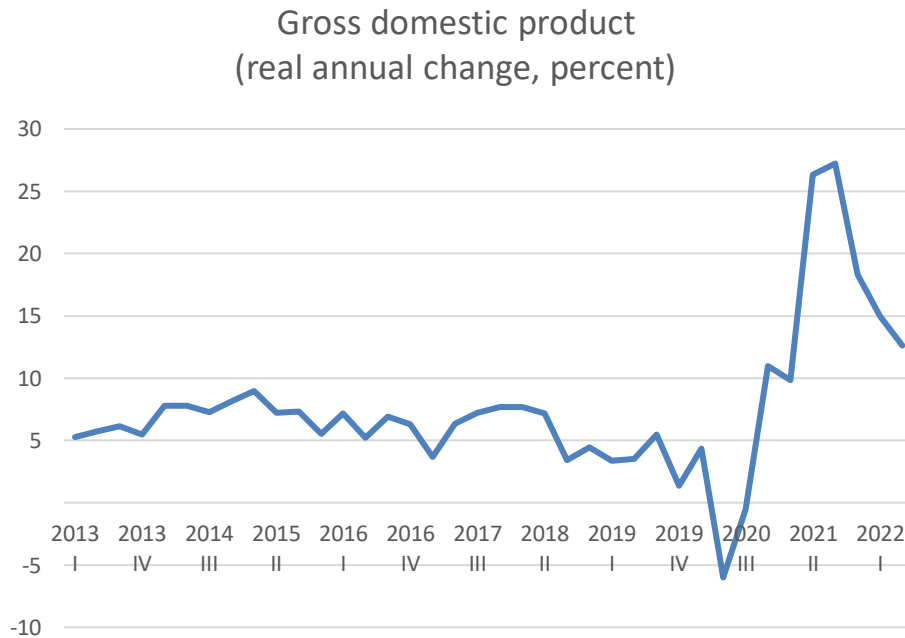




Chile Country Report 2022

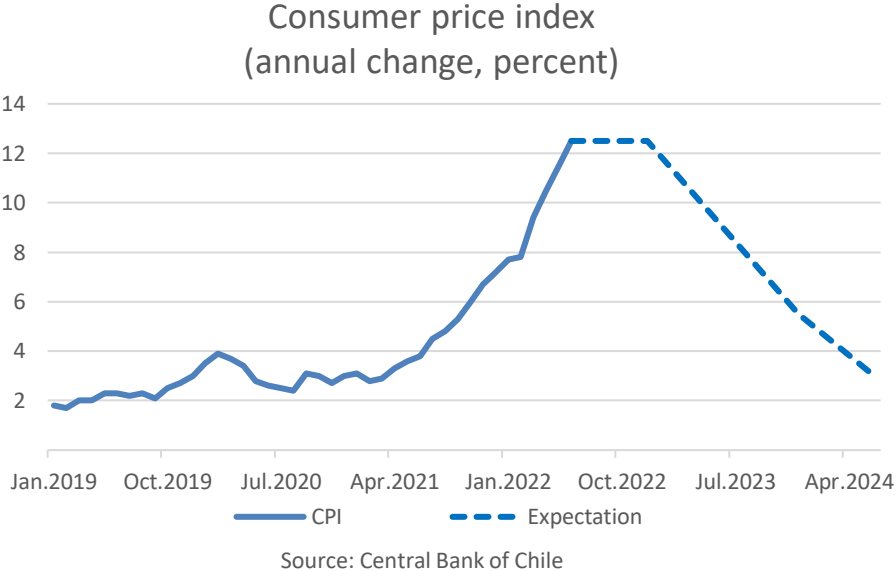
1. Economic and Financial Background

During 2021 the gross domestic product (GDP) registered an annual growth of 18%, driven by withdrawals from pension savings and government household support measures. This growth rate has been significantly lower throughout the first half of 2022, largely explained by the accumulated macroeconomic imbalances along the year.



