FRIDAY, 25 OCTOBER 2019

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Employer, pension fund are separate legal entities

If your employer provides a retirement fund, you need to understand that your employer is a separate legal entity to the fund, and the fund is regulated by a different set of laws to the employer. A retirement fund is managed by its board of trustees and, in most cases, an administrator. The fund's rules and Pension Funds Act (PFA) determine the scope in which the administrators, board and trustees may act in administering funds.

Whereas the relationship between an employer and an employee is regulated by the Labour Relations Act, the Basic Conditions of Employment Act and the Employment Equity Act, the relationship between the fund and the employee is regulated by the PFA and the rules of the fund.

The only legal obligation that may arise on behalf of an employer which has contractually elected to provide an employee with retirement benefits is to make payment of the required contributions on behalf of the employee to the fund, and after the employer has paid the necessary monthly contribution to the fund on behalf of the employee it has few remaining obligations to the employee.

The savings accumulated in a fund are dependent on the contributions made to the fund, which can be made by the employer, the employee or both. Upon termination of the employee's employment with the employer, the fund (and not the employer) has the legal obligation to pay out benefits that accrue to the fund member.

On termination of employment, the employer does not receive any payment from the pension fund and has no obligation to pass on or make payment to the former employee.

There is no legal obligation on an employer to administer the fund (although it must have representatives on the board of trustees). The board of trustees and the administrator are obliged to run, operate and administer the fund generally. Therefore, if an employee is not paid out his or her benefits, an employee has a right of recourse against the fund and not the employer. Ordinarily then, after the monthly contribution has been paid over to the fund, the employer steps out of the picture and has nothing more to do with the member's pension benefit.

However, employers need to be aware that section 37D of the PFA allows a registered fund to deduct and pay any pension benefit that would usually be payable to a member or their beneficiaries, to the member's employer as compensation for damages caused to the employer by virtue of the employee's dishonest conduct while employed.

The case of Highveld Steel & Vanadium Corporation Limited v Oosthuizen (2009) confirmed that the objective of section 37D(1)(b) is to protect an employer's right to recover money that has been stolen or misappropriated by its employees.

Furthermore, the Highveld case confirmed that, where an employer wants to seek the relief allowed by section 37D of the PFA, it is entitled to require the fund to withhold payment of the member's benefit, until a court order is obtained confirming that the damages are payable to the employer, so that the fund can satisfy the court order out of the pension benefit.

Personal Finance | 22 October 2019 | Bradley Workman-Davies

Trustees can manipulate a trust

Trustees are the guardians of a trust's assets. They are also the decision-makers of a trust.
The founder should ensure that the trust deed, the constitutive charter of the trust, deals in sufficient detail with the appointment and removal of trustees. If it does not, trustees might manipulate the trust and cause the objective of the trust not to be met. Many court cases deal with the abuse by trustees of trust assets and the appointment and removal of trustees to influence voting.

Most trust deeds allow for majority voting, which means most trustees can outvote the minority. This is practical for day-to-day decisions, as it might not always be possible for all trustees to agree on all matters. It is practical to allow a majority vote for day-to-day decisions, but to reserve unanimous voting for important decisions, such as the distribution of large amounts of capital to beneficiaries.

When the founder sets up the trust, he or she should consider his or her personal circumstances. Some people prefer having an uneven number of trustees - for example, three, where two trustees can outvote one trustee. This is risky as there is a good chance two trustees can side against the other trustee.

In typical family trusts, where the husband and wife are trustees, together with an independent trustee (as required by the Master of the High Court), it might be easy for the husband-and-wife team to outvote the independent trustee if the independent trustee does not agree with the husband-and-wife team.

This could create a risk for the independent trustee if two family members do not act for the benefit of all beneficiaries of the trust but rather for their own benefit. It could also expose the trust if the court can prove that the independent trustee's appointment was just "window dressing" and that his or her vote does not really count.

On the other hand, if, for example, the trust deed requires the appointment of an even number of trustees - for example, four - it might be harder to achieve a majority vote. It is therefore important to make provision for a proper dispute resolution clause in the trust deed to cater for a deadlock - equal votes in favour of and against a decision.

Considering that family members are usually the trustees on a trust, it is suggested to cater for mediation first when a dispute or deadlock arises. It often helps to have an objective person remove the emotions from decisions to be made, as emotions often run high when families have to make financial decisions.

