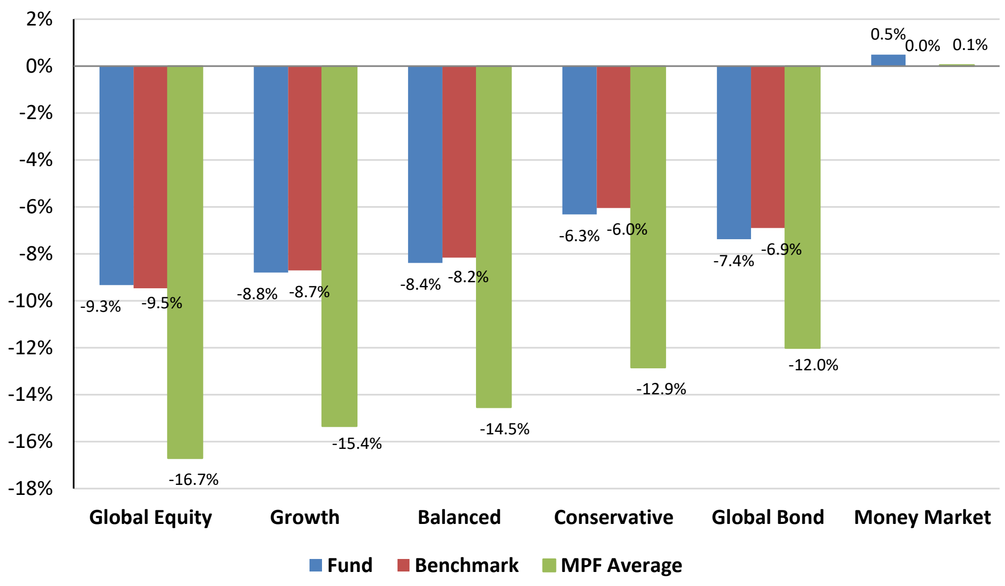
Newsletter on Recent Market Environment

In 2020, we saw a sharp swing in the financial markets after COVID-19 was first identified in late 2019 and spread around the world. Although the MSCI All Country World Index, a global equity index, declined sharply by 22% (in HKD term) during the first quarter in 2020, it was followed by a rally in April and reached the previous high in August 2020. The equity markets continued to perform strongly in 2021 due to the rollout of vaccines and the gradual re-opening of global economies. However, we have seen a challenging period since the second half of 2021 from both economic and financial market perspectives. The outbreak of the Delta and Omicron variants, the renewed lockdown in some countries/cities, China's regulatory crackdown on a number of local industries, Russia's invasion of Ukraine, high inflation, and rising interest rates -- all contributed to the continued market volatility and created a difficult environment for fund managers and investors.

Against this backdrop, the performance of our funds for the 12-month period ended 31 May 2022 was mixed. While the Money Market Fund delivered a positive return of 0.5%, all other funds were in negative return. In terms of relative performance against benchmark, the Global Equity Fund and the Money Market Fund outperformed their benchmarks while the others underperformed. However, comparing to the MPF peer groups, all the six funds performed well and outperformed the peer group average significantly over the 12-month period. Our focus on diversification through various asset classes worked well under the volatile market environment.