Source: Central Bank of Chile

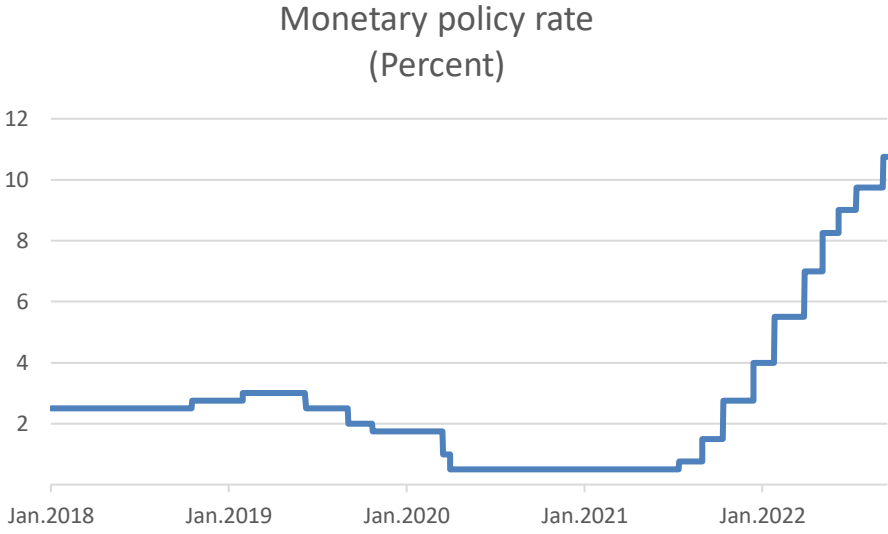
The increase in economic activity during 2021 was attributed to macroeconomic imbalances caused mainly by the excess of cash and liquidity, shifting up the inflation to unseen values since 1990. The annual CPI variation reached 12,5%, far away from the 3% target of the Chilean Central Bank. The inflation is expected to decline and adjust to normal levels by 2024.



Over the past months the economy ran into a higher volatility in the exchange rate mainly due to political tensions and the recent expectations of a global recession according to economic forecasts. During 2021 alone, the Chilean peso has depreciated more than 20%.



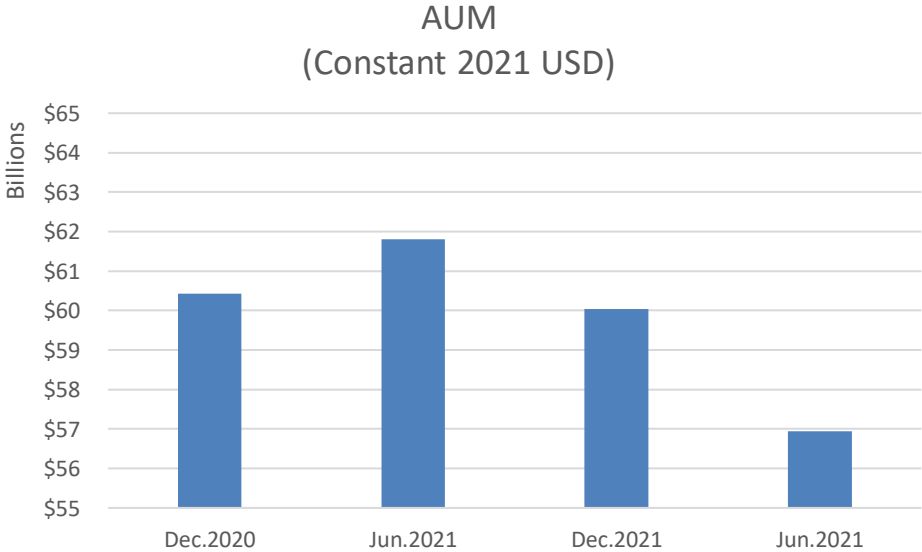
In order to meet the inflation target, the Chilean Central Bank has been pursuing a tight monetary policy, increasing the monetary policy rate (MRP) more than 10 percentage points in the last months, as seen below.



Source: Central Bank of Chile

2. Data on funds under management and portfolios

By June 2022, the assets under management (AUM) reached approximately USD 57 billion dollars. Exchange rate volatility explains the difference in percent fluctuations between USD AUM and CLP AUM. AUM in CLP showed a 1% decrease in 2021 and a 4% decrease in the first semester of 2022, while, as shown in the graph below, in USD the AUM variation for 2021 showed a decrease of 12% and accumulated 6% decrease for the first six months of 2022.



