



# PENSION RESERVE FUND

Quarterly Executive Report as of September 2014

# EXECUTIVE SUMMARY

Third Quarter 2014

Market Value  
US\$ 8.0 billion

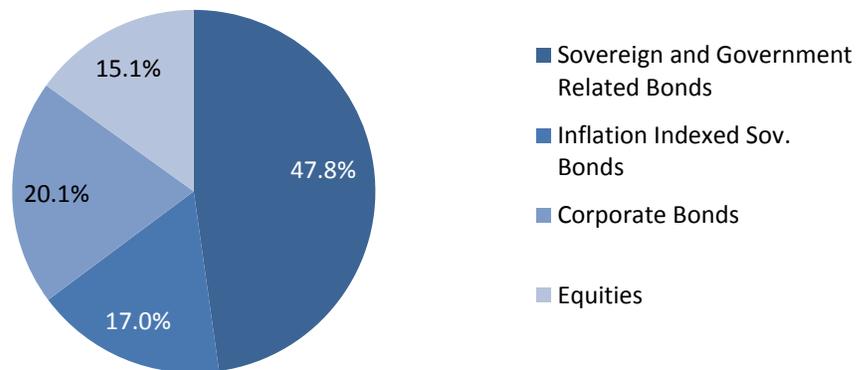
Net Income  
US\$ -242.8 million

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



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

## Portfolio Composition



<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)	2013		2014		Since Inception <sup>(a)</sup>
	Q4	Q1	Q2	Q3	
Starting Market Value	7,273.14	7,335.11	7,507.41	8,235.80	-
Contributions	0.00	0.00	498.93	0.00	6,940.34
Withdrawals	0.00	0.00	0.00	0.00	0.00
Accrued Interest	46.42	45.64	51.05	46.96	782.52
Capital Gains (Losses) <sup>(b)</sup>	16.14	128.39	179.22	-288.40	281.17
Admin., Custody and Other Costs <sup>(c)</sup>	-0.58	-1.73	-0.81	-1.30	-10.98
<b>Final Market Value</b>	<b>7,335.11</b>	<b>7,507.41</b>	<b>8,235.80</b>	<b>7,993.05</b>	<b>7,993.05</b>

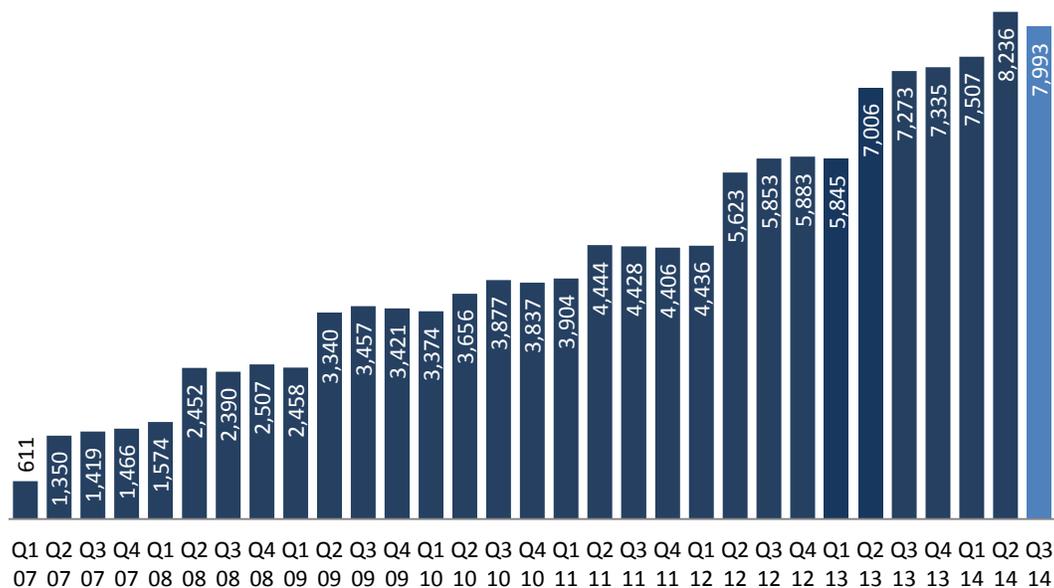
(a) The PRF was established with an initial contribution of US\$ 604.5 million on December 28, 2006.

