



# 1<sup>st</sup> Quarter 2019

## MPF FUNDS DO NOT PERFORM EQUALLY

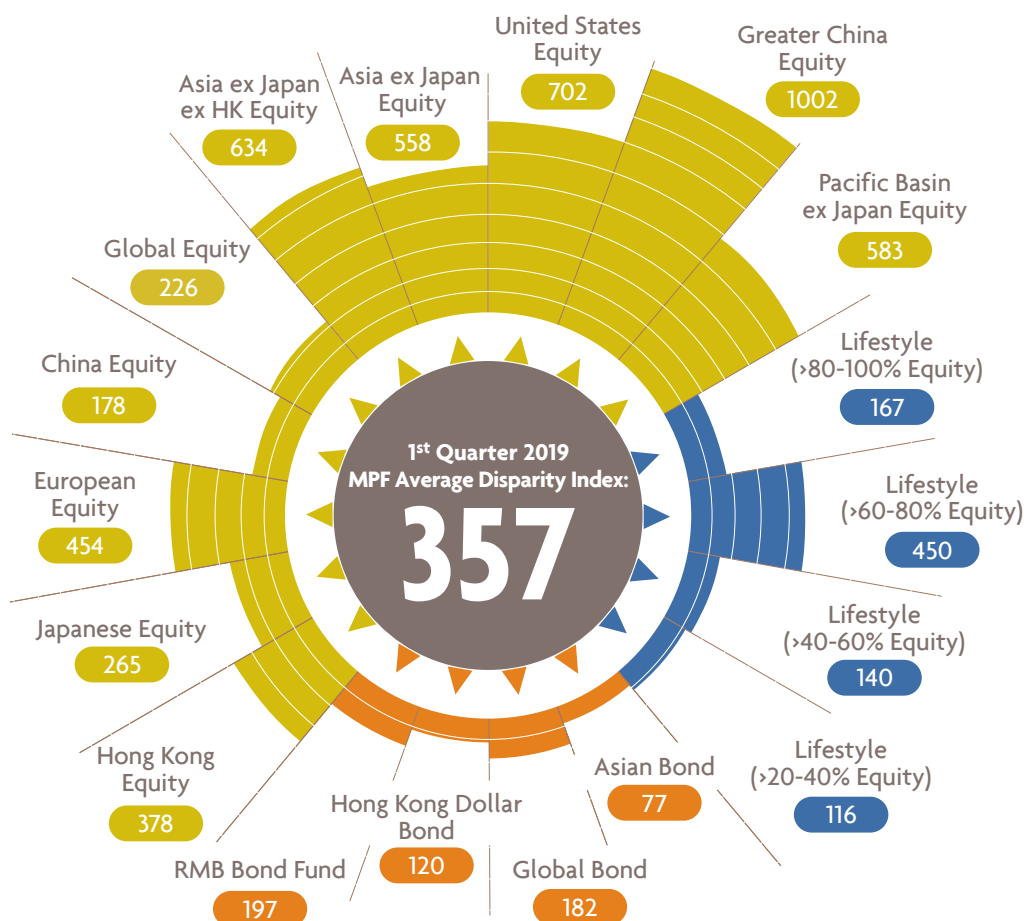
MPF Average Disparity Index

# 357

### 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 4<sup>th</sup> quarter 2018, the average return difference for 1<sup>st</sup> quarter 2019 is about HK\$357. Its MPF Average Disparity Index is 357.<sup>△</sup> The larger the index value, the bigger the average return difference between two members' investment.

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

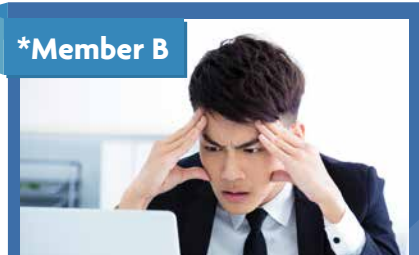


#### \*Member A



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 1<sup>st</sup> quarter 2019 on the last trading day of 4<sup>th</sup> 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 1<sup>st</sup> quarter 2019 on the last trading day of 4<sup>th</sup> quarter 2018

<sup>△</sup>The hypothetical examples are for illustration purpose only

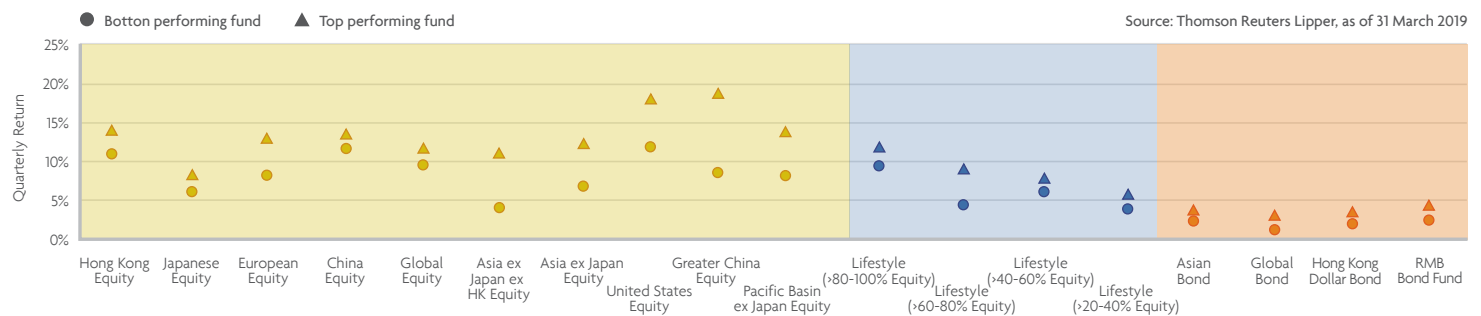
Sun Life MPF Average Disparity Index narrowed to 357 in 1st quarter of 2019, down slightly from 385 in the previous quarter. Interestingly, of the 18 fund categories, 11 saw disparity expanded from the last quarter. The average disparity was pulled lower by sharp contraction of disparity in two categories, namely Asia ex Japan ex HK Equity (from 1436 to 558) and Global Equity (from 851 to 226). Categories that recorded significant widening in disparity include Greater China Equity (from 625 to 1002) and Lifestyle (>60-80% Equity) (from 206 to 450). Of special note is that disparity for all bond categories have widened in the latest quarter.