Source: Chilean Mutual Funds Association (AFM)

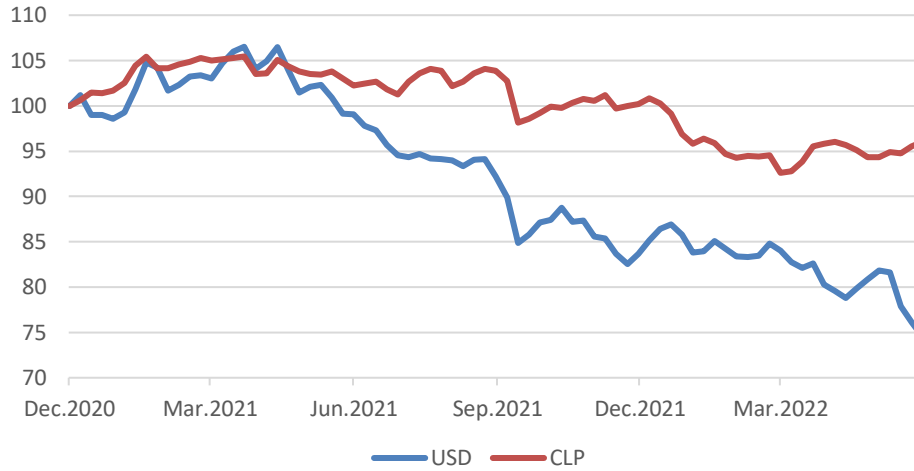
Assets Under Management, Industry

Currency	Dec.2020	Jun.2021	Dec.2021	Jun.2022
USD Millions	60,425	61,808	60,046	56,945

2021 USD: 759.3 CLP

Source: Chilean Mutual Funds Association (AFM).

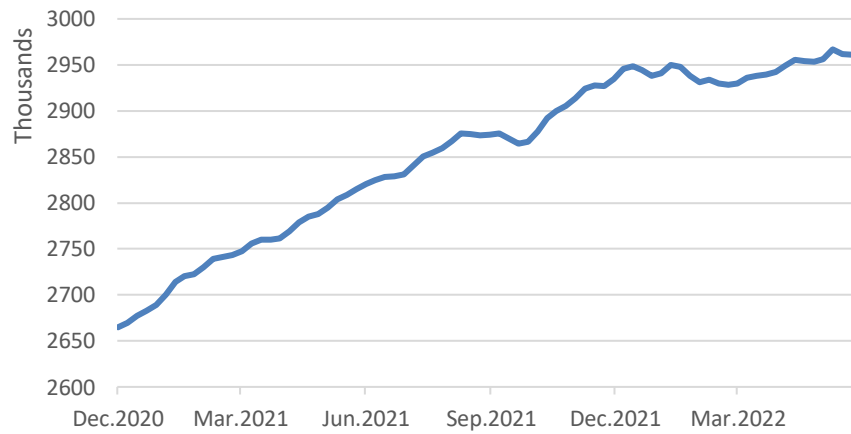
Indexed assets in different currency
(2020 = 100)



Source: Chilean Mutual Funds Association (AFM)

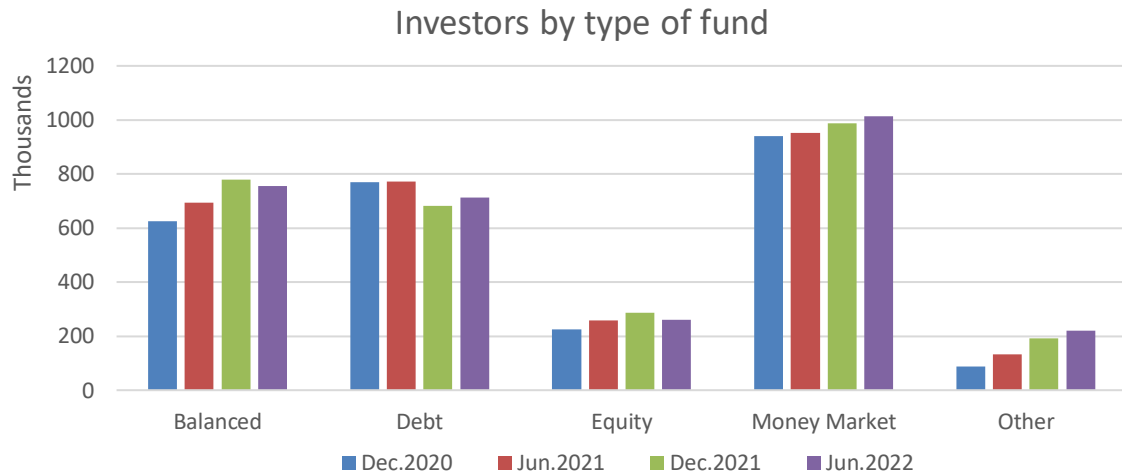
AUM represented 17.9% of 2021 nominal GDP, and the number of investors has seen a robust growth in the last years, but the growth rate magnitude has decreased from December 2021 to date.