If mediation fails, the trust deed should make provision for arbitration as a last resort. Such a process is favoured by the courts and is much cheaper. Dispute resolution mechanisms are also important if only two trustees are appointed, in which event unanimous voting is normally required.

The manipulation of the appointment or removal of a co-trustee by trustees can swing the majority vote in favour of a certain group of trustees, as a result of such appointment or removal. The result is an unintended consequence, which was never anticipated by the founder. Often trust deeds provide trustees with a power of assumption. This means that trustees can appoint additional trustees to act with them. A power of assumption may be provided unconditionally or only on the occurrence of a certain event, such as a vacancy. It is important to consider the terms of the trust deed, as there could be other requirements affecting the trustees' power of assumption, such as a requirement to have a minimum number of trustees.
Full Report: https://www.iol.co.za/personal-finance/trustees-can-manipulate-a-trust-35529797

Personal Finance | 21 October 2019 | Phia van der Spuy

Early retirement is tempting – but can you afford it?

The temptation to retire early and adopt a life of leisure can be particularly seductive as you enter your fifties and sixties, especially after many years spent with your nose to the grindstone. But can you afford it?

There are two main drivers which determine if early retirement is even an option for you. They are:

- How much capital you have, and
- How much you need to draw to sustain your standard of living.

Clients often ask us "How much capital will I need to retire"? However, the answer is directly related to how much you require on a monthly basis to sustain your current standard of living. One of the very basic calculations I give my clients is to take their current monthly expenditure, divide this number by four and multiply it by R1,000. This calculation works when you are still trying to accumulate your capital and need to set a retirement savings target.

If you are already at retirement age, however, ensuring that your capital will last your entire lifetime, which is generally unknown, becomes more important. To be conservative, I would suggest that you draw no more than 4% of your retirement capital on an annual basis. To demonstrate the significance of this, the graph below shows how withdrawal rates affect how long your capital will last.

The graph is based on the example of an individual who retires at 55 years with capital of R10 million, and further assumes that inflation rises by 6.0% per annum and that their investment achieves annual growth of 8.5%:

By keeping their withdrawal rate to 4%, their retirement capital would sustain them until the age of 95 years. However, by increasing their withdrawal rate to 4.5%, their capital would be depleted by the age of 87 years. A 6% withdrawal rate would mean that their capital would run out at the age of 77 years – nearly twenty years earlier than had they stuck to 4%.

The exponential benefits of delaying retirement on savings

If a 4% withdrawal rate will not provide you with sufficient income, it may be worth giving serious consideration to delaying your retirement.

Remember, your salary and therefore retirement contributions are usually at their peak in the years just before your retirement, and when combined with the added effect of delaying dipping into your capital, these last few years can make a huge difference to your portfolio through the power of compounding.

To demonstrate the enormous impact of an extra few years on your savings, the graph below compares three scenarios involving the same investor who has accumulated a R10 million capital lump sum at age 55 years.

1. **Retires at 55 years**
   In the first scenario, the individual retires at the age of 55 years, and chooses to adopt a 5% annual withdrawal rate. Assuming that inflation rises by 6% every year and that their investment achieves growth of 8.5% every year (or 2.5% real growth), their capital would be depleted at the age of 83 years.

2. **Delays retirement until age 60, does not add to capital**
   In the second scenario, the individual chooses to delay their retirement for five years, or until the age of 60. However, instead of working full time, they choose to slow down and cut back on their hours, meaning that they only earn sufficient income to cover their monthly costs. They do not add or withdraw any amounts from their retirement pot during this time, but their capital continues to achieve real growth of 2.5% after inflation.

   Even without making any additional contributions, by choosing to delay their retirement and simply allowing their capital to grow for an additional five years without eating into it, their retirement savings would then comfortably last until the age of 94 – even assuming the same 5% withdrawal rate, but at a later date, as the first scenario.

3. **Delays retirement until age 65, continues to save**
   In the third scenario, the individual continues to work until the age of 65, and also chooses to keep contributing towards their retirement savings in order to increase their capital base to a greater degree.
   Assume that this individual adds just R5,000 per month to their investments while still working, and that the capital also sees real growth of 2.5% a year, their capital base would grow to over R11.5 million by the time they retire ay 65 years – a R1.5 million increase in real terms from the R10 million they would have retired with had they retired early at the age of 55 years.

