How Latin America Pension Funds Invest Their Assets

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A White Paper from the authors of The Guide to Latin America Pension Funds 2012

Campollo Consulting LLC & Wall's Street Advisor Services LLC

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About Campollo Consulting LLC – Campollo Consulting LLC, a minority owned firm, was established by Carmen Campollo. Over the past 20 years Carmen has worked for firms such as the World Bank, International Finance Corporation, Standard & Poor's, FTSE and Russell Investments. In addition to the Guide for Pension Funds Investment Context and Regulations, Campollo Consulting has developed a data base for 11 Latin American countries, including a 5 year history of asset allocation across 23 categories for over 400 pension funds. In addition Campollo Consulting created a methodology for manager searches for Emerging Markets, an Index Multistrategy Fund of Funds, and developed financial products. You can learn more about Campollo Consulting at www.campolloconsulting.com Contact us at 1-800-871-9012 ext 281782 or info@campolloconsulting.com

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Executive Summary

This White Paper identifies trends in the development of pension fund asset management in eleven Latin American markets which have funded pension systems. The trends include high growth in assets, increased diversification of asset allocations, and dynamic pension funds' asset management systems.

Introduction

Latin America has been one of the few bright spots in the global economy in the past decade. Real economic growth for the region as a whole averaged almost 3.5% per annum, with many of its major economies posting even better gains. And, IMF projections for the region as a whole are for it to grow nearly twice as fast the advanced economies over the next 5 years.

One widely-cited contributory factor for the region's economic growth is the growth of its pension funds. In addition to Brazil's institutionally-sponsored defined benefits plans dating back to the 1940s, the adoption in the 1990s and 2000s of mandatory-participation, individually-capitalized pension fund accounts collectively managed and administered by specialized companies has been vital to this economic success.

Today, such pension funds have over US$ 650 billion in assets, and assets under management are widely expected to grow at 15%+ per annum over the next decade.

Growth in the region's pension fund assets is underpinned by 2 secular trends. One is the relentless power of its demographics. The region is one of the few in the world where national demographics are favorable to pension funds' asset accumulation. That is, the percentage of population in or entering the workplace is larger than and growing faster than the population that is retired or nearing retirement. The working-age population, the contributory base for pension asset accumulation, is projected by the World Bank to grow from about 380 million people (65% of the population) to almost 473 million people (67% of the population) by 2035.

The second secular trend is for these economies to have increasingly urbanized and formalized economies, meaning that increasing proportions of the growing workforces will be contributing to pension fund accounts. This growth of participants' contributions (including employers' contributions) will be compounded by successful investment decisions on the part of the pension funds.

Combined, these trends hold great promise that Latin America's pension funds will have deep and growing pools of capital to allocate, and will provide attractive business opportunities for asset management companies and related financial services providers.

This report highlights key results from the authors' research service, published as *The Guide to Latin America Pension Funds. The Guide* surveys the asset allocations over a 5-year time frame of over 400 pension funds in 11 Latin American economies by the end of 2011, the most recent full year for which such information is currently available.

It's worth mentioning at this stage that Brazil has a very different pension fund system from the other Latin American economies covered in this survey. Brazil has a long-standing company- or organization-sponsored plan system, generally of a defined benefits nature but increasingly adding defined contribution plans, along the lines of those of the USA.

The other countries, starting with Chile in 1981, introduced mandatory participation, individually capitalized defined contribution plans, where salaried and wage-earning workers are required to choose among funds offered by licensed asset management and administrator companies. These companies are called (in Spanish) Administradora de Fondo de Pension or some variation thereof, and in this report generally referred to by the acronym AFP.

The table below shows by country the formal category name for these AFPs and the year they were first introduced.

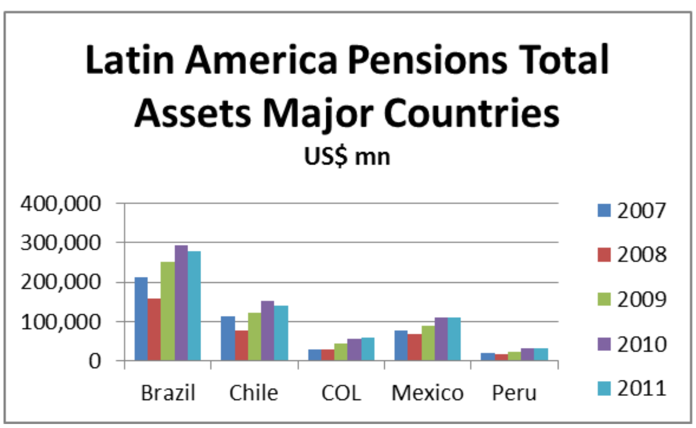
Table A: The Formation of APFs, basic information by Country