Investors

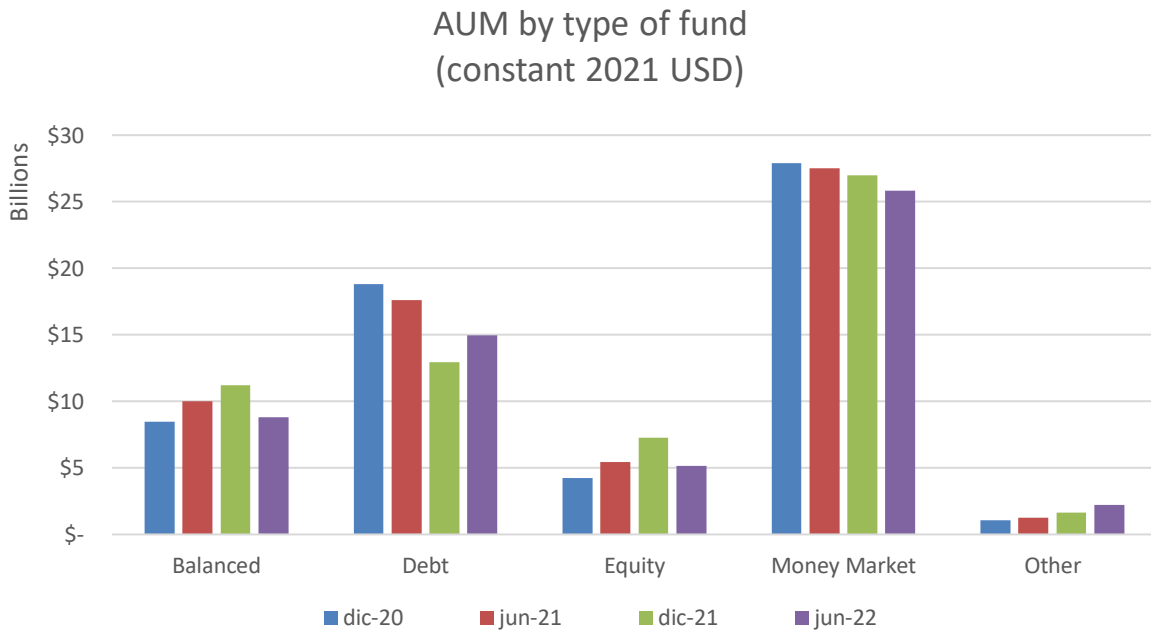


Source: Chilean Mutual Funds Association (AFM)

The industry structure has kept stable in recent years, and, as such, money market funds captured most of the investors and assets managed by the industry. By June 2022, money market funds have concentrated 45% of AUM and 34% of investors. Balanced and equity funds have grown both in funds size and investors during 2021, while bond funds decreased in both measures. That trend overturns in 2022, as seen in the figures below.



Source: Chilean Mutual Funds



Source: Chilean Mutual Funds Association (AFM)

Looking over the industry asset distribution, most of the investment goes to short term assets, such as time deposits and central bank commercial papers. As seen in the table below, corporate bonds, mutual funds and government and central bank bonds stand out as the most relevant local securities. Overall, resources were mainly invested in local securities, concentrated in central bank commercial papers and time deposits. That type of instrument, as proportion of total assets, increase from 18,5% to 32% from June to December in 2021. Meanwhile, foreign investment is concentrated in mutual funds and ETF.

