GUIDE TO LATIN AMERICA PENSIONS INVESTMENT CONTEXT AND REGULATIONS – THE MINOR MARKETS

A source to the region's Pensions Investment Practices and Regulators

April 2013

The Guide complements the work done by Campollo Consulting LLC and Wall's Street Advisors Services LLC on Pensions Funds across 11 countries in Latin America, their asset allocation, returns and authorized investment products

Guide to Latin America Pensions Investment Context and Regulations – The Minor Markets

Contents

Executive Summary

This report, the second in the series, covers the investment contexts and regulations in effect among the six “minor markets” among Latin America’s eleven competitively-managed pension markets. The five major markets – Brazil, Chile, Mexico, Colombia, and Peru, in order of assets under management – were covered in the first report.

While the six markets covered here – Uruguay, El Salvador, Bolivia, Costa Rica, Dominican Republic, and Panama, in order of assets under management – are ‘minor’ in the sense that their assets represent only about 5% of the region’s pension funds’ assets, the pension funds are important in their national contexts, and increasingly so. ‘Pension fund assets to GDP’ ratios for Bolivia and El Salvador for example are already over 25%, higher than for all other Latin American markets except Chile’s (at 75%). In each of the six, the pension funds are among the most important domestic institutional investors. Further, the funds represent the retirement savings of substantial portions of their national populations, lessening people’s future dependence on national social security systems whose financial resources are typically stretched. At many levels, the hopes of their nations rest to a considerable degree on the success of their private pension systems.

The minor markets’ pension funds’ have common ‘DNA’, insofar as they each were developed off of the Chilean model of mandatory defined contribution retirement accounts, in the 1990s & early 2000s. Nevertheless, they follow their own courses, particularly regarding obligatory participation, the introduction of risk-based multifundos, of voluntary retirement accounts, and of eligible asset classes and ‘floors and ceilings’ for asset class exposures.

The developments have not been consistently liberal, either, if ‘liberal’ is understood to mean expanding the competiveness of pension assets management and administration. The section on Bolivia will explain how a newly-introduced government monopoly on pensions’ management just may represent the start of de facto asset confiscation, while the section on El Salvador will highlight how the national authorities there are using the private pension system’s assets to fund the national Pay-as-You-Go social security system, to the detriment of the private system’s savers.

In other instances, such as in Uruguay, Costa Rica & Panama, the brutal facts since 2008 of low-yielding (and increasingly risky) international securities and very small domestic securities markets has kept high levels of pension assets allocated to domestic currency government debt securities. As pension fund managers there operate in a fiduciary role in competitive environments for customer assets and frequently, with regulatory minimum-return requirements, who can blame them?

Plainly, these are ‘minor’ markets only in the sense of absolute amounts of assets currently under management, in a regional context. The challenges and opportunities competitively-managed pension funds face in these markets, and their potential contributions to improving lives, are major, indeed.

Bolivia – Pension Funds' Investment Context and Regulations

Bolivia's pension fund system is in the process of change. The country introduced a system of individually funded retirement accounts under Law 1732 of Nov. 1996, which collectively form the Sistema de Fondo de Capitalizacion Individual (FCI).

But in late 2010, a new law (Ley 65) was passed which will introduce fairly sweeping changes to the FCI system, once it comes into effect. So far however, implementing regulations haven't been issued, a key institution remains to be set up, and key players in the old system have been required by the national authorities to stay in place until further notice. So, this summary necessarily references features of both Law 1732 and Law 65, as the present and the future.

The Pension System – Key Institutions and Regulations

Under Law 1732 and its regulations, participation in individual retirement savings accounts was made mandatory for all salaried workers, including those in the armed forces, and voluntary for self-employed people. The government authorized the establishment of specialized asset management companies, Administradoras de Pensiones (AFPs), to collect the workers' contributions, to invest these according to statutory guidelines, and arrange for the payment of pensions and related benefits. The individual accounts of course are the property of the individual contributories, and collectively, they form a Fondo de Capitalizacion Individual for which each AFP is a fiduciary.

There are two AFPs currently operating in Bolivia - AFP Futuro de Bolivia S.A. and BBVA Prevision AFP S.A. Both AFPs are wholly-owned affiliates of domestic affiliates of foreign banks – Futuro of the Zurich Financial Group, and Prevision of Spain's BBVA. BBVA Prevision has approximately 53% of the assets in the FCI system and historically has been the market-share leader.

The funds under the AFPs' management, as well as the AFPs themselves, are supervised by the Autoridad de Fiscalizacion y Control de Pensiones y Seguros (APS), a government agency in the Ministry of Economy and Public Finance.

AFPs' investment activities are also subject to oversight by the Superintendencia de Mercado de Valores, and to the norms it establishes for subjects such as recognized securities trading venues, credit rating agencies, custodians and depositaries.

Law 65 intends to introduce some fairly sweeping changes to the system First, the AFPs will be required to cede all assets and responsibility for the clients to a new government agency, called the 'Gestora Publico de Seguridad Social de Largo Plazo' (the Public Manager of Long Term Social Security). The board of the Gestora will be appointed by the president of the republic and be subject to confirmation by the legislature. The Gestora will also be responsible for asset management and administration of a number of smaller pension plans

Law 65 also has been interpreted so far by observers that the individual accounts/defined contributions type system will be converted into a group contribution/defined benefits type pension fund, to be called the Fondo de Ahorro Previsional (FAP).

The law does plainly state that the Gestora should administer the fund's assets in an independent manner and solely in the interests of the members, which is basically all workers in the formal economic

sector. But, there are concerns that the changes presented in Law 65 represent the basis for a pension asset confiscation by the government similar to that in Argentina in 2008.
The regulations governing pension fund investments under Law 65 are not radically different from those under Law 1732. The table below provides a side-by-side comparison of the principle features.

