



# Mass Mandatory Provident Fund Scheme

31 December 2017

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## Scheme report

### Financial development of the Mass Mandatory Provident Fund Scheme ("the Scheme")

Hong Kong economy expanded by 3.8% in 2017. This was due to better trade performance, positive global economic sentiment, low interest rate environment and the low base of comparison in tourism industry and retail sectors. This led to the strong equity and property market performance and also the robust private consumption. In 2018, Hong Kong should benefit from the improving global economic conditions. However, there are still a number of uncertainties, such as geopolitical issues, the rise of protectionism, interest rate hike and balance sheet shrinkage in US, etc. will affect the financial markets and economic performance globally.

During the reporting period, the total contributions received and receivable by the Scheme were HK\$392.1 million (2016: HK\$297.4 million). They consisted of HK\$181.3 million (2016: HK\$173.2 million) mandatory contributions, HK\$21.3 million (2016: HK\$19.6 million) voluntary contributions and HK\$189.5 million (2016: HK\$104.6 million) transfers-in contributions. The net assets of the Scheme amounted to HK\$3,067.9 million (2016: HK\$2,379.1 million) as at the year end.

### Changes to the governing rules of the Scheme from 1 January 2017 to the date of this report

There are no changes to the governing rules of the Scheme from 1 January 2017 to the date of this report.

### Information concerning the Scheme and its operations

#### *The Scheme*

By a Trust Deed dated 27 January 2000, as amended by the deeds of amendment dated 24 October 2000, 15 August 2002, 27 February 2003, 20 January 2006, 1 March 2007, 30 September 2009, 1 May 2011, 15 November 2011, 13 June 2012, 31 January 2013, 17 July 2013, 27 August 2015, 24 December 2015, 21 November 2016 and 2 December 2016, MassMutual Trustees Limited ("the Trustee") established the Scheme. Employers and employees, self-employed persons and any other persons covered by the Hong Kong Mandatory Provident Fund Schemes Ordinance ("the MPFSO") may participate in the Scheme.

The assets of the Scheme as at 31 December 2017 are invested in the Allianz Global Investors Choice Fund, the Templeton MPF Investment Funds, the JP Morgan SAR Greater China Fund, the Invesco Pooled Investment Fund and the APIF Policy. The Allianz Global Investors Choice Fund, the Templeton MPF Investment Funds, the JP Morgan SAR Greater China Fund, the Invesco Pooled Investment Fund and the APIF Policy have been approved by the Hong Kong Mandatory Provident Fund Schemes Authority ("the MPFA") and authorised by the Securities and Futures Commission of Hong Kong ("the SFC") as approved pooled investment funds (the "APIFs"). However, such approval and authorisation do not imply any official recommendation.

## Scheme report (continued)

### Information concerning the Scheme and its operations (continued)

The APIF Policy is underwritten by MassMutual Asia Limited and was launched in January 2006.

HSBC Institutional Trust Services (Asia) Limited is the trustee of the Allianz Global Investors Choice Fund and Allianz Global Investors Asia Pacific Limited is the investment manager of the MPF Conservative Fund, Global Stable Fund, Global Growth Fund, Hong Kong Equities Fund in the Scheme and the APIF Policy. Each investment fund of the Allianz Global Investors Choice Fund is a pooled investment fund in accordance with Part IV of Schedule 1 of the Hong Kong Mandatory Provident Fund Schemes (General) Regulation ("the General Regulation").

Cititrust Limited is the trustee of the Templeton MPF Investment Funds and Franklin Templeton Investments (Asia) Limited is the investment manager of the Asian Balanced Fund, Global Bond Fund, Global Equity Fund, Asian Pacific Equity Fund, European Equity Fund, and US Equity Fund. Each investment fund of the Templeton MPF Investment Funds is a pooled investment fund in accordance with Part IV of Schedule 1 of the General Regulation.

Cititrust Limited is the trustee of the JP Morgan SAR Greater China Fund and JF Asset Management Limited is the investment manager of the Greater China Equity Fund. The JP Morgan SAR Greater China Fund is a pooled investment fund in accordance with Part IV of Schedule 1 of the General Regulation.

Bank Consortium Trust Company Limited is the trustee of the Invesco Pooled Investment Fund and Invesco Hong Kong Limited is the investment manager of the Age 65 Plus Fund and Core Accumulation Fund. Each investment fund of the Invesco Pooled Investment Fund is a pooled investment fund in accordance with Part IV of Schedule 1 of the General Regulation.

The Principal Brochure of the Scheme includes information regarding the Scheme and brief details of the APIF Policy. The Trustee can provide more information regarding the Scheme, the related sub-funds of Allianz Global Investors Choice Fund, the related sub-funds of Templeton MPF Investment Funds, JP Morgan SAR Greater China Fund and the related sub-funds of Invesco Pooled Investment Fund upon request.

The Scheme is registered with the MPFA as a registered scheme under Section 21 of the MPFSO and is authorised by the SFC under Section 103 of the Securities and Futures Ordinance. Such registration and authorisation do not imply any official recommendation.

## Scheme report (continued)

### Information concerning the Scheme and its operations (continued)

#### **Constituent funds**

The Scheme offers the following fourteen constituent funds with different investment objectives:

- Guaranteed Fund which is a balanced fund (with guaranteed features);
- Global Growth Fund which is a balanced fund;
- Global Stable Fund which is a balanced fund;
- MPF Conservative Fund which is a money market fund;
- Global Equity Fund which is an equity fund;
- Asian Balanced Fund which is a balanced fund;
- Global Bond Fund which is a bond fund;
- Hong Kong Equities Fund which is an equity fund;
- Asian Pacific Equity Fund which is an equity fund;
- European Equity Fund which is an equity fund;
- US Equity Fund which is an equity fund;
- Greater China Equity Fund which is an equity fund;
- Age 65 Plus Fund which is a mixed assets fund; and
- Core Accumulation Fund which is a mixed assets fund.

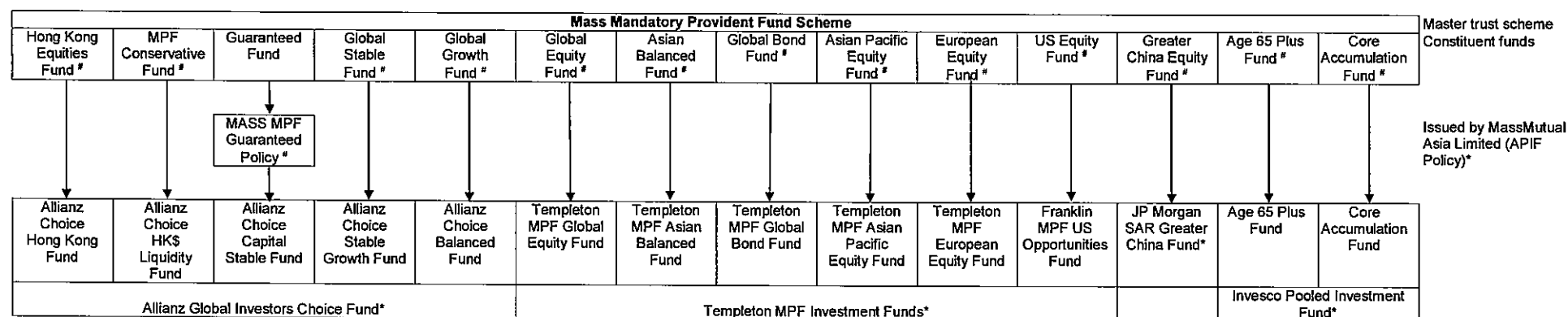
All the above constituent funds are unitised funds.

## Scheme report (continued)

### Information concerning the Scheme and its operations (continued)

#### Constituent funds

All monies contributed to the above constituent funds are directly or indirectly (in the case of Guaranteed Fund) invested in the Allianz Global Investors Choice Fund, the Templeton MPF Investment Funds, the JP Morgan SAR Greater China Fund and the Invesco Pooled Investment Fund. They are established as pooled investment funds in accordance with Part IV of Schedule 1 to the General Regulation. For ease of reference, the structure of the Scheme is set out in the diagram below:



\* Approved Pooled Investment Funds

# Allianz Global Investors Asia Pacific Limited acts as the investment manager of the MPF Conservative Fund, Global Stable Fund, Global Growth Fund, Hong Kong Equities Fund in the Scheme and the APIF Policy. Franklin Templeton Investments (Asia) Limited acts as the investment manager of the Global Equity Fund, Asian Balanced Fund, Global Bond Fund, Asian Pacific Equity Fund, European Equity Fund and US Equity Fund. JF Asset Management Limited acts as the investment manager of the Greater China Equity Fund. Invesco Hong Kong Limited acts as the investment manager of the Age 65 Plus Fund and Core Accumulation Fund.

## Scheme report (continued)

### **Channels for acquiring further information about the Scheme**

Members may obtain further information about the Scheme and its operations from the Trustee at its hotline number 2533 5522.

### **Particulars of the Trustee, service providers, auditors, banks and promoter of the Scheme during the year**

#### **Trustee and Scheme Administrator**

MassMutual Trustees Limited  
27th Floor, MassMutual Tower  
33 Lockhart Road  
Wanchai  
Hong Kong

#### **Investment Managers**

Allianz Global Investors Asia Pacific Limited  
27/F, ICBC Tower  
3 Garden Road  
Central  
Hong Kong

Franklin Templeton Investments (Asia) Limited  
17th Floor, Chater House  
8 Connaught Road  
Central  
Hong Kong

JF Asset Management Limited  
21/F, Chater House  
8 Connaught Road  
Central  
Hong Kong

Invesco Hong Kong Limited  
41/F, Champion Tower  
3 Garden Road  
Central  
Hong Kong

## Scheme report (continued)

### Particulars of the Trustee, service providers, auditors, banks and promoter of the Scheme during the year (continued)

#### Custodian

Citibank N.A.  
50th Floor, Champion Tower  
3 Garden Road  
Central  
Hong Kong

#### Auditor

KPMG  
8th Floor, Prince's Building  
10 Chater Road  
Central  
Hong Kong

#### Banks

Citibank N.A.  
50th Floor, Champion Tower  
3 Garden Road  
Central  
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road  
Central  
Hong Kong

The Bank of China (Hong Kong) Limited  
Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

#### Promoter

MassMutual Asia Limited \*  
27th Floor, MassMutual Tower  
33 Lockhart Road  
Wanchai  
Hong Kong

\* This is an immediate holding company of the Trustee.



## Scheme report (continued)

### **Directors of the Trustee**

The directors who held office during the year and up to the date of this report are:

Mr Keng Puang Tay  
Mr Victor Ka Lin Yip  
Mr Gah Jih Wong  
Mr Siu Chuen Lee  
Mr Jonas Chun Leung Wong

The business address of these directors is:

27th Floor, MassMutual Tower  
33 Lockhart Road  
Wanchai  
Hong Kong

### **Controllers of the associate of the Trustee**

#### **MassMutual Asia Limited**

The controllers during the year and up to the date of this report are:

Massachusetts Mutual Life Insurance Company  
MassMutual International LLC  
Mr Keng Puang Tay  
Mr Eric William Partlan  
Mr Yip Ka Lin Victor  
Ms. Elaine Sarsynski  
Mr Adnan Omar AHMED

(resigned on 1 February 2017)  
(appointed on 1 February 2017)

#### *Independent non-executive directors*

Mr Jark Pui Lee  
Mr Thomas J Finnegan Jr.

The business/correspondence address of these controllers is:

27th Floor, MassMutual Tower  
33 Lockhart Road  
Wanchai  
Hong Kong

## Investment report

### 1 Analysis of investments and Trustee's commentary

#### 1.1 MPF Conservative Fund

##### 1.1.1 Analysis of investments during the year

In 2017, the fund returned 0.01%\* versus the benchmark's return of 0.01%. The benchmark return of the fund was the Hong Kong Mandatory Provident Fund Scheme Authority's prescribed savings rate.

	Annualised return			Since launch
	1 year %	5 years %	10 years %	
MPF Conservative Fund (Launch date: 1 December 2000)	0.01	(0.01)	0.05	0.46
Benchmark	0.01	0.01	0.02	0.50
Deviation from the benchmark	0.00	(0.02)	0.03	(0.04)

##### 1.1.2 Trustee's commentary

Hong Kong short term interest rates moved in opposite direction to US interest rates in the first half of 2017. The 3-month USD LIBOR rose in response to rising market expectation of Federal Reserve Board ("Fed") interest rate hikes in March and June. However, abundant liquidity in the Hong Kong interbank system led HKD HIBOR to decline, widening the gap between the 3-month USD LIBOR and HKD HIBOR to the most since 2009. HKD traded weaker against the USD, approaching 7.83 in August. Partly to defend the HKD which was trading close to the weaker end of the undertaking, the Hong Kong Monetary Authority announced the issuance of additional exchange fund bills in August and September. Along with a few HK IPOs which locked up liquidity towards the end of October as well as further Fed interest rate rise expectation, the aggregate balance declined to below HKD 200 billion and the 3-month HKD HIBOR surged to 1.3%, a level last seen in late 2008. Nonetheless, ample liquidity in HK allowed interest rates to continue trading lower than its US counterpart.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.2 *Guaranteed Fund*

##### 1.2.1 Analysis of investments during the year

In 2017, the fund returned 10.14%\* versus the benchmark's return of 13.39%. The components of the benchmark were as follows: Citigroup World Government Bond Index (WGBI) (60%), Financial Times Stock Exchange (FTSE) All-World (AW) North America (6%), FTSE AW Europe (6%), FTSE Japan (4%), FTSE AW Asia Pacific ex Japan ex Hong Kong (4%), FTSE MPF Hong Kong (10%) and Hong Kong Mandatory Provident Fund Schemes Authority's prescribed saving rate (10%).

	<i>Annualised return</i>			<i>Since launch</i>
	<i>1 year</i>	<i>5 years</i>	<i>10 years</i>	
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
Guaranteed Fund				
(Launch date: 20 January 2006)	10.14	0.36	(0.08)	1.08
Benchmark	13.39	3.85	3.56	4.83
Deviation from the benchmark	(3.25)	(3.49)	(3.64)	(3.75)

##### 1.2.2 Trustee's commentary

2017 was a stellar year for global equities, with most markets ending the period with robust double-digit returns. Optimism over the health of the global economy and US tax reform helped stocks overcome heightened political tensions, helping the FTSE All-World Index to touch a fresh high in the closing days of the year. In general, the US and Japan performed strongest among developed markets. While all sectors gained, information technology companies led the advance, with materials, consumer discretionary and industrials stocks also rising strongly.

Most bond markets managed to deliver positive returns, although the size of those returns varied and all underperformed equity markets by a considerable margin. In general, yield curves flattened, with the most pronounced flattening seen in the US where the yield difference between two- and 30-year Treasury bonds fell below 1% for the first time in a decade. Euro-zone bonds were the exception, with yields rising relatively uniformly across the curve. In general, corporate bonds outperformed government bonds, and high-yield bonds outperformed investment-grade issues.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.2 *Guaranteed Fund (continued)*

##### 1.2.2 Trustee's commentary (continued)

We expect global growth to continue into 2018 which should support risky assets. We are positive on Asia with a preference for North Asia over South Asia. Valuations remain attractive and the longer term stories of Indian and Indonesian structural reforms are still relevant. In addition, improving economic data in Japan and business confidence surveys should spur further earnings growth. Within Asia, HK/China is the most preferred market with stable macro environment, double digit earnings growth expectation and reasonable valuation would be the supportive factors to outperform. In Europe, solid economic data indicates that the recovery remains strong and we expect ECB monetary policy to stay accommodative for longer. While the political risk on Italy's spring election may have led to some market concerns, recent economic indicators confirmed economic recovery has expanded from the core Euroland to the peripheral markets. In the US, cyclical data remains positive with US close to full employment. US corporate profitability should continue to improve and U.S. tax cuts should give a modest boost to the US economy in the near term. However, a highly valued and late-cycle market may make it more difficult for US equities to outperform in 2018 when compared to global peers.

On the fixed income side, the fund generally holds a defensive stance with short duration against the benchmark and a neutral stance on the US. From an interest rate perspective, the fund favours US over both Europe and Japan given the US is more advanced than Euroland in terms of its interest rate normalization cycle. We expect Brexit to remain a complicating factor in the Bank of England's ability to hike rates in a sustained manner.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.3 Global Stable Fund

##### 1.3.1 Analysis of investments during the year

In 2017, the fund returned 17.55%\* versus the benchmark's return of 18.77%. The components of the benchmark were as follows: Citigroup WGBI (45%), FTSE AW North America (10%), FTSE AW Europe (10%), FTSE Japan (6.5%), FTSE AW Asia Pacific ex Japan ex Hong Kong (6.5%), FTSE MPF Hong Kong (17%) and Hong Kong Mandatory Provident Fund Schemes Authority's prescribed savings rate (5%).

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
Global Stable Fund (Launch date: 1 December 2000)	17.55	4.27	2.46	4.39
Benchmark	18.77	5.81	4.10	6.27
Deviation from the benchmark	(1.22)	(1.54)	(1.64)	(1.88)

##### 1.3.2 Trustee's commentary

2017 was a stellar year for global equities, with most markets ending the period with robust double-digit returns. Optimism over the health of the global economy and US tax reform helped stocks overcome heightened political tensions, helping the FTSE All-World Index to touch a fresh high in the closing days of the year. In general, the US and Japan performed strongest among developed markets. While all sectors gained, information technology companies led the advance, with materials, consumer discretionary and industrials stocks also rising strongly.

Most bond markets managed to deliver positive returns, although the size of those returns varied and all underperformed equity markets by a considerable margin. In general, yield curves flattened, with the most pronounced flattening seen in the US where the yield difference between two- and 30-year Treasury bonds fell below 1% for the first time in a decade. Euro-zone bonds were the exception, with yields rising relatively uniformly across the curve. In general, corporate bonds outperformed government bonds, and high-yield bonds outperformed investment-grade issues.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.3 Global Stable Fund (continued)

##### 1.3.2 Trustee's commentary (continued)

We expect global growth to continue into 2018 which should support risky assets. We are positive on Asia with a preference for North Asia over South Asia. Valuations remain attractive and the longer term stories of Indian and Indonesian structural reforms are still relevant. In addition, improving economic data in Japan and business confidence surveys should spur further earnings growth. Within Asia, HK/China is the most preferred market with stable macro environment, double digit earnings growth expectation and reasonable valuation would be the supportive factors to outperform. In Europe, solid economic data indicates that the recovery remains strong and we expect ECB monetary policy to stay accommodative for longer. While the political risk on Italy's spring election may have led to some market concerns, recent economic indicators confirmed economic recovery has expanded from the core Euroland to the peripheral markets. In the US, cyclical data remains positive with US close to full employment. US corporate profitability should continue to improve and U.S. tax cuts should give a modest boost to the US economy in the near term. However, a highly valued and late-cycle market may make it more difficult for US equities to outperform in 2018 when compared to global peers.

On the fixed income side, the fund generally holds a defensive stance with short duration against the benchmark and a neutral stance on the US. From an interest rate perspective, the fund favours US over both Europe and Japan given the US is more advanced than Euroland in terms of its interest rate normalization cycle. We expect Brexit to remain a complicating factor in the Bank of England's ability to hike rates in a sustained manner.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.4 Global Growth Fund

##### 1.4.1 Analysis of investments during the year

In 2017, the fund returned 23.03%\* versus the benchmark's return of 23.97%. The components of the benchmark were as follows: Citigroup WGBI (25%), FTSE AW North America (14%), FTSE AW Europe (14%), FTSE Japan (9%), FTSE AW Asia Pacific ex Japan ex Hong Kong (9%), FTSE MPF Hong Kong (24%) and Hong Kong Mandatory Provident Fund Schemes Authority's prescribed savings rate (5%).

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
Global Growth Fund (Launch date: 1 December 2000)	23.03	6.12	2.58	5.00
Benchmark	23.97	7.69	4.36	6.78
Deviation from the benchmark	(0.94)	(1.57)	(1.78)	(1.78)

##### 1.4.2 Trustee's commentary

2017 was a stellar year for global equities, with most markets ending the period with robust double-digit returns. Optimism over the health of the global economy and US tax reform helped stocks overcome heightened political tensions, helping the FTSE All-World Index to touch a fresh high in the closing days of the year. In general, the US and Japan performed strongest among developed markets. While all sectors gained, information technology companies led the advance, with materials, consumer discretionary and industrials stocks also rising strongly.

Most bond markets managed to deliver positive returns, although the size of those returns varied and all underperformed equity markets by a considerable margin. In general, yield curves flattened, with the most pronounced flattening seen in the US where the yield difference between two- and 30-year Treasury bonds fell below 1% for the first time in a decade. Euro-zone bonds were the exception, with yields rising relatively uniformly across the curve. In general, corporate bonds outperformed government bonds, and high-yield bonds outperformed investment-grade issues.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.4 Global Growth Fund (continued)

##### 1.4.2 Trustee's commentary (continued)

We expect global growth to continue into 2018 which should support risky assets. We are positive on Asia with a preference for North Asia over South Asia. Valuations remain attractive and the longer term stories of Indian and Indonesian structural reforms are still relevant. In addition, improving economic data in Japan and business confidence surveys should spur further earnings growth. Within Asia, HK/China is the most preferred market with stable macro environment, double digit earnings growth expectation and reasonable valuation would be the supportive factors to outperform. In Europe, solid economic data indicates that the recovery remains strong and we expect ECB monetary policy to stay accommodative for longer. While the political risk on Italy's spring election may have led to some market concerns, recent economic indicators confirmed economic recovery has expanded from the core Euroland to the peripheral markets. In the US, cyclical data remains positive with US close to full employment. US corporate profitability should continue to improve and U.S. tax cuts should give a modest boost to the US economy in the near term. However, a highly valued and late-cycle market may make it more difficult for US equities to outperform in 2018 when compared to global peers.

On the fixed income side, the fund generally holds a defensive stance with short duration against the benchmark and a neutral stance on the US. From an interest rate perspective, the fund favours US over both Europe and Japan given the US is more advanced than Euroland in terms of its interest rate normalization cycle. We expect Brexit to remain a complicating factor in the Bank of England's ability to hike rates in a sustained manner.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.



## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.5 Asian Balanced Fund

##### 1.5.1 Analysis of investments during the year

In 2017, the fund returned 22.20%\* versus the benchmark's return of 25.62%. The components of the benchmark were as follows: MSCI All-Country (AC) Asia Pacific (65%) and JP Morgan GBI-EM Broad Diversified Asia Index (35%).

