

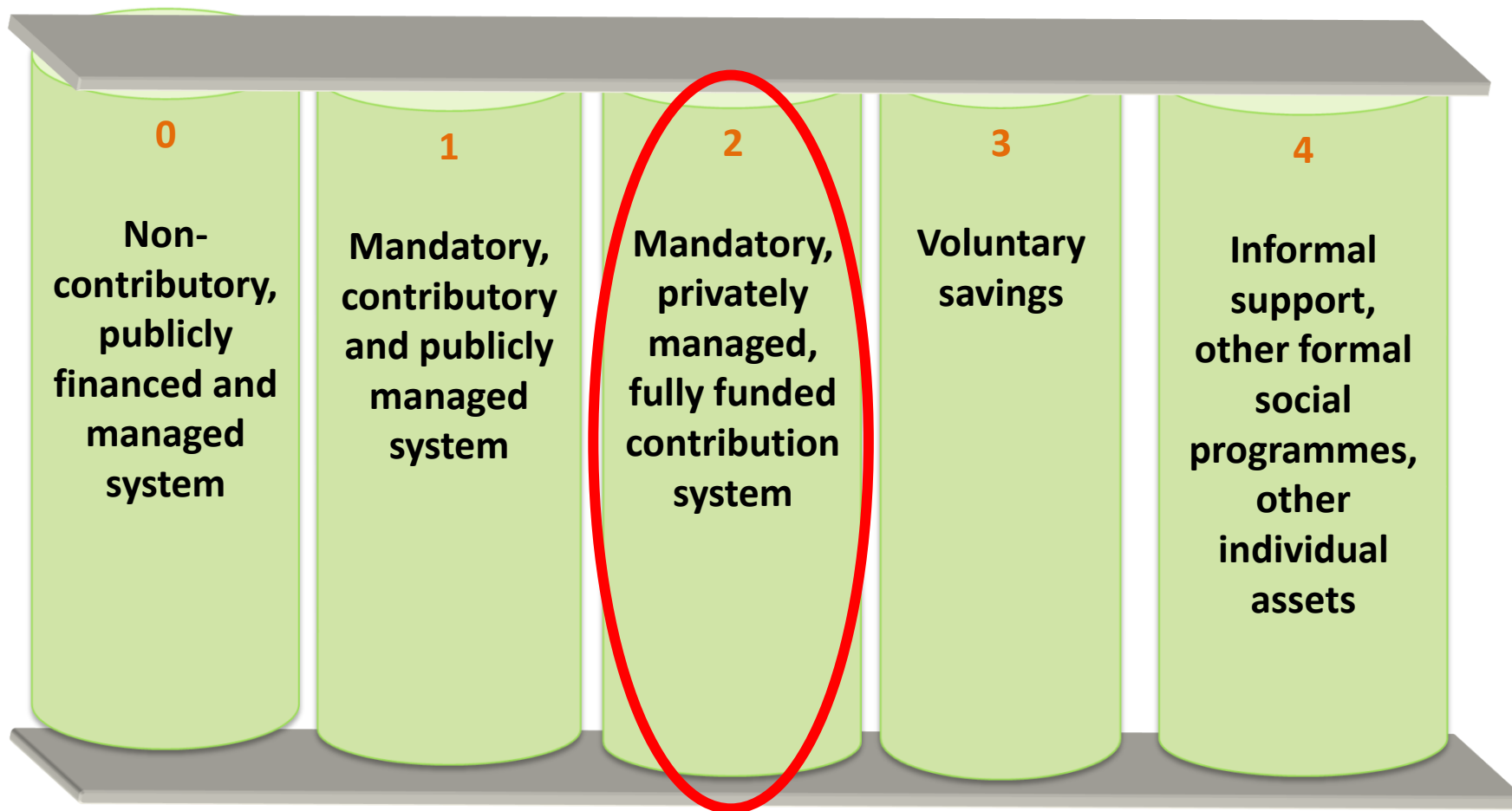


# **15-year Investment Performance Review of the MPF System**

26 January 2016



# MPF: 2<sup>nd</sup> pillar





- I. MPF is a long-term investment, its return is characterized by the compounding effect**



# Objectives of the MPF System

- Employment-based system set up to assist working people to save for retirement
- It takes 40 years for a retirement savings system to mature
- MPF System in operation for only 15 years, still in the development stage
- After 40 years, will start to see comprehensively the benefits that such a system can produce



