



# PENSION RESERVE FUND

Quarterly Executive Report as of December 2019

# EXECUTIVE SUMMARY

Fourth Quarter 2019

Market Value  
**US\$ 10.8 billion**

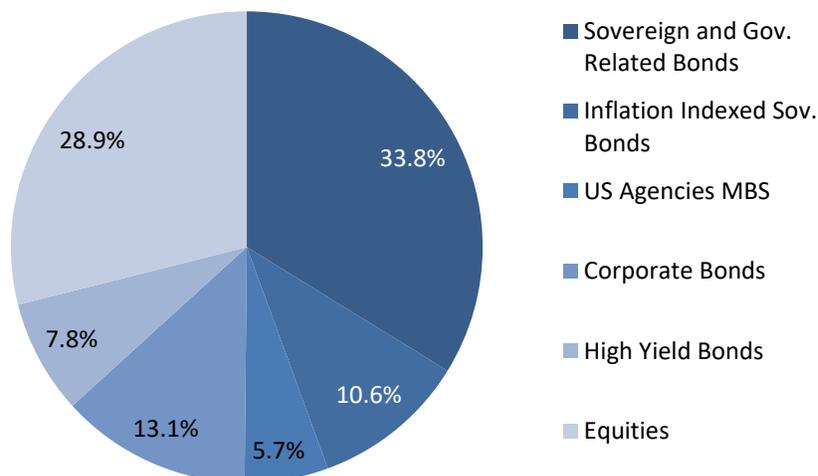
Net Income  
**US\$ 313.7 million**

## Return in dollars<sup>1</sup>



Source: Ministry of Finance, based on information provided by JPMorgan.

## Portfolio Composition



Source: Ministry of Finance, based on information provided by JPMorgan.

<sup>1</sup> Returns reported in this document correspond to the Time Weighted Rate of Return (TWR), unless otherwise stated. Returns for periods greater than one year are annualized. For periods of less than one year, the return corresponds to the change during the period. Net returns reported are net of management fees.

## I. Market Value of the Fund

**Table 1: Quarterly change in market value**  
(millions of dollars)

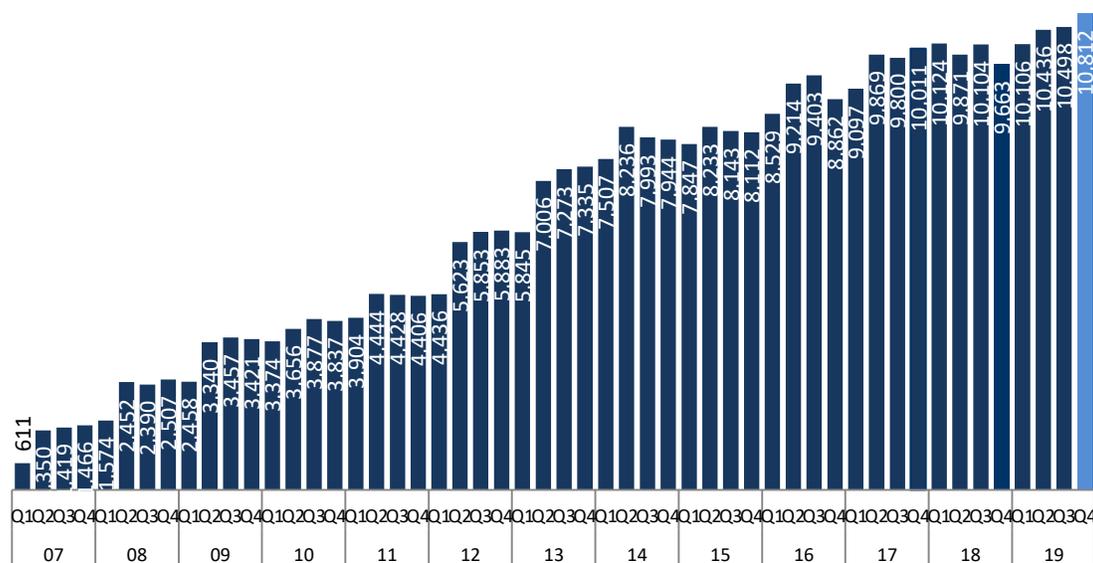
Changes in Market Value (US\$ million)	2019				Since Inception <sup>(a)</sup>
	Q1	Q2	Q3	Q4	
Starting Market Value	9,663.2	10,106.1	10,435.7	10,498.4	0.0
Contributions	0.0	563.9	0.0	0.0	9,477.1
Withdrawals	0.0	-576.5	0.0	0.0	-1,415.5
Accrued Interest	67.0	71.6	62.8	63.7	1,915.3
Capital Gains (Losses)	377.3	272.2	1.5	252.7	872.7
Admin., Custody and Other Costs <sup>(b)</sup>	-1.5	-1.7	-1.5	-2.8	-37.5
<b>Final Market Value</b>	<b>10,106.1</b>	<b>10,435.7</b>	<b>10,498.4</b>	<b>10,812.1</b>	<b>10,812.1</b>

