



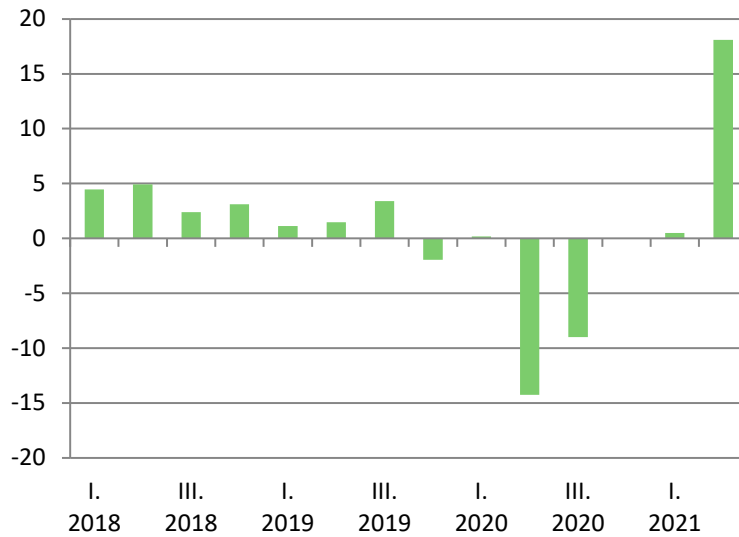
IIFA 2021

CHILE COUNTRY REPORT

1. Economic and Financial Background¹

The Chilean economy has made a rapid recovery from the recession caused by the Covid-19 pandemic. In the second quarter of 2021, GDP registered an annual growth of 18.1% (Graph No. 1). Withdrawals from pension savings as well as the Government's household support measures have significantly increased the liquidity of individual households, which has had an impact on private spending that has far exceeded expectations.

Graph No.1
Gross Domestic Product
 (real annual change, percent)



Source: Central Bank of Chile.

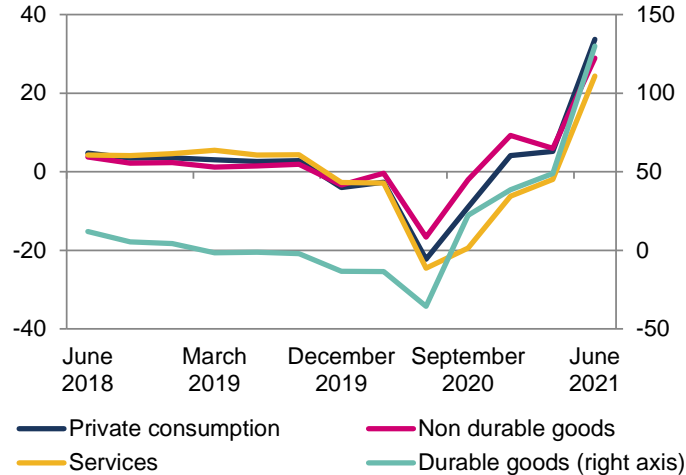
¹ Source: Monetary Policy Report September 2021, Central Bank of Chile.

On the domestic demand side, private consumption has shown great dynamism, reaching historically high levels. Consumption of durable goods recorded an annual increase of 130% in the second quarter, while consumption of non-durable goods and services showed an annual growth of 20% and 30%, respectively (Graph No. 2).

Graph No.2

Consumption

(real annual change, percent)



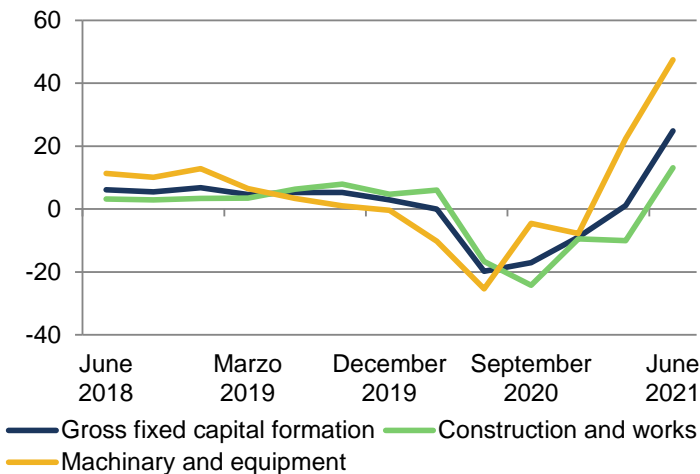
Source: Central Bank of Chile.

The recovery of investment is strongly associated with its Machinery and Equipment component, especially in imported goods. In the second quarter, gross fixed capital formation grew by almost 25% annually, with an annual increase of almost 50% in the machinery and equipment component. The Construction and Other Works component, on the other hand, grew at a slower rate of 13.1% year-on-year (Graph No. 3).