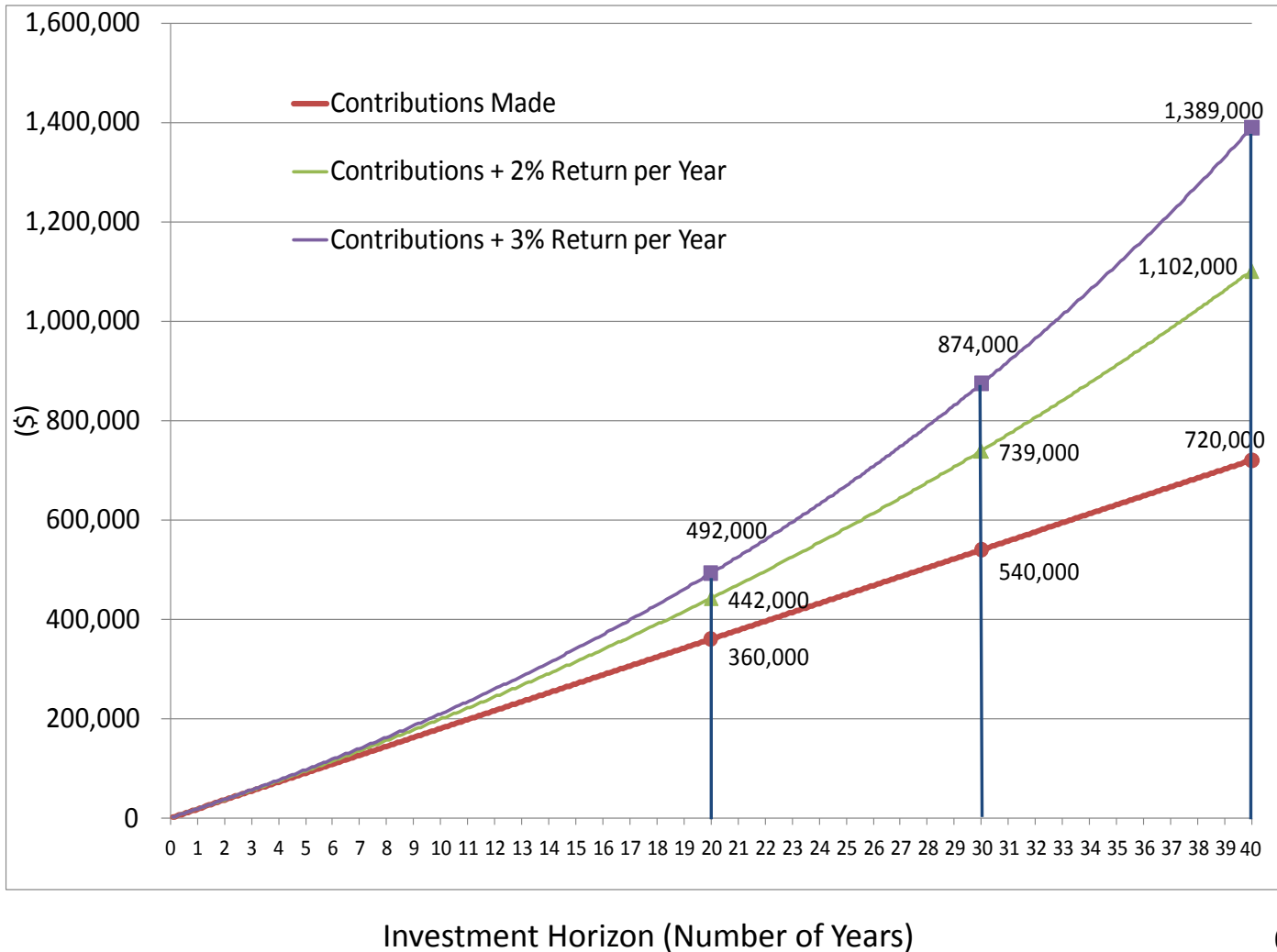
# MPF's compounding effect

- With a contribution of \$1,500 each month, the savings will be:

Assumed Rate of Annual Return	20 years	30 years	40 years
2%	\$442,000	\$739,000	\$1,102,000
3%	\$492,000	\$874,000	\$1,389,000
<b>Total Contribution</b>	<b>\$360,000</b>	<b>\$540,000</b>	<b>\$720,000</b>



# MPF's compounding effect Cont'd





**II. MPF invested in financial instruments in the market**  
**➔ investment performance affected by the cycles of the financial market**



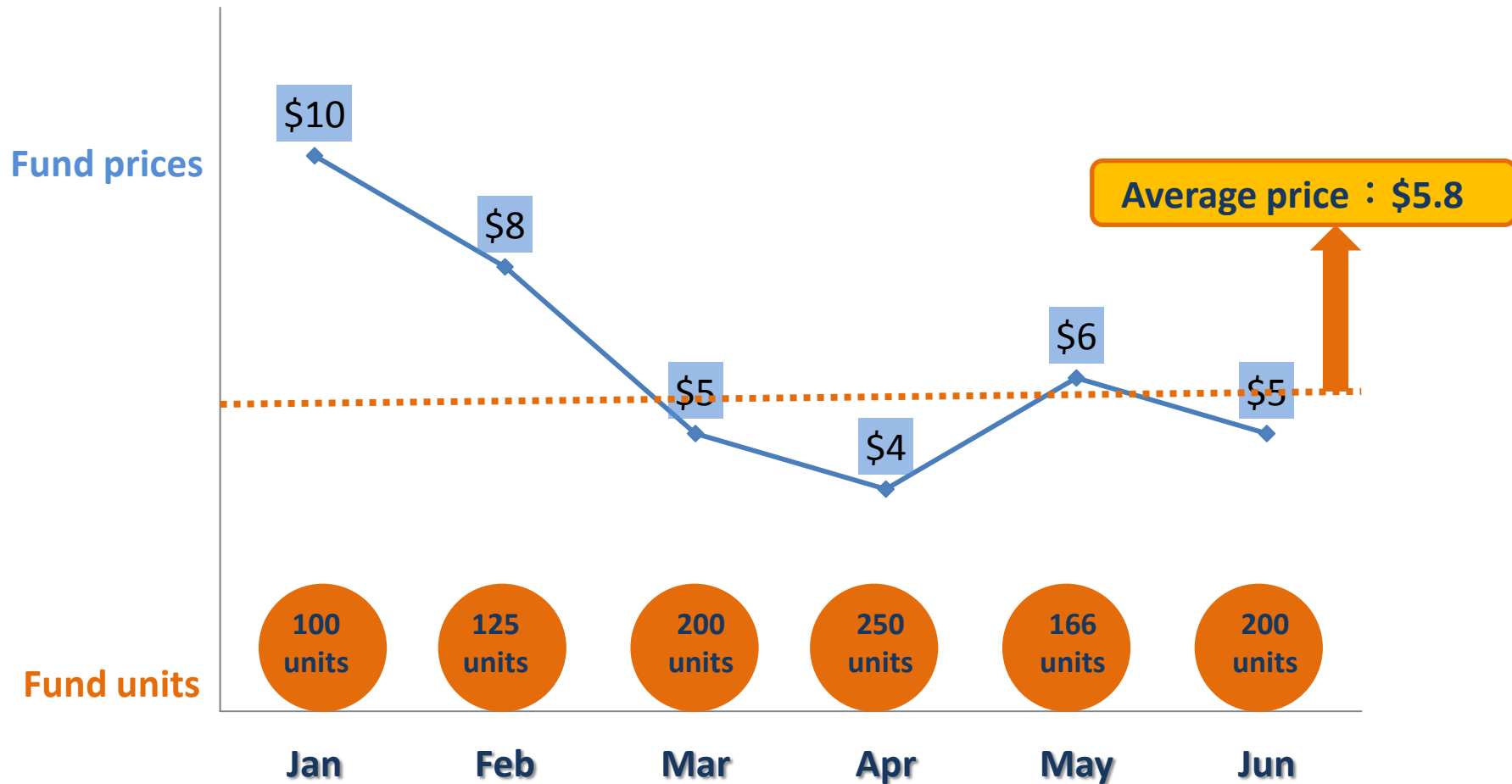
# MPF performance affected by the market

- The MPF is invested in financial instruments in the market
- Investment performance is inevitably affected by the cycles of the financial market
- Financial market can be very volatile at times





