

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

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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

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

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

Contents

Executive Summary for 2012/2013	3
Brazil - Introduction to Its Private Pension Funds system and key events in 2012.....	Error!
Bookmark not defined.	
Pension Funds' Investment Context and Regulations	Error! Bookmark not defined.
The Pension System – Key Institutions and Regulations	Error! Bookmark not defined.
The Supervisory Body.....	Error! Bookmark not defined.
Modifications to the Investment Regulations in 2012	Error! Bookmark not defined.
Chile - Introduction to Its Private Pension Funds system and key events in 2012	Error!
Bookmark not defined.	
Pension Funds' Investment Context and Regulations	Error! Bookmark not defined.
The AFP System – Key Institutions and Regulations	Error! Bookmark not defined.
Modifications to the Investment Regulations in 2012	Error! Bookmark not defined.
Colombia - Introduction to Its Private Pension Funds system and key events in 2012	Error!
Bookmark not defined.	
Pension Funds' Investment Context and Regulations	Error! Bookmark not defined.
Mexico-Introduction to Its Private Pension Funds system and key events in 2012	Error!
Bookmark not defined.	
Pension Funds' Investment Context and Regulations	Error! Bookmark not defined.
The AFP System – Key Institutions and Regulations	Error! Bookmark not defined.
Modifications to the Investment Regulations in 2012	Error! Bookmark not defined.
Peru-Introduction to Its Private Pension Funds system and key events in 2012.....	7
Pension Funds' Investment Context and Regulations	7
The AFP System – Key Institutions and Regulations	7
Modifications to the Investment Regulations in 2012	8

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Executive Summary for 2012/2013

Latin America's private pension funds and the sovereign wealth funds which backstop national social security systems are increasingly being recognized as important sources of capital for the domestic and international capital markets, in addition to being important pillars of fiscal prudence and social cohesion. By the end of 2013, for instance, the authors estimate that the 400+ pension funds they identified in 11 Latin American economies will have aggregate assets close to \$880 billion.

These funds' importance will continue to grow, as they accumulate assets at double-digit growth rates through current participants' ongoing contributions, through appreciation in the value of the investments, and perhaps most importantly, through the surge of contributions from young people entering an increasingly urbanized and formal workforce, which the World Bank currently forecasts to peak only in mid-century.

While the authors have looked across 11 Latin American countries which sponsor private, capital – accumulating pension funds, this report focuses on the investment regulations of the five major systems, by assets. These five systems, in order of asset size - Brazil, Chile, Mexico, Colombia, and Peru – represent over 95% of the assets in the region's funds.

Given the predominant size of the assets involved, it is only natural to present a focus on the investment contexts and regulations of the major markets, both for their practical implications to asset allocation and business potential for money managers, as well as for the fact that their experiences make them important 'thought leaders' for national policymakers around the globe.