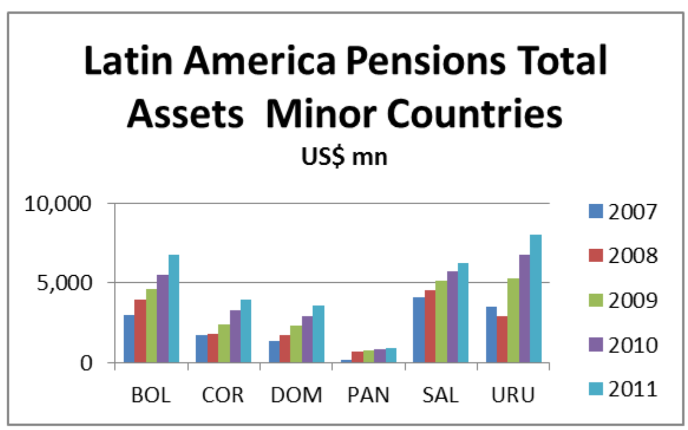
Country	Acronym for pension fund management company	Year System Introduced/Removed
Argentina	AFJP = Administradora de Fondo de Jubilacion y Pensiónes	1994/2008
Bolivia	AFP = Administradora de Fondo de Pensión	1997/2011
Chile	AFP = Administradora de Fondo de Pensión	1981
Colombia	SAFP = Sociedad Administradora de Fondos de Pensiones	1993
Costa Rica	OPP = Operadora de Pensión Privada	1995
Dominican Republic	AFP = Administradora de Fondo de Pensión	2003
El Salvador	AFP = Administradora de Fondo de Pensión	1998
Mexico	AFORE = Administradora de Fondos para el Retiro	1997
Peru	AFP = Administradora de Fondo de Pensión	1993
Uruguay	AFAP = Administradora de Fondos de Ahorro Previsional	1996

The Size and Growth of Region's Pension Fund Assets

Over the past 5 years, many of the Latin American pension fund markets reached considerable assets' size. As the table below shows, three markets had accumulated assets in excess of $100 billion by the end of 2011.

Table B: Latin America Pension Funds Total Assets, by Country 2007-2011 (USD millions)





Source: The Guide to Latin America Pension Funds

Country	2011	2010	2009	2008	2007	One Year Growth end 2011	4-yr Growth end 2011
Brazil	279,128	292,863	250,491	158,268	212,488	-5%	31%
Chile	139,955	152,274	121,473	76,819	112,503	-8%	24%
Mexico	110,641	111,088	87,720	68,586	76,287	0%	45%
Colombia	60,009	57,490	44,714	30,522	29,713	4%	102%
Peru	30,827	31,222	23,990	15,973	20,636	-1%	49%
Uruguay	8,016	6,731	5,296	2,946	3,470	19%	131%
Bolivia	6,789	5,474	4,633	3,948	2,967	24%	129%
El Salvador	6,220	5,725	5,157	4,562	4,080	9%	52%
Costa Rica	3,915	3,275	2,427	1,786	1,696	20%	131%
Dominican Rep.	3,545	2,904	2,354	1,745	1,344	22%	164%
Panama *	881	846	792	661	140	4%	-
Total Coverage	**649,926**	**669,892**	**549,047**	**365,816**	**465,324**	-3%	40%

* Panama - Data is missing for 2 of out of 3 Panamanian Pension Funds in 2007, then the 4 year Growth is not shown

Brazil's pension funds plainly dominate the group in terms of total assets, with a nearly 43% share by the end of 2011, though as will be seen later, this is not necessarily the case in certain asset classes. As it has been the slowest-growing market in this regard, its share has been slipping as other markets have grown their assets faster.

Table C: Latin America Pension Funds Assets - Country Representation, 2007-2011

Country	2011	2010	2009	2008	2007
Brazil	42.9%	43.7%	45.6%	43.3%	45.7%
Chile	21.5%	22.7%	22.1%	21.0%	24.2%
Mexico	17.0%	16.6%	16.0%	18.7%	16.4%
Colombia	9.2%	8.6%	8.1%	8.3%	6.4%
Peru	4.7%	4.7%	4.4%	4.4%	4.4%
Uruguay	1.2%	1.0%	1.0%	0.8%	0.7%
Bolivia	1.0%	0.8%	0.8%	1.1%	0.6%
El Salvador	1.0%	0.9%	0.9%	1.2%	0.9%
Costa Rica	0.6%	0.5%	0.4%	0.5%	0.4%
Dominican Rep.	0.5%	0.4%	0.4%	0.5%	0.3%
Panama *	0.1%	0.1%	0.1%	0.2%	0.0%
Total Coverage	100.0%	100.0%	100.0%	100.0%	100.0%

Overall, assets in US$ terms grew by 40% over the four-year period ending in 2011, with some markets (Dominican Republic, Colombia, Bolivia, & Costa Rica) demonstrating triple-digit growth.

While it is necessary to provide the figures in a common currency (such as US$ or Euros, for instance) to provide a common scale, exchange rate fluctuations can exaggerate the growth or the declines of assets. For instance, while Mexico shows a 46% growth in pension fund assets expressed in US$ over the 4-year period, in Mexican peso terms assets grew 86%, and conversely, assets in Uruguay grew 131% in US$ terms but only 112% in local currency terms.

