



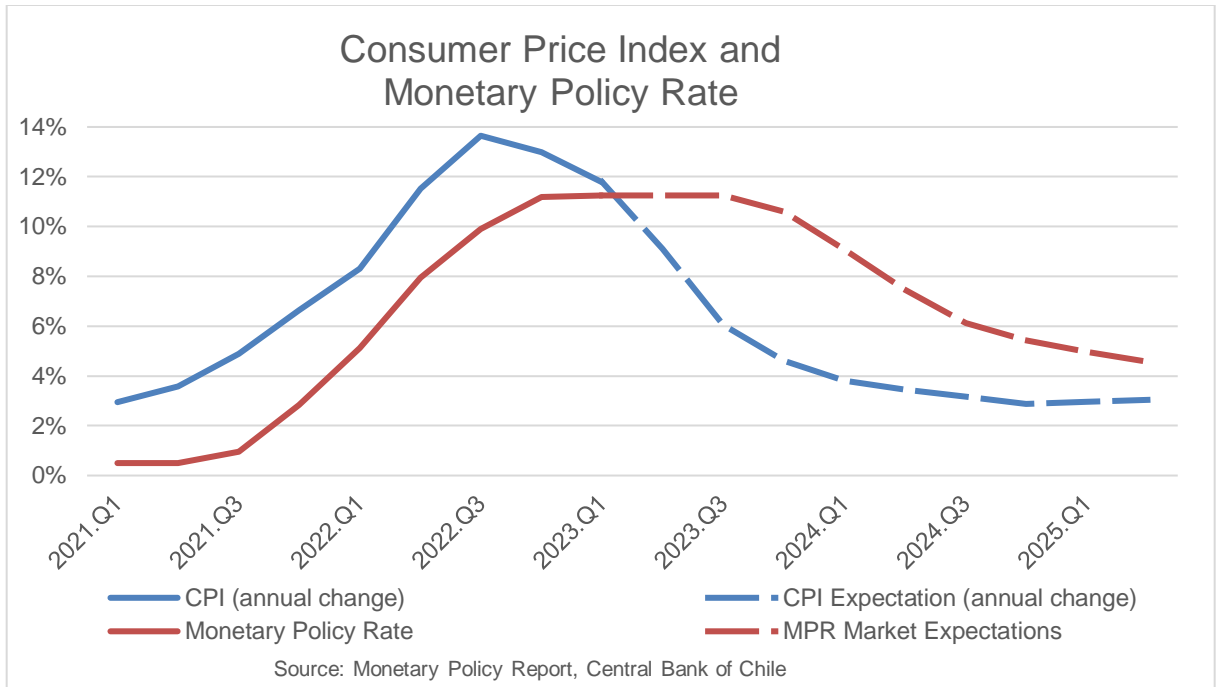
Chile Country Report 2023

1. Economic and Financial Background

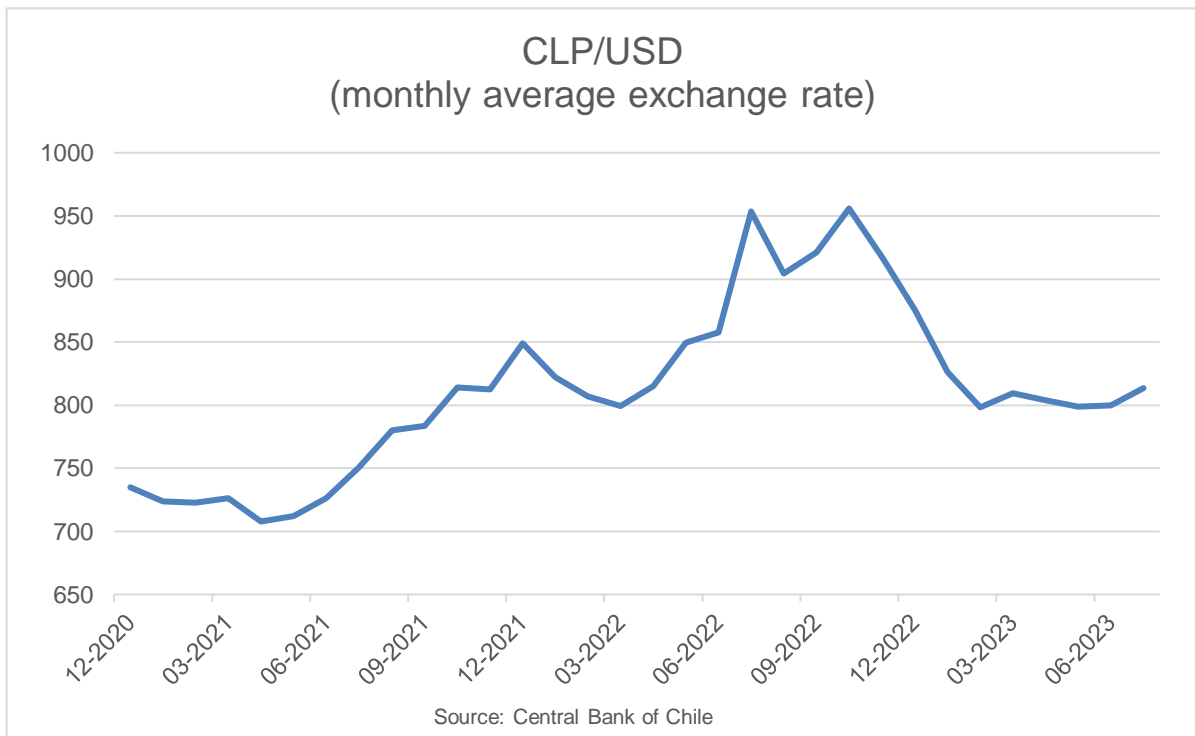
Main Economic and Financial Indicators				
	2020	2021	2022	Jun. 2023
Nominal GDP (Million USD)	254,259	316,582	301,025	316,142***
Population	19,458,310	19,678,363	19,828,563	19,960,889
Real GDP Growth (%)*	-6.1	11.7	2.4	-1.1***
Inflation Rate (%)*	3.0	7.2	12.8	9.1
Exchange Rate (CLP/USD)	792.22	759.27	872.33	808.33**
(*) Annual change, (**) 6-month average, (***) calculations made from the last four quarters. Source: Central Bank of Chile				