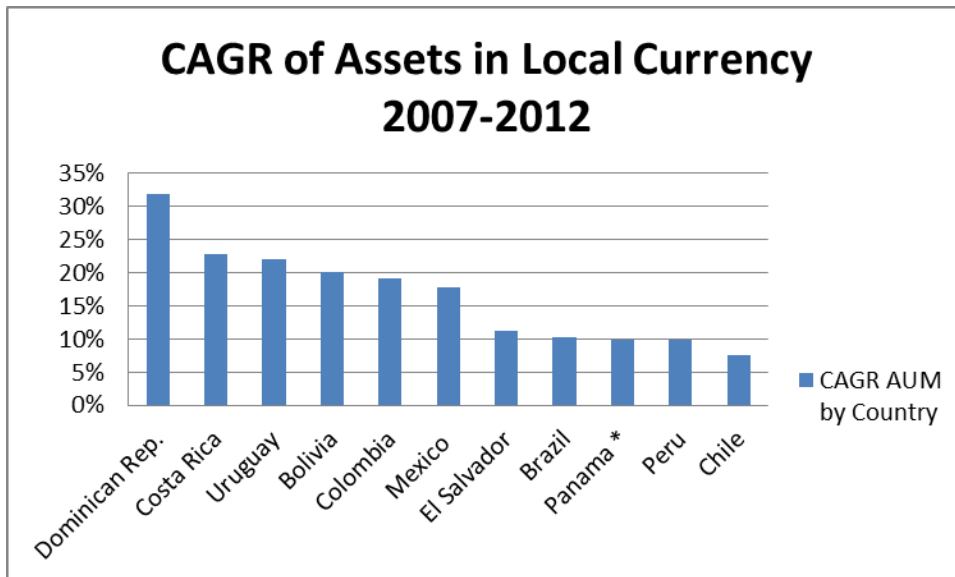
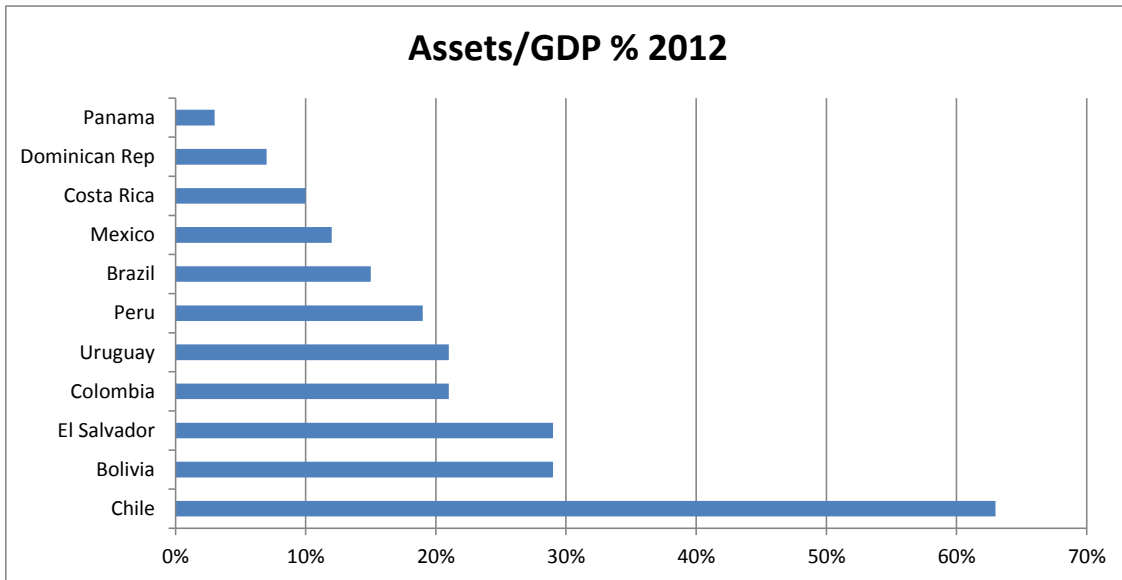
The investment context and regulations of the six smaller markets in the region – Uruguay, El Salvador, Bolivia, Costa Rica, & Panama, in order of assets' size – will be released in a separate report to follow shortly. While perhaps small in asset size, private pension funds represent considerable accumulations of capital for investment in their economies. The 'Pension Fund assets to Gross Domestic Product' ratios for Uruguay and El Salvador exceed those of all the five majors except for Chile, for example.

Regional Trends for 2012/2013

- Have scale - Pension Funds' assets at end-2012 were nearly \$810 bn.
- Steady high growth - demographics (generally young populations) & national policies (promoting retirement funding) underlay growth prospects – AUM to grow over the next 5 yrs at about 15% p.a.
- Opportunities for new financial products and services - surging contributions' growth, prudential need for asset diversification, and regulators' recognition of the virtues of diversification, in both domestic & foreign assets, are opening opportunities.
- There has also been an upsurge of merger and acquisition activity among pension fund asset management companies in the region, outside of Brazil, affecting nearly 61% of assets under management outside of Brazil.
- Pension Funds need more investment 'space' - Pensions' investments in local stocks are approaching their 'single issuer exposure limits' – they are out-growing their home markets.