Investment exposures under Law 65 are somewhat less restrictive than under Law 1732, for instance:

- Maximum exposure of fund assets to a single issuer doubles, to up to 10%;
- Foreign assets no longer have a 'floor' requirement of 10% of fund assets;
- A new specific allowance is opened for unrated securities/investments in domestic small and medium enterprises; &
- Exposure to a single issue jumps to 60% of issue value, from 20% under the prior regulation (note that since the new system combines two funds' assets, the increase could be seen as rising from 40%).

The pension funds under Law 1732 could also hold up to 100% of their assets in government securities, so Law 65 doesn't introduce anything new in this regard. But, the difference causing concern now is that the pension funds will be managed by a state monopoly pursuing an administration's goals, not by asset managers competing for savers' accounts in a fiduciarilly-responsible manner.

Originally, Ley 65 was to go into effect during 2011 with the establishment of the Gestora. For some reason, that has been delayed, and as of early 2012, still hadn't been done. In the meantime, the AFPs are obligated by the APS to continue to operate, and to prepare to turn over all their business and data to the Gestora as soon as it's ready. The APS is requiring the AFPs turn over their businesses in good condition – such as requiring them to collect all outstanding overdue pension contributions from employers (some of which are state-owned enterprises), and to enroll approximately 19,000 employers which APS has found hadn't registered for pension contributions, as required by law.

Bolivia - Investment Limits for the Fondo de Ahorro Previsional

as set out in Ley 65 (Ley de Pensiones Dec. 10, 2010)

Instrument or Asset Category	Limit, % of Fund assets	as set in Ley 1732, Limit, % of Fund assets
Exposure to a single issuer or to related parties	10%	5%
Domestic small & medium enterprises not risk-rated	5%	n.a.
Foreign assets limit	50%	>10% & <50%
Issues by the National Treasury	100%	100%
Issues by the Central Bank	100%	100%

Other Requirements/Limitations	Limitation	as set in Ley 1732
Risk classifications	As set out by the Securities Market Law & its regulations	As set out by the Securities Market Law & its regulations
Exposure to a single issue of securities	60% of the issue amount	20% of the issue amount
Use of approved custodian or depository	95% of assets must be held by these	95% of assets must be held by these
Equity ownership in a company	20% of a company's share capital	n.a.

Prohibited Investments		as set in Ley 1732
	- non-profits	- non-profits - custodian businesses - Insurance cos. - stock brokerage firms - credit rating companies
	- in businesses related to the board members or executives of the GPSSLP or of its supervisory body	- other AFPs or companies related to AFP's board or senior management

Costa Rica – Pension Funds' Investment Context and Regulations

The national pension system is structured on three pillars of protection: one basic national social security system with another non-contributory system, one complementary system in which participation is obligatory for all salaried workers, and a voluntary system based on individual accounts.

The first pillar consists of the Disability, Old Age and Death Regime of the Social Security Fund (RIVM) which is administered by the Caja Costarricense de Seguro Social (CCSS) , and a number of separate schemes (regimes basicos) such as the National Teachers' fund, the Judiciary Power fund, the regime Pension under the National Budget, and the Permanent Firefighters Fund (the latter two were shut down by Law Framework Act 7302-B-but still have assets and pensioners). The pension scheme under the National Budget was created by combining several regimes: Finance (including Deputies), Public Registry, Communications (Post Office), Public Works and Transportation (MOPT), Railways, Municipalities and Musicians.

The second pillar consists of the Obligatory Complementary Pension Funds System (Regimen Obligatorio de Pensiones). These funds consist of individually funded retirement accounts, managed by a number of pension fund management companies (Operadoras de Pensiones Complementarios - OPC). All employees in the country, except those covered by regimes basicos, are required to select at least one of the OPCs to administer their account. This system was created by Law 7983 of February 2000, the Workers Protection Act.

The Voluntary Supplementary Pension Scheme (Regimen Voluntario de Pensiones), which dates from 1995 and was renovated in 2000 by the Workers Protection Act, and again in 2008, forms the third pillar. This scheme allows individuals, including self-employed professionals, to open retirement accounts where the OPCs provide investment and administration services. It tends to attract savings from the wealthier level of workers/professionals. Contributions to these funds benefit from tax preferences, as does income and capital gains. Voluntary funds also have the distinction of being available in either colones or US Dollars, at the investor's option.

Voluntary Complementary A & B Pension Fund accounts

In accordance with the **"***Reglamento sobre Apertura y Funcionamiento de las Entidades Autorizadas y el Funcionamiento de los Fondos de Pensiones, Capitalización Laboral y Ahorro Voluntario previstos en la Ley de Protección al Trabajador" article 4bis,* starting in October 31st, 2008, the voluntary pension funds were separated into "A Funds" and "B Funds".

These funds have the following distinct features:

1. Contracts for voluntary pension accounts signed before the approval of Law 7983 (Ley de Protección al Trabajador) which were authorized by the transitory chapter XV of this law, were assigned to A Funds. A Funds' members have the right to make withdrawals at any time, even before retirement, and these withdrawals can be partial or total.

2. Contracts for voluntary pension accounts signed after Law 7983 was amended in 2008 are assigned to B Funds. Withdrawals can start only upon retirement; these may be partial or total, the member must have at least sixty six contributions, the partial withdrawal must be at least 30% of its accumulated balance, and can take place only once every twelve months.

The OPC System – Key Institutions and Regulations

The Operadoras de Pensiones Complementarios

Operadoras de Pensiones Complementarios (OPCs) are management companies which provide investment and administrative services to individual account holders for both the obligatory and voluntary pension systems. OPCs are supervised by the Superintendencia de Pensiones.