(a) The PRF was established with an initial contribution of US\$ 604.5 million on December 28, 2006. Also, US\$ 0.09 million were contributed corresponding to the accrued interest experienced in 2006.

(b) It includes costs associated with consultants and others.

Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 1: PRF market value development**  
(millions of dollars)



Source: Ministry of Finance, based on information provided by JPMorgan.

Source: Ministry of Finance, based on information provided by JPMorgan.

## II. Returns

**Table 2: Performance by asset class<sup>2</sup>**  
(percent)

Returns <sup>(a)</sup>	Last 3 months	YTD <sup>(b)</sup>	Last 12 months	Last 3 years (annualized)	Since Inception (annualized) <sup>(c)</sup>
Sovereign and Government Related Bonds	-0.12%	5.95%	5.95%	4.27%	0.92%
Inflation Indexed Sov. Bonds	0.15%	8.12%	8.12%	4.03%	2.56%
US Agencies MBS	0.62%	6.16%	6.16%	-	6.16%
Corporate Bonds	1.83%	11.65%	11.65%	5.39%	3.60%
High Yield Bonds	3.53%	8.70%	8.70%	-	8.70%
Equities	9.03%	26.79%	26.79%	12.73%	10.50%
<b>Total Portfolio (USD)</b>	<b>3.00%</b>	<b>12.04%</b>	<b>12.04%</b>	<b>6.13%</b>	<b>3.88%</b>
Exchange rate (CLP)	2.61%	7.03%	7.03%	3.72%	2.56%
<b>Return in CLP<sup>(d)</sup></b>	<b>5.68%</b>	<b>19.92%</b>	<b>19.92%</b>	<b>10.08%</b>	<b>6.55%</b>

(a) Time Weighted Return (it is calculated as the growth rate of the funds that were invested throughout the period).

(b) YTD returns for US Agencies MBS and High Yield Bonds are calculated since January 22th.

(c) Since inception returns for Sovereign and Government Related Bonds, Inflation Indexed Sovereign Bonds, Corporate Bonds and Equities are calculated since December 31th 2011. Since inception returns for US Agencies MBS and High Yield bonds are calculated since January 22th, 2019. Total Portfolio returns in USD and returns in CLP are calculated since March 31, 2007.

(d) Returns in CLP corresponds to the sum of the percentage change of the exchange rate CLP/USD and the return in USD.

Source: Ministry of Finance, based on information provided by JPMorgan.

**Table 3: Excess returns**  
(basis points)

Asset Class	Last 3 months	YTD <sup>(a)</sup>	Last 12 months	Last 3 years (annualized)	Since Inception (annualized) <sup>(b) (c)</sup>
Sovereign and Government Related Bonds	-15	10	10	10	-10
Inflation Indexed Sov. Bonds	15	8	8	0	18
US Agencies MBS	-9	-23	-23	-	-23
Corporate Bonds	4	13	13	-8	-28
High Yield Bonds	3	-42	-42	-	-42
Equities	-6	-57	-57	-34	-43
<b>Total Portfolio</b>	<b>2</b>	<b>-6</b>	<b>-6</b>	<b>3</b>	<b>-23</b>

(a) YTD excess returns for US Agencies MBS and High Yield Bonds are calculated since January 22th.

