

3rd Quarter 2019

MPF FUNDS DO NOT PERFORM EQUALLY

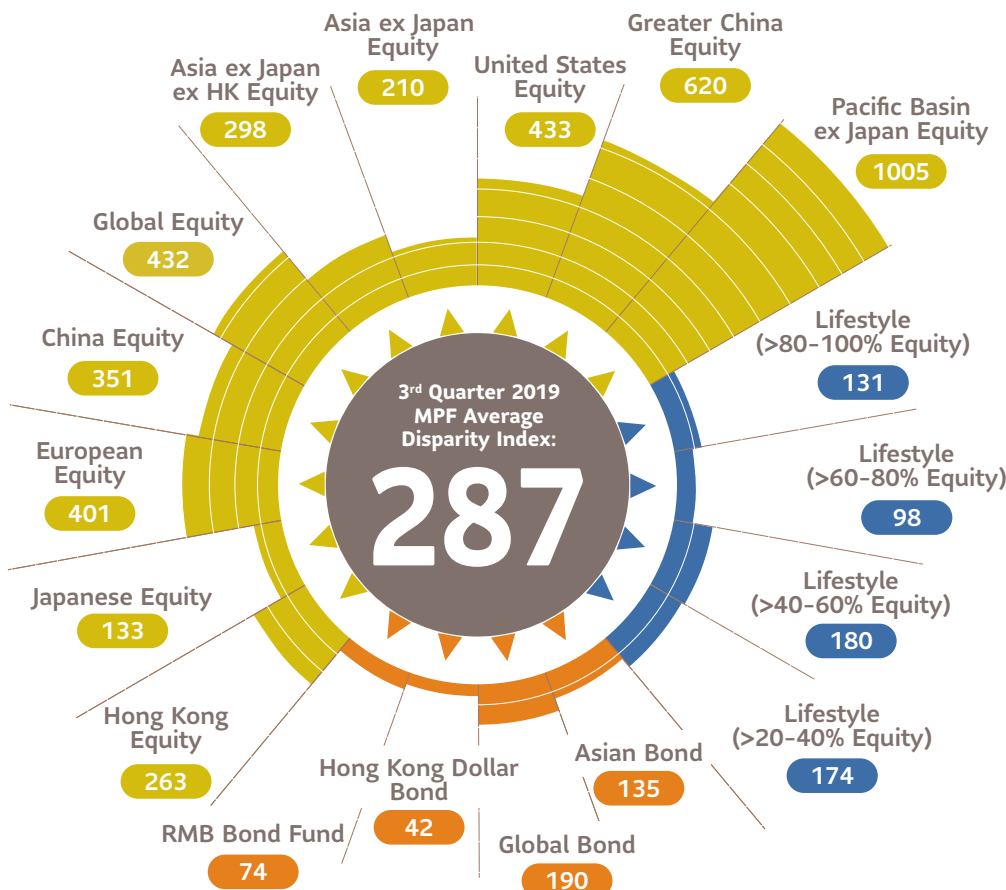
MPF Average Disparity Index

287

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 2019, the average return difference for 3rd quarter 2019 is about HK\$287. Its MPF Average Disparity Index is 287^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)

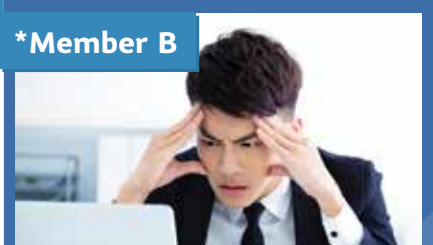


* Member A



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 3rd quarter 2019 on the last trading day of 2nd 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 3rd quarter 2019 on the last trading day of 2nd quarter 2019

^ΔThe hypothetical examples are for illustration purpose only

Sun Life MPF Average Disparity Index was essentially flat in the 3rd quarter of 2019, staying at 287 as in the previous quarter. Of the 18 fund categories, 10 saw disparity contracted from the last quarter while 8 categories widened. The three categories that saw disparity contracted the most were Asia ex Japan ex Hong Kong Equity (from 708 to 298), Lifestyle (>60-80% Equity) (from 376 to 98) and Japanese Equity (from 357 to 133). Categories that recorded significant widening in disparity include Pacific Basin ex Japan Equity (from 532 to 1005), Greater China Equity (from 208 to 620) and China Equity (from 147 to 351).