During 2022, gross domestic product (GDP) registered an annual growth of 2.4%, way behind last year's 11.7%, mainly due to the normalization process that the Chilean economy is undergoing, following the strong growth experienced due to the post-pandemic recovering process and the several through-pandemic monetary stimuli.

The increase in economic activity during 2021, caused mainly by the excess of cash and liquidity, shifted up inflation to unseen values since 1990. The annual CPI variation reached 12.8% in December 2022, far from the 3% target of the Chilean Central Bank. Inflation is expected to decline and adjust to normal levels by 2024. The monetary authority hasn't relaxed the monetary policy yet, maintaining rate at 11.25% since October 2022, but is expected to decline during the following months.



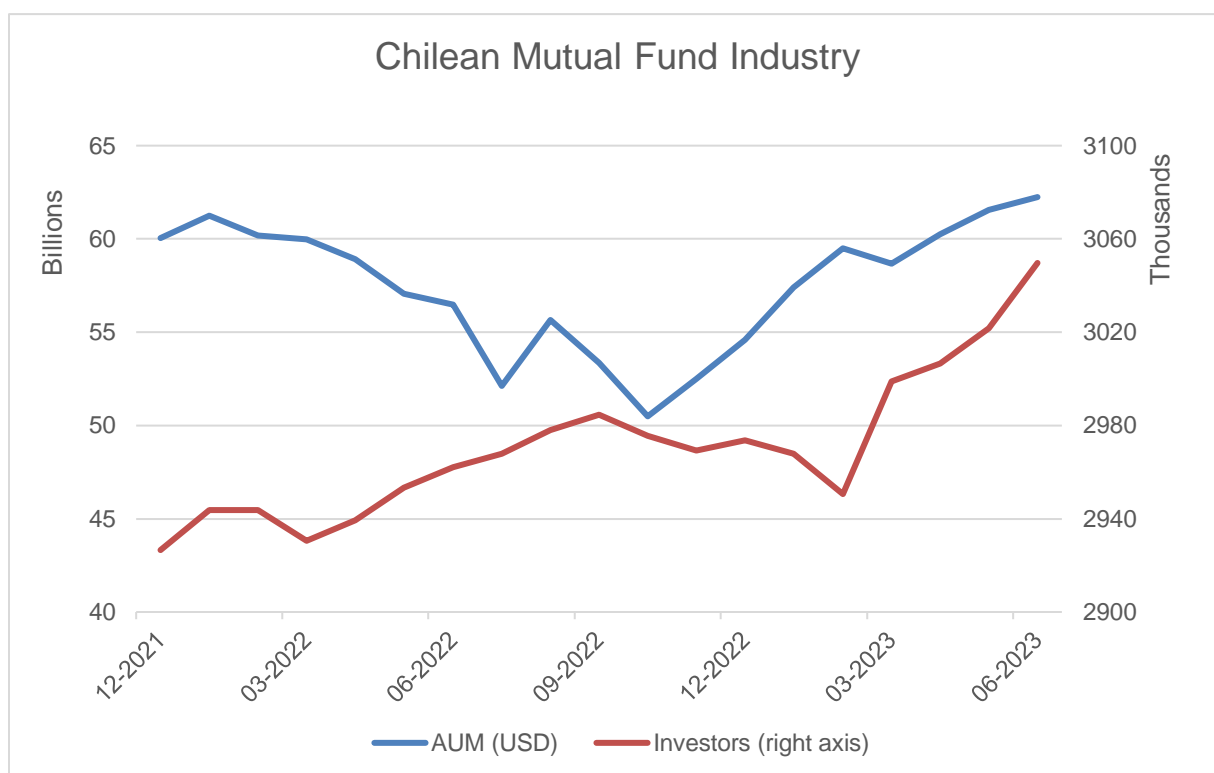
Over the end of 2022, the economy ran into a higher volatility in the exchange rate mainly due to political tensions and expectations of a global recession according to economic forecasts, but in the first semester of 2023, the exchange rate has stabilized around 810 CLP per dollar.