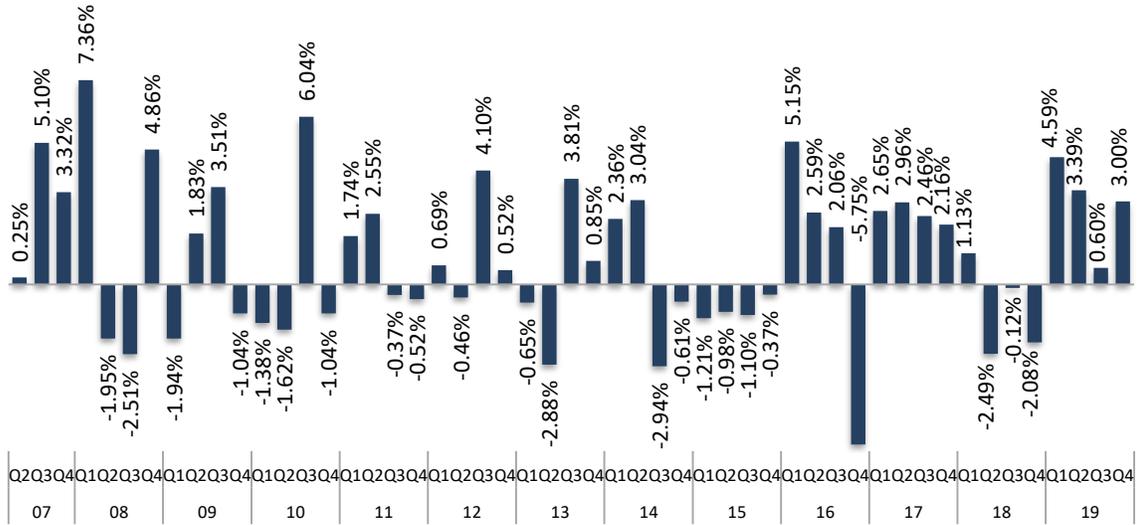
(b) Since inception excess returns are negatively affected by the new investment policy implementation during first quarter 2012.

(c) Since Inception excess return are calculated from December 31, 2011 for Sovereign and Gov. Related Bonds, Inflation Indexed Sov. Bonds, Corporate Bonds and Equities. Since Inception excess return is calculated from January 22, 2019 for US Agencies MBS and High Yield Bonds.

Source: Ministry of Finance, based on information provided by JPMorgan.

<sup>2</sup> Returns for periods of more than one year are compound annualized rates while those for less than a year correspond to the change as seen in the stated period. To meet high standards of transparency and provide a better assessment of the gains or losses on investments, the Ministry of Finance discloses the fund's return in different time horizons and currencies. With respect to the time horizon, it is important to note that, in keeping with the medium-and long term investment policy, the return assessment should focus on that period, disregarding fluctuations that may occur monthly or quarterly. With regard to returns expressed in different currencies, the return in US dollars allows for an assessment which is more in line with the investment policy given that the fund's resources are wholly invested abroad and in foreign currencies. The return in Chilean pesos is also disclosed. This return reflects changes in the peso-dollar exchange rate and, therefore, may experience greater fluctuations. Finally, as with any investment, returns obtained in the past do not guarantee future positive results.

**Figure 2: Quarterly returns in dollars (TWR)**  
(percent)



Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 3: Internal rate of return in dollars (IRR)**  
(percent)

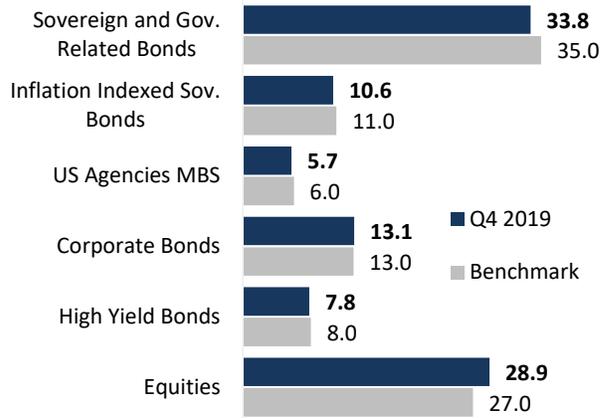


Source: Ministry of Finance, based on information provided by JPMorgan.