As of the end of 2011, there were seven authorized OPCs operating, managing approximately US$ 3.8 billion equivalent in assets spread among 35 pension funds. Typically, each OPC runs an Obligatory Fund, two Voluntary A Funds (one in colones, and one in US Dollars), and two Voluntary B Funds (one each in colones and US Dollars).

The firms and their approximate market share in terms of number of affiliates were, at the end of 2011:

Popular Pensiones	56%
BN Vital	15%
BCR Pensiones	11%
BAC Pensiones	8%
Vida Plena	6%
CCSS OPC	3%
INS Pensiones	2%

The Costa Rican OPC system is fairly unique insofar as some of the OPCs are wholly-owned affiliates of government agencies such as CCSS & INS (Instituto Nacional de Seguros) or of government–owned entities such as Banco de Costa Rica (BCR), and of the mutually-owned Banco Popular y de Dessarollo Comunal.

The market has been going through a period of consolidation in recent years that is expected to continue in the near future. In October 2010, for instance, Operadora del Banco Popular y de Dessarollo Comunal OPC (Popular Pensiones) acquired the assets and clients of IBP Pensiones, and in early June 2012, BCR Pensiones, the pension management affiliate of Banco de Costa Rica, acquired the business of INS Pensiones, the pension management affiliate of the Instituto Nacional de Seguros.

As mentioned earlier, the principal supervisor of the OPCs is the Superintendencia de Pensiones (SUPen). The SuPen is an independent agency of the national government which reports to and coordinates with the Consejo Nacional de Supervision del Sistema Financiero (National Supervisory Council of the Financial System).

The SuPen is responsible for issuing the detailed regulations governing investments of the funds managed by OPCs (Reglamento de Inversiones de las Entidades Reguladas), among other details concerning their operation. The most current set of regulations in effect dates from Nov. 9, 2009.

The regulations concerning investment of fund assets broadly concern domestic assets and foreign assets.

Table A following outlines the general requirements for domestic assets' eligibility, including the types of domestic securities that are eligible, and the securities which are not eligible by virtue of their issuer(s) – for prudential and potential conflict-of-interest mitigation reasons.

Table B outlines the maximum exposure limits of domestic assets which an OPC can hold as a percentage of each Fund’s assets. The limits are expressed in three ways:

- by Type of Issuer (Central Bank, Ministry of Economy; Other Public Sector Issuers; and the Private Sector).
- By type of domestic instrument or issue (funds, stocks, bonds, repurchase agreements).
- By specific issue or issuer.

It’s worth pointing out that OPCs have the option to invest up to 100% of their assets in domestic private sector securities, but that the domestic capital market is so narrow that, in conjunction with the other issue limits and the relatively high yields available on domestic government bonds and bills, they historically haven’t come close to even half that exposure.

Table C outlines the eligible foreign asset classes and markets of origin, the maximum exposure limits on foreign assets in the aggregate, and the maximum exposure allowed to single foreign issuers.

It’s worth pointing out here that OPC-managed funds may have up to 50% of their total assets committed to foreign assets, including foreign company shares, corporate bond issues (must be rated BBB or better), and foreign index funds, equity funds and debt funds from qualifying countries. Derivatives may be used to cover interest rate risk and foreign exchange risk, on a case-by-case basis as approved by SuPen.

Other Notes

While the benefits of a broadly diversified investment portfolio are recognized both in the laws and regulations governing pension funds in Costa Rica and among the investment teams at the OPCs, their portfolios are still concentrated in government debt issues. The international financial market crises since 2008, the very narrow domestic Cost Rican securities markets, and the relatively high yields available from domestic government debt issues have combined to keep OPCs’ portfolios at their legally allowed limits in domestic government issues.

In fact, OPC investment managers are asking SuPen to consider even higher exposures to such assets, or at the very least, to not reduce the legal limit below the current 85% currently in effect for domestic government and government-agency issues, as SuPen was contemplating (a drop to 65-75%).

Costa Rica Table A - Pension Funds Investment Regulations on Domestic Assets
according to the Reglamento de Inversiones de las Entidades Reguladas (Nov. 2009)
General Requirements for Domestic Issues' Eligibility
Must be registered with the National Registry of Securities and Intermediaries, or be issued by entities under the supervision of the General Superintendency of Financial Institutions
Investment Funds & financial institutions must have a risk classification of at least "A"
May be denominated in national currency, US Dollars, UK Pounds Sterling, Japanese Yen, or Euros
Transactions should be for cash, except for buyback or repurchase agreements
Issuers under the National Financial System for Housing should fall into the risk grade established by the General Superintendency of Financial Entities
Eligible Types of Domestic Securities
- Debt securities issued in series
- debt securities with maturities under 360 days from financial entities supervised by the General Superintendency of Financial Entities
- bonds & debt securities convertible to common or preferred shares
- Common & preferred shares of domestic corporations
- Repurchase agreements realized on authorized stock exchanges, where the fund may only sell-forward & in the currency of the underlying asset
- Participation certificates of investment funds
Non-Eligible Domestic Investments - securities of
Investment fund management companies
risk ratings companies
stock exchanges
brokerage firms
securities depositories or custodians
trust companies
other institutions authorized by the Superintendencia de Pensiones
Securities issued or guaranteed in contravention of article 63 of the Law 7983.
Securities given as guarantees or which are the object of serious impediment at the time it was acquired, except for buyback or repurchase agreements
Loans or other advancements to affiliates of the pension fund or shareholders of the pension fund management company
Securities of any companies which may be related to the pension fund management company

Costa Rica Table B - Pension Funds Investment Regulations - Limits on Domestic Assets

according to the Reglamento de Inversiones de las Entidades Reguladas (Nov. 2009)