Given the increase in their retirement capital, the individual then chooses to draw down only 2.5% a year on their capital for their income, increasing this amount by 5% each year to keep up with inflation. This means that their capital would last until they are 105 – in today's era, a more likely age for the individual to reach than the 83 years outlined in the first scenario.

It's therefore vital to make sure that you've done all the proper planning and calculations before you take the big step, not forgetting to add a buffer for any emergencies or unexpected expenses. It's important that you don't rush such a big decision, and rather take the time to consider all the implications before you opt to retire early.

For instance, you are most employable when you are already employed, so it could be difficult to re-enter the job market in ten years if you realise that your money may be running out. Also remember that advancements in medical technology and healthier lifestyles mean that people are increasingly living to 90 and even 100 years old.

However, if you are desperate to escape the daily grind, rather consider cutting down your working hours or look for a less strenuous position, even at a lower salary, simply to cover your current living expenses and avoid falling back on your savings.

FA News | 22 October 2019

Time to start balancing RAs with 12Js

For individual taxpayers, retirement annuities (RAs) and Section 12J investments (12J investments) are effective annual investment options which allow taxpayers to reduce their income tax or capital gains tax liabilities. Given the significant upfront and backend tax benefits associated with RAs, it's no wonder that wealth managers have for many years encouraged clients to max-out their RA contributions each year. With a sharp increase in 12J investments, as an additional tax shielding mechanism, wealth managers have started to combine 12J investments with RA investments, to further reduce their clients' tax liabilities (in some cases to zero). An excellent example is one introduced to me by seasoned wealth manager, Craig Gradidge of Gradidge-Mahura Investments who explained to me that:

"Depending on various personal circumstances of each client, I would look to invest R800 000 in a Section 12J investment. This would allow the client to claim a refund of approximately R360 000 from Sars. I would then allocate R350 000 into an RA, which will allow the client to claim a refund of approximately R157 000.

By balancing an RA and a 12J investment, the net effect is that the client's asset of R800 000 would have grown to R1 317 000 just through the refunds paid by Sars."

The combination of investing in both RAs and 12J investments is not limited to the tax benefit, wealth managers can balance their clients' investments to ensure that funds invested are accessible before the age of 55. This is as a result of 12J investments only having to be held for five years in order to enjoy the full tax benefit. 12J investments also provide dividend income streams through the duration of the investment. This careful balancing mechanism can create liquidity prior to retirement.

In addition, the 12J investments market is extremely diverse with taxpayers having the option of investing in high growth riskier investments, mid-tier conservative investments and low-risk capital preservation investments. These options allow wealth managers to balance their clients' risk profiles together with their RA contributions.

Unlike RAs, 12J investments are not vanilla investments and have historically been notorious for charging taxpayers high performance fees and in some cases, have failed to invest investors' capital timeously. The market has since developed, with new alternative 12J investments starting to gain in popularity, allowing wealth managers to diversify their clients' exposures across a number of 12J investments. Even though the market has started to mature, taxpayers would be well advised to consult their wealth manager before making an investment.

From a tax planning perspective, wealth managers and taxpayers should understand the intricacies of 12J investments to minimise the amount of tax payable by their clients. Below is a comparison of some investment characteristics, between 12J investments and RAs:

	12J investment	**Retirement annuity**
Term	5 years	Age 55
Deduction	100% deductible	100% deductible
Underlying investments	Private equity (hotels, asset rental, private equity investments into SMEs etc)	Limited by regulation 28
Offshore exposure	Zero – prohibited by law	Max 25% of total funds invested
Dividend/income stream	Dependent on the type of underlying 12J investment. Usually, dividends for low-med risk investments are expected to be paid within 18 months from the date of investment	No income stream until retirement
Tax implications during term	Dividends withholding tax on all distributions	None
Tas implications on exit	Dividends withholding tax on all distributions and capital gains tax at a base cost of zero on exit	Retirement withdrawal tax (R500 000 tax free with 18-36% banded thereafter)
Risk	Medium to high (depending on underlying investment)	Low to high (depending on fund choice)
Maximum	Treasury has proposed to cap deductions at R2.5 million p.a for individuals/trusts and R5 million p.a for corporates.	27.5% of remuneration capped to R 350 000 p.a.