# Dollar cost averaging





### **III. Scheme members should not try to time the market**



# Risk of “buying high and selling low”

- Anticipating market rises and falls is impossible
- If you switch funds simply based on short-term market performance, may result in “buying high and selling low”



## **IV. Scheme members should look at the System's return with care**



# Look at System's return with care

- System's return  $\neq$  Individual member's return
- System's return reflects:
  - ✓ collective investment choices of all members
  - ✓ the results of their investments across many different asset classes and regions



# MPF and Tracker Fund

	Tracker Fund	MPF System ( as at 30 September 2015)
<b>Asset Class</b>	Equities – 100%	Equities – 65%
		Debt Securities – 19%
		Deposits & Cash – 16%
<b>Geographical Region</b>	Hong Kong – 100%	Hong Kong – 62%
		North America – 14%
		Europe – 11%
		Asia – 8%
		Japan – 5%





**V. Different scheme members have different investment portfolios; when comparing fund performance, compare like with like**



# Comparing like with like

- Different scheme members have different investment portfolios
- They should compare their portfolios' performance with that of the same type of product

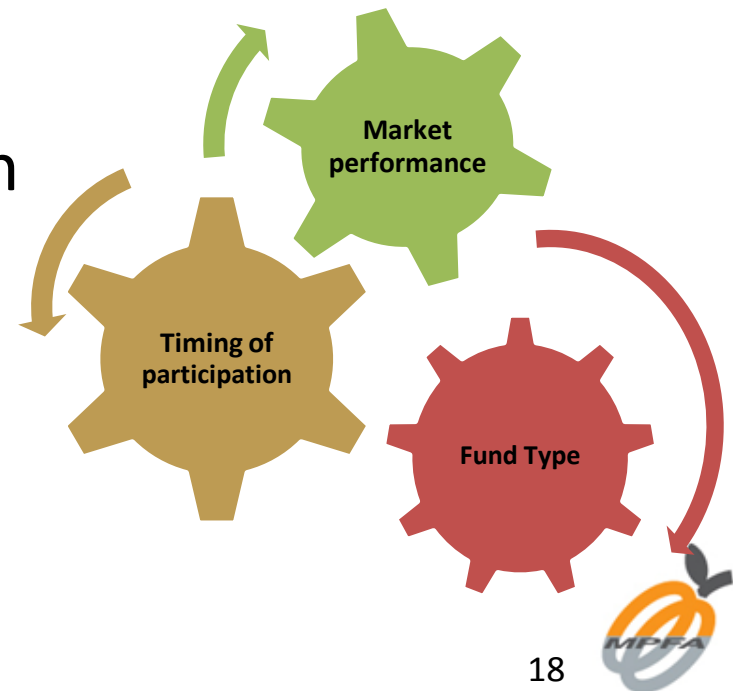




**VI. Different types of funds have different returns; saving outcome hinges on members' investment decisions**

# Saving outcome hinges on various factors

- Different types of funds → different returns
- Not all scheme members have the same return, depending on :
  - ✓ their choice of fund
  - ✓ the timing of their participation
  - ✓ the performance of the markets the funds invest in