### III. Portfolio Allocation

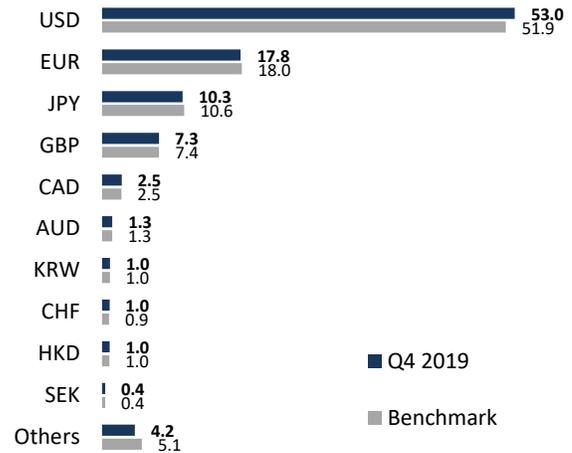
#### III.1. Total portfolio

**Figure 4: Investment by asset class**  
(percent of total)



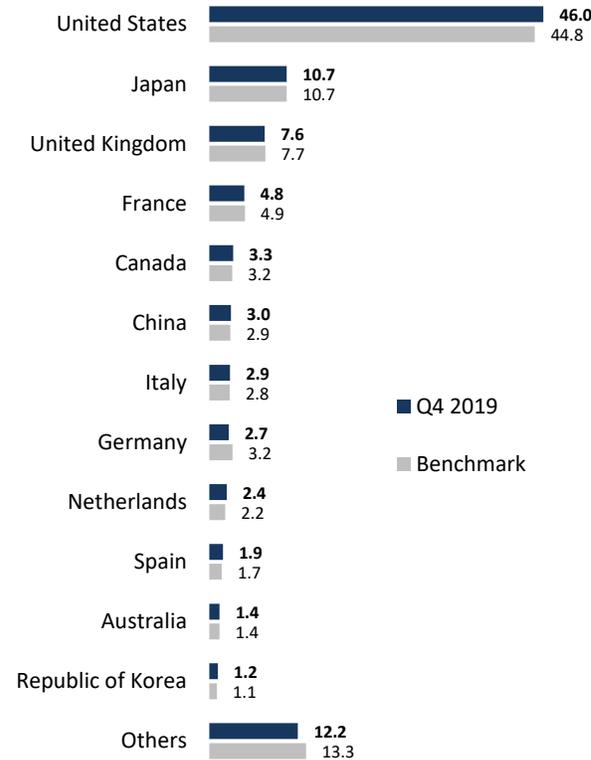
Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 5: Investment by currency**  
(percent of total)



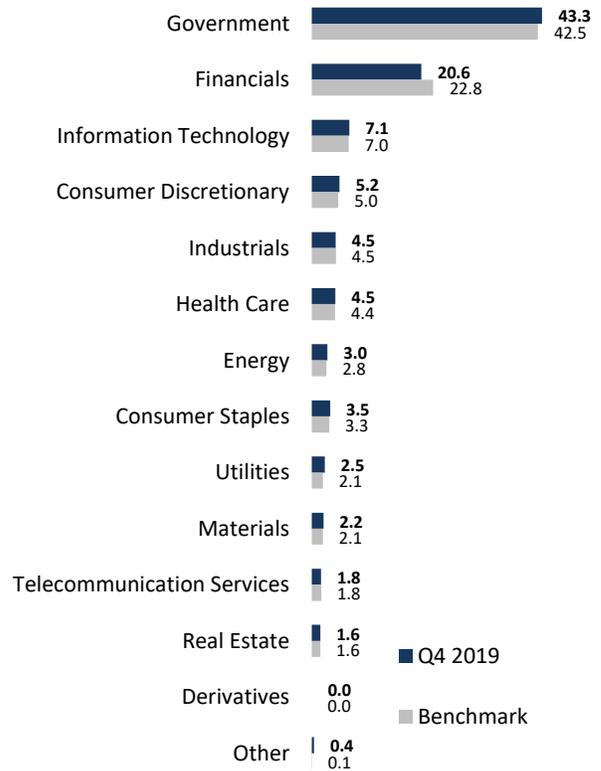
Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 6: Investments by country**  
(percent of total)



Source: Ministry of Finance, based on information provided by JPMorgan.

