



Newsletter on Scheme Fund Choices

In 2021, the equity markets have performed strongly, thanks to the rollout of vaccines early in the year, increasing vaccination rates across the globe and gradual re-opening of global economies. However, the financial markets remain volatile and are sensitive to the development of the COVID-19 (i.e. the Delta variant and the recent Omicron variant have created significant market volatility). Members who are risk-adverse or close to retirement may have switched to the less risky fund choices such as Global Bond Fund and Money Market Fund (MMF). However, all fund choices, including these less risky funds, are not principal-protected/guaranteed and are subject to investment risks. As mentioned in the May 2021 Newsletter, the investment return of the MMF could be negative.

Apart from the development of the Omicron variant, another key market risk in 2022 is the potential faster pace of interest rate hikes by the global central banks. Rising interest rates generally have a negative short-term impact on equity markets as it will increase borrowing costs for companies; hence, lower future earnings. However, some sectors may benefit from the interest rate rise such as banking sector. For fixed income markets, it also has a negative impact on bonds' performance, particularly government bonds. In summary, while rising interest rates will create some volatility to equity and bond investments, it also creates investment opportunities for fund managers. The Scheme Office will continue to monitor the fund managers' performance and risk.

In light of the recent market volatility, the Scheme Office has prepared this Newsletter to remind the Scheme members that they should review the investment funds against their own investment objectives and risk profiles regularly. A summary of the key information of the six fund choices and a few key reminders to the members are also provided to assist in managing the investments for retirement, particularly during volatile period.

Summary of Key Information regarding the Fund Choices for Members

	Money Market Fund ¹	Global Bond Fund ¹	Conservative Fund	Balanced Fund	Growth Fund	Global Equity Fund
Investment Objectives	To earn low return with low risk by investing primarily in short-term fixed income and money market instruments with a target to achieve returns in line with HKD savings rates.	To earn stable income by investing primarily in global bonds with a target to achieve returns in line with global bond markets.	To earn stable income while retaining some long-term capital appreciation opportunity by investing in a diversified, bond-biased portfolio.	To earn long-term capital appreciation by investing in a diversified portfolio of equities and bonds.	To earn long-term capital appreciation by investing in an equity-biased portfolio with risk control through global diversification.	To earn long-term capital appreciation by investing primarily in global equities with a bias towards Hong Kong and China markets ² .
Investment Instruments	A mix of short-term fixed income and money market instruments (e.g., certificates of deposit, short-term notes and bonds)	Majority in bonds with a small allocation to alternative investments.	A mix of equities and bonds with greater exposure to bonds and a small allocation to alternative investments.	A relatively balanced mix of equities and bonds with a small allocation to alternative investments.	A mix of equities and bonds with greater exposure to equities and a small allocation to alternative investments.	Majority in equities with a small allocation to alternative investments.
Risk Profile	Low	Low – Medium	Medium	Medium – High	High	Very High

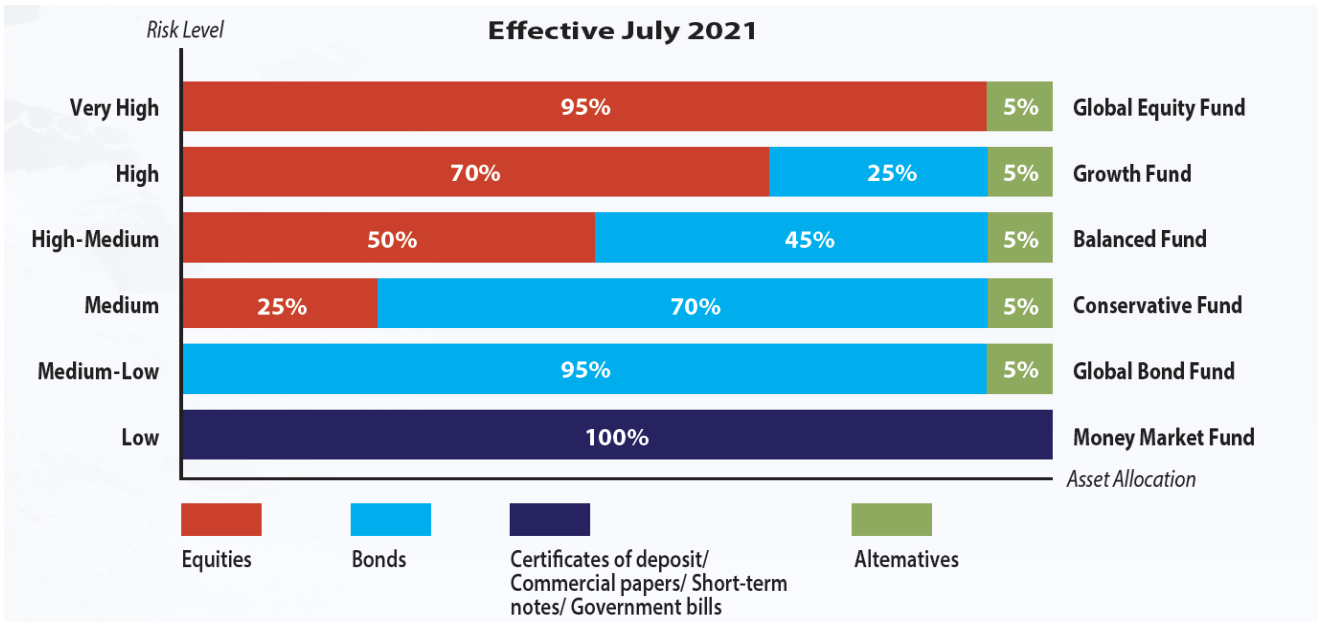
¹ Money Market Fund and Global Bond Fund involve earning income gradually and may not beat inflation.