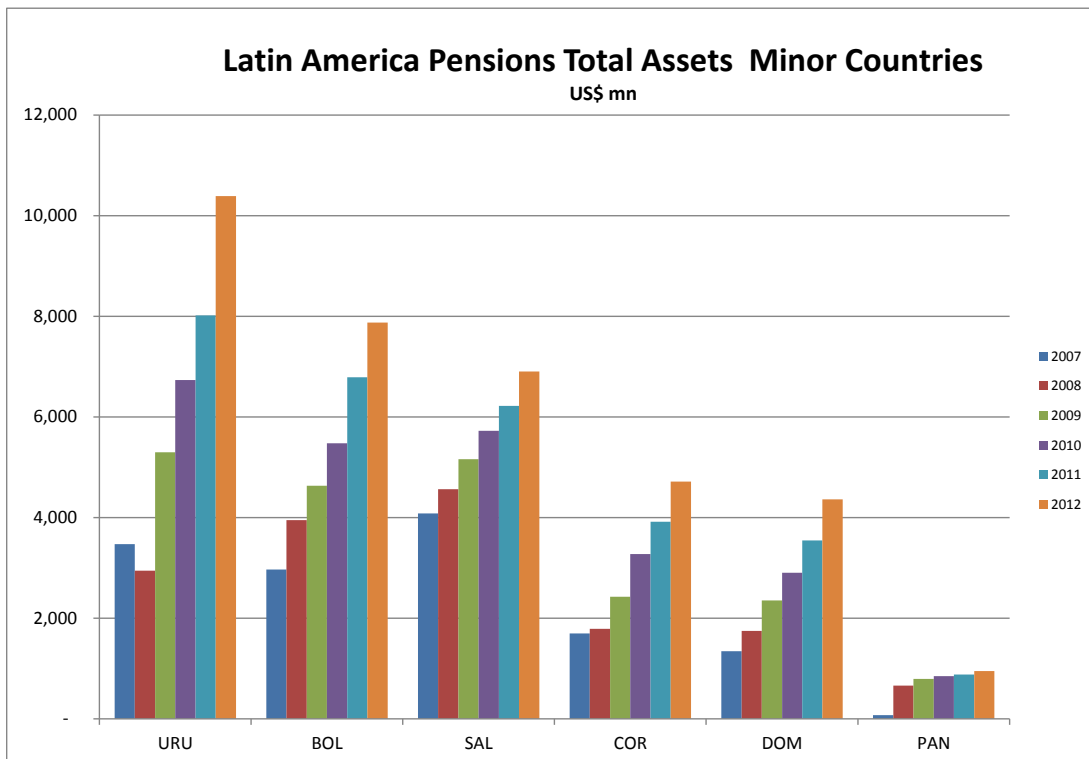
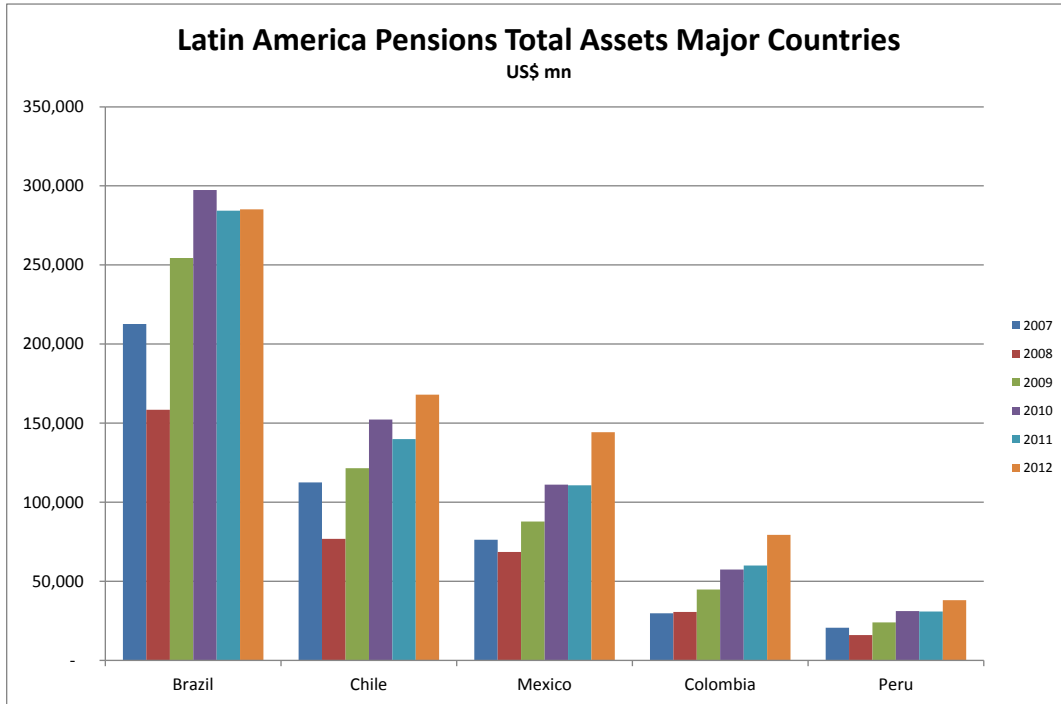
All countries in Latin America with the exception of Chile, have Pensions Assets/GDP ratios below OECD average of 33% which means that there is plenty of room to grow in their development. Even though these countries are small, they are growing faster than developed countries. Latin America's pension funds posted positive CAGR in 2012: Colombia 19%; Mexico 18%, Brazil 10%, Peru 10%, Chile 8%.