Table D: Change in Total Funds' Assets 2007-2011

Country	in US$ terms	in LC terms
Bolivia	129%	107%
Brazil	31%	38%
Chile	24%	30%
Colombia	102%	97%
Costa Rica	131%	131%
Dominican Rep.	164%	210%
Mexico	45%	86%
Panama	529%	
Peru	49%	34%
El Salvador	52%	52%
Uruguay	131%	112%
Total Coverage	40%	

*Panama - Data is missing for 2 out of 3 Pension Funds in 2007.

Yet despite the rapid growth rates of assets under management, most of the markets have considerable room for growth. For instance, a common proxy for market penetration is the "pension assets to GDP" ratio. For 2010, the simple average among all OECD countries at the end of 2010 was 33%, but among Latin America's markets only Chile was above that point (for scale, the Netherlands was world leader at 135%, with the UK at 87% and the US at 73%).

The following table shows the results by market. Note that the major markets of Brazil, Mexico, Colombia and Peru still have quite a bit of room for expansion, using this measure, despite the significant assets pension funds have already accumulated in these economies.

Table E: Pension Funds Assets-to-GDP ratios, 2010

Country	Assets Ratio to GDP 2010 (%)
Chile	79.9
Bolivia	27.6
El Salvador	26.3
Peru	20.2
Colombia	19.9
Uruguay	16.7
Brazil	15.1
Mexico	10.7
Costa Rica	9.5
Dominican Rep.	5.6
Panama	3.2
Weighted Average	17.4
Simple Average	20.9

The Increasing Diversification of Pension Funds' Assets

It's a feature of Latin America's pension funds' investments that they are constrained by national regulations as to the asset types in which they may invest and their exposure limits to those assets. The trend is that the limits are gradually expanding over time to allow more diversification and management discretion, but regulatory requirements will dominate the allocation of pension fund investments across the region some time to come[1].

The reasons for these controls are mixed - there is a natural inclination among regulators to restrict investment to high-quality domestic assets such as government bonds and highly-rated fixed income securities for prudential reasons regarding credit and foreign exchange risk, and to support the expansion of the domestic capital markets.

Once the funds had achieved some scale and operating experience, they are allowed to purchase domestic listed equities and mutual funds, for their diversification benefit, returns potential, and the domestic capital market development contributions.

Thereafter, as the pension funds continue to expand their assets through affiliates' contributions, to demonstrate their operational capacity, and start to 'crowd' their domestic securities markets, authorities widen eligible domestic asset classes to include private equity, venture capital, real estate (residential and commercial), commodities, and derivative products.

Finally, assuming national foreign exchange positions permit, foreign assets are made eligible investments, with again a preference or progression given to high-quality credit instruments and to listed equities and foreign funds.

Note should be taken that having the right to invest in assets classes, particularly foreign assets, doesn't mean that pension funds have invested in these to their limits. Yields on Brazil's domestic credit credit instruments over the past decade have been very attractive vis-à-vis those on foreign instruments, for example, and below-foreign limit exposures to foreign assets before and since the 2008 global financial meltdown helped to preserve pensions' asset values across the region.

[1] The subject is too complex and too country/asset class specific to go into in this White Paper. Interested readers are referred to the author's reports on Investment Context, part of *The Guide to Latin America Pension Funds* service, available for purchase from the authors.

The same logic applies for domestic asset diversification. In November 2012, for instance the Brazilian government cut the target rate of return for pensions. The Central Bank kept the overnight lending rate at a record low of 7.25% whereas a decade ago it was around 26%. This translates into pensions moving to diversify assets and to take more risk to in seeking higher returns

The Multifondos Concept - Retirement Funds targeted to age groups and/or risk preferences

As pension assets under management grew in Chile, the regulators recognized that it was appropriate to segment the funds' affiliates, their assets, and eligible asset classes into a series of funds distinguished by the degree of risk allowed in the portfolio (in Spanish, multifondos), from a 'one fund fits all' concept.

In Chile, this led in 2000 to establishment of a second fund under each AFP for workers within 10 years of retirement age, and in 2002, to the establishment by each AFP of 5 risk-based funds, along the lines of 'life-cycle' families of funds, ranging from the most risk-tolerant funds (called A funds) to the most conservative funds (E funds), for affiliates who were very risk-adverse or who had started to draw on their retirement accounts.

This multifondos system has been adopted, with some national variations, by the pension fund systems of Colombia, Mexico, and Peru, and helps to explain the significant range of differences in asset allocations among individual pension funds in each country.

Most countries with multifondos options allow affiliates to choose the risk category they go into, but if an affiliate doesn't specify a choice, their contributions are typically defaulted to the 'balanced risk' fund unless they are approaching retirement age, in which case they are put into the most conservative funds.

Table F: Pension Funds' Multifunds Selected Countries

Country	No. of Multifondos per AFP	Equities as a perent of total assets by the most aggressive fund	Year Current System Adopted
Chile	5	80%	2002
Peru	3	80%	2005
Mexico	5/4	30% / 40%	2008-2012
Colombia	3	70%	2011

How Latin America's Pension Funds Invest Their Assets – Regional Overview

The table below indicates how the region's pension funds, in the aggregate and at a country-level, had allocated their assets among several broad asset classes as of the end of 2011.

