

TSP Participant Exposure to Chinese Companies

PROBLEM

Chinese companies included in some of the top U.S. emerging or international mutual funds in the new Thrift Savings Plan (TSP) Mutual Fund Window may attract billions of dollars in U.S. investment, despite being in violation of U.S. federal securities laws, posing national security risks, and being complicit in human rights abuses.

- More than \$129 billion is invested in 5 of the top international and emerging market mutual funds that are now available to TSP investors.
- CPA research indicates that within these funds are at least 30 Chinese companies that are sanctioned by the U.S. Government on national security and/or human rights grounds and are non-compliant with U.S. federal securities laws.
- There are 22 China-only funds included in the new Mutual Fund Window.
- These entities are found throughout the 5,000 funds that our armed forces, veterans, federal government employees, and retirees may now invest in through the TSP.

“After decades of letting Wall Street send billions to Chinese companies that threaten our national security, ignore our laws, and support widespread violations of human rights, American investors are demanding change. This is *our money*. It is time to just say “no” to investment products and firms that funnel our savings into the coffers of the Chinese Communist Party.”

– Michael Stumo, CEO of CPA

SOLUTION

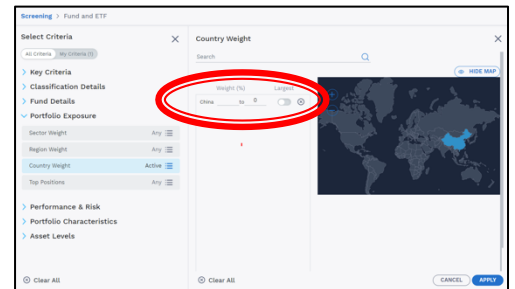
The Federal Retirement Thrift Investment Board (FRTIB) must immediately remove mutual funds in its new Mutual Fund Window that hold problematic Chinese companies, as well as remove China-only funds from the Window’s offerings. They must also remove Chinese companies listed in Hong Kong from the TSP’s I-Fund – the TSP’s International Fund – to protect retirees from risky investments due to Hong Kong’s National Security Law imposed by the Chinese Communist Party and changes in U.S. policy in response to the CCP’s control.

BACKGROUND

- Information about the 5,000 mutual funds in the new Mutual Fund Window is not available to TSP participants until after they move funds into the Window;
- The FRTIB has repeatedly [made clear](#) it has no intention of screening these mutual funds for the presence of Chinese companies, including US-sanctioned entities and other Chinese corporate “bad actors;”
- The FRTIB has continued using an index for the TSP’s International Fund (I-Fund) that regularly invests funds in more than 25 Hong Kong-listed Chinese companies, despite commitments in 2020 to not invest the I-Fund in China and subsequent statements to Congress pledging the same;
- None of the Chinese companies presently held by the TSP I-Fund or included in the Mutual Fund Window are compliant with U.S. federal securities laws;
- The FRTIB refuses to perform due diligence on, or disclose to TSP participants, the material risks associated with the inclusion of these Chinese entities in the I-Fund and the Mutual Fund Window;
- The FRTIB’s management of the TSP runs counter to the spirit, and arguably the letter, of President Biden’s [Executive Order 14032](#) (amending EO [13959](#)), which deemed Chinese military and surveillance technology companies in U.S. investment portfolios a “national emergency.”