**Relatively Low Assets-to-GDP levels suggest great potential to grow
Double-digit compound annual growth rates projected to continue**



Pension Funds' Assets by Country, 2007-2012

5 Major and 6 Minor Markets



Mergers and Acquisitions

There was a great deal of merger and acquisition activity among the region's pension fund asset management companies over the period 2011-mid-2013. Using the pension funds' assets under management of the acquirers and the acquired as of the end of 2012, there were 16 transactions involving

assets of just over \$286 billion, about 61% of the region's pension funds assets, excluding Brazil's. The table below provides details.

On a country and dollar-basis, Chile saw the most activity, with three deals involving US\$ 114 billion (almost 68% of the country's pension fund assets), followed by Colombia (3 deals, US\$ 71 billion in assets, involving 90% of the system's assets), Mexico (4 deals, US\$ 69 billion in assets, about 48% of system assets), Peru (2 deals, US\$ 26 billion, 68% of system assets), El Salvador (1 deal, US\$ 3 billion in assets, 47% in system assets),and Uruguay & Costa Rica (1 deal each, US\$ 1.8 and US\$ 0.8 billion, and 18% and 16% of system assets, respectively).

On a volume and cross-country basis, the activity of Colombian/"Multilatina" financial group Grupo SURA and its affiliates stand out, with deals involving over US\$ 100 billion in assets . MetLife, Principal Financial Group, and ScotiaBank were also active in cross-border acquisitions.

