Principal® 信安

Principal Retirement Guide

Live Your Best Life

Contents

Introduction

Retirement planning can be a formidable subject for a lot of people, and some financial institutions in Hong Kong have released surveys in the past that point to an overall bleak picture of Hong Kong people's overall retirement readiness.

At Principal, we believe that you, regardless of your current financial circumstances or how much you have already saved in your MPF account or other retirement savings products, can start taking little steps towards a future where you can live your best life.

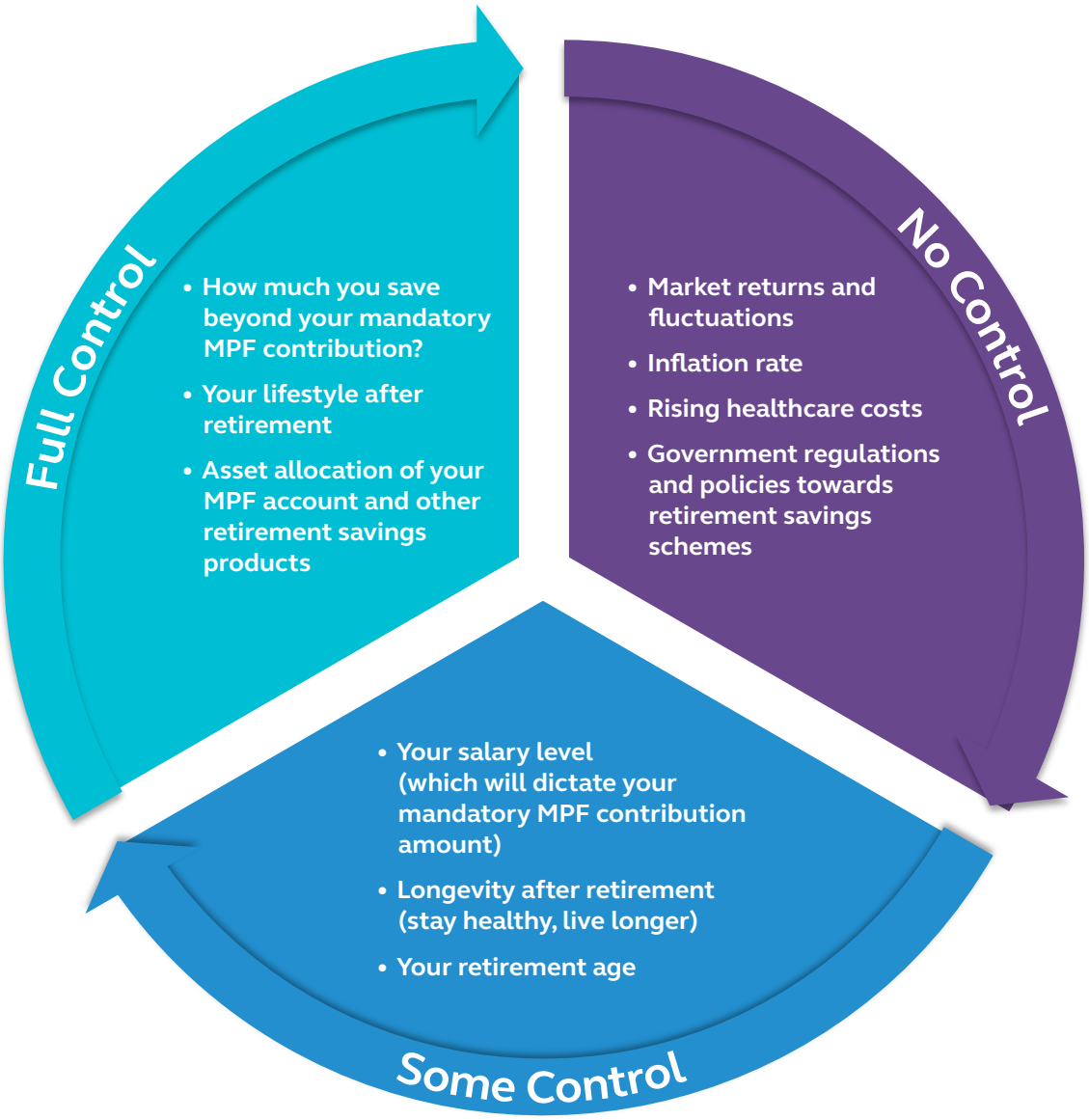
"A journey of a thousand miles begins with a single step," an old Chinese saying goes. Planning for retirement is like taking a journey that will last decades. While retirement planning can be looked at through mathematical formulas and academic research, we believe that as you have already started your journey, the best decision you can make now is to be positive and learn what factors are within your control to better plan for your retirement.