Graph No.3

Gross fixed capital formation

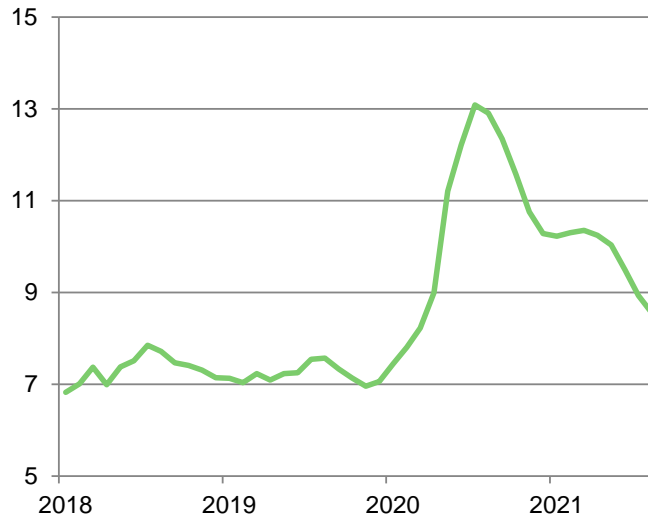
(real annual change, percent)



Source: Chilean Central Bank

New jobs have been gradually generated in the labor market. Formal salaried employment has already recovered most of the impacts of the pandemic (Graph No. 4).

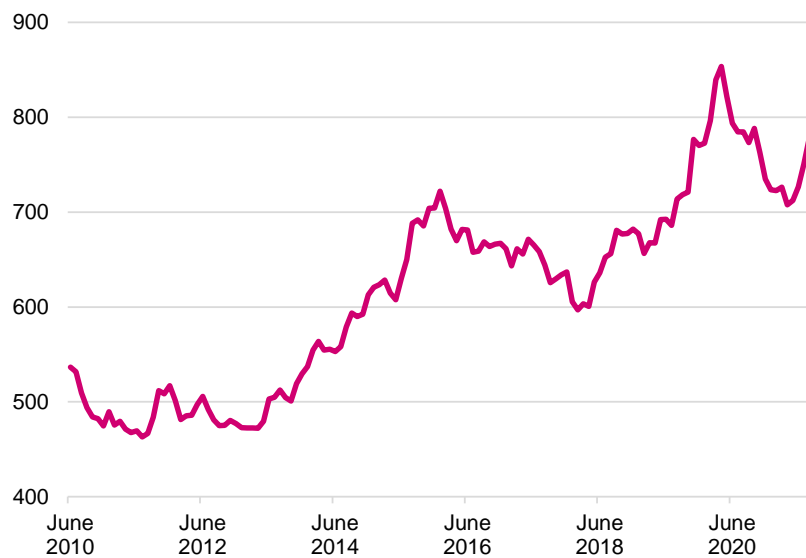
Graph No.4
Unemployment rate
(percent)



Source: National Statistics Institute

The Chilean Peso has depreciated, partly due to the perception of a decline in the economy as a result of the successive massive withdrawals of pension savings, and the deterioration of the fiscal accounts, all of this in a climate of high local uncertainty (Graph No. 5). The strong dynamism of consumption together with the depreciation of the Peso has put upward pressure on inflation (Graph No. 6).

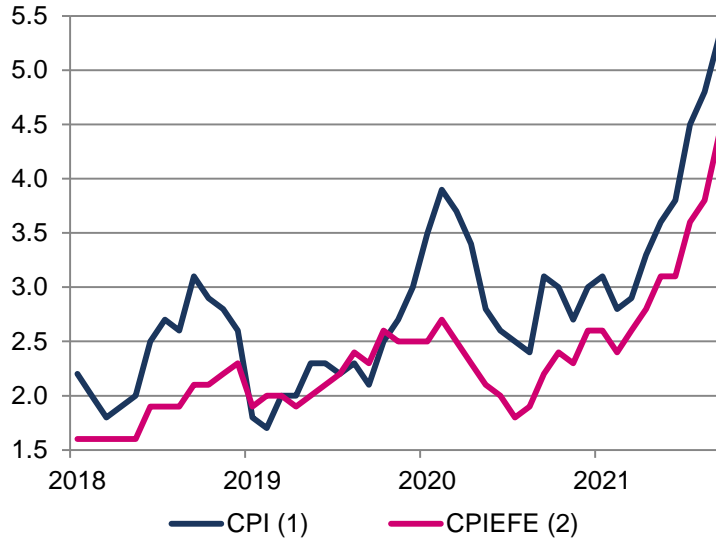
Graph No.5
Exchange rate
(Chilean pesos per dollar)



Source: Chilean Central Bank

Graph No.6

Inflation indicators
(annual change, percent)

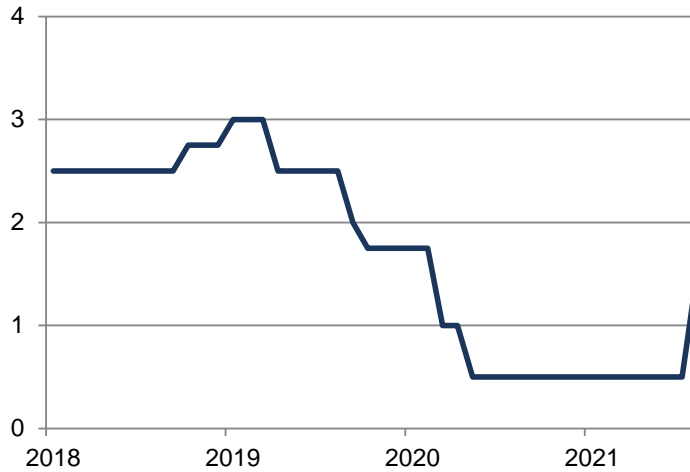


(1) Consumer Price Index (CPI), (2) CPIPE: CPI considering it excludes food and energy. Sources: Central Bank of Chile and National Statistics Institute.