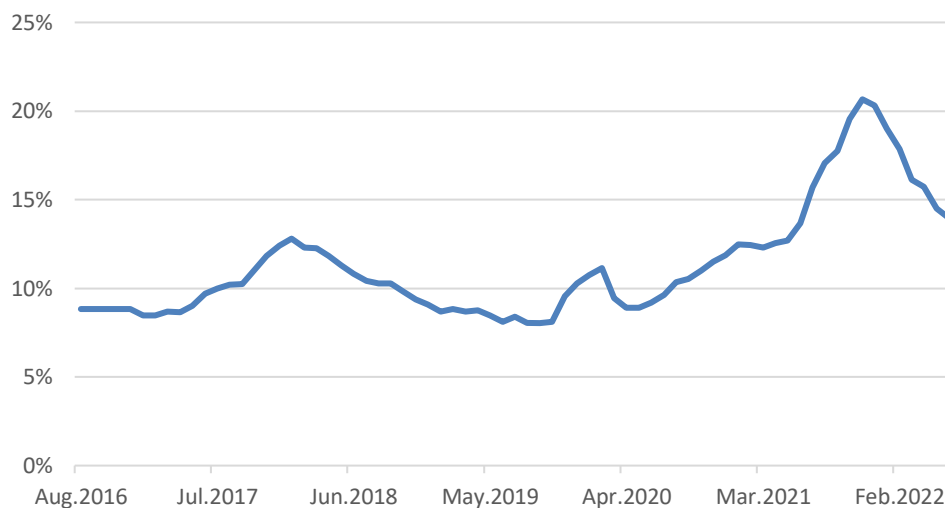
AUM distribution, in million 2021 constant USD

Foreign Securities	December 2020	June 2021	December 2021	June 2022
Mutual Funds	4,124	4,764	6,149	3,630
ETF	2,275	2,992	4,593	3,513
Equity Shares	184	230	348	304
Corporate Bonds	380	358	304	249
Government and Central Bank Bonds	119	39	607	120
Time Deposits	-	-	8	5
Other	47	67	36	32
Local Securities	December 2020	June 2021	December 2021	June 2022
Central Bank of Chile Commercial Papers	8,743	9,546	14,959	14,925
Time Deposits	20,774	18,516	11,788	13,118
Corporate Bonds	12,105	12,931	9,918	10,715
Mutual Funds	5,772	6,732	7,549	6,311
Government and Central Bank Bonds	3,405	2,387	975	1,339
Equity Shares	1,095	1,229	1,225	1,162
Other	335	362	346	449

Source: Chilean Mutual Funds Association (AFM)

As said before, industry resources were mainly invested in Chile. Nevertheless, foreign investment showed a high growth and peaked at a historical maximum in the last months of 2021, concentrating more than 20% of the AUM. However, in 2022 this rate has been decreasing, in part due to the Russian invasion in Ukraine and the increasing expectations of a global recession. The foreign investment was made mostly through balanced and equity funds.

Foreign investment as percentage of total AUM



Source: Chilean Mutual Funds Association (AFM)

Analyzing the foreign investment, most of the industry resources are invested in the USA. In the table below is the foreign investment separated by region for a detailed review.

Foreign investment by region

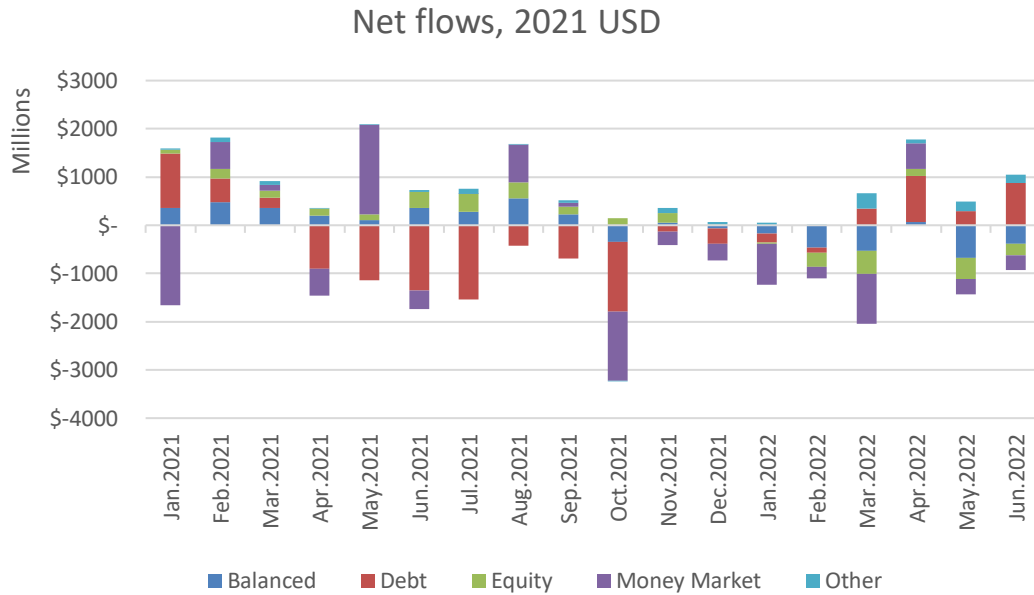
Million USD (2021)