(b) During September 2013 an accounting adjustment of US\$ 48,470.0 is applied, which was reversed by the same amount in October.

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

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

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



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	Last 12 months	Last 3 years (annualized) <sup>(b)</sup>	Since Inception (annualized) <sup>(b) (c)</sup>
Sovereign and Government Related Bonds	-3.58%	1.21%	0.04%		
Inflation Indexed Sov. Bonds	-2.67%	3.43%	3.49%		
Corporate Bonds	-2.18%	3.07%	4.27%		
Equities	-2.25%	3.91%	11.66%		
<b>Total Portfolio</b>	<b>-2.94%</b>	<b>2.37%</b>	<b>3.25%</b>	<b>2.56%</b>	<b>4.26%</b>
Exchange rate (CLP)	9.27%	14.87%	19.62%	5.31%	1.47%
<b>Return in CLP<sup>(d)</sup></b>	<b>6.33%</b>	<b>17.24%</b>	<b>22.87%</b>	<b>7.87%</b>	<b>5.73%</b>

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

(b) Returns by asset class are unavailable before January 17, 2012.

(c) It is calculated from March 31, 2007, when the performance of Central Bank of Chile started to be measured.

(d) Return 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 <sup>(a)</sup>	Last 3 months	YTD	Last 12 months	Last 3 years (annualized) <sup>(b)</sup>	Since Inception (annualized) <sup>(b) (c)</sup>
Sovereign portfolio	21	7	2		
Corporate Bonds	-5	-2	-13		
Equities	-4	-27	-27		
<b>Total Portfolio</b>	<b>11</b>	<b>-2</b>	<b>0</b>	<b>-65</b>	<b>-39</b>

(a) Excess returns without waiver.

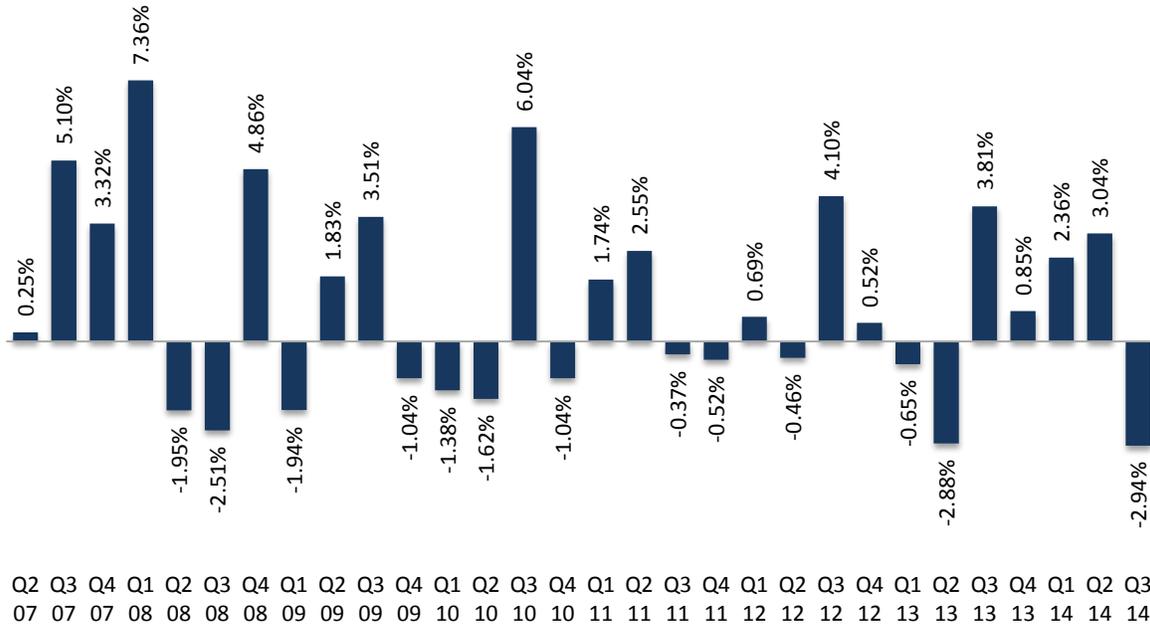
(b) Returns by asset class are unavailable before January 17, 2012.

