

1st Quarter 2020 MPF FUNDS DO NOT PERFORM EQUALLY



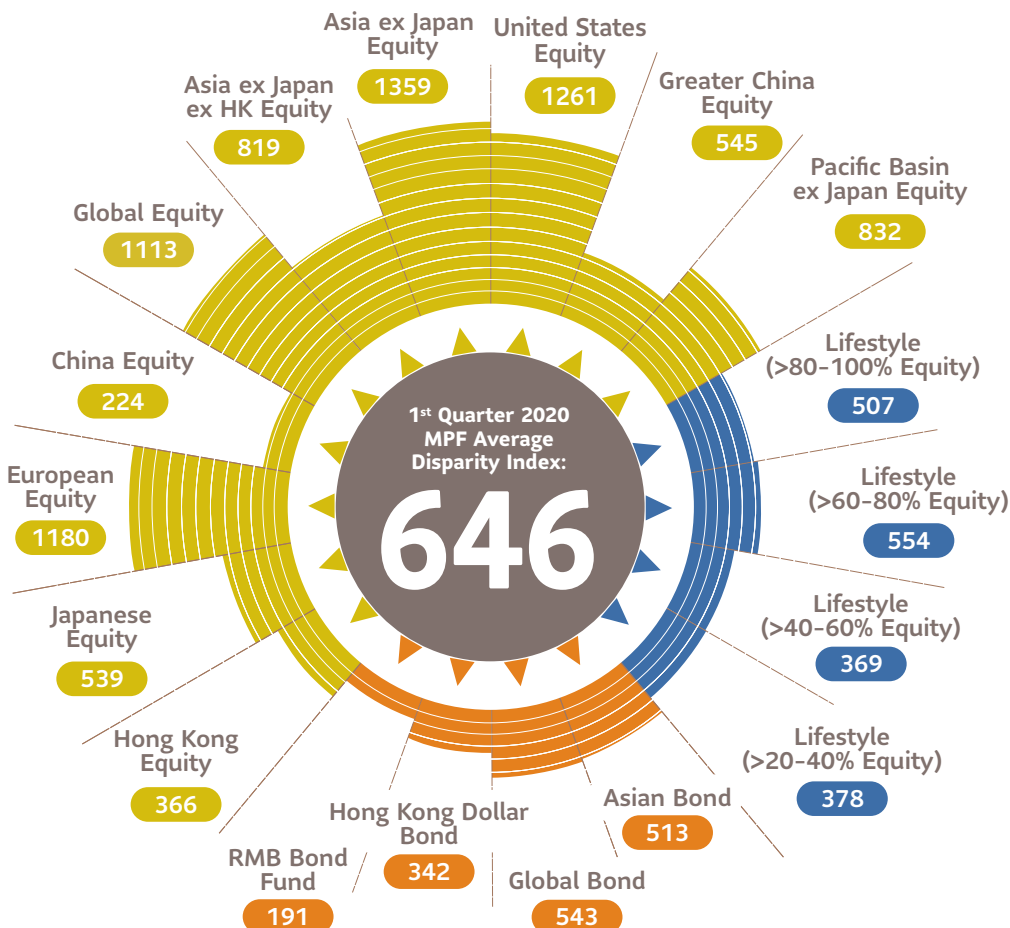
MPF Average
Disparity Index

646

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 4th quarter 2019, the average return difference for 1st quarter 2020 is about HK\$646. Its MPF Average Disparity Index is 646^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)

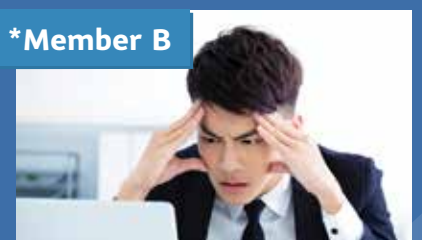


* Member A



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 1st quarter 2020 on the last trading day of 4th 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 1st quarter 2020 on the last trading day of 4th quarter 2019

^ΔThe hypothetical examples are for illustration purpose only

Sun Life MPF Average Disparity Index jumped to 646 in the 1st quarter of 2020 from previous quarter's 292. The reading is at the highest level since the Global Financial Crisis from just over a decade ago. Of the 18 fund categories, all saw disparity widened from the last quarter with the only exception being China Equity (which narrowed slightly to 224 from previous quarter's 286). Most categories recorded 3-digit widening in disparity, even typically fairly closely clustered bond funds are not exempted. The three categories that saw disparity widened the most were United States Equity (from 144 to 1261), Asia ex Japan Equity (from 422 to 1359) and European Equity (from 517 to 1180).