Limits by percentage of Fund's assets, except as noted

By Types of Domestic Issuers	**Maximum Exposure, % of Fund Assets**
Central Bank & Ministry of Economy	50%
Other Public Sector Issuers	35%
Private Sector Issuers	100%

By type of Domestic Issue	**Maximum Exposure, % of Fund Assets**
Individual debt securities with maturities under one year, issued by regulated financial institutions	15%
Quotas in domestic investment funds	10%
Repurchase Agreements	5%
Common & Preferred shares	10%
Private Sector debt issues:	
if AAA rated	70%
if AA rated	50%
if A rated	30%
if BBB rated	5%

By Specific Domestic Issue & Issuer	**Maximum Exposure, % of Fund Assets**
For a single issuer rated:	
- AAA/AA	10%
- A/BBB	5%
For a single investment fund	5%
For a group or financial conglomerate	10%
For common &/or preferred shares in one company	5%
Amount in any single securities issue, as a percentage of the issued amount	20%

Voluntary Pension Funds may invest in any investment fund authorized by the Superintendencia General de Valores, with a single fund exposure limit	5%

Costa Rica Table C - Pension Funds Investment Regulations - Foreign Limits

according to the Reglamento de Inversiones de las Entidades Reguladas (Nov. 2009)

Limits by percentage of Fund's assets, except as noted

General Requirements
Recognized foreign markets & exchanges must be members of the technical committee of the International Organization of Securities Commissions (IOSCO) and of the European Union
All types of securities mentioned in art. 25 concerning qualified types of domestic issues
Participations in investment funds, including index funds, equity funds, and debt funds. Foreign exchange funds and alternative assets funds are not permitted
Capital-Protected Structured Notes
For debt instruments issued in eligible foreign currencies - the issue should be at least US$200 million in size; it must have an international rating of BBB or better; for sovereign issues by G8 member countries, the country rating must be considered first; for issues by multilateral credit agencies, the risk rating must be at least AA and the issue size must be at least US$ 50 million or its equivalent in authorized currencies.
Derivatives - may be used cover interest rate & foreign exchange risk, with approval by the SuPen

Exposure By Types of Foreign Issues - in the Aggregate	**Maximum Exposure, % of Fund Assets**
General - all foreign issues	50%
In debt instruments, depending on risk ratings:	
- If AAA	50%
- If AA	25%
- If A	15%
- If BBB	5%
In Structured Notes	5%

Issues From a Single Issuer	**Maximum Exposure, % of Fund Assets**
- if AAA/AA rated	10%
- if A/BBB rated	5%
In funds from a single fund management company	10%
In a single investment fund	5%

Dominican Republic – Pension Funds' Investment Context and Regulations

The modern social security system in the Dominican Republic (DR) was established by Law 87-01 (of 2001), which took effect from June 2003.

This law established the Individual Capitalization Accounts System as a supplement to the national social security system. It made contributions to these individual retirement accounts mandatory, starting with private sector and public sector salaried workers who were younger than 45 years old in June 2003. These accounts get aggregated into pension funds called 'fondos de capitalizacion individual'. They accounted for about 76% of system assets at the end of 2011.

The law also established the defined benefits system (Sistema de Reparto Individualizado), whereby certain organizations' could provide workers with defined retirement benefits which are not linked to individual contributions. These include plans by the Central Bank and Banco de Reservas. These accounted for about 11% of system assets as of the close of 2011.

The law recognized the existence of established retirement fund systems and company plans, generally called "Fondos Complementarias". Examples of these include the plans of Banco Romana and Banco Siembras, and the recently approved plan for the employees of the Superintendency of Banks. The single largest such fund is that of the national teachers' retirement plan (under the Instituto Nacional de Bienestar Magisterial, INABIMA, in the Ministry of Education), which itself has over 7% of system assets at the close of 2011.

It also created the Social Solidarity Fund (Fondo Social de Solidaridad, FSS) for low-income members who contribute to individual capital accounts but whose contributions do not cover the complete minimum pension. FSS had just over 5% of system assets at the close of 2011.

The AFP System – Key Institutions and Regulations

Law 87-01 also set up the key institutions of the new pillar and the regulations which govern their relationships.

The law and subsequent Decree 96902 (Reglamento de Pensiones) established the basis for special asset management and administration companies, called Administradoras de Fondos de Pensiones (AFPs), to manage the individual affiliates' retirement accounts. The AFPs may manage assets on behalf of the FSS or Fondos Complementarios, as well as for the individual accounts.

At the end of 2011, there were 5 AFPs in operation, with their market share of the individual capitalization accounts system's assets as indicated below:

AFP	Share %
Popular	31%
ScotiaCrecer	25%
Siembra	23%
Reservas	16%
Romana	>1%

The Law also established the Superintendencia de Pensiones (usually abbreviated as SiPen) as the principal supervisory body for the AFPs. SiPen is an autonomous agency.

The Central Bank acts as custodian for pension funds' investment assets.

The Commission for Risk Classification and Investment Limits (Comision Clasificadora de Riesgo y Limites de Inversion, CCRLI) is responsible for the issue and periodic revision of regulations concerning eligible investments as broadly outlined in law, and for ruling on the eligibility and risk rating of specific domestic securities issues as these come to market.

CCRLI is an independent, collegial body of the supervisors of the national financial system and a technical representative of the retirement system members, presided over by SiPen's superintendent. SiPen's Financial Planning Directorate acts as the CCRLI's secretariat.

The CCRLI issues resolutions approximately every six months which establish the investment limits and risk factors applicable to asset types available to funds managed by the AFPS. It issues other resolutions on an ad hoc basis, for instance, qualifying a new bond issue's characteristics.