(c) It is calculated from March 31, 2007, when the performance of Central Bank of Chile started to be measured.

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 (IRR)**  
(percent)

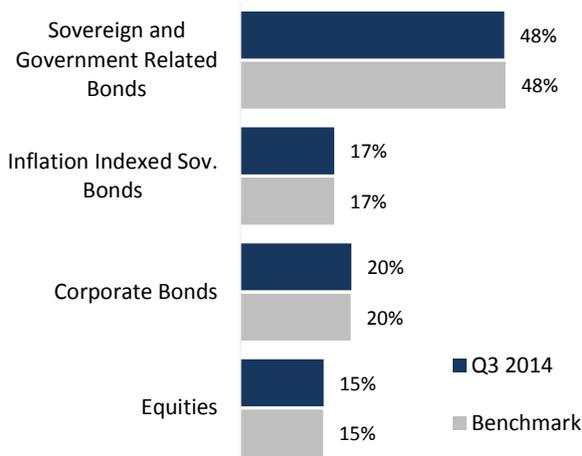


Source: Ministry of Finance, based on information provided by JPMorgan.

### III. Portfolio Allocation

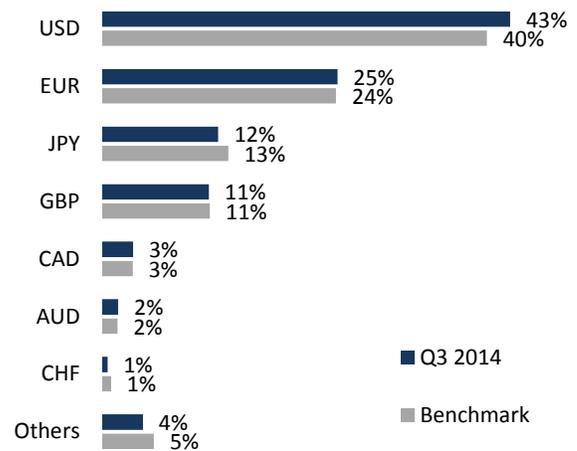
#### III.1. Total portfolio

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



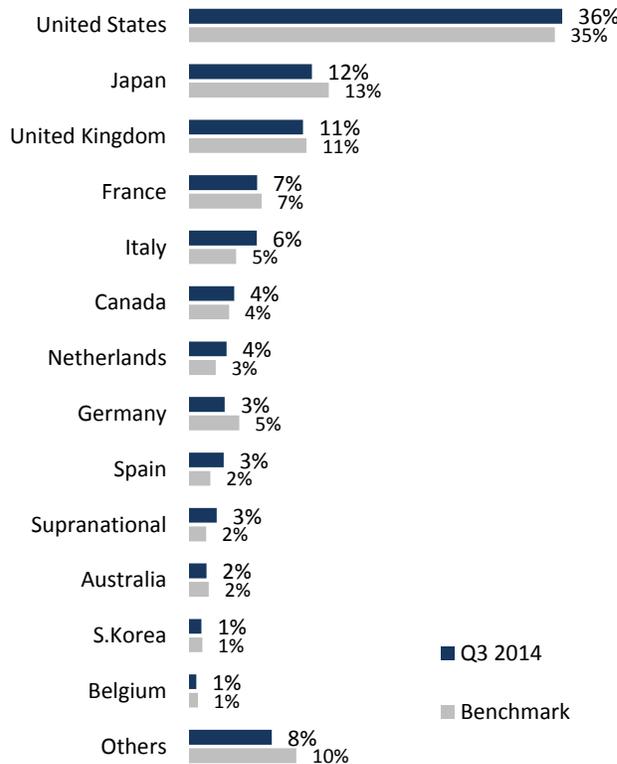
Source: Ministry of Finance, based on information provided by JPMorgan.