2. Data on funds under management and portfolios

Industry Evolution 2022-2023

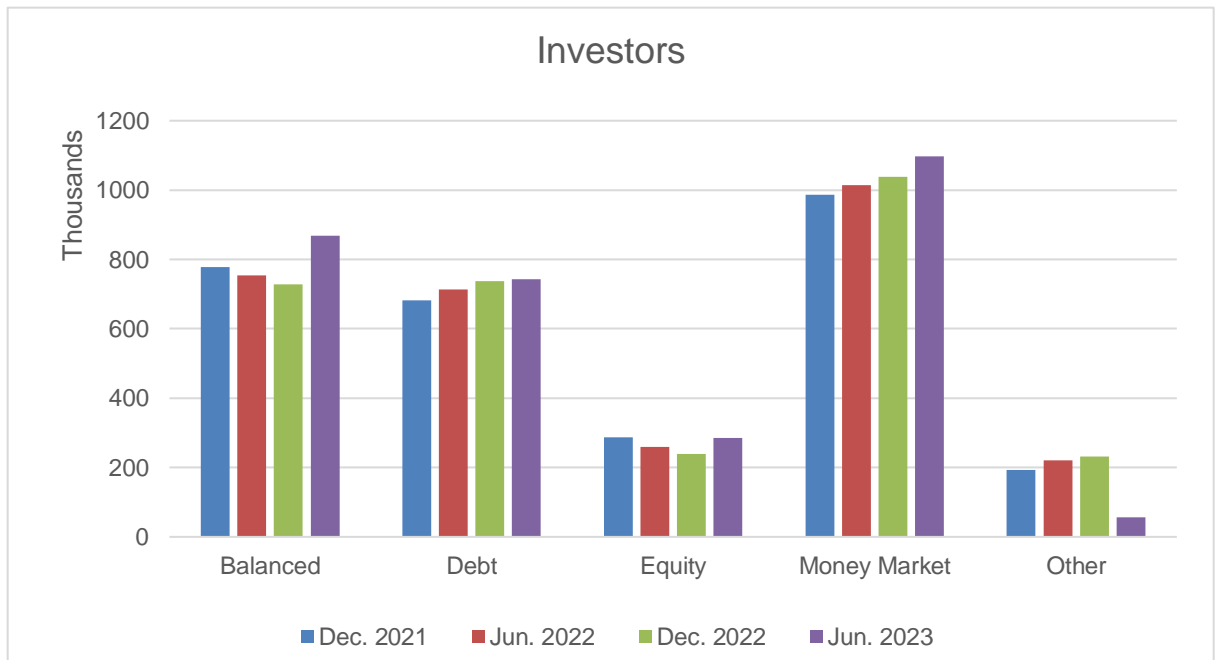
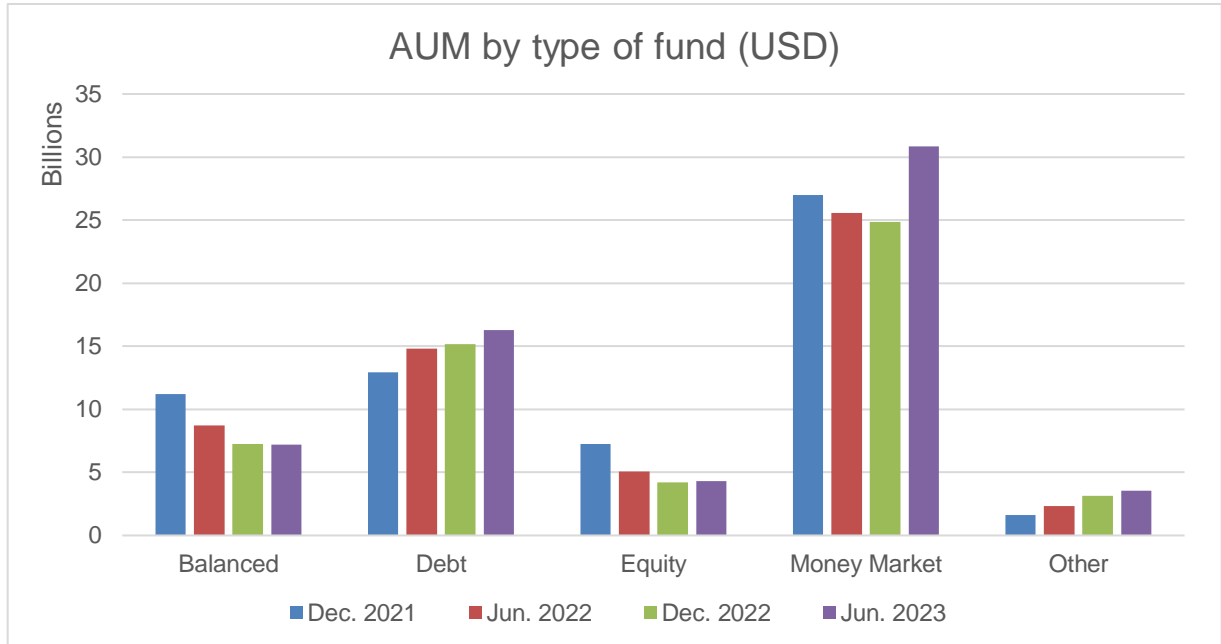
By June 2023, assets under management (AUM) reached approximately USD 62 billion, with a decline growth of 9% in 2022, and YTD growth of 14% approximately in 2023, recovering all the assets under management lost in 2022. The AUM in 2022 represented 18% of the GDP, and the number of investors in the industry exceeded 3 million in April of the ongoing year.