CPA Recommendations

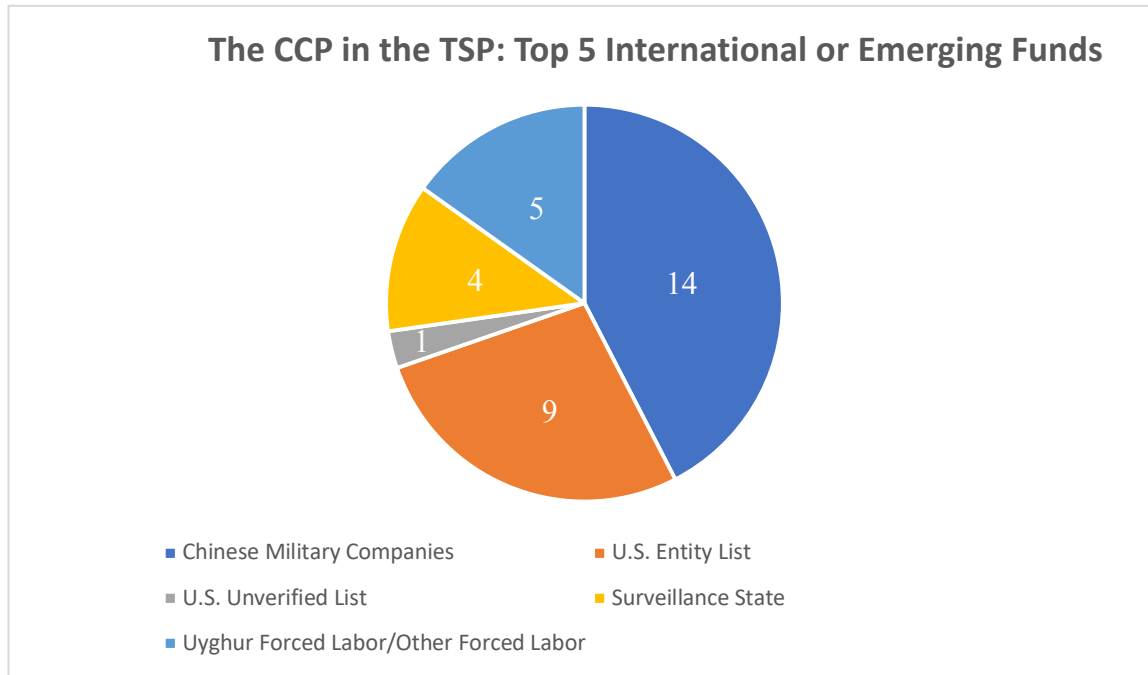
- 1.) **Remove offending entities** from the TSP's I-Fund and Mutual Fund Window.
- 2.) Require the FRTIB to **screen mutual funds for Chinese equities**: The FRTIB can use either the "Fact Sheet" program to screen the funds (setting the Country Weight to 0%), thereby ensuring a low-cost solution to TSP participants or by utilizing the *Economist's* Global Democracy Index & Transparency International's Corruption Index as a fund parameter to screen for bad actors.
- 3.) **Mandate that mutual funds self-report 0% Chinese-domiciled stocks** before entering Window.
- 4.) **Establish a bipartisan FRTIB national security subcommittee** responsible for overseeing screening.



Examples of Chinese Bad Actor Companies included in the TSP's Mutual Fund Window

- **Wuhan Guide Infrared**: Manufactures cameras and products [used by the Chinese military and police bureaus in Xinjiang, as well as](#) in other parts of China for surveillance and policing purposes.
- **Suzhou Keda Technology Co**: Suzhou Keda Technology [has raised concerns](#) due to its work designing surveillance systems, video conferencing tools, and facial recognition software and hardware. Specifically, Keda produces body cameras for Chinese law enforcement with facial recognition technology. Suzhou Keda Technology Co., Ltd. is also a part of China's defense industrial base and supply chain.
- **OFILM Tech**: OFILM has been identified by the Australian Strategic Policy Institute (ASPI) as being involved in the use of Uyghur forced labor. The company allegedly participated in the transfer of 700 Uyghurs from Xinjiang to one of its factories in Nanchang, Jiangxi province. OFILM manufactures compact camera and touchscreen components for technology companies such as Apple.