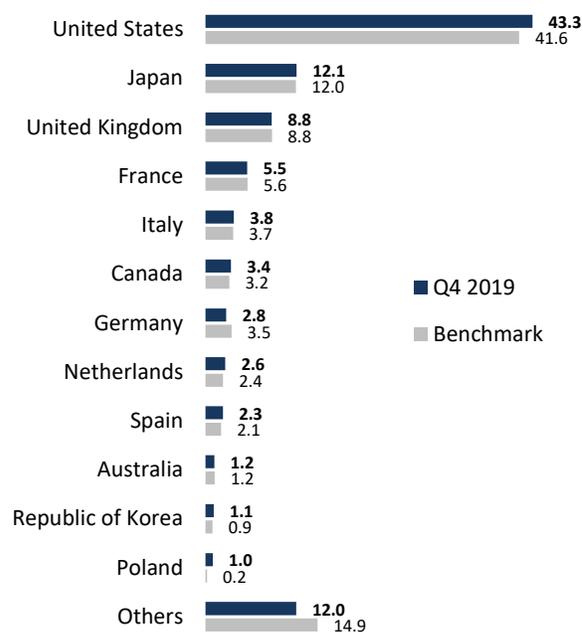
**Figure 7: Investment by economic sector**  
(percent of total)



Source: Ministry of Finance, based on information provided by JPMorgan.

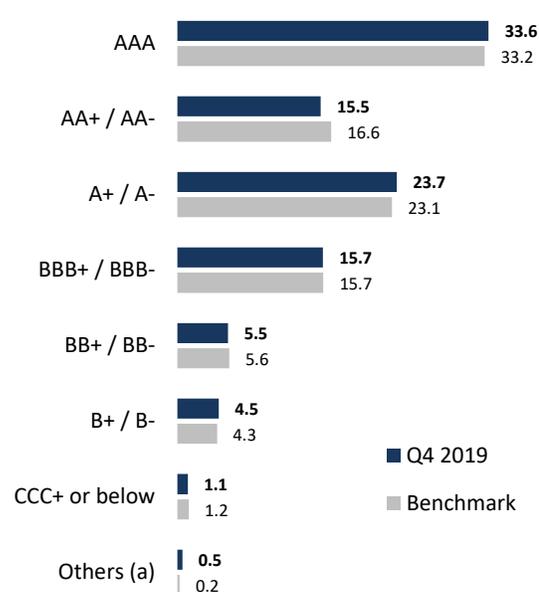
## III.2. Fixed-Income portfolio

**Figure 8: Allocation by country**  
(percent of fixed-income portfolio)



Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 9: Portfolio allocation by Credit Risk**  
(percent of fixed-income portfolio)



(a) Includes cash and cash equivalents.

Source: Ministry of Finance, based on information provided by JPMorgan.

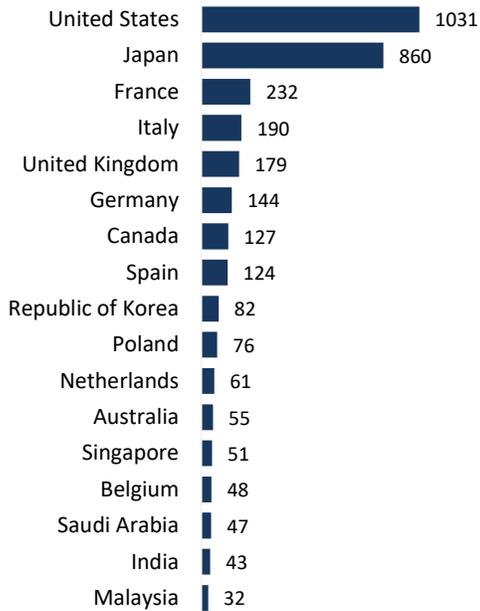
**Table 4: Portfolio by issuer credit rating**  
(percent of the fixed-income portfolio)

	Sovereign and Government Related Bonds	Inflation Indexed Sov. Bonds	US Agencies MBS	Corporate Bonds	High Yield Bonds	Total Fixed Income
AAA	18.2%	7.3%	8.1%	0.0%	0.0%	33.6%
AA+ / AA-	8.3%	5.9%	0.0%	1.2%	0.0%	15.5%
A+ / A-	15.6%	0.5%	0.0%	7.6%	0.0%	23.7%
BBB+ / BBB-	5.4%	1.2%	0.0%	9.1%	0.0%	15.7%
BB+ / BB-	0.0%	0.0%	0.0%	0.4%	5.1%	5.5%
B+ / B-	0.0%	0.0%	0.0%	0.0%	4.5%	4.5%
CCC+ or below	0.0%	0.0%	0.0%	0.0%	1.1%	1.1%
Others <sup>(1)</sup>	0.1%	0.0%	0.0%	0.1%	0.3%	0.5%
<b>Total</b>	<b>47.6%</b>	<b>14.9%</b>	<b>8.1%</b>	<b>18.4%</b>	<b>11.0%</b>	<b>100.0%</b>

(1) It includes cash, cash equivalents and unliquidated transactions. Also, in the case of High Yield Bonds, it includes bonds with rating over BB+.