Chilean Mutual Fund Industry				
	Dec. 2021	Jun. 2022	Dec. 2022	Jun. 2023
AUM (Million USD)	60,046	56,486	54,599	62,242
AUM (% GDP)	23.62	-	18.14	-
Investors	2,926,549	2,962,086	2,973,587	3,049,694

Industry Structure

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 2023, money market funds have concentrated approximately 50% of AUM and 36% of investors. Debt funds have grown both in funds size and investors during 2021. Equity, balanced and money market funds have decreased in terms of AUM in 2022, but that trend overturns in 2023, as seen in the figures below.



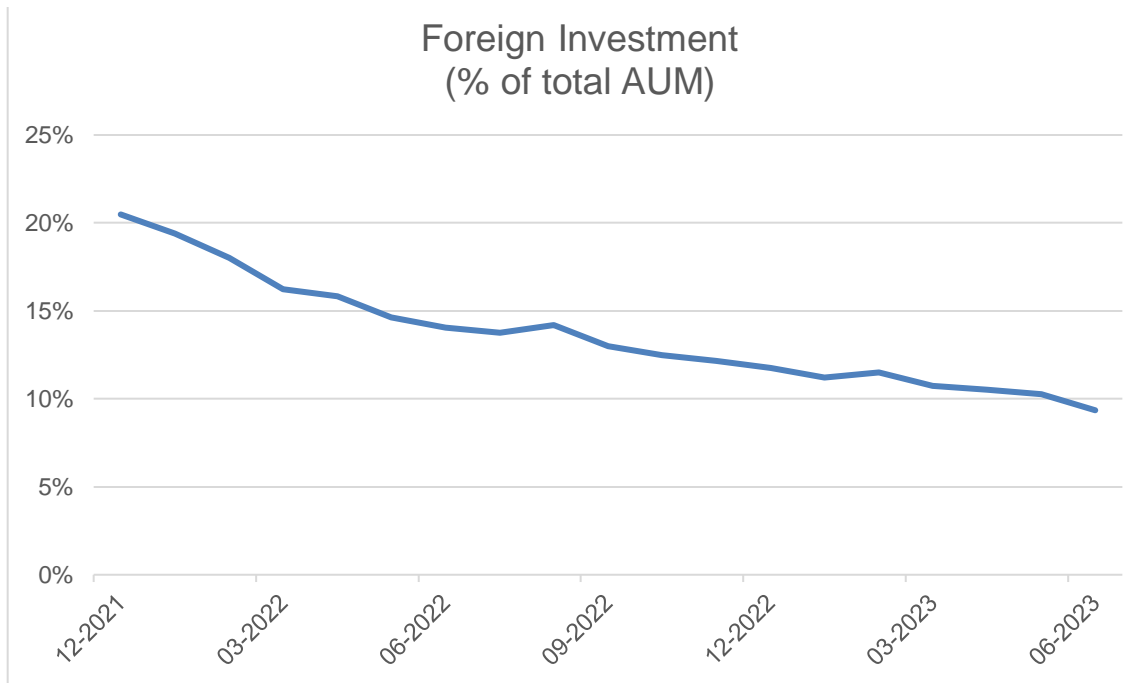
Industry Investment Allocation

Looking over the industry investment allocation, most of the investment goes to short term assets, such as fixed 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 fixed deposits. Meanwhile, foreign investment is concentrated in mutual funds and ETF.