The blends of asset allocations are a result of 1) the statutory investment requirements and guidelines referenced earlier, 2) investors' selection of risk-based funds where multifondos systems operate, and 3) each pension fund's management's investment decisions taken within its range of discretion.

Generally there are two groupings of the 11 country results – those for the 5 'Major Markets' – Brazil, Chile, Colombia, Mexico, and Peru – which each have over $30 billion in pension fund assets; and those for the 6 'Minor Markets' - Bolivia, Costa Rica, Dominican Republic, El Salvador, Panama and Uruguay – which, with smaller domestic economies and populations, are unlikely to achieve the absolute scale of pension fund assets of the major markets[2].

Apart from the big differences in absolute scale among markets, what is plain from the figures in the table is the degree of concentration of pension funds' assets in fixed income instruments[3], particularly domestic bonds and bills, regardless of country. Allocations to fixed income at the end of 2011 ranged from 100% (Dominican Rep.) to 46% (Chile).

Among the 5 major markets, allocations to listed equities ranged from a high of 53% of total assets (Peru), to a low of 18% (Mexico), with the other three markets having aggregate allocations to equities of about 35%. The minor markets had virtually no exposure to listed equities, a consequence of their very narrow domestic equities markets and the strict limits they face on foreign assets exposures.

As the single largest pension funds market, Brazil's asset allocations stand out for several reasons:

- The large absolute amount committed to domestic equities;
- The virtually negligible amounts invested in foreign assets of any kind (even though the regulations allow up to 10% of assets);
- The dominance of domestic fixed income in the aggregate portfolios of funds (51% of total assets – and somewhat surprisingly on the surface at least, all of it in short-term instruments);
- The extensive allocation to private equity/venture capital category of assets & growing PE allocation ; and
- The relatively large allocation to real estate.

[2] But it should be recalled that the scale of their pension funds assets in their domestic contexts in some minor markets already exceed those of most of the major markets, except for Chile, as illustrated by the Pension Assets to GDP ratios

[3] 'Fixed income instruments' in this report refers to a large variety of credit instruments, many of which have floating rate, variable rate, or inflation-linked features.

Table G: Latin America Pension Funds Overview of Asset Allocations, end-2011 (US$ millions)

	Total No. of Funds	Total Assets US$ mn.	Total Investments US$ mn.	Total Equities US$ mn.	of which: Domestic	of which: Foreign Equities	Total Fixed Income US$ mn.	of which Domestic	of which international	P/E &/or Venture Capital	Real Estate
All Markets Aggregate	**419**	**649,924**	**638,045**	**187,056**	**131,161**	**55,895**	**391,653**	**364,011**	**27,659**	**14,573**	**10,102**
Brazil	216	279,128	267,845	80,312	80,299	13	143,522	143,354	168	6,290	10,033
Chile	31	139,955	139,955	51,499	18,065	33,434	85,427	65,014	20,413	3,518	-
Mexico	70	110,641	110,620	16,713	6,083	10,630	88,067	84,847	3,221	2,944	-
Colombia	41	60,008	59,830	22,134	17,141	4,993	31,881	31,040	842	1,530	-
Peru	12	30,827	30,771	16,383	9,558	6,825	14,605	12,532	2,073	-	-
Uruguay	4	8,016	8,016	16	16	-	7,800	7,160	656	-	-
Bolivia	2	6,789	6,779	-	-	-	6,393	6,393	-	291	-
El Salvador	2	6,220	6,192	-	-	-	6,093	5,895	197	-	-
Costa Rica	29	3,915	3,848	-	-	-	3,675	3,616	60	-	69
Dominican Rep.	9	3,545	3,545	-	-	-	3,545	3,545	-	-	-
Panama	3	880	645	-	-	-	645	615	29	-	-

Latin America's 25 Largest Pension Funds

Pension fund assets in the region are somewhat concentrated among a few funds. The 25 largest funds in terms of total assets for instance capture just over 48% of the 419 funds' 2011 total assets, while the largest 50 and 100 funds held 65% and 81%, respectively.

Just as Brazil dominates the funds' total assets list on a country basis, Brazil's three largest pension funds hold the top three rankings of pension funds by total assets, and the country had 4 funds in the Top 25. Previ Plano I[4], a defined benefits plan with over US$82 billion in assets, is one of the world's largest pension funds, and by itself represented nearly 30% and 13% of Brazil's and the region's pension assets, respectively. Plano Petro, a defined benefits plan from Petrobras, the national oil/energy company, and Funcef's defined benefits plan came in #2 & #3, respectively[5].

As can be seen in the table below, Chilean funds dominate the top 25 by total assets in terms of number of funds listed (11), followed by Colombia (5), Brazil (4), Mexico (3), and Peru.