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
Asian Balanced Fund (Launch date: 17 March 2003)	22.20	4.29	3.14	7.59
Benchmark	25.62	7.14	4.43	8.37
Deviation from the benchmark	(3.42)	(2.85)	(1.29)	(0.78)

##### 1.5.2 Trustee's commentary

The equity portion of the underlying fund outperformed its benchmark index during the year. Stock selection in the industrials sector materially boosted relative performance. Stock selection in the utilities sector also lifted relative results.

Turning to detractors, a Japan-based office equipment and imaging company hampered relative performance in the information technology sector. Stock selection and an overweight allocation in the consumer discretionary sector hurt relative results.

From a regional standpoint, stock selection and an overweight allocation in India materially supported relative performance for the year. Stock selection and an underweight allocation in Australia also proved beneficial. An overweight allocation and stock selection in South Korea further advanced relative results. In contrast, stock selection and an underweight allocation in China hurt relative performance. Stock selection in Singapore and Hong Kong also detracted from relative results, to a lesser degree.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.5 Asian Balanced Fund (continued)

##### 1.5.2 Trustee's commentary (continued)

For the calendar year, the fixed income portfolio underperformed its benchmark index primarily due to currency positions. Interest-rate strategies contributed to relative results. Amongst currencies, underweighted positions in South Asia (the Indian rupee), East Asia (the Chinese yuan) and Southeast Asia (the Malaysian ringgit) detracted from relative performance. The portfolio's underweighted position in the Japanese yen had a largely neutral effect on relative results. The portfolio maintained a defensive approach regarding interest rates. Select overweighted duration exposures in East Asia contributed to relative performance, as did select overweighted duration exposures in Southeast Asia (Indonesia contributed, while Malaysia detracted).

We see continued evidence of progress in South Korea and China as we enter 2018. South Korea's recovery has been fundamentally driven, with corporate earnings rising and the won appreciating on the back of strong export growth, which bolstered the current account surplus and foreign reserves. With a solid economic and corporate profit cycle taking hold and the Bank of Korea now beginning to hike rates for the first time in six years, we continue to see significant upside potential for select companies in this lowly valued market. China offers a compelling combination of high organic growth and cheap valuations. We have largely steered clear of companies plagued by excessive leverage and capacity. We are also mindful of excessive valuations, which left us underweight the internet stocks that led China's bull market in 2017. Overall, we believe the best opportunities in China exist amongst lowly valued stocks in the consumer- and service-oriented sectors likely to capture an increasing share of China's future economic growth.

We anticipate a rise in US Treasury ("UST") yields and a reversal of US dollar weakness as the Fed moves towards tightening policy while US inflation pressures begin to pick up. We expect the Fed's balance sheet unwinding to put additional upward pressure on yields. Several major buyers of USTs have pulled back from the UST market in recent years, including foreign governments and central banks in Asia, notably the People's Bank of China. Major oil producing countries have also pulled back, becoming net borrowers instead of net lenders as they were when oil prices were above US\$100 per barrel. The Fed will now be added to that list of diminishing demand, as it unwinds its UST positions at a pace of US\$6 billion per month, raising that pace by US\$6 billion every three months until reaching a pace of US\$30 billion per month. That transfers much of the proportional demand for USTs to price-sensitive domestic investors, which we expect to add to the upward pressure on yields.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.5 Asian Balanced Fund (continued)

##### 1.5.2 Trustee's commentary (continued)

Markets have appeared to place a lot of focus on the speed and extent of rate hikes, in our view, but not placed enough attention on the balance sheet unwinding—an unprecedented event for the UST and MBS markets. Investors who are holding longer duration exposures are taking on a lot of asymmetric risk, in our opinion, particularly in an environment of economic resilience and growing inflation pressures.

Outside of the developed markets, we continue to see a subset of countries with domestically strong economies that have demonstrated their resilience to global shocks, including potential increases in trade costs. We are focused on specific emerging markets that are less externally vulnerable and more domestically driven, and that have responsible, credible central banks that consistently respond with appropriate monetary policies. Certainly, 20 years ago it may have been difficult for many of these countries to weather a protectionist trade shock, a commodity price shock and an exchange rate shock all at the same time, but today several countries have greatly reduced those external vulnerabilities.

In 2017, we saw notable strength across a number of local-currency emerging markets. Some positive tailwinds developed from foreign investment returning to several undervalued markets. A lot of foreign capital had left in prior years—when it came back the valuations in those asset categories tended to come back quickly as well. Nonetheless, we are still in the initial phases of emerging-market resurgence, and there is still a lot of room to strengthen given how far valuations dropped in prior years, particularly during the selloffs in 2016.

In the major developed economies, we anticipate continued monetary accommodation and low rates in Japan and the Eurozone while rates rise in the US—those increasing rate differentials should depreciate the yen and euro against the US dollar, in our view. Despite the Eurozone being in a cyclical upswing, we continue to have a negative view on the euro not only because of ongoing monetary accommodation, but also because of persistent populist risks.

Overall, we continue to maintain low portfolio duration while aiming at a negative correlation with UST returns. We also continue to hold select local-currency duration exposures in countries that we believe have healthy fundamentals and significantly higher yields than those available in developed markets. Looking ahead, we anticipate rising inflation pressures in the US to drive UST yields higher. We also expect depreciations of the euro and Japanese yen against the US dollar and currency appreciation across a select subset of emerging markets.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.6 Global Bond Fund

##### 1.6.1 Analysis of investments during the year

In 2017, the fund returned 3.21%\* versus the benchmark's return of 5.84%. The components of the benchmark were as follows: Citigroup WGBI (65%) and Bloomberg Barclays Global Treasury-Hong Kong Index (35%).

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
Global Bond Fund (Launch date: 17 March 2003)	3.21	(1.98)	1.34	2.12
Benchmark	5.84	0.41	2.59	3.55
Deviation from the benchmark	(2.63)	(2.39)	(1.25)	(1.43)

##### 1.6.2 Trustee's commentary

For the calendar year 2017, the fund underperformed its benchmark index primarily due to currency positions. Interest-rate strategies and overall credit exposures had largely neutral effects on relative results. Amongst currencies, the fund's lack of exposures to the euro and the Japanese yen detracted from relative performance. However, overweighted currency positions in Latin America (the Mexican peso) and Asia ex Japan (the Indian rupee) contributed to relative results. The fund maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets. Overweighted duration exposures in Asia ex Japan (Indonesia) contributed to relative results while select duration exposures in multiple regions detracted.

We expect UST yields to rise and the US dollar to strengthen as the Fed continues to tighten policy while US inflation pressures pick up. We also expect the Fed's balance sheet unwinding to put upward pressure on yields. Although the Fed's credibility came into question when it backtracked on projected rate hikes in 2016, we expect it to remain on course with balance sheet unwinding and rate hikes in 2018. Recent indications from the Fed project three rate hikes in 2018 and a trend towards a policy rate of 2.75% in 2019. Jay Powell was scheduled to take over as Fed Chairman for Janet Yellen in February.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.6 Global Bond Fund (continued)

##### 1.6.2 Trustee's commentary (continued)

The Fed continued unwinding its nearly US\$4.5 trillion balance sheet in January, increasing the monthly volume target to \$12 billion in USTs and US\$8 billion in MBS. Markets have appeared to place a lot of focus on the speed and extent of rate hikes, in our view, but not placed enough attention on balance sheet unwinding—an unprecedented event for the UST and MBS markets. Investors who are holding longer duration exposures are taking on a lot of asymmetric risk, in our opinion, particularly in an environment of economic resilience and growing inflation pressures.

In 2017 we saw notable strength in the local-currency markets of Brazil and Indonesia, amongst others. We saw tailwinds develop across a number of emerging markets as foreign investment returned to several undervalued markets during the year. A lot of capital left in prior years—when it came back the valuations in those asset categories tended to come back quickly as well. However, there is still a lot of room to strengthen in 2018 given how far valuations dropped in prior years, particularly during the selloffs in 2016.

The impact of rising rates in the US on emerging markets will likely vary significantly by country. Many emerging markets have a significant yield advantages over the US, so even if US rates go up 200 bps, there is still a large interest rate differential. However, emerging markets with low yields will likely be more vulnerable to rate shocks.

We continue to see a subset of emerging markets with domestically strong economies that have demonstrated their resilience to potential increases in trade costs and other external shocks. We remain focused on specific countries that are less externally vulnerable and more domestically driven, and that have responsible, credible central banks that consistently respond with appropriate monetary policies. Certainly, 20 years ago it may have been difficult for a number of emerging markets to weather a protectionist trade shock, a commodity price shock and an exchange rate shock all at the same time, but today several countries have greatly reduced those external vulnerabilities.

In the major developed economies, we anticipate continued monetary accommodation and low rates in Japan and the Eurozone while rates rise in the US—those increasing rate differentials should depreciate the yen and euro against the US dollar, in our opinion. Despite the Eurozone being in a cyclical upswing, we continue to have a negative view on the euro not only because of ongoing monetary accommodation, but also because of populist risks and unresolved structural vulnerabilities in certain countries, such as Italy.

## Investment report (continued)

### **1 Analysis of investments and Trustee's commentary (continued)**

#### **1.6 Global Bond Fund (continued)**

##### **1.6.2 Trustee's commentary (continued)**

Overall, we continue to maintain low portfolio duration while aiming at a negative correlation with UST returns. We continue to hold select local-currency duration exposures in countries that we believe have healthy fundamentals and significantly higher yields than those available in developed markets. Looking ahead, we anticipate rising UST yields with continued economic expansion and exceptionally strong US labour markets. We also expect depreciations of the euro and Japanese yen against the US dollar and currency appreciations across a select subset of emerging markets.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.7 Global Equity Fund

##### 1.7.1 Analysis of investments during the year

The fund returned 16.63%\* in 2017 compared with a 23.59% return for its benchmark, the FTSE MPF All World Index.

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
Global Equity Fund (Launch date: 17 March 2003)	16.63	8.67	2.96	7.34
Benchmark	23.59	11.88	5.21	9.66
Deviation from the benchmark	(6.96)	(3.21)	(2.25)	(2.32)

##### 1.7.2 Trustee's commentary

Stock-specific weakness among health care names served as the largest detractor among major sectors in 2017. Underperformance was driven primarily by stock-specific weakness and an overweight exposure among pharmaceutical names, although stock selection and an overweight stake in the biotech industry also detracted to a lesser degree. As noted above, while a select few stock setbacks have largely overshadowed some solid performers within the health care sector as of late, our outlook remains positive for the sector. We continue to find attractive long-term value in lowly valued pharmaceutical companies with innovative pipelines and novel drug franchises capable of dealing with pricing and competitive issues on a case-by-case basis.

Among regions, the Middle East/Africa region detracted driven by in an underperforming pharmaceutical company – the Fund's lone investment in the region.

Stock-specific weakness in the US also detracted, where the Fund continues to remain underweight relative to the benchmark. Unlike Europe, where the risk premium has been high for some time and has room to recede, risk appears under-discounted in the US, where valuations may inadequately reflect rising political uncertainty, tightening monetary policy and a more mature profit cycle.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.7 Global Equity Fund (continued)

##### 1.7.2 Trustee's commentary (continued)

After a false dawn in 2016, value lagged growth by the most in nearly two decades in 2017, marking the tenth year out of the past 11 that global growth has bested global value. At times like this, it may be tempting for some value investors to relax their discipline and buy the expensive stocks that have been working. Yet, countering that impulse is decades of market history suggesting that starting-point valuation is virtually all that really matters when it comes to long-term returns. Meanwhile, financial repression from the world's central banks appears to have forced investors farther out the risk spectrum to chase yield and growth in a market offering little of either. We view this as unsustainable for two main reasons. First, many consider zero interest-rate policies and quantitative easing to have favoured capital at the expense of labour, deepening inequality and disadvantaging the majority of the electorate, whose opinions matter in a democracy. Second, financial repression could fuel potentially destabilising asset price bubbles. Overvaluation appears to be largely concentrated in fixed income markets, as well as the growth-oriented and bond proxy stocks that have dominated this cycle. We do not know how the process of policy normalisation by central banks will evolve. Nonetheless, we do believe this mature cycle will eventually change, and with it the conditions that have been so hostile to value investing. We would not want to own the leaders of the last cycle during this transition. But the stocks left behind—the companies whose long-term earnings and cash flow potential we believe have been overlooked and undervalued by a narrowly focused market—might be best positioned for the reversals we view as likely to unfold in the future.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.



## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.8 Asian Pacific Equity Fund

##### 1.8.1 Analysis of investments during the year

The fund returned 36.23%\* in 2017 compared with a 36.34% return for its benchmark, the FTSE MPF Asia Pacific ex-Japan Index.

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
Asian Pacific Equity Fund (Launch date: 19 March 2007)	36.23	6.86	5.42	6.18
Benchmark	36.34	7.79	4.18	6.30
Deviation from the benchmark	(0.11)	(0.93)	1.24	(0.12)

##### 1.8.2 Trustee's commentary

The underlying fund outperformed its benchmark index during the year. Stock selection in the industrials sector materially boosted relative performance. Elsewhere, a leading contributor at the fund level was an India-based small appliance and lighting firm.

Turning to detractors, three sectors pressured relative results over the period. Stock selection in the real estate sector hurt relative performance. The energy sector also curbed relative results.

From a regional standpoint, stock selection and an underweight allocation in Australia proved beneficial. Stock selection and an overweight allocation in India materially supported relative performance for the year. Stock selection in Taiwan further advanced relative results. In contrast, exposure to Indonesia hurt relative performance. Stock selection in China and New Zealand also detracted from relative results.

We see continued evidence of progress in South Korea and China as we enter 2018. South Korea's recovery has been fundamentally driven, with corporate earnings rising and the won appreciating on the back of strong export growth, which bolstered the current account surplus and foreign reserves. With a solid economic and corporate profit cycle taking hold and the Bank of Korea now beginning to hike rates for the first time in six years, we continue to see significant upside potential for select companies in this lowly valued market. China offers a compelling combination of high organic growth and cheap valuations. We have largely steered clear of companies plagued by excessive leverage and capacity. We are also mindful of excessive valuations, which left us underweight the internet stocks that led China's bull market in 2017. Overall, we believe the best opportunities in China exist amongst lowly valued stocks in the consumer- and service-oriented sectors likely to capture an increasing share of China's future economic growth.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.9 European Equity Fund

##### 1.9.1 Analysis of investments during the year

The fund returned 19.70%\* in 2017 compared with a 22.84% return for its benchmark, the FTSE MPF Europe Index.

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
European Equity Fund (Launch date: 19 March 2007)	19.70	9.30	2.26	1.64
Benchmark	22.84	9.13	2.61	3.11
Deviation from the benchmark	(3.14)	0.17	(0.35)	(1.47)

##### 1.9.2 Trustee's commentary

The underlying fund performed roughly in line with its benchmark index for the 12-month reporting period. Stock selection in the financials sector contributed to relative performance over the reporting period. Europe has been benefitting from a stronger economic upcycle and the prospect of incrementally tighter monetary policy. While interest rate expectations waxed and waned during the period, over the coming years interest rates look poised to move higher in Europe and this will support profits for European financials sector firms, in most instances. Regulators announced the completion of the Basel III reforms with a more dovish stance than anticipated. We believe European banks generally are sufficiently capitalised, and with the increased regulatory certainty, we anticipate further increases in dividend payout ratios, further highlighting the industry's attractiveness. European bank shares have continued to look undervalued to us on earnings, book value and dividend yields, both relative to their own history and to their US peers. Elsewhere in the portfolio, security selection in the health care sector also boosted results. More broadly, we continue to believe that regulatory fears and competitive concerns have excessively pressured valuations in the health care sector. We have continued to find what we consider immense long-term value in depressed pharmaceuticals companies with innovative pipelines and novel drug franchises capable of dealing with pricing and competitive issues on a case-by-case basis.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.9 *European Equity Fund (continued)*

##### 1.9.2 Trustee's commentary (continued)

Conversely, an overweighting and security selection in the energy sector detracted from relative performance during the 12-month reporting period. We are not overly concerned by short-term fluctuations in US inventories, which tend to get overemphasised due to the frequency and transparency of data collection (international data is more sporadic and unreliable). Reasons for continued US inventory build include refinery re-stocking as prices rise, a seasonal decline in demand, timing differences between OPEC cuts and crude deliveries and the liquidation of floating storage. Looking across other Organisation for Economic Co-operation and Development inventories, we were encouraged by a broad-based decline across all hydrocarbon product categories since their peak in the middle of 2016. Furthermore, it has appeared that OPEC members are complying with cuts thus far, as evidenced by declining imports in Asia, the final destination for the bulk of Middle Eastern oil exports. As we have discussed, we expected the oil price would climb towards US\$60 per barrel, beyond which it could remain relatively range-bound as price-sensitive swing producers in the North American shale fields brought supply swiftly back on line. Barring any exogenous shocks, we therefore expect renewed supply above US\$60 per barrel will likely cap further significant price appreciation, and we look to selectively reduce exposure at this point in the cycle. Elsewhere, stock selection and an underweighting in the consumer staples sector also weighed on results. In our view, the sector has remained expensive amidst one of the most crowded trades in the sector's history. The sector is perceived to be "safe" but may actually be amongst the market's riskiest cohorts given the historically high and inverse correlations to interest rate moves.

Regionally, stock selection in Germany contributed significantly to relative performance during the 12-month reporting period. An overweighting and security selection in the Netherlands also supported results, as did positioning in Denmark, Austria and Norway. Conversely, stock selection in the United Kingdom detracted from relative performance. Security selection in Spain and France also weighed on results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.9 *European Equity Fund (continued)*

##### 1.9.2 Trustee's commentary (continued)

After a false dawn in 2016, value lagged growth by the most in nearly two decades in 2017, marking the tenth year out of the past 11 that global growth has bested global value. At times like this, it may be tempting for some value investors to relax their discipline and buy the expensive stocks that have been working. Yet, countering that impulse is decades of market history suggesting that starting-point valuation is virtually all that really matters when it comes to long-term returns. Meanwhile, financial repression from the world's central banks appears to have forced investors farther out the risk spectrum to chase yield and growth in a market offering little of either. We view this as unsustainable for two main reasons. First, many consider zero interest-rate policies and quantitative easing to have favoured capital at the expense of labour, deepening inequality and disadvantaging the majority of the electorate, whose opinions matter in a democracy. Second, financial repression could fuel potentially destabilising asset price bubbles. Overvaluation appears to be largely concentrated in fixed income markets, as well as the growth-oriented and bond proxy stocks that have dominated this cycle. We do not know how the process of policy normalisation by central banks will evolve. Nonetheless, we do believe this mature cycle will eventually change, and with it the conditions that have been so hostile to value investing. We would not want to own the leaders of the last cycle during this transition. But the stocks left behind—the companies whose long-term earnings and cash flow potential we believe have been overlooked and undervalued by a narrowly focused market—might be best positioned for the reversals we view as likely to unfold in the future.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.10 Hong Kong Equities Fund

##### 1.10.1 Analysis of investments during the year

The fund returned 33.59%\* in 2017 compared with a 42.71% return for its benchmark, the FTSE MPF Hong Kong Index.

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
Hong Kong Equities Fund (Launch date: 19 March 2007)	33.59	5.75	0.65	3.48
Benchmark	42.71	9.20	3.71	6.97
Deviation from the benchmark	(9.12)	(3.45)	(3.06)	(3.49)

##### 1.10.2 Trustee's commentary

Hong Kong equities have delivered significant performance in 2017. Hang Seng Index returned more than 40% and hit 30,000 for the first time in a decade. Led by the strong performance of Tencent, the internet giant, the technology sector outperformed telecommunications, the worst performing sector, by more than 90%. Strong southbound flows through the Stock Connect Schemes have been on an upward trend throughout the year and accounted for 10-15% of the daily turnover.

The fund underperformed the benchmark over the past year. Major underperformance came from stock selection in technology, where the biggest stock detractor was Semiconductor Manufacturing. This semiconductor foundry had been the top contributor for 2016. However, weak management guidance on growth and potentially higher than expected capital expenditure, triggered investors' concern over near term profitability. We exited the position for better risk-return opportunities.

On a positive note, our position in China Merchants Bank contributed significantly. We like this bank's strong retail banking franchise, good asset management capability, and proven management track record. And our investment thesis played out well in 2017.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.10 Hong Kong Equities Fund (continued)

##### 1.10.2 Trustee's commentary (continued)

Even after more than 40% return in 2017, the FTSE MPF Hong Kong Index is still trading at 12.4x 2018 price earnings ratio, in line with its 10-year average. However, the return was highly concentrated in a narrow group of outperformers. For some of them, stock prices have been fuelled by thematic trades and speculation on short-term earnings and overshot their fundamentals. This is not sustainable. Going into 2018, it would not be surprising to see a period of consolidation. In fact, since November, we have started to see some degree of rotation out of year-to-date winners into laggards.

That said, we remain positive on Hong Kong equities. Corporate earnings and cash flows continue to improve with strong balance sheets. Also we are seeing some encouraging development in corporate behaviour. For select consumer stocks, management teams are increasingly focused on profitability rather than just chasing scale growth. Elsewhere, efforts are made to enhance disclosure and improve corporate transparency. These should help build confidence in China / Hong Kong equities over the long term.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.11 US Equity Fund

##### 1.11.1 Analysis of investments during the year

The fund returned 26.70%\* in 2017 compared with a 22.08% return for its benchmark, the FTSE MPF USA Index.

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
US Equity Fund (Launch date: 19 March 2007)	26.70	13.79	6.76	6.16
Benchmark	22.08	15.24	7.85	7.69
Deviation from the benchmark	4.62	(1.45)	(1.09)	(1.53)

##### 1.11.2 Trustee's commentary

A backdrop of tame inflation, historically low interest rates and moderate economic growth in the United States have all been supportive for growth investing in 2017. In this environment, it was a year of strong performance for the fund and its benchmark, the FTSE AW MPF USA (35% hedged into HKD) Index. However, the fund's results in the health care, energy, and consumer discretionary sectors detracted from relative returns. Conversely, the telecommunication services and information technology sectors were strong contributors to relative returns.

Stock selection in the health care sector detracted from relative fund performance. The sector ended the year with positive returns as encouraging data on drug development and some clarity on health care reform contributed to overall sector gains. In the energy sector, low oil prices and high crude inventories throughout most of the year pressured many energy stocks.

In contrast, an underweighting in the telecommunication services sector proved positive for annual relative performance. A substantial overweighting in the information technology sector also contributed to relative results as the sector rallied on a strong economic news and solid corporate earnings.