We hope you enjoy this Retirement Guide, and your Member Relations Consultant is here to assist you in better managing your MPF account with us. Please feel free to contact the Member Relations Consultant at **(852) 2827 1233** or via email: **hkinfo@exchange.principal.com**, for further discussions or private appointments.

What factors influence your retirement planning?

While retirement might seem far and out of reach, it is important to plan ahead and get prepared. For every person planning for retirement, we may identify factors that affect our retirement life and have at least some control, or even, full control at. In this way, we may prioritize our efforts and start working on them immediately.

Stay positive, every little step you can take helps complete the full plan.



Key numbers about retirement planning in Hong Kong

MPF Numbers in Hong Kong

HK$7,100 - HK$30,000 per month

Relevant Income Level

HK$355 - HK$1,500 per month

Amount of Mandatory Contributions (Employee)

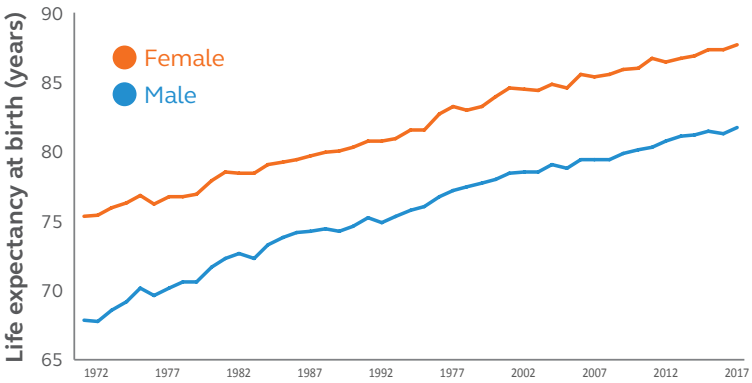
60* - 65

Retirement Age

* Members may declare early retirement on or before 60 years old

Life Expectancy in Hong Kong

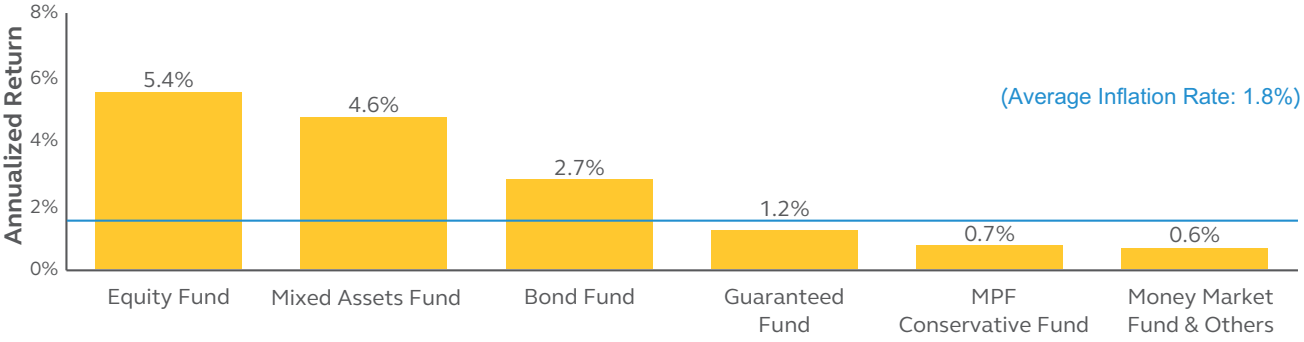
The life expectancies at birth for both sexes have steadily increased during the past 47 years, from 67.8 years for males and 75.3 years for females in 1971 to 81.7# years and 87.7# years respectively in 2017, which means there are more than 20 years to go after retirement.



Data Source: The Centre for Health Protection, Department of Health
* Provisional figures for year 2017

Annualized Return of MPF Funds

Annualized Return of MPF Funds by Fund Type (1 December 2000 - 31 March 2018)



Source: Mandatory Provident Fund Schemes Authority

Key investment principles

One key factor which has a big influence on your retirement planning is **asset allocation** of your MPF account and other retirement savings products, and you have full control of this.

While asset allocation may sound complicated to you, there are several simple investment principles that you should know before understanding the importance of asset allocation.

