How to Enhance Compounding with A-shares in Your Retirement Portfolio?

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How big of an impact would it be if you could raise your investment return by 1%? As the saying goes, "many a little makes a mickle"; never overlook the difference that the important 1% can make! A-shares will soon enter Hong Kong's pension market, giving employees an additional long-term investment option to prepare for retirement.

We all wish for a happy retirement. Realistically, modern society and the high living prices make it really hard to depend only on cash savings in retirement. The 2020 Retirement Confidence Survey, conducted by Allianz GI, found that the ideal retirement savings of the surveyed respondents was HKD 4.39 million on average. In contrast, they expected to only save HKD 3.49 million. In other words, their actual saving pot may be short by as much as HKD 900,000!

Early planning and smart retirement investing can bridge the gap between the ideal and actual amount of the retirement pension. Retirement investing is about long-term returns. Investing for the long haul is the key to opening the door of compounding effects.

The 1% Difference Matters[1]

Investment Horizon	Monthly Contribution	Assuming Annualized Return Remains	Compounding Result
40 Years	HKD 3,000	4%	HKD 3.546 million
		5%	HKD 4.578 million

Assuming a 25-year-old worker makes a monthly pension contribution of HKD 3,000 (including employer's contribution), if the annualized return differs by 1%, the compounding effect will result in a difference of HKD 1 million[1] after 40 years! This is the power of the compounding effect.

Key takeaways

- In investment, the compounding effect means snowballing investors' money over time
- As little as a 1% return would bring a massive benefit because of the compounding effect
- Young employees, who are far from retirement age, can opt for a more aggressive portfolio

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Hence, young workers, who are still a long way from retirement and can afford a higher level of risk, might want to consider choosing more aggressive equity funds to leverage on the time advantage. Even if the return is as little as 1%, the benefits will play out from a long-term perspective.

Medium-to-Long-Term Index Return Comparison Between China A-shares and Hong Kong Equities[2]

Index	3-Year Annualized Return	5-Year Annualized Return	10-Year Annualized Return
MSCI China A Index (USD)	17.66%	11.44%	7.39%
MSCI Hong Kong Index (USD)	5.09%	8.34%	7.12%

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With the addition of China A-shares to the pension market, young workers, who can afford high investment risks, can consider more aggressive A-share funds. This would flex the muscles of long-term investment through compounding.

[1] Calculated with the Savings Goal Calculator of the 'Chin family' under Investor and Financial Education Council's.
[2] Source: MSCI. Data as of 30 July 2021.