12-Month Performance as of May 2022

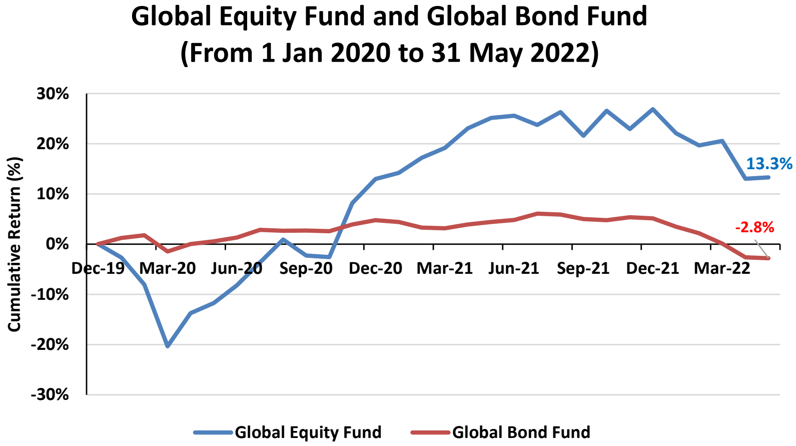


Source: HAPFS Office, HKIFA

In light of the continued fluctuation in the financial markets, this newsletter serves to remind Scheme members to stick with the long-term investment approach and not to be too sensitive to short-term volatility, particularly for members who are still far from their retirement age. Short-term market-timing is not encouraged, as it could result in inferior outcomes. In addition, Scheme members should select appropriate funds that are consistent with their own investment objective, risk tolerance, and investment horizon.

Market-timing Could Result in Inferior Outcomes

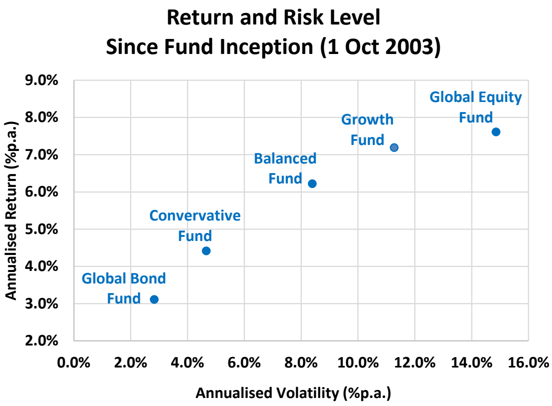
Some pension investors switch funds frequently for reasons such as good past trading records from other personal investments, following actions or recommendations by others, etc. However, market-timing is difficult, even for professional money managers. Members who attempt to time the market may run into the risk of selling at market bottoms, or buying at market peaks. For example, assuming a member switched from the Global Equity Fund to the Global Bond Fund during the first quarter of 2020 due to the fear of the outbreak of COVID-19, as shown in the chart below (using fund benchmark returns), he/she could have enjoyed the significant rebound from the Global Equity Fund since April 2020 if he/she had not made the fund switch.

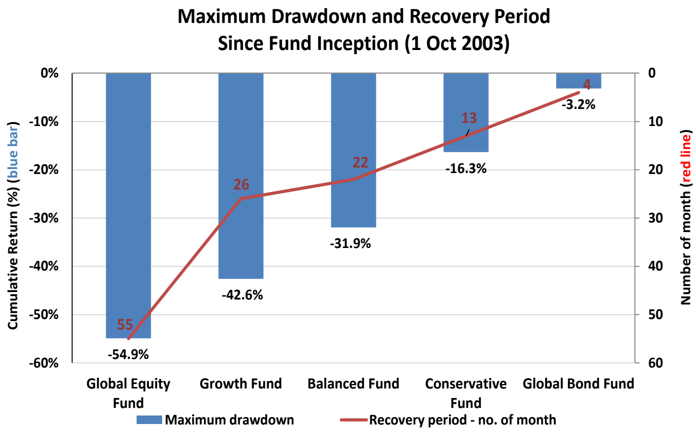


Members may consider using "dollar-cost-averaging" approach in order to reduce the impact of short-term market fluctuations on your investments. That is, investing a fixed amount in the specific funds (that match with your risk profiles) on a regular basis regardless of fluctuations in the market price of the funds. With this approach, members can buy more fund units when prices are low and fewer fund units when prices are high, and, hence, the costs of fund units purchased are averaged out over the long term.

Consider Risk Tolerance when Selecting Funds

To illustrate this concept, historical benchmark returns and risks (volatility and maximum drawdown[1]) of the five lifestyle funds (except for the Money Market Fund) since 1 October 2003[2] are shown in the charts below.