AUM investment, securities distribution (millions USD)				
Foreign Securities	Dec. 2021	Jun. 2022	Dec. 2022	Jun. 2023
Equity Shares	348	301	238	225
Government & Central Bank Bonds	607	118	215	131
Corporate Bonds	304	246	218	183
ETF	4,593	3,477	2,737	2,254
Mutual Funds	6,120	3,576	2,868	2,869
Investment Funds	28	17	12	11
Other	44	36	12	17

Local Securities	Dec. 2021	Jun. 2022	Dec. 2022	Jun. 2023
Equity Shares	1,225	1,150	1,142	1,281
Government & Central Bank Bonds	975	1,325	1,988	2,124
Corporate Bonds	9,918	10,607	10,356	12,151
Fixed Deposits	11,788	12,986	16,177	18,991
Mutual Funds	6,504	5,325	4,570	4,283
Investment Funds	1,045	923	812	601
Other	67	88	202	75
Central Bank Commercial Papers	14,959	14,774	11,578	15,161
Corporate Commercial Papers	280	357	413	493

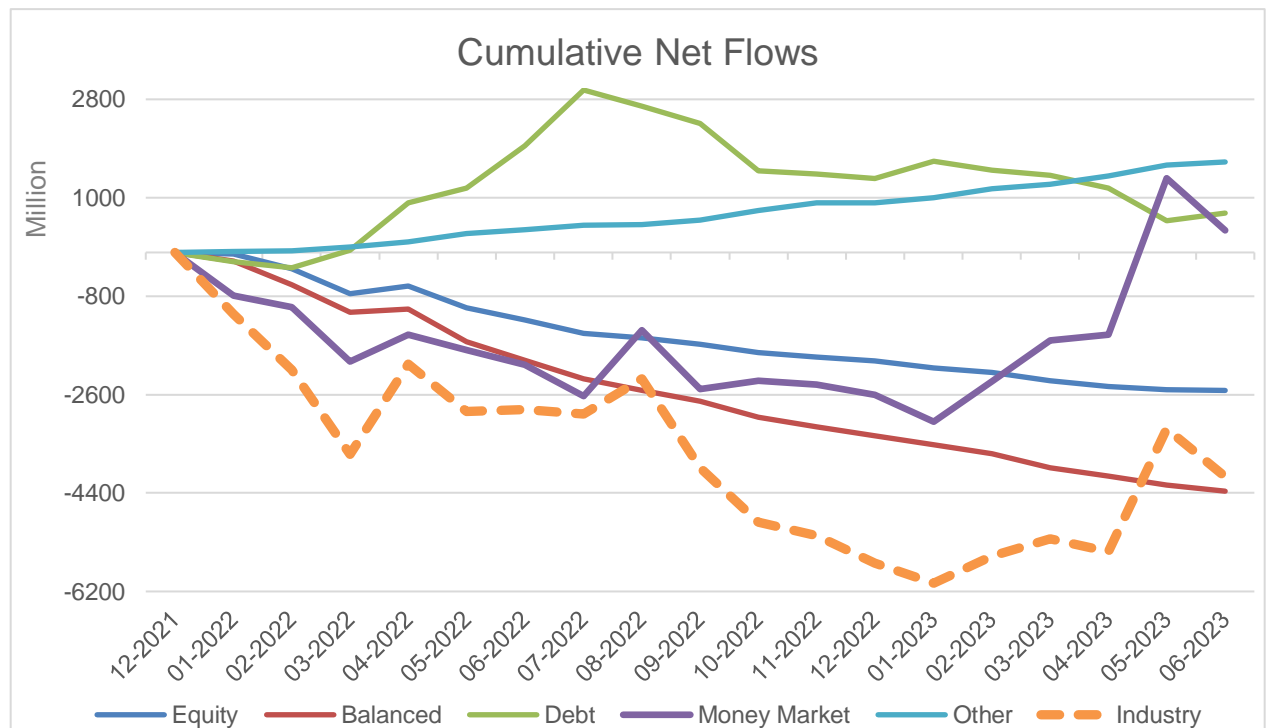
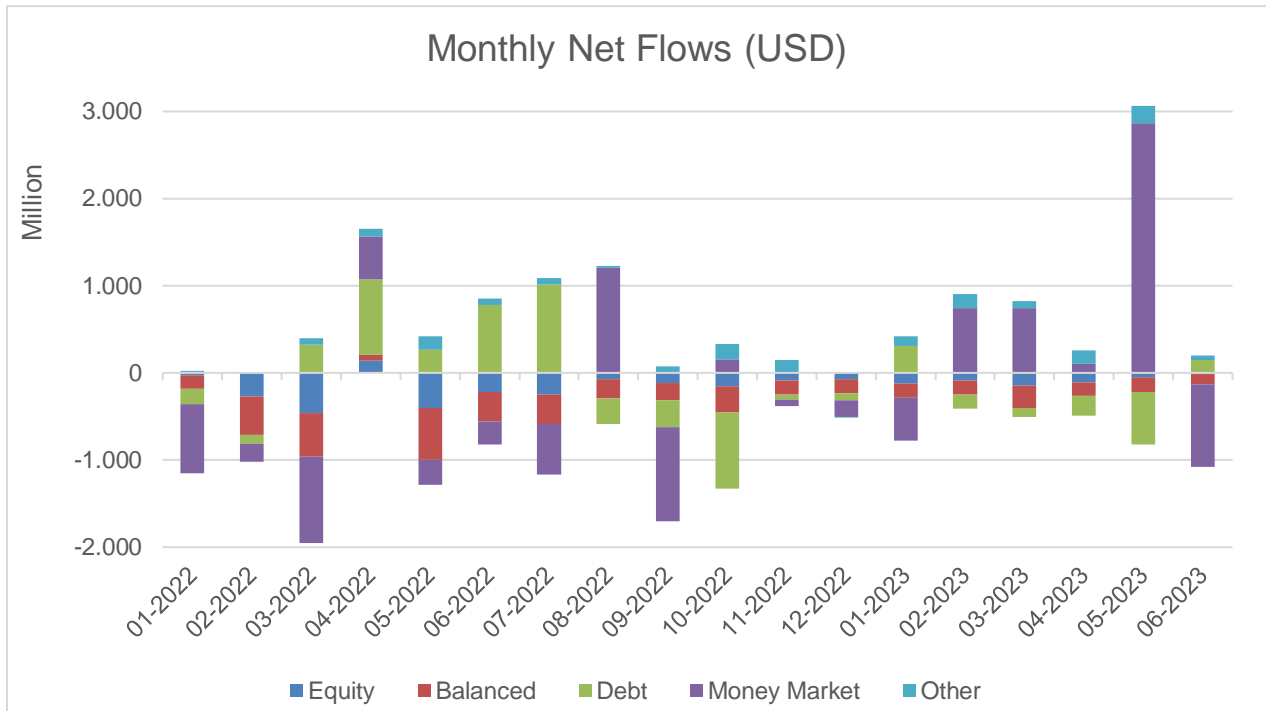
As said before, industry resources were mainly invested in Chile. Over the past few months, foreign investment has exhibited a consistent decrease since its peak in the final months of 2021 (21%), currently concentrating 9% of the industry assets. The foreign investment was made mostly through balanced and equity funds. Analyzing the foreign investment, most of the industry resources are allocated in the USA. A table below shows foreign investment by region.



