



## **Best MPF Scheme Award Methodology, Hong Kong**

Morningstar Methodology Paper  
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2017

## Morningstar Best MPF Scheme Award Methodology

The Morningstar Best MPF Scheme Award recognizes the MPF (mandatory provident fund) scheme which excels in a combination of qualitative and quantitative factors including product diversity, transparency and disclosure, and investor experience, as well as the delivery of the best average risk-adjusted performance across its offerings.

Only MPF schemes that are available to all individual employees are considered for this award. In addition, funds in the following categories are excluded from our assessment:

- ▶ Guaranteed Funds
- ▶ HKD Money Market
- ▶ Money Market Other
- ▶ Other Bond
- ▶ Other Equity
- ▶ Target Date

Furthermore, we only consider categories with at least five distinct portfolios to ensure that we are making robust comparisons.

The award is annual, so we believe it is appropriate to emphasise the one-year average performance of funds within each scheme. However, as a long-term investment vehicle, we believe it is important for funds to have also delivered strong three- and five-year returns. Hence, only funds with at least five years of track record are considered in our award assessment.

### **Scoring System**

The award is a combination of our quantitative and qualitative assessment of an MPF scheme. The quantitative component accounts for 70% of the total score, whereas the qualitative component accounts for 30% of the total score. Our scoring system is as follows:

#### **Performance Score (70% of total score)**

Each fund in an MPF scheme is scored according to its risk-adjusted returns using the following method:

#### **Return Score = 80% of Performance Score**

One year: 30% of Performance score, based on 1-year return percentile rank in Morningstar Category

Three- and five-year: 50% of Performance score, of which

40% = 3-year return percentile rank in Morningstar Category

60% = 5-year return percentile rank in Morningstar Category

(Note: 3-year and 5-year scores are scaled to represent 40% and 60% of the long-term portion of the return score, respectively. The 3-year return score constitutes 20% of the performance score, and the 5-year return score constitutes 30% of the performance score.)

#### **Risk Score = 20% of Performance Score**

Of the risk score:

40% = 3-year Morningstar Risk percentile rank in Morningstar Category

60% = 5-year Morningstar Risk percentile rank in Morningstar Category

(Note: 3- and 5-year scores are scaled to represent 40% and 60% of the total risk score, respectively. The 3-year risk score constitutes 8% of the total score, and the five-year risk score constitutes 12% of the total score.)

A fund's performance score is the aggregate of its return and risk scores. The above scoring process is applied to each eligible fund in an MPF scheme, and an MPF scheme's overall performance score is the mean performance score of all of its eligible offerings. Each MPF scheme is then ranked in ascending order according to its overall performance score and assigned a percentile ranking. The scheme with the **highest** percentile ranking is the scheme which has delivered the best performance score.

### Qualitative Score (30% of total score)

In addition to assessing each MPF scheme's average risk-adjusted performance, Morningstar's Hong Kong Fund Research Team will review the qualitative aspects of each MPF scheme. There are three main areas of consideration:

- ▶ Product diversity – a scheme should offer a wide range of funds (e.g. multi-asset funds, passive investment options) that enables investors to construct a portfolio most suited to their needs.
- ▶ Transparency and disclosure – to help investors make an informed decision, a scheme provider should strive to provide full transparency to investors by disclosing information such as their fund's manager name, performance after fees, associated risks, etc. on a regular basis.
- ▶ Investor experience – investors should be able to access relevant information with ease. For that, a scheme provider should, among other things, provide regular investor education materials and a user-friendly website.

Each MPF scheme is scored according to the above criteria and ranked from the highest to the lowest. A percentile ranking is assigned accordingly; the higher the percentile ranking, the higher the opinion we have on the qualitative aspects of the scheme.

### Award Selection

Based on the above weights, the effective weights of each component are as follows:

Performance Score (70%)	One-year returns	21%
	3-year returns	14%
	5-year returns	21%
	3-year Morningstar Risk	5.6%
	5-year Morningstar Risk	8.4%
Qualitative Score		30%
		100%

Upon the completion of both the quantitative and qualitative assessments, the MPF scheme with the highest total percentile ranking will receive the Morningstar Best MPF Scheme Award.