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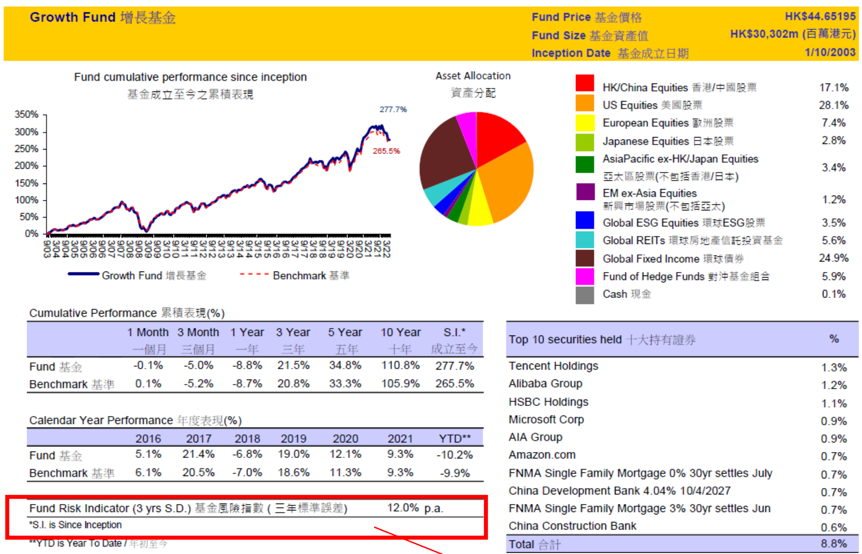
[1] Maximum loss from a peak to trough of a portfolio.

[2] While the Growth Equity Fund and Global Bond Fund were incepted 31 March 2010, a widely-used global equity market index (i.e. MSCI All Country World Index) and a widely-used global bond market index (i.e. Bloomberg Global Aggregate Index (HKD hedged)) are used as proxies for the 2 funds respectively prior to the funds' inception.

The chart on the left shows that higher returns come with higher risks. For example, the Global Equity, which has the highest equity exposure, delivered the highest return but it also exhibited the highest volatility. In contrast, the Global Bond Fund, which has the least equity exposure, generated a lower return at a much lower volatility level.

In terms of downside risk (as shown in the chart on the right), the Global Equity Fund experienced the highest maximum drawdown (-54.9%) from 31 October 2007 to 28 February 2009 with the longest recovery period (it took 55 months to fully recover from the drawdown) amongst the 5 funds. Please note that the Global Bond Fund is currently experiencing the worst drawdown period (-8.4% from 31 July 2021 to 31 May 2022) due to the aggressive interest rate hikes by the central banks globally; therefore, we show the figures based on the previous drawdown period for members' reference.

As such, members should understand the risk profile of each fund and invest in funds that are consistent with your own risk tolerance, particularly for members who are close to retirement age. Please noted that the "Fund Risk Indicator" of each fund can be found in the monthly fund factsheets (as shown in the red box in the graph below). It represents the standard deviation of the monthly returns of the fund over the past 3 years. Standard deviation is a measure of how spread out the monthly returns are. The higher the fund risk indicator (and the standard deviation), the higher the dispersion (and volatility) of the historical fund returns.