In this context, the Board of the Central Bank of Chile has raised the Monetary Policy Rate (MPR) to 1.5%. In addition, the Board anticipates that the convergence of inflation to the target will require a continued removal of the monetary impulse (Graph No. 7).

Graph No.7

Monetary Policy Rate (MPR)
(percent)



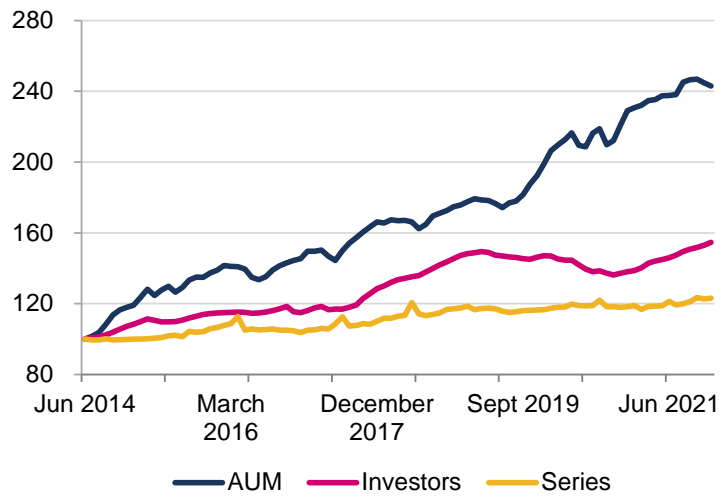
Source: Central Bank of Chile.

2. Funds Under Management and Portfolios

By June 2021, the assets under management (AUM) amounted to USD 71,378 million (Graph No.8). This translated into an annual growth rate of 15.8% in local currency. In mid-2021 the industry represented 24% of annual GDP (Graph No.9).

Graph No.8

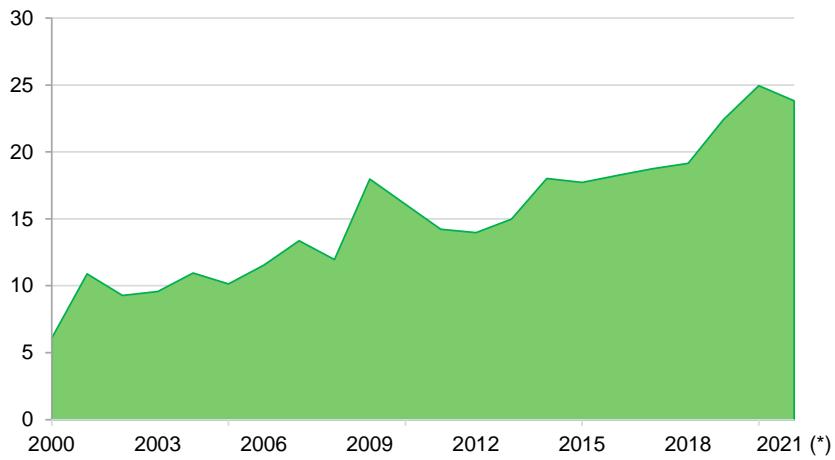
Mutual Funds
(index December 2013=100)



Source: Chilean Mutual Funds Association (AAFM).

Graph No.9

Mutual Funds
(percentage of GDP)

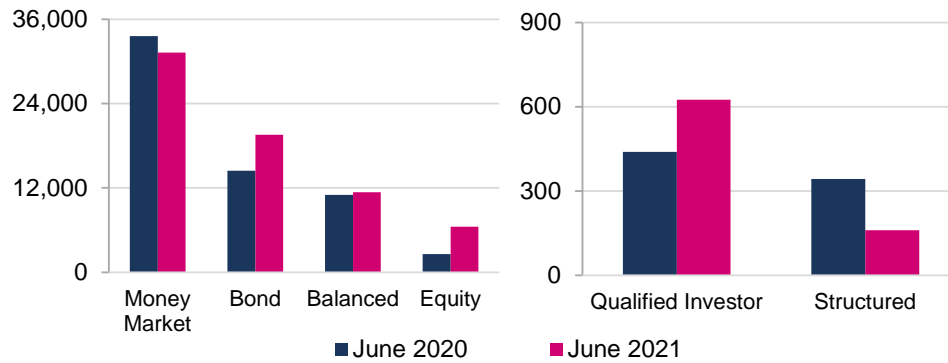


(*) It Includes data through June 2021.

Sources: Chilean Mutual Funds Association (AFM) and Central Bank of Chile.