Table H: Top 25 Funds -Total Assets, end-2011

Rank	Pension Fund Shortname	Country	Total Assets US$ mn.
1	Previ-Previ Plano I (BD)	Brazil	82,604
2	Petros-Plano Petros Sistema Petrobras (BD)	Brazil	28,974
3	Funcef-Plano Beneficio- Reg/Replan Consolidado (BD)	Brazil	23,456
4	Provida - C	Chile	17,472
5	Porvenir Oblig. Moderado	Colombia	13,860
6	Habitat -C	Chile	13,848
7	Capital - C	Chile	11,621
8	Proteccion Oblig. Moderado	Colombia	11,460
9	Cuprum - C	Chile	10,091
10	BBVA Horizonte Oblig. Moderado	Colombia	7,396
11	Habitat -B	Chile	7,035
12	Provida - B	Chile	6,909
13	Provida - D	Chile	6,610
14	Integra Fund 2 Balanced	Peru	6,473
15	Colfondos Oblig. Moderado	Colombia	6,444
16	Prima Fund 2 Balanced	Peru	6,377
17	Provida - A	Chile	6,214
18	Cuprum - A	Chile	6,208
19	Habitat -A	Chile	5,941
20	ING Oblig. Moderado	Colombia	5,912
21	Banamex Siefor 3	Mexico	5,910
22	Capital - A	Chile	5,890
23	Banamex Siefor 4	Mexico	5,749
24	Sistel-PBS-A (Plano Sistel Assistidos Beneficio Definido) (BD)	Brazil	5,716
25	Bancomer Siefor 3	Mexico	5,634

[4] Previ, the pension plan of Banco do Brasil Group, ranked number 27 in the Pension & Investment/Towers Watson World ranking of the 2012 World's Top 300 Pension Funds.

[5] The authors point out that the P&I/TWW Top 300 ranking use aggregate assets under management by a plan sponsor/administrator as the basis for their rankings, rather than the individual pension fund approach used in this White Paper. Given the widespread adoption of the multifondos system and the greatly differing investment regulatory requirements that apply to different funds, the authors feel it is more appropriate to use individual pension funds as the basis of analysis and rankings.

Top 25 – Fixed Income Allocations

Given the prevailing regulatory preferences throughout the region to have pension funds invest in highly-rated fixed income instruments, it is not surprising to see that there is a large overlap of pension funds in this category with that of the Top 25 of Total Assets.

But also, given that there are regulatory requirements to hold substantial amounts of fixed income securities, reinforced by market conditions which generally favored domestic fixed income instruments, the holdings of the Top 25 is less concentrated than one might expect, representing 41% of the region's total allocation to this broad asset category.

On a country basis, Chile has 8 funds, Mexico - 7, Brazil - 5, Colombia -3, and Peru and Uruguay - 1 each in this ranking.

There are two rankings in this category of particular interest. One is that of the pension fund managed by Uruguay's AFAP Republica, at #12. Republica has a nearly 50% share of assets in Uruguay's pension fund industry, and like the other 3 funds there, is largely constrained in what it may invest by government regulation and by very narrow domestic securities markets. But it is developing several investments in Public/Private projects.

The other is Chile's Fondo de Reservas de Pension (FRP), at # 14. FRP is actually a sovereign wealth fund, funded by the national government from external revenues, to serve as a back-stop for the national social security system. Its investment policy was limited until 2012 to AAA-rated sovereign debt instruments denominated in US$, Euros, Japanese Yen, and a few other currencies. In 2012, the government approved a policy allowing allocations to international/non-domestic equities and to a broader range of fixed income instruments, and allowing the retention of external fund managers for such assets.

Table I: Top 25 Funds -Total Fixed Income Allocations, end-2011

Rank	**Pension Fund Shortname**	**Country**	**Fixed Income Total US$ mn.**
1	Previ-Previ Plano I (BD)	Brazil	24,589
2	Petros-Plano Petros Sistema Petrobras (BD)	Brazil	12,208
3	Provida - C	Chile	11,265
4	Funcef-Plano Beneficio- Reg/Replan Consolidado (BD)	Brazil	10,548
5	Habitat -C	Chile	9,074
6	Capital - C	Chile	7,618
7	Porvenir Oblig. Moderado	Colombia	7,169
8	Cuprum - C	Chile	6,961
9	Proteccion Oblig. Moderado	Colombia	5,895
10	Provida - D	Chile	5,570
11	Banamex Siefor 3	Mexico	4,616
12	Republica	Uruguay	4,430
13	Bancomer Siefor 3	Mexico	4,422
14	Fondo De Reservas de Pensiones	Chile	4,406
15	ING Siefor 3	Mexico	4,274
16	Banamex Siefor 4	Mexico	4,151
17	Habitat -D	Chile	3,916
18	Sistel-PBS-A (Plano Sistel Assistidos Beneficio Definido) (BD)	Brazil	3,914
19	Capital - D	Chile	3,877
20	Bancomer Siefor 2	Mexico	3,859
21	Real Grandeza-Plano de Beneficio Definido (BD)	Brazil	3,701
22	Banamex Siefor 2	Mexico	3,653
23	BBVA Horizonte Oblig. Moderado	Colombia	3,572
24	Prima Fund 2 Balanced	Peru	3,509
25	Profuturo GNP Siefor 3	Mexico	3,394

Top 25 – International/Foreign Fixed Income Allocations

Chilean funds dominate the rankings in this asset category, with 9 of the top 10 spots and 18 out the 25 ranked. Chile's FRP, which until 2012 was restricted to investing solely in international/foreign fixed income assets, is #1 in the category, with nearly 16% of the almost $28 billion held by all the region's surveyed funds.