Foreign investment by region (million USD)				
Region	Dec. 2021	Jun. 2022	Dec. 2022	Jun. 2023
North America	6,037	3,785	3,179	2,612
East Asia & Pacific	1,944	1,375	949	897
Europe & Central Asia	2,093	1,092	736	775
Latin America & Caribbean	842	721	682	616
Other	999	753	738	776

3. Key trends in flows and assets under management

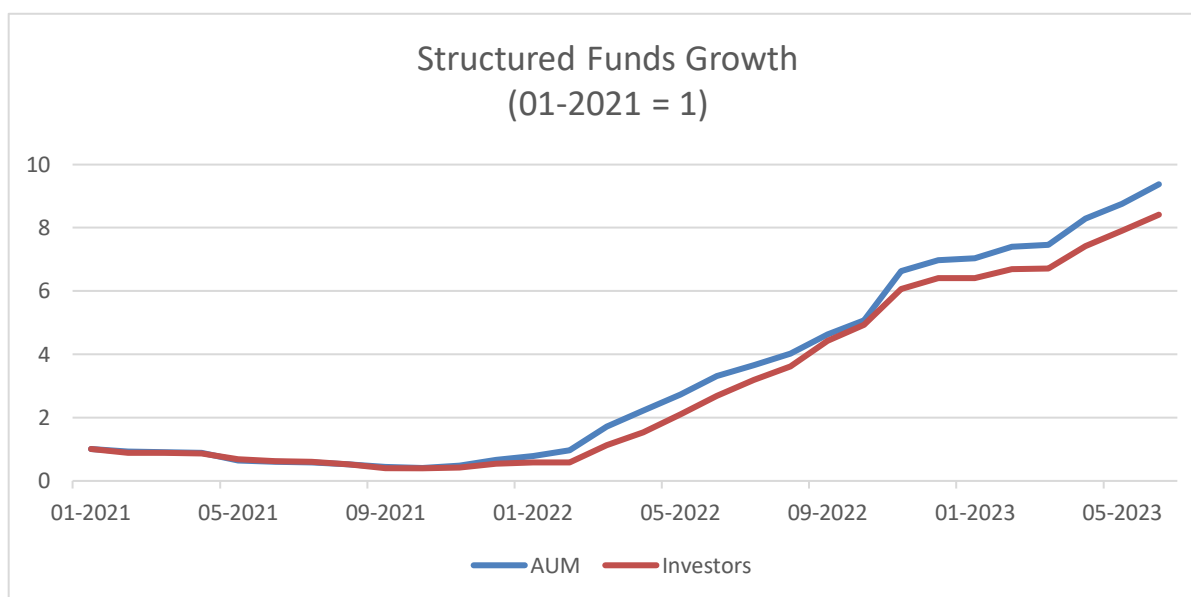
Three key trends in flows and AUM can be identified in the Chilean Mutual Funds Industry. First, industry inflows and outflows are driven mostly by debt funds, including money market funds, meanwhile, equity and balanced cumulated flows are negative, in contrast with the other categories. Additionally, the cumulative outflow from debt funds observed in 2021 contrast with the positive cumulated flows observed in 2022 and 2023.