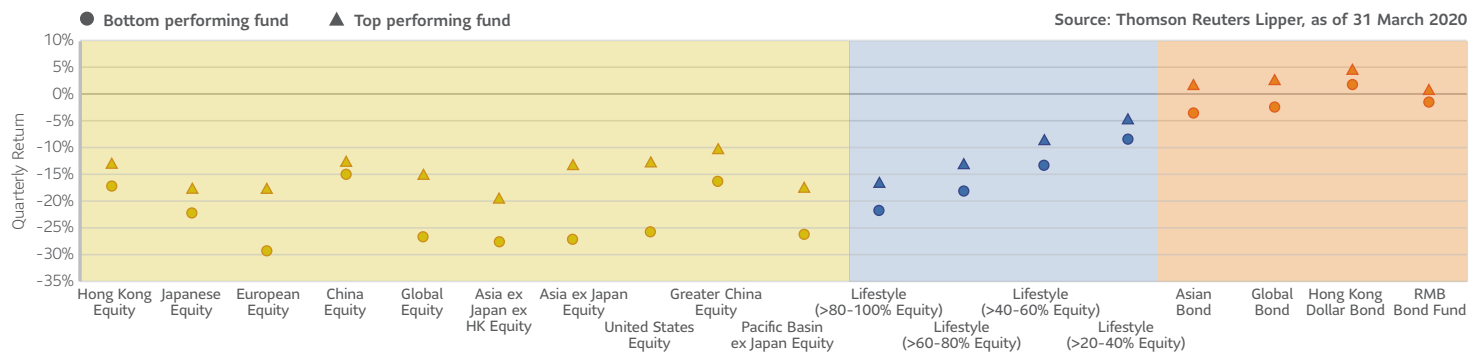
It was a difficult and rough quarter for all investors with two unexpected events, so-called black swans, delivering a one-two punch to the already weak global economy and anemic corporate earnings from last year. The first was the coronavirus which is now known as Covid-19 that became publicized at mid-January. Within weeks, the infection has spread across Asian countries and then further on to Europe, Middle East and Americas. By around mid-March, the World Health Organization (WHO) declared the Covid-19 a global pandemic. The second event took place in early-March being a Crude Oil War between Saudi Arabia and Russia. Global energy prices went into freefall putting pressure on share prices and also bonds issued by energy producers.

The two forces combined to create a no-less than perfect storm that ravaged, and continue doing so, almost all aspects of social and economic activities. Investors worldwide switched to risk-off mode by dumping risk assets and rushed towards the safety offered by developed sovereign bonds. As for equities, almost no markets and no sectors were spared. In general, cyclicals and financials were broadly sold in favor of healthcare, consumer staples and communication services.

There are different explanations for the significantly widened disparity in the US, Asia and Europe equity fund categories. Performance disparity for the US Equity category widened the most due to different exposure to growth versus defensive sectors. Funds that were skewed towards growth sectors such as financials, consumer discretionary and energy would be particularly hard hit. Funds that are more exposed to defensive sectors such as healthcare, consumer staples and communication services would fare better by falling less. Disparity for the Asia ex Japan Equity category was largely due to different funds' exposure to China and Taiwan market which held up far better than South East Asian markets. Comparing the MSCI China Index to the MSCI ASEAN Index, the former fell 7.14% in the first quarter, outperformed the latter's 26.11% decline. As such, funds that have a bias towards China and Taiwan would have fared much better than those with heavier exposure to Singapore, Thailand, Philippines and Indonesia. For reasons similar to US Equity, disparity for the European Equity category was mainly due to different funds' sector exposure as all major markets in the continent were broadly sold and suffered similar magnitude of losses.