The Top 25 in this asset category held almost $22.6 billion in the aggregate, about 82% of all the region's pension funds' holdings in the category

On a country basis, besides Chile's 18 funds, Peru has 3 funds, Colombia has 2, and Mexico and Uruguay each have 1 fund. Most of the funds in this ranking are also of a 'balanced' or moderate risk nature (in Chile, these are termed 'C' funds).

Table J: Top 25 Funds - International Fixed Income Allocations, end-2011

Rank	**Pension Fund Shortname**	**Country**	**international Fixed Inc. US$ mn.**
1	Fondo De Reservas de Pensiones	Chile	4,406
2	Provida - C	Chile	2,596
3	Habitat -C	Chile	1,872
4	Capital - C	Chile	1,787
5	Cuprum - C	Chile	1,399
6	Provida - B	Chile	877
7	Habitat -B	Chile	841
8	Provida - D	Chile	806
9	Prima Fund 2 Balanced	Peru	729
10	Capital - B	Chile	696
11	Provida - A	Chile	666
12	Cuprum - B	Chile	625
13	Cuprum - A	Chile	612
14	Capital - D	Chile	556
15	Habitat -A	Chile	555
16	Capital - A	Chile	541
17	Habitat -D	Chile	505
18	Cuprum - D	Chile	437
19	Republica	Uruguay	412
20	Horizonte Fund 2 Balanced	Peru	381
21	Porvenir Oblig. Moderado	Colombia	307
22	Integra Fund 2 Balanced	Peru	293
23	Planvital - C	Chile	256
24	Banamex Siefor 4	Mexico	207
25	Proteccion Oblig. Moderado	Colombia	201

Top 25 – Total Equities Allocations

Just as Brazil's country-aggregate allocation in equities is the highest in the region, Brazilian funds hold the first three places in this category. Previ Plano I, at #1, by itself holds a quarter of the equities allocations in the region and 1/3 third of the Top 25's total $147 billion equities allocation. With the 2 other Brazil funds represented in this category's Top 25, they hold 80% of Brazilian pension funds' allocations to equities and 35% of the region's allocation.

On a country basis, Chile has the most pension funds represented (12), with Colombia and Peru having 5 funds each among the Top 25 in the category. The absence of a Mexican fund among the rankings can be attributed to the fact that even the most aggressive allocation to equities permitted to Mexican funds was just 30% of total fund assets at the end of 2011.

It should be noted too that a very large portion of the pension funds' equities allocations are in the form of equity mutual funds, including index funds and equity index-linked exchange traded funds (ETFs).

Table K: Top 25 Funds by Total Equities Allocations, end-2011

Rank	**Pension Fund Shortname**	**Country**	**Total Equities US$ mn.**
1	Previ-Previ Plano I (BD)	Brazil	50,693
2	Petros-Plano Petros Sistema Petrobras (BD)	Brazil	10,555
3	Funcef-Plano Beneficio- Reg/Replan Consolidado (BD)	Brazil	7,890
4	Provida - C	Chile	5,658
5	Porvenir Oblig. Moderado	Colombia	5,430
6	Proteccion Oblig. Moderado	Colombia	4,695
7	Provida - A	Chile	4,682
8	Habitat -C	Chile	4,465
9	Habitat -A	Chile	4,457
10	Cuprum - A	Chile	4,410
11	Capital - A	Chile	4,328
12	Provida - B	Chile	3,753
13	Habitat -B	Chile	3,753
14	Capital - C	Chile	3,581
15	Integra Fund 2 Balanced	Peru	3,434
16	BBVA Horizonte Oblig. Moderado	Colombia	3,226
17	Cuprum - C	Chile	2,941
18	Prima Fund 2 Balanced	Peru	2,908
19	Capital - B	Chile	2,824
20	Colfondos Oblig. Moderado	Colombia	2,691
21	Horizonte Fund 2 Balanced	Peru	2,679
22	ING Oblig. Moderado	Colombia	2,526
23	Cuprum - B	Chile	2,519
24	Prima Fund 3 Aggressive	Peru	1,839
25	Profuturo Fund 2 Balanced	Peru	1,718

Top 25 - Foreign Equities Allocations

As has been mentioned previously, many pension funds in the region have severe restrictions, if not outright prohibitions, on owning foreign equities. In some instances, such as Brazil, where management has some latitude to invest in foreign equities, perceptions of relative market circumstances in the period 2007-2011 did not encourage investment in foreign equities.

But in other countries, the relatively small size of domestic equities markets and funds' regulatory permission and business desires to diversify asset allocations allowed them to take advantage of improved foreign equity market conditions in recent years.

The Top 25 rankings in this category illustrate the outcome of these circumstances. Remembering that this category is a sub-set of the Total Equity category, one can easily see that Foreign Equities makes up as much as 60% of some funds' Total Equities' allocations.