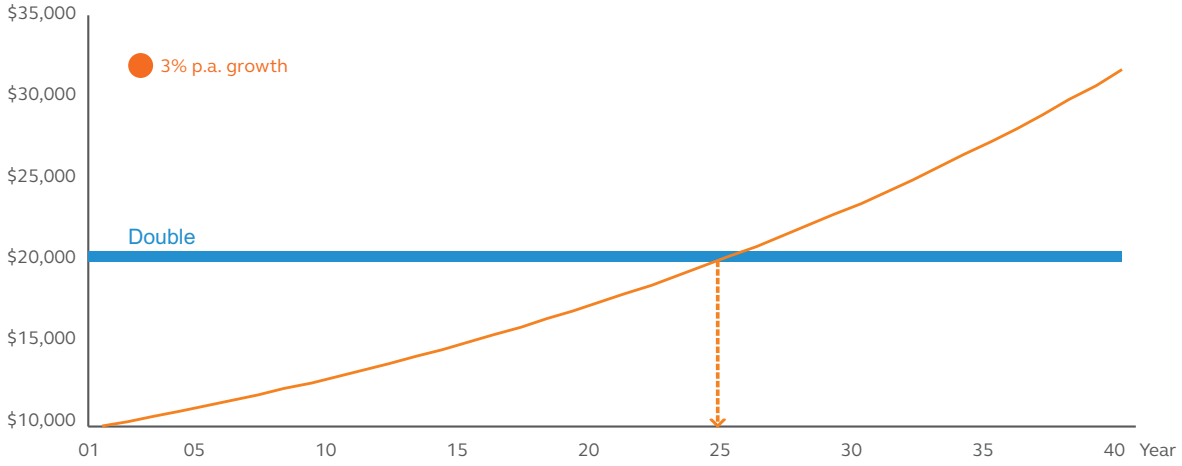
1 Compound interest

Albert Einstein once called compound interest "the greatest mathematical discovery of all time". While we are certainly not as smart as him, we also think that compound interest may be one of the most important investment principles for retirement planning.

Assuming you have invested $10,000 today in certain investment, if that investment grows at just 3% every year, your $10,000 investment will be more than doubled in 25 years.

MPF System has achieved an annualized rate of return of 4.7%, which is higher than the average inflation rate 1.8% over the last 16 years. (December 2000 - March 2018)

What can 40 years of investment do?
Assume an initial investment of $10,000 with 3% return per year