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



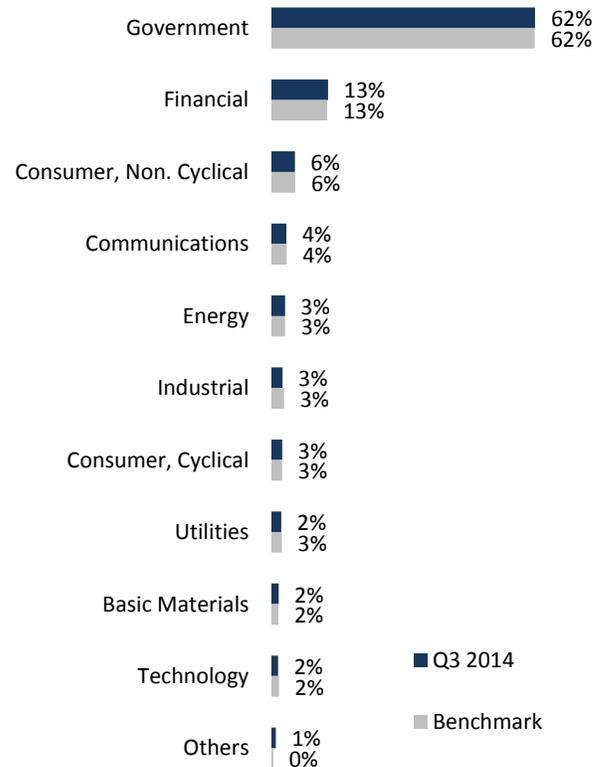
Source: Ministry of Finance, based on information provided by JPMorgan.

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



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

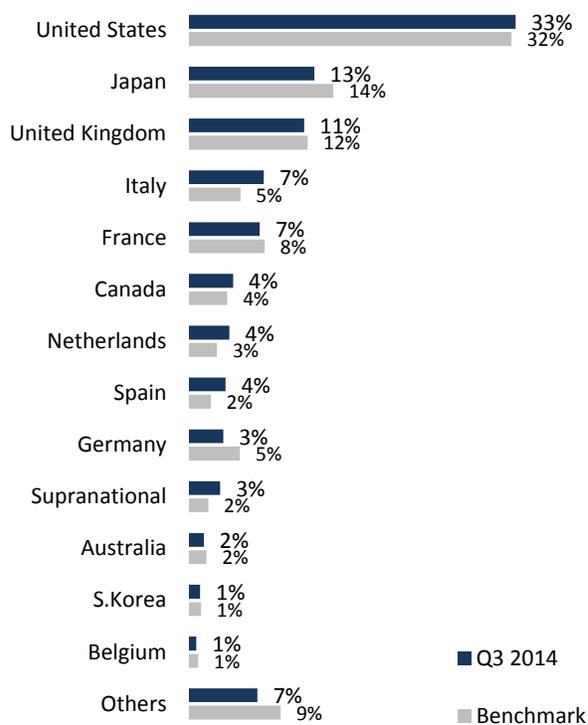
**Figure 7: Investment by economic sector**  
(percent of total)