Region	December 2020	June 2021	December 2021	June 2022
North America	2,752	3,366	6,035	3,824
East Asia & Pacific	1,626	1,720	2,024	1,455
Europe & Central Asia	1,097	1,520	2,093	1,103
Latin America & Caribbean	1,030	1,048	844	729
Other	549	591	919	695

Source: Chilean Mutual Funds Association (AFM)

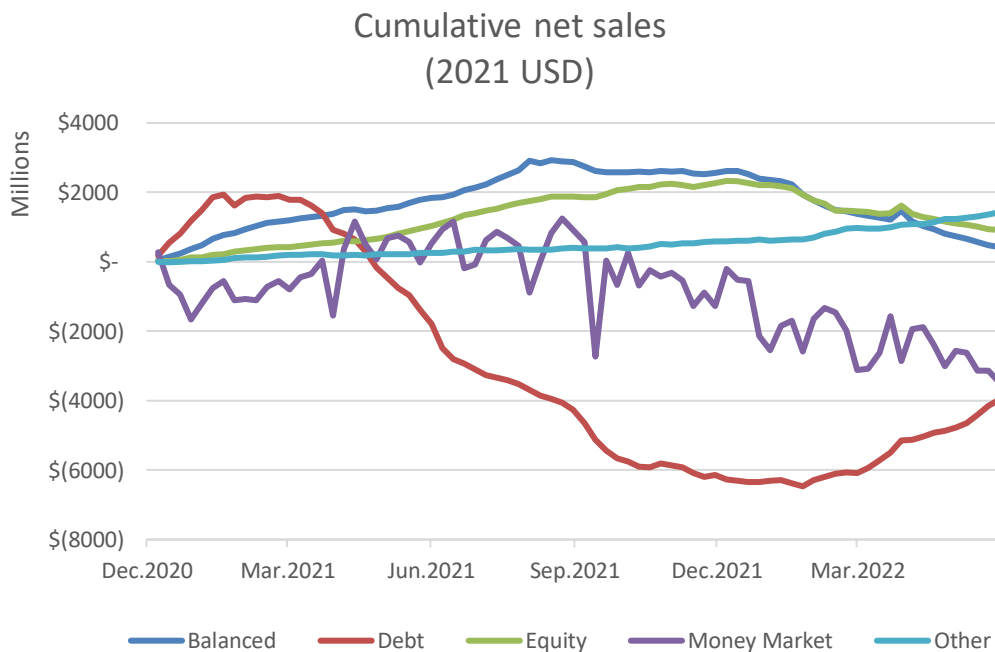
3. Key trends in flows and assets under management

Two key trends in flows and AUM can be identified. First, large outflows from debt funds were observed in 2021.