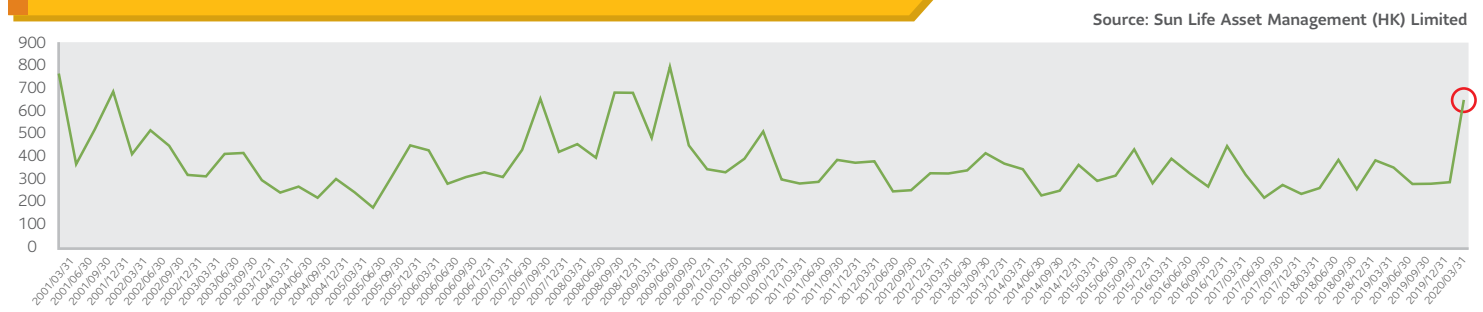
As for fixed income funds, disparity for Global Bond category and Asian Bond category could be explained by difference in exposure to government versus corporate issues. For instance, yield spread between investment grade corporate bonds and Treasuries in the US widened from less than 1.2% earlier in the year to 2.8% at end-March. In terms of category performance, global bonds fared better as there were clear evidence of capital outflow from the Asian region as foreign investors took flight. Hence, funds with higher exposure to developed sovereign bonds would outperform those that are skewed towards corporate bonds or Asian bonds. As mentioned at the beginning, Hong Kong bond funds held up the best amid the perfect storm in worldwide financial markets due to the resilience of the Hong Kong currency peg and high quality of bonds held among funds in this category.

Top Performing Fund and Bottom Performing Fund of Each Category for 1st Quarter 2020



	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 (%)	-13.1%	-16.9%	-17.7%	-12.6%	-15.1%	-19.5%	-13.7%	-12.7%	-10.3%	-17.1%	-16.5%	-12.8%	-8.8%	-4.7%	0.9%	3.0%	4.4%	0.5%
Quarterly Return of Bottom Performing Fund (%)	-16.7%	-22.3%	-29.5%	-14.9%	-26.2%	-27.7%	-27.3%	-25.3%	-15.8%	-25.4%	-21.6%	-18.3%	-12.5%	-8.5%	-4.2%	-2.5%	1.0%	-1.4%
Quarterly Return Difference (%)	3.7%	5.4%	11.8%	2.2%	11.1%	8.2%	13.6%	12.6%	5.5%	8.3%	5.1%	5.5%	3.7%	3.8%	5.1%	5.4%	3.4%	1.9%
MPF Disparity Sub-Index	366	539	1180	224	1113	819	1359	1261	545	832	507	554	369	378	513	543	342	191

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 31 March 2020
- ▶ **Data Cut Off** = 5th business day after quarter-end
- ▶ **Data Coverage** = "Lipper Classification Schemes: Hong Kong Pension Funds" (as at 31 March 2020), 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 March 2020
 - 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.

Actual performance may be materially lower than that of the hypothetical investments illustrated herein. Hypothetical performance results have certain inherent limitations. Such results do not represent the impact that material economic and market factors might have on if actual investment were made. Certain assumptions have been made concerning hypothetical investment illustrated herein and are unlikely to be realised.

Hypothetical performance also differs from actual performance because it is achieved through the retroactive application of hypothetical investments designed with the benefit of hindsight. Actual performance results will vary from the hypothetical performance due to market conditions and other factors, including but not limited to investments cash flows, mutual fund allocations, frequency and precision of rebalancing, tax-management strategies, cash balances, management fees, varying custodian fees, and/or the timing of fee deductions. As the result of these and potentially other variances, actual performance may differ materially from (and may be lower than) that of the hypothetical investments illustrated herein.

All information contained in this document shall only be used as general reference and general investment knowledge for sharing purposes, which may contain "forward-looking" information, including forecasts, estimates of yields or returns and involve risks and uncertainties. Market, economic and political conditions could cause actual results to differ materially from what presently anticipated or projected. All information contained in this document is not intended to provide any forms of guarantee or investment advice, and does not constitute a solicitation of an offer or offer, and shall not be regarded as the basis for any contract, to sell or to purchase any investment products. The views and forecasts contained in this document may be changed at any time without prior notice. Information is provided base on sources believed to be reliable, Sun Life Asset Management (HK) Limited, and its associated companies and their directors and employees (collectively "Sun Life Asset Management") gives no express or implied warranty, guarantee or represent its accuracy, effectiveness, completeness of the same.

Investment involves risk, and past performance figures shown are not indicative of future performance. Value of investment may go up or down, and may become valueless. An investor may not get back the amount originally invested. The information contained in this document has not been reviewed in the light of objectives, financial circumstances or needs of an individual investor. Sun Life Asset Management is not responsible for any loss or damage caused by reliance on any information or advice made in this document, nor is responsible for the accuracy or completeness of any information or advice.

This document has not been reviewed by the Securities and Futures Commission in Hong Kong or any regulatory authorities.

This document is owned by Sun Life Asset Management. Modification or change is not allowed without the Sun Life Asset Management's prior consent.