We expect the continued positive backdrop of low inflation and interest rates along with modest growth to remain in place and to be supportive of growth equities in the United States and globally. However, we are mindful of some reasonable risk scenarios—such as the US economy overheating, possibly in combination with interest-rate and inflation surprises to the upside—that might lead to market volatility. Nevertheless, as long-term investors, we believe that while macro factors can be volatile in the short to medium term, there is an innovation-driven, secular tailwind for growth at work.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.11 US Equity Fund (continued)

##### 1.11.2 Trustee's commentary (continued)

For example, in recent years, the application of data analytics and automation, combined with the power of cloud computing, has driven secular changes in numerous other industries, such as health care, industrials and retail. As we look at the investment landscape, we are identifying companies embracing innovation and/or leveraging new technologies that disrupt traditional business models. For instance, consumer-oriented companies that want to stay relevant will need to make software investments to create more seamless customer experiences. Companies outside of the technology space have realised that, in order to remain competitive in an increasingly digitised landscape, they must embrace digital transformation, such as cloud computing, cybersecurity, and artificial intelligence. These examples have led us to view technology spending and investment as less discretionary and more necessary, giving IT a certain resiliency.

At the core of our investment strategy is the pursuit of equity securities of quality companies that we believe are leaders in their industries, have the potential to benefit from multi-year secular tailwinds and can generate solid risk-adjusted investment performance over a long-term horizon. As active managers, we see near-term market gyrations or short-term politically induced market upheavals as opportunities to buy high-quality companies at more attractive prices. So, we are apt to see any short-term volatility not as an obstacle, but as an occasion to add quality names to our portfolios.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.



## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.12 Greater China Equity Fund

##### 1.12.1 Analysis of investments during the year

The fund returned 47.05%\* in 2017 compared with a 41.40% return for its benchmark, the MSCI Golden Dragon Net index.

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
Greater China Equity Fund (Launch date: 1 May 2011)	47.05	10.16	N/A	6.51
Benchmark	41.40	10.00	N/A	6.80
Deviation from the benchmark	5.65	0.16	N/A	(0.29)

##### 1.12.2 Trustee's commentary

The fund outperformed the benchmark for 2017. Positive stock selection and country allocation drove excess returns.

Stock picks in the technology sector fared well. AAC Technologies outperformed, before a broader correction in the Apple supply chain towards the end of the year, as share prices rose on a rosy outlook on dollar content upgrades in acoustics. Our core holdings in the financials sector also contributed. Our highest conviction holding in the overall Fund, Ping An, rallied on strong execution and earnings growth, supported by higher rates towards the end of the year. The life insurer showcased its fintech developments at its 2017 investor day, which were very well received by investors. China Merchants also climbed on strong operational results underpinned by significant improved asset quality and continuous retail transformation, backed by a better macro backdrop and central bank's targeted RRR cut.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.12 Greater China Equity Fund (continued)

##### 1.12.2 Trustee's commentary (continued)

Meanwhile, leveraged real estate developers with poor governance rose sharply this year, with the likes of Sunac China, China Evergrande and Country Garden rising a staggering 370% on average for the year. Our zero weights in these names detracted from performance as a result. However, we retain our preference for China Overseas Land and Investment, given its sustainable return profile, good track records and attractive valuation. Several utilities overweights also struggled. CGN Power fell on tariff cuts and we subsequently exited on rising worries about the government's commitment to nuclear energy as local governments renege on National Development and Reform Commission's directive. Guangdong Investment also lagged the overall market and we sold out of the name after disappointing news on tariffs for its Hong Kong water distribution business that indicated government relations more than offset economics. At the individual stock level, the top detracting holding was IMAX China, falling nearly 40% this year, as its film titles lagged the overall China box office. The stock stabilized towards the end of Q3 and we maintain a position here on the expectations of a sequential recovery in growth rate. CNOOC, our only holding in the energy sector, fell on forecasts of production cuts and capex increases, although it bounced back towards the end of year on improving crude prices. We continue to believe the upstream company remains best positioned for a normalization in oil price.

We view recent government actions in China as positive, but also as indicative of slowing headline growth rates both on a short-term cyclical basis, as environmental considerations precipitate production slowdowns and shutdowns, and on a medium-term secular basis, given much-needed leverage stabilization. On the less sanguine side, we believe the launch of the new Apple phone has whet consumer appetite for a new, more expensive device, but current price points mean consumers may wait for new, lower cost models. Given the large size of this market within technology, it is difficult for other trends, including artificial intelligence, crypto currency mining, and internet-of-things, to offset this slowdown. Consequently, while the structural case for technology demand is intact, near-term worries may limit equity performance. The initial round of A-share inclusion into MSCI indices in 2018 marks the beginning of an increase in relevance of the asset class for investors. While impact in the short term may be minimal, we see long-term positive implications for the development of the onshore markets as investor profiles and investment style proliferate, rebalancing the investment horizon that is currently dominated by retail investors. The index inclusion should draw more interest in A-shares from foreign investors, who would be more interested in quality names in sectors enjoying structural growth.

\* Performance is calculated net of fees since 1 January 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.13 Age 65 Plus Fund

##### 1.13.1 Analysis of investments during the year

In 2017, the fund returned 2.94%\* compared with a 3.69% return for its benchmark. The components of the benchmark were as follows: FTSE MPF All-World Index (20%), Citi MPF WGBI (77%) and Hong Kong Mandatory Provident Fund Schemes Authority's prescribed savings rate (3%).

	Annualised return			Since launch
	1 year %	5 years %	10 years %	
Age 65 Plus Fund (Launch date: 1 April 2017)	N/A	N/A	N/A	2.94
Benchmark	N/A	N/A	N/A	3.69
Deviation from the benchmark	N/A	N/A	N/A	(0.75)

##### 1.13.2 Trustee's commentary

###### Equity analysis

Global equity markets ended the year near all-time highs amid solid corporate earnings and accelerating economic activity. Global economic growth continued to be robust and broad-based, driven by industrial activity and investment. After uncertainty surrounding the French and German election disappeared, markets continued to rally. Some short-term pressure on markets was caused by investors rushing to so-called 'safe-haven' assets after North Korea launched a ballistic missile that flew over Japan with President Trump responding by saying that "all options are on the table". In the US, returns were boosted by President Trump's end-of-year tax-cutting package and promised infrastructure spending. Economic growth indicators in the euro-area remained strong and picked up additional momentum towards the end of the year. Accelerating growth in the euro-area has yet to translate into higher prices, justifying the European Central Bank's decision in October to prolong its asset purchase program for nine months. In the US, the FED stuck to its plan and raised interest rates twice. Performance towards the end of the year helped global equity markets achieve their best annual performance since 2013.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.13 Age 65 Plus Fund (continued)

##### 1.13.2 Trustee's commentary (continued)

Since inception last year the APIF Global Strategy Equity Fund delivered 16.62% net of fees, thereby marginally underperforming its benchmark. Our strategy invests globally in stocks, in alignment with the MPF regulations. In the bullish market of 2017 the portfolio performed in line with the broad market. For the portfolio we favour companies that, in our view, are attractively valued, have good earnings and price momentum and evidence that management supports shareholder value. These companies are selected using our multi-factor model and hence give investors an advantage.

Relative performance last year is based on multiple aspects. Stock selection using our Multi-Factor model had a positive impact on relative performance. Especially our factors Earnings Momentum and Quality delivered positive results, but also the factors Price Momentum and Value contributed positively to performance.

Contributions from countries & currencies, which are a residual of our multi-factor portfolio optimization approach, had a negative impact on portfolio performance. Underweights in Belgian and Taiwanese assets added value, whereas overweight positions in Swedish, US, and Dutch assets hurt the relative performance. Underweights in CHF contributed positively to the performance, while underweights in CAD and EUR detracted from performance.

Implicit active sector weights, a residual from our stock selection, added marginally to performance. Positive contributions from overweight in the IT sector and Energy sector were able to offset the negative performance contributions resulting from an overweight in Health Care sector stocks and an underweight in the materials sector. Over the long term we expect to have a small to no contribution from our country and sector allocation. Other factors contributed slightly positively to the relative performance mainly driven by our exposure to smaller capitalised stocks.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.13 Age 65 Plus Fund (continued)

##### 1.13.2 Trustee's commentary (continued)

###### Fixed income analysis

In April transitory factors globally have been driving headline inflation higher, resulting in central banks having to clarify how they will act. Political uncertainty across Europe abated with the perceived market friendly candidate, Emmanuel Macron beating far right candidate Marine le Pen in the French election to become president. In the US, few details have emerged regarding Trump's policies leading the market to become increasingly sceptical of his effectiveness. Overall, economic data has remained buoyant despite indications that the best is behind us; meanwhile central bank rhetoric has become increasingly hawkish leading to weakness across bond markets. In the second half of the reporting period increased geopolitical concerns surrounding the Korean peninsula raised market uncertainty and the level of market volatility. Additionally, global central bank rhetoric became increasingly hawkish. In Europe, the European Central Bank president Mario Draghi announced a reduction in the amount of economic stimulus during 2018 and in November the Bank of England hiked rates by 0.25%, taking the rate back to its pre-referendum level of 0.5%. This was widely expected by market participants and the market does not now expect another hike until late 2018. The year ended with the Senate in US approving Donald Trump's tax reform bill. The reforms will cut the US corporate tax rate from 35% to 21% and also make adjustments to personal tax rates.

At inception in April our portfolio was positioned to take advantage of deeper valued government bonds, an allocation intended to do well in the environment of generally rising rates which we expected, though over the later part of the year we increased the size of our hedges, in lower volatility bonds, to control portfolio tail risk. Over Q2 and Q3 this value factor performed strongly, but over Q4 the factor performed more weakly. We already had our hedges in place by this time, so the portfolio suffered less than it would have otherwise over the quarter, but positions in Mexico (where there was uncertainty on US trade talks and high inflation) and South Africa (with the uncertainty of the ANC leadership challenge) still detracted from performance. Our short positions in the EU and US performed well, as central bankers slowly moved away from their previously loose monetary policy, though our short position in the UK underperformed these other core rates as Brexit weighed heavily on central bankers' minds hindering further rate hikes. Otherwise, our generally long positions in Australia and New Zealand also added to performance.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.13 Age 65 Plus Fund (continued)

##### 1.13.2 Trustee's commentary (continued)

Looking ahead, global growth continues to look strong. Within Europe, growth continues to be broad-based fuelled by domestic demand. The outlook for the US consumer remains positive due to the strong trend jobs growth and consumer confidence. Growth momentum in emerging markets is moderating (namely in Asia and emerging Europe) but is still constructive. Specifically, Chinese growth is expected to moderate in 2018 but not to levels that will disrupt our positive growth view. Global inflation remains benign and we expect this to continue for the next three to six months. US inflation is expected to continue to firm but not materially. The benign inflation story provides central bankers with the flexibility to continue to be gradual. Therefore, we do not expect policy tightening to disrupt financial markets significantly. However, given tight valuations more broadly, a shock to financial conditions continues to be a significant risk. Other risks to watch are an inflation shock to the upside and the impact of robust purchasing managers' index (PMI) globally.

\* Performance is calculated net of fees since 1 April 2017. Past performance is not indicative of future results.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.14 Core Accumulation Fund

##### 1.14.1 Analysis of investments during the year

In 2017, the fund returned 9.16%\* compared with a 9.74% return for its benchmark. The components of the benchmark were as follows: FTSE MPF All-World Index (60%), Citi MPF WGBI (37%) and Hong Kong Mandatory Provident Fund Schemes Authority's prescribed savings rate (3%).

	Annualised return			Since launch %
	1 year %	5 years %	10 years %	
Core Accumulation Fund (Launch date: 1 April 2017)	N/A	N/A	N/A	9.16
Benchmark	N/A	N/A	N/A	9.74
Deviation from the benchmark	N/A	N/A	N/A	(0.58)

##### 1.14.2 Trustee's commentary

###### Equity analysis

Global equity markets ended the year near all-time highs amid solid corporate earnings and accelerating economic activity. Global economic growth continued to be robust and broad-based, driven by industrial activity and investment. After uncertainty surrounding the French and German election disappeared, markets continued to rally. Some short-term pressure on markets was caused by investors rushing to so-called 'safe-haven' assets after North Korea launched a ballistic missile that flew over Japan with President Trump responding by saying that "all options are on the table". In the US, returns were boosted by President Trump's end-of-year tax-cutting package and promised infrastructure spending. Economic growth indicators in the euro-area remained strong and picked up additional momentum towards the end of the year. Accelerating growth in the euro-area has yet to translate into higher prices, justifying the European Central Bank's decision in October to prolong its asset purchase program for nine months. In the US, the FED stuck to its plan and raised interest rates twice. Performance towards the end of the year helped global equity markets achieve their best annual performance since 2013.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.14 Core Accumulation Fund (continued)

##### 1.14.2 Trustee's commentary (continued)

Since inception last year the APIF Global Strategy Equity Fund delivered 16.62% net of fees, thereby marginally underperforming its benchmark. Our strategy invests globally in stocks, in alignment with the MPF regulations. In the bullish market of 2017 the portfolio performed in line with the broad market. For the portfolio we favour companies that, in our view, are attractively valued, have good earnings and price momentum and evidence that management supports shareholder value. These companies are selected using our multi-factor model and hence give investors an advantage.

Relative performance last year is based on multiple aspects. Stock selection using our Multi-Factor model had a positive impact on relative performance. Especially our factors Earnings Momentum and Quality delivered positive results, but also the factors Price Momentum and Value contributed positively to performance.

Contributions from countries & currencies, which are a residual of our multi-factor portfolio optimization approach, had a negative impact on portfolio performance. Underweights in Belgian and Taiwanese assets added value, whereas overweight positions in Swedish, US, and Dutch assets hurt the relative performance. Underweights in CHF contributed positively to the performance, while underweights in CAD and EUR detracted from performance.

Implicit active sector weights, a residual from our stock selection, added marginally to performance. Positive contributions from overweight in the IT sector and Energy sector were able to offset the negative performance contributions resulting from an overweight in Health Care sector stocks and an underweight in the materials sector. Over the long term we expect to have a small to no contribution from our country and sector allocation. Other factors contributed slightly positively to the relative performance mainly driven by our exposure to smaller capitalised stocks.



## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.14 Core Accumulation Fund (continued)

##### 1.14.2 Trustee's commentary (continued)

###### Fixed income analysis

In April transitory factors globally have been driving headline inflation higher, resulting in central banks having to clarify how they will act. Political uncertainty across Europe abated with the perceived market friendly candidate, Emmanuel Macron beating far right candidate Marine le Pen in the French election to become president. In the US, few details have emerged regarding Trump's policies leading the market to become increasingly sceptical of his effectiveness. Overall, economic data has remained buoyant despite indications that the best is behind us; meanwhile central bank rhetoric has become increasingly hawkish leading to weakness across bond markets. In the second half of the reporting period increased geopolitical concerns surrounding the Korean peninsula raised market uncertainty and the level of market volatility. Additionally, global central bank rhetoric became increasingly hawkish. In Europe, the European Central Bank president Mario Draghi announced a reduction in the amount of economic stimulus during 2018 and in November the Bank of England hiked rates by 0.25%, taking the rate back to its pre-referendum level of 0.5%. This was widely expected by market participants and the market does not now expect another hike until late 2018. The year ended with the Senate in US approving Donald Trump's tax reform bill. The reforms will cut the US corporate tax rate from 35% to 21% and also make adjustments to personal tax rates.

At inception in April our portfolio was positioned to take advantage of deeper valued government bonds, an allocation intended to do well in the environment of generally rising rates which we expected, though over the later part of the year we increased the size of our hedges, in lower volatility bonds, to control portfolio tail risk. Over Q2 and Q3 this value factor performed strongly, but over Q4 the factor performed more weakly. We already had our hedges in place by this time, so the portfolio suffered less than it would have otherwise over the quarter, but positions in Mexico (where there was uncertainty on US trade talks and high inflation) and South Africa (with the uncertainty of the ANC leadership challenge) still detracted from performance. Our short positions in the EU and US performed well, as central bankers slowly moved away from their previously loose monetary policy, though our short position in the UK underperformed these other core rates as Brexit weighed heavily on central bankers' minds hindering further rate hikes. Otherwise, our generally long positions in Australia and New Zealand also added to performance.

## Investment report (continued)

### 1 Analysis of investments and Trustee's commentary (continued)

#### 1.14 Core Accumulation Fund (continued)

##### 1.14.2 Trustee's commentary (continued)

Looking ahead, global growth continues to look strong. Within Europe, growth continues to be broad-based fuelled by domestic demand. The outlook for the US consumer remains positive due to the strong trend jobs growth and consumer confidence. Growth momentum in emerging markets is moderating (namely in Asia and emerging Europe) but is still constructive. Specifically, Chinese growth is expected to moderate in 2018 but not to levels that will disrupt our positive growth view. Global inflation remains benign and we expect this to continue for the next three to six months. US inflation is expected to continue to firm but not materially. The benign inflation story provides central bankers with the flexibility to continue to be gradual. Therefore, we do not expect policy tightening to disrupt financial markets significantly. However, given tight valuations more broadly, a shock to financial conditions continues to be a significant risk. Other risks to watch are an inflation shock to the upside and the impact of robust purchasing managers' index (PMI) globally.

\* Performance is calculated net of fees since 1 April 2017. Past performance is not indicative of future results.

#### 1.15 Trustee's commentary and performance assessment

We are of the view that:

- (a) the investments made complied with the Scheme rules; and
- (b) the investment strategy of our constituent funds followed the investment objectives specified in the Principal Brochure.

On a regular basis, the directors of MassMutual Trustees Limited review the funds' performances and discuss with the Investment Managers on ways to improve their funds' performances, if necessary.

Moreover, the directors also review the variety of Fund choices offered to members, the size of each constituent fund and the fee level to ensure Mass Mandatory Provident Fund Scheme is competitive in the market.

## Investment report (continued)

### **2 Particulars of the investment policy during the year**

#### **2.1 Statement of investment policy**

##### **2.1.1 MPF Conservative Fund**

The investment objective of the MPF Conservative Fund is to provide a convenient and easily realisable medium of investment for investors who require a level of income combined with a high degree of capital protection by investing in HK dollar denominated bank deposits and other high quality HK dollar denominated fixed interest and other monetary instruments. The MPF Conservative Fund seeks to achieve the above objective by investing into the Allianz Choice HK\$ Liquidity Fund of the Allianz Global Investors Choice Fund.

As a result of investing into the Allianz Choice HK\$ Liquidity Fund of the Allianz Global Investors Choice Fund, the MPF Conservative Fund may invest in any or a combination of (a) deposits for a term not exceeding 12 months; (b) unrestricted investment having a remaining maturity period of no more than 2 years; (c) debt securities (other than unrestricted investment) with a remaining maturity period of no more than 1 year and which satisfy the minimum credit rating set by the MPFA or (d) any other assets permitted for investment by Capital Preservation Fund pursuant to the MPF Regulation.

The MPF Conservative Fund will maintain an average portfolio maturity of not more than 90 days and an effective currency exposure (as defined in the Regulation) to Hong Kong dollars equal to the latest available NAV of the Allianz Choice HK\$ Liquidity Fund of the Allianz Global Investors Choice Fund.

The MPF Conservative Fund is a low-risk investment option which protects investors against investment losses resulting from market fluctuations or volatility. The MPF Conservative Fund may not engage in financial futures contracts or financial option contracts or currency forward contracts or in securities lending.

The inherent risk in implementing the above investment policy is considered low.

##### **2.1.2 Guaranteed Fund and Mass MPF Guaranteed Policy (the "APIF Policy")**

The primary investment objective of the Guaranteed Fund and the underlying APIF Policy are identical. The Guaranteed Fund and the underlying APIF policy aim at achieving long-term capital appreciation through a primary emphasis on global fixed income securities and a secondary exposure to global equity markets.

The assets of the Guaranteed Fund are invested solely in the underlying APIF Policy. The assets of the underlying APIF Policy, in turn, are invested solely in the Allianz Choice Capital Stable Fund of the Allianz Global Investors Choice Fund.

## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

As a result of the investments in the Allianz Choice Capital Stable Fund of the Allianz Global Investors Choice Fund, the Guaranteed Fund and the underlying APIF Policy are expected to invest 30% of their assets in equities and 70% in fixed-interest securities. The fixed income portion of the Allianz Choice Capital Stable Fund of the Allianz Global Investors Choice Fund will consist of a range of instruments issued in countries around the world. The equity portion of the Allianz Choice Capital Stable Fund of the Allianz Global Investors Choice Fund will be invested primarily in the Hong Kong, Japan, North American and European markets with a smaller proportion, being invested, at the discretion of the investment manager, in other Asian countries and emerging markets.

The Guaranteed Fund maintains an "effective currency exposure" to Hong Kong dollars (as defined in the Regulation) of not less than 30 per cent.

The underlying APIF Policy may not engage in financial futures contracts, financial option contracts and currency forward contracts. Moreover, neither the Guaranteed Fund nor the underlying APIF Policy engages in securities lending. However, the Allianz Choice Capital Stable Fund of the Allianz Global Investors Choice Fund may engage in financial futures contracts, financial option contracts, and currency forward contracts for hedging purposes only. The assets of the Allianz Choice Capital Stable Fund of the Allianz Global Investors Choice Fund may also be applied for the purpose of entering into stock lending transactions. Any such use of stock lending transactions or repurchase agreements will be effected in accordance with the applicable regulatory requirements and the terms of the constitutive documents of the Allianz Choice Capital Stable Fund of the Allianz Global Investors Choice Fund.

The inherent risk in implementing the above investment policy is considered low to medium. The Guaranteed Fund is expected to provide investors with capital preservation combined with steady capital appreciation over the long term by investing in a diversified portfolio of global equities and fixed-interest securities.

Subject to the occurrence of qualifying events, the Guaranteed Fund will provide guarantee on net contributions only made by or for a member (i.e. contribution monies less any offer spread imposed).

The Guaranteed Fund in the Scheme invests in an insurance policy which includes a guarantee. The insurance policy is issued by the insurer, MassMutual Asia.

Given that all the assets of the Guaranteed Fund are invested in the underlying APIF Policy issued by MassMutual Asia, the guarantee offered by the Guaranteed Fund is effectively provided by MassMutual Asia. As a result of this guarantee feature, the performance of the Guaranteed Fund may be diluted.

## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

#### 2.1.3 Global Stable Fund

The Global Stable Fund seeks to achieve a stable overall return over the long term by investing in a diversified portfolio of global equities and fixed-interest securities. The Global Stable Fund seeks to achieve the above objectives by investing its assets into the Allianz Choice Stable Growth Fund of the Allianz Global Investors Choice Fund. The criteria for selecting the specific Underlying Investment Fund of the Allianz Global Investors Choice Fund for the Global Stable Fund are as follows: meets our investment objectives, balances between fixed income and equities, risk considerations and strategy formulation with the investment manager.