In Chile, AUM have always been concentrated in debt funds (Graph No.10). Money market funds captured most of the assets managed in the industry. Last year, Money Market funds have increased their AUM in 15.1% (Table No.1 and No. 2).

Graph No.10
AUM by Fund Type
(US \$ million)



Source: Chilean Mutual Funds Association (AFM).

Table No.1
AUM by Fund Type

	AUM (US\$ million)		Share of Total (percentage)		Annual change (percent)	YTD (percent)
	Jun.20	Jun.21	Jun.20	Jun.21	Jun.21	Jun.21
Money Market	33,578	31,269	53.8	45.0	-6.9	15.1
Bond	14,446	19,573	23.2	28.2	35.5	-28.2
Balanced	10,990	11,402	17.6	16.4	3.8	77.9
Equity	2,560	6,477	4.1	9.3	153.0	26.7
Qualified Investor	439	625	0.7	0.9	42.5	-52.3
Structured	343	160	0.6	0.2	-53.2	-96.1
Total	62,355	69,507	100	100	11.5	-2.7

Source: Chilean Mutual Funds Association (AFM).

Table No.2
Share of Total
(percentage)

	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021
Short term	8.4	8.2	9.0	6.7	7.8	9.3
Money Market	51.5	49.3	53.7	51.3	65.9	61.5
Long term	40.1	42.6	37.3	42.0	26.3	29.2
Total Debt	100	100	100	100	100	100

Source: Chilean Mutual Funds Association (AFM).

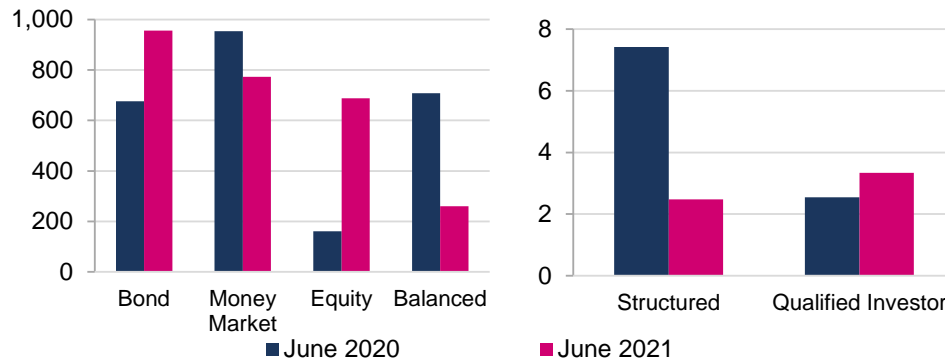
By mid-year, the number of investors was around 2.6 million (Table No.3). Investment preference has changed as noted in the above table and Graph No.11.

Table No.3
Investors by Fund Type

	Investors (thousands)		Share of Total (percentage)		Annual change (percent)	YTD (percent)
	Jun. 20	Jun.21	Jun. 20	Jun.21	Jun.21	Jun.21
Bond	676.2	956.6	27.0	35.6	41.5	1.4
Money Market	953.6	773.1	38.0	28.8	-18.9	1.6
Equity	160.5	688.5	6.4	25.7	328.9	11.8
Balanced	708.2	260.2	28.2	9.7	-63.3	14.8
Structured	7.4	2.5	0.3	0.1	-66.6	5.7
Qualified Investor	2.5	3.3	0.1	0.1	31.4	-20.7
Total	2,509	2,684	100	100	7.0	4.1

Source: Chilean Mutual Funds Association (AFM).

Graph No.11
Investors by Fund Type
(thousands)



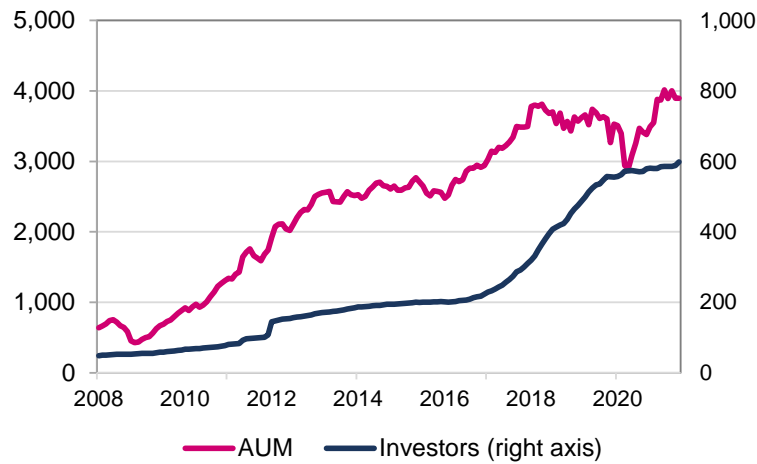
Source: Chilean Mutual Funds Association (AFM).