# Fund performance in line with those of the markets they invest in

Stock  
Markets



Equity  
Funds

HKD  
Savings Rate



MPF  
Conservative  
Funds

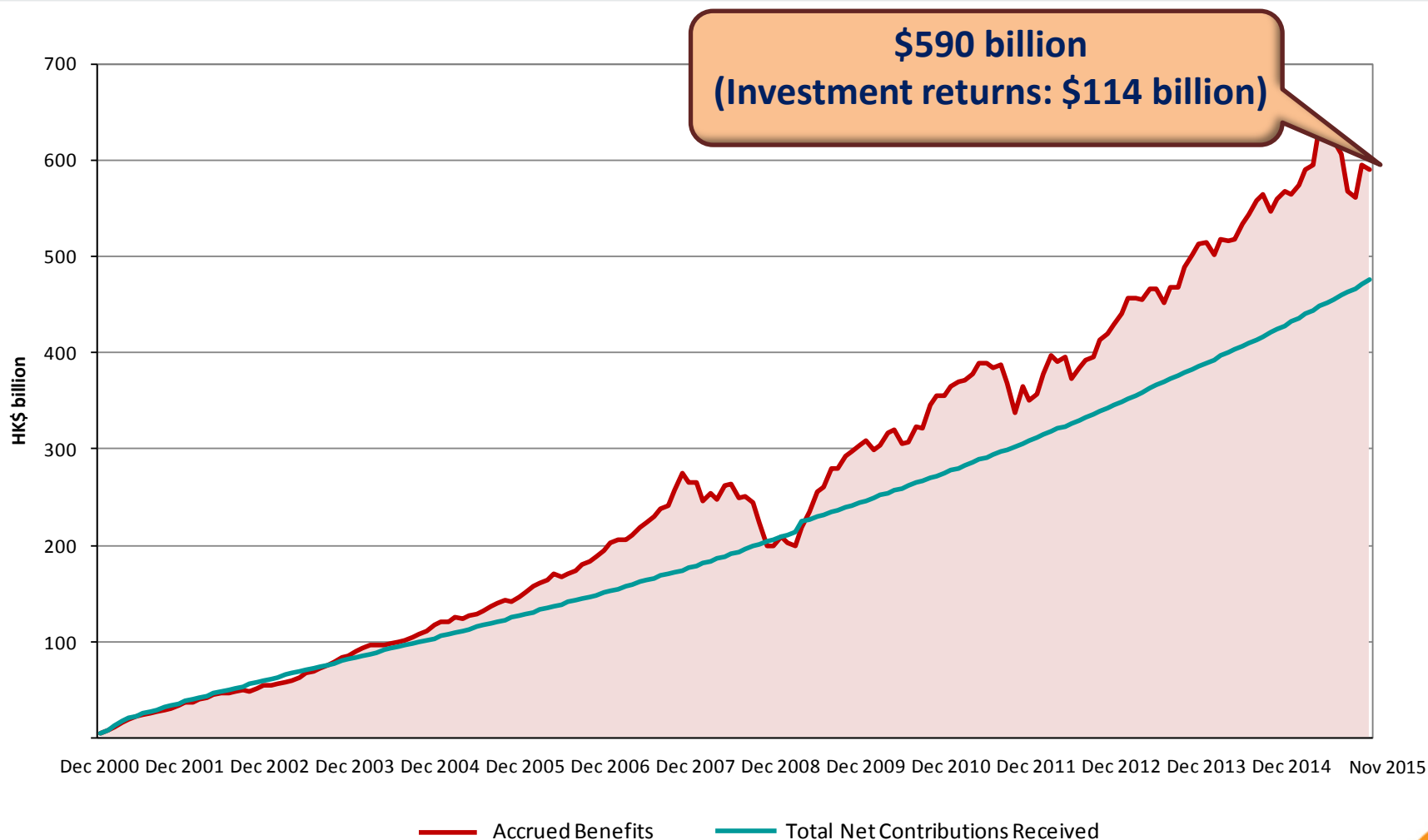


# **VII. MPF has added value to members' retirement savings**



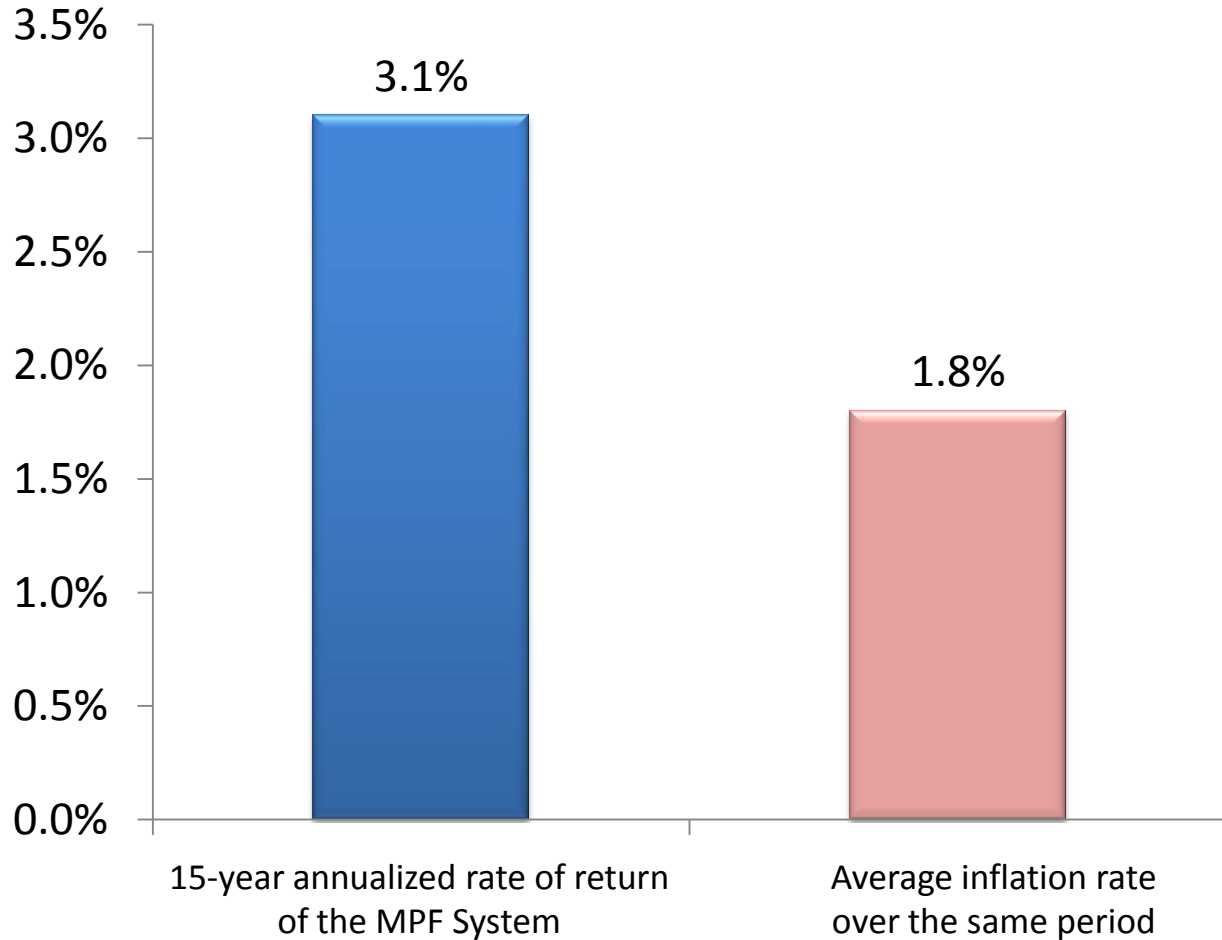


# MPF accrued benefits and total net contributions received (Dec 2000 - Nov 2011)





# MPF System's return

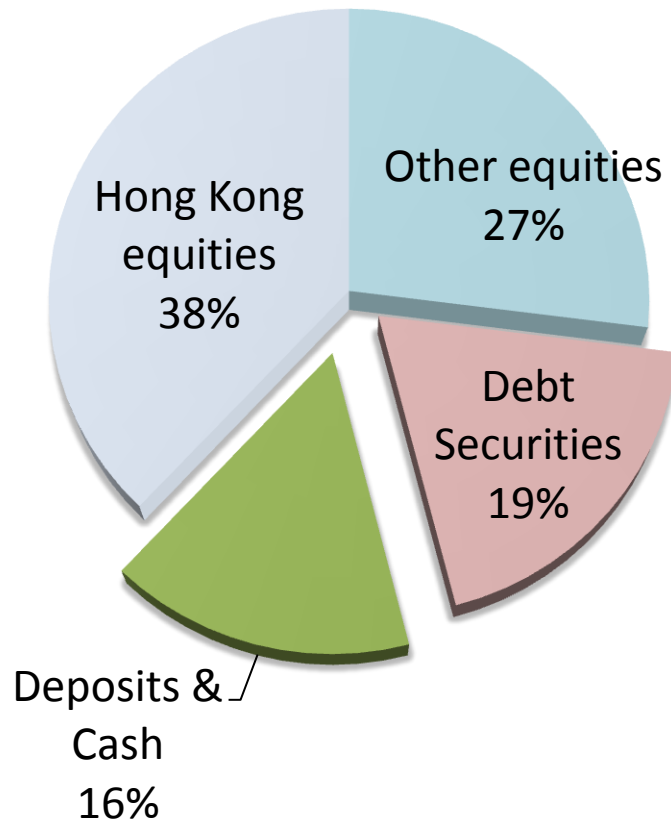




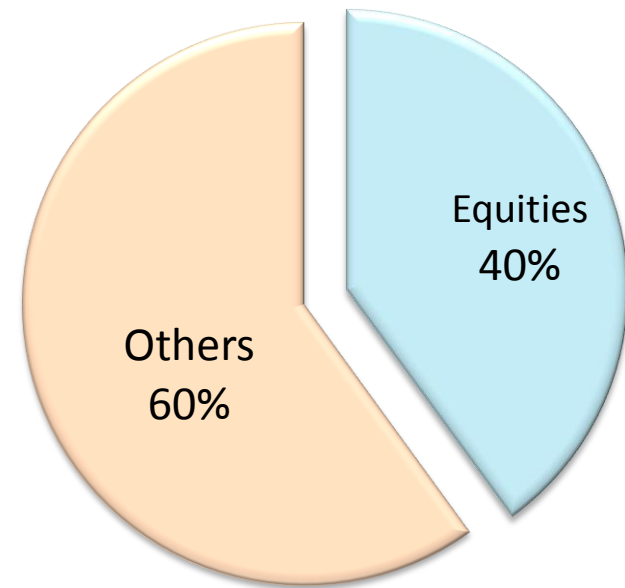
**VIII. A high proportion of MPF assets are invested in equities, the performance of the stock markets has a great impact on the System's performance**

# MPF: >60% invested in equities

The MPF System  
(September 2015)

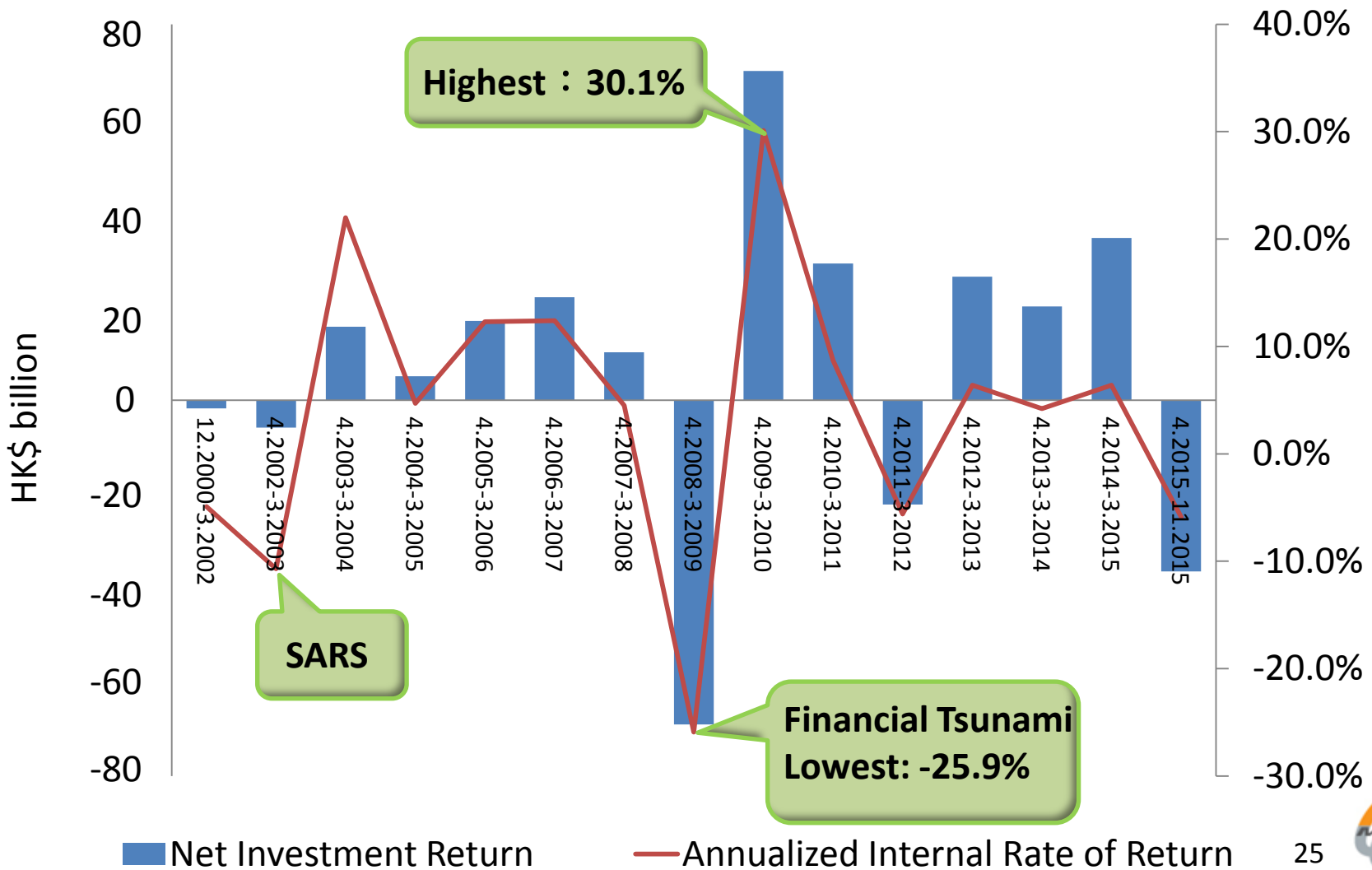


Private pensions in OECD countries  
(2012)





# Yearly performance of MPF



# Annualized Internal Rate of Return

Period	(\$million)				Annualized Internal Rate of Return
	Net Asset Values		Total Net Contributions during the Period	Net Investment Return during the Period	