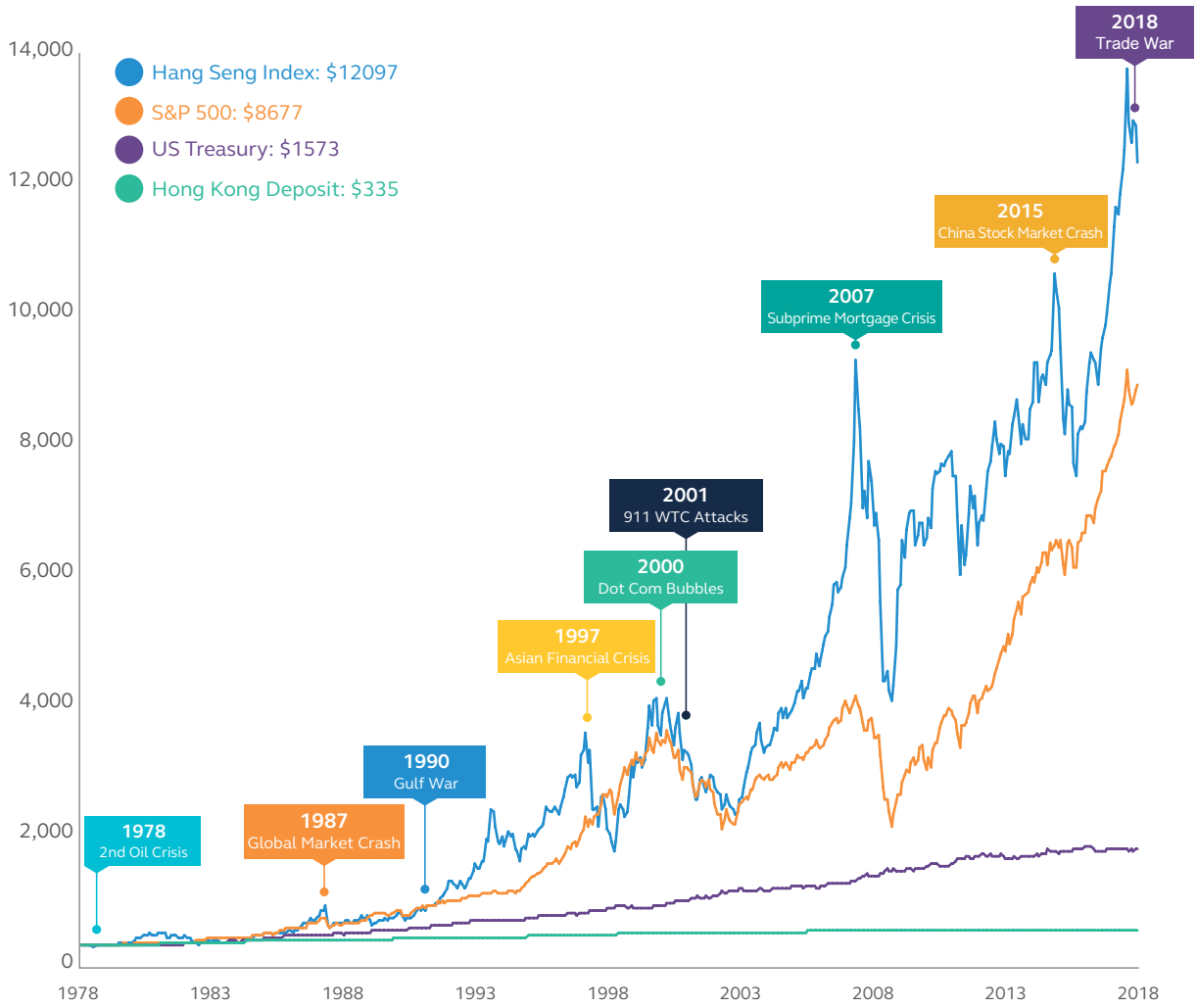


2 Long-term investment

Stock markets go up and down every day, and financial crises, geopolitical issues and natural disasters could also have an outsized impact on the short-term performance of any stock market.

However, when you still have some years to retirement, it is worth bearing in mind that while stock markets can fluctuate considerably in the short-term, over the longer-term stock markets offer good opportunity for wealth accumulation.

If you have invested $100 40 years ago .....