The most current regulations governing investment limits is CCRLI Resolucion #66, from Dec. 20, 2011 and effective from Jan. 1, 2012 to June 30, 2012. Prior CCRLI resolution stipulations remain in effect however, unless a more recent resolution specifically amends or repeals these, so this Resolucion doesn't contain all the limitations.

The investment limitations address limits by type of instrument; by type of debt issuer; and by related parties.

Table A following outlines the limits by type of instrument, expressed as the maximum amount to be held as a percent of a pension fund's assets.

Table B shows the limit allowed in the aggregate to a single issuer of debt. These are generally expressed as a percentage of fund assets, adjusted for the risk factor assigned to the issuer (or if that issuer has more than one security held by the fund, then by the value-weighted risk factor of all the issues held).

Table C shows the limits allowed to equity investments, and to all assets issued by companies related to the same economic group.

Dominican Rep. Table A - Pension Funds' Investment Limits, by Instrument Type

per Resolucion # 66 of the Commission for Risk Classification & Investment Limits

dated Dec. 20, 2011, & in effect from Jan 1, 2012 to June 30, 2012

By Type of Instrument	Maximum Limit, as % of Fund assets
Regulated & accredited domestic banking institutions' time deposits & other debt securities	75%
Regulated & accredited domestic banking institutions' mortgage notes	70%
Companies' debt issues	70%
Securities issued by the Central Bank	50%
Publicly-offered shares	30%
Investment Funds for the housing sector	20%
Notes and/or securities issued or guaranteed by the Republic, in domestic or foreign currency, as of Dec. 31 2011	15%
Securities issued by the National Housing Bank & acquired in the secondary market	10%
Debt issues of multilateral credit organizations of which the Republic is a member, and which are listed in the national market and used exclusively to finance projects in the Republic	10%

Dominican Rep. Table B - Pension Funds' Investment Limits, by Debt Issuer

per Resolucion # 66 of the Commission for Risk Classification & Investment Limits

dated Dec. 20, 2011, & in effect from Jan 1, 2012 to June 30, 2012

Per issuer for debt securities issued by local banks, National Housing Bank (BNV), Institute National Housing Authority (INVI), and savings and loan associations, the lesser of:
1) x 0.15 x VFi FR;
2) Kj x FRj ; *or*
3) 0.4 x Series
where:
VFi: Value Fund Type i, understood to be the closing value of the portfolio instruments plus the balance of current accounts.
FR: Risk factor weighted average of the instruments.
FRj: Risk factor of the issuer j, as appropriate to the risk rating.
Kj: Net worth of the issuer j, defined as the difference between the value of its assets and total liabilities, as obtained from the information provided periodically by the Superintendency of Banks.

Investment limits per issuer for securities representing debt of local businesses, public or private are: i) Commercial paper & ii) Bonds, the lesser of:
1) 0.10 x VFi FR;
2) 0.20 x Aj; or
3) 0.40 x Series
where
Aj: The value of the issuer's assets, which will be released periodically through a resolution of the Superintendent of Pensions.
Other terms: as defined previously

Long- & Medium-term Debt Instrument
Risk Factors by Ratings
AAA= 1.0
AA= 0.9
A= 0.8
BBB= 0.6
below BBB = 0.0

Short-term debt Instruments
Risk Factors by Ratings
C-1 =1.0
C-2= 0.9
C-3= 0.7
below C3 = 0.0

Dominican Rep. Table C - Pension Funds' Investment Limits, by Related Parties
per Resolucion # 1 of the Commission for Risk Classification & Investment Limits
dated Dec. 2002, & in effect from Jan 1, 2012 to June 30, 2012
The investments by an AFP made with funds from one type of fund or the sum of them as appropriate, in a public offering of shares of a single local company are subject to the lesser of the following restrictions:
1) 0.05 of the value of the Pension Fund; *or*
2) 0.10 of the value of the company shares in issue
The total amount of investments made with the resources of the sum of different types of funds administered by an AFP, in the instruments of the same economic group, may not be greater than 0.3 x VF x FR

El Salvador – Pension Funds' Investment Context and Regulations

The present system for accumulating retirement savings in El Salvador was established under Decree 927, promulgated on December 23, 1996 and called The Law of the Savings System for Pensions (La Ley del Sistema de Ahorro para Pensiones). It was officially introduced in April 1998.

Decree 927 made participation in the new system mandatory for all workers not covered by social insurance at the time of introduction, whether they were employed in the private sector, national public sector, or municipalities. Participation takes place via employee and employer contributions to individual retirement savings accounts. Collectively, the individual accounts are called Pension Funds. Decree 927 also established the legal basis, operating modus, and obligations of pension fund asset management and administration companies, call Instituciones Administradores de Fondos de Pensiones (AFPs).

Decree 100 of Sept. 2006 introduced some reforms to Decree 927 while investments by AFPs funds are governed by Decree 21 (1998, as subsequently amended).

The AFP System – Key Institutions and Regulations

At the end of 2011, there were two AFPs operating in El Salvador – AFP Crecer, owned by Colombian holding Grupo Empresarial Antioqueño and controlling about 52% of the market, and AFP Confia, a Citigroup subsidiary, with the remaining 48%.

Until August 2011, the AFPs were supervised by an independent agency called the Superintendencia de Pensiones. In August 2011, a broad-ranging reform of the financial sector's regulatory agencies became effective, consolidating these into a new Superintendencia del Sistema Financiero (SSF). The former Superintendencia de Pensiones was amalgamated into the SSF as the Superintendencia Adjunto del Sistema de Pensiones, with three operating departments reporting to the Intendencia del Sistema de Pensiones. The departments are responsible for supervising Affiliates & Beneficiaries Matters, for Retirement Institutions, and for Investments of the Retirement System, respectively.

