From asset labels to risk drivers: A new lens on MPF portfolio design

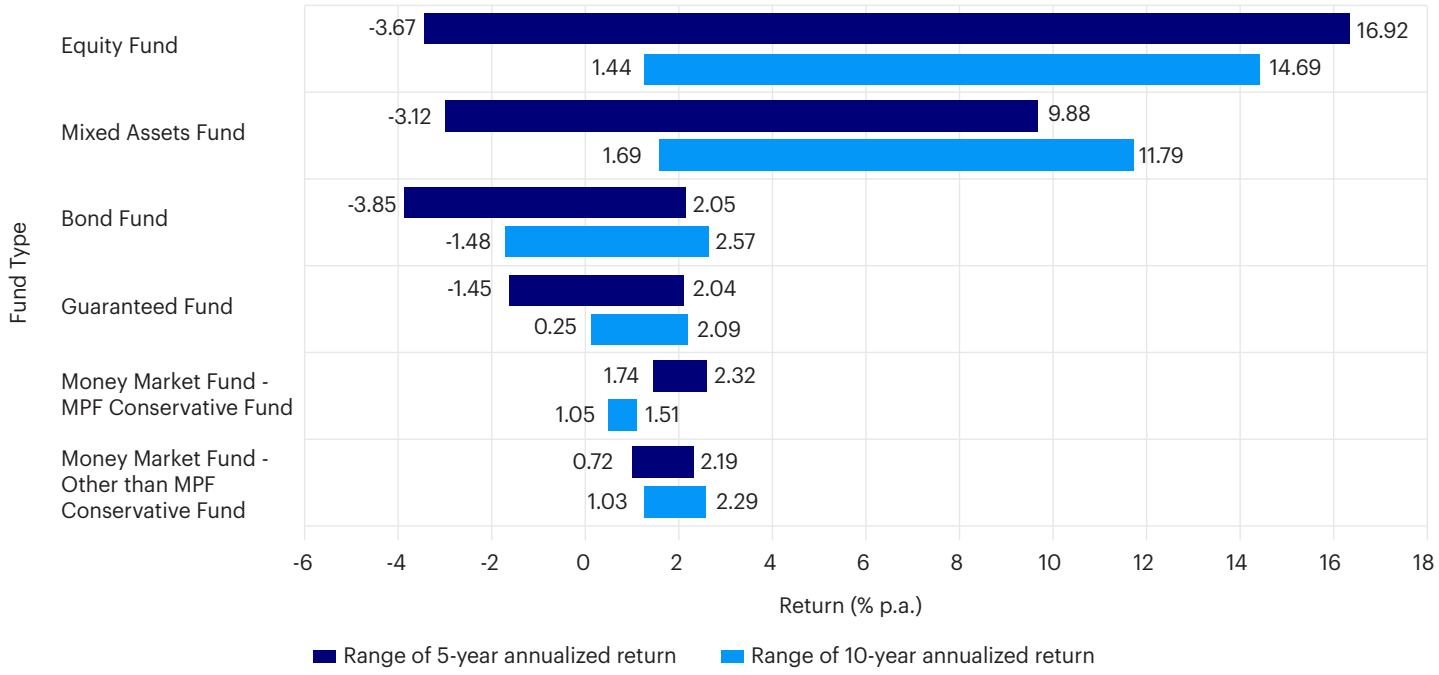
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Key takeaways

- Mandatory Provident Fund (MPF) funds within the same broad category can deliver very different outcomes because their underlying exposures and risk drivers vary significantly.
- True MPF diversification requires looking beyond fund labels to assess asset allocation, market concentration, currency exposure and the changing relationship between stocks and bonds.
- As Hong Kong's MPF framework evolves, members should consider the purpose, costs and portfolio role of each permitted investment tool in supporting long-term retirement resilience.

The selection of MPF funds commonly begins with consideration of broad categories such as equity, bond and mixed asset funds. While these labels provide a useful starting point, they do not fully explain a fund's underlying exposures or how it may perform under different market conditions. The differences can be significant. As of 31 July 2026, five-year annualised returns among MPF equity funds ranged from -3.67% to 16.92%, while returns among mixed asset funds ranged from -3.12% to 9.88% (Figure 1). This wide dispersion shows that funds in the same broad category may still produce very different outcomes.

