BEA MPF e - Newsletter

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Information from MPFA

Understanding MPF Funds (Part 1)

When MPF scheme members manage their MPF, apart from understanding their investment preferences, goals and risk tolerance, they should also learn MPF fund types and features. In this two-part series, we will explore six major types of MPF funds.

(1) Equity Fund

Equity Fund invests mainly in stocks listed on stock exchanges approved by MPFA to achieve capital appreciation and a return higher than inflation over the long term. Its returns may be affected by various factors:

- the volatilities of stock markets and performance of individual stocks
- fluctuations in exchange rates (if the fund invests in stocks traded in a foreign currency, the depreciation of that foreign currency will result in a drop in stock prices, leading to a drop in the price of the fund)

Given its higher level of risk, Equity Fund is generally more suitable for scheme members with a longer investment horizon and a higher risk tolerance level.

(2) Bond Fund

Bond Fund invests in bonds or debt instruments issued by governments, public organizations, banks, commercial organizations or supranational agencies (e.g. the World Bank) to earn a stable income from interest or bond coupon rates, and make a profit from bond trading. Its risk level is generally considered as low to medium, and here are some factors that may affect their returns:

- fluctuation in interest rates (when interest rates rise, bond prices may drop and result in a drop in the fund price)
- fluctuation in exchange rates (if the fund invests in bonds traded in a foreign currency, the depreciation of that foreign currency will cause a drop in the bond price, which will lead to a drop in the price of the fund)
- credit ratings of bonds (if the fund has invested in a bond whose credit rating is downgraded, the bond price will normally drop, which may lead to a drop in the price of the fund)

In general, Bond Fund is more suitable for moderately conservative scheme members with a low-risk appetite, and those seeking a stable return over the medium-to-long term.

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(3) Mixed Assets Fund

Mixed Assets Fund invests in a mix of stocks and bonds to achieve capital appreciation over the long term. The risk of this fund type generally lies somewhere between the risk of Bond Fund and Equity fund, depending on the relative weight of different assets in the investment portfolio. In general, a greater proportion in stocks is associated with a higher level of risk. Major factors affecting its returns include:

- the volatilities of stock markets and performance of individual stocks
- fluctuation in exchange rates (if the fund invests in stocks and bonds traded in a foreign currency, the depreciation of that foreign currency will result in a drop in the prices of the stocks and bonds, leading to a drop in the price of the fund)
- fluctuations in interest rates (when interest rates rise, bond prices may drop and result in a drop in the fund price)
- credit ratings of bonds (if the fund has invested in a bond whose credit rating is downgraded, the bond price will normally drop, which may lead to a drop in the price of the fund)

When choosing funds that suits your needs, you should read the MPF Scheme Brochure to understand the relevant risks. In the next article, we will introduce three lower-risk fund types.