Growth Fund 增長基金

Fund Price 基金價格 HK$44.65195
Fund Size 基金資產值 HK$30,302m (百萬港元)
Inception Date 基金成立日期 1/10/2003

HK/China Equities 香港/中國股票	17.1%
US Equities 美國股票	28.1%
European Equities 歐洲股票	7.4%
Japanese Equities 日本股票	2.8%
AsiaPacific ex-HK/Japan Equities 亞太區股票(不包括香港/日本)	3.4%
EM ex-Asia Equities 新興市場股票(不包括亞太)	1.2%
Global ESG Equities 環球ESG股票	3.5%
Global REITs 環球房地產信託投資基金	5.6%
Global Fixed Income 環球債券	24.9%
Fund of Hedge Funds 對沖基金組合	5.9%
Cash 現金	0.1%

Cumulative Performance 累積表現(%)

	1 Month 一個月	3 Month 三個月	1 Year 一年	3 Year 三年	5 Year 五年	10 Year 十年	S.I.* 成立至今
Fund 基金	-0.1%	-5.0%	-8.8%	21.5%	34.8%	110.8%	277.7%
Benchmark 基準	0.1%	-5.2%	-8.7%	20.8%	33.3%	105.9%	265.5%

Calendar Year Performance 年度表現(%)

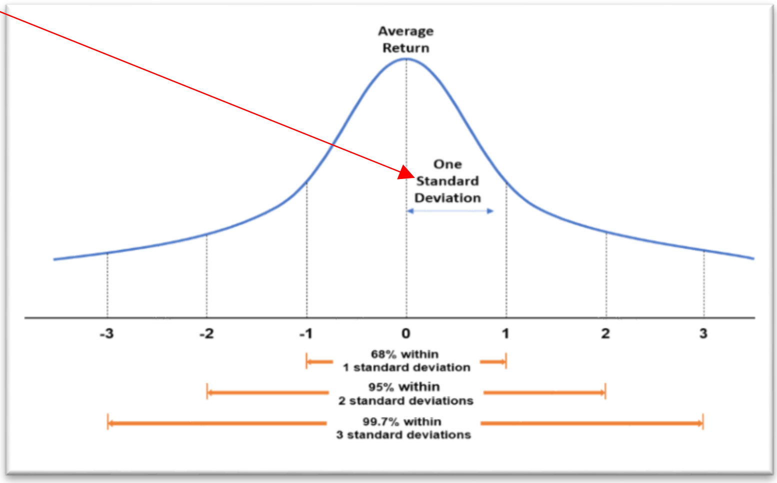
	2016	2017	2018	2019	2020	2021	YTD**
Fund 基金	5.1%	21.4%	-6.8%	19.0%	12.1%	9.3%	-10.2%
Benchmark 基準	6.1%	20.5%	-7.0%	18.6%	11.3%	9.3%	-9.9%

Fund Risk Indicator (3 yrs S.D.) 基金風險指數 (三年標準誤差) 12.0% p.a.

*S.I. is Since Inception
**YTD is Year To Date / 年初至今

Top 10 securities held 十大持有證券	%
Tencent Holdings	1.3%
Alibaba Group	1.2%
HSBC Holdings	1.1%
Microsoft Corp	0.9%
AIA Group	0.9%
Amazon.com	0.7%
FNMA Single Family Mortgage 0% 30yr settles July	0.7%
China Development Bank 4.04% 10/4/2027	0.7%
FNMA Single Family Mortgage 3% 30yr settles Jun	0.7%
China Construction Bank	0.6%
Total 合計	8.8%

Note: Standard deviation measures the dispersion of a dataset, e.g. rate of return, relative to its mean. It is often used as a measure of a relative riskiness of an asset. A volatile asset has a high standard deviation and vice versa.



Key Reminders to Scheme Members

Do

- Stay focus on **long term** and **diversify** investments.
- **Regularly review** personel circumstances, adjust investment objective and risk profile if needed, and select appropriate fund choices accordingly.

Don't

- Try to **time the markets** and **switch funds too frequently** due to short-term market fluctuation or based on short-term market outlook.

We hope the information above helps members review and plan for retirement. It is always of paramount importance to protect the value of your pension pot over the long term. You should regularly review your retirement investment portfolio to ensure that it remains in line with your investment objectives, your preferred asset allocation and your risk tolerance level, taking into consideration of your investment time horizon.

HAPFS Office
July 2022