A key institution in the pension investment process is the Comision de Riesgo (CR). The CR has authority to establish the actual limits that AFPs may allocate to certain asset types (within ranges as may be set by law), as well as to establish the risk rating of specific investment assets or issuers and the risk levels acceptable for AFP investments.

Since the August 2011 reform, the CR has 6 members, including the Superintendente of the SSF as CR president, one each from the Superintendencias Adjuntos de Valores (for Securities), de Pensiones, de Financieros (for financial institutions), and one each from the Central Bank and the Ministry of Economy.

The Pension Funds' Investment Context in early 2012

As can be seen in the summary tables for investment regulations following, El Salvador's 2 AFPs face a fairly constricted investment opportunity set. Besides having a large portion of the funds' assets required to be committed to securities issued by the national Treasury, government agencies, the Central Bank, and on behalf of the national social security system programs, they are not permitted to invest their remaining assets outside of El Salvador's own capital markets, which are very small, especially considering that some asset categories like insurers' shares are prohibited on prudential grounds.

The fact that the governmental and para-national agencies' domestic securities issues are typically issued at yields below what El Salvador pays on its international bond issues, which are all denominated in US Dollars, also has created friction between the AFPs and the private sector employer contributors, and the majority political party.

The AFPs' trade association, called Asofondos, has been lobbying along with other interested parties for some time with the legislature for a broadening of the eligible asset classes, for market-based yields on the mandatory assets they must hold, for reductions of the amounts of those mandatory issues the pension funds must hold, and for giving pension affiliates choices among risk-based multifunds as well as for allowing voluntary pension accounts.

On broadening of the investment opportunity set, El Salvador's AFPs are looking towards the formal integration of Central American capital markets, as a first-step to that goal.

On reducing the mandatory investment in low-yield government securities, their hopes were recently dashed. By enactment of Decreto Legislativo 1036 of March 29, 2012, the legislature actually increased the AFPs' required investment in Certificados de Inversion Previsionales (CIPs), which are retirement investment certificates issued on behalf of the public employees' retirement system and the general social security system, to support pension payments to people who are not covered by the individual retirement accounts system.

The new law requires AFP pension funds to hold a greatly increasing amount of CIPs going forward, from 35% of their total assets by end-2012 in annual steps to 45% of total assets by 2022. The current yield on these securities is 1.5%. The President is suggesting this may be raised to 3%-5% for future CIP issues, but as the country faces a large fiscal problem, this seems unlikely. The country's Eurobonds are reported to be trading at about 6%, suggesting the amount of yield "give-up" required of pension savers.

El Salvador - Table A: AFP Investment Limits

Limits expressed as a percent of fund assets & in effect May 2012

Section of Art. 91 DL927, 2006, as amended	Type of Investment Instrument	Range Minimum	Range Maximum	Authorized Maximum Limit (May 2012)
a	National Treasury	20%	50%	**50.0%**
b	Central Bank of El Salvador	20%	30%	**30.0%**
c	Issues by or guaranteed by state enterprise or by autonomous official entities besides Banco Multisectorial de Inversiones (BMI) & the Social Fund for Housing (FSV)	5%	20%	**15.0%**
d	Issues by or guaranteed by BMI excluding 'Certificados de Inversion Previsionales' which BMI may sponsor in trust	20%	30%	**30.0%**
e	Negotiable bonds by Salvadorean enterprises w/maturities greater than 1 year	30%	40%	**30.0%**
f	Shares & bonds convertible to shares, from Salvadoran companies	0%	20%	**5.0%**
g	Certificate of Ownership in Salvadorean Investment Funds	0%	20%	**0.0%**
h	Certificates of Deposit & securities issued or guaranteed by Salvadoran banks	30%	40%	**40.0%**
i	Mortgage-backed securities or in collateral on mortgage loans for housing, including issues by the Social Fund for Housing (FSV)	30%	40%	**40.0%**
i	- of which, in FSFV issues	0%	20%	**10.0%**
j	Insured real estate bonds	15%	20%	**20.0%**
k	Publicly-offered securities from Salvadoran enterprises & trusts	0%	20%	**20.0%**
l	Other publicy-offered instruments	0%	30%	**20.0%**
m	Certificados de Inversion Previsionales *	0%	45%	**35.0%**
n	Asset-backed securities for real estate, infrastructure, & development projects such as highways, ports & other works	0%	10%	**0.0%**
n	- if guaranteed by a multilateral agency, a government, or a world-class insurer	10%	30%	**0.0%**

* to increase by annual increments to 45% by 2022

El Salvador - Table A continued: AFP Investment Limits

Limits expressed as a percent of fund assets

	Aggregate Limits:	Range Minimum	Range Maximum	Authorized Maximum Limit (May 2012)
A	In companies with leverage ratios 5x net worth	0%	10%	5%
B	In Investment funds with more than 50% of their assets in new companies	0%	5%	0%
C	In securities from companies or funds with less than three years of operations	0%	10%	5%
D	In securities from companies or funds covered under A, B, C in the aggregate	5%	15%	5%

El Salvador - Table B: AFP Investment Standards & Restrictions

Category & Standard
Risk rating - Investments & issuers must meet the risk standards established by the Comision de Riesgo
Registration - Must be registered with a national stock exchange
Investment - Activities must conform with the terms set out in the Ley del Mercado de Valores

Prohibited Investments - Shares of:
AFPs
Insurance Cos.
Investment Fund Management Companies
Risk Rating Companies
Stock Exchanges
securities brokerage firms
custodians and securities depositories
Issues by parties related to the AFP's ownership, when that ownership is 3% or more of AFP's shares