As a result of investing into the Allianz Choice Stable Growth Fund of the Allianz Global Investors Choice Fund, the Global Stable Fund is expected to invest 50% of its assets in equities and 50% in fixed-interest securities. The fixed income portion of the Allianz Choice Stable Growth Fund of the Allianz Global Investors Choice Fund will consist of a range of instruments issued in countries around the world. The equity portion of the Allianz Choice Stable Growth Fund of the Allianz Global Investors Choice Fund will be invested primarily in the Hong Kong, Japan, North American and European markets with a smaller proportion being invested, at the discretion of the investment manager, in other Asian countries and emerging markets.

The Global Stable Fund will maintain an "effective currency exposure" to Hong Kong dollars (as defined in the Regulation) of not less than 30 per cent.

The Global Stable Fund may not engage in financial futures contracts, financial option contracts and currency forward contracts. Moreover, the Global Stable Fund will not engage in securities lending. However, the Allianz Choice Stable Growth Fund of the Allianz Global Investors Choice Fund may engage in financial futures contracts, financial option contracts and currency forward contracts for hedging purposes only. The assets of the Allianz Choice Stable Growth Fund of the Allianz Global Investors Choice Fund may also be applied for the purpose of entering into stock lending transactions. Any such use of stock lending transactions or repurchase agreements will be effected in accordance with the applicable regulatory requirements and the terms of the constitutive documents of the Allianz Choice Stable Growth Fund of the Allianz Global Investors Choice Fund.

The inherent risk in implementing the above investment policy is considered medium.

## Investment report (continued)

### **2 Particulars of the investment policy during the year (continued)**

#### **2.1.4 Global Growth Fund**

The Global Growth Fund seeks to achieve a high level of overall return over the long term by investing in a diversified portfolio of global equities and fixed-interest securities. The Global Growth Fund seeks to achieve the above objectives by investing its assets into the Allianz Choice Balanced Fund of the Allianz Global Investors Choice Fund. The criteria for selecting the specific Underlying Investment Fund of the Allianz Global Investors Choice Fund for the Global Growth Fund are as follows: meets our investment objectives, balances between fixed income and equities, risk considerations and strategy formulation with the investment manager.

As a result of investing into the Allianz Choice Balanced Fund of the Allianz Global Investors Choice Fund, the Global Growth Fund is expected to invest 70% of its assets in equities and 30% in fixed-interest securities. The fixed income portion of the Allianz Choice Balanced Fund of the Allianz Global Investors Choice Fund will consist of a range of instruments issued in countries around the world. The equity portion of the Allianz Choice Balanced Fund of the Allianz Global Investors Choice Fund will be invested primarily in the Hong Kong, Japan, North American and European markets with a smaller proportion, being invested, at the discretion of the investment manager, in other Asian countries and emerging markets.

The Global Growth Fund will maintain an "effective currency exposure" to Hong Kong dollars (as defined in the Regulation) of not less than 30 per cent.

The Global Growth Fund may not engage in financial futures contracts, financial option contracts and currency forward contracts. Moreover, the Global Growth Fund will not engage in securities lending. However, the Allianz Choice Balanced Fund of the Allianz Global Investors Choice Fund may engage in financial futures contracts, financial option contracts and currency forward contracts for hedging purposes only. The assets of the Allianz Choice Balanced Fund of the Allianz Global Investors Choice Fund may also be applied for the purpose of entering into stock lending transactions. Any such use of stock lending transactions or repurchase agreements will be effected in accordance with the applicable regulatory requirements and the terms of the constitutive documents of the Allianz Choice Balanced Fund of the Allianz Global Investors Choice Fund.

The inherent risk in implementing the above investment policy is considered medium to high.

## Investment report (continued)

### **2 Particulars of the investment policy during the year (continued)**

#### **2.1.5 Asian Balanced Fund**

The investment objective of the Asian Balanced Fund is to seek to maximise the total return through both capital growth and current income over the medium to longer-term. This fund seeks to achieve the above objective by investing into the Templeton MPF Asian Balanced Fund.

As a result of investing into the Templeton MPF Asian Balanced Fund, the portfolio of the Asian Balanced Fund will primarily invest in a balanced portfolio of equity securities (common stocks) of companies listed on Asian stock markets, bond and fixed income securities, and cash deposits. Other investment assets used by this fund include debt obligations and other publicly traded securities, including preferred stocks, convertible securities and corporate bonds. This fund is actively managed to achieve as high a return as possible commensurate with the lower level of risk considered appropriate for retirement scheme investors.

The Asian Balanced Fund has no prescribed allocations for investments in any single country or specified industry. There is no specific target allocation for any single market sector. This fund may invest in a wide choice of securities in accordance with its Asian mandate. Although this fund is a balanced fund, the investment manager intends to invest, under normal market conditions, a majority of the fund's assets in equity securities, with the remainder in fixed income securities and cash deposits. During periods in which the investment manager believes changes in economic, financial or political conditions make it advisable to do so, this fund may, for temporary defensive purposes, hold cash or short-term fixed income instruments without any limit.

In selection of equity assets for the Asian Balanced Fund, the initial focus will be on the following countries: Hong Kong, Singapore, South Korea, Thailand, Malaysia, the Philippines, China and Indonesia. In selecting fixed income securities for this fund, these Asian countries, together with the developed markets of the US, Europe and Japan may be included.

The Asian Balanced Fund will have a minimum of 30% of its net assets in Hong Kong dollar currency investments. This fund will therefore have a maximum of 70% of its net assets in non- Hong Kong dollar currency investments, which will have an Asian investment mandate.

The Asian Balanced Fund through Templeton MPF Asian Balanced Fund invests in equity and fixed income securities. Investments by this fund are restricted by the terms of the Templeton Trust Deed and by the Regulation.

## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

Subject to the limits set out in the investment restrictions specified in the Templeton Trust Deed and the Regulation, the investment manager may seek to protect and enhance the asset value through hedging strategies consistent with the fund's investment objective by utilising currency options, forward contracts and futures contracts. This fund may, on an ancillary basis, hold liquid assets, which may be kept in the form of cash deposits or in short-term money market instruments. This fund would not engage in such contracts and would be entered by the underlying approved pooled investment funds.

The Manager has the discretion under the Templeton Trust Deed to request the Trustee to enter into security lending arrangements; it is the Manager's current policy that this fund will not be engaged in security lending.

The Asian Balanced Fund is subject to market fluctuations, and to the risks inherent in all investments. Investors should regard the Asian Balanced Fund as a medium risk investment.

#### 2.1.6 Global Bond Fund

The investment objective of the Global Bond Fund is to seek total investment return over the medium to longer-term. This fund seeks to achieve the above objective by investing into the Templeton MPF Global Bond Fund.

As a result of investing into the Templeton MPF Global Bond Fund, the portfolio of the Global Bond Fund will primarily invest in fixed income securities issued by governments and governmental agencies globally. Investment assets used by this fund include debt obligations (bonds), preferred stocks, corporate debt obligations and convertible securities. This fund is actively managed to achieve as high a return as possible commensurate with the lower level of risk considered appropriate for retirement scheme investors.

The Global Bond Fund has no prescribed allocations for investments in any single country or currency. This fund may invest in a wide choice of investments in accordance with its global mandate. As this fund is a bond fund, the investment adviser intends to invest, under normal market conditions, a majority of the Fund's assets in fixed income securities.

The Global Bond Fund will have a minimum of 30% of its net assets in Hong Kong dollar currency investments. This fund will therefore have a maximum of 70% of its net assets in non-Hong Kong dollar currency investments, which will have a global investment mandate.



## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

The Global Bond Fund through Templeton MPF Global Bond Fund invests in fixed income securities. Investments by this fund are restricted by the terms of the Templeton Trust Deed and by the Regulation.

Subject to the limits set out in the investment restrictions specified in the Templeton Trust Deed and the Regulation, the investment manager may seek to protect and enhance the asset value through hedging strategies consistent with this fund's investment objective by utilising currency options, forward contracts and futures contracts. This fund may, on an ancillary basis, hold liquid assets, which may be kept in the form of cash deposits or in short-term money market instruments. This fund would not engage in such contracts and would be entered by the underlying approved pooled investment funds.

The Manager has the discretion under the Templeton Trust Deed to request the Trustee to enter into security lending arrangements; it is the Manager's current policy that this fund will not be engaged in security lending.

The Global Bond Fund is subject to market fluctuations, and to the risks inherent in all investments. Investors should regard the Global Bond Fund as a low risk investment.

#### 2.1.7 Global Equity Fund

The investment objective of the Global Equity Fund is to seek capital growth over the medium to longer-term. This fund seeks to achieve the above objective by investing into the Templeton MPF Global Equity Fund.

As a result of investing into the Templeton MPF Global Equity Fund, the portfolio of the Global Equity Fund will primarily invest in equity securities (common stocks) of companies listed on stock markets globally. Other investment assets used by this fund include debt obligations (bonds) and other publicly traded securities, including preferred stocks, convertible securities and fixed income securities. This fund is actively managed to achieve as high a return as possible commensurate with the lower level of risk considered appropriate for retirement scheme investors.

The Global Equity Fund has no prescribed allocations for investments in any single country or specified industry. There is no specific target allocation for any single market sector. This fund may invest in a wide choice of securities in accordance with its global mandate. As this fund is an equity fund, the investment manager intends to invest, under normal market conditions, a majority of the fund's assets in equity securities. During periods in which the investment manager believes changes in economic, financial or political conditions make it advisable to do so, the fund may, for temporary defensive purposes, hold cash or short-term fixed income instruments without any limit.

## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

The Global Equity Fund will have a minimum of 30% of its net assets in Hong Kong dollar currency investments. This fund will therefore have a maximum of 70% of its net assets in non-Hong Kong dollar currency investments, which will have a global investment mandate.

The Global Equity Fund through Templeton MPF Global Equity Fund invests in securities. Investments by this fund are restricted by the terms of the Templeton Trust Deed and by the Regulation. Subject to the limits set out in the investment restrictions specified in the Templeton Trust Deed and in the Regulation, the investment manager may seek to protect and enhance the asset value through hedging strategies consistent with the fund's investment objective by utilising currency options, forward contracts and futures contracts. This fund may, on an ancillary basis, hold liquid assets, which may be kept in the form of cash deposits or in short-term money market instruments. This fund would not engage in such contracts and would be entered by the underlying approved pooled investment funds.

The Manager has the discretion under the Templeton Trust Deed to request the Trustee to enter into security lending arrangements; it is the Manager's current policy that this fund will not be engaged in security lending.

The Global Equity Fund is subject to market fluctuations, and to the risks inherent in all investments. Investors should regard the Global Equity Fund as a high risk investment.

#### 2.1.8 Asian Pacific Equity Fund

The investment objective of the Asian Pacific Equity Fund is to seek capital growth over the medium to longer-term. This fund seeks to achieve the above objective by investing into the Templeton MPF Asian Pacific Equity Fund.

As a result of investing into the Templeton MPF Asian Pacific Equity Fund, the portfolio of the Asian Pacific Equity Fund will primarily invest in equity securities (common stocks) of companies listed on Asian stock markets, excluding Japan. Other investment assets used by this fund include debt obligations (bonds) and other publicly traded securities, including preferred stocks, convertible securities and fixed income securities. This fund is actively managed to achieve as high a return as possible commensurate with the lower level of risk considered appropriate for retirement scheme investors.

## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

The Asian Pacific Equity Fund has no prescribed allocations for investments in any single country or specified industry. There is no specific target allocation for any single market sector. This fund may invest in a wide choice of securities in accordance with its Asian mandate. As this fund is an equity fund, the investment manager intends to invest, under normal market conditions, a majority of this fund's assets in equity securities. During periods in which the investment manager believes changes in economic, financial or political conditions make it advisable to do so, this fund may, for temporary defensive purposes, hold cash or short-term fixed income instruments without any limit.

The Asian Pacific Equity Fund will have a minimum of 30% of its net assets in HKD currency investments. This fund will therefore have a maximum of 70% of its net assets in non-HKD currency investments, which will have an Asian investment mandate.

The Asian Pacific Equity Fund through Templeton MPF Asian Pacific Equity Fund invests in securities. Investments by this fund are restricted by the terms of the Templeton Trust Deed and by the Regulation. Subject to the limits set out in the investment restrictions specified in the Templeton Trust Deed and in the Regulation, the investment manager may seek to protect and enhance the asset value through hedging strategies consistent with the fund's investment objective by utilising currency options, forward contracts and futures contracts. This fund may, on an ancillary basis, hold liquid assets, which may be kept in the form of cash deposits or in short-term money market instruments. This fund would not engage in such contracts and would be entered by the underlying approved pooled investment funds.

The Manager has the discretion under the Templeton Trust Deed to request the Trustee to enter into security lending arrangements; it is the Manager's current policy that this fund will not be engaged in security lending.

The Asian Pacific Equity Fund is subject to market fluctuations, and to the risks inherent in all investments. Investors should regard the Asian Pacific Equity Fund as a high risk investment.

## Investment report (continued)

### **2 Particulars of the investment policy during the year (continued)**

#### **2.1.9 European Equity Fund**

The investment objective of the European Equity Fund is to seek capital growth over the medium to longer-term. This fund seeks to achieve the above objective by investing into the Templeton MPF European Equity Fund.

As a result of investing into the Templeton MPF European Equity Fund, the portfolio of the European Equity Fund will primarily invest in equity securities (common stocks) of companies listed on European stock markets. Other investment assets used by this fund include debt obligations (bonds) and other publicly traded securities, including preferred stocks, convertible securities and fixed income securities. This fund is actively managed to achieve as high a return as possible commensurate with the lower level of risk considered appropriate for retirement scheme investors.

The European Equity Fund has no prescribed allocations for investments in any single country or specified industry. There is no specific target allocation for any single market sector. This fund may invest in a wide choice of securities in accordance with its European mandate. As this fund is an equity fund, the investment manager intends to invest, under normal market conditions, a majority of this fund's assets in equity securities. During periods in which the investment manager believes changes in economic, financial or political conditions make it advisable to do so, this fund may, for temporary defensive purposes, hold cash or short-term fixed income instruments without any limit.

The European Equity Fund will have a minimum of 30% of its net assets in HKD currency investments. This fund will therefore have a maximum of 70% of its net assets in non-HKD currency investments, which will have a European investment mandate.

The European Equity Fund through Templeton MPF European Equity Fund invests in securities. Investments by this fund are restricted by the terms of the Templeton Trust Deed and by the Regulation. Subject to the limits set out in the investment restrictions specified in the Templeton Trust Deed and in the Regulation, the investment manager may seek to protect and enhance the asset value through hedging strategies consistent with the fund's investment objective by utilising currency options, forward contracts and futures contracts. This fund may, on an ancillary basis, hold liquid assets, which may be kept in the form of cash deposits or in short-term money market instruments. This fund would not engage in such contracts and would be entered by the underlying approved pooled investment funds.

## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

The Manager has the discretion under the Templeton Trust Deed to request the Trustee to enter into security lending arrangements; it is the Manager's current policy that this fund will not be engaged in security lending.

The European Equity Fund is subject to market fluctuations, and to the risks inherent in all investments. Investors should regard the European Equity Fund as a high risk investment.

#### 2.1.10 Hong Kong Equities Fund

The Hong Kong Equities Fund seeks to achieve long-term capital growth by investing primarily in Hong Kong equities, including Chinese securities listed in Hong Kong. The Hong Kong Equities Fund seeks to achieve the above objectives by investing its assets into the Allianz Choice Hong Kong Fund of the Allianz Global Investors Choice Fund. The criteria for selecting the specific Underlying Investment Fund of the Allianz Global Investors Choice Fund for the Hong Kong Equities Fund are as follows: meets our investment objectives, risk considerations and strategy formulation with the investment manager.

The Hong Kong Equities Fund will maintain an "effective currency exposure" to Hong Kong dollars (as defined in the Regulation) of not less than 30 per cent.

The Hong Kong Equities Fund may not engage in financial futures contracts, financial option contracts and currency forward contracts. Moreover, the Hong Kong Equities Fund will not engage in securities lending. However, the Allianz Choice Hong Kong Fund of the Allianz Global Investors Choice Fund may engage in financial futures contracts, financial option contracts and currency forward contracts for hedging purposes only. The assets of the Allianz Choice Hong Kong Fund of the Allianz Global Investors Choice Fund may also be applied for the purpose of entering into stock lending transactions. Any such use of stock lending transactions or repurchase agreements will be effected in accordance with the applicable regulatory requirements and the terms of the constitutive documents of the Allianz Choice Hong Kong Fund of the Allianz Global Investors Choice Fund.

The inherent risk in implementing the above investment policy is considered high.

## Investment report (continued)

### **2 Particulars of the investment policy during the year (continued)**

#### **2.1.11 US Equity Fund**

The investment objective of the US Equity Fund is to provide capital appreciation in the long-term through investment in US equities. The fund seeks to achieve the above objective by investing into the Franklin MPF US Opportunities Fund.

As a result of investing into the Franklin MPF US Opportunities Fund, the portfolio of the US Equity Fund will invest principally in equity securities of US companies demonstrating accelerating growth, increasing profitability, or above-average growth or growth potential as compared with the overall economy. Equity securities generally entitle the holder to participate in a company's general operating results. They include common stocks, convertible securities and warrants on securities to the extent permissible under the relevant regulatory requirement as set out in the Regulation.

The US Equity Fund has no prescribed allocations for investments in any single country or specified industry. There is no specific target allocation for any single market sector. The Franklin MPF US Opportunities Fund may invest in a wide choice of securities in accordance with its US mandate. As the Franklin MPF US Opportunities Fund is an equity fund, the investment manager intends to invest, under normal market conditions, a majority of its assets in equity securities. During periods in which the investment manager believes changes in economic, financial or political conditions make it advisable to do so, Franklin MPF US Opportunities Fund may, for temporary defensive purposes, hold cash or short-term fixed income instruments without any limit.

The US Equity Fund through the Franklin MPF US Opportunities Fund principally invests in small, medium, and large capitalisation companies with strong growth potential across a wide range of sectors. In selecting equity investments, the investment manager utilises fundamental, bottom-up research focusing on companies believed to possess sustainable growth characteristics and which meet growth, quality and valuation criteria. The investment manager focuses on sectors that have exceptional growth potential and fast growing, innovative companies within these sectors. In addition, solid management and sound financial records are factors that investment manager also considers. Although the investment manager under normal circumstances, searches for diversified investments across different sectors, the investment manager shall take into account the prevailing market conditions and investment opportunities and may, at its discretion, invest more than 15% of the assets of the Franklin MPF US Opportunities Fund in a particular sector (such as information technology), but in any event, such sector allocation shall not be more than 45% of the assets of the Franklin MPF US Opportunities Fund.

## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

The US Equity Fund will have a minimum of 30% of its net assets in Hong Kong dollar currency investments. The US Equity Fund will therefore have a maximum of 70% of its net assets in non-Hong Kong dollar currency investments, which will have a US investment mandate.

The US Equity Fund through Franklin MPF US Opportunities Fund invests in securities. Investments by the Franklin MPF US Opportunities Fund are restricted by the terms of the Templeton Trust Deed and by the Regulation. The Franklin MPF US Opportunities Fund may not purchase the securities of any one issuer if at the time of purchase, with respect to 75% of its total net assets, more than 5% of its assets would be invested in the securities of that issuer. The remaining 25% may be invested subject to the terms of the Templeton Trust Deed and the Regulation. These limitations do not apply to securities issued or guaranteed by the US government or its agencies or instrumentalities, but are subject always to the terms of the Templeton Trust Deed and the Regulation.

Subject to the limits set out in the investment restrictions specified in the Templeton Trust Deed and in the Regulation, the investment manager may seek to protect and enhance the asset value through hedging strategies consistent with the Franklin MPF US Opportunities Fund's investment objective by utilising currency options, forward contracts and futures contracts. The Franklin MPF US Opportunities Fund may, on an ancillary basis, hold liquid assets, which may be kept in the form of cash deposits or in short-term money market instruments. The US Equity Fund would not engage in such contracts which would be entered by the underlying approved pooled investment funds.

The investment manager has the discretion under the Templeton Trust Deed to request the Trustee to the Franklin MPF US Opportunities Fund to enter into security lending arrangements; it is the investment manager's current policy that the Franklin MPF US Opportunities Fund will not be engaged in security lending.

The US Equity Fund is subject to market fluctuations, and to the risks inherent in all investments. Investors should regard the US Equity Fund as a high risk investment.

#### 2.1.12 Greater China Equity Fund

The investment objective of the Greater China Equity Fund is to provide investors with long-term capital growth. This fund seeks to achieve the above objective by investing into the JP Morgan SAR Greater China Fund.

## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

As a result of investing into the JP Morgan SAR Greater China Fund, the portfolio of the Greater China Equity Fund will invest primarily in securities of companies based or operating principally in the People's Republic of China, Hong Kong, Macau or Taiwan ("Greater China Region") and the majority of these companies will be listed on a stock exchange in Hong Kong or Taiwan. This fund will not invest (directly or indirectly) more than 10% of its net assets in China A and/or B shares.

The Greater China Equity Fund through its investment in the JP Morgan SAR Greater China Fund will have the following ranges of asset allocations:

70 - 100%                non-cash assets in Greater China equities

0 - 30%                 non-cash assets in other equities

0 - 30%                 non-cash assets in bonds \*

\* For cash management purposes only.

The Greater China Equity Fund will have a minimum of 30% of its net assets in Hong Kong dollar currency investments.

The Greater China Equity Fund may not engage in financial futures contracts and financial option contracts. Moreover, the Greater China Equity Fund will not engage in security lending.

The Greater China Equity Fund through JP Morgan SAR Greater China Fund invests in securities. Investments by the JP Morgan SAR Greater China Fund are restricted by the terms of the Trust Deed of the JP Morgan SAR Greater China Fund and by the Regulation. Subject to the limits set out in the investment restrictions specific in the Trust Deed of the JP Morgan SAR Greater China Fund and in the Regulation, the investment manager may invest in financial options and warrants and enter into financial futures contracts for hedging purposes. The investment manager has the discretion under the Trust Deed of the JP Morgan SAR Greater China Fund to enter into securities lending arrangements under specific circumstances where the relevant guidelines issued by the MPFA are complied with. However, the investment manager of the JP Morgan SAR Greater China Fund does not currently intend to enter into such arrangements.

The Greater China Equity Fund is subject to market fluctuations and to the risks inherent in all investments. Investors should regard the Greater China Equity Fund as a high risk investment.



## Investment report (continued)

### **2 Particulars of the investment policy during the year (continued)**

#### **2.1.13 Age 65 Plus Fund**

The investment objective of the Age 65 Plus Fund is to achieve stable growth by investing in a globally diversified manner.