It was a rewarding quarter for equity investors and also a mirror image of Q4 of last year in that 79 out of the 94 primary equity indices tracked by Bloomberg recorded positive return. A truce of the US-China trade war, indeed rising expectation of an eventual deal, and the US Fed pausing on interest rate hike provided a favourable backdrop for financial markets. China A-shares were among the biggest losers last year rebounded strongly, with the Shanghai Composite Index gaining 23.9% in local currency (and 27% in USD term). US equities suffered sharp pull back during November-December period last year have also rebounded strongly in Q1, which the S&P500 index upped by 13.1% and the tech-heavy Nasdaq Composite Index by 16.5%. Emerging markets posted broad advances as investor appetite on risk assets returns, also aided by a narrowly traded US dollar.

All Asian markets advanced in the latest quarter, which helps to explain narrowing of disparity in Asian equity categories. At the same time, broad gains in equity markets worldwide contributed to the sharp narrowing of disparity among global equity funds. That said, difference among regional markets in Greater China and Europe had led to widened disparity in respective fund categories. While China A-shares and Hong Kong markets registered double-digit gains in Q1, Taiwan was upped a mere 8 percent. As such, Greater China funds that overweighted in A-shares and Hong Kong tend to outperform. In Europe, despite continued cloudiness over Brexit UK's FTSE Index posted double-digit gains, and so too has France's CAC Index. Meanwhile, hindered by disappointing economic data Germany's DAX Index was upped just 7 percent. Accordingly, European equity funds that tilted towards UK and France tend to outperform.

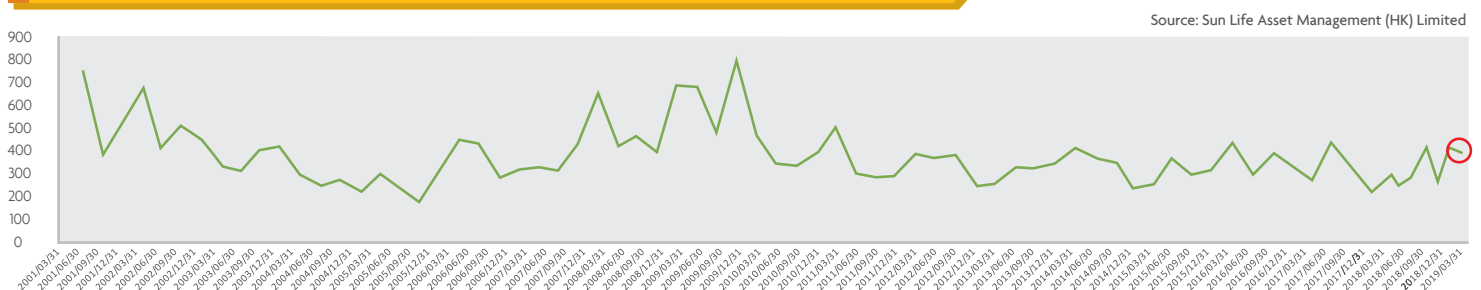
While bond yields narrowed broadly in Q1, return of investor appetite has benefitted corporate issues more than sovereign and that bonds from emerging markets outperformed that of developed markets. As such, bond funds that overweighted in credits and Asia tend to record better gains than peers that do not have such tilts. For RMB bond funds, those that overweighted in corporate issues had benefitted from credit spread contraction as local and foreign investors rushed in after easing of trade tension between the US and China to capture attractive yields.

## Top Performing Fund and Bottom Performing Fund of Each Category ~ for 1<sup>st</sup> 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 (%)	14.3%	8.5%	13.1%	13.9%	12.0%	10.8%	12.2%	18.5%	19.1%	14.6%	11.4%	9.2%	7.4%	5.3%	3.3%	2.8%	2.9%	4.4%
Quarterly Return of Bottom Performing Fund (%)	10.6%	5.9%	8.5%	12.1%	9.7%	4.4%	6.7%	11.5%	9.0%	8.7%	9.7%	4.7%	6.0%	4.1%	2.5%	1.0%	1.7%	2.4%
Quarterly Return Difference (%)	3.8%	2.7%	4.5%	1.8%	2.3%	6.3%	5.6%	7.0%	10.0%	5.8%	1.7%	4.5%	1.4%	1.2%	0.8%	1.8%	1.2%	2.0%
<b>MPF Disparity Sub-Index</b>	<b>378</b>	<b>265</b>	<b>454</b>	<b>178</b>	<b>226</b>	<b>634</b>	<b>558</b>	<b>702</b>	<b>1002</b>	<b>583</b>	<b>167</b>	<b>450</b>	<b>140</b>	<b>116</b>	<b>77</b>	<b>182</b>	<b>120</b>	<b>197</b>

## 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 March 2019
- ▶ **Data Cut Off** = 5<sup>th</sup> business day after quarter end
- ▶ **# Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 31 March 2019), was included 18 categories<sup>~</sup>, 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 March 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

<sup>~</sup> 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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