Minimum	R100k to R1 million	No minimum
Returns	Target of 15% to 40% p.a., risk profile dependent.	Fund and time horizon dependant. Low risk = CPI +2%. High risk = CPI + 5%
Fees	Typical: 2.5% p.a and 20% performance fee	1.5% – 2.5% p.a and a possible performance fee above hurdles
Withdrawal	No legal restriction when funds can be withdrawn	Only after term and only 1/3 can be accessed in cash. 2/3's must be contributed to a compulsory annuity.
Last date to invest	30 June 2021 (unless extended)	N/A

Money Web | 19 October 2019

Adapting your plan to our changing world

Investors who understand their role in the financial planning process are far more likely to achieve positive outcomes. This has most recently been highlighted by the Financial Independence, Retire Early (FIRE) movement with its extreme focus on living frugally and curbing expenses with the ultimate aim of retiring early. This approach certainly encourages this behaviour, but its extreme focus on frugal living may not be for everyone.

The right plan is tailored to your needs

Your own vision of financial freedom might differ significantly to someone else's, and as with all financial plans, the right plan is one that is tailored to your needs. Your plan also needs to be revisited as your circumstances change. The financial planning process can help you determine if changes are needed, or whether you should rather stick to the original plan – which is often the hardest thing to do.

As times change, be sure to shift your thinking

Our framework for being able to accumulate savings has changed. Most of us are no longer working for one employer during our working lifetimes, and 'taking some time off' (as a sabbatical, or when considering your next move) is becoming more common. This flexibility allows us to lead more rewarding lives – but we need to understand the potential impact this may have on our ability to accumulate savings. Preserving retirement savings when changing jobs is non-negotiable. If you take time off work, you will need to make it up elsewhere, either by saving more when you return to work, or by working for longer.

Improved health and longevity might mean you will be able to retire later. For every year you postpone retiring, you are not only not using your retirement savings to sustain you, but you also have a chance to continue accumulating more savings. Working for as long as possible therefore makes sense. Yet despite this, the age at which people are retiring hasn't changed much over the last 100 years (still ranging between 55 and 65 years).

Don't be fooled by averages…

According to a recent survey by Sanlam, if the average male reaches the age of 65, there is a 50% chance of him living to 85 and a 30% chance he will live to 91. Planning for the average outcome, however, may leave you falling far short of your actual needs.

Many mid- to higher-net-worth South Africans prefer to self-insure their retirement income in the form of living annuities, but if you choose to do so, you need to ensure that your income withdrawal level is sustainable. This means that you need to understand the impact that your drawdown rate is likely to have on the longevity of your capital. A qualified financial adviser can help you unpack what this means for your specific circumstances.

…or fooled by recent experiences

Just because the SA equity market has been flat for the last five years, does not mean that you should give up on equities (and the potential they offer for long-term growth). Make sure your capital is invested to offer you an appropriate balance between growth assets and more conservative investments like cash. ***Full Report:*** ***https://www.fanews.co.za/article/views-letters-interviews-comments/18/all/1102/adapting-your-plan-to-our-changing-world/27747***

FA News | 22 October 2019

What to look for when it comes to employee benefits

While researchers and commentators cannot seem to agree on how many times the average person changes jobs, there's no doubt that the 1950s ideal of one job for life is well and truly buried. Virtually everyone will face the challenge of changing jobs more than once, and one of the key areas to consider when doing so is the employee benefits package, says Jeremy Hawson, Employee Benefits Divisional Manager at GCI.

"The way a company approaches employee benefits can tell you a lot about how it really cares for its employees, which could be a factor in your ultimate choice between Company A and Company B," he argues. "But more important still is to ensure that the employee benefit programme aligns with your current lifestyle requirements and your long-term retirement goals."

Hawson says that the main components of a good employee benefit scheme would include group life, which offers cheaper life insurance than individuals can obtain, income replacement in the event of disability (lasts up until retirement age), dread disease cover, medical aid and funeral costs. All of them have a role to play, but he advises that it is advisable to look at them as a whole in order to assess how well they fit into your own long-term plan.

Key issues to watch out for:

• Income replacement is an excellent benefit but make sure it includes premium waiver on your retirement fund. The basic benefit will provide up to 75% of your current salary if you become too disabled to work, but this will not necessarily mean a reduction in your means. It will also not take into account any promotions and salary increases you might have earned during your career. Given your lower income, it is unlikely that you will be able to keep up payments into your retirement fund, thus compromising your ability to retire with any measure of financial security severely. The premium waiver would essentially mean your employer would take out a policy to cover payments into your fund if you are on income replacement.