Source: Bloomberg, June 1978- June 2018, assumed dividend/Income reinvested

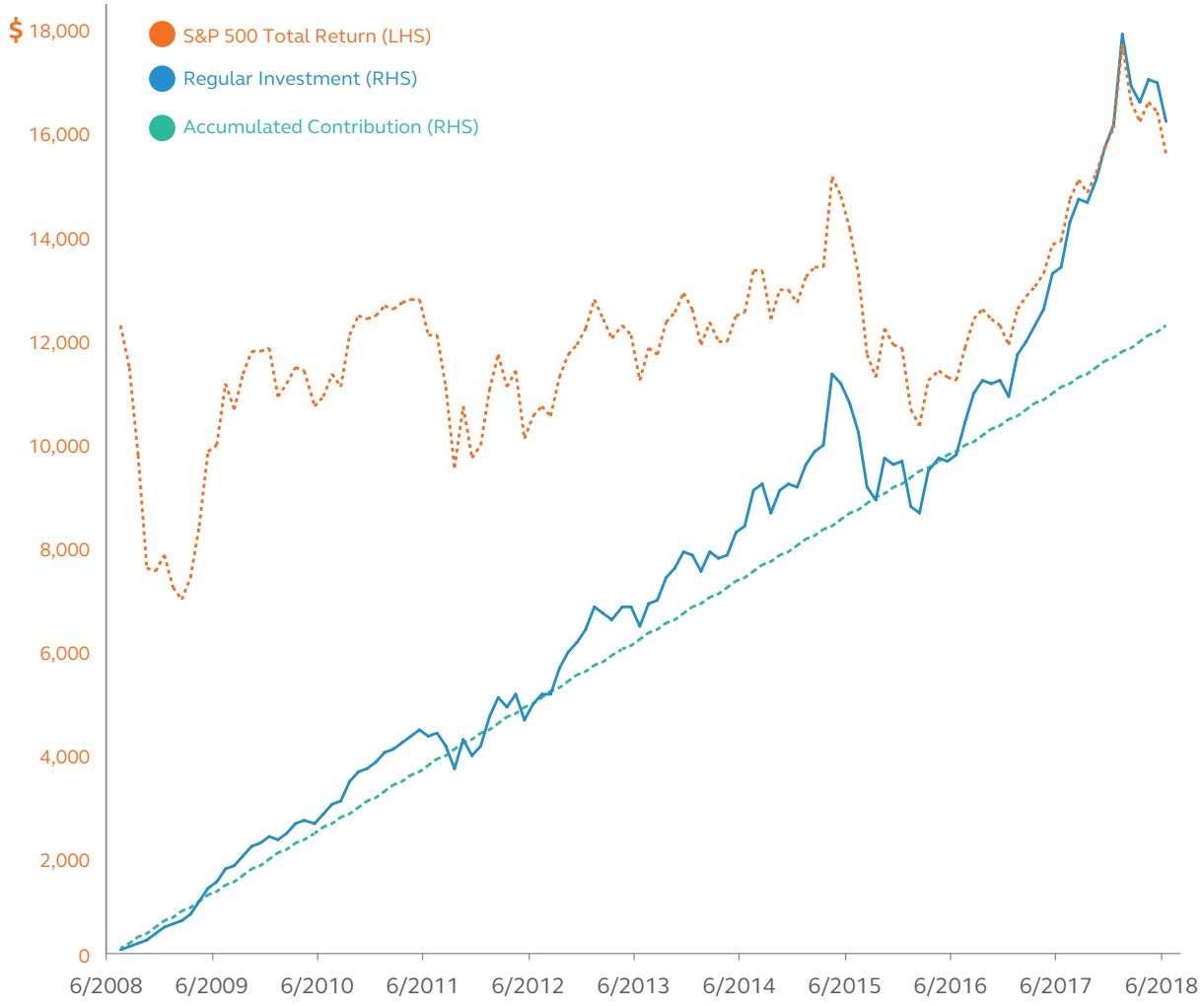
3 Dollar cost averaging

While you do not have any control over stock market fluctuations, you still have control as to how to mitigate the negative effects of stock market fluctuations.

Your control is how much and when you are investing in the stock markets. As an MPF member, you invest a fixed amount every month. By doing so, you will be buying less units when the fund price is higher (in other words the market is doing well), and you will also be buying more units when the fund price is lower (in other words the market is not doing as well).

The net effect is that you will smooth out the stock market fluctuations when you invest a fixed amount at regular intervals. This effect is called "dollar cost averaging".

Lump Sums VS Regular Investments (June 2008 - June 2018, 10 years)



Source: Bloomberg

4 Stay calm

While dollar cost averaging can help smooth out the stock market fluctuations, there are times that stock markets can really fluctuate wildly. The most common reaction when this happens is to sell your investment in the stock markets, put that into safe investment like cash or money market funds, then wait for the stock markets to calm down before investing again.

This reaction may turn out to cost you considerable returns over the longer-term.

Mr. Panic: $10,000 initial investment, withdrew in panic during market turmoil and re-joined when the market returned to the last peak.

	9-10-2007	9-3-2009	28-3-2013	30-6-2018
S&P 500 Index	1565.15	676.53	1569.19	2718.37
Action	Invested at peak (2008 market down 57%)	Panic	Re-joined when index returned to the peak of 2007	
Redemption		$4,322		
Market value	$10,000	$0	$4,322	$7487.17

Mr. Calm: $10,000 initial investment, sticking to his investment strategy during market turmoil.

	9-10-2007	9-3-2009	28-3-2013	30-6-2018
S&P 500 Index	1565.15	676.53	1569.19	2718.37
Action	Invested at peak (2008 market down 57%)			
Redemption				
Market value	$10,000	$4,322	$10,000	$17368.11

132% return difference over 10 year!