The Age 65 Plus Fund through the underlying approved pooled investment funds ("APIFs") of the Underlying Investment Fund adopts active investment strategy. The Underlying Investment Fund, through its APIFs, aim to achieve returns above the MPF industry developed Reference Portfolio for the Age 65 Plus Fund through active management of portfolio by making reference to the MPF industry developed Reference Portfolio for the Age 65 Plus Fund but may not be identical to the MPF industry developed Reference Portfolio for the Age 65 Plus Fund in terms of security selection and weighting and may selectively react to the movement of dealings in the portfolios or market fluctuation. This strategy aims to promote efficiency and minimize cost for the purpose of default investment strategy asset rebalancing.

The Age 65 Plus Fund shall be invested in an approved pooled investment fund named the Age 65 Plus Fund of Invesco Pooled Investment Fund, which in turn primarily invests in a combination of global equities and bonds in a global diversified manner (through investment in the Global Strategic Equity Fund and the Global Strategic Bond Fund of Invesco Pooled Investment Fund which are approved pooled investment funds) as allowed under the General Regulation.

The Age 65 Plus Fund, through the Underlying Investment Fund, targets to invest 20% of its net assets in Higher Risk Assets (such as global equities), with the remainder investing in Lower Risk Assets (such as global bonds, cash and money market instruments). The asset allocation to Higher Risk Assets may vary between 15% and 25% due to differing price movements of various equity and bond markets. The asset allocation to the Higher Risk Assets (ranged from 15% to 25%) is subject to the discretion of investment manager of the Age 65 Plus Fund.

There is no prescribed allocation for investments in any specific countries or currencies.

The Age 65 Plus Fund through its Underlying Investment Fund will maintain an effective currency exposure to Hong Kong dollars (as defined in the General Regulation) of not less than 30% through currency hedging operations.

The Age 65 Plus Fund and its Underlying Investment Fund will not enter into financial future contracts, financial option contracts and will not engage in security lending directly. However, the Age 65 Plus Fund and Underlying Investment Fund, through its APIFs, will enter into financial futures contracts and financial options contracts for hedging purposes only. Besides, the Age 65 Plus Fund will not engage in currency forward contracts.

## Investment report (continued)

### 2 Particulars of the investment policy during the year (continued)

Investment in the Age 65 Plus Fund is subject to market fluctuations and to the risk inherent to investing in securities. Because the asset allocation of Higher Risk Assets of the Age 65 Plus Fund may vary between 15% to 25%, based on the percentage of assets invested in equities (i.e. Higher Risk Assets), investors should regard the Age 65 Plus Fund as a low to medium risk investment. The return of the Age 65 Plus Fund over the long term is expected to be at least similar to the return of the MPF industry developed Reference Portfolio for the Age 65 Plus Fund.

#### 2.1.14 Core Accumulation Fund

The investment objective of the Core Accumulation Fund is to achieve capital growth by investing in a globally diversified manner.

The Core Accumulation Fund through the APIFs of the Underlying Investment Fund adopts active investment strategy. The Underlying Investment Fund, through its APIFs, aim to achieve returns above the MPF industry developed Reference Portfolio for the Core Accumulation Fund through active management of portfolio by making reference to the MPF industry developed Reference Portfolio for the Core Accumulation Fund but may not be identical to the MPF industry developed Reference Portfolio for the Core Accumulation Fund in terms of security selection and weighting and may selectively react to the movement of dealings in the portfolios or market fluctuation. This strategy aims to promote efficiency and minimize cost for the purpose of default investment strategy asset rebalancing.

The Core Accumulation Fund shall invest in an approved pooled investment fund named the Core Accumulation Fund of Invesco Pooled Investment Fund, which in turn primarily invests in a combination of global equities and bonds in a globally diversified manner (through investment in the Global Strategic Equity Fund and the Global Strategic Bond Fund of Invesco Pooled Investment Fund which are approved pooled investment funds) as allowed under the General Regulation.

The Core Accumulation Fund, through the underlying investment fund, targets to invest 60% of its net assets in Higher Risk Assets (such as global equities), with the remainder investing in Lower Risk Assets (such as global bonds, cash and money market instruments). The asset allocation to Higher Risk Assets may vary between 55% and 65% due to differing price movements of various equity and bond markets. The asset allocation to the Higher Risk Assets (ranged from 55% to 65%) is subject to the discretion of investment manager of the Core Accumulation Fund.

There is no prescribed allocation for investments in any specific countries or currencies.

The Core Accumulation Fund through its Underlying Investment Fund will maintain an effective currency exposure to Hong Kong dollars (as defined in the General Regulation) of not less than 30% through currency hedging operations.

## Investment report (continued)

### **2 Particulars of the investment policy during the year (continued)**

The Core Accumulation Fund and its Underlying Investment Fund will not enter into financial future contracts, financial option contracts and will not engage in security lending directly. However, the Core Accumulation Fund and Underlying Investment Fund, through its APIFs, will enter into financial futures and options contracts for hedging purposes only. Besides, the Core Accumulation Fund will not engage in currency forward contracts.

Investment in the Core Accumulation Fund is subject to market fluctuations and to the risk inherent to investment in securities. Because the asset allocation of Higher Risk Assets of the Core Accumulation Fund may vary between 55% to 65%, based on the percentage of assets invested in equities (i.e. Higher Risk Assets), investors should regard the Core Accumulation Fund as a medium to high risk investment. The return of the Core Accumulation Fund over the long term is expected to be at least similar to the return of the MPF industry developed Reference Portfolio for the Core Accumulation Fund.

#### **2.2 Change of investment policy**

Subject to the approval of the MPFA and the SFC,

- (i) the Trustee may change the investment policy of any constituent fund by one month's prior written notice (or such longer period not exceeding three months as may be imposed by the SFC) to the scheme participants; and
- (ii) the Insurer may change the investment policy of the APIF Policy by one month's prior written notice to the policyholders of the underlying APIF Policy.

## Investment report (continued)

### 3 Performance table

#### 3.1 MPF Conservative Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation	(1,000,377)	(471,081)	(550,376)	(497,669)	(99,191)
Capital appreciation - realised and unrealised	1,013,367	481,810	560,169	507,792	1,007
Income derived from investment *	-	-	-	-	-
Value of scheme assets derived from investment	206,051,985	168,511,498	141,659,450	136,311,734	131,220,942
Total net asset value	205,907,680	168,446,997	141,594,043	136,174,508	131,171,281
Net asset value per unit	10.8161	10.8154	10.8146	10.8053	10.8130

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	10.8161	10.8154	0.007
2016	10.8154	10.8146	0.007
2015	10.8146	10.8139	0.086
2014	10.8139	10.8118	(0.071)
2013	10.8221	10.8107	(0.083)
2012	10.8220	10.8185	0.004
2011	10.8297	10.8214	(0.074)
2010	10.8368	10.8283	(0.063)
2009	10.8618	10.8346	(0.244)
2008	10.8630	10.7666	0.938
2007	10.7555	10.5180	2.336
2006	10.5137	10.2640	2.486
2005	10.2597	10.1640	0.616
2004	10.2360	10.1956	(0.376)
2003	10.2371	10.2215	0.022
2002	10.2393	10.1566	0.769
2001	10.1564	9.9934	1.564

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 1 December 2000 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.2 Guaranteed Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	-	-	-	-	-
Capital appreciation/(depreciation) - realised and unrealised	14,327,592	(575,047)	(4,946,699)	(2,406,960)	1,517,222
Income derived from investment #	-	-	-	-	-
Value of scheme assets derived from investment	151,097,210	125,002,290	116,580,255	119,874,817	115,396,501
Total net asset value	151,097,210	125,002,290	116,580,255	119,874,817	115,396,501
Net asset value per unit	11.3663	10.3198	10.4419	10.9883	11.2701

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	11.3938	10.2917	10.141
2016	10.9875	10.1218	(1.169)
2015	11.3261	10.3833	(4.973)
2014	11.4376	10.9584	(2.500)
2013	11.4607	10.8076	0.919
2012	11.1864	10.4330	6.859
2011	11.2364	10.1280	(4.201)
2010	11.2159	10.1653	2.431
2009	10.9253	9.1197	5.911
2008	11.4559	9.2591	(12.250)
2007	11.6250	10.5509	7.705
2006	10.6676	10.0000	6.397

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 20 January 2006 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund policy. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund policy. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.3 Global Stable Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(3,529,596)	(3,072,057)	(3,107,973)	(2,564,552)	(2,038,599)
Capital appreciation/(depreciation) - realised and unrealised	43,033,897	6,019,942	(4,792,153)	871,998	18,393,819
Income derived from investment *	-	-	-	-	-
Value of scheme assets derived from investment	263,473,264	224,809,140	213,579,793	220,366,439	221,170,115
Total net asset value	262,885,641	224,457,880	213,214,612	219,997,683	220,827,702
Net asset value per unit	20.8390	17.7284	17.4829	18.1313	18.2713

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	20.8406	17.7065	17.546
2016	18.6861	16.4841	1.404
2015	19.2950	17.1085	(3.576)
2014	18.8920	17.6903	(0.766)
2013	18.3013	16.7209	8.034
2012	16.9481	15.1325	11.808
2011	16.5870	14.1999	(4.421)
2010	16.1790	14.1562	5.751
2009	15.2839	11.3606	15.989
2008	16.3415	11.6726	(21.573)
2007	16.8285	14.5219	12.680
2006	14.6015	12.9097	14.871
2005	12.7515	12.0488	2.712
2004	12.3746	10.6553	11.542
2003	11.0038	9.1114	19.992
2002	10.1770	8.9321	(8.117)
2001	10.3664	9.4104	0.625

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 1 December 2000 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.4 Global Growth Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(5,785,866)	(4,900,358)	(5,141,382)	(4,179,974)	(3,219,279)
Capital appreciation/(depreciation) - realised and unrealised	89,187,714	10,600,686	(9,495,577)	531,477	45,296,536
Income derived from investment #	-	-	-	-	-
Value of scheme assets derived from investment	445,052,663	362,094,025	351,420,837	363,971,217	361,966,538
Total net asset value	444,063,468	361,531,741	350,823,416	363,365,708	361,411,567
Net asset value per unit	23.0316	18.7202	18.4287	19.1963	19.3902

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	23.0351	18.7364	23.031
2016	19.6294	16.6970	1.582
2015	20.9811	17.7788	(3.999)
2014	20.1650	18.4415	(1.000)
2013	19.3902	17.1365	13.257
2012	17.1663	14.8903	14.267
2011	17.0810	13.6501	(7.345)
2010	16.4475	13.9331	6.741
2009	15.3648	10.4915	23.310
2008	17.8525	10.9519	(32.124)
2007	18.7732	15.5949	15.400
2006	15.6860	13.3519	19.945
2005	13.1375	12.0343	5.221
2004	12.4277	10.8135	13.115
2003	10.8560	8.5541	24.465
2002	10.2450	8.4838	(12.118)
2001	10.5722	9.0939	0.445

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 1 December 2000 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.5 Asian Balanced Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(2,322,034)	(1,929,910)	(2,009,612)	(1,627,082)	(1,797,999)
Capital appreciation/(depreciation) - realised and unrealised	88,058,481	14,868,287	(22,402,521)	6,743,934	9,489,976
Income derived from investment #	-	-	-	-	-
Value of scheme assets derived from investment	471,176,572	385,353,859	362,864,927	369,739,731	342,725,356
Total net asset value	470,527,484	384,849,292	362,345,933	369,224,810	342,198,742
Net asset value per unit	29.4963	24.1375	23.3320	24.9140	24.5324

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	29.4996	24.1916	22.201
2016	24.6728	20.9557	3.452
2015	27.0394	22.0959	(6.350)
2014	26.3826	23.4201	1.555
2013	25.9563	23.1044	2.598
2012	23.9113	20.7711	15.894
2011	23.0117	19.7580	(7.645)
2010	22.3603	18.9547	13.879
2009	19.4947	14.0094	28.596
2008	21.6534	14.2003	(31.084)
2007	22.5464	19.2512	14.100
2006	16.6412	19.4015	16.855
2005	16.6045	15.1339	7.613
2004	15.4272	13.0641	12.446
2003	13.6198	9.9806	37.196

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 17 March 2003 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.



## Investment report (continued)

### 3 Performance table (continued)

#### 3.6 Global Bond Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(621,605)	(539,740)	(546,289)	(388,125)	(505,330)
Capital appreciation/(depreciation) - realised and unrealised	3,644,377	(2,361,187)	(5,494,966)	(1,745,621)	(596,674)
Income derived from investment *	-	-	-	-	-
Value of scheme assets derived from investment	109,489,111	93,298,212	90,111,279	93,821,601	86,126,772
Total net asset value	109,324,099	93,179,690	89,984,958	93,693,970	85,996,645
Net asset value per unit	13.6378	13.2136	13.6284	14.5552	14.8729

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	13.8691	13.1797	3.210
2016	13.8084	13.1845	(3.044)
2015	14.5711	13.5671	(6.367)
2014	15.1989	14.5351	(2.136)
2013	15.2620	14.5139	(1.294)
2012	15.0680	14.0105	7.790
2011	14.7443	13.7910	(0.074)
2010	14.3564	12.8854	8.179
2009	13.0847	11.1446	8.552
2008	12.5670	11.0927	0.492
2007	12.0106	11.1040	5.966
2006	11.3005	10.7781	3.580
2005	11.2871	10.6522	(4.841)
2004	11.3495	10.1913	6.122
2003	10.7140	9.9117	6.951

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 17 March 2003 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.7 Global Equity Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(1,233,963)	(1,030,413)	(1,104,608)	(894,567)	(905,401)
Capital appreciation/(depreciation) - realised and unrealised	35,225,463	15,561,579	(7,569,070)	1,992,879	35,771,118
Income derived from investment *	-	-	-	-	-
Value of scheme assets derived from investment	238,207,734	203,735,039	190,744,589	194,373,411	174,668,978
Total net asset value	237,873,252	203,466,751	190,466,641	194,096,588	174,399,165
Net asset value per unit	<u>28.5236</u>	<u>24.4558</u>	<u>22.7371</u>	<u>23.7580</u>	<u>23.5709</u>

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	28.5608	24.7231	16.633
2016	24.6911	19.2851	7.559
2015	25.1565	21.3455	(4.297)
2014	25.0765	22.2170	0.794
2013	23.5709	19.1187	25.222
2012	18.9420	15.3107	17.979
2011	18.8723	14.5469	(7.328)
2010	17.2165	14.2041	6.675
2009	16.1896	10.1606	25.162
2008	21.3141	11.4726	(41.325)
2007	23.2129	20.5837	5.022
2006	20.9271	17.2629	23.568
2005	17.0080	15.0956	7.023
2004	15.8234	13.1472	13.984
2003	13.7654	10.0000	38.820

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 17 March 2003 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.8 Asian Pacific Equity Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(1,770,490)	(1,321,956)	(1,354,853)	(1,194,878)	(1,138,299)
Capital appreciation/(depreciation) - realised and unrealised	98,711,178	17,432,566	(24,446,375)	8,028,869	6,322,390
Income derived from investment *	-	-	-	-	-
Value of scheme assets derived from investment	370,283,965	263,151,010	234,344,910	241,718,379	218,563,681
Total net asset value	369,776,745	262,804,917	234,008,703	241,380,125	218,226,475
Net asset value per unit	19.0845	14.0094	13.1476	14.5958	14.1088

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	19.0873	14.1042	36.226
2016	14.8787	11.4581	6.555
2015	16.5244	12.4430	(9.922)
2014	15.8544	13.1142	3.452
2013	14.8350	12.7741	3.003
2012	13.6975	11.2112	23.531
2011	13.0446	10.1754	(9.141)
2010	12.2665	9.5443	16.814
2009	10.2897	6.0054	57.873
2008	11.2614	6.0252	(42.682)
2007	11.9923	9.9953	11.545

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 19 March 2007 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.9 European Equity Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(419,301)	(318,593)	(322,037)	(201,124)	(131,456)
Capital appreciation/(depreciation) - realised and unrealised	11,629,184	3,081,876	1,465,532	(4,804,739)	6,401,225
Income derived from investment *	-	-	-	-	-
Value of scheme assets derived from investment	75,832,101	53,001,787	49,033,302	43,505,496	29,718,096
Total net asset value	75,726,181	52,928,219	48,957,386	43,437,289	29,673,038
Net asset value per unit	11.9242	9.9617	9.4497	9.1749	10.1905

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	12.0110	10.0583	19.700
2016	9.9619	8.0227	5.418
2015	10.4644	8.8133	2.995
2014	10.6668	8.7725	(9.966)
2013	10.1985	7.7446	33.288
2012	7.6862	5.8722	18.747
2011	7.9347	5.7303	(8.094)
2010	7.1234	5.9442	1.143
2009	7.0720	4.3835	21.290
2008	9.5319	4.9302	(41.909)
2007	10.7555	9.5143	(1.695)

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 19 March 2007 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.10 Hong Kong Equities Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(4,257,925)	(3,313,320)	(3,369,120)	(2,280,349)	(1,737,799)
Capital appreciation/(depreciation) - realised and unrealised	89,008,219	5,986,659	(15,738,875)	12,183,677	2,146,210
Income derived from investment *	-	-	-	-	-
Value of scheme assets derived from investment	333,160,764	252,097,298	235,128,701	212,018,533	190,911,912
Total net asset value	332,421,465	251,700,906	234,728,589	211,671,625	190,614,654
Net asset value per unit	14.4571	10.8217	10.7475	11.4641	10.9365

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	14.5820	10.8868	33.594
2016	11.6763	8.9468	0.690
2015	14.1390	10.0351	(6.251)
2014	11.7593	9.8941	4.824
2013	11.5142	9.2715	0.038
2012	10.9323	8.8298	18.453
2011	12.3011	7.8526	(21.155)
2010	12.6515	9.6137	8.735
2009	11.0622	6.0293	56.596
2008	13.5555	6.0162	(49.674)
2007	14.9542	10.0000	36.600

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 19 March 2007 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.11 US Equity Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(64,752)	(58,703)	(69,176)	(69,988)	(52,455)
Capital appreciation/(depreciation) - realised and unrealised	22,166,334	(529,658)	2,993,978	3,044,733	6,387,391
Income derived from investment #	-	-	-	-	-
Value of scheme assets derived from investment	111,870,179	78,865,113	68,855,547	56,160,325	27,914,424
Total net asset value	111,765,186	78,792,763	68,783,055	56,106,487	27,883,186
Net asset value per unit	19.0615	15.0451	15.2663	14.5239	13.6437

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	19.2594	15.2167	26.696
2016	15.3378	12.8351	(1.449)
2015	16.4709	14.1146	5.112
2014	14.7888	12.7755	6.451
2013	13.6437	10.2317	36.523
2012	10.3225	9.1580	9.680
2011	10.0570	8.2608	(4.075)
2010	9.5012	7.8833	10.261
2009	8.6833	5.3381	29.111
2008	9.9090	5.9919	(34.956)
2007	10.8644	9.9387	2.583

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 19 March 2007 was HK\$10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.12 Greater China Equity Fund

	2017 HK\$	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$
Net loss excluding capital appreciation/(depreciation)	(3,198,630)	(2,274,041)	(2,142,118)	(1,493,935)	(1,084,019)
Capital appreciation/(depreciation) - realised and unrealised	77,871,343	4,288,381	(10,258,684)	6,275,309	8,294,964
Income derived from investment <sup>#</sup>	-	-	-	-	-
Value of scheme assets derived from investment	242,153,578	153,012,566	135,624,846	109,725,221	79,356,847
Total net asset value	241,525,408	152,612,344	135,255,316	109,441,651	79,136,301
Net asset value per unit	15.2137	10.3457	10.2093	10.9594	10.4457

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	15.4837	10.3727	47.053
2016	11.4956	8.5158	1.336
2015	13.1753	9.5152	(6.844)
2014	11.3512	9.5145	4.918
2013	10.5845	8.6086	11.327
2012	9.4156	7.5260	24.939
2011	10.3089	6.9237	(24.900)

\* The net annualised investment return is calculated by comparing the net asset value per unit at the year end against the net asset value per unit at the beginning of the year except for the first year where the initial offer price per unit is used. The initial offer price for the constituent fund as at 1 May 2011 was HK\$10.00 per unit.

<sup>#</sup> The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation/(depreciation) of the investments as stated above.

## Investment report (continued)

### 3 Performance table (continued)

#### 3.13 Age 65 Plus Fund

	2017 HK\$
Net loss excluding capital appreciation	(24,430)
Capital appreciation - realised and unrealised	168,909
Income derived from investment <sup>#</sup>	-
Value of scheme assets derived from investment	9,933,985
Total net asset value	9,927,408
Net asset value per unit	<u>10.2936</u>

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	10.3142	9.9848	2.936

\* The net annualized investment return is calculated by comparing the net asset value per unit at the period end against the initial offer price per unit. The initial offer price for the constituent fund as at 1 April 2017 was HK\$ 10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation of the investments as stated above.



## Investment report (continued)

### 3 Performance table (continued)

#### 3.14 Core Accumulation Fund

	2017 HK\$
Net loss excluding capital appreciation	(75,921)
Capital appreciation - realised and unrealised	1,515,144
Income derived from investment <sup>#</sup>	-
Value of scheme assets derived from investment	27,907,106
Total net asset value	27,887,652
Net asset value per unit	<u>10.9163</u>

	Highest issue price HK\$	Lowest redemption price HK\$	* Net annualised investment return %
2017	10.9244	9.9888	9.163

\* The net annualized investment return is calculated by comparing the net asset value per unit at the period end against the initial offer price per unit. The initial offer price for the constituent fund as at 1 April 2017 was HK\$ 10.00 per unit.

# The constituent fund is a feeder fund which invests in an approved pooled investment fund. During the year ended 31 December 2017, there was no distribution income from the approved pooled investment fund. As a result, there was no other investment income except for the appreciation of the investments as stated above.