² All funds with equity exposures (Conservative Fund, Balanced Fund, Growth Fund, Global Equity Fund) would have such bias to HK/China equity.



	Money Market Fund ¹	Global Bond Fund ¹	Conservative Fund	Balanced Fund	Growth Fund	Global Equity Fund
Investor Profile	<ul style="list-style-type: none"> conservative with very low risk appetite near retirement 	<ul style="list-style-type: none"> moderately conservative and willing to assume some level of risk mature and approaching retirement in a few years' time 	<ul style="list-style-type: none"> moderately conservative and willing to assume some level of risk mature and approaching retirement in a few years' time 	<ul style="list-style-type: none"> willing to take a medium level of risk in the middle of working lives 	<ul style="list-style-type: none"> willing to take a higher level of risk for higher potential returns over a longer investment horizon relatively long horizon to retirement 	<ul style="list-style-type: none"> willing to take high risk for higher potential returns over a longer investment horizon relatively early in their career and very long horizon to retirement
Key Risk Disclosure (remarks)	<ul style="list-style-type: none"> Interest rates fluctuation³ Exchange rates fluctuation⁴ Credit ratings change⁵ Default event⁶ 	<ul style="list-style-type: none"> Interest rates fluctuation³ Exchange rates fluctuation⁴ Credit ratings change⁵ Default event⁶ 	<ul style="list-style-type: none"> Stock market fluctuation Interest rates fluctuation³ Exchange rates fluctuation⁴ Credit ratings change⁵ Default event⁶ 	<ul style="list-style-type: none"> Stock market fluctuation Interest rates fluctuation³ Exchange rates fluctuation⁴ Credit ratings change⁵ Default event⁶ 	<ul style="list-style-type: none"> Stock market fluctuation Interest rates fluctuation³ Exchange rates fluctuation⁴ Credit ratings change⁵ Default event⁶ 	<ul style="list-style-type: none"> Stock market fluctuation Exchange rates fluctuation⁴

Members should note that all investments involve risks. Return of any fund can go up or down, even negative, irrespective of risk profiles. Other than the investment objectives and risk/return profiles above, a long-term strategic asset allocation is also set for each fund choice. The following chart summarizes the high-level benchmark asset mix of various fund choices. The Scheme Office will review the benchmark asset mix periodically to take financial market developments into account. These allocations serve as general guidelines only, and do not represent any actual asset allocation of the fund choices at any point in time. For detailed breakdown of asset allocation, please refer to the monthly factsheet for the latest update.



³ Risk relating to interest rates fluctuation refers to the possibility of drop in bond prices when interest rates rise.

⁴ Risk relating to exchange rates fluctuation refers to the possibility of drop in fund price due to depreciation of foreign currency of which the stock/bond is denominated.

⁵ Risk relating to credit ratings change refers to the possibility of drop in bond price as a result of downgrade in credit rating of the bond.

⁶ Default event refers to the possibility of drop in fund price as a result of bond issuer fails to make full and timely payments of principal and/or interest.

Key Reminders to Scheme Members

Members should

- identify investment goals, consider personal risk tolerance, determine the investment time horizon, and understand the characteristics of each fund choice (as summarized in the table above) before making any investment decision.
- review investment objectives, risk tolerance, and investment horizon on a regular basis. Members who are close to retirement may consider moving to funds with lower risk profile in order to reduce the impact of market volatility on their investments.
- not be over-concerned about short-term market volatility if they have relatively long investment horizon before retirement. Therefore, short-term market-timing (i.e. frequent trades aiming for short-term gains) is also not encouraged for the purpose of investments for retirement.

We hope the information above helps members in reviewing and planning for retirement investments over the long term.

HAPFS Office
January 2022