	Period-Beginning (a)	Period-End (b)			
1.12.2000 – 31.3.2002	-	42,125	43,878	- 1,753	-4.9%
1.4.2002 – 31.3.2003	42,125	59,305	23,016	- 5,837	-10.7%
1.4.2003 – 31.3.2004	59,305	97,041	22,133	15,604	22.0%
1.4.2004 – 31.3.2005	97,041	124,316	22,205	5,070	4.7%
1.4.2005 – 31.3.2006	124,316	164,613	23,435	16,862	12.3%
1.4.2006 – 31.3.2007	164,613	211,199	24,684	21,901	12.4%
1.4.2007 – 31.3.2008	211,199	248,247	26,844	10,205	4.5%
<b>1.4.2008 – 31.3.2009</b>	<b>248,247</b>	<b>217,741</b>	<b>38,503<sup>iv</sup></b>	<b>- 69,010</b>	<b>-25.9%</b>
<b>1.4.2009 – 31.3.2010</b>	<b>217,741</b>	<b>317,310</b>	<b>29,484<sup>iv</sup></b>	<b>70,086</b>	<b>30.1%</b>
1.4.2010 – 31.3.2011	317,310	378,280	31,854 <sup>iv</sup>	29,166	8.7%
1.4.2011 – 31.3.2012	378,280	390,744	34,687	-22,224	-5.6%
1.4.2012 – 31.3.2013	390,744	455,331	38,321	26,267	6.4%
1.4.2013 – 31.3.2014	455,331	516,192	40,898	19,963	4.2%
1.4.2014 – 31.3.2015	516,192	594,847	44,126	34,529	6.4%
1.4.2015 – 30.11.2015	594,847	589,546	31,118	-36,420	-5.9% <sup>v</sup>