2.1 APV Market (non-mandatory pension savings)

As of June, the AUM of APV in mutual funds industry amounted to USD 3,894 million (Graph No.12). The market share was 32.1%, keeping the second place of the market behind Private Pension Funds (Graph No.13). In terms of evolution, the AUM expressed in dollars increased an annual +19.6% (+10.8% in local currency). In 2021, number of investors was at around 603,000 representing an annual increase of 5.3%.

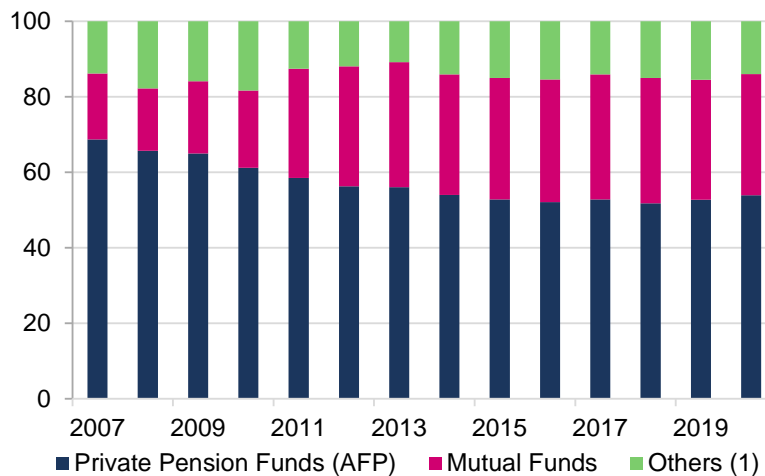
Graph No.12

APV
(US\$ million; thousands)



Source: Chilean Mutual Funds Association (AFM).

Graph No.13 Market share in APV industry (percentage)



(1) Life Assurance Companies, Housing Funds, Banks y Stockbrokers.
Sources: Chilean Mutual Funds Association (AFM), Superintendency of Pension Funds of Chile (SP) and Financial Market Commission (CMF).

2.2 Investment

In June 2021 investments in domestic instruments represented 84%. Resources were mainly invested in deposits, as well as in banks and financial institution bonds (Table No.4). Meanwhile, foreign investment represented 16% and was mainly concentrated in mutual funds and ETF (Table No.5).

Table No.4
Domestic investment
 (US\$ million)

	June 2020	June 2021
Deposits	29,437	21,445
Banks and financial institutions bonds	7,805	9,460
Central Bank of Chile commercial papers	5,640	11,158
Mutual funds	4,445	7,065
Corporate bonds	3,942	5,381
Government Bonds	2,904	2,649
S.A Shares	1,054	1,567
Others	541	1,234
Total	53,900	59,960

(*) Contract on products consisting invoice (Law No.19,220).
 Sources: AFM and Financial Market Commission (CMF).

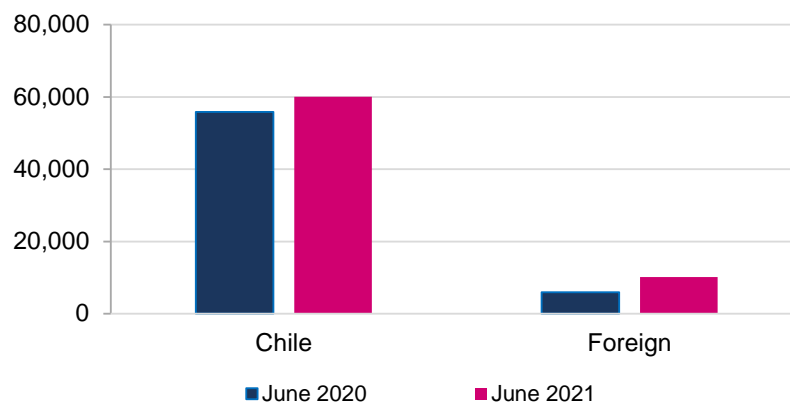
Table No.5
Foreign investment
 (US\$ million)

	June 2020	June 2021
Mutual Funds	3,274	5,658
S.A. Shares	2,126	3,724
Others	245	316
Corporate bonds	222	228
Government and Central Bank bonds	48	45
Banks and financial institutions bonds	33	31
Total	5,948	10,002

Sources: AFM and Superintendency of Securities and Financial Market Commission (CMF).

The domestic market, United States, Brazil, Mexico and China and Japan as Asian destinations stand out among the main destinations in which these assets concentrated (Graph No. 14 and Table No. 6).

Graph No.14
Investments by destination
 (US\$ million)



Source: Chilean Mutual Funds Association (AFM).

