

- **Fund Risk Indicator** reflects the volatility of the performance of an MPF fund. Based on the concept of standard deviation, Fund Risk Indicator measures the fluctuations, either up or down, of the fund's monthly rates of return from the average over a 3-year period on an annualized basis. The higher the Fund Risk Indicator, the higher the risk of that fund. Moreover, Fund Risk Indicator does change over time as an MPF Fund may perform in different manner under different market conditions.

The information below, based on two real funds, shows the relationship between risks (measured by the Fund Risk Indicator) and the monthly rates of returns of two MPF funds over a six-year period.



Risk and Return of Two MPF Funds

Fund Type	Fund Risk Indicator*	Annualized Return	Highest Monthly Return	Lowest Monthly Return	Range of Highest/Lowest Monthly Return	Months where return dropped more than 10%
Fund C (An Asian equity fund)	16.13%	14.05%	15.13%	-16.27%	31.40%	10
Fund D (A bond fund)	4.26%	3.62%	4.28%	-3.42%	7.69%	0

*Annualized standard deviation based on the monthly rates of return over the past 3 years

Although Fund C, an Asian equity fund, had a higher annualized return, its performance was rather volatile as reflected by its Fund Risk Indicator (16.13%). During the observation period, the fund had recorded a monthly surge of 15.13% but plunged by 16.27% over another month.

However, Fund D, a bond fund, performed relatively stable, as it had a comparatively lower Fund Risk Indicator (4.26%). Its annualized return was 3.62% only. But the fluctuations of its monthly rates of returns were less significant with the biggest jump and drop of 4.28% and 3.42% respectively.

Frequently Asked Questions

After studying the illustrations above and surfing on the Platform, you may have further questions on the fund analytics and their interpretations like those below.

FERs & OCIs

1. Why are there so many "n.a." (not applicable) under the FER and OCI columns in the Platform?

Under the MPFA's Disclosure Code, MPF funds with less than two-year operational history are not required to publish their FERs.

Similarly, OCIs are not required for capital preservation funds, guaranteed funds where the returns are not affected by the funds' performance, and other funds with less than one-year operational history.

2. Currently, some MPF funds have different classes (e.g. Class A, Class B) which are restricted to a particular group or different classes of scheme members only. I notice that their FERs and OCIs are different. Why?

Different classes of an MPF fund may adopt different fee scales. So, their FERs and OCIs may vary.

3. Should I change to MPF funds with the lowest fees?

The factors that members should take into account depend on the type of decision that they are making. Scheme members are advised to take into account other considerations in addition to the fee factor such as their age, life stage and risk appetite, the fund attributes, the scope and quality of services offered by trustees, and the risk level of funds before making MPF investment. Hence, it is not advisable to pick an MPF fund simply because of its lower fee.

Fund Risk Indicators

4. Why are the Fund Risk Indicators of certain MPF funds "n.a."?

The Fund Risk Indicator measures the volatility of the performance of an MPF Fund over a three-year period. Hence, such indicators cannot be computed on funds with less than three-year operational history. Guaranteed funds where either their rates of return are not affected by the performance of the underlying investments or the guarantees for returns are payable unconditionally need not publish their Fund Risk Indicators neither.

5. Based on the Fund Risk Indicator, how can I judge how risky an MPF Fund is?

There is no universal standard for benchmarking the level of risk of an MPF fund based on the Fund Risk Indicator. In practice, Fund Risk Indicator is mainly used for relative comparison. This means a fund is more risky if it has a higher Fund Risk Indicator than another fund.

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Get to Know the Fees and Charges of Your MPF Funds



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Under the MPF System, your contributions are accumulated through fund investment. When making your MPF investment decisions, you need to take into account various factors such as your age, life stage, risk appetite, investment goals and horizon, as well as the features and fees and charges of the funds available in your MPF scheme. While fees and charges will affect the net return of your fund investment, they are only one of the many key factors to be considered.

This leaflet aims to help you get a better understanding of the information available in the MPFA's Fee Comparative Platform (<http://cplatform.mpf.org.hk>). You can also refer to the "Fee Comparative Platform" leaflet to familiarize yourself with the design and navigation of the Platform.