Figure 1 – The range of the MPF funds return



Source: MPFA, MPF Fund Platform. Data as of 31 July 2026.

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These differences often reflect the risk drivers beneath the fund label. MPF members can better assess how each fund may behave, whether their portfolio is genuinely diversified and what role each holding serves in supporting their long-term retirement objectives.

Beyond surface-level diversification: Uncovering concentrated risk
Diversification is often described in terms of asset classes, such as owning a combination of equities, bonds or mixed assets. But these labels are only the starting point. What matters is what sits within each fund and how those exposures may behave in different market environments.

Market concentration is another issue to watch. By mid-2025, the 10 largest companies represented almost 40% of the S&P 500 Index with strong investor focus on large technology and AI-related companies.[1] A portfolio may therefore appear diversified on the surface while still being exposed to a narrower set of market drivers.

Bonds also warrant closer review. If stock-bond correlations turn positive again in 2026, inflation or interest-rate shocks could weigh on both asset classes at the same time. This highlights that bonds may not always cushion equity market weakness.

Unlocking the risk drivers behind fund labels
Beyond generic fund labels such as "Growth", "Stable" or "Balanced", an MPF fund's risk profile is mainly shaped by four structural and economic factors:

- **Asset allocation (equities versus fixed income):** The mix of equities and fixed income is the main driver of volatility. Equities offer greater growth potential but can suffer significant losses during downturns, while bonds and cash can help moderate volatility and provide income, though they may offer less protection against inflation.

- **Geographic and sector concentration:** Funds focused on one market or sector, such as Hong Kong or China equities, carry greater concentration risk. Their performance is more sensitive to local economic, regulatory and political developments than that of broadly diversified global funds.

- **Currency exposure:** International assets are denominated in currencies such as the US dollar, euro or yen. Exchange rate movements against the Hong Kong dollar can increase or reduce returns. MPF schemes must maintain an effective Hong Kong dollar currency exposure of at least 30%, helping to limit excessive foreign exchange risk.

- **Fees and expenses:** The fund expense ratio reduces investment returns over time, and the effect compounds over a long investment horizon. Lower cost options, including index-tracking funds, can help reduce this drag.

New investment tools: Purpose matters
Hong Kong's MPF investment framework is evolving. In July 2026, the Mandatory Provident Fund Schemes Authority (MPFA) updated its guidelines to optimize the approval mechanism for eligible physical gold ETFs, moving from individual approval to category-based approval while keeping the 10% net asset value investment limit unchanged.

The MPFA has also welcomed the government's plan to introduce legislative amendments that would, if implemented, allow MPF funds to invest concurrently in MPFA-approved fund building blocks and individual permissible investments. Over time, this may create room for a broader range of regulated investment tools, while assets that are less liquid or more complex would still require careful regulatory consideration before they could be included. These developments may give MPF schemes more building blocks within a regulated framework.

1. Source: S&P Global, data as of June 30, 2025.

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Questions MPF members can ask themselves
• Do I understand what risks are driving each fund I hold, beyond its label? • Am I too concentrated in a particular market, sector, company or theme? • If equities and bonds both fall at the same time, how might my portfolio be affected? • Does each fund or exposure serve a clear role in my long-term retirement plan?

What does this mean for your MPF? Actionable next steps

- **Look beyond fund labels:** a broad market fund may still carry concentration risk.
- **Understand diversification limits:** bonds may not always offset equity weakness.
- **Focus on permitted tools:** each exposure can have a clear role in supporting portfolio resilience.
- **Keep costs in perspective:** potential benefits can be considered alongside fees and implementation costs.

Conclusion

As market leadership narrows, stock-bond diversification becomes less predictable and the MPF investment framework evolves, members may benefit from looking beyond simple asset labels. By understanding the risk drivers behind each fund and making every investment tool count, members can make more informed decisions and build greater resilience for their long-term retirement journey.

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