Table No.6
Countries concentrating investments abroad
 (percentage of total)

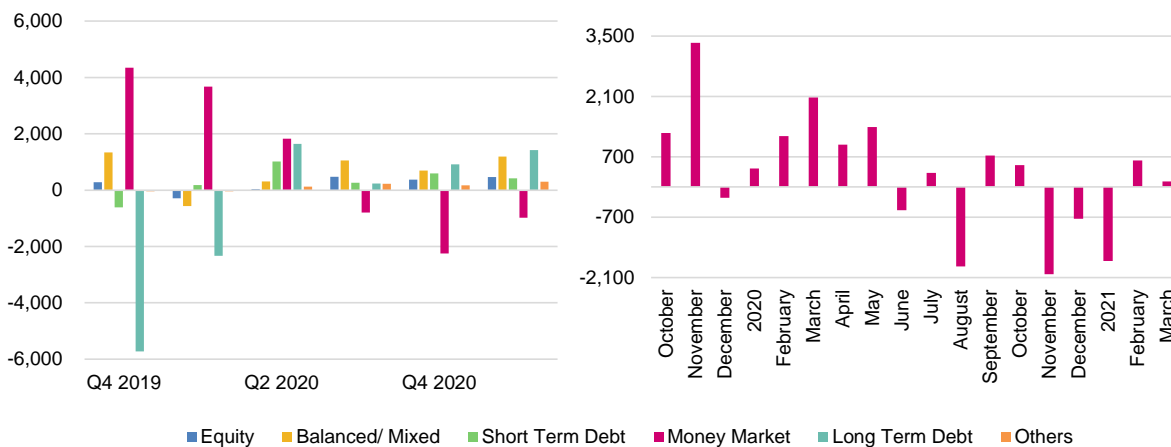
	June 2020	June 2021		June 2020	June 2021
United States	42.1	40.1	Netherlands	2.5	2.5
Others	18.7	16.4	France	2.1	2.4
China	7.1	8.8	Germany	1.9	2.1
Brazil	3.9	4.3	India	1.7	1.9
Mexico	4.0	3.6	Luxembourg	1.0	1.7
United Kingdom	2.6	3.0	Peru	1.5	1.5
Taiwan	2.0	2.9	Hong Kong	1.8	1.4
Japan	3.2	2.7	Switzerland	1.4	1.3
South Korea	1.8	2.6	Canada	0.8	1.0

(*) In June 2021, these countries account for less than 1% of the total.
 Source: Chilean Mutual Funds Association (AFM).

3. Key trends in flows and assets under management

The following graph shows the stress scenarios lived throughout and since the outburst of October 2019 and then again manifested by the pandemic in 2020.

Graph No.15
 Net Sales
 (US\$ million)



Source: Central Bank of Chile.

In 2019, stress events in the local market revealed the absence of sufficient liquidity mechanisms to manage the transfer of resources among its participants, our industry (mutual fund industry) faced a significant outflow of long-term debt funds, as investors opted for more liquid alternatives, these negative flows generated of course an increase in the amounts traded in the market, which in turn generated high volatility in prices. To contain the effects the Central Bank of Chile (CBC) adopted a series of exceptional or unconventional measures that allowed the market to operate without major disruptions. The main measures:

- 11/13/2019 REPO and FX Swap programs are announced due to the tightness of liquidity in local markets in dollars and pesos. FX Swap Program is implemented with the purpose of containing bank financing tensions in dollars.
- 11/14/2019: bank bonds are included as eligible collateral for liquidity operations in current pesos. At the same time, the Bank's debt securities repurchase program is launched to provide liquidity both to non-

bank agents (mutual funds, insurance companies and pension funds, as well as to banks; this due to the high volatility of the local debt market). Likewise, it temporarily suspended the issuance of short-term securities (PDBC), as a way to support the liquidity of the system.

- 03/16/2020: opening to banks of a “financing facility conditional on the increase in loans” (FCIC; corresponding to a line aimed at financing and refinancing loans to homes and companies, with a term of 4 years at a minimum MPR (monetary policy rate)); In addition, the Liquidity Credit Line was activated under special conditions, with incentives for the delivery of loans to individuals and companies (focus on the small and medium-sized enterprises (SME/Pymes) segment).
- Corporate bonds are included in the eligible collateral for all liquidity operations in current pesos; Activation of the bank bond purchase program for participants in the Open Market Operations System -SOMA system- (banks and other financial institutions)
- Conventional measure: 03/31/2020, the monetary policy rate -MPR- is reduced to 0.5%, which is considered the “technical minimum”.
- In August, the cash purchase program, forward sale was implemented (with the enforcement of the 10% withdrawal from pension funds), this program was directed to all SOMA participants (including mutual funds) to face the potential liquidations of assets to starting with the withdrawal of 10% of pension funds.
- The approval of a Constitutional change to allow the purchase of treasuries by the Central Bank in secondary markets.

In addition to being able to cope with the contingency given the measures implemented by CBC, the need for liquidity to be injected / strengthened through the same market was evident, so that stress scenarios could be confronted by all the financial industry market players. In this regard the Central Bank called for the creation of the Local Market Committee, integrated by different players of the financial system. The goal of this Committee is to receive from the market representatives their analysis of the situations (different scenarios) and market trends, as well as to make visible the needs for improvements or changes that support the proper functioning of the market, always considering any relevant impact in the implementation of the Monetary Policy established by the Board of the Central Bank. On 2020 and 2021 the Committee worked with the purpose to promote the development of a robust market for retro-purchase agreements (REPO), with standard regulations for all participants.

In the first quarter of 2020, there was important mobility between the long-term debt towards Money Market, coinciding with the start of the pandemic, due to the uncertainty basically explained by seeking a reduction in the uncertainty of investing in the long term.