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

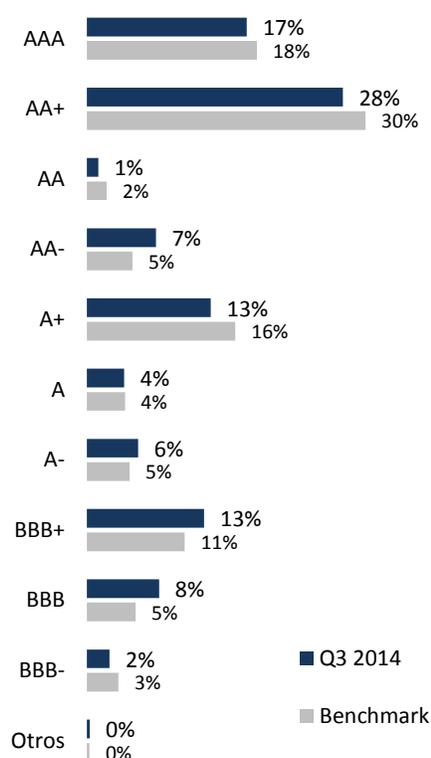
### III.2. Fixed- income portfolio

**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<sup>3</sup>**  
(percent of fixed-income portfolio)



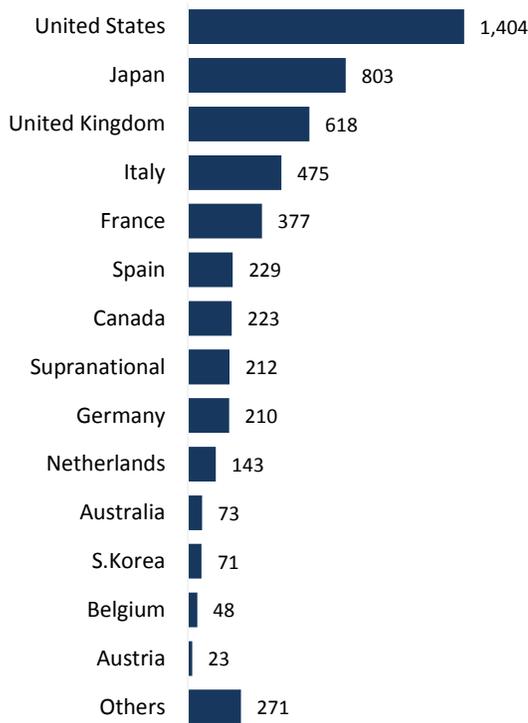
Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 4: Portfolio by issuer credit rating<sup>3</sup>**  
(percent of the fixed-income portfolio)

Rating	Sovereign and Government Related Bonds	Inflation Indexed Sov. Bonds	Corporate Bonds	Total Fixed Income
AAA	7.6%	9.6%	0.1%	17%
AA+	19.0%	8.5%	0.2%	28%
AA	0.7%	0.0%	0.5%	1%
AA-	6.0%	0.0%	1.5%	7%
A+	10.9%	0.3%	2.2%	13%
A	0.0%	0.0%	4.0%	4%
A-	1.2%	0.0%	4.3%	6%
BBB+	6.4%	1.5%	4.7%	13%
BBB	4.2%	0.1%	3.5%	8%
BBB-	0.0%	0.0%	2.6%	3%
Others	0.2%	0.0%	0.0%	0%
<b>Total</b>	<b>56.3%</b>	<b>20.1%</b>	<b>23.7%</b>	<b>100.0%</b>

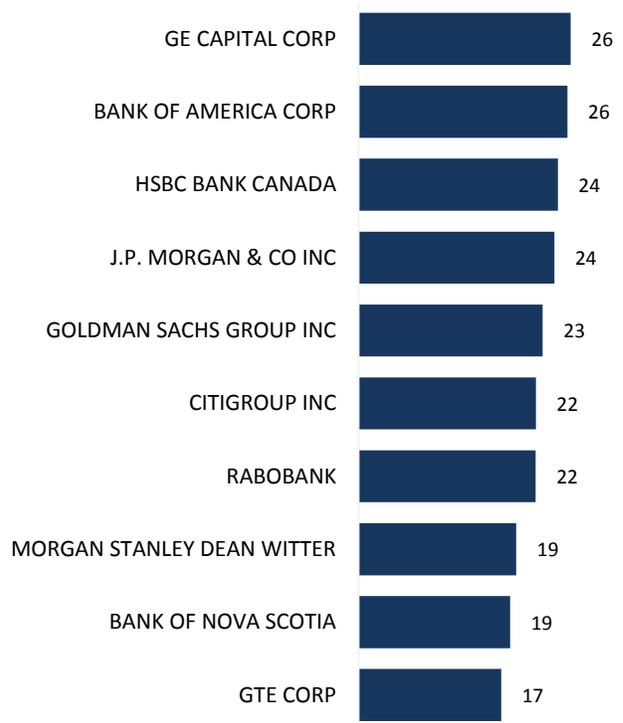
<sup>3</sup> The item others includes cash and cash equivalents.