## Investment report (continued)

### 4 Fund expense ratio

	<i>Fund expense ratio</i>	
	<i>2017</i>	<i>2016</i>
	<i>%</i>	<i>%</i>
MPF Conservative Fund	0.87	0.64
Guaranteed Fund	3.39	3.37
Global Stable Fund	1.51	1.49
Global Growth Fund	1.50	1.47
Asian Balanced Fund	1.66	1.68
Global Bond Fund	1.62	1.60
Global Equity Fund	1.65	1.65
Asian Pacific Equity Fund	1.70	1.72
European Equity Fund	1.77	1.84
Hong Kong Equities Fund	1.52	1.51
US Equity Fund	1.27	1.34
Greater China Equity Fund	1.73	1.74
Age 65 Plus Fund	N/A	N/A
Core Accumulation Fund	N/A	N/A

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings

#### 5.1 MPF Conservative Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Allianz Choice HK\$ Liquidity Fund <sup>#</sup>	16,325,216.4559	206,051,985	100.07
Total investment, at market value		206,051,985	100.07
Total investment, at cost		204,228,040	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Allianz Choice HK\$ Liquidity Fund <sup>#</sup>	13,425,071.2831	5,976,048.7757	3,075,903.6029	16,325,216.4559

<sup>#</sup> Approved Pooled Investment Fund of the Allianz Global Investors Choice Fund

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.2 Guaranteed Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Mass MPF Guaranteed Policy	13,237,368.0327	151,097,210	100.00
Total investment, at market value		151,097,210	100.00
Total investment, at cost		140,519,020	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Mass MPF Guaranteed Policy	12,061,407.0335	1,942,567.4909	766,606.4917	13,237,368.0327

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.3 Global Stable Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Allianz Choice Stable Growth Fund <sup>#</sup>	12,416,270.7096	263,473,264	100.22
Total investment, at market value		263,473,264	100.22
Total investment, at cost		225,567,600	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Allianz Choice Stable Growth Fund <sup>#</sup>	12,629,726.9322	740,784.5845	954,240.8071	12,416,270.7096

<sup>#</sup> Approved Pooled Investment Fund of the Allianz Global Investors Choice Fund

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.4 Global Growth Fund

<i>Quoted investment</i>	<i>Holdings Units</i>	<i>2017</i>	
		<i>Market value HK\$</i>	<i>% of net assets</i>
Allianz Choice Balanced Fund <sup>#</sup>	11,632,322.6057	445,052,663	100.22
Total investment, at market value		445,052,663	100.22
Total investment, at cost		365,662,969	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Allianz Choice Balanced Fund <sup>#</sup>	11,806,130.6009	510,618.8971	684,426.8923	11,632,322.6057

<sup>#</sup> Approved Pooled Investment Fund of the Allianz Global Investors Choice Fund

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.5 Asian Balanced Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Templeton MPF Asian Balanced Fund*	14,582,995.1160	471,176,572	100.14
Total investment, at market value		471,176,572	100.14
Total investment, at cost		322,130,900	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Templeton MPF Asian Balanced Fund*	14,652,238.0010	787,666.7190	856,909.6040	14,582,995.1160

\* Approved Pooled Investment Fund of the Templeton MPF Investment Funds

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.6 Global Bond Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Templeton MPF Global Bond Fund*	5,274,041.9420	109,489,111	100.15
Total investment, at market value		109,489,111	100.15
Total investment, at cost		104,923,057	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Templeton MPF Global Bond Fund*	4,667,244.2160	1,116,653.2820	509,855.5560	5,274,041.9420

\* Approved Pooled Investment Fund of the Templeton MPF Investment Funds

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.



## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.7 Global Equity Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Templeton MPF Global Equity Fund*	9,687,179.0950	238,207,734	100.14
Total investment, at market value		238,207,734	100.14
Total investment, at cost		152,298,102	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Templeton MPF Global Equity Fund*	9,715,547.9160	614,036.0200	642,404.8410	9,687,179.0950

\* Approved Pooled Investment Fund of the Templeton MPF Investment Funds

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.8 Asian Pacific Equity Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Templeton MPF Asian Pacific Equity Fund*	12,248,890.6710	370,283,965	100.14
Total investment, at market value		370,283,965	100.14
Total investment, at cost		240,923,616	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Templeton MPF Asian Pacific Equity Fund*	11,923,471.2300	1,176,168.3950	850,748.9540	12,248,890.6710

\* Approved Pooled Investment Fund of the Templeton MPF Investment Funds

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.9 European Equity Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Templeton MPF European Equity Fund*	4,083,581.1170	75,832,101	100.14
Total investment, at market value		75,832,101	100.14
Total investment, at cost		61,703,771	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Templeton MPF European Equity Fund*	3,441,674.4730	1,319,855.5440	677,948.9000	4,083,581.1170

\* Approved Pooled Investment Fund of the Templeton MPF Investment Funds

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.10 Hong Kong Equities Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Allianz Choice Hong Kong Fund <sup>#</sup>	6,042,088.5757	333,160,764	100.22
Total investment, at market value		333,160,764	100.22
Total investment, at cost		252,019,872	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Allianz Choice Hong Kong Fund <sup>#</sup>	6,192,515.3018	725,845.5272	876,272.2533	6,042,088.5757

<sup>#</sup> Approved Pooled Investment Fund of the Allianz Global Investors Choice Fund

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.11 US Equity Fund

<i>Quoted investment</i>	<i>2017</i>		
	<i>Holdings Units</i>	<i>Market value HK\$</i>	<i>% of net assets</i>
Franklin MPF US Opportunities Fund*	4,784,866.4880	111,870,179	100.09
Total investment, at market value		111,870,179	100.09
Total investment, at cost		84,353,765	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 January 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Franklin MPF US Opportunities Fund*	4,279,170.5910	1,203,180.7240	697,484.8270	4,784,866.4880

\* Approved Pooled Investment Fund of the Templeton MPF Investment Funds

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.12 Greater China Equity Fund

		2017		% of net assets
Quoted investment	Holdings Units	Market value HK\$		
JP Morgan SAR Greater China Fund*	1,407,542.3040	242,153,578		100.26
Total investment, at market value		242,153,578		100.26
Total investment, at cost		161,584,576		

2017				Holdings as at 31 December 2017 Units
Name of investment	Holdings as at 1 January 2017 Units	Additions Units	Disposals Units	
JP Morgan SAR Greater China Fund*	1,329,619.1060	243,133.4870	165,210.2890	1,407,542.3040

\* Approved Pooled Investment Fund of the JP Morgan SAR Greater China Fund

Note: The underlying approved pooled investment fund was established in Hong Kong and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.13 Age 65 Plus Fund

<i>Quoted investment</i>	<i>2017</i>		<i>% of net assets</i>
	<i>Holdings Units</i>	<i>Market value HK\$</i>	
Age 65 Plus Fund*	955,392.9780	9,933,985	100.07
Total investment, at market value		9,933,985	100.07
Total investment, at cost		9,773,568	

<i>Name of investment</i>	<i>2017</i>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 April 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Age 65 Plus Fund*	-	1,030,007.3400	74,614.3620	955,392.9780

\* Approved Pooled Investment Fund of the Invesco Pooled Investment Fund

Note: The underlying approved pooled investment fund was established in Hong Kong on 1 April 2017 and is accounted for on a trade date basis.

## Investment report (continued)

### 5 Investment portfolio and statement of movements in portfolio holdings (continued)

#### 5.14 Core Accumulation Fund

<i>Quoted investment</i>	<u>2017</u>		<i>% of net assets</i>
	<i>Holdings Units</i>	<i>Market value HK\$</i>	
Core Accumulation Fund*	2,533,853.8730	27,907,106	100.07
Total investment, at market value		27,907,106	100.07
Total investment, at cost		26,429,154	

<i>Name of investment</i>	<u>2017</u>			<i>Holdings as at 31 December 2017 Units</i>
	<i>Holdings as at 1 April 2017 Units</i>	<i>Additions Units</i>	<i>Disposals Units</i>	
Core Accumulation Fund *	-	2,741,391.2910	207,537.4180	2,533,853.8730

\* Approved Pooled Investment Fund of the Invesco Pooled Investment Fund

Note: The underlying approved pooled investment fund was established in Hong Kong on 1 April 2017 and is accounted for on a trade date basis.



## Independent auditor's report

To the Trustee of Mass Mandatory Provident Fund Scheme

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Mass Mandatory Provident Fund Scheme ("the Scheme") set out on pages 94 to 132, which comprise the statement of net assets available for benefits as at 31 December 2017, the statement of comprehensive income, the statement of changes in net assets attributable to members – master trust scheme and constituent funds and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Scheme as at 31 December 2017, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

#### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Scheme in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Information Other than the Financial Statements and Auditor's Report Thereon

The Trustee is responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independent auditor's report (continued)

### Report on the Audit of the Financial Statements (continued)

#### Responsibilities of Trustee and Those Charged with Governance for the Financial Statements

The Trustee is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

In addition, the Trustee is required to ensure that the financial statements have been properly prepared in accordance with sections 80, 81, 83 and 84 of the Mandatory Provident Fund Schemes (General) Regulation ("the General Regulation").

Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, in accordance with section 102 of the General Regulation, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Scheme have been properly prepared, in all material respects, in accordance with sections 80, 81, 83 and 84 of the General Regulation.

## Independent auditor's report (continued)

### Report on the Audit of the Financial Statements (continued)

#### Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustee.
- Conclude on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Independent auditor's report (continued)

### **Report on matters under the Mandatory Provident Fund Schemes (General) Regulation**

- a. In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with sections 80, 81, 83 and 84 of the General Regulation.
- b. We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

A handwritten signature in black ink, appearing to be 'KMI'.

Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

**27 JUN 2018**

## Independent auditor's assurance report

To the Trustee of Mass Mandatory Provident Fund Scheme

We have audited the financial statements of Mass Mandatory Provident Fund Scheme ("the Scheme") for the year ended 31 December 2017 in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* ("PN 860.1 (Revised)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued an unqualified auditor's report thereon dated **27 JUN 2018**

Pursuant to section 102 of the Mandatory Provident Fund Schemes (General) Regulation ("the General Regulation"), we are required to report whether the Scheme complied with certain requirements of the Mandatory Provident Fund Schemes Ordinance ("the MPFSO") and the General Regulation.

### Trustee's Responsibility

The General Regulation requires the Trustee to ensure that:

- a. proper accounting and other records are kept in respect of the constituent funds of the Scheme, the Scheme assets and all financial transactions entered into in relation to the Scheme;
- b. the requirements specified in the guidelines made by the Mandatory Provident Fund Schemes Authority ("the MPFA") under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation are complied with;
- c. the requirements under sections 34DB(1)(a), (b), (c) and (d), 34DC(1), 34DD(1) and (4), 34DI(1) and (2), 34DJ(2), (3), (4) and (5) and 34DK(2) of the MPFSO are complied with; and
- d. the Scheme assets are not subject to any encumbrance, otherwise than as permitted by the General Regulation.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Independent auditor's assurance report (continued)

### Auditor's Responsibility

Our responsibility is to report solely to you, on the Scheme's compliance with the above requirements based on the results of the procedures performed by us, in accordance with section 102 of the General Regulation, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to PN 860.1 (Revised) issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance on whether the Scheme has complied with the above requirements.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 860.1 (Revised), which included reviewing, on a test basis, evidence obtained from the Trustee regarding the Scheme's compliance with the above requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

Based on the foregoing:

1. in our opinion:
  - a. proper accounting and other records have been kept during the year ended 31 December 2017 in respect of the constituent funds of the Scheme, the Scheme assets and all financial transactions entered into in relation to the Scheme;
  - b. the requirements specified in the guidelines made by the MPFA under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part 10 of, and Schedule 1 to, the General Regulation have been complied with, in all material respects, as at 31 December 2017, 30 September 2017 and 30 June 2017;
  - c. the requirements specified in the MPFSO under sections 34DB(1)(a), (b), (c) and (d), 34DC(1) and 34DD(1) and (4)(a) with respect to the investment of accrued benefits and control of payment for services relating to the Core Accumulation Fund and the Age 65 Plus Fund have been complied with, in all material respects, as at 31 December 2017, 30 September 2017 and 30 June 2017;

## Independent auditor's assurance report (continued)

### Opinion (continued)

- d. the requirements specified in the MPFSO under sections 34DI(1) and (2) and 34DK(2) with respect to the transfer of accrued benefits to an account and specified notice, and 34DJ(2), (3), (4) and (5) with respect to locating scheme members relating to the Core Accumulation Fund and the Age 65 Plus Fund have been complied with, in all material respects, during the period from 1 April 2017 to 31 December 2017; and
  - e. the requirements specified in section 34DD(4)(b) of the MPFSO with respect to the controls of out-of-pocket expenses of the Core Accumulation Fund and the Age 65 Plus Fund have been complied with, in all material respects, as at 31 December 2017.
2. as at 31 December 2017, the Scheme assets were not subject to any encumbrance, otherwise than as permitted by the General Regulation.

### Intended Users and Purpose

This report is intended solely for submission by the Trustee to the MPFA pursuant to section 102 of the General Regulation, and is not intended to be, and should not be, used by anyone for any other purpose.



Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
**27 JUN 2018**

# Statement of comprehensive income for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

		2017						
	Note	MPF Conservative Fund \$	Guaranteed Fund \$	Global Stable Fund \$	Global Growth Fund \$	Asian Balanced Fund \$	Global Bond Fund \$	Global Equity Fund \$
<b>Income</b>								
Interest income	5(c)	-	-	-	-	-	-	-
Net realised gain on investments		329,434	1,401,130	1,708,763	2,613,220	6,828,844	484,652	4,934,559
Net unrealised gain on investments		683,933	12,926,462	41,325,134	86,574,494	81,229,637	3,159,725	30,290,904
Rebates and other income	5(d), 5(e)	184,075	-	-	-	2,385,845	457,290	1,229,151
<b>Total income</b>		<u>1,197,442</u>	<u>14,327,592</u>	<u>43,033,897</u>	<u>89,187,714</u>	<u>90,444,326</u>	<u>4,101,667</u>	<u>36,454,614</u>
<b>Expenses</b>								
Bank charges		-	-	-	-	-	-	-
Trustee fees	5(a)	1,124,783	-	2,340,971	3,864,428	4,337,658	915,897	2,234,422
Fund administration fees	5(b)	19,500	-	58,500	58,500	58,500	58,500	58,500
Investment management fee	5(f), 5(g)	-	-	949,766	1,568,099	-	-	-
Auditor's remuneration		16,733	-	46,862	79,182	83,905	19,488	42,411
Other expenses		23,436	-	133,497	215,657	227,816	85,010	127,781
<b>Total expenses</b>		<u>1,184,452</u>	<u>-</u>	<u>3,529,596</u>	<u>5,785,866</u>	<u>4,707,879</u>	<u>1,078,895</u>	<u>2,463,114</u>
<b>Increase in net assets attributable to members</b>		<u>12,990</u>	<u>14,327,592</u>	<u>39,504,301</u>	<u>83,401,848</u>	<u>85,736,447</u>	<u>3,022,772</u>	<u>33,991,500</u>



**Statement of comprehensive income**  
**for the year ended 31 December 2017 (continued)**  
(Expressed in Hong Kong dollars)

		2017								
	Note	Asian Pacific Equity Fund \$	European Equity Fund \$	Hong Kong Equities Fund \$	US Equity Fund \$	Greater China Equity Fund \$	Age 65 Plus Fund \$	Core Accumulation Fund \$	The Scheme \$	Total \$
Income										
Interest income	5(c)	-	-	-	-	-	-	-	405	405
Net realised gain on investments		6,554,801	1,895,246	7,097,999	2,821,443	6,223,188	8,492	37,192	-	42,938,963
Net unrealised gain on investments		92,156,377	9,733,938	81,910,220	19,344,891	71,648,155	160,417	1,477,952	-	532,622,239
Rebates and other income	5(d), 5(e)	1,791,097	364,198	-	536,424	-	-	-	-	6,948,080
Total income		100,502,275	11,993,382	89,008,219	22,702,758	77,871,343	168,909	1,515,144	405	582,509,687
Expenses										
Bank charges		-	-	-	-	-	-	-	1,200	1,200
Trustee fees	5(a)	3,258,071	663,595	2,829,210	459,614	1,984,391	22,522	69,990	-	24,105,552
Fund administration fees	5(b)	58,500	58,500	58,500	58,500	58,500	-	-	-	604,500
Investment management fee	5(f), 5(g)	-	-	1,147,484	-	992,062	-	-	-	4,657,411
Auditor's remuneration		65,925	13,501	59,289	19,936	43,115	1,908	5,931	-	498,186
Other expenses		179,091	47,903	163,442	63,126	120,562	-	-	-	1,387,321
Total expenses		3,561,587	783,499	4,257,925	601,176	3,198,630	24,430	75,921	1,200	31,254,170
Increase/(decrease) in net assets attributable to members										
		96,940,688	11,209,883	84,750,294	22,101,582	74,672,713	144,479	1,439,223	(795)	551,255,517

**Statement of comprehensive income**  
**for the year ended 31 December 2017 (continued)**  
(Expressed in Hong Kong dollars)

		2016						
	Note	MPF Conservative Fund \$	Guaranteed Fund \$	Global Stable Fund \$	Global Growth Fund \$	Asian Balanced Fund \$	Global Bond Fund \$	Global Equity Fund \$
<b>Income</b>								
Interest income	5(c)	-	-	-	-	-	-	-
Net realised gain/(loss) on investments		171,911	1,101,079	(217,048)	(537,160)	2,122,347	200,336	3,129,659
Net unrealised gain/(loss) on investments		309,899	(1,676,126)	6,236,990	11,137,846	12,745,940	(2,561,523)	12,431,920
Rebates and other income	5(d), 5(e)	151,289	-	-	-	2,013,031	416,760	1,038,325
<b>Total income</b>		<u>633,099</u>	<u>(575,047)</u>	<u>6,019,942</u>	<u>10,600,686</u>	<u>16,881,318</u>	<u>(1,944,427)</u>	<u>16,599,904</u>
<b>Expenses</b>								
Bank charges		-	-	-	-	-	-	-
Trustee fees	5(a)	622,370	-	2,085,904	3,356,608	3,656,959	833,221	1,884,415
Fund administration fees	5(b)	-	-	58,500	58,500	58,500	58,500	58,500
Investment management fee	5(f), 5(g)	-	-	789,890	1,271,136	-	-	-
Auditor's remuneration		-	-	42,061	67,781	72,337	17,568	38,315
Other expenses		-	-	95,702	146,333	155,145	47,211	87,508
<b>Total expenses</b>		<u>622,370</u>	<u>-</u>	<u>3,072,057</u>	<u>4,900,358</u>	<u>3,942,941</u>	<u>956,500</u>	<u>2,068,738</u>
<b>Increase/(decrease) in net assets attributable to members</b>								
		<u>10,729</u>	<u>(575,047)</u>	<u>2,947,885</u>	<u>5,700,328</u>	<u>12,938,377</u>	<u>(2,900,927)</u>	<u>14,531,166</u>

**Statement of comprehensive income**  
**for the year ended 31 December 2017 (continued)**  
(Expressed in Hong Kong dollars)

		2016						
	Note	Asian Pacific Equity Fund \$	European Equity Fund \$	Hong Kong Equities Fund \$	US Equity Fund \$	Greater China Equity Fund \$	The Scheme \$	Total \$
<b>Income</b>								
Interest income	5(c)	-	-	-	-	-	422	422
Net realised gain/(loss) on investments		1,258,115	(12,618)	(561,651)	1,076,743	671,329	-	8,403,042
Net unrealised gain/(loss) on investments		16,174,451	3,094,494	6,548,310	(1,606,401)	3,617,052	-	66,452,852
Rebates and other income	5(d), 5(e)	1,352,298	267,501	-	391,236	-	-	5,630,440
<b>Total income</b>		<u>18,784,864</u>	<u>3,349,377</u>	<u>5,986,659</u>	<u>(138,422)</u>	<u>4,288,381</u>	<u>422</u>	<u>80,486,756</u>
<b>Expenses</b>								
Bank charges		-	-	-	-	-	2,510	2,510
Trustee fees	5(a)	2,456,282	485,700	2,249,194	334,738	1,410,751	-	19,376,142
Fund administration fees	5(b)	58,500	58,500	58,500	58,500	58,500	-	585,000
Investment management fee	5(f), 5(g)	-	-	851,436	-	706,605	-	3,619,067
Auditor's remuneration		49,223	9,926	47,151	14,897	28,439	-	387,698
Other expenses		110,249	31,968	107,039	41,804	69,746	-	892,705
<b>Total expenses</b>		<u>2,674,254</u>	<u>586,094</u>	<u>3,313,320</u>	<u>449,939</u>	<u>2,274,041</u>	<u>2,510</u>	<u>24,863,122</u>
<b>Increase/(decrease) in net assets attributable to members</b>		<u>16,110,610</u>	<u>2,763,283</u>	<u>2,673,339</u>	<u>(588,361)</u>	<u>2,014,340</u>	<u>(2,088)</u>	<u>55,623,634</u>

The notes on pages 113 to 132 form part of these financial statements.