Source: Bloomberg

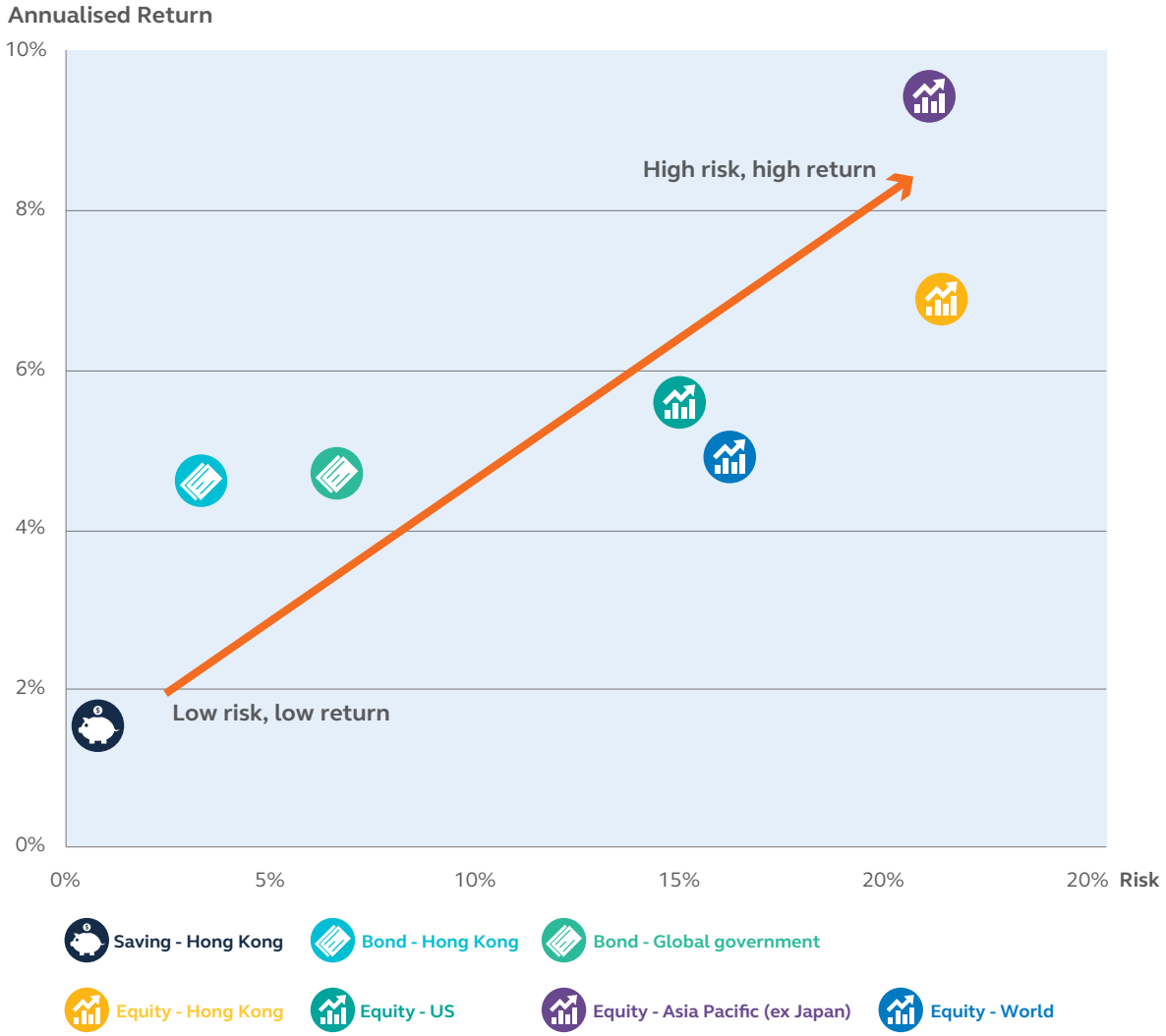
5 Understanding risk and return

Over the longer-term stock markets can offer good opportunity for wealth accumulation, dollar cost averaging can help smooth out stock market fluctuations, and staying calm during market crises may be better over the longer-term.

However, these are just general investment principles, and you are entitled to look at risk and return based on your preference. Your investment time frame until retirement is also an important factor when it comes to balancing the risk you want to take with the potential of the return for your investment.

There is no absolute best investment in MPF or in other retirement savings products, but there will be a well-structured portfolio out there that best fits your life.

Risk and Return Among Assets (Jan 2001 - June 2018)



Importance of asset allocation

At this point hopefully you will have some understanding of several key investment principles, and now we discuss a key factor which has a big influence on your retirement planning, and one that you have full control: Asset allocation.

We can spend many pages going into very technical details about asset allocation, but we will just use the Wikipedia's description.