# **IX. Rates of return of different MPF funds differ**

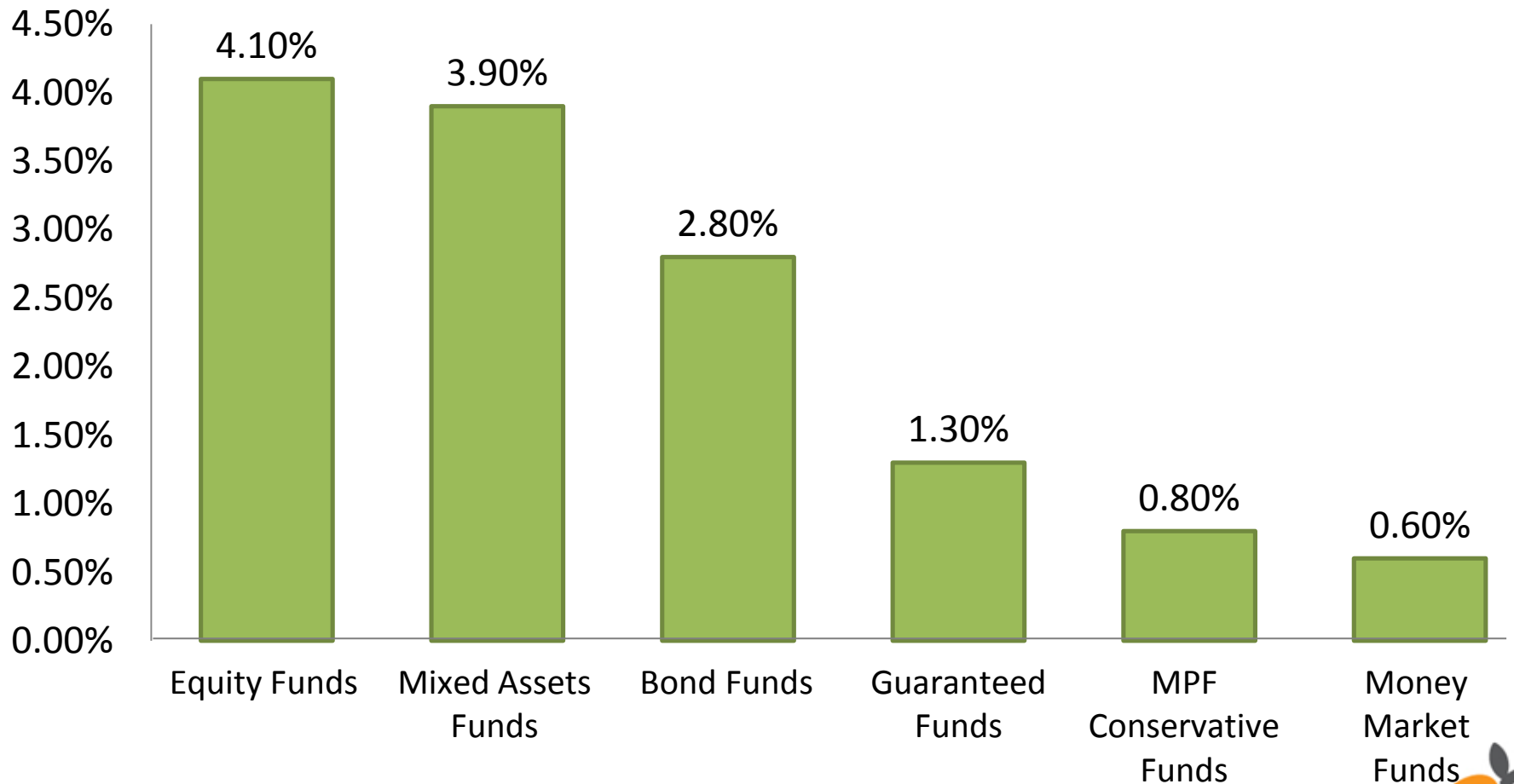


# Returns of different types of funds

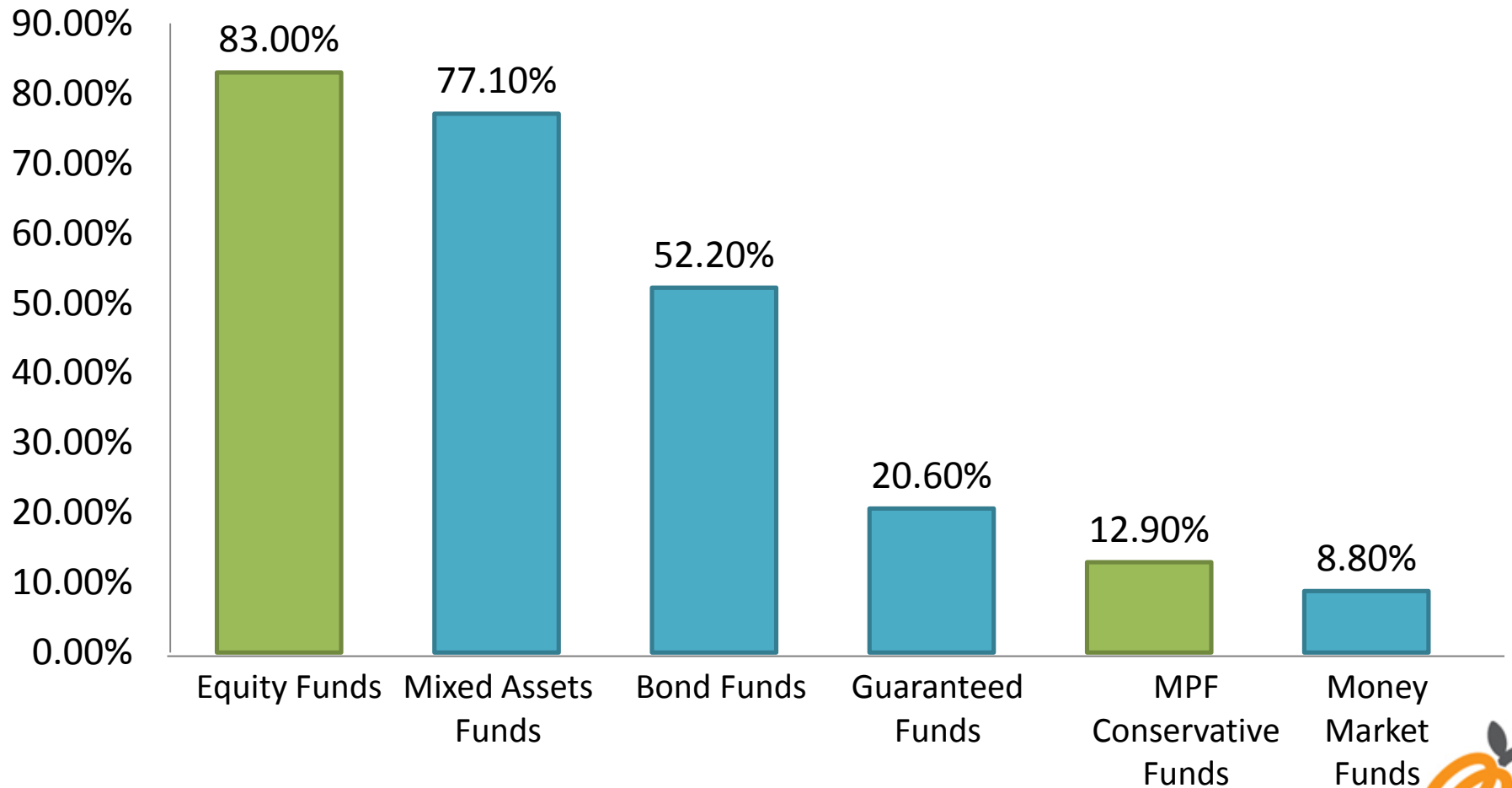
Fund Type	1 Dec 2000 – 30 Nov 2015	
	Annualized Return	Cumulative Return
Equity Funds	4.1%	83.0%
Mixed Asset Funds	3.9%	77.1%
Bond Funds	2.8%	52.2%
Guaranteed Funds	1.3%	20.6%
MPF Conservative Funds	0.8%	12.9%
Money Market Funds	0.6%	8.8%



# 15-year annualized return of MPF funds by fund type



# 15-year cumulative return of MPF funds by fund type





# **X. Return figures vary even for the same type of funds**



# Performance depends on strategy and markets invest in

- Even for the same type of funds, the performance can vary significantly, depending on:
