



## Newsletter on Money Market Fund

As the COVID-19 pandemic has significantly increased the volatility of financial markets worldwide, more and more Scheme members have been investing in Money Market Fund (“MMF”) in recent years. Although the advantage of MMF during a period of high volatility is to offer members a safer, less risky option to put their money into while riding out the downturn, it is not risk-free and has its potential risks that members should be fully aware of. Members should first identify their goals for the investment, consider their personal risk tolerance, determine the investment time horizon, and understand the characteristics of each fund choice before making any investment decision.

### What is an MMF?

MMF primarily invests in low-risk and high-quality short-term HK and US dollar-denominated money market instruments, including but not limited to Certificate of Deposits, Commercial Paper, and Treasury Bills. All investments in MMF have maturity of less than one year, and credit rating must be investment grade.

The main objectives of MMF are to achieve returns in line with HK dollar savings rates and to preserve capital through investing into cash or short-term debts.

### Who should invest in MMF?

It is suitable for members who have lower risk tolerance and are close to retirement.

### Is MMF risk free?

MMF is not the same as placing money on deposit with a bank or deposit-taking institution. Since MMF invests in short-term fixed income securities, it may involve credit and interest rate risks. Returns of MMF are also not guaranteed, and the value of the fund may potentially fall.

For instance, the one-month Hong Kong Interbank Offered Rate (HIBOR) is only 0.084% as of 12 May 2021. After deducting the fees and charges, MMF may have negative returns.

### What are the potential risks of MMF?

There are several risks you need to know about MMF, including the risk of losing money.

First, you could lose your capital. If the price of the money market securities declines, you can lose some of your capital depending on the returns.

Second, the value of bonds or money market securities will fluctuate depending on interest rate, credit quality of the issuer, currency of the investment, and liquidity considerations. In general, the price of money market securities rises when interest rate falls, whilst their price falls when interest rate rises.

Third, there are potential opportunity costs and inflation risk when investing in MMF. Since MMF is considered to be safer than other investments such as equities, long-term average returns on MMF may be lower than long-term average returns on riskier investments. As such, inflation can eat away at your returns over long periods.

---



### What happened in April 2021?

Whilst China emerged as one of the few major economies with rapid recovery when the pandemic is raging around the world, crisis of confidence on debt at China's State-owned enterprises ("SOEs") ushered in April 2021. As contagion of fear spread to China's offshore debt market after the dollar bonds of SOEs got sold off, some China bonds tumbled as well.

You may notice that MMF recorded a negative return of -0.42% for the month April 2021, which is mainly due to a stop-loss disposal by one of the fund managers, as a result of a sudden price drop in two fixed income securities issued by an SOE for fear of downgrading by external credit rating agencies.

We understand members are concerned about the recent performance of MMF. The Trustees, Investment Committee together with the Scheme Office are putting all their endeavours to conduct a review of the case, to review the investment control and overall risk management process of the fund manager, and to identify the lessons learnt. Please rest assured that Scheme Office will continue monitoring all the portfolios vigilantly. Further updates will be furnished upon completion of the review. The market has been stabilized, and the return of MMF is 0.02% for the month-to-date till 12 May 2021.

### What is the performance of MMF?

No matter what your fund choices are, you should treat all your investments as a long-term investment for accumulating benefits for retirement. You should not be over-concerned about short-term market or price volatility if you are still some time from retirement.

The past performance of MMF has been good. Please refer to the following table for comparison of our MMF returns with the benchmark returns and MPF average return.

#### *Calendar Year Performance (%)*

	<b>2018</b>	<b>2019</b>	<b>2020</b>
MMF	1.3%	1.9%	1.3%
Benchmark	0.0%	0.0%	0.0%
MPF Conservative Fund Average	0.6%	1.2%	0.7%

### Conclusion

In summary, MMF may provide a small return to members while assuming limited risks. Money market securities are susceptible to volatility, hence the potential to not lose money, however low, is not guaranteed. There is always a chance that money market returns may also fall below the inflation rate, providing negative real returns to investors. Other factors like interest rates, economic policies, and government regulations may also result in adverse impact on the price of money market securities and the issuers' financial standing, and thus may reduce the returns on MMF.

We hope the above information help you understand MMF better. Should you have any further questions, please do not hesitate to contact Invesco member hotline for HA employees at (852) 3191 8088.