4. Product developments

Structured Funds

During the last two years, the mutual funds industry in Chile has experienced growth of structured funds. To this day, there are 11 financial institutions offering 70 different structured funds, with more than 130 series for several types of investors searching for a low-risk investment alternative. The number of participants keeps growing day by day, reaching more than 49,000 in June 2023. Structured funds represented 4,3% of the industry (2,7 billion USD) by the end of the first semester.



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 concern regarding sustainability, for which the industry has been adopting several investment commitments to attend ESG. Today, the AUM of ESG funds reaches 237 million dollars and 22.657 investors (which represents almost 0.72% of total equity without the Money Market).

Currently, 14 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.

5. Regulatory and self-regulatory developments

5.1 Regulatory

The regulatory changes that the association addressed during the period were as follows:

- Rule No. 1514

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

Pronouncement of the SII (Chilean IRS) regarding the registration of mutual fund shares by companies that are taxed on an effective income basis and keep full accounting records. In summary, it indicates that the company must apply price-level restatement to the assets representing the mutual funds.

- Rule No. 1610

Refers to the merger of funds, concludes that participants maintain the tax treatment to which their investments were originally taxed (applies to absorbed and absorbing mutual funds).

- Article 107 of the LIR (Chilean income tax law): Law N°21.420, reduces or eliminates tax exemptions.

On September 1, 2022, instructions were sent to implement Law No. 21,420, which amended Article 107 of the LIR, establishing a single tax rate of 10% on the higher value obtained from the disposal (among others). In this regard, Rule No. 485 of the CMF (Chilean regulator) was sent, which defines instructions to determine the closing price as of December 31, 2021, of shares, quotas of investment funds and mutual funds. The Association participated in the consultative process of the CMF for the implementation of this change and analyzed Rule No. 39 of the SII, which includes tax treatment of the higher value obtained in the sale or redemption of securities established in Article 107 of the LIR.

- Rule No. 1416 regarding the exchange rate used to determine the higher value in the case of funds accounted for in dollars.

In turn, the association participated in the following consultation processes carried out by the regulator:

- Rule N°467 and 468: Authorization for the existence of special corporation

In a consultation process carried out in January, the AFM highlighted the benefits of providing a regulatory framework that consolidates the requirements for the authorization of the existence of a special corporation, as well as for the start-up of operations of an AGF (General fund management company).

- Rule N°472: investment advisory services

In March, observations were submitted to the draft regulations related to investment advisory services. In this regard, regulatory consistency was achieved, since it was requested that the regulator promote similar requirements when the same principles exist, including ongoing training programs and accreditation of knowledge in accordance with Rule No. 412, which regulates the accreditation of knowledge for the mutual fund industry.

- Rule N°485: closing price

In August, the AFM participated in the consultation of the regulatory project related to instructions to determine the closing price as of December 31, 2021, of shares, quotas of investment funds and mutual funds for the purpose of calculating the higher value of funds under article 107 of the LIR. In this regard, it should be noted that no differences were observed in the quota values specified in the project compared to the records of the AFM.

- Rule N°488: reporting obligations with respect to funds destined to the Chilean Fire Brigade

In October, observations were presented to the draft regulation, in which it was mentioned, among others, the interpretation that the CMF should not be informed of the data of all the deceased, but only those that trigger the transfer of funds to firefighters; how to proceed with the term deposit; the tax scope of the redemption and deposit-taking operation; who has the obligation to report the death of a participant; and given the nature of the funds, not to carry out a daily follow-up of the deceased participants, but only those that trigger the transfer of funds to firefighters; tax implications of the operation of redemption and deposit taking; who has the obligation to report the death of a participant; and given the nature of the funds, not to carry out daily follow-up of deceased participants, but to define a broader periodicity, for example, annually; among others. It is worth mentioning that a query was included regarding whether the individualization of each of the participants whose money is to be delivered to Firefighters can be published (without the details). In this regard, the regulator has not yet made any statement regarding the operability of the Rule, nor has it clarified the requirements it imposes.