The Top 25 in Foreign Equities held $42.4 billion of such assets in the aggregate at the end of 2011, about 76% of that held by all 419 funds surveyed. Chile led the category with 12 funds among the Top 25, followed by Peru (6 funds), Colombia (4), and Mexico (6). Glaringly absent from the list are pension funds from Brazil.

Table L: Top 25 Funds by Foreign Equities Allocations, end-2011

Rank	**Pension Fund Shortname**	**Country**	**Foreign Equities, US$ mn.**
1	Provida - A	Chile	3,541
2	Habitat -A	Chile	3,370
3	Cuprum - A	Chile	3,340
4	Capital - A	Chile	3,323
5	Provida - C	Chile	3,168
6	Provida - B	Chile	2,466
7	Habitat -B	Chile	2,454
8	Habitat -C	Chile	2,454
9	Capital - C	Chile	2,015
10	Capital - B	Chile	1,883
11	Cuprum - B	Chile	1,653
12	Integra Fund 2 Balanced	Peru	1,559
13	Cuprum - C	Chile	1,533
14	Porvenir Oblig. Moderado	Colombia	1,255
15	Horizonte Fund 2 Balanced	Peru	1,193
16	Prima Fund 2 Balanced	Peru	1,115
17	Proteccion Oblig. Moderado	Colombia	942
18	Profuturo Fund 2 Balanced	Peru	835
19	BBVA Horizonte Oblig. Moderado	Colombia	646
20	Profuturo GNP Siefor 4	Mexico	631
21	Prima Fund 3 Aggressive	Peru	619
22	Integra Fund 3 Aggressive	Peru	618
23	ING Oblig. Moderado	Colombia	612
24	Profuturo GNP Siefor 3	Mexico	610
25	Banamex Siefor 4	Mexico	592

Top 25 – Private Equity/Venture Capital Allocations

Private Equity/Venture Capital allocations shown in the country-level table of asset allocations indicate that P/E-VC is an emerging investment concept among the region's pension funds.

In part, this is a result of investment regulations which restrict the amount of assets pension funds may allocate to this category. In Brazil, pension funds in 2011 could invest up to 20% of their assets in domestic private equity funds approved by the National Monetary Council, while in Chile, for example, even the most aggressively-oriented type of funds (the 'A' category) are currently limited to 2.5% of total assets.

On the other hand, the presence of PE/VC among Bolivia's pension funds is a result of these funds' efforts to move into compliance with an investment requirement to move up to 5% of fund assets into unrated securities invested in domestic small- and medium-sized enterprises. The chosen route to do so has been through private equity funds.

PE/VC allocations are expected to grow quickly in size across the region, as regulators become more comfortable with the concept, as experienced P/E and VC 'General Partner' management firms begin to source capital from the region and to invest in the region, and as foreign pension funds and other 'limited partner' types reach out to local pension funds for possible long-term information-sharing and co-investment partnership arrangements.

These are after all emerging market economies which have substantial investment requirements in infrastructure of all kinds and in private sector activities of all kinds, for which P/E-VC funds provide good investment vehicles for pension funds' long-term investment horizons.

So far, investment in P/E-VC assets by the region's pension funds is concentrated. About 152 of the 419 funds surveyed for 2011 were found to have some PE/VC exposure, with Brazilian pension funds being the most numerous (with 65 pension funds) and accounting for about 43% of all the assets allocated in the category.

The Top 25 in this category are estimated to hold 70% of the region's $ 14.6 billion of category assets. Not surprisingly, Brazilian pension funds hold the first 3 places and 5 of the Top 25 positions. Chilean pension funds are the most numerous in the Top 25 (taking 10 places) , followed by Mexico (6 places), and Colombia (4 places).

It is surprising not to see a Peruvian pension fund among the group. While there is private equity investing going on, there is no category designated for Private Equity by the regulatory agency, Superintendencia de Banca, Seguros y AFP. Their website does not carry this information; Private Equity investment amounts by AFPs' Funds 2 and 3 have been aggregated to either Bonds and /or Equities categories by the regulator.

Table M: Top 25 Funds by P/E-VC Allocations, end-2011

Rank	Pension Fund Shortname	Country	P/E Venture Capital, US$ mn.
1	Petros-Plano Petros Sistema Petrobras (BD)	Brazil	1,797
2	Funcef-Plano Beneficio- Reg/Replan Consolidado (BD)	Brazil	1,774
3	Postalis-Beneficio Definido (BD)	Brazil	582
4	Provida - C	Chile	562
5	Capital - C	Chile	454
6	Porvenir Oblig. Moderado	Colombia	384
7	Habitat -C	Chile	334
8	Banamex Siefor 4	Mexico	314
9	BBVA Horizonte Oblig. Moderado	Colombia	311
10	Previ-Previ Plano I (BD)	Brazil	310
11	ING Siefor 3	Mexico	303
12	ING Oblig. Moderado	Colombia	293
13	Banamex Siefor 3	Mexico	293
14	Proteccion Oblig. Moderado	Colombia	280
15	Capital - B	Chile	245
16	Cuprum - C	Chile	236
17	Capital - A	Chile	224
18	ING Siefor 4	Mexico	217
19	Provida - B	Chile	205
20	Habitat -B	Chile	201
21	Cuprum - A	Chile	199
22	Previ-Previ Futuro (BD)	Brazil	198
23	Profuturo GNP Siefor 3	Mexico	192
24	Provida - A	Chile	190
25	ING Siefor 2	Mexico	162

Viva, Temblorcitos! - The Changing Landscape of Pension Fund Management in Latin America

The evolution of investment portfolios among the region's pension funds are an important aspect of the changing landscape in pension fund management in Latin America. The growth of assets under management and the many needs to diversify the investment of these assets combine to produce a series of 'minor earthquakes' (*temblorcitos*), shaking up how things get done.