Other Limits (percentage of Fund assets except as noted)	Range Minimum	Range Maximum	Authorized Maximum Limit (May 2012)
Limits by Issuer or Related Parties	5%	10%	7.5%
Limits by Issuer or its Related Parties, as a percent of the Issuer's or related parties' assets	5%	10%	10%
Limits by Issue, as percent of issue value	20%	50%	35%
Individual Investment Fund	5%	10%	5%
Limit by Issuer, issued shares of an individual company	5%	15%	5%

Republic of Panama – Pension Funds' Investment Context and Regulations

The basis for the private pension funds system in Panama was established first by Law #10 (April 1993), which introduced the concept of voluntary individual retirement accounts whose assets were to be administered by specialized management companies (called 'Administradoras de Pensiones y Jubilaciones', or AFPJs), or by other regulated financial institutions. The law also created the National Commission of the Retirement Fund and Pensions, a policy-setting body.

It should be noted that other financial institutions such as insurance companies and investment fund management companies may offer savings services for retirement accounts to individuals and/or enterprises, and that businesses may sponsor defined benefits plans ('Planes Contributivos') as well .

The individual retirement account concept was reinforced with the introduction of Law #8 (July 1997) which created the Savings and Retirement Account System for Public Servants ('Sistema de Ahorro y Capitalizacion de Pensiones de los Servidores Publicos', or SIACAP).

Under this law, workers for the public sector (excluding the Public Defense Force, Teachers, and certain Firemen, which have their own retirement systems) were obligated to establish and contribute to individual retirement accounts. Management of SIACAP's assets in turn are put out to public bid every few years, with separate bids accepted for its asset management business and for the accounts administration business. Besides AFPJs, investment management companies recognized by the national securities regulatory authority may bid for this business.

Most recently, Law #67 (Sept. 2011) introduced changes in aspects of the pension fund management business, insofar as it created a Superintendencia de Mercado de Valores (SVM), which among its responsibilities for supervising Panama's securities markets includes oversight of the pension fund management industry.

This law also established the investment regulations for the AFPJs' 'fondos basicos' (principal fund for retirement accounts), and authorized the creation of 'multifondos' whereby the Administradora may offer investment funds with targets such as capital preservation, aggressive growth, etc. to the voluntary retirement account holders.

The AFPJ and Individual Account System – Key Institutions and Regulations

Panama currently has two AFPJ's – the leader, AFP Progreso, and AFP Profuturo, which have market-share of voluntary account assets under management at the end of 2011 of about 42% and 58 %, respectively, and combined assets under management of about US$ 230 million equivalent . Both of these Administradoras are affiliates of Panamanian banks. So far, only AFP ProFuturo has offered multifondos in addition to a fondo basico.

SIACAP, mentioned previously, had assets of about US$ 620 million at the end of 2011. It places these assets out to money managers for investment, using competitive bidding processes to select new managers. Its funds must be managed according to the regulations set out in Law #67 for the AFPJs' fondos basico. For 2012-17, the investment managers are AFP Progreso (with about half), Administradora de Caja Seguro Social (with a quarter), and Consorcio Aliado (with a quarter).

SIACAP also outsources retirement account administration; for 2012-17, AFP Profuturo has the account.

Regulations governing Portfolio Management

Law #67 sets out the types of assets eligible for the AFPJ Fondo Basico and SIACAP portfolio, as well as the maximum exposure limits to these, and the allowable credit/risk ratings and their sources.

Table A shows the maximum limits allowed by types of financial instruments, as a percentage of fund assets. It may be worth pointing out that there is a fairly large allowance for foreign assets – a combined 30% in allowable credit instruments, and up to 15% in foreign equities, for a combined foreign exposure of 45%.

Table B outlines the investment limits/exposures allowed to single instruments or to single issuers and related entities.

PANAMA - Table A: AFPJ Fondo Basico Investment Limits, by Instrument Types

based on Law 67 (9-2011)

No.	Instrument Type	Limit as a % of Fund Assets
1	Republic of Panama issues or wholly guaranteed thereby	80%
2	Bank credit instruments	60%
3	Credit instruments issued by companies, excluding banks, authorized by the SMV	50%
4	Capital instruments (common & preferred shares, mutual fund shares) authorized by the SMV & traded at the Bolsa	40%
5	Credit instruments issued by or wholly guaranteed by foreign states, which must have a credit rating at least equal to the Rep. of Panama's	15%
6	Credit instruments issued by or wholly guaranteed by multilateral financial institutions, which must have a credit rating at least equal to the Rep. of Panama's	15%
7	Credit or equity issues by foreign entitites authorized by foreign regulators recognized by the SMV & which are traded at stock exchanges, or bank deposits in banks in jurisdictions recognized by the SMV	15%
8	Other types of instruments as the SMV may approve	10%
5, 6, 7	Aggregate exposure requirement, minimum and maximum for the instrument types	between 25% & 45%
Related Instrument requirements - Credit ratings		
2, 3, 4	Not less than BBB-, Baa3, or the equivalent as assigned by a credit rating agency authorized by the SMV	
5, 6, 7	Not less than BBB-, Baa3, or the equivalent as assigned by an internationally recognized credit rating agency	

PANAMA - Table B: AFPJ Fondo Basico Investment Limits, by Issue & Issuers

based on Law 67 (9-2011)

Limits Category	
By a single issuer, maximum for all instruments as a percent of fund assets *	15%
For any single issue, maximum of the amount issued	20%
For any single financial institution, maximum for its long-term instruments as a percent of fund assets	10%
For any single financial institution, maximum for its all its instruments, including fund deposits, as a percent of fund assets	15%
For any single financial institution, maximum for its all its instruments, including fund deposits, as a percent of the financial institution's assets	5%
Investment in Parties related to the ownership of an AFJP, as defined in the Law of the Capital Market & its regulations, as a percent of fund assets	30%
AFPJ may use leverage/debt financing to increase portfolio returns, in amounts up to a maximum as a percentage of fund assets	30%

* This rule does not apply to issues by the Republic of Panama

Uruguay – Pension Funds' Investment Context and Regulations

The basis for Uruguay's current 2-pillar pension funds' system was established under Law 16713 (Sept. 3, 1995), which created the Fondo de Ahorro Previsional (Retirement Savings Fund) and the concept of individual capitalization accounts managed by specialized management companies (Administradores de Fondos Ahorro Previsional - AFAPs), as a complement to the basic social security benefits provided under the first pillar.