**Figure 10: Principal exposures to sovereign bonds**  
(millions of dollars)



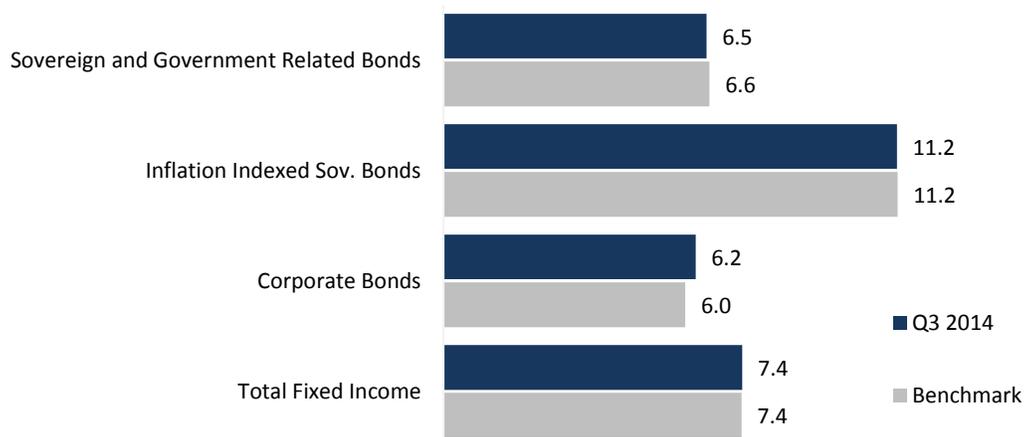
Source: Ministry of Finance, based on information provided by JPMorgan.

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



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

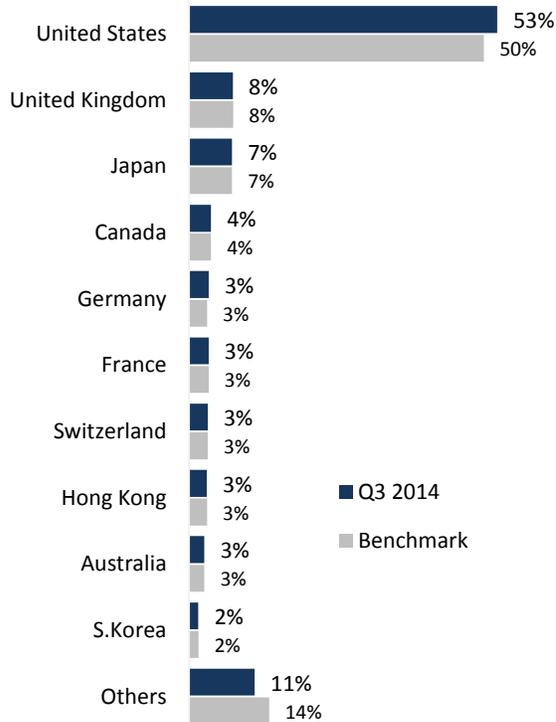
**Figure 12: Duration**  
(years)