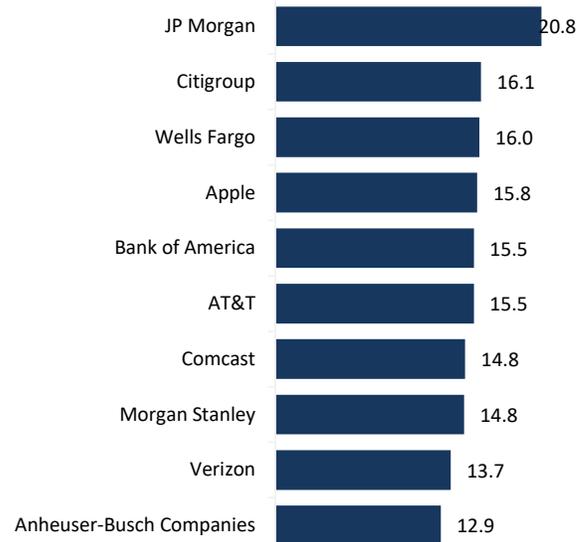
Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 10: Largest exposures to sovereign bonds and Gov. Related bonds**  
(millions of dollars)



Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 11: Largest exposures to corporate bonds**  
(millions of dollars)



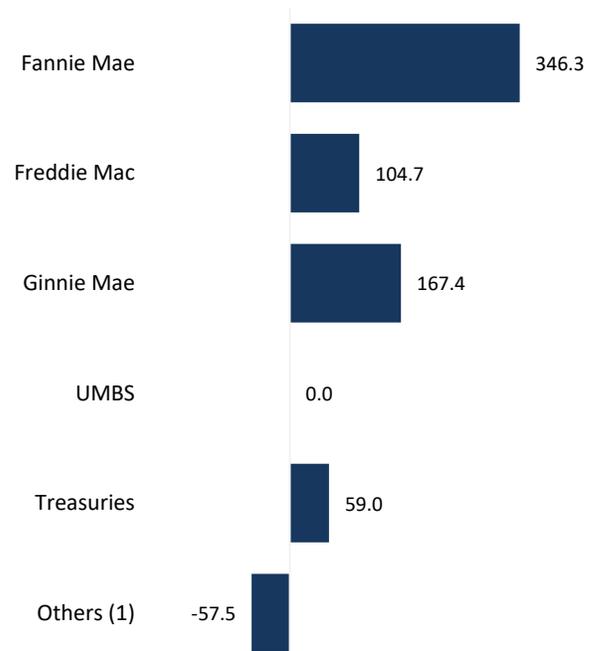
Fuente: Ministerio de Hacienda en base a información de JPMorgan.

**Figure 12: Largest exposures to high yield bonds**  
(millions of dollars)



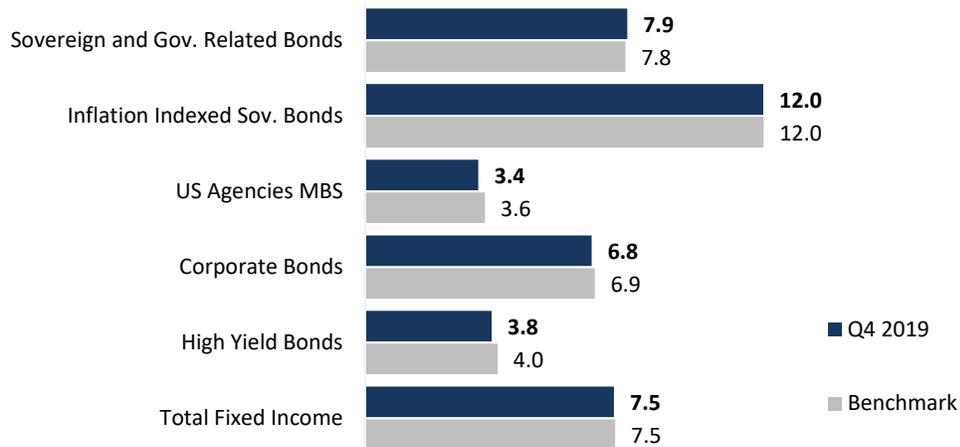
Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 13: Largest exposures to US Agencies MBS**  
(millions of dollars)



Source: Ministry of Finance, based on information provided by JPMorgan  
(1) Includes cash, cash equivalent and payables.

