- **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. A **Risk Class** is assigned to each MPF fund according to the seven-point risk classification based on the fund risk indicator of the fund as follows:

Risk Class	Fund Risk Indicator	
	Equal or above	Less than
1	0.0%	0.5%
2	0.5%	2.0%
3	2.0%	5.0%
4	5.0%	10.0%
5	10.0%	15.0%
6	15.0%	25.0%
7	25.0%	-

The higher the Fund Risk Indicator and the Risk Class, the higher the risk of that fund. Moreover, Fund Risk Indicator and Risk Class do 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 Risk Class) 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*	Risk Class	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%	6	14.05%	15.13%	-16.27%	31.40%	10
Fund D (A bond fund)	4.26%	3	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%) and Risk Class (6). 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%) and Risk Class (3). 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 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?

Scheme members are advised to take into account various factors when choosing MPF scheme(s) and fund(s). In addition to fees and charges, scheme members should also consider factors such as products (scheme and fund), range of services provided by trustees and their own personal factors. Hence, it is not advisable to select an MPF scheme or fund simply because of its lower fee.

Annualized Return

4. What is the annualized return of an MPF fund shown on the MPF Fund Platform?

There are different ways to calculate the investment return of a fund. Examples include calendar year return, cumulative return (for an investment period) and annualized return. The MPF Fund Platform provides the cumulative return and the annualized return of MPF funds. The annualized return is the return per year of a fund calculated by discounting the cumulative return with the investment period and the compounding effect of interest. Annualized return is used to compare the performance of funds with different investment periods. The higher is the annualized return of a fund, the greater the increase in the fund's net asset value. Scheme members, however, should bear in mind that the past performance of a fund is not a reliable guide to its future performance.

Fund Risk Indicators & Risk Classes

5. Why are the Fund Risk Indicators and Risk Classes 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, while the Risk Class is assigned to each MPF fund according to the seven-point risk classification based on the fund risk indicator of the fund. Hence, such indicators and classes cannot be computed on and assigned to 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 and Risk Classes neither.

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

In practice, Fund Risk Indicator and Risk Class are mainly used for relative comparison. This means a fund is more risky if it has a higher Fund Risk Indicator and Risk Class than another fund.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

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Get to Know the Fees and Charges of Your MPF Funds

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

Under the MPF System, your contributions are accumulated through fund investment. When selecting your MPF scheme(s) and fund(s), you need to consider various factors including products (scheme and fund), range of services provided by trustees, fees and charges and your personal factors. 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 better understand the fees and charges for MPF investment. You can refer to the MPFA's MPF Fund Platform (**mfp.mpfa.org.hk/eng**) for more details about fees and charges of MPF funds.

MPFA website **Mobile app**

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 (including administration fee, trustee fee, custodian fee, investment management fee and sponsor fee) 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 MPF Scheme Brochure.

Tips on Fund Comparison

To help you make informed MPF investment decisions, the MPF Fund Platform provides several key indicators to assist you in comparing fees and charges, performance 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. It is a historical figure which reflects only the fee level of a fund in the previous financial period. These expenses mainly include management fees (including administration fees, trustee fee and custodian fee for trustees to operate the MPF scheme and the fees charged by investment manager(s), which are the major components of the fees and charges of a fund) 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.

- **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.

Both FER and OCI are calculated and updated at the end of each financial period. That means the figures are calculated based on data from the previous financial period and hence do not reflect any fee changes made after the end of the relevant year end.

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