# Statement of net assets available for benefits as at 31 December 2017

(Expressed in Hong Kong dollars)

	2017						
	MPF Conservative Fund \$	Guaranteed Fund \$	Global Stable Fund \$	Global Growth Fund \$	Asian Balanced Fund \$	Global Bond Fund \$	Global Equity Fund \$
<b>Assets</b>							
Investments	206,051,985	151,097,210	263,473,264	445,052,663	471,176,572	109,489,111	238,207,734
Contributions receivable							
– from employers	-	-	-	-	-	-	-
– from members	-	-	-	-	-	-	-
Transfers in receivable	-	-	-	-	-	-	-
Amounts receivable on subscriptions	1,590,881	68,614	173,460	192,325	187,064	105,184	454,431
Amounts receivable on sales of							
investments	16,866	235,819	49,854	79,862	106,529	3,949	17,516
Other receivables	17,134	-	-	-	216,497	41,837	109,649
Cash at bank	-	-	-	-	-	-	-
<b>Total assets</b>	<b>207,676,866</b>	<b>151,401,643</b>	<b>263,696,578</b>	<b>445,324,850</b>	<b>471,686,662</b>	<b>109,640,081</b>	<b>238,789,330</b>
<b>Liabilities</b>							
Benefits payable	-	-	-	-	-	-	-
Transfers out payable	-	-	-	-	-	-	-
Forfeitures payable	-	-	-	-	-	-	-
Amounts payable on redemptions	16,866	235,819	49,854	79,862	106,529	3,949	17,516
Amounts payable on purchases of							
investments	1,608,015	68,614	173,460	192,325	403,561	147,021	564,080
Other payables	144,305	-	587,623	989,195	649,088	165,012	334,482
<b>Total liabilities (excluding net assets attributable to members)</b>	<b>1,769,186</b>	<b>304,433</b>	<b>810,937</b>	<b>1,261,382</b>	<b>1,159,178</b>	<b>315,982</b>	<b>916,078</b>
<b>Net assets attributable to members</b>	<b>205,907,680</b>	<b>151,097,210</b>	<b>262,885,641</b>	<b>444,063,468</b>	<b>470,527,484</b>	<b>109,324,099</b>	<b>237,873,252</b>

# Statement of net assets available for benefits as at 31 December 2017 (continued)

(Expressed in Hong Kong dollars)

	2017								
	Asian Pacific Equity Fund \$	European Equity Fund \$	Hong Kong Equities Fund \$	US Equity Fund \$	Greater China Equity Fund \$	Age 65 Plus Fund \$	Core Accumulation Fund \$	The Scheme \$	Total \$
<b>Assets</b>									
Investments	370,283,965	75,832,101	333,160,764	111,870,179	242,153,578	9,933,985	27,907,106	-	3,055,690,217
Contributions receivable									
– from employers	-	-	-	-	-	-	-	6,833,041	6,833,041
– from members	-	-	-	-	-	-	-	6,601,463	6,601,463
Transfers in receivable	-	-	-	-	-	-	-	5,879,372	5,879,372
Amounts receivable on subscriptions	171,930	25,874	238,075	411,402	466,885	467,485	166,358	(4,719,968)	-
Amounts receivable on sales of investments	20,866	5,813	210,516	135,219	418,241	-	17,332	-	1,318,382
Other receivables	168,368	35,019	-	51,830	-	-	-	1,867,864	2,508,198
Cash at bank	-	-	-	-	-	-	-	9,049,677	9,049,677
<b>Total assets</b>	<b>370,645,129</b>	<b>75,898,807</b>	<b>333,609,355</b>	<b>112,468,630</b>	<b>243,038,704</b>	<b>10,401,470</b>	<b>28,090,796</b>	<b>25,511,449</b>	<b>3,087,880,350</b>
<b>Liabilities</b>									
Benefits payable	-	-	-	-	-	-	-	6,038,721	6,038,721
Transfers out payable	-	-	-	-	-	-	-	2,202,341	2,202,341
Forfeitures payable	-	-	-	-	-	-	-	77,781	77,781
Amounts payable on redemptions	20,866	5,813	210,516	135,219	418,241	-	17,332	(1,318,382)	-
Amounts payable on purchases of investments	340,298	60,893	238,075	463,232	466,885	467,485	166,358	-	5,360,302
Other payables	507,220	105,920	739,299	104,993	628,170	6,577	19,454	1,323,958	6,305,296
<b>Total liabilities (excluding net assets attributable to members)</b>	<b>868,384</b>	<b>172,626</b>	<b>1,187,890</b>	<b>703,444</b>	<b>1,513,296</b>	<b>474,062</b>	<b>203,144</b>	<b>8,324,419</b>	<b>19,984,441</b>
<b>Net assets attributable to members</b>	<b>369,776,745</b>	<b>75,726,181</b>	<b>332,421,465</b>	<b>111,765,186</b>	<b>241,525,408</b>	<b>9,927,408</b>	<b>27,887,652</b>	<b>17,187,030</b>	<b>3,067,895,909</b>

# Statement of net assets available for benefits as at 31 December 2017 (continued)

(Expressed in Hong Kong dollars)

	2016						
	MPF Conservative Fund \$	Guaranteed Fund \$	Global Stable Fund \$	Global Growth Fund \$	Asian Balanced Fund \$	Global Bond Fund \$	Global Equity Fund \$
<b>Assets</b>							
Investments	168,511,498	125,002,290	224,809,140	362,094,025	385,353,859	93,298,212	203,735,039
Contributions receivable							
– from employers	-	-	-	-	-	-	-
– from members	-	-	-	-	-	-	-
Transfers in receivable	-	-	-	-	-	-	-
Amounts receivable on subscriptions	2,578,889	276,413	464,964	339,023	281,398	228,468	103,741
Amounts receivable on sales of investments	122,434	23,869	93,396	169,311	150,422	149,848	120,313
Other receivables	14,027	-	-	-	180,301	35,539	94,535
Cash at bank	-	-	-	-	-	-	-
<b>Total assets</b>	<b>171,226,848</b>	<b>125,302,572</b>	<b>225,367,500</b>	<b>362,602,359</b>	<b>385,965,980</b>	<b>93,712,067</b>	<b>204,053,628</b>
<b>Liabilities</b>							
Benefits payable	-	-	-	-	-	-	-
Transfers out payable	-	-	-	-	-	-	-
Forfeitures payable	-	-	-	-	-	-	-
Amounts payable on redemptions	122,434	23,869	93,396	169,311	150,422	149,848	120,313
Amounts payable on purchases of investments	2,592,916	276,413	464,964	339,023	461,699	264,007	198,276
Other payables	64,501	-	351,260	562,284	504,567	118,522	268,288
<b>Total liabilities (excluding net assets attributable to members)</b>	<b>2,779,851</b>	<b>300,282</b>	<b>909,620</b>	<b>1,070,618</b>	<b>1,116,688</b>	<b>532,377</b>	<b>586,877</b>
<b>Net assets attributable to members</b>	<b>168,446,997</b>	<b>125,002,290</b>	<b>224,457,880</b>	<b>361,531,741</b>	<b>384,849,292</b>	<b>93,179,690</b>	<b>203,466,751</b>

# Statement of net assets available for benefits as at 31 December 2017 (continued)

(Expressed in Hong Kong dollars)

	2016						
	Asian Pacific Equity Fund \$	European Equity Fund \$	Hong Kong Equities Fund \$	US Equity Fund \$	Greater China Equity Fund \$	The Scheme \$	Total \$
<b>Assets</b>							
Investments	263,151,010	53,001,787	252,097,298	78,865,113	153,012,566	-	2,362,931,837
Contributions receivable							
– from employers	-	-	-	-	-	6,759,412	6,759,412
– from members	-	-	-	-	-	6,692,905	6,692,905
Transfers in receivable	-	-	-	-	-	4,546,362	4,546,362
Amounts receivable on subscriptions	126,871	19,053	167,643	47,052	434,171	(5,067,686)	-
Amounts receivable on sales of investments	260,260	18,047	1,003,110	114,220	552,468	-	2,777,698
Other receivables	123,126	24,286	-	36,316	-	1,466,078	1,974,208
Cash at bank	-	-	-	-	-	6,409,991	6,409,991
<b>Total assets</b>	<b>263,661,267</b>	<b>53,063,173</b>	<b>253,268,051</b>	<b>79,062,701</b>	<b>153,999,205</b>	<b>20,807,062</b>	<b>2,392,092,413</b>
<b>Liabilities</b>							
Benefits payable	-	-	-	-	-	1,628,540	1,628,540
Transfers out payable	-	-	-	-	-	1,497,451	1,497,451
Forfeitures payable	-	-	-	-	-	16,026	16,026
Amounts payable on redemptions	260,260	18,047	1,003,110	114,220	552,468	(2,777,698)	-
Amounts payable on purchases of investments	249,997	43,339	167,643	83,368	434,171	-	5,575,816
Other payables	346,093	73,568	396,392	72,350	400,222	1,140,019	4,298,066
<b>Total liabilities (excluding net assets attributable to members)</b>	<b>856,350</b>	<b>134,954</b>	<b>1,567,145</b>	<b>269,938</b>	<b>1,386,861</b>	<b>1,504,338</b>	<b>13,015,899</b>
<b>Net assets attributable to members</b>	<b>262,804,917</b>	<b>52,928,219</b>	<b>251,700,906</b>	<b>78,792,763</b>	<b>152,612,344</b>	<b>19,302,724</b>	<b>2,379,076,514</b>

## Statement of net assets available for benefits as at 31 December 2017 (continued)

(Expressed in Hong Kong dollars)

		2017						
	Note	MPF Conservative Fund \$	Guaranteed Fund \$	Global Stable Fund \$	Global Growth Fund \$	Asian Balanced Fund \$	Global Bond Fund \$	Global Equity Fund \$
Representing:								
Net assets attributable to members		205,907,680	151,097,210	262,885,641	444,063,468	470,527,484	109,324,099	237,873,252
Total number of units in issue	6	19,037,068.8871	13,293,465.6444	12,615,075.5075	19,280,655.2186	15,952,074.5424	8,016,229.6917	8,339,515.5707
Net asset value per unit		10.8161	11.3663	20.8390	23.0316	29.4963	13.6378	28.5236

		2017						
	Note	Asian Pacific Equity Fund \$	European Equity Fund \$	Hong Kong Equities Fund \$	US Equity Fund \$	Greater China Equity Fund \$	Age 65 Plus Fund \$	Core Accumulation Fund \$
Representing:								
Net assets attributable to members		369,776,745	75,726,181	332,421,465	111,765,186	241,525,408	9,927,408	27,887,652
Total number of units in issue	6	19,375,771.4649	6,350,645.9892	22,993,580.2610	5,863,401.5709	15,875,530.7740	964,426.4299	2,554,675.6245
Net asset value per unit		19.0845	11.9242	14.4571	19.0615	15.2137	10.2936	10.9163



# Statement of net assets available for benefits as at 31 December 2017 (continued)

(Expressed in Hong Kong dollars)



		2016							
	Note	MPF Conservative Fund \$	Guaranteed Fund \$	Global Stable Fund \$	Global Growth Fund \$	Asian Balanced Fund \$	Global Bond Fund \$	Global Equity Fund \$	
Representing:									
Net assets attributable to members		168,446,997	125,002,290	224,457,880	361,531,741	384,849,292	93,179,690	203,466,751	
Total number of units in issue		6	15,574,751.1322	12,112,917.0694	12,660,913.3704	19,312,360.1565	15,944,038.9428	7,051,817.1256	8,319,789.5942
Net asset value per unit			10.8154	10.3198	17.7284	18.7202	24.1375	13.2136	24.4558

## Statement of net assets available for benefits as at 31 December 2017 (continued)

(Expressed in Hong Kong dollars)

				2016		
	Note	Asian Pacific Equity Fund \$	European Equity Fund \$	Hong Kong Equities Fund \$	US Equity Fund \$	Greater China Equity Fund \$
Representing:						
Net assets attributable to members		262,804,917	52,928,219	251,700,906	78,792,763	152,612,344
Total number of units in issue	6	18,759,132.4861	5,313,150.4453	23,258,970.6632	5,237,114.5031	14,751,307.4486
Net asset value per unit		14.0094	9.9617	10.8217	15.0451	10.3457

Approved and authorised for issue by the Trustee on **27 JUN 2018**

)  
 )  
 ) For and on behalf of  
 ) MassMutual Trustees Limited  
 )

The notes on pages 113 to 132 form part of these financial statements.

**Statement of changes in net assets  
attributable to members  
- Master trust scheme  
for the year ended 31 December 2017**  
(Expressed in Hong Kong dollars)

	2017 \$	2016 \$
<b>Net assets attributable to members brought forward</b>	<u>2,379,076,514</u>	<u>2,203,426,305</u>
<b>Contributions received and receivable from employers</b>		
From employers		
– Mandatory	82,481,217	78,091,691
– Additional voluntary	13,901,464	12,684,104
From members		
– Mandatory	98,391,911	94,724,481
– Additional voluntary	7,442,931	6,931,204
<b>Contribution surcharge received and receivable</b>	407,260	415,381
<b>Transfers in</b>		
Group transfers in from other schemes	22,619,414	4,198,602
Individual transfers in from other schemes	<u>166,860,309</u>	<u>100,401,969</u>
	<u>392,104,506</u>	<u>297,447,432</u>

**Statement of changes in net assets  
attributable to members  
- Master trust scheme  
for the year ended 31 December 2017 (continued)**  
(Expressed in Hong Kong dollars)

	2017 \$	2016 \$
<b>Benefits paid and payable</b>		
Retirement	34,443,777	20,430,982
Early retirement	8,881,675	6,297,789
Death	2,888,932	2,037,106
Permanent departure	15,860,380	18,351,287
Total incapacity	925,797	1,380,098
Small balance	13,348	9,350
Refund of additional voluntary contributions to leavers	1,918,433	1,383,931
Terminal illness	2,027,581	196,899
<b>Transfers out</b>		
Group transfers out to other schemes	30,360,485	21,174,254
Individual transfers out to other schemes	147,301,987	95,860,175
<b>Forfeitures</b>	1,326,515	989,845
<b>Withdrawal of additional voluntary contributions</b>	262,313	46,310
<b>Long services payments</b>	8,329,405	9,262,831
	<u>254,540,628</u>	<u>177,420,857</u>
<b>Increase in the net assets attributable to members for the year</b>	<u>551,255,517</u>	<u>55,623,634</u>
<b>Net assets attributable to members carried forward</b>	<u>3,067,895,909</u>	<u>2,379,076,514</u>

The notes on pages 113 to 132 form part of these financial statements.

## Cash flow statement - Master trust scheme for the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	2017 \$	2016 \$
<b>Operating activities</b>		
Increase in net assets attributable to members	551,255,517	55,623,634
Adjustments for:		
Interest income	(405)	(422)
Net realised gain on investments	(42,938,963)	(8,403,042)
Net unrealised gain on investments	(508,317,349)	(47,222,680)
<b>Operating cash flow before changes in working capital</b>	(1,200)	(2,510)
Increase in other receivables	(401,786)	(237)
Increase/(decrease) in accruals and other payables	183,939	(480,636)
Purchases of investments	(686,573,478)	(448,568,509)
Sales of investments	548,006,299	332,155,983
<b>Net cash used in operating activities</b>	(138,786,226)	(116,895,909)
<b>Investing activity</b>		
Interest received	405	422
<b>Net cash generated from investing activity</b>	405	422
<b>Financing activities</b>		
Contributions and transfers in received	390,789,309	293,197,750
Benefits, transfers out, forfeitures, long service payments and initial charges paid	(249,363,802)	(176,121,968)
<b>Net cash generated from financing activities</b>	141,425,507	117,075,782

**Cash flow statement - Master trust scheme  
for the year ended 31 December 2017 (continued)**  
(Expressed in Hong Kong dollars)

	2017 \$	2016 \$
<b>Net increase in cash and cash equivalents</b>	2,639,686	180,295
<b>Cash and cash equivalents at 1 January</b>	<u>6,409,991</u>	<u>6,229,696</u>
<b>Cash and cash equivalents at 31 December</b>	<u>9,049,677</u>	<u>6,409,991</u>
<b>Analysis of balance of cash and cash equivalents:</b>		
Cash at bank	<u>9,049,677</u>	<u>6,409,991</u>

The notes on pages 113 to 132 form part of these financial statements.

# Statement of changes in net assets attributable to members - Constituent funds for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	2017						
	<i>MPF Conservative Fund</i>	<i>Guaranteed Fund</i>	<i>Global Stable Fund</i>	<i>Global Growth Fund</i>	<i>Asian Balanced Fund</i>	<i>Global Bond Fund</i>	<i>Global Equity Fund</i>
	\$	\$	\$	\$	\$	\$	\$
<b>Net assets attributable to members brought forward</b>	<u>168,446,997</u>	<u>125,002,290</u>	<u>224,457,880</u>	<u>361,531,741</u>	<u>384,849,292</u>	<u>93,179,690</u>	<u>203,466,751</u>
Proceeds on units issued	128,027,439	34,982,268	30,828,665	40,067,027	57,926,887	36,267,845	26,918,631
Payments on units redeemed	<u>(90,579,746)</u>	<u>(23,214,940)</u>	<u>(31,905,205)</u>	<u>(40,937,148)</u>	<u>(57,985,142)</u>	<u>(23,146,208)</u>	<u>(26,503,630)</u>
	<u>37,447,693</u>	<u>11,767,328</u>	<u>(1,076,540)</u>	<u>(870,121)</u>	<u>(58,255)</u>	<u>13,121,637</u>	<u>415,001</u>
Increase in net assets attributable to members for the year	<u>12,990</u>	<u>14,327,592</u>	<u>39,504,301</u>	<u>83,401,848</u>	<u>85,736,447</u>	<u>3,022,772</u>	<u>33,991,500</u>
<b>Net assets attributable to members carried forward</b>	<u>205,907,680</u>	<u>151,097,210</u>	<u>262,885,641</u>	<u>444,063,468</u>	<u>470,527,484</u>	<u>109,324,099</u>	<u>237,873,252</u>

**Statement of changes in net assets attributable to members - Constituent funds**  
**for the year ended 31 December 2017 (continued)**  
(Expressed in Hong Kong dollars)

	2017							
	<i>Asian Pacific Equity Fund</i>	<i>European Equity Fund</i>	<i>Hong Kong Equities Fund</i>	<i>US Equity Fund</i>	<i>Greater China Equity Fund</i>	<i>Age 65 Plus Fund</i>	<i>Core Accumulation Fund</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Net assets attributable to members brought forward</b>	262,804,917	52,928,219	251,700,906	78,792,763	152,612,344	-	-	2,359,773,790
Proceeds on units issued	60,608,093	30,539,350	85,889,102	41,290,326	71,326,342	10,807,024	30,746,761	686,225,760
Payments on units redeemed	(50,576,953)	(18,951,271)	(89,918,837)	(30,419,485)	(57,085,991)	(1,024,095)	(4,298,332)	(546,546,983)
	10,031,140	11,588,079	(4,029,735)	10,870,841	14,240,351	9,782,929	26,448,429	139,678,777
<b>Increase in net assets attributable to members for the year</b>	96,940,688	11,209,883	84,750,294	22,101,582	74,672,713	144,479	1,439,223	551,256,312
<b>Net assets attributable to members carried forward</b>	369,776,745	75,726,181	332,421,465	111,765,186	241,525,408	9,927,408	27,887,652	3,050,708,879



**Statement of changes in net assets attributable to members - Constituent funds**  
**for the year ended 31 December 2017 (continued)**  
(Expressed in Hong Kong dollars)

	2016						
	<i>MPF Conservative Fund \$</i>	<i>Guaranteed Fund \$</i>	<i>Global Stable Fund \$</i>	<i>Global Growth Fund \$</i>	<i>Asian Balanced Fund \$</i>	<i>Global Bond Fund \$</i>	<i>Global Equity Fund \$</i>
<b>Net assets attributable to members brought forward</b>	<u>141,594,043</u>	<u>116,580,255</u>	<u>213,214,612</u>	<u>350,823,416</u>	<u>362,345,933</u>	<u>89,984,958</u>	<u>190,466,641</u>
Proceeds on units issued	83,567,358	26,812,915	26,230,534	32,745,472	43,255,986	18,891,241	21,207,279
Payments on units redeemed	<u>(56,725,133)</u>	<u>(17,815,833)</u>	<u>(17,935,151)</u>	<u>(27,737,475)</u>	<u>(33,691,004)</u>	<u>(12,795,582)</u>	<u>(22,738,335)</u>
	<u>26,842,225</u>	<u>8,997,082</u>	<u>8,295,383</u>	<u>5,007,997</u>	<u>9,564,982</u>	<u>6,095,659</u>	<u>(1,531,056)</u>
Increase/(decrease) in net assets attributable to members for the year	<u>10,729</u>	<u>(575,047)</u>	<u>2,947,885</u>	<u>5,700,328</u>	<u>12,938,377</u>	<u>(2,900,927)</u>	<u>14,531,166</u>
<b>Net assets attributable to members carried forward</b>	<u>168,446,997</u>	<u>125,002,290</u>	<u>224,457,880</u>	<u>361,531,741</u>	<u>384,849,292</u>	<u>93,179,690</u>	<u>203,466,751</u>

**Statement of changes in net assets attributable to members - Constituent funds**  
**for the year ended 31 December 2017 (continued)**  
(Expressed in Hong Kong dollars)

	2016					
	<i>Asian Pacific Equity Fund</i>	<i>European Equity Fund</i>	<i>Hong Kong Equities Fund</i>	<i>US Equity Fund</i>	<i>Greater China Equity Fund</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$
<b>Net assets attributable to members brought forward</b>	234,008,703	48,957,386	234,728,589	68,783,055	135,255,316	2,186,742,907
Proceeds on units issued	36,862,216	14,139,047	72,770,070	33,019,234	42,238,612	451,739,964
Payments on units redeemed	(24,176,612)	(12,931,497)	(58,471,092)	(22,421,165)	(26,895,924)	(334,334,803)
	12,685,604	1,207,550	14,298,978	10,598,069	15,342,688	117,405,161
Increase/(decrease) in net assets attributable to members for the year	16,110,610	2,763,283	2,673,339	(588,361)	2,014,340	55,625,722
<b>Net assets attributable to members carried forward</b>	262,804,917	52,928,219	251,700,906	78,792,763	152,612,344	2,359,773,790

## Notes to the financial statements

(Expressed in Hong Kong dollars)

### 1 The Scheme

Mass Mandatory Provident Fund Scheme ("the Scheme") is a master trust scheme established under a trust deed dated 27 January 2000, as amended by the deeds of amendment dated 24 October 2000, 15 August 2002, 27 February 2003, 20 January 2006, 1 March 2007, 30 September 2009, 1 May 2011, 15 November 2011, 13 June 2012, 31 January 2013, 17 July 2013, 27 August 2015, 24 December 2015, 21 November 2016 and 2 December 2016 with MassMutual Trustees Limited as the Trustee. The Scheme is registered under Section 21 of the Hong Kong Mandatory Provident Fund Schemes Ordinance ("the MPFSO").

Under the trust deed, the Trustee is required to establish and maintain separate Constituent Funds into which contributions may be invested. The Constituent Funds are established within the Scheme and are only available for investment by members of the Scheme.

The Scheme had the following Constituent Funds during the year ended 31 December 2017:

- MPF Conservative Fund
- Guaranteed Fund
- Global Stable Fund
- Global Growth Fund
- Asian Balanced Fund
- Global Bond Fund
- Global Equity Fund
- Asian Pacific Equity Fund
- European Equity Fund
- Hong Kong Equities Fund
- US Equity Fund
- Greater China Equity Fund
- Age 65 Plus Fund
- Core Accumulation Fund

## **2 Significant accounting policies**

### **(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the MPFSO. A summary of the significant accounting policies adopted by the Scheme is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Scheme. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Scheme for the current and prior accounting periods reflected in these financial statements.

### **(b) Basis of preparation of the financial statements**

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss which are measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

### **(c) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Scheme and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the statement of comprehensive income as follows:

- Distributions from approved pooled investment funds are recognised only when declared.
- Rebates income is recognised when the right to receive payment is established.
- Interest income is recognised as it accrues using the effective interest method.

## **2 Significant accounting policies (continued)**

### **(d) Contributions/subscriptions for units**

Contributions/subscriptions for units are accounted for on an accruals basis.

Contributions receivable is initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where effect of discounting would be immaterial. In such cases, contributions receivable is stated at cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of contributions receivable and the estimated future cash flows, discounted where the effect of discounting is material.

### **(e) Amounts paid and payable on redemption of units**

Amounts paid and payable on redemption of units are accounted for on an accruals basis.

Redemptions payable is initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case it is stated at cost.

### **(f) Other expenses**

Other expenses are accounted for on an accruals basis.

### **(g) Investments**

The Scheme has designated all its investments at fair value through profit or loss. The fair value of investments is based on their quoted market prices at the year end date without any deduction for estimated future selling cost. Investments are valued at their respective closing bid price.

The Scheme recognises investments on the date it becomes a party to the contractual provisions of the investments. All investments are initially recognised and remeasured at fair value with changes in their fair value recognised in the statement of comprehensive income. An investment is derecognised when the contractual rights to receive the cash flows from the investment expire, or where the investment together with substantially all the risks and rewards of ownership have been transferred.