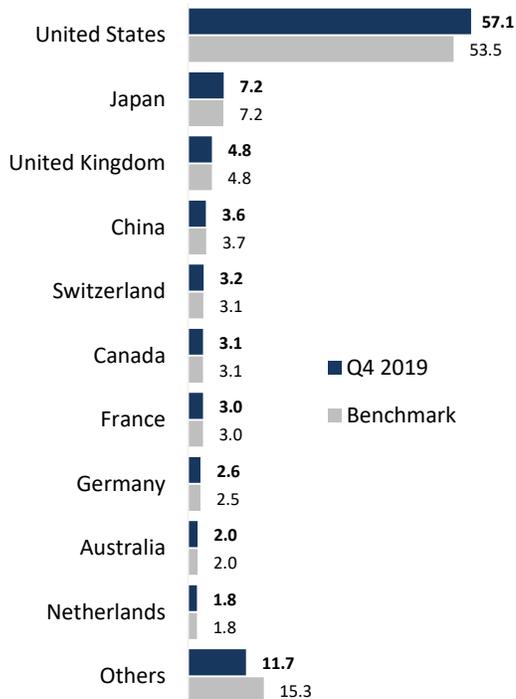
**Figure 14: Duration**  
(years)



Source: Ministry of Finance, based on information provided by JPMorgan.

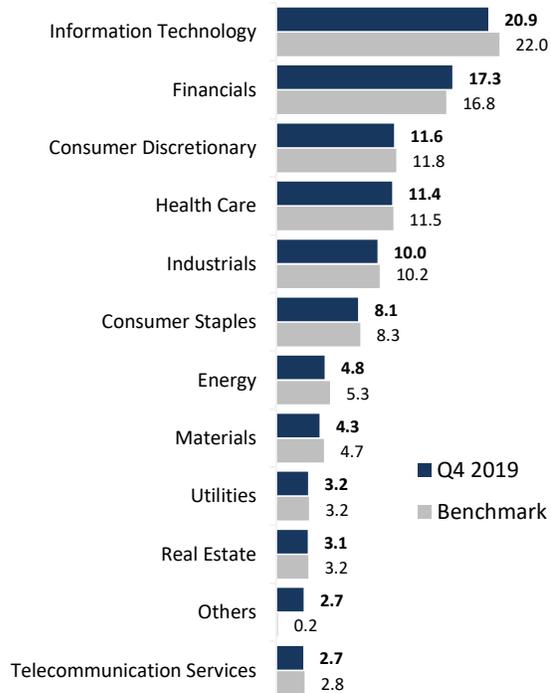
### III.3. Equities

**Figure 15: Allocation by country**  
(percent of equity portfolio)



Source: Ministry of Finance, based on information provided by JPMorgan.

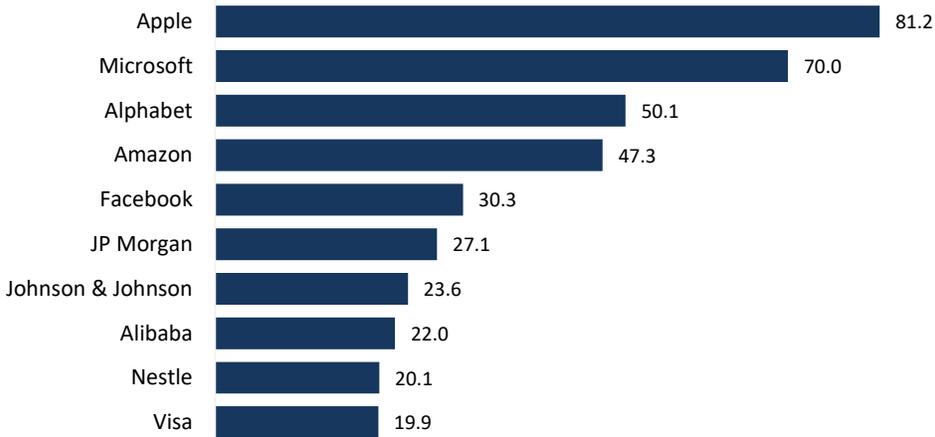
**Figure 16: Allocation by economic sector**  
(percent of equity portfolio)



Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 17: Largest equities investments**

(millions of dollars)



Fuente: Ministerio de Hacienda en base a información de JPMorgan.