Chinese Bad Actor Companies by Risk Category



Legend: Chinese Military Companies: Listed on either the Department of Defense’s Section 1260H list or the Treasury Department’s NS-CMIC List or both; U.S. Entity List: Department of Commerce Bureau of Industry and Security Entity List and/or Customs and Border Patrol Withhold Release list; U.S. Unverified List: Appear on the Department of Commerce’s Unverified List and are ineligible to per the Export Administration Regulations (EAR); Surveillance State: Known documentation contributing to the CCP’s expanding surveillance state; Uyghur Forced Labor/Other Forced Labor: Known documentation of companies tied to Chinese forced labor practices.

CHINESE MILITARY AND/OR INDUSTRIAL COMPLEX COMPANIES	FUND(S)
AECC Aero-Engine Control Co. Ltd.	FPADX, SSKEEX, VEMAX, DFCEX
AECC Aviation Power Co. Ltd.	FPADX, SSKEEX, BDOKX, VEMAX, DFCEX
AVIC Electromechanical Systems Co., Ltd.	FPADX, SSKEEX, VEMAX, DFCEX
AVIC Industry Finance Holdings Co Ltd.	DFCEX
AviChina Industry & Technology Co. Ltd.	FPADX, SSKEEX, BDOKX, VEMAX, DFCEX
Avicopter PLC (AVIC Helicopter)	FPADX, SSKEEX, VEMAX
CGN New Energy Holdings Co., Ltd.	VEMAX, DFCEX
CGN Nuclear Technology Development Co., Ltd.	VEMAX
CGN Power Co. Ltd.	FPADX, SSKEEX, BDOKX, VEMAX, DFCEX
China National Nuclear Power Corporation	DFCEX
China United Network Communications Ltd.	FPADX, SSKEEX, BDOKX, VEMAX
Inspur Electronic Information Industry Co. Ltd.	FPADX, SSKEEX, VEMAX, DFCEX
Inspur International Ltd.	DFCEX
Inspur Software Co. Ltd.	VEMAX, DFCEX
<i>Continued...</i>	

U.S. ENTITY LIST	FUND(S)
CGN New Energy Holdings Co. Ltd.	VEMAX
CGN Nuclear Technology Development Co. Ltd.	VEMAX
CGN Power Co. Ltd.	FPADX, SSKEX, BDOKX, DFCEX
Fiberhome Telecommunication Technologies Co. Ltd	FPADX, SSKEX, VEMAX, DFCEX
Guangzhou Haige Communications Group	FPADX
Hoshine Silicon Industry Co. Ltd.	FPADX, SSKEX, VEMAX
iFlytek Co. Ltd.	FPADX, SSKEX, BDOKX, VEMAX
Suzhou Keda Technology Co., Ltd.	DFCEX
Zhejiang Dahua Technology	SSKEX, VEMAX
SURVEILLANCE STATE	FUND(S)
iFlytek Co. Ltd.	FPADX, SSKEX, BDOKX, VEMAX
OFILM Group Co. Ltd.	FPADX, SSKEX, VEMAX, DFCEX
Wuhan Guide Infrared Co Ltd.	FPADX, SSKEX, VEMAX, DFCEX
Zhejiang Dahua Technology	VEMAX
UYGHUR FORCED LABOR/OTHER FORCED LABOR	FUND(S)
Avary Holding Shenzhen Co. Ltd	FPADX
Hon Hai Precision Industry Co. Ltd. (Foxconn)	FPADX, DFCEX
Huafu Fashion Company	VEMAX, DFCEX
LONGi Green Energy Technology Co., Ltd.	DFCEX
OFILM Group Co. Ltd.	FPADX, SSKEX, VEMAX, DFCEX
U.S. UNVERIFIED LIST	FUND(S)
WuXi Biologics Cayman Inc.	FPADX, DFCEX

** Funds examined in the TSP Mutual Fund Window: Fidelity Emerging Markets Index Fund (FPADX), State Street Emerging Markets Equity Index Fund (SSKEX), BlackRock iShares MSCI Total International Index Fund (BDOKX), Vanguard Emerging Markets Stock Index Fund (VEMAX), DFA Emerging Markets Core Equity I (DFCEX)*