  - ✓ their investment strategy
  - ✓ the markets they invest in
- Example :

Fund Type	15-year Annualized Return
Asia Equity Funds	6.1%
Europe Equity Funds	0.9%





**XI. Funds with higher expected returns  
come with higher potential risks**



# Highest and lowest returns (Dec 2000 - Nov 2015)

## Highest and Lowest Monthly Returns of MPF Funds (1 Dec 2000 - 30 Nov 2015)

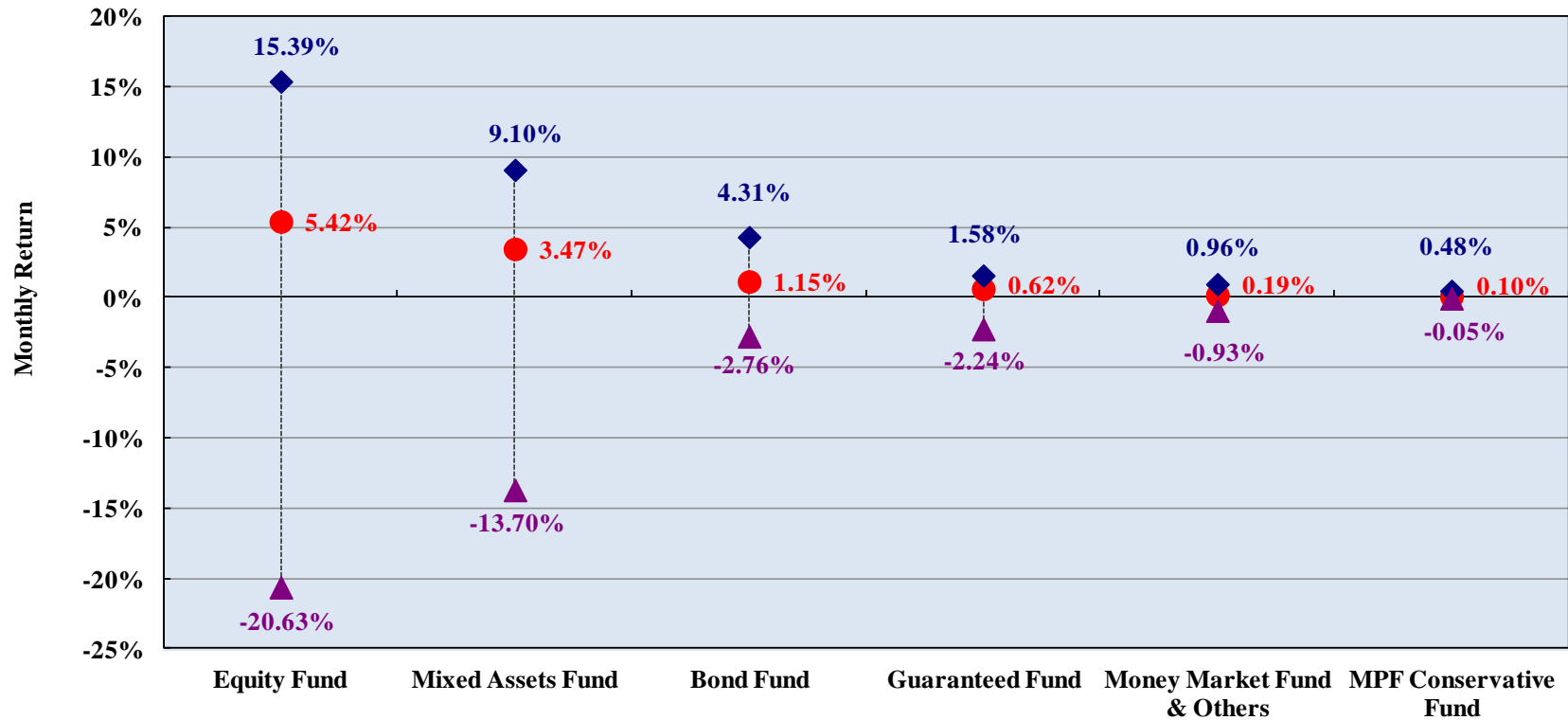
Fund Type	Highest	Lowest
Equity Funds	15.39%	-20.63%
Mixed Asset Funds	9.10%	-13.70%
Bond Funds	4.31%	-2.76%
Guaranteed Funds	1.58%	-2.24%
MPF Conservative Funds	0.48%	-0.05%
Money Market Funds	0.96%	-0.93%