## **2 Significant accounting policies (continued)**

### **(h) Units in issue**

The Scheme classifies financial instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

A puttable financial instrument that includes a contractual obligation for the Scheme to repurchase or redeem that instrument for cash or another financial assets is classified as equity instrument if it has all of the following conditions:

- it entitles the holder to a pro rata share of the Scheme's net assets in the event of the Scheme's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that are subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Scheme to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of Scheme over the life of the instrument.

The Scheme's redeemable units do not meet these conditions and are classified as financial liabilities.

Incremental costs directly attributable to the issue or redemption of redeemable units are recognised directly in the statement of changes in net assets attributable to members - Master trust scheme as a deduction from the proceeds or part of the acquisition cost.

### **(i) Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the date of the statement of net assets available for benefits. Exchange gains and losses are recognised in the statement of comprehensive income.

## **2 Significant accounting policies (continued)**

### **(j) Related parties**

- (1) A person, or a close member of that person's family, is related to the Scheme if that person:
- (i) has control or joint control over the Scheme;
  - (ii) has significant influence over the Scheme; or
  - (iii) is a member of the key management personnel of the Scheme or the Scheme's parent.
- (2) An entity is related to the Scheme if any of the following conditions applies:
- (i) The entity and the Scheme are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Scheme or an entity related to the Scheme.
  - (vi) The entity is controlled or jointly controlled by a person identified in (1); or
  - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Scheme.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### **(k) Obligations to pay retirement benefits in the future**

No provision is made in the financial statements for these obligations, except to the extent indicated in note 2(e).

## **2 Significant accounting policies (continued)**

### **(l) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### **(m) Segment reporting**

An operating segment is a component of the Scheme that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Scheme's other components, whose operating results are reviewed regularly by the chief operating decision maker ("the CODM") to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Chief Executive Officer of the Trustee acting as the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## **3 Changes in accounting policies**

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Scheme. None of these impact on the accounting policies of the Scheme.

The Scheme has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 17).

## **4 Taxation**

The Scheme is registered under the MPFSO and is therefore a recognised scheme for Hong Kong Profits Tax purposes. The policy of the Hong Kong Inland Revenue Department ("IRD"), as set out in IRD Practice Note No. 23, is that "recognised retirement schemes and their Trustees are not considered to be subject to profits tax on their investment income". Accordingly, no provision for Hong Kong Profits Tax has been made in the Scheme's financial statements.



## 5 Transactions with related parties

The following is a summary of transactions with related parties during the year. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

- (a) The Trustee is entitled to receive a trustee fee accrued daily and payable monthly at an annual rate of 0.47% to 1.00% of the net asset value of the respective constituent funds. During the year, the Trustee received \$24,105,552 (2016: \$19,376,142) trustee fees.

The trustee fee for the Guaranteed Fund was borne by Mass MPF Guaranteed Policy in accordance with the principal brochure of the Scheme.

- (b) The Trustee is entitled to receive a fund administration fee at an annual rate of US\$7,500 (approximately \$58,500) per constituent fund for the Investment Funds, consisting of MPF Conservative Fund, Global Stable Fund, Global Growth Fund, Asian Balanced Fund, Asian Pacific Equity Fund, European Equity Fund, Hong Kong Equities Fund, Global Bond Fund, Global Equity Fund, US Equity Fund and Greater China Equity Fund. During the year, the Trustee received \$604,500 (2016: \$585,000) fund administration fees.

The fund administration fee for the Guaranteed Fund was borne by Mass MPF Guaranteed Policy in accordance with the principal brochure of the Scheme.

- (c) As at 31 December 2017, the Scheme placed bank deposits amounted to \$7,644,248 (2016: \$5,337,003) with Citibank N.A., the custodian of the Scheme. The interest income derived from these deposits during the year amounted to \$405 (2016: \$422).
- (d) During the year, rebates of \$184,075 (2016: \$151,289), calculated at an annual rate of 0.10% of the net asset value of Allianz Choice HK\$ Liquidity Fund of the Allianz Global Investors Choice Fund, were received from the Investment Manager, Allianz Global Investors Asia Pacific Limited, and were reinvested into Allianz Choice HK\$ Liquidity Fund of the Allianz Global Investors Choice Fund.
- (e) During the year, rebates of \$6,764,005 (2016: \$5,479,151), calculated at an annual rate of 0.45% to 0.55% of the net asset value of the respective sub-funds of the Templeton MPF Investment Funds held by the constituent funds, were received from the Investment Manager, Franklin Templeton Investments (Asia) Limited, and were reinvested into the respective sub-funds of the Templeton MPF Investment Funds.
- (f) During the year, investment management fee of \$3,665,349 (2016: \$2,912,462), calculated at an annual rate of 0.39% of the net asset value of the underlying investment funds, Allianz Choice Stable Growth Fund, Allianz Choice Balanced Fund and Allianz Choice Hong Kong Fund, were paid to the Investment Manager, Allianz Global Investors Asia Pacific Limited.

## 5 Transactions with related parties (continued)

- (g) During the year, investment management fee of \$992,062 (2016: \$706,605), calculated at an annual rate of 0.50% of the net asset value of the underlying investment fund, JP Morgan SAR Greater China Fund, were paid to the Investment Manager, JF Asset Management Limited.
- (h) The transactions with related parties as stated in notes 5(a) to 5(g) are within the definition of transactions with associates in accordance with the MPFSO and MPF Guidelines II.4 Annex CI(D)2.

## 6 Units in issue

	Balance at 1 January 2017	Issued during the year	Redeemed during the year	Balance at 31 December 2017
MPF Conservative Fund	15,574,751.1322	11,837,064.4168	8,374,746.6619	19,037,068.8871
Guaranteed Fund	12,112,917.0694	3,203,760.1797	2,023,211.6047	13,293,465.6444
Global Stable Fund	12,660,913.3704	1,585,477.8761	1,631,315.7390	12,615,075.5075
Global Growth Fund	19,312,360.1565	1,900,574.7867	1,932,279.7246	19,280,655.2186
Asian Balanced Fund	15,944,038.9428	2,141,132.7866	2,133,097.1870	15,952,074.5424
Global Bond Fund	7,051,817.1256	2,664,489.2355	1,700,076.6694	8,016,229.6917
Global Equity Fund	8,319,789.5942	1,009,181.6532	989,455.6767	8,339,515.5707
Asian Pacific Equity Fund	18,759,132.4861	3,584,303.2403	2,967,664.2615	19,375,771.4649
European Equity Fund	5,313,150.4453	2,722,871.0129	1,685,375.4690	6,350,645.9892
Hong Kong Equities Fund	23,258,970.6632	6,701,699.9363	6,967,090.3385	22,993,580.2610
US Equity Fund	5,237,114.5031	2,379,881.4955	1,753,594.4277	5,863,401.5709
Greater China Equity Fund	14,751,307.4486	5,472,909.2948	4,348,685.9694	15,875,530.7740
Age 65 Plus Fund	-	1,064,997.9018	100,571.4719	964,426.4299
Core Accumulation Fund	-	2,967,108.2137	412,432.5892	2,554,675.6245

## 7 Soft commission arrangements

During the year ended 31 December 2017, the Investment Managers and their associates did not enter into any soft commission arrangements with brokers in relation to dealings in the assets of the Scheme and its constituent funds (2016: Nil).

## 8 Marketing expenses

There were no advertising expenses, promotional expenses, commissions or brokerage fees payable to the MPF intermediaries of the Scheme deducted from the Constituent Funds during the year ended 31 December 2017 (2016: Nil).

## 9 Bank loans and other borrowings

The Scheme had no bank loans and other borrowings as at 31 December 2017 (2016: Nil).

## 10 Commitments

The Scheme had no commitments as at 31 December 2017 (2016: Nil).

## **11 Contingent liabilities**

The Scheme had no contingent liabilities as at 31 December 2017 (2016: Nil).

## **12 Negotiability of assets**

At 31 December 2017, there was no statutory or contractual requirement restricting the negotiability of the assets of the Scheme (2016: Nil).

## **13 Financial risk management**

The Scheme is exposed to various risks which are discussed below:

### **(a) Market risk**

Market risk embodies the potential for both losses and gains and includes currency risk, interest rate risk and other price risk.

The Scheme only invests its funds in the approved pooled investment funds managed by the Investment Managers, Allianz Global Investors Asia Pacific Limited, Franklin Templeton Investments (Asia) Limited, JF Asset Management Limited and Invesco Hong Kong Limited. The investment objectives of each of the constituent funds under the Scheme have been set out in Section 2 of the Investment Report.

The Scheme's strategy on the management of investment risk is driven by the Scheme investment objectives of the constituent funds. The Scheme's market risk is managed on an ongoing basis by the Investment Manager in accordance with policies and procedures in place. The Scheme's overall market positions are monitored by the Trustee.

### **(i) Other price risk**

Other price risk is the risk that value of the investments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Scheme's investments are subject to other price risk inherent in all investments i.e. the value of holdings may fall as well as rise.

The Scheme's other price risk is managed through diversification of the underlying investment portfolio of the Scheme.

### 13 Financial risk management (continued)

#### *Sensitivity analysis*

A 10% (2016: 10%) increase in the underlying fund price of the constituent funds under the Scheme at 31 December 2017 would have increased the respective net profit and net asset value by the following amounts:

<i>Name of the constituent fund</i>	<i>2017 Increase in net income/ net asset value \$</i>	<i>2016 Increase in net income/ net asset value \$</i>
MPF Conservative Fund	20,605,199	16,851,150
Guaranteed Fund	15,109,721	12,500,229
Global Stable Fund	26,347,326	22,480,914
Global Growth Fund	44,505,266	36,209,403
Asian Balanced Fund	47,117,657	38,535,386
Global Bond Fund	10,948,911	9,329,821
Global Equity Fund	23,820,773	20,373,504
Asian Pacific Equity Fund	37,028,397	26,315,101
European Equity Fund	7,583,210	5,300,179
Hong Kong Equities Fund	33,316,076	25,209,730
US Equity Fund	11,187,018	7,886,511
Greater China Equity Fund	24,215,358	15,301,257
Age 65 Plus Fund	993,399	-
Core Accumulation Fund	2,790,711	-
	<u>305,569,022</u>	<u>236,293,185</u>

Any equal change in the opposite direction would have decreased the net profit and the net asset value by an equal but opposite direction.

#### (ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The majority of the Scheme's financial assets are non-interest bearing, except for the bank balance at the Scheme level.

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Scheme's net profit and net asset value by approximately \$70,022 (2016: \$47,540).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date. The 100 basis point increase or decrease represents Trustee's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2016.

### 13 Financial risk management (continued)

The Investment Funds, consisting of MPF Conservative Fund, Guaranteed Fund, Global Stable Fund, Global Growth Fund, Asian Balanced Fund, Global Bond Fund, Age 65 Plus Fund and Core Accumulation Fund, holding interest rate debt securities are exposed to interest rate risk, where the value of these securities may fluctuate as a result of changes in interest rate. In general, if interest rates rise, the income potential of the floating interest rate securities also rises but the value of fixed rate securities declines. A fall in interest rates would generally have the opposite effect. Aligning the portfolio maturity profile to that of the internal benchmark (for Investment Funds that use such internal benchmarks like Citigroup World Government Bond Index) and keeping deviations within certain limits is an important way of controlling relative interest rate risk. The Investment Managers of the Investment Funds are also aware of the running yield of the portfolio, in absolute and relative terms, based on which they adjust portfolio holdings with the objective of optimising total portfolio returns from the two sources i.e. running yield and expected price changes.

#### (iii) Currency risk

The constituent funds hold investments in various currencies and are therefore exposed to currency risk that the exchange rate may change in a manner that has an adverse effect on the value of the constituent fund's investments.

The currency exposure of the constituent funds are managed by the Investment Managers and the Trustee. They would monitor the currency positions of the constituent funds on an ongoing basis to ascertain that the currency exposures are within an acceptable range and are complied with the requirements of the Hong Kong Mandatory Provident Fund Schemes (General) Regulation.

At 31 December, the constituent funds have the following currency exposure:

	2017	2016
MPF Conservative Fund		
– Hong Kong dollars	100%	100%
Guaranteed Fund		
– Hong Kong dollars	38%	38%
– United States dollars	21%	22%
– Euro	18%	17%
– Japanese Yen	12%	13%
– Others	11%	10%
Global Stable Fund		
– Hong Kong dollars	36%	35%
– United States dollars	21%	23%
– Euro	16%	15%
– Japanese Yen	13%	13%
– Others	14%	14%

### 13 Financial risk management (continued)

	2017	2016
Global Growth Fund		
– Hong Kong dollars	36%	36%
– United States dollars	21%	22%
– Euro	13%	13%
– Japanese Yen	13%	13%
– Others	17%	16%
Asian Balanced Fund		
– Hong Kong dollars	42%	41%
– Korean Won	10%	6%
– Singapore dollars	2%	2%
– Australian dollars	3%	5%
– Thai Baht	7%	7%
– Japanese Yen	18%	18%
– Philippines Peso	0%	1%
– New Taiwanese dollars	4%	4%
– Others	14%	16%
Global Bond Fund		
– Hong Kong dollars	62%	60%
– Korean Won	1%	1%
– Malaysian Ringgit	0%	7%
– Mexican Peso	9%	9%
– Australian dollars	0%	1%
– United States dollars	0%	2%
– Thailand Baht	7%	9%
– Indonesian Rupee	7%	9%
– Indian Rupee	11%	0%
– Others	3%	2%
Global Equity Fund		
– Hong Kong dollars	36%	38%
– United States dollars	27%	38%
– Euro	12%	4%
– Great British Pound	6%	3%
– Japanese Yen	5%	3%
– Korean Won	4%	4%
– Swiss Franc	2%	4%
– Others	8%	6%

### 13 Financial risk management (continued)

	2017	2016
Asian Pacific Equity Fund		
– Hong Kong dollars	41%	43%
– Korean Won	19%	14%
– Thai Baht	7%	7%
– Singapore dollars	3%	5%
– New Taiwanese dollars	9%	4%
– Australian dollars	4%	10%
– Philippines Peso	1%	1%
– Indian Rupee	12%	12%
– Others	4%	4%
European Equity Fund		
– Hong Kong dollars	39%	37%
– Euro	40%	36%
– Great British Pound	7%	12%
– Swiss Franc	5%	5%
– Others	9%	10%
Hong Kong Equities Fund		
– Hong Kong dollars	98%	98%
– Others	2%	2%
US Equity Fund		
– United States dollars	63%	62%
– Hong Kong dollars	37%	38%
Greater China Equity Fund		
– Hong Kong dollars	77%	77%
– Others	23%	23%

### 13 Financial risk management (continued)

	2017	2016
Age 65 Plus Fund		
– Hong Kong dollars	79%	-
– United States dollars	11%	-
– Euro	3%	-
– Japanese Yen	2%	-
– Others	5%	-
Core Accumulation Fund		
– Hong Kong dollars	40%	-
– United States dollars	33%	-
– Euro	7%	-
– Japanese Yen	5%	-
– Others	15%	-

For any change in the exchange rate, the resulting impact on the constituent funds would be reflected as a change in the underlying fund price of the constituent funds.

#### *Sensitivity analysis*

The following table indicates the instantaneous change in the Scheme's net profit and net asset value that would arise if foreign exchange rates to which the Scheme has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.



### 13 Financial risk management (continued)

(Expressed in HKD)	2017		2016	
	Increase/ (decrease) in foreign exchange rates	Effect on net profit and net asset value \$'000	Increase/ (decrease) in foreign exchange rates	Effect on net profit and net asset value \$'000
Australian dollars	10% (10%)	2,891 (2,891)	10% (10%)	4,645 (4,645)
Euros	10% (10%)	18,582 (18,582)	10% (10%)	12,911 (12,911)
Great British Pounds	10% (10%)	1,957 (1,957)	10% (10%)	1,246 (1,246)
Indian Rupee	20% (20%)	11,280 (11,280)	20% (20%)	6,307 (6,307)
Japanese Yen	10% (10%)	20,662 (20,662)	10% (10%)	16,780 (16,780)
Korean Won	5% (5%)	6,396 (6,396)	5% (5%)	3,448 (3,448)
Malaysian Ringgit	10% (10%)	- -	10% (10%)	652 (652)
New Taiwanese dollars	5% (5%)	2,605 (2,605)	5% (5%)	1,295 (1,295)
Philippines Peso	10% (10%)	370 (370)	10% (10%)	648 (648)
Singapore dollars	10% (10%)	2,050 (2,050)	10% (10%)	2,084 (2,084)
Swiss Franc	20% (20%)	1,709 (1,709)	20% (20%)	2,157 (2,157)
Thai Baht	10% (10%)	6,647 (6,647)	10% (10%)	5,372 (5,372)
Others	10% (10%)	31,175 (31,175)	10% (10%)	25,013 (25,013)

### 13 Financial risk management (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the constituent funds' net profit and net asset value measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Scheme which expose the Scheme to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2016.

#### (b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment to pay dues in time.

The APIF's Investment Manager has a credit review process in place. This ensures that credit quality and credit risk exposure are reviewed and monitored regularly on an ongoing basis, which helps protect portfolios from anticipated negative credit events. The APIF's credit risk is also mitigated through diversification and control on exposure to any single issuer in the APIF.

Credit risk of the APIFs arising on debt securities is mitigated by investing primarily in rate securities or securities issued by rated counterparties of minimum credit ratings ("BBB" by Standard and Poor's). Typically, in cases where credit rating of an investment falls below the above minimum ratings, the Investment Manager disposes it off as soon as practical.

As at 31 December 2017, the Scheme net assets amounted to \$3,067,895,909 (2016: \$2,379,076,514) and the investment in APIFs amounted to \$3,055,690,217 (2016: \$2,362,931,837).

With respect to credit risk arising from the other financial assets of the Scheme which comprise cash and cash equivalents, the Scheme's exposure equal to the carrying amount of these instruments. The MPFA requests the Scheme to place deposits with an authorised financial institution or an eligible overseas bank according to the requirement in Schedule 1 to the General Regulation. The credit risk is not considered to be significant.

#### (c) Liquidity risk

The major liquidity requirement of the Scheme is to meet benefit payments. The Scheme's investments are made in active markets and are liquid. The Investment Managers would monitor the liquidity positions of the approved pooled investment funds on an ongoing basis.

### **13 Financial risk management (continued)**

#### **(d) Fair value information**

All of the Scheme's investments are carried at fair value on the statement of net assets available for benefits. Usually the fair value of investments can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including contribution receivable transfer in receivable, amounts receivable on subscriptions, amounts receivable on sale of investments, other receivables, benefits payable, transfer out payable, forfeiture payable, amounts payable on redemptions, amounts payable on purchase of investments and accruals and other payables, the carrying amounts approximate their fair value due to the immediate or short-term nature of these financial instruments.

### **14 Segment information**

The CODM of the Scheme makes the strategic resource allocations on behalf of the Scheme. The operating segments were determined based on the reports reviewed by the CODM, which are used to make strategic decisions. The CODM is responsible for the Scheme's entire portfolio and considers the business to have a single operating segment.

The asset allocation decisions are based on a single, integrated investment strategy, and the Scheme's performance is evaluated on an overall basis.

The internal reporting provided to the CODM for the Scheme's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of HKFRSs.

The segment information provided to the CODM is the same as that disclosed in the statement of comprehensive income.

The Scheme has a diversified population of members. No individual member holds more than 10% of the net assets of the Scheme. The Scheme has no assets classified as non-current assets as at 31 December 2017 and 2016.

## 15 Involvement with unconsolidated structured entities

The table below describes the types of structured entities that the Scheme does not consolidate but in which it holds an interest.

<i>Type of structured entity</i>	<i>Nature and purpose</i>	<i>Interest held by the Scheme</i>
Investment fund	To manage assets on behalf of the investors and earn fees for the investment manager.  These vehicles are financed through the issue of units to investors.	Investments in units issued by the investment fund

The table below sets out interests held by the Scheme in unconsolidated structured entities as at year end. The maximum exposure to loss is the carrying amount of the financial assets held by the Scheme.

### **As at 31 December 2017**

<i>Structured entity</i>	<i>Number of investee funds</i>	<i>Total net assets</i> \$	<i>Carrying amount included in investment</i> \$
Unlisted open-ended investment funds	14	36,759,622,034	3,055,690,217

### **As at 31 December 2016**

<i>Structured entity</i>	<i>Number of investee funds</i>	<i>Total net assets</i> \$	<i>Carrying amount included in investment</i> \$
Unlisted open-ended investment funds	12	31,340,660,676	2,362,931,837

During the year, the Scheme did not provide financial support to unconsolidated structured entities and had no intention of providing financial or other support.

The Scheme can redeem units in the above investment funds on a daily basis.

**16 Payments charged to default investments strategy constituent funds or scheme members who invest in the constituent funds**

Age 65 Plus Fund and Core Accumulation Fund are designated as default investment strategy ("DIS") constituent funds with effect from 1 April 2017. Payments for services and out-of-pocket expenses charged to DIS constituent funds are disclosed below. Payments for services and out-of-pocket expenses are those defined in the MPFSO.

***During the period from 1 April 2017 to 31 December 2017***

	<i>Age 65 Plus Fund \$</i>	<i>Core Accumulation Fund \$</i>
<b>Payments for services</b>		
– Trustee fees	22,522	69,990
<b>Total payments for services</b>	22,522	69,990
<b>Out-of-pocket expenses</b>		
– Auditor's remuneration	1,908	5,931
<b>Total out-of-pocket expenses</b>	1,908	5,931
<b>Total payments</b>	24,430	75,921
 Out of pocket expenses expressed as a percentage of net asset value of the DIS constituent funds *	 0.04%	 0.04%

\* The net asset value used for calculating the percentage is the average of the net asset value of the DIS constituent funds as at the month end during the period from 1 April 2017 to 31 December 2017.

## **17 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017**

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Scheme.

*Effective for  
accounting periods  
beginning on or after*

HKFRS 9, *Financial instruments*

1 January 2018

The Trustee is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Trustee has identified some aspects of the new standards which may have a significant impact on the financial statements. Further details of the expected impacts are discussed below.

HKFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 requires financial assets to be classified into separate measurement categories: those measured at fair value with changes either recognised in profit or loss or in other comprehensive income and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In addition, a revised expected credit losses model will replace the incurred loss impairment model in HKAS 39. The Trustee is yet to fully assess the impact of the standard on its financial statements.

For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the new requirements for hedge accounting and financial liabilities, but the impact is not expected to be material.

## **18 Approval of financial statements**

The financial statements were approved by the Trustee on **27 JUN 2018**