

Saturday Nov 11, 2023

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businessstimes.com.sg



INSIGHTS FROM  
CFA SOCIETY SINGAPORE

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## Enhancing your retirement planning with CPF

There are investment alternatives other than using CPF for mortgage payments or earning the risk-free rate

CONSIDERING an upgrade to your retirement planning? Tapping into your Central Provident Fund (CPF) savings to construct a multi-asset class portfolio can be a savvy move. It is essential to understand that while investing does come with inherent risks, diversifying across various asset classes may lead to higher risk-adjusted returns. This article is not an invitation to forgo the security of bank savings or CPF accounts, but rather about sharing an added strategy to potentially grow retirement savings.

### The 60/40 rule in investing

Historically, the portfolio allocation of 60 per cent equities and 40 per cent fixed income has been discussed extensively in financial literature. The rule strikes a balance between aggressive and conservative investment strategies. The aim is to maximise equity-market gains and counterbalance the risks using bond holdings. To put it in perspective, a 60/40 equities and fixed-income portfolio historically showcases one of the best risk-adjusted performances for individual investors, as illustrated in the table.

Equities, in the long run, are expected to provide higher returns. However, introducing fixed income ensures regular income and stability during volatile market conditions. And having other asset classes like gold or private equity further diversifies one's portfolio further, offering potential for returns to investors that have less correlation with stocks and bonds.

Considering the restrictions on withdrawing CPF savings until the designated retirement age, these funds naturally lend themselves to long-term investments. And Singaporeans do have investment alternatives (especially for the Ordinary Account) other than using CPF for mortgage payments or earning the risk-free rate.

So, how can one tap into this gold mine? The investment world opens up with more than 100 unit trusts available for one to invest their CPF monies.

Within equities, one can look towards Singapore stocks, or delve into exchange-traded funds (ETFs) with exposure to the Straits Times Index (STI) component stocks. Those keen on a more bespoke approach might find unit trusts appealing, offering tailored exposure based on specific geographies or investment styles.

On the fixed-income side, options range from unit trusts that invest in investment-grade corporate bonds and even short-term Treasury bills issued by the Monetary Authority of Singapore. Meanwhile, for those exploring alterna-



By understanding its nuances and limitations, savvy investors can strategically use their CPF to construct a robust, diversified portfolio.  
PHOTO: BT FILE

### Striking a balance

Risk-adjusted investment returns

	S&P500 INDEX	BLOOMBERG US AGGREGATE BOND INDEX	60/40 BALANCED PORTFOLIO
Arithmetic average monthly total return (annualised)	9.0%	6.6%	8.1%
Annualised volatility	15.1%	5.4%	9.7%
Sharpe ratio	0.47	0.86	0.62

Note: The Sharpe ratio calculation assumes a risk-free rate of 2%. The 60/40 balanced portfolio represents the combined performance of a hypothetical mix of 60% S&P 500 Index and 40% Bloomberg US Aggregate Bond Index. Past performance is no guarantee of future results. Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly.

SOURCE: SCHWAB ASSET MANAGEMENT; BLOOMBERG. DATA FROM JAN 31, 1976 TO MAR 31, 2023.  
HTTPS://WWW.SCHWABASSETMANAGEMENT.COM/CONTENT/LONG-LIVE-6040-PORTFOLIO GRAPHIC. BTVISUAL

tive investments, the choices are mainly Singapore equity real estate investment trusts and gold shares.

### Limitations of using CPF to invest

However, every rose has its thorn. CPF investments come with their set of limitations. For instance, only 35 per cent of CPF savings can be directed towards shares, property funds or fixed income. An even more severe limitation applies to gold investments. Such gold investments, either through ETFs or certificates, are capped at 10 per cent of investible savings.

International stocks, including certain Hong Kong-listed and US-listed stocks which may appeal to retail investors in Singapore, remain out of reach. The only ETF investment options available to those intending to use CPF are Singapore ETFs. And while unit trusts offer some geographic diversity, finding one that veers from the broad market benchmark can be a challenge.

Lastly, when it comes to fixed income, choices lean heavily towards corporate bonds with

limited options in the high-yield or government bond segments.

While CPF savings offers the investor a treasure trove of investment opportunities, it requires astute navigation. By understanding its nuances and limitations, savvy investors can strategically use their CPF to construct a robust, diversified portfolio, blending the best of local offerings with other assets held outside the CPF.

The key is to see CPF not just as a source of funds to finance one's property or a pot of gold compounding at the risk-free rate, but as a cornerstone of one's personal finance journey for retirement accumulation.

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