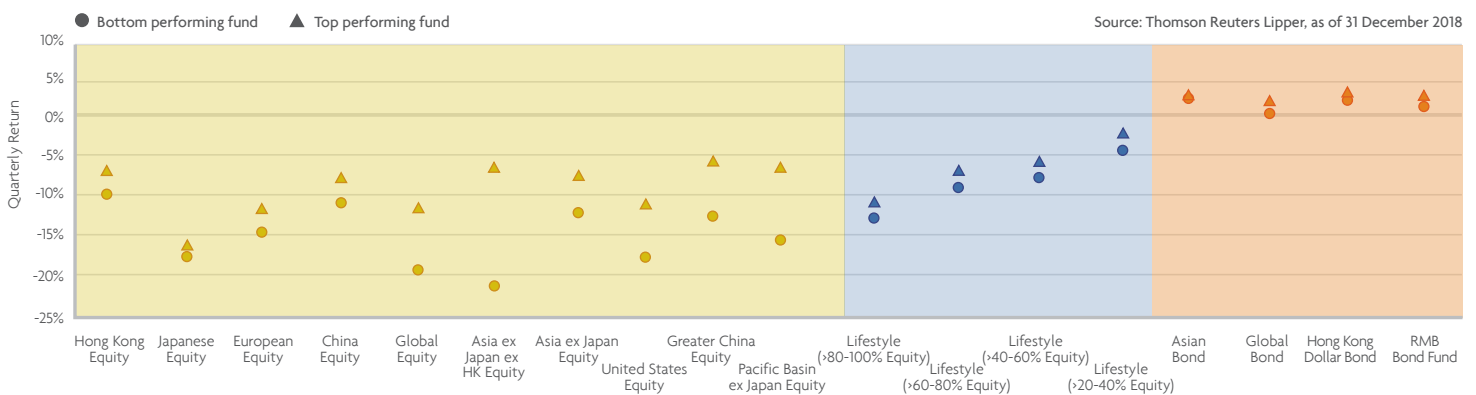
Sun Life MPF Average Disparity Index widened to 385 in 4th quarter of 2018, up from 266 in the previous quarter. Of the 18 fund categories, 13 saw disparity expanded from the last quarter. The three categories that recorded the biggest widening in disparity are Asia ex Japan ex HK Equity (from 403 to 1436), Pacific Basin ex Japan Equity (from 199 to 765) and US Equity (from 361 to 674). The three categories that recorded the biggest reduction in disparity are China Equity (from 646 to 270), Japanese Equity (from 247 to 108) and Hong Kong Equity (from 335 to 283).

It was a challenging period in Q4, with just 15 out of 94 primary equity indices tracked by Bloomberg recorded positive return. Among gaining markets are a few from the Asian region that had slumped earlier in the year. These include Indonesia, the Philippines and India. The rebound in these three markets to some extent could be due to strengthening of their currencies as the yearlong rally in the US dollar took a breather. As for losing markets, some standout ones include Japan, US, South Korea and Taiwan. A common thread across these markets is their high exposure to the technology sector. Sentiment to the sector was battered after several high profile companies issued sales and earnings warnings attributing to uncertainty brought on by the US-China trade war and overall weaker than expected consumption.

The big difference in returns among Asian markets helps to explain the widened disparity in the two Asian equity categories mentioned above. Funds that tilted towards ASEAN markets or were underweight in South Korea and Taiwan tended to outperform those funds that had the opposite allocation mix. For US equity category, funds that were underweight in the technology sector tended to outperform those that overweighting in it. As for Hong Kong equity, sentiment was very weak across the board, market was sold down almost indiscriminately. It helps to explain the narrowing of disparity for that category.

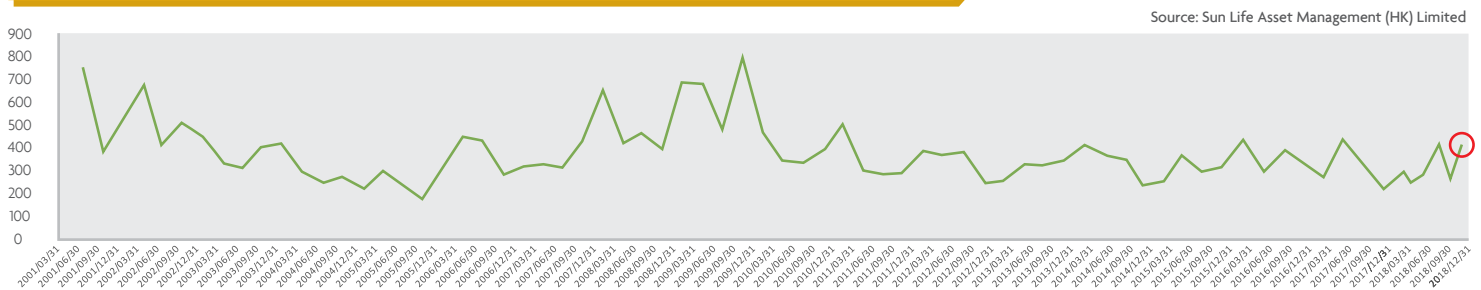
Disparity for bond categories has generally widened in Q4. Heightened market volatility has driven investors to seek shelter in the highest quality issues, as can be seen from the drop in US Treasury yields. Yield on 10-year Treasuries peaked at 3.24% during the quarter and ended the year at 2.69%. Investor sentiment was so weak that even investment grade corporate issues were sold down. This helps to explain the widened disparity among bond funds as those that were overweight developed sovereign bonds tended to outperform those that tilted towards corporate bonds.

Top Performing Fund and Bottom Performing Fund of Each Category ~ for 4th 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 (%)	-7.3%	-16.1%	-12.0%	-8.2%	-11.2%	-6.4%	-7.9%	-11.4%	-6.1%	-7.8%	-10.6%	-7.7%	-5.3%	-2.4%	2.2%	1.6%	2.8%	1.4%
Quarterly Return of Bottom Performing Fund (%)	-10.1%	-17.2%	-15.2%	-10.9%	-19.7%	-20.8%	-11.9%	-18.2%	-12.4%	-15.4%	-12.5%	-9.7%	-7.4%	-4.8%	1.8%	0.0%	2.0%	0.6%
Quarterly Return Difference (%)	2.8%	1.1%	3.2%	2.7%	8.5%	14.4%	4.0%	6.7%	6.3%	7.7%	1.9%	2.1%	2.1%	2.3%	0.4%	1.6%	0.8%	0.8%
MPF Disparity Sub-Index	283	108	319	270	851	1436	400	674	625	765	188	206	212	233	39	161	77	83

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 31 December 2018
- ▶ **Data Cut Off** = 5th business day after quarter end
- ▶ **Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 31 December 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 31 December 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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