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

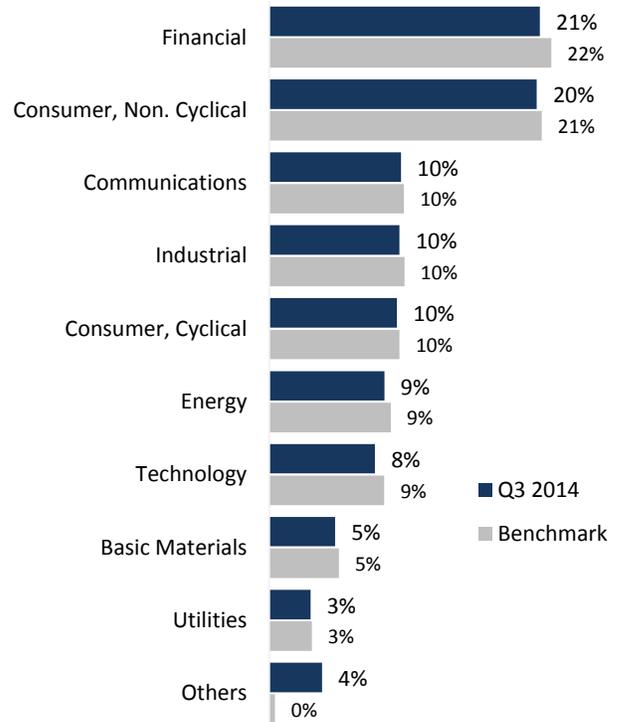
### III.3. Equities

**Figure 13: Allocation by country**  
(percent of equity portfolio)



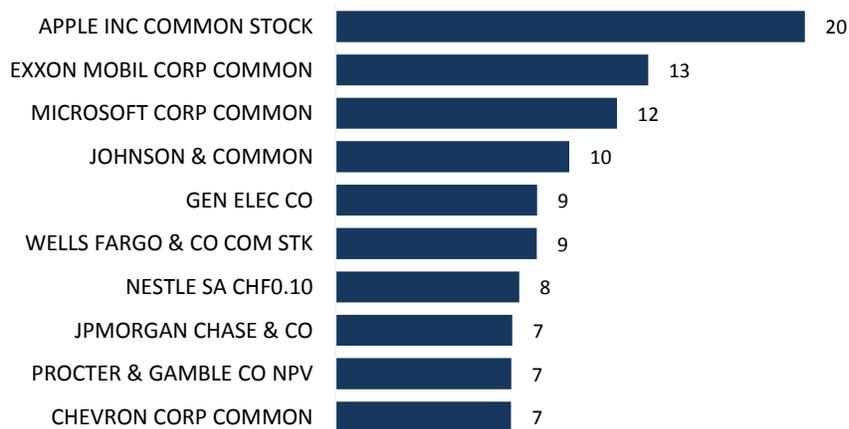
Source: Ministry of Finance, based on information provided by JPMorgan.

**Figure 14: Allocation by economic sector**  
(percent of equity portfolio)



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

**Figure 15: Principal equity exposures**  
(millions of dollars)



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

## iv. Other indicators

An indicator commonly used for monitoring the market risk of the portfolio is the return volatility. In the third quarter of 2014, the standard deviation of returns of the PRF was 4.72%<sup>4</sup>. The tracking error ex-post, an indicator used to measure the degree of how close the portfolio tracks the return of benchmark, was 73 basis points<sup>5</sup> at the quarter end.

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

	Q3 2014 <sup>(a)</sup>
Standard deviation	4.72%
Tracking error ex-post (basis points)	73

(a) Calculated using the monthly return of the last 3 years, annualized.

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>6</sup> was US\$ 773,049 during the quarter, while expenses associated with the custody service<sup>7</sup> was US\$ 531,104. Meanwhile, the securities lending program generated revenues of US\$ 250,432 during the quarter (see table 6).

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

	Q3 2014
<b>Outflow</b>	
Administration	773,049
Custody	531,104
Others	-
<b>Total</b>	<b>1,304,152</b>
<b>Inflows</b>	
Securities Lending	250,432
Others	-
<b>Total</b>	<b>250,432</b>

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

<sup>4</sup> Corresponds to the standard deviation of annualized monthly returns of the past three years.

<sup>5</sup> Corresponds to the standard deviation of annualized monthly excess returns of the portfolio against the benchmark in the past three years.

<sup>6</sup> The Central Bank of Chile is responsible for the investment of the sovereign fixed-income portfolio (65% of the fund), while Mellon Capital Management Corporation and BlackRock Institutional Trust Company for the investment of the equity portfolios (15%), and Rogge Global Partners Plc and BlackRock Institutional Trust Company for the corporate bond portfolios (20%). The entities responsible for investing portfolios of equities and corporate bond portfolios were selected in 2011.

<sup>7</sup> The custodian bank is J.P. Morgan.

## VI. Appendix

### **Benchmarks**

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>	48%	Barclays Capital Global Aggregate: Treasury Bond Index (unhedged)
		Barclays Capital Global Aggregate: Government-Related (unhedged)
Inflation Indexed Sov. Bonds	17%	Barclays Capital Global Inflation-Linked Index (unhedged)
Corporate Bonds	20%	Barclays Capital Global Aggregate: Corporates Bond Index (unhedged)
Equities	15%	MSCI All Country World Index (unhedged with reinvested dividends)

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