

Pension Law Reforms

This week, we take an in-depth look at the new Pension Fund Reform in Mexico. Overall, we see the changes as positive, and will make the local pension funds more efficient, more flexible, and still more relevant in local capital markets and private equity. We would highlight:

- Siefores to be replaced with Fiefores, which will be granted the ability to invest directly in a wider range of financial instruments, aimed at increasing returns.
- Investment by Fiefores in Target Date Funds, instead of 5 different funds with asset allocation of each fund dependent on your age. Under Target Date Funds, the asset allocation changes gradually as the beneficiary ages, and not in discreet jumps, reducing trading and administrative costs.
- Participants can withdraw voluntary savings at any time with no delay
- Change in fee/commission structure to be based off balance and performance of the fund, and to come down at least 30 basis points.
- Notwithstanding the changes, Mexico will still offer beneficiaries the lowest pension as a percentage of last salary in the OECD. Hence there is an expectation that contributions will need to increase.
- To the extent pension contributions increase, this will be positive for local equities. Right now, AFOREs have an AUM of USD200bn, with a 20% allocation to (foreign and local) equities and FIBRAs (or USD40bn). Should higher contributions help AUM grow by 50% in 5 years to USD300bn, that would imply another USD\$20bn in equity investment. Furthermore, as Bradesco has noted, if the ongoing reduction in interest rates leads asset allocation to equities to go back to 25% level of 2014 from the current 20% level, then allocation to equities would amount to USD75bn, 90% more than today. With IPOs (far lower) than buybacks, and international assets capped, that should put upward pressure on local equity prices.

Title: The Afores law drives group to reform pensions, says Noriega of SHCP

Date: 10/09/2019. **Source:** Sentido Comun

Link: <https://www.sentidocomun.com.mx/brevescs.phtml?id=74965>

Summary:

- Plans to form a committee and propose policy reform regarding pension requirements have begun
- The reform is meant to bring stronger benefits to low-income workers
- Discussions about what to include in the reform are:
 - Changes to the contribution rate, from 12-15%, however, many union leaders believe an increase in income level should be first.

Title: Senate approves reforms to the Afores law

Author: Eduardo Ortega

Date: 01/10/2019. **Source:** El Financiero

Link: <https://www.elfinanciero.com.mx/nacional/senado-aprueba-en-lo-general-reformas-a-la-ley-de-afores>

Summary:

- The proposals introduced to Congress earlier this year were accepted by the Senate
- The aim of the proposal was to reform Afores in order for pension funds to re-strategize and achieve higher returns, benefiting the working class, voluntary deposits and financial markets
- Waiting time to withdraw voluntary savings has been eliminated
- Siefores to be replaced by Fiefores, which will simplify the operations of investments for Afore
- Independent advisors will serve as participants to each of the Afores (investment and risk) committees.
- Commission fee structure will be modified to be based on balance and performance of each fund
- Workers will be able to choose which pension investment fund they wish to participate in
- Pension fund investment managers must notify participants changes in the fund/portfolio

Title: Amendments to Mexico's Pension Fund Law

Author: Hans Goebel, Gunter Schwandt & Diego Sanchez

Date: 04/03/2019. **Source:** LAVCA

Link: <https://lavca.org/2019/03/04/amendments-to-mexican-pension-funds-systems-law>

Summary:

- In January 2019, the government introduced a proposal to the House of Representatives of the Mexican Congress to amend various provisions of the Pension Funds Systems Law ("Ley de los Sistemas de Ahorro para el Retiro") (the "SAR Law")
- The Retirement Fund Administrators ("Afores") will operate through Specialized Investment Funds of Retirement Funds (the "Fiefores"), which will replace the Specialized Retirement Fund Investment Companies ("Siefores")
 - Fiefores will not have shareholder meetings or a board of directors
 - The investment regime dictating levels of liquidity and market regime are yet to be determined and discussed with the National Banking and Securities Commission, Pension Funds System ("Consar"), Ministry of Finance ("SHCP") and the Mexican Central Bank ("Banxico")
- Siefores will have 12 months once the proposal is accepted to convert into Fiefores
- Fiefores will have new investment opportunities and abilities such as:
 - The possibility of investing directly in securities that are subject to private offerings