Different Types of Fees and Charges

Although different MPF schemes have different fee policies, major fees and charges of MPF schemes and funds can be grouped into five common categories:

- **Joining fee and annual fee:** Joining fee is a one-off charge that covers the cost of establishing your account. In some cases, this is paid by employers. Annual fee is paid for maintaining an individual member's MPF account.
- **Member account transaction fees and charges:** They include the contribution and withdrawal charges when you make contributions and withdraw accrued benefits; as well as the offer spread or bid spread, i.e. the additional charge on top of the per-unit price of an MPF fund, when you buy units (contribute) or sell units (withdraw).
- **Fund operating charges:** They include the management fees charged by professionals for managing and administering an MPF fund and include other operating expenses such as legal costs or audit fees.
- **Fees and charges of underlying funds:** Some MPF funds invest in other funds rather than invest directly in investment instruments like equities and bonds. Fees and charges may be paid out of such underlying funds.

- **Fees and charges for providing additional service:** They are payable if you request extra services, such as additional annual benefit statements or other documents.

Different payment methods apply in the above fees and charges. For instance, you pay the member account transaction fees directly by having the fees debited from your contribution or withdrawal amount. Fund operating charges of an MPF fund, however, are deducted from the fund's assets, which in turn reduce the value and the return of the fund.

For details about the fees and charges levied in an MPF scheme, you should check the Fee Table in the scheme's offering document.

- **On-going Cost Illustrations (OCIs)** indicate the total effect of fees and charges payable in dollar terms by adding the fund expenses (by converting the latest FER figure into dollars) and any direct charges that you might pay such as contribution charge or bid/offer spread. The OCI illustrates the dollar costs of investing \$1,000 in different MPF funds over periods of one, three and five years. To facilitate standardized comparison, an annual 5% gross return and a constant FER per year are assumed in the calculations.

The hypothetical example below illustrates how OCIs change with FERs. In light of the current market practice, this example has an additional assumption that no other direct charges, like contribution charge, bid/offer spread and withdrawal charge are payable.

Under an assumed rate of return of 5% and an FER of 1%, the net value of your holding of Fund A will be \$1,040 at the end of year 1 after deducting \$11 from your contributions. At the end of year 5, your holding of Fund A will grow up to \$1,214 in value after netting the aggregate cost of \$57 for 5 years.

If you invest in Fund B whose FER is 2% and the rate of return is also assumed 5%, your holding of Fund B will reach \$1,029 only in value at the end of year 1 given you need to bear a larger cost of \$21. By the end of year 5, the total cost will be \$111 and the net value of your investment in Fund B will be \$1,154.

Given the OCIs of Fund A are lower than that of Fund B, the dollar costs of investing in Fund A are consistently lower than Fund B, regardless of the length of your holding period.


Tips on Fund Comparison

To help you make informed MPF investment decisions, the Fee Comparative Platform provides several key indicators to assist you in comparing fees and charges and the inherent risks of different MPF funds and schemes.

- **Fund Expense Ratio (FER)** shows the total amount of expenses charged by an MPF fund as a percentage of fund size. Such expenses mainly include management fees and other special charges for particular types of funds, such as the guarantee charge for a guaranteed fund, and fees and charges of underlying funds if your MPF fund invests in other funds. However, an FER does not reflect other fees, if any, that are directly paid by you, such as member account transaction fees and charges mentioned above.

When making comparisons, an MPF fund with a lower FER means that the fund incurs a lower operating expense than another fund with a higher FER. In general, FERs often vary by fund type; money market funds charge lower while equity funds usually have higher FERs. This is due to the differences in the complexity of managing these two types of funds.

OCIs of Two MPF Funds



Period After	Fund A (FER = 1 % per year)	Fund B (FER = 2% per year)
1 Year	\$11	\$21
3 Years	\$33	\$65
5 Years	\$57	\$111

Assumptions

- Gross return = 5% per year
- Contribution amount = \$1,000 at the beginning of Year 1
- All other direct charges (e.g. contribution charge, bid/offer spread, withdrawal charge) = Nil

