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Understanding MPF Funds (Part 2)

There are six major types of MPF funds. In the previous article, we have introduced Equity Fund, Bond Fund and Mixed Assets Fund. In this article, we will continue to elaborate the other three types of MPF funds.



(1) Guaranteed Fund

Guaranteed Fund invests in bonds, stocks, or short-term, interest-bearing money-market instruments. Most Guaranteed Funds in the MPF market offer conditional guarantees, which require fulfilment of a set of conditions in order to enjoy the guarantee. While Guaranteed Fund is considered as funds with lower risk, you will not be entitled to the guarantee if failing to meet the qualifying conditions. The qualifying conditions may include:

- holding the fund for a minimum period ;
- making a minimum number of contributions ;
- holding the fund for a minimum period (e.g. five years or more) after making the last contribution; or
- reaching the age of 65, or otherwise meeting the legal requirements for withdrawal of MPF.

If you are planning to invest in Guaranteed Fund, you should review the details and understand the qualifying conditions.

(2) Money Market Fund (Other than MPF Conservative Fund)

Money Market Fund generally invests in short-term, high quality interest bearing securities, such as short-term certificates of deposit, government papers or commercial papers, to earn a rate of return similar to short-term savings rate or stable income from interest or bond coupon rates.

Even though the risk of Money Market Fund is generally considered to be low, making it more suitable for scheme members with relatively conservative investment appetite who approaching retirement, it is not principal-protected and its return may not beat inflation and may even be negative.

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The major risks of a money market fund include fluctuations in interest rates: when interest rates rise, bond prices may fall and this can result in a drop in the fund price. In addition, exchange rate fluctuations can affect the fund: if the fund invests in bonds traded in a foreign currency, a depreciation of the foreign currency concerned will reduce the value of the bond, which may lead to a decline in the fund price.

(3) MPF Conservative Fund

MPF Conservative Fund is a type of Money Market Fund, which invests exclusively in Hong Kong-dollar assets, either in short-term bank deposits or short-term bonds, to earn a rate of return similar to the Hong Kong dollar savings rate.

Likewise, although the risk of MPF Conservative Fund is generally considered to be low, it is not principal-protected and the return may not beat inflation. The major risk of an MPF conservative fund is fluctuations in interest rates. When interest rates rise, bond prices may drop and result in a drop in the fund price.

When reviewing your MPF investment regularly, you should not only understand the features of each type of fund, but also take into account your retirement goals, risk tolerance and other relevant factors. Most importantly, members should remember that MPF is a long-term investment. Never manage your investment portfolio from a short-term speculative perspective.