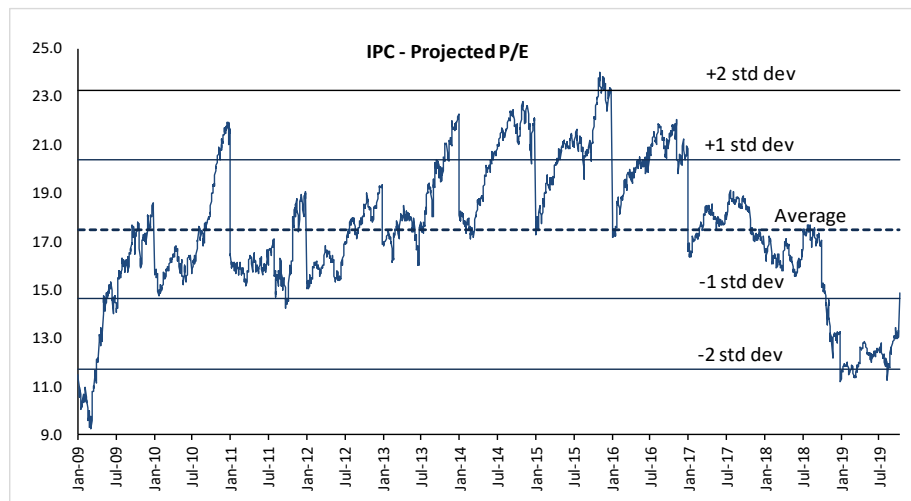
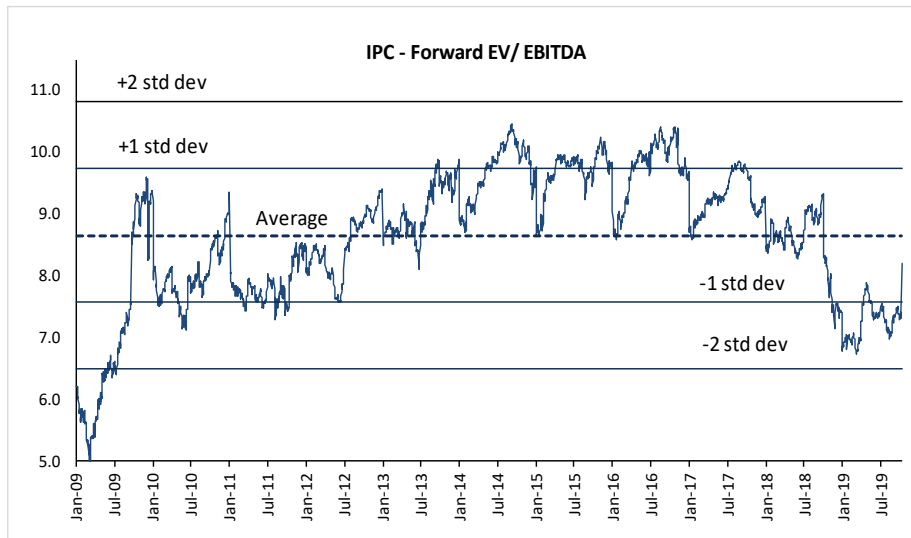
- Receive money deposits used as collateral in repo transactions, secured lending and derivative financial instruments
- Carry out securities lending transactions and repurchase agreements, including over securities issued by companies, as well as credits or loans only in their capacity as creditors
- Receive cash deposits as long as they are used as collateral in repurchase transactions, securities lending and derivative financial instruments
- Acquire international securities authorized by Consar
- Carry out loan, credit and repurchase transactions to satisfy the liquidity levels established by Consar
- Carry out short transactions with securities used as collateral under pledge agreements.
- Fees charged by Afores will be calculated on the basis of investment returns received by pension holders from Fiefores. Consar will publish a specific calculation methodology for such new component.
- Pension holders will be allowed to withdraw their voluntary deposits from their retirement funds at any time.

Damian Fraser.

S&P / BMV IPC Valuation

After last week's 0.6% rise, the Mexican S&P / BMV IPC Index trades at a forward EV/EBITDA of 8.2x, which is above the first negative standard deviation of the last 10 years. The projected P/E stands at 14.9x, basically in line with the first negative standard deviation.

Martin Lara.



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