Inclusion in the second pillar is mandatory for those earning above a certain legally-fixed minimum amount. People with lower incomes may opt for inclusion within the individual accounts regime.

There are separate pension systems that cover bank employees, notaries, professionals, the armed forces, and the police.

The AFAP System – Key Institutions and Regulations

At the end of 2011 there were 4 AFAPs in operation, three owned completely by the private sector and one (AFAP Republica, the largest) majority-owned by the state. Each AFAP administers one Pension Savings Fund (Fondo de Ahorro Previsonal). At the end of 2011, they had combined assets under management of about US$ 8.1 billion.

The AFAPs and their approximate 2011 market shares of assets under management were:

Republica	57%
Afinidad	17%
Union Capital	16%
Integracion	9%

The investment practices of the AFAPs are regulated by national law and by circulars issued by the Superintendencia de Servicios Financieros (SSF), a section of the Banco Central de Uruguay (BCU) responsible for supervising the country's domestic capital markets, the domestic and foreign financial institutions operating within the country, and the financial service providers such as risk-rating agencies.

The present legal regime governing the investment of AFAP-managed assets was established under Law 18673 (July 23, 2010), which principally lowered the maximum amount of AFAP-managed assets which could be invested in the national Treasury securities of Uruguay and/or in issues of the BCU, from 100% to a maximum of 75% via sliding scale over 10 years.

BCU Circular #2100 (issued Dec. 30, 2011), which clarified what information AFAPs must present to the SSF about potential investments they might wish to make in securities issues by international credit organizations, is an example of how the SSF is responsible for providing details concerning AFAPs' investment operational responsibilities.

It should also be noted that the BCU/SSF is responsible for accrediting the risk-rating agencies which AFAPs must look to for eligible investments.

Uruguay - Table A: AFAP Investment Limits as a percentage of AFAP Fund assets

Type of Instrument	Limit - Maximum
Securities of the Republic & Central Bank	85% 1)
Securities of public and private Uruguyan enterprises, including those of Uruguayan fiduciaries & investment funds	50% 2)
- of which, by an issuer which has a credit rating equal to or better than AA	5% 3)
- of which, by an issuer which has a credit rating equal to or better than BBB- or less than or equal to an A	3% 3)
Banks' certificates of deposits	30%
Fixed income instruments issued by international credit organizations or foreign governments of the highest credit rating	15%
Hedges issued by Uruguayan institutions	10%
Loans to Fund affiliates and to beneficiaries of the social security system guaranteed by public or private institutions	15%
Foreign Currencies Exposures - all instuments denominated in currencies other than Uruguayan Pesos	35%

as governed by Ley 18673 (July 2010) & BCU Circular 2100 (Dec. 2011) , amending Ley 16713 (Sept. 1995)

Notes:

1) In effect to end-2011; limit decreases by 2.5 percentage points a year thereafter until a limit of 75% is reached.

2) The issues must be rated BBB or better by a Rating Service registered with the Central Bank; they must be publicly offered, and they must be quoted in a formal market, and be subject to supervison by the Superintendencia de Servicios Financieros .

3) Issues by Investment Funds and Trusts are excluded from this limitation

Uruguay - Table B: AFAP Investment Limits, by Exposure to Issuer

Type of Instrument/Issuer	Limit - Maximum
Shares of a listed company	10% of company's equity
Shares or securities of a trust or of funds administered by the same fiduciary or fiduciaries belonging to the same private business group	10% of AFAP's assets

as governed by Ley 18673 (July 2010) & BCU Circular 2100 (Dec. 2011) , amending Ley 16713 (Sept. 1995)

Uruguay - Table C: AFAP Investments - Prohibited Exposures

Type of Instrument/Issuer
Securities issued by Companies related to the respective AFAP
Securities issued by other AFAPs
Securities issued by Foreign Entities, except those financial institutions which have been authorized to operate in Uruguay and the approved international credit agencies
Securities issued by Insurance Companies
Securities issued by Investment Companies
Cannot enter into transactions which pledge Fund assets as collateral or guarantees, except as may be allowed under hedging operations

as governed by Ley 18673 (July 2010) & BCU Circular 2100 (Dec. 2011) , amending Ley 16713 (Sept. 1995)

GUIDE TO LATIN AMERICA PENSIONS INVESTMENT CONTEXT AND REGULATIONS – THE MINOR MARKETS

A source to the region's Pensions Investment Practices and Regulators

This Guide complements the work done by Campollo Consulting LLC and Wall's Street Advisors Services LLC on Pensions Funds across 11 countries in Latin America, their asset allocation, returns and authorized investment products

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 1-800-871-9012 ext 281782 or info@campolloconsulting.com

About Wall's Street Advisor Services, LLC – WSAS specializes in innovations in financial information services for investors and researchers interested in emerging markets and socially responsible investing. Founder and CEO Peter Wall has over 30 years' experience in developing and marketing financial information services. You can find out more about WSAS at www.wallsstreetadvisorservices.com