


# Chapter 7

## Marketing Intensity vs. Financial Fundamentals: Analyzing Investor Behavior in Hong Kong's Mandatory Provident Fund Market

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### **ABSTRACT**

*This study investigates the relationship between marketing intensity, measured through the management expense ratio (MER), and investor behaviour in Hong Kong's mandatory provider fund (MPF) system, particularly under unstable market returns. This study aims to identify whether marketing efforts influence fund performance and investor choices in a regulated and transparent pension framework. A quantitative research design was employed, utilising secondary data from 413 MPF funds across 12 trustees for the period 2019–2023. An Ordinary Least Squares (OLS) regression model was used to analyse the impact of the MER on investor behaviour while controlling for fund size, age, risk, and return volatility. The results reveal that marketing intensity has no significant impact on fund performance or investor decisions within the MPF system. Instead, fundamental financial characteristics such as fund size and volatility play a more decisive role. Larger funds demonstrate better performance due to diversification benefits, whereas higher volatility correlates with greater returns, albeit with increased risk. The findings suggest that fund managers should prioritise enhancing intrinsic financial characteristics, such as risk management and diversification, over marketing expenditure. Policymakers should be encouraged to reinforce financial literacy programs to ensure informed*

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*investment decisions. Investors should focus on core financial metrics rather than being swayed by marketing efforts. This study contributes to the limited literature on the role of marketing intensity in regulated pension systems, challenging the conventional emphasis on promotional efforts to influence investor behaviour. This underscores the primacy of financial fundamentals over marketing in investment decision-making within transparent and efficient markets.*

## **1. INTRODUCTION**

The Hong Kong Mandatory Provident Fund (MPF) system is part of the “second pillar” of the multi-pillar retirement protection framework suggested by the World Bank (Lam, 2020; Cheung et al., 2023; He et al., 2023). The aggregate net asset value of all MPF schemes has reached over HK\$1,100 billion with an annualised internal rate of return, net of fee, of 2.5% (FSTB, 2024). MPF is a mandatory savings program aimed at providing residents with the ability to save for retirement (Chen and Lou, 2024; Tian et al., 2024). It has proven to be one of the key pillars forming the city's financial infrastructure, and is designed to provide retirement savings for the workforce (Franklin & Raadschelders, 2023; She, 2023; Pardo, 2023). The MPF system was reformed to improve efficiency and transparency one after another (Law, 2024). It has become the cornerstone of financial security for millions of citizens (Zhang and Yang, 2023). An increasing number of investment options are available to MPF members for choice in the risk-return expectations and their investment portfolio (Almassri et al., 2023). Contributors have the daunting task of choosing funds suitable for their need to balance risk and return with retirement goals (Bai et al., 2023). The providers of the MPF mechanism are various trustees and financial institutions that offer more than 400 MPF plans, leaving investors in a muddle of complex decision-making scenarios (Kim et al., 2024). Other aspects of decisions emanate from fund performance, risk, and funds marketed by fund managers (Baghai et al., 2024; Nie et al., 2023; Zhang et al., 2023; Karoglou et al., 2023).

Nevertheless, the system has had an all-time hard time over the last several years, with unstable returns and market conditions that have varied significantly (Guo & Shen, 2023; Xu et al., 2022; Lee et al., 2017). Such uncertainties have compelled investors to rethink their decision-making processes and reflect on what influences their behaviour in selecting investment funds within the MPF scheme (Caldecott et al., 2024; Dumayiri et al., 2024; Yasuda, 2023). Marketing affects investor perceptions and decisions in all financial markets, including the MPF system (Ho and Chow, 2024; Ho & Chow, 2023; Haghghinasab and Khobbakht, 2024). Based on recent studies, marketing intensity, typically operationalised through promotional efforts and fund visibility (Semenov & Randrianasolo, 2022), has conventionally been

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