• When it comes to disability benefits, beware of lump sum payments. These take a long time to materialise because the inability to work forever takes a while to prove – income replacement is more flexible. In any event, lump sums are seldom enough to generate the required income.

• Make sure that the medical aid is flexible enough to be adjusted to your family's requirements, which are likely to change over time. A one-size-fits-all medical benefit can actually be a disadvantage.
• Make sure the funeral benefit is adequate – Hawson says R25 000 is the bare minimum for a funeral these days.
• Make sure that your retirement benefits are structured to provide you with the income you will need. It is more than likely your company scheme will need to be topped up – work with a retirement specialist.

In conclusion, Hawson says that a very worthwhile benefit that companies are starting to offer is access to a financial planner or coach, or some sort of financial education programme.

"If your job offer doesn't include this benefit, it is worthwhile asking for it. A specialist can help you ensure that your benefits, including your medical aid and retirement saving, are all aligned for maximum efficiency and with your current lifestyle needs," he says. "And if it is already offered, you can be sure that you are joining a company that takes your wellbeing seriously."

FA News | 23 October 2019

Exchange control risks when moving funds offshore

Many South Africans are actively looking to move funds offshore, for reasons that range from travel and investing to importing or exporting new products and launching new businesses. But without observing the correct exchange control procedures, you or your business could quickly land in hot water with the South African Reserve Bank (SARB).

First introduced in 1961 in an effort to ensure currency stability and manage the country's balance of payments, exchange controls are used to manage, measure and report South Africa's total foreign exchange inflows and outflows. Consequently, all foreign exchange transactions must be reported by authorised dealers to SARB as the relevant regulatory authority by way of a Balance of Payments (BOP) form.

South Africa is currently one of just a few countries globally which still imposes exchange controls on individuals and entities (others include China and India), and failure to comply could mean a hefty fine, the freezing of your bank accounts, or even, in severe cases, the forfeiture of assets.

And despite some claims to the contrary, do not be hoodwinked into believing that you can bypass exchange control through the use of cryptocurrencies such as Bitcoin, as all transactions into or out of the country must be reported if you are to avoid wrangling with SARB in the future.
In terms of individuals, each South African has a single discretionary annual allowance of R1 million, and may additionally invest a further R10 million offshore subject to certain criteria such as acquiring a tax clearance certificate (TCC).

While this effectively means that the individual limits are only likely to be felt by the super wealthy, it is nonetheless essential to ensure that you do not exceed these amounts without SARB's express approval.

Additionally, you need to be careful to ensure that your funds are utilised in accordance with the restrictions and limitations provided for by SARB. Other details such as assigning your transactions the correct category codes, reporting accurate amounts and supplying the necessary supporting documents are further key for compliance.

There are also specific exchange control procedures that entities such as businesses and trusts must comply with, such as the requirement that entities convert foreign dividend receipts into ZAR within specific time frames according to SARB requirements. SARB has published separate exchange control manuals for individuals, companies and authorised dealers, and updates these regularly in order to assist individuals and entities to ensure their continued compliance.

To demonstrate some of the complexity of exchange control requirements, below are two examples of foreign transactions which, although by no means exhaustive, demonstrate some of the details and processes that must be considered for successfully externalising funds:

• **Exceeding the individual allowance**

First, consider the example of an individual who has already exceeded their R1 million single annual discretionary allowance, as well as their R10 million investment allowance, and now wishes to invest an additional R100 million offshore.

If this individual were to partner with a treasury manager, their treasury partner would be able to assist with an application to the South African Revenue Service (SARS) for a tax clearance certificate (TCC) for the R100 million.

On receipt of the TCC, the individual would next need to apply to the SARB via an authorised dealer to expatriate the relevant funds, and supply the necessary documents such as:

o The TCC;

o ID and proof of residence;

o A motivational letter detailing the reasons for externalising the funds;

o A written statement outlining the individual's intention for the funds, as offshore funds are typically not allowed to be placed in a trust or structure; and

o A declaration confirming that the funds will not be transferred into the account of another South African resident upon externalisation.

Once the necessary approval has been received from SARB, the individual's treasury partner would then be able to assist in transferring the funds offshore.

This individual would then need to report to SARB on these assets on an annual basis in order to prove that the funds remain in his or her name, and that the funds continue to be held in compliance with the conditions laid out in SARB's approval. The individual's treasury partner would then continue to serve as the communication facilitator between the client and the authorised dealer for reporting and renewal purposes.