Another important uncertainty was the withdrawals of money from the pension funds, being able to withdraw 10% of the savings each time. The first withdrawal of 10% of pension funds took place on July 31, 2020, while the second withdrawal was made on December 10, 2020.

4. Product developments

The financial services industry, and particularly the asset management industry, is undergoing a period of accelerated change, especially associated with the demands of investors for value propositions aligned with a new way of understanding the role of savings. An example of these are the issues related to the environment, particularly climate change, where one of the responses of the financial industry has been the adoption of practices and processes related to responsible investment, and, at the same time, the expansion of its value proposition to what we may call "responsible investment", or even "impact investment". Today, environmental issues are part of the agenda of fund managers, including the consideration of non-financial risk factors as another instrument to fulfill the fiduciary role of the industry. In this sense, ESG plays an important role not only from the point of view of risk and return, but also in how the mutual funds industry is structured. Thus, the adherence to the Principles for Responsible Investment (PRI) by a large part of the mutual funds industry stands out, as well as, over the last few months, the proliferation of new sustainable mutual funds (at least 10), all of which share the purpose of providing participants with profitable, competitive, and inclusive investment alternatives that generate a positive impact on society and the environment.

5. Regulatory and self – regulatory developments

5.1 Regulatory

- **New law that strengthens requirements and responsibilities of securities market agents:** In April 2021, a law was published with new accountability and transparency requirements for various market agents, such as directors of corporations, external auditors, investment advisors, pension advisors and others. Among its contents, the following are highlighted:
 - a. Creation of the concept of “anonymous whistleblower”, understood as a person who voluntarily collaborates with investigations, providing substantial and unknown background information to establish legal violations. It is stipulated that this whistleblower will have the right to receive a percentage of the fine applied as a consequence of the investigation and procedure in which he/she collaborated.
 - b. Increased penalties for crimes in the securities market.
 - c. Addition of new penalties for senior executives who provide maliciously false information to the board of directors, external auditors, or risk rating agencies.
 - d. Investment advisory services are regulated, including penalties for all those who, with the purpose of misleading, disseminate false or biased information.
 - e. Regulatory requirements are established for all those who make recommendations to acquire, maintain or dispose of publicly offered securities.
- **Twin Peaks regulatory model:** In October of 2020 the Financial Market Commission (CMF is the regulator and supervisor of the Chilean financial market) approved the launch of a plan that establishes a gradual transition from a supervision scheme by industry to a model based on the two main pillars of the CMF: Prudential and Market Conduct. This model is known internationally as "Twin Peaks" and is designed to ensure that both regulation and supervision incorporate a global view of the financial system's developments and risks and achieving synergies and consistency in regulation and supervision within each pillar. The implementation of this new structure began in March of 2021.
- **Information booklet / information prospectus:** To optimize the content of the information prospectuses and evaluate potential improvements, the Association provided background information to the regulator so as to improve the content, in accordance with the requirements of investors when making contributions to a fund, and, thus, to understand what is really demanded and valued, along with the actual use of the current prospectuses.
- **Suitability of accreditation personnel:** As a result of the current situation, the regulator extended the deadline to obtain the required accreditations and extended the validity of those that expired during 2020. At the same time, the regulatory framework was made more flexible, recognizing that there may be circumstances that, due to force majeure, prevent those who must obtain their certification from doing so within the stipulated deadlines.

5.2 Self- regulatory

The AFM seeks to promote excellence in the management and trading of third-party funds, and, in so doing, to collaborate in the development of the savings and investment market, this being understood as contributing to the understanding of the different mutual fund alternatives, while promoting best practices in the fund management processes and in the trading of these. In accordance with the above, since 2004 there has been a Code of Self-Regulation and Good Practices, which constitutes a set of rules and principles to which the fund managers adhere in order to promote the development of the market for the administration of third-party resources, in line with the principles of free competition and good faith that must exist between the fund managers and their clients. These rules were originated at the own initiative of the fund managers that are part of the AFM and constitute the foundations on which we intend to improve the performance of the industry. Within this self-regulatory framework, the Self-Regulatory Council, an independent and autonomous body, was formed to promote the correct interpretation and application of the Self-Regulatory Code, as well as to suggest standards of good practice. During 2020, the Council created a new Self-Regulatory Code in accordance with the (priority of a) required financial

education and knowledge —the lack of which has proven to be a source of major impact of pernicious events— establishing principles and protocols to raise standards with a global view (beyond the associates / "scope") by considering guidelines that address risk situations for the general public, and that set a precedent in the market. This new Code highlights the extension of the role of counselors, considering a new scope of the Self-Regulatory Code, since it is established that it is not required to be an AFM associate to adhere to the Code.

6. Corporate governance – major developments

There were no major developments regarding corporate governance, notwithstanding it always remains as a matter of great and continuous dedication by all associates.

7. Funds governance

As part of a self-regulatory commitment, 13 years ago, the Association developed a fund categorization founded on effective investment strategies (similar investment policies), aiming for better basis for comparing funds, thus providing clients with a better tool. The categorization grew and developed accordingly with the growing of the industry. Table No. 7 shows current fund categories.