# Highest and lowest returns (Dec 2000 - Nov 2015)

Cont'd



● Standard deviation of monthly returns    ◆ Highest monthly return    ▲ Lowest monthly return



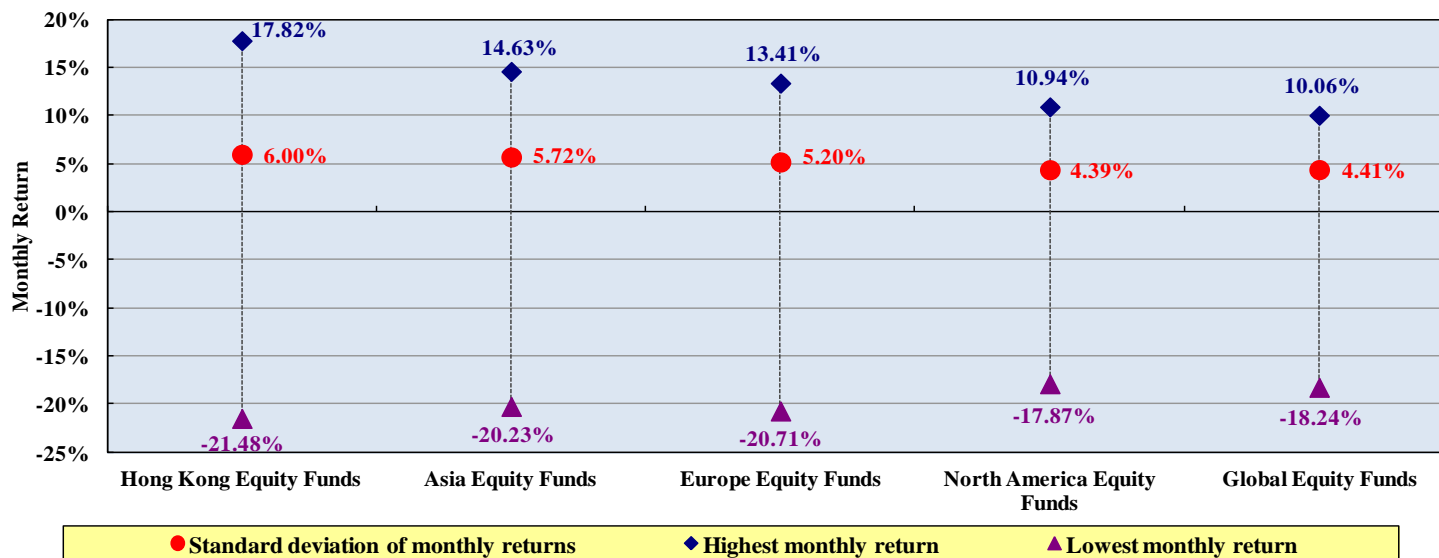


## **XII. Diversified portfolios help reduce investment risk**



# Diversification

- Diversification across regions or asset classes may lower investment risk
- Volatility:  
Global equity funds < Single market equity funds





# **XIII. Scheme members should review their MPF investments regularly**





# Review MPF regularly

- Review MPF portfolio regularly
- Take into account investment goals and risk-tolerance level and consider adjusting asset allocation approach
- Adjust the risk return tradeoff if appropriate



# **XIV Past performance not indicative of future performance**







# **XV. Default Investment Strategy to be launched at year end**





# Default Investment Strategy (DIS)

- Expected to be launched at the end of 2016
- Though its return not guaranteed, DIS is a simplified investment option and is consistent with the overall objectives of retirement savings
- Key features:
  - ✓ Globally diversified investment strategy
  - ✓ Automatic de-risking with age increase
  - ✓ Statutory fee control  
(Fund's management fee  $\leq 0.75\%$  of fund's net asset value)



# Conclusion

- System level:
  - ✓ The MPF is a long-term investment, its return is characterized by the compounding effect
  - ✓ MPF funds invest in financial instruments in the market, and a high proportion of the MPF assets are invested in equities, which means the performance of the equity market has a great impact on the System's performance
  - ✓ The System's return does not represent what individual scheme members will get
  - ✓ The MPF System as a whole has added value to scheme members' retirement savings

- Individual level:
  - ✓ Each scheme member has a different investment portfolio, and his savings outcome hinges on his investment decisions
  - ✓ Different funds have different returns, so comparison should be made with the same type of funds
  - ✓ Even funds of the same type have different returns
  - ✓ Past performance is not indicative of future performance

# Tips for managing MPF

Don't try to time the market

Don't be overly-concerned about short/medium-term performance

1

The higher the expected returns, the higher the potential risk

2

Younger members  
▼  
Higher risk-tolerance level  
▼  
Funds with higher expected returns

3

# Tips for managing MPF

Cont'd



Diversification can  
lower investment risk

4



Regularly review  
MPF investment

5



When choosing funds,  
consider:

- ✓ Fund fees & charges
- ✓ Trustees' service
- ✓ Personal needs

6



# Tools for managing MPF

- The MPFA website has:
  - ✓ Various platforms providing information:
    - ▲ Fee Comparative Platform
    - ▲ Low Fee Fund List
    - ▲ Trustee Service Comparative Platform
  - ✓ Detailed information on MPF investment
  - ✓ Tools to help scheme members calculate their retirement needs
- Newly launched retirement planning mobile application



# Q&A