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 public while promoting best 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 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 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 *

6.1 ESG

Continuing with last year's implementation of Rule No. 461, the association participated and made progress on the following ESG-related items:

- Creation of AFM Sustainability Committee

A Sustainability Committee was formed to raise concerns and anticipate eventualities affecting the industry. This committee has the support and supervision of Board member and begun sessions in March 2023.

- Green finance roundtable

The Ministry of Finance followed up on the commitments of the different market players subscribed to in the green agreement. On 2023, this instance resumed its activities on July 6, 2023. The aim is to continue the collaborative work of this initiative and follow up on the commitments acquired under the Green Agreement.

- ESG presence in the industry

To date, around 23,000 unitholders invest in ESG funds with total assets under management of around \$237 Million USD. In turn, 14 FFAs are subscribed to PRI and there are 16 ESG-categorized funds.

6.2 Gender Equality

- Ministry of Women and Gender Equity: Women's participation in the industry roundtable.

In May, a public-private roundtable was formed to define best practices associated with the participation of women in the financial industry. After several meetings, with the participation of the Ministry of Woman and more than 20 institutions, a decalogue of best practices to promote women's participation in the financial sector was drawn up.

7. Fund governance

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.

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		

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 initiatives, we try to reach different age groups and conditions. To date, the AFM has elaborated collaboration proposals for more than 300 education institutions and municipalities, working or 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 2022, with the return of face-to-face mandatory classes, the workshop has been developed/implemented in 40 schools across the country, reaching more than 3,400 new students. Of the total number of students who participated, 80% completed the

workshop. This reflects an improvement compared to 2020 and 2021, where the workshop completion rate was 60% and 63%, respectively.

- From 2016 to date, the impact of Taller a Fondo is 17,908 students. It should be noted that in 2022 a school from Punta Arenas (Magallanes, southernmost region of Chile) joined the program, so the initiative has been present in ten regions of the country: Tarapacá, Antofagasta, Coquimbo, Valparaíso, Metropolitan, Biobío, Araucanía, Los Lagos, Aysén and Magallanes.
- This program is provided at no cost to schools.

Educational campaigns in higher education institutions (universities, technical training centers, professional institutes):

- a. Labor insertion course for employment and self-employment:** For the ninth consecutive year, through the course "Job placement for employment and self-employment" and in partnership with Worth Learning, tools and knowledge for informed decision making on personal finance, savings and investment were provided to young people in higher education who are about to graduate and go out into the marketplace. During 2022, more than 28,836 students from 15 higher education institutions took the course, accumulating a reach since 2014 close to 180,000 young people throughout Chile.
- b. Talks and presentations in Higher Education Institutions and towards industry participants:** As part of AFM's Financial Education program, financial planning talks are held every year, mainly aimed at higher education students, with the objective of contributing to the understanding of financial concepts and products. During 2022, 3 face-to-face talks were held at the following institutions: Universidad Gabriela Mistral, Escuela Militar, and Universidad Santo Tomás. The speakers were: Board member of the AFM, development manager of the AFM, and CEO of the AFM.

Digital Media: Since 2014, the AFM has been present on Facebook and X pages of AFondochile and FondosmutuosCL, respectively, and on the LinkedIn page, called Fondos Mutuos Chile. At the same time, progress has been made in having an active presence on Instagram with the association's account, @fondosmutuoschile, disseminating financial education content. 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. The meetings focused on sharing the basic criteria for categorizing funds according to effective investment policy, as well as methodologies for calculating different indicators and rankings, with emphasis on the importance of having methodologies that are replicable, transparent to the public and not misleading.

The Association had a total of 81 press appearances in 2022, with January being the month in which it achieved the greatest presence in the media, with 14 appearances. These publications were in print, digital and television media.

Financial Education Award (PEF, by its acronym in Spanish): For ten years, the Association has organized PEF, this award recognizes the excellence, thoroughness, and quality of a good article and thus its journalistic work in the financial sector, specifically in matters related to savings and investment.

Mystery shopper study: The AFM has been conducting a study since 2011 to evaluate financial advice on mutual fund web platforms and mobile apps. In 2022, they presented the results of the ninth edition, focusing on "expert" users. Along with the results, they delivered a "best practices" guide that highlights the importance of financial education, simplifying language and improving investment processes. The purpose is to improve customer service, promote the digitization of the mutual fund industry and increase the financial well-being of investors.