## iv. Other indicators

An indicator commonly used for monitoring the market risk of the portfolio is the return volatility. In the quarter, the standard deviation of returns of the PRF was 4.07%<sup>3</sup>. The tracking error ex-post, an indicator used to measure the degree of how close the portfolio tracks the return of benchmark, was 15 basis points<sup>4</sup> at the quarter end.

**Table 5: Standard deviation and tracking error ex-post**

	Q4 2019
Standard Deviation	4.07%
Tracking error ex-post (basis points)	15

Source: Ministry of Finance, based on information provided by JPMorgan.

## v. Securities Lending Income and Administration Cost

The cost associated with the management of the fund by those responsible for the investment<sup>5</sup> was US\$1,678,669 during the quarter, while expenses associated with the custody service<sup>6</sup> were US\$1,132,167, and the cost associated to others, that includes the payment to external advisory services were US\$5,093. Meanwhile, the securities lending program generated revenues of US\$227,127 during the same period (see table 6).

**Table 6: Other flows in the quarter (in dollars)**

	Q4 2019
<b>Outflow</b>	
Administration	1,678,669
Custody	1,132,167
Others	5,093
<b>Total</b>	<b>2,815,930</b>
<b>Inflows</b>	
Securities Lending	227,127
Others	0
<b>Total</b>	<b>227,127</b>

Source: Ministry of Finance, based on information provided by JPMorgan and the Central Bank of Chile.

<sup>3</sup> Standard deviation of annualized monthly returns of the past three years.

<sup>4</sup> Standard deviation of annualized monthly excess returns of the portfolio against the benchmark in the past three years.

<sup>5</sup> The Central Bank of Chile is responsible for the investment of the sovereign fixed-income portfolio (46% of the fund) and for the US Agencies MBS portfolio (6% of the fund). In the case of the last, the administration is delegated to BNP Paribas and Western Asset Management. The investment of the equities portfolio (27%) is responsibility of Mellon Capital Management Corporation and BlackRock Institutional Trust Company, while the investment of the corporate bonds portfolio (13%) is responsibility of Allianz Global Investors GmbH and BlackRock Institutional Trust Company, and the investment of the High Yield portfolio (8%) is responsibility of Nomura Asset Management and BlackRock Institutional Trust Company. The entities responsible for investing portfolios of equities and corporate bond portfolios were selected in 2011, while the entities responsible for investing portfolios of US Agencies MBS and High Yield bonds were selected at the beginning of 2019.

<sup>6</sup> The custodian bank is J.P. Morgan.

## vi. Appendix

### *Benchmarks<sup>7</sup>*

A benchmark is defined for each asset class of the strategic asset allocation, and corresponds to a representative index of the corresponding market:

<b>Asset Class</b>	<b>Percent of total portfolio</b>	<b>Benchmarks</b>
Sovereign and Government Related Bonds <sup>(a)</sup>	35%	Bloomberg Barclays Global Aggregate: Treasury Bond Index (USD unhedged)
		Bloomberg Barclays Global Aggregate: Government-Related (USD unhedged)
Inflation Indexed Sov. Bonds	11%	Bloomberg Barclays Global Inflation-Linked Index (USD unhedged)
US Agencies MBS	6%	Bloomberg Barclays US Mortgage Backed Securities (MBS) Index (USD unhedged)
Corporate Bonds	13%	Bloomberg Barclays Global Aggregate: Corporates Index (USD unhedged)
High Yield Bonds	8%	Bloomberg Barclays Global High Yield Index (USD unhedged)
Equities	27%	MSCI All Country World Index <sup>8</sup> (USD unhedged with reinvested dividends)

(a) For this asset class, the subindexes are weighted by relative capitalization.

<sup>7</sup> This benchmark is used since June 26th, 2019.

<sup>8</sup> Exclude Chile