Mergers & Acquisitions in Latin American Pension Fund Management Companies, 2011-2013										
Total Assets under Management (AuM)*, US\$ mn (using Dec 2012 AuM)										
	Country	Deal Announced	Acquirers							Deal Notes
			AFORE XXI-Banorte	OPC BCR Pensiones	Principal Financial Group	Grupo SURA Affiliate	MetLife Affiliate	ScotiaBank Affiliate	Grupo Aval Affiliate	
Acquired Entity										
AFP Cuprum	Chile	201208			\$ 33,310					Principal Financial Group bought 100% of AFP Cuprum
AFP Capital	Chile	201208				\$ 34,940				SURA bought 100% of AFP Capital
AFP Provida	Chile	201212					\$ 46,090			MetLife acquired 100% of AFP Provida
AFP ING	Colombia	201110				\$ 28,801				SURA transferred AFP ING's business to its Colombian AFP Proteccion unit
AFP Colfondos	Colombia	201208						\$ 9,337		ScotiaBank bought a 51% stake in AFP Colfondos
AFP BBVA Horizonte	Colombia	201306							\$ 33,168	Grupo Aval will merge AFP BBVA Horizonte into its AFP Porvenir unit
OPC INS Pensiones	Costa Rica	201206		\$ 767						OPC BCR Pensiones bought 100% of OPC INS Pensiones & fused its operations into its own.
AFP Crecer	El Salvador	201102				\$ 3,240				Bought by SURA's Colombian AFP Proteccion
HSBC AFORE	Mexico	201108			\$ 9,884					Principal AFORE acquired 100%
XXI AFORE	Mexico	201108	\$ 18,491							Merger of AFORE Banorte & AFORE XXI businesses
ING AFORE	Mexico	201208				\$ 19,888				Sura acquired 100%; rebranded it SURA AFORE
BBVA Bancomer AFORE	Mexico	201211	\$ 20,515							AFORE XXI-Banorte acquired 100%
Integra AFP	Peru	201107				\$ 11,346				Sura acquired 80% in 7/2011 & balance in 12/2012
Horizonte AFP (to be dissolved 2013)	Peru	201304				\$ 4,487		\$ 10,180		ScotiaBank's AFP Profuturo to take over 50% business, & SURA's AFP Integra the other 50%
AFAP Afinidad	Uruguay	201206				\$ 1,881				SURA bought 100% of AFAP Afinidad & rebranded it AFAP SURA
Total	\$ 286,324		\$ 39,006	\$ 767	\$ 43,194	\$ 104,583	\$ 46,090	\$ 19,516	\$ 33,168	

* AUM are allocated pro-rata on basis of ownership levels as of end-Feb. 2013, & include AuM of "surviving" country affiliates. The exceptions are Sura's share of Peru AFP Horizonte's assets and AFORE XXI-Banorte's acquisition BBVA Bancomer AFORE's assets, which are shown without the assets of the acquiring entity, which are shown separately.

Peru-Introduction to Its Private Pension Funds system and key events in 2012

In 2012 the Conservative type of pension funds posted better returns than the Growth type of pension funds. This was the result of the latter types' greater exposures to foreign assets (which generally dropped in value), and the currency effect of a strengthening Sol, and of their relatively low exposure to the domestic stock market. The Lima Stock Exchange posted a performance of around 19% in 2012 in local currency terms, the Sol appreciated to the U.S. dollar in that same period, and the stock market posted a return of around 25% in USD terms.

In 2013 through August, the Peruvian Sol depreciated by 10% against the US dollar, as the US Federal Reserve sent signals of winding down the stimulus package and increasing interest rates. In April 2013 the Central Bank increased to 40% foreign assets limit permitted to Peruvian Pensions in an effort to promote diversification and currency stabilization.

Chile's AFP Habitat won an auction operated by the Peruvian regulator to manage all new participants in the Peruvian system for the next two years. AFP Habitat, which will create a new Peruvian AFP, won the auction on the basis of promising to provide service on the lowest annual commission to be charged to the affiliates.

On the M&A front, Colombia's Grupo Sura and Canada's Scotiabank bought AFP Horizonte from Spain's Banco Bilbao Vizcaya Argentaria (BBVA) in April. These owners, which already have Peruvian AFPs, will divide and integrate AFP Horizonte's affiliates & their investment accounts into their Peruvian AFPs during the course of 2013.