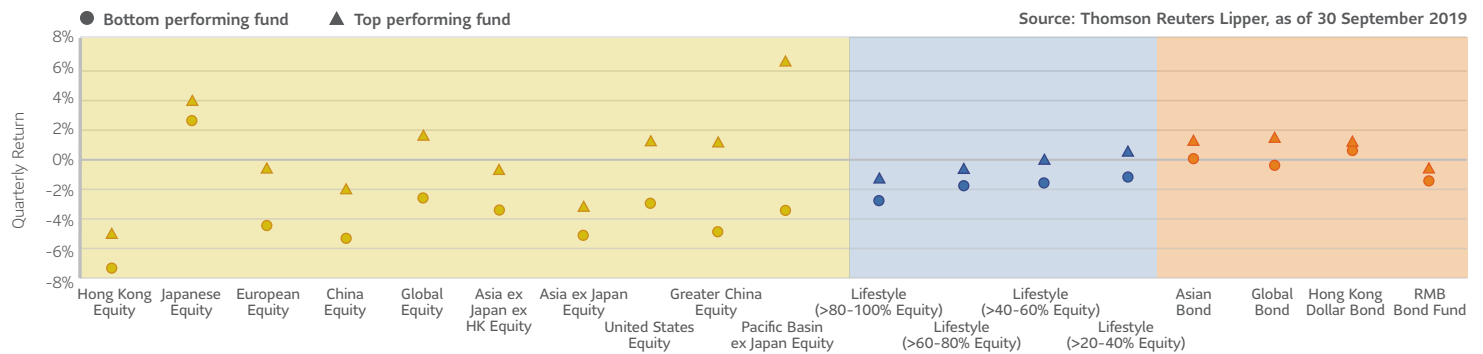
It was a challenging quarter for equity investors not the least because of broad and strong gains across global stock markets registered in the first half of the year but also extended volatility during the quarter. Of the 94 primary equity indices tracked by Bloomberg, 50 recorded gains in the third quarter, while 41 posted losses and 3 unchanged. Financial markets turned jittery against deteriorating global economic growth as business activities for major economies slowed markedly.

Impact from the US-China trade war was visible in sharply slowing global trade data and manufacturing sectors of major economies. Those economies and companies that are heavily reliant on exports suffered the most and the impact is clearly shown in market prices. Accordingly, the Asian and European region recorded the biggest pull back, with country indices of Singapore, South Korea, China and Germany fallen steeply. Caught between the cross-fire of US-China trade dispute and local societal issues, Hong Kong suffered the biggest decline among major developed markets. In Asia, Japan and Taiwan stood out against a swath of decliners. The former benefitted from an easing currency and the latter gaining on the back of continued strength of its biggest index constituent.

Given the aforementioned, it's easy to understand the wide disparity among equity funds in Pacific Basin and Greater China, as those that overweighting Japan and Taiwan should have higher chance to outperform those funds that underweighting the two markets. By the same token, disparity for Asia ex Japan ex Hong Kong Equity narrowed because funds in this category excluded Japan and Hong Kong which were at the extreme ends of the return spectrum for the latest quarter. Meanwhile, funds that focused on domestic sectors (such as consumption) should have an edge over funds that skewed towards trading-reliant sectors (such as industrial and technology).

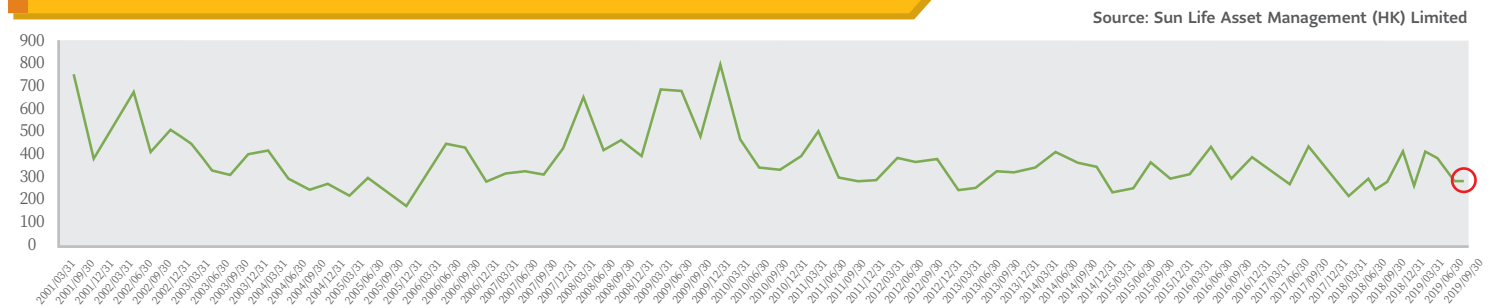
Slowing global growth has driven investors towards government bonds and turned more selective towards corporate bonds. Central banks' stance on monetary policy have become more accommodative, highlighted by the US Fed cutting interest rates twice in the third quarter (in July and then September), which benefitted bond funds and Lifestyle funds that overweighted shorter maturity instruments.

Top Performing Fund and Bottom Performing Fund of Each Category for 3rd Quarter 2019



	Fund Category																	
	Hong Kong Equity	Japanese Equity	European Equity	China Equity	Global Equity	Asia ex Japan ex HK Equity	Asia ex Japan ex 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 (%)	-5.1%	3.9%	-0.2%	-2.0%	1.8%	-0.5%	-3.1%	1.5%	1.4%	6.3%	-1.5%	-0.9%	0.1%	0.5%	1.4%	1.7%	0.9%	-0.6%
Quarterly Return of Bottom Performing Fund (%)	-7.8%	2.6%	-4.2%	-5.5%	-2.5%	-3.4%	-5.2%	-2.8%	-4.8%	-3.7%	-2.8%	-1.9%	-1.8%	-1.2%	0.1%	-0.2%	0.5%	-1.4%
Quarterly Return Difference (%)	2.6%	1.3%	4.0%	3.5%	4.3%	3.0%	2.1%	4.3%	6.2%	10.1%	1.3%	1.0%	1.8%	1.7%	1.4%	1.9%	0.4%	0.7%
MPF Disparity Sub-Index	263	133	401	351	432	298	210	433	620	1005	131	98	180	174	135	190	42	74

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 30 September 2019
- ▶ **Data Cut Off** = 5th business day after quarter-end
- ▶ **Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 30 September 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 30 September 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.



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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