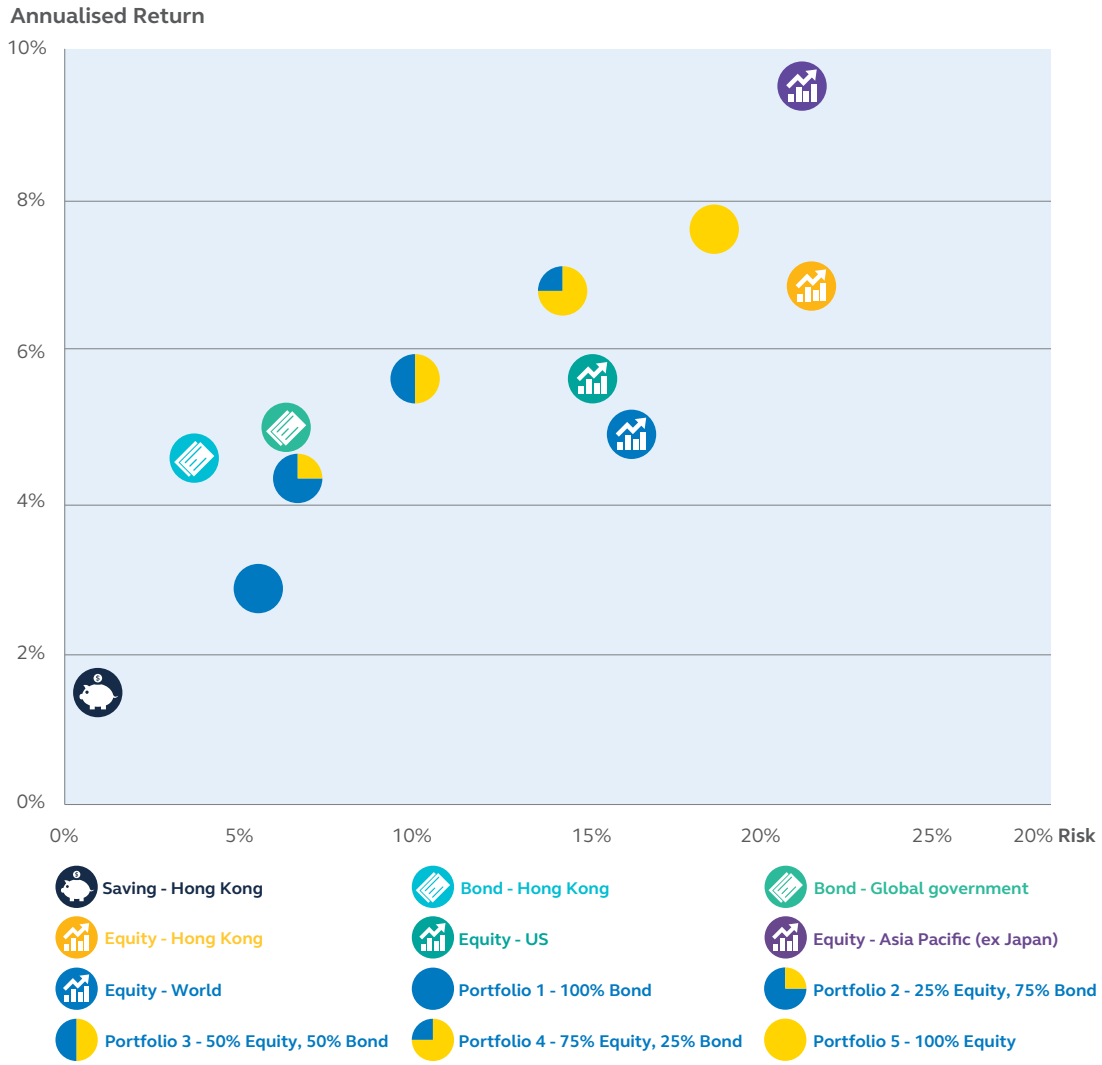
Asset allocation is the implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame.

That's it. The one key word here is balance, the balance between risk and reward, the return of your overall investment. This balance is decided based on your risk tolerance, goals and investment time frame.

Going back to the scatter chart of the last page, what should you invest in?

If you have moderate risk tolerance, and you are investing for your retirement that is still some years away, perhaps a 50-50 equity / bond balanced Portfolio (3) will offer you that balance between risk and reward.

Too risky, how about the balanced Portfolio (2)? Or maybe this balanced Portfolio (4) instead if you are willing to be exposed to higher risk with potential for higher return?