Table No. 7
Categories According to Effective Investment Strategy

Category	Subcategory	Category	Subcategory
Equity Funds	Latin America	Bond Funds < 365 days	International
	Emerging Asia		National in Pesos
	Asia Pacific		National in currency-indexed
	Brasil		Flexible Origin
	Developed	Bond Funds >365 days	International, Investment in Emerging Markets
	United States		International, Investment in International Markets
	Emerging		National, Investment in Pesos
	Developed Europe		National, Currency-indexed Invest <= 3 years
	Emerging Europe		National, Currency-indexed Invest > 5 years
	National Large CAP		National, Currency-indexed Invest > 3 and =< 5 years
	National Others		Flexible Origin
	Country		Closed end Funds
	MILA countries	Emerging Equity	
Sectorial	Debt		
Balanced Funds	Agressive	Qualify Investors Funds	Local Equity
	Conservative		Foreign Equity
	Moderate		Debt
Money Market	International US Dollar	Others Funds (*)	Others
	International Euros		
	National		

(*) Corresponding to funds that have not been rated or that have been recently added or that have changed their effective investment policy during the period of comparison. Source: Chilean Mutual Funds Association.

8. Other major issues and developments

8.1 Education and information

Financial education is a priority for the Association of Mutual Funds, not only as a manifestation of our social responsibility, but also for the sustainability of the industry. Over the years, various initiatives have been developed and deepened, intensifying our commitment to this matter. We wish to support the effort to reduce the rates of financial illiteracy of the population in general, and of our young people in particular, since such illiteracy generates

a distance between the market and its products, resulting in people' erroneous financial decisions, and impacting their wellbeing and quality of life. With our different initiatives, we try to reach different age groups and conditions.

- **Educational campaigns for schools:** Since 2015 the AFM has made available for schools a financial education program called "A Fondo en mi futuro" ("A Fund for My Future"), which has been successfully implemented teaching children and youngsters the importance of early and responsible savings. This program is provided at no cost to schools across the country. Although 36 schools were reached during the 2020, the total coverage was lower than in previous years, due to the difficulties posed by covid 19.

During the first semester of 2021, the workshop has been developed in 22 schools, and more than 2,561 students have already attended it.

It is expected that by the end of this year a total cumulative number of 13,000 students will have been reached since the beginning of the program.

- **Educational campaigns in higher education institutions (universities, technical training centers, professional institutes):**
 - a. **E- Learning "Job Placement":** For an eighth consecutive year, we provided tools and basic knowledge for making informed decisions on personal finance, savings and investment through the "Personal Finance" module in the "Job placement for employment and self-employment" course (Worth Learning, formerly Universia) addressed to young people in Higher Education who are about to graduate and enter the labor market. By the end of this year, we expect to have a total cumulative reach of more than 169,000 students from more than 20 higher education institutions.
 - b. **Talks and presentations in Higher Education Institutions:** Every year since 2012, AFM has given talks to students of Higher Education in order to cover aspects of the capital markets, the mutual funds industry and its regulatory framework, as well as financial planning, thus contributing to the understanding of financial concepts and products (the subject matter and approach depends on the target group: technical education, university undergraduates, or postgraduates). Since the beginning to date, we have been present in 7 regions of Chile, and the average annual attendance to these talks exceeds 400 people.
- **Digital Media:** Since 2014, the AFM has been present on Facebook and Twitter pages of AFondochile and FondosmutuosCL, respectively, and on the LinkedIn page, called Fondos Mutuos Chile. On the www.afondochile.cl website, financial education is addressed, using simple and clear language, in addition to various key aspects associated with investing or saving through mutual funds.
- **Journalistic education:** Through the media, the press can effectively inform and educate people. Therefore, encouraging comprehensive, impartial, and correct business journalism is relevant. To jointly discuss various industry-related issues and resolve inquiries or concerns on these issues, the AFM continues to hold meetings with journalists, coordinators, and publishers of different media.
- **Financial Education Award (PEF, by its acronym in Spanish):** For seventh year, the Association organized the PEF. This award recognizes the excellence, thoroughness, and quality of journalistic work in the financial sector, specifically in matters related to savings and investment in the mutual fund industry.
- **Study of financial literacy and behavior in Higher Education students:** In order to have a diagnosis of financial literacy of young people in our country, we have conducted two versions of the Study of Financial Literacy and Behavior of Higher Education Students. The data considers the years 2018 to 2020, with a total of more than 12,000 students throughout Chile, from various higher education institutions.
- **Financial Education Roundtable:** The AFM is part of a working group formed by the trade associations of the financial sector (Stock Exchanges, Chilean Central Securities Depository (DCV), Insurance and Pensions) and the Center for Financial Studies of the ESE Business School of Chile's Universidad de Los Andes, seeking to have a joint view on financial education matters, and to develop initiatives and concrete

projects that benefit users, aiming to increase their knowledge of the financial system. The first activity carried out jointly was a 5-session course for journalists in the financial area.