Source: Chilean Mutual Funds Association (AFM)

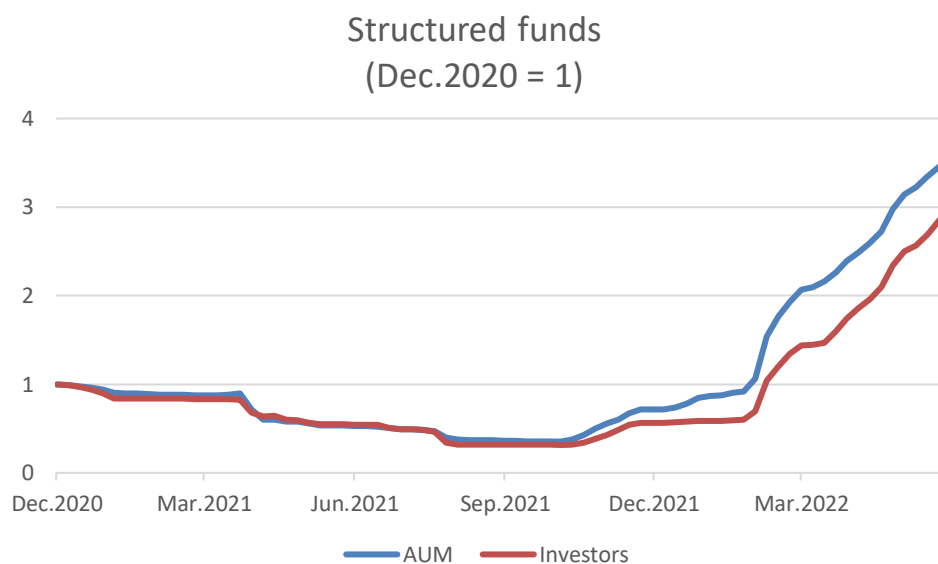
However, due to inflationary pressures in developed countries and the Russian invasion in Ukraine, balanced and equity funds showed important outflows during 2022. On the other hand, the cumulative outflow from debt funds observed in 2021 has decreased in 2022.



4. Product developments

Structured Funds

During last months, the mutual funds industry in Chile has experienced a high growth of structured funds. To this day, there are 8 financial institutions offering 26 different structured funds, with 46 series for several types of investors searching for a low-risk investment alternative. The number of participants keeps growing day by day, reaching 18,500 in 2022. In the first semester of this year, structured funds almost quintupled in AUM, representing 1,6% of the industry by July (1,1 billion USD).



Source: Chilean Mutual Funds Association (AFM)

ESG

The financial industry is undergoing a period of accelerated change, especially associated with the demands of investors for different value propositions. A good example of this is the increasing and remarkable concern regarding sustainability, for which the industry has been adopting several investment commitments to attend ESG. Today, the AUM of ESG funds reaches 274 million dollars and 12,200 investors (0,83% of the industry AUM without money market funds).

Currently, 12 of 15 financial institutions associated to the Chilean Association of Mutual Funds¹ adhere to the Principles for Responsible Investment (PRI) and some of these financial institutions have embraced other climate-related standards settled by several Non-Governmental Organizations.

¹ 91,5% of the industry assets are managed by AFM associated institutions.

5. Regulatory and self – regulatory developments

5.1 Regulatory

Regarding regulation, Law No. 21,314 stands out by establishing new requirements to encourage market transparency and reinforce liabilities of market agents.

- Rule No. 456: Anonymous Whistleblower

Establishes parameters and procedures to qualify as an anonymous whistleblower.²

- Rule No. 472: Investment Advisory Services

Regulates investment advisory services, specifically the obligations and requirements to which investment advisors are subject to. It also includes exigencies regarding information provided to investors and general public.³

- Rule No. 461: Sustainability and Corporate Governance issues in Reports of Supervised Financial Institutions.

This rule incorporates sustainability and corporate governance issues in the annual reports of supervised financial institutions. The aim is for supervised entities to report on their policies, practices and goals adopted in environmental, social and governance (ESG) matters.⁴

Finally, the Financial Sector Assessment Program (FSAP), conducted by the International Monetary Fund and the World Bank. The AFM has met with both institutions to characterize the industry structure, its evolution and the measures adopted by the regulator and its outcomes. Both the IMF and WB recognized the resilience of the mutual funds industry and concluded it has a proper performance and a reliable regulatory framework. Nonetheless, they gave several recommendations to improve industry stability, the most important of which being the adoption of swing prices and mark-to-market pricing in money market funds. The industry is evaluating this last recommendation.