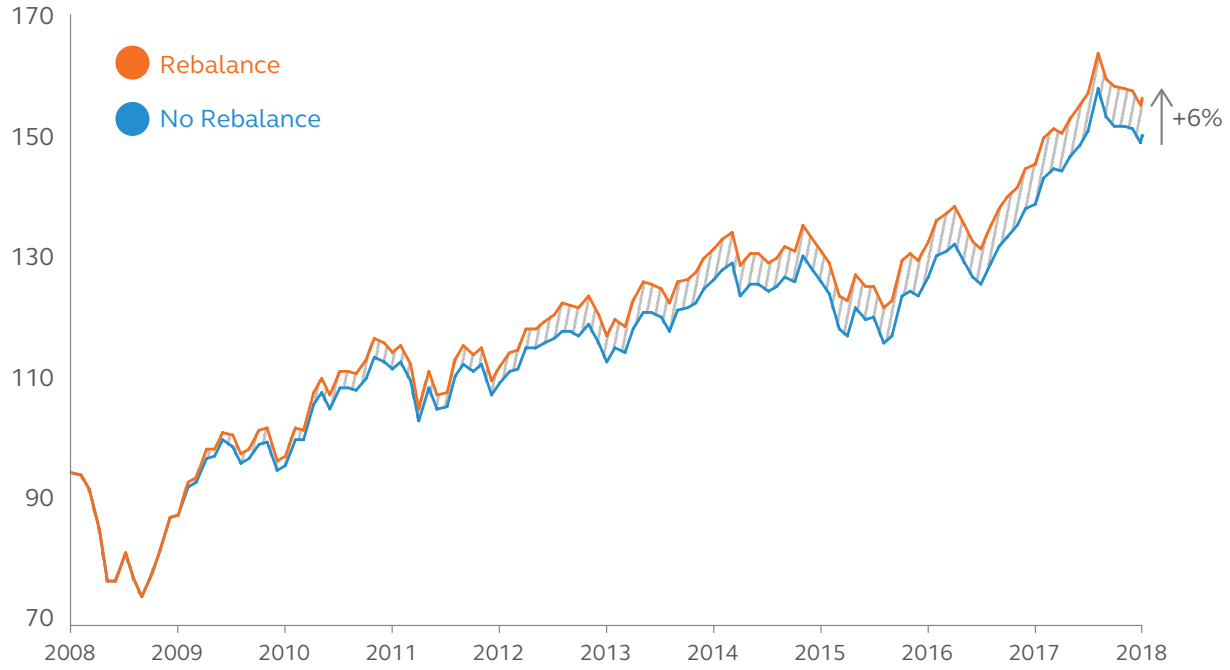
Remarks:
Portfolio (1) = 75% Global Government Bond + 25% HK Bond
Portfolio (2) = 75% Portfolio 1 + 25% Portfolio 5
Portfolio (3) = 50% Portfolio 1+ 50% Portfolio 5
Portfolio (4) = 25% Portfolio 1 + 75% Portfolio 5
Portfolio (5) = 40% US Equity + 40% Asia Pacific ex Japan Equity + 20% HK Equity
Source: Bloomberg

Regular portfolio rebalancing

So you have selected a balanced portfolio that fits you, but at the end of the year, you find that the weighting of each asset class in your portfolio has changed! What happened? Over the year each asset class within your portfolio has moved up and down in prices, resulting in a weighting change.

Rebalancing your portfolio will help you maintain your original asset-allocation strategy.

Comparison of portfolios with rebalancing and no rebalancing (June 2008 - June 2018)



Finding and managing a balanced portfolio that best fits your life is very achievable, and you have full control of a little step towards this, and towards a future where you can live your best life.

Principal's Member Relations Team At Your Service

At Principal, we understand your needs as you are planning ahead for your retirement life or simply want to know more about how these investment principles and tools help prepare your future. Private appointments could be arranged with your Member Relations Consultant to answer your questions and provide many other dedicated services.

- Acting as a coach to support devising of your retirement plan and setting retirement goals
- Assist to review your current portfolio and share updates on current investment markets
- Conduct a risk profile analysis with you, advise fund selection approach matching your investment style and risk appetite
- Help your MPF Personal Account consolidation and long term savings planning
- Advise asset allocation and portfolio rebalancing strategies

Contact Us: (852) 2827 1233 / Email: hkinfo@exchange.prinicpal.com

Disclosure

1. This material is the property of Principal Trust Company (Asia) Limited ("PTC"). No part of the material may be modified, reproduced, transmitted, stored or distributed to any other person or incorporation in any format for any purposes without PTC's prior written consent.
2. The information in this material has been derived from sources believed to be accurate and reliable. The content is for informational purpose only and is neither a recommendation to buy or sell any securities nor a solicitation to deal in the products referred to therein. The information is subject to change without notice. PTC will not warrant or guarantee the accuracy and/or completeness of third-party content. Subject to any contrary provisions of applicable law, neither PTC nor any of its employees or directors warrants or guarantees the accuracy or accept any responsibility arising in any other way for errors or omissions in this material.
3. This material has not been reviewed by regulatory authorities in Hong Kong.
4. Investment involves risks. The value of the funds may go up or down. Past performance is not indicative of future performance. Investors should not invest solely in reliance on this marketing material. Investors should consider their own risk tolerance level, investment objective, individual needs and financial circumstances before making any investment choice. Investors should read the MPF Scheme Brochure for further details (including investment policy, risk factors, fee and charges of the constituent funds) before making any investment choice.

This marketing material has not been reviewed by the Securities and Futures Commission.

Issuer of this material: Principal Trust Company (Asia) Limited and Principal Asset Management Company (Asia) Limited

(852) 2827 1233

www.principal.com.hk

hkinfo@exchange.principal.com

30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Principal Hong Kong

NP-RETIREMENTGUIDE-E-N-202004-2