• Launching or purchasing an offshore business

Next, consider the example of a company that wishes to launch or purchase an offshore business, with a transaction size of less than R1 billion. The company would first need to apply for approval from SARB to conduct this transaction via an authorised dealer, and supply details including but not limited to:

o The name and registration number of the local entity or applicant – close corporations do not qualify;

o An overview of the business being launched or acquired;

o The proposed financial structure of the business, including details of whether shareholders or SA-issued guarantees or other such financial instruments will be utilised;

o The type of foreign entity or business that will be established;

o The percentage of voting rights that will be acquired; and

o Financial statements demonstrating the financial ability or means of the applicant seeking to conduct the transaction.

Upon receiving the necessary approval, the company would be allowed to proceed with its transaction, but, as in the previous example, would also need to submit annual reporting on its foreign business operations. Again, the company's treasury partner would act as the communication facilitator for reporting and renewal purposes.

These two examples demonstrate that the process of externalising or moving funds offshore is by no means as simple as it might first appear.

So, when in doubt, consult a professional treasury manager to guide you in successfully navigating the various applicable regulations necessary for smooth foreign transactions. Ultimately, adherence to exchange control procedures is crucial to successfully making offshore transactions, and it is wise to ensure that you remain well informed, even before you start the process.

FA News | 23 October 2019

INTERNATIONAL NEWS

Factbox: Dutch pension pots stand out among global retirement funds

The world's rich nations face a double-whammy, with ageing populations meaning more retirees — just as low and negative interest rates make it harder for pension funds to secure the investment returns needed to fill up their coffers.

Pensions typically have three pillars: a basic state payout designed to prevent people falling into poverty once they stop work; a larger slice related to lifetime earnings; and voluntary top-ups for those who can afford them.

How they are organized and the level of private sector involvement differs markedly by country. Here is a brief overview of six large pension systems.

NETHERLANDS - Dutch workers and employers pay into private pension funds that effectively promise to finance a final pension at a specific level. This is an increasingly rare example of a "defined benefit" system.

It costs a lot to fund but it is extremely generous: together with their state pensions, many Dutch workers enjoy the same income they had while working when they retire.

FRANCE - France has occupational pensions that are operated by the state. Workers accumulate pension “points” based on their earnings each year. Final pensions tend to be not as generous as those in the Netherlands but compare well internationally, replacing 75% of pre-retirement income. But the system is running a growing deficit which the government-appointed COR advisory body estimates will hit 0.4% of GDP by 2022. President Emmanuel Macron is the latest in a long line of French leaders pushing.

GERMANY - the state pension is calculated by the number of years worked, age and income, with many Germans choosing to top that up with private or company pensions. Even then, the average earner can only expect to receive a pension worth 50.6% of net income on retirement, compared to an OECD average of around 63%. Due to an ageing population, German pension funding is set to become even more strained in years ahead.

UNITED KINGDOM - the mandatory state pension in the UK only amounts to 29% of the net income of a full-career average earner - the lowest level of any rich country. Spending on state pensions in UK has risen from 3.9% of GDP in the 1985/86 tax year to 4.6% in 2016/17, lower than the OECD average of 8.2%. Although the state pension will increase in coming years, UK retirees will continue to rely on private and occupational schemes, with many pensioners facing poverty.

UNITED STATES - the mandatory component of the U.S. system adds up to 49% of the net income of the average earner, meaning that pensioners also rely to a great extent on private schemes. While population ageing is less of an issue than elsewhere, poverty rates for older people are higher, with 21% of over 65s living in income poverty compared to an OECD average of 12.5%.

DENMARK - aside from offering a small basic pension, the Danish system is based on occupational schemes run by the giant ATP fund. Average earners can expect 86% of their net income in pensions.

JAPAN - Japan’s system, under strain due to a high average life expectancy and low birth rates, relies on a mix of state pension and employer-run pension funds. The Japan Government Pension Investment Fund, which supplements state pensions, is the world’s largest, with $1.5 trillion in assets. Workers on average can expect to receive 40% of their last wage in retirement.

Reuters | 18 October 2019

U.S. pension funds took positions in blacklisted Chinese surveillance company

Some of the biggest public pensions funds in the United States have invested in one of the world's largest purveyors of video surveillance systems that the U.S. government claims are used in wide-scale repression of the Muslim population of western China.

The Trump administration's decision to put the company, Hangzhou Hikvision Digital Technology Co (002415.SZ), on a blacklist last week has prompted at least two of the pension plans to say they are reviewing or monitoring that development.

The blacklist applies to Hikvision and seven other companies because they allegedly enabled the crackdown that has led to mass arbitrary detentions in the Xinjiang region. "We are tracking the situation given this new development with the Department of Commerce's announcement," a spokeswoman for the California State Teachers' Retirement System (CalSTRS) said in an email.

CalSTRS owned 4.35 million Hikvision shares at the end of June 30, 2018, the last data available. The holding, owned directly and through emerging market exchange-traded funds, would be worth $24 million at that share count.

The New York State Teachers Retirement System also owned Hikvision, reporting 81,802 shares at the end of June, up from 26,402 shares at the end of 2018, fund disclosures show.
"Our holdings are primarily held according to their weights in passive portfolios matching the MSCI ACWI ex-U.S. index, our policy benchmark. We are monitoring the situation," said a spokesman for the teachers' fund. The ex-U.S. All Country World Index includes stocks from 22 developed and emerging markets.

The blacklisting means Hikvision and the other companies will not be able to buy U.S. technology, such as software and microchips, without specific U.S. government approval. It does not prevent U.S. investors from buying the companies' shares. In August, Hikvision had been banned from selling to U.S. federal agencies because the government said its products could allow access to sensitive systems.

Hikvision's General Manager Hu Yangzhong told Reuters on Wednesday it has been talking to the U.S. government about Xinjiang and has hired human rights lawyers to defend itself against the blacklisting. A spokeswoman for law firm Sidley Austin LLP, which has lobbied for Hikvision this year, declined to comment. Another major fund investing in Hikvision shares is the Florida Retirement System (FRS), with 1.8 million shares at the end of June.
A spokesman for the fund said it was working closely with external money managers "related to the issue in order to meet all regulatory and fiduciary requirements."

POSTER CHILD

Risk consultants say the ease with which money used for the retirements of tens of millions of Americans is being invested in such companies should concern U.S. authorities at every level, as well as Americans generally.

"Hikvision has emerged as the corporate poster child for enabling Chinese human rights abuses, with its surveillance cameras visible atop the walls of detention camps incarcerating some one million or more Uighurs in Xinjiang," said Roger Robinson, president and CEO of Washington DC-based risk consultancy RWR Advisory Group.

Beijing denies any mistreatment of people at the camps, which it says provide vocational training to help stamp out religious extremism and teach new work skills. Robinson said that many Americans are unwittingly owning shares in such companies because they are in index funds. "They are picked up by the index providers in sizable numbers and sluiced into U.S. investor portfolios with seemingly very little, if any, due diligence or disclosure in the categories of national security and human rights."

MSCI Inc (MSCI.N), whose products are designed for global investors, added Hikvision to its benchmark emerging markets index last year. MSCI declined to comment. One other company among the blacklisted eight that is owned by some of the big pension funds is iFlytek Co Ltd (002230.SZ), a speech-recognition firm. Its shares were owned by funds in Florida, New York State as well as CalSTRS and the California Public Employees Retirement System (CalPERS) indirectly through the iShares MSCI Emerging Markets

ETF at their last disclosure dates. IShares, a top ETF provider owned by BlackRock Inc (BLK.N), declined to comment.

CUTTING TIES

Not all the funds have stuck with Hikvision.

The New York State Common Fund, one of the country's biggest pension funds, liquidated its position months ago. It had owned 2.7 million shares worth $14.2 million at the end of March through an external fund manager, but sold them in May, a spokesman said, declining to say why. U.S. mutual funds have also cut or eliminated positions in Hikvision amid the negative publicity, which included it being named in a Human Rights Watch report on mass surveillance in Xinjiang in May.

Just 9% of global emerging markets funds now own Hikvision, down from 20% in 2018, according to Copley Fund Research. One fund to pull out is the $2.7 billion Artisan Developing World Fund (APDYX.O), which had a $66 million position in Hikvision at the end of March but reported holding no shares three months later, fund disclosures show. Artisan did not respond to a request for comment. ***Full Report: https://www.reuters.com/article/us-hikvision-pensions-focus/u-s-pension-funds-took-positions-in-blacklisted-chinese-surveillance-company-idUSKBN1WU191***

Reuters | 15 October 2019

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