5.2 Self- regulatory

The AFM seeks to promote excellence in the management and distribution of funds, the latter being understood as contributing to the education of the mutual fund product to the general public while promoting better practices in the fund management processes and in their distribution. In accordance with this purpose, 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 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 this AFM intends to improve the performance of the industry. Within this framework, a Self-Regulatory Council was formed, independent

² <https://www.cmfchile.cl/portal/principal/613/w3-article-47909.html>

³ https://www.cmfchile.cl/portal/principal/613/articles-50738_doc_pdf.pdf

⁴ <https://www.cmfchile.cl/portal/principal/613/w3-article-49809.html#:~:text=461%2C%20which%20incorporates%20sustainability%20and,fund%20managers%2C%20and%20stock%20exchanges.>

and autonomous, that promotes the correct interpretation and application of the Self-Regulatory Code, as well as the continuous improvement of good practices and standards.

During 2020, the Council created a new Self-Regulatory Code in accordance with the 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 by considering guidelines that address risk situations for the general public, and that set a precedent in the market. This new code highlights the extent 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. To date, a few non-AFM institutions have successfully embraced the self-regulatory code.

6. Corporate governance – major developments

- ESG: The most outstanding corporate governance developments are, in part, pertained to the General Rule No. 461, detailed above in the regulatory developments. The publication of a new CMF regulation on ESG issues is particularly relevant considering the United Nations Climate Change Conference, known as COP26, held in Glasgow, Scotland, in November 2021.
- Gender Equality: In January 2022, to summarize certain ideas and principles related to gender equality in the financial industry, a decalogue that seeks to encourage good practices to raise female participation was launched. The decalogue was made by a roundtable formed by public and private firms and “Women in Finance” (“Mujeres en Finanzas”) corporation, with the cooperation of the Ministry of Women and Gender Equality.

7. Funds governance

In June 2021, the CMF released a policy document titled “General Market Conduct Standards and Principles on Financial Customer Protection”. This work represents the CMF's vision of financial customer protection and establishes common market conduct principles for financial institutions under its supervisory perimeter. This policy document states the views of the Commission and its Board on issues relevant to the financial industry. They are neither a regulatory instruction nor a supervisory policy, but rather a guide to standards expected by the CMF.⁵

Also, as part of a self-regulatory commitment, 14 years ago, the Association developed a fund categorization founded on effective investment strategies (similar investment policies), aiming for a better basis for comparing funds, thus providing clients with better tools. The categorization grew and developed accordingly with the growth of the industry.

⁵ <https://www.cmfchile.cl/portal/principal/613/w3-article-47852.html>

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	Developed Equity
	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 (*)
	International Euros		
	National		

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, intensifying our commitment to this matter. We want to reduce the rates of financial illiteracy of the population, since such illiteracy generates a gap between the market and its products, resulting in people making erroneous financial decisions and impacting their wellbeing and quality of life. With our different initiatives, we tried to reach different age groups and conditions. To date, the AFM elaborated collaboration proposals to more than 300 education institutions and municipalities, expecting to work closely with them in financial education activities.

- Educational campaigns for schools: Since 2015 the AFM have 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 savings.
 - The program is made up of 5 modules: 1) Budgeting, 2) Financial Institutions and Organizations, 3) Saving and Investment Instruments, 4) Responsible Indebtedness and Spending, 5) Consumer Rights and Cybersecurity.
 - During the second semester of 2021, with the return of face-to-face mandatory classes, the workshop has been developed in 36 schools across the country, reaching more than 3,000 new students.
 - At the end of 2021, more than 13,000 students have been reached since the beginning of the program, thus returning to pre-pandemic numbers.
 - This program is provided at no cost to schools.

- Educational campaigns in higher education institutions (universities, technical training centers, professional institutes):
 - E- Learning “Job Placement”: For an eighth consecutive year, we provided tools and 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. Throughout the year 11,715 students from 12 higher education institutions complete the course, and more than 150,000 students have been reached since 2014, when the course started.
 - Talks and presentations in Higher Education Institutions: Every year since 2012, AFM has given talks to students of Higher Education 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). We have been present in 7 regions of Chile to date, and the average annual attendance to these talks exceeds 400 people.

8.2. Other Activities

- 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 the ninth year now, 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.
- 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.
- Financial Education Book: As part of a collaboration between different public and private institutions, the AFM encourage the publishing of a book, “Introduction to the Chilean Financial System” (“Introducción al Sistema Financiero en Chile”), written by Enrique Marshall. The book was intended to teach and explain financial affairs in a practical way.