Pension Funds' Investment Context and Regulations

In Peru, the multi-funds began to operate in 2005. If no fund was chosen, new members were assigned to Fund 2, except for members over 60 years of age, who were assigned to Fund 1. There is no requirement for transferring contributions between funds. The pension companies can administer up to three types of obligatory savings funds, and they may also offer more funds for the management of voluntary saving. The funds have the following characteristics. Fund 1, also called the capital preservation fund, aims for stable growth with low volatility. It is obligatory for all members over the age of 60 and for those with a programmed retirement pension, unless the member expressly indicates his intension of joining Fund 2. The minimum age for acquiring the right to a retirement pension is 65. Fund 2, or the mixed fund, aims to provide a moderate performance with average volatility. Finally, Fund 3, or capital appreciation fund, aims to maximize growth and can be subject to high volatility. The investment limits were defined in accordance with the financial nature of the instruments (degree of exposure to fixed-income or equity), risk and liquidity factors.

Since participation in the pension system is mandatory for salaried & wage earners, if a new employee doesn't select a fund type, she/he is assigned to the AFP which won the auction for new entrants, and to a fund type according to the employee's age; up to age 60, to Fund 2; and older, to Fund 1.

The guaranteed minimum rate of return was replaced with a new system based on benchmarks set up by the AFPs for each type of fund. If a fund's rate of return falls below its benchmark, the AFP must make up the difference with its own resources.

The AFP System – Key Institutions and Regulations

The Superintendency of Banking, Insurance and Pension Fund Administrators (SBS), is the regulatory body for banks, insurance companies and AFPs. The Private Pension System (SPP), which was launched in December 1992 through Law 25897, operates through the Pension Fund Administrators (AFP), which are companies set up by private capital with the exclusive goal of administration of funds that individually, their affiliates contribute. The purpose of the SPP is to offer their affiliates a retirement pension. The legislation that is relevant to maximum limits of asset categories by the Pension Funds are: TUO de la ley Article 25-B and 25-D; Article 61-B and 62 to 72A; Maximum limits Titulo VI Articles 75 to 77K, additional information Articles 20-31; Investments Abroad Article 11-13-A.

Modifications to the Investment Regulations in 2012

In April 2013 the Central Bank increased to 40% foreign assets limit permitted to Peruvian Pensions in an effort to promote diversification and currency stabilization.

Peru - AFP Table A: Structural Investment Limits (in terms of AFP fund value) *

* Summarized from Regimen de Inversion's article 25 B and D

	Fondo Tipo 1	Fondo Tipo 2	Fondo Tipo 3
Instrument	Maximum	Maximum	Maximum
I. Financial Sector			
Issued by the Treasury, Central Bank MINVU, Bonos de Reconocimiento, & other national debt securities	100%	75%	70%
Aggregated Limits: Issued by the Treasury, Central Bank MINVU, Bonos de Reconocimiento, & other national debt securities	40%	40%	40%
Cash or Debt	40%	30%	30%
II. Non-Financial Sector			
Equities			
Equities (domestic) & other instruments that represent capital	10%	45%	80%
III. Mutual Funds, Investment Funds, Other			
SPE, Asset Backed, Securitized instruments	10%	10%	10%
Alternatives	3%	3%	3%
IV. Foreign Assets			
Foreign Investment Aggregated Limits: Foreign instruments + indirect investment abroad through mutual funds	40%	40%	40%
V. Derivatives Sector			
Derivatives - Instruments to hedge risk	10%	10%	20%

Source: Superintendencia Article No 4 Law 27988 published March 6, 2003 - Article 25B

Source: Superintendencia Private Pension System - Law 29497 published Jan 15, 2010

Peru - AFP Table B: Limits by Instrument & Groups of Instruments (in terms of AFP fund value) *