First, one can point to the region's history of growth and contraction in the number of active pension fund, as shown in the table below. The sometimes dramatic changes arise from mergers and acquisitions among existing AFPs, to approval of new entrants and fund types by regulators to spur competition and better client service. The changes in numbers in market places like Colombia in 2011 (with the introduction of the multifondos concept there) and the boom and contraction in Mexico from 2007 to 2011 are the most illustrative of the trend[6].

Table N: Numbers of Pension Funds Covered by Country, 2007-2011

Country	2011	2010	2009	2008	2007
Bolivia	2	2	2	2	2
Brazil	216	218	203	194	184
Chile	31	30	26	26	31
Colombia	41	24	24	25	22
Costa Rica	29	30	32	33	21
Dominican Rep.	9	9	9	9	9
Mexico	70	75	80	95	42
Panama	3	3	3	2	2
Peru	12	12	12	12	12
El Salvador	2	2	2	2	2
Uruguay	4	4	4	4	4
Total Coverage	**419**	**409**	**397**	**404**	**331**

Second and most recently, the region has seen the exit of several of the big international investment groups which previously had extensive networks across the region – firms such as BBVA, ING, HSBC and others – being largely replaced by international investors such as Principal Financial Group and MetLife.

Third and in addition to new international investors, one can add the rise of Latin American financial groups as investors in pension asset management companies. Colombia's Grupo Suramericana de Inversiones, in particular, has acquired interests in pension fund asset management companies across 5 countries in the region, with plans to expand into others, and is believed to be the single largest owners of pension funds by assets under management across the region.

In Peru, the authorities granted a new AFP license to Chile's AFP Habitat in late 2012, for operational launch during 2013, based on the new AFP's winning bid on lowest fees to be charged to clients it may serve. The regulator also authorized the formation of a new AFP Interactiva, sponsored by Intercorp Financial Services Inc. in late 2012. The launch of these two AFPs in Peru will increase the number of multifondos on offer from 12 to 18, assuming there is no offsetting consolidation among AFPs.

All in all, as people who live in seismic zones know, it's better to have some *temblorcitos* once in a while than a full temblor.

Counter-Trends – It's Not Just a One-Way Street

Despite all the good things reported above, one cannot but help notice that reversal of regional trends is something of a trend in itself. As some countries in the region have adopted more socialist-oriented practices, the attitudes to pension

[6] Mexican regulators for instance in late 2012 approved the consolidation of funds' Type 4 & 5, so that AFORE will manage only 4 SIEFORES and the number of pension funds will shrink, absent approval of any new AFOREs.

management have shifted in these countries as well – and it's hard to for these populist governments to resist the pension funds' 'pots of gold'.

Examples of pension fund philosophy reform-reversals include Argentina (2008), Ecuador (2010), and Bolivia (in process since 2011), where the incoming governments chose to move the management of pension funds to a government body with very limited authority on how it could invest private savings.

There are always temptations to require pension funds to be buyers of government issues. Even in El Salvador, where the private pension accounts system is fairly large relative to the economy, the pension fund asset investment requirement was changed by law in early 2012 to require the private funds to increase their required investment in government certificates which fund the national PAYG social security system, from 30% of their assets, eventually to 45%. But it is recognized by everyone that the pension fund account holders are being used to subsidize government borrowing costs that would otherwise have been required to meet PAYG social security payments.

Closing Thoughts

The prospects for Latin America's pension funds to grow their assets, to invest capital in domestic and international capital markets and in alternative asset opportunities, and to meet their affiliates' retirement goals, currently shine like gold. In most cases, the pension funds benefit from the 'tail wind' of growing contributor bases set amid economies projected to grow solidly for the near future, and from their increasing flexibility as to how and where they can deploy their funds among domestic and international assets, across asset classes .

The region's economies and their pension markets represent tempting growth opportunities for international institutional investors, both for ownership opportunities and for financial service provision. Local investor groups are a feature of this, in a growing activity in intra-regional cross-border acquisitions.

The Guide to Latin America Pension Funds is a research service covering Latin America's pension funds and their investment practices. ***The Guide*** service will prove invaluable to international financial services providers like money managers, ETF sponsors, consultants, and custodians looking to enter these markets, to increase market share, or to develop a product for pension funds in all or one of the 11 countries covered, as well as to researchers needing a one-stop reference guide to the region's pension funds.

The service also includes detailed country reports on the current investment regulations and operating contexts the pension fund management companies face.

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