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CHILEAN CENTRAL BANK INCREASES UPPER THRESHOLDS FOR THE INVESTMENT IN ALTERNATIVE ASSETS BY PENSION FUNDS

The Chilean Central Bank increased the upper thresholds for the investment in alternative assets by Pension Funds type A, B, C, and D, with the purpose of "promoting the diversification of Pension Funds' portfolios, granting them access to a better combination of risk and return". In the case of Pension Funds type E, the former limit was kept.

Therefore, the limits were modified as indicated below:

	Fund A	Fund B	Fund C	Fund D	Fund E
New Limits	13%	11%	9%	6%	5%
Previous ...	10%	8%	6%	5%	5%

These new limits have been included in Chapter III.F.4 of the Chilean Central Bank's Compendium of Financial Rules (Compendio de Normas Financieras (CNF) del Banco Central).

Chilean Pension Funds can invest in alternative assets since 2017. The concept of alternative assets for these purposes refers to securities, operations and contracts representing real estate assets, private equity, private debt, infrastructure and other assets traded in private markets.

The Chilean Central Bank's announcement comes in a key moment in relation to the investment of institutional investors (including Pension Funds) in alternative assets, and specifically in private equity and private debt securities