* SPP Law (Private Pension System) and Legislation Artículo 13, 25 B and D; 64

	Fondo Tipo 1	Fondo Tipo 2	Fondo Tipo 3
Instrument	Maximum	Maximum	Maximum
I. Financial Sector			
Issued by the Government, Central Bank, & other national securities and financial system	100%	75%	70%
Bonds of public & private enterprises	100%	75%	70%
Short-term securities (overnight)	40%	30%	30%
Securities with short term maturities	40%	30%	30%
II. Non-Financial Sector			
Equities			
Indexed Funds	75% of the maximum percentage limit corresponding to each asset category		
Equities and preferred stocks registered at the exchange	10%	45%	80%
III. Mutual Funds, Investment Funds, Other			
Mutual funds, REITS, Hedge Funds, Commodities, Private Equity and Venture Capital	10%	10%	10%
Alternative Investment Funds	3%	3%	3%
IV. Foreign Assets			
Foreign instruments + investment abroad guaranteed by financial institutions, foreign mutual funds, foreign debt, foreign derivatives to hedge risk	40%	40%	40%
V. Derivatives Sector			
Derivatives trading at the Mecanismo Centralizado de Negociacion and OTC	10%	10%	20%
Instruments to hedge financial risk	10%	10%	20%

Source: Superintendencia Article No 4 Law 27988 published March 6, 2003 - Article 25B

Source: Superintendencia Private Pension System - Law 29497 published Jan 15, 2010

Peru - Table C: Limits by Issuers (in terms of AFP fund value) *

* SPP Law (Private Pension System) and Legislation Artículo 13, 25 B and D; 62a,b,c, d; 63b; 64, 65 67

Instruments	Individual Funds		Combined Funds	
	% Fund	% Enterprise	% Enterprise	% Series
I. Financial Sector				
Time Deposits & Current accounts & other debt instruments issued or guaranteed by banks, financial institutions or their affiliates	10%xFR (T1)			n.a.
Time Deposits & Current accounts & other debt instruments issued or guaranteed by banks, financial institutions or their affiliates	7%xFR (T2)			
Time Deposits & Current accounts & other debt instruments issued or guaranteed by banks, financial institutions or their affiliates	5%xFR (T3)			
Time Deposits & Current accounts & other debt instruments issued or guaranteed by banks, financial institutions or their affiliates	10%	15% of issuer's assets		50%xFR
Issued by Government Central Bank, with AAA Rating		3%		4%
Shares + current accounts + time deposits + debt instruments issued or guaranteed by + derivatives	10%	n.a.		n.a.
Shares of banks or non-bank financial institutions	10%			n.a.
Short Term Securities				100%xFR
II. Non-Financial Sector				
A) Fixed Income				
Individual Companies	10% (T1)	15% of issuer's assets x FR		
Individual Companies	7% (T2)	15% of issuer's assets x FR		
Individual Companies	5% (T3)	15% of issuer's assets x FR		
B) Equities				
Shares in open companies	2% (T1)x FR	12% x FR		
Shares in open companies	6% (T2)x FR	12% x FR		
Shares in open companies	7.5% (T3)x FR	12% x FR		
C) Equities + Bonds + Bills				
Individual Company	10%	n.a.		n.a.
D) Business Groups				
Equities + Bonds + Bills	10%	n.a.		n.a.
III. Mutual Funds, Investment Funds, Other				
Investment Funds	5%	50%		n.a.
Mutual Funds of Alternatives	3%	5%		
IV. Foreign Assets				
Equities & negotiable certificates	10%	n.a.		n.a.
Indexed Fund		50%		
Mutual Funds, investment funds	3%	50% x FR		n.a.
Debt securities	10%	50% x FR		n.a.
Asset Backed Securities		50%		
SPE (projects)	10%	15% x FR		7.5% x FR
Equities not approved that are in the domestic market	10%	7%		n.a.
V. Derivatives Sector				
Domestic derivative instruments traded OTC	n.a.	n.a.		n.a.
Foreign derivative instruments traded OTC	n.a.	n.a.		n.a.

Notes:

FR = Weighted average Risk Factor, whose value depends on the risk classification of the instrument and the investment in it.

Source: Superintendencia Article No 4 Law 27988 published March 6, 2003 - Article 25B

Source: Superintendencia Private Pension System - Law 29497 published Jan 15, 2010

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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 Carmen@campolloconsulting.com

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