

## Part 4 Overview

In the fourth edition of our Mini-series we will be discussing Investment Options for International Pensions.

This follows our first three instalments, which were titled: 'What is a Foreign Pension?', the 'Benefits of using a Foreign Pension' and 'How to make a contribution to a Foreign Pension'. If you have not seen these instalments, please let us know and we will send them to you.

Part 5 will be released in the month of October 2017 and will cover Benefit options and Taxation. In the future, we also intend to look at: Succession and Foreign Probate matters.

## Upcoming Mini-Series

- **Benefit options at retirement and tax implications**
- **Succession and Foreign Probate**

## Did you know?

Guernsey has recently regulated pensions as a separate activity, which brings with it additional advantages for clients and Advisers.

## 4 Investment Options for International Pensions

International retirement and pension plans are generally defined contribution arrangements which are funded with post tax funds by way of monetary contribution or the assignment of securities. Hence, we typically speak of these plans as investment linked. Under investment linked arrangements, each member of the plan in conjunction with an appointed Adviser, selects the mix of investments which best fit with their investment profile, objectives and attitude to risk, rather than the pension provider determining the investments.

### Investment Options

With the guidance of an Adviser, full advantage can be taken in respect of the selection and management of the investments within a foreign pension of the open architecture investment environment. This means the plan can hold most assets such as international collective investments and equities. In addition, they can also hold esoteric investments, including contractual obligations such as endowments, life and capital redemption policies and structured notes.

This broad range of investment options means that there is almost no limit in terms of geographical market, asset type, sector or currency that can be used to build a portfolio. Any direct investment in real assets such as real estate, physical holdings of precious metals or precious stones, collectables etc. is only permitted where such a holding sits within a properly structured special purpose vehicle, which is in turn owned by the pension, but not the physical asset itself. However, product providers may limit the investment options to manage operational, regulatory and investment risk or to ensure the validity of the arrangement and or cost efficiency.

### Portfolio Construction

It is the Adviser's role to a) construct an appropriate portfolio for the client taking into account the client's needs, appetite to risk, years to retirement and income requirements including future obligations such as any lump sum pension payments etc. or b) to appoint a Discretionary Fund Manager ("DFM") to undertake the construction of such a portfolio in order to meet the objectives identified in consultation with the Adviser.

Portfolio construction is in the hands of the Adviser, allowing for individual or model portfolios to be used for clients. Hence, a firm's existing approach to investment management does not have to change just because you are using an international pension.

## Contact Us

If you have any questions in relation to international personal or corporate pension plans, that you are considering for a client or that a client may be in, please contact your usual OTAP representative.

Alternatively you can contact us directly on [nicole@overseaspension.com](mailto:nicole@overseaspension.com) or +27 (0) 21 851 5584.

# An Introduction to Foreign Pensions - Part 4

## Choosing an Investment Platform

International pensions should be able to open an account with most Linked Investment Services Providers ("LISPs"), Custodians, Discretionary Asset Managers or WRAP providers, which means that if you have existing international arrangements, they can simply continue and you do not have to change your operational model. For example, Overseas Trust and Pension ("OTAP") has accounts with: Capital International Group, Saxo Bank, Credo, Brooks McDonald, UBS, Brewin Dolphin, Allan Gray, Glacier International, Momentum Wealth International, Nedbank, Melville Douglas, Ashburton, Investec Wealth and International, Old Mutual International, Friends Provident, RL 360 and many others. In addition, OTAP offers its own open architecture investment platform called ACCESS, in which accounts can be set-up.

The point is, on a day to day level, portfolio construction, custody and dealing don't necessarily have to change. The only difference is that the portfolios are owned/held within the retirement plan, rather than in the client's name.

## Trading and Portfolio Execution

Where an Adviser uses an investment platform or WRAP and operates in an advisory capacity, all requests to trade are submitted by the Adviser to the pension Trustees, who will review and execute the trades over the selected platform. Where the funds are managed on a discretionary basis the investment instructions take place directly between the investment manager and the platform/ custodian.

## Advice and Management Fees

Advice and management fees in respect of the pension and ongoing management can be paid from the assets of the pension plan. This is usually done via the investment service provider; however, Advisers can also invoice the pension directly.

It is worthwhile noting that regulations can cap the level of fees charged on pensions and this is jurisdiction specific.

## Investment Reporting

Investment reporting is usually done by the investment platform or DFM, and the pension provider will arrange access between the platform or DFM and the Adviser.

## Domestic Laws & Regulation

Foreign pensions are not subject to the domestic laws of other countries. The advantage is that restrictions on the type or kind of investment and currency that may apply in the member's country of residence will not apply to the plan and can mitigate currency risk and forced concentration in domestic stocks and shares.

However, as foreign pensions are regulated, they will have certain investment restrictions that are designed to protect the investors and ensure sufficient liquidity to meet benefit payments. These laws will also require fee disclosures.

## Key Notes

- International pensions offer significant investment and currency freedom and can hold listed and unlisted stocks and shares, collective investments, endowment, life and capital redemption policies plus structured deposits or notes
- Advisers can construct well diversified portfolios tailored to a client, free of any constraints that may apply to pensions in the client's home country
- An Adviser's existing international platforms, WRAPs and DFM service providers might be accommodated within an international pension
- Advice and management fees are deducted from the pensions assets and paid directly to the Adviser
- International pension regulation has certain restrictions on investments to ensure liquidity and investment integrity as well as fee disclosure requirements

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**THIS MINI-SERIES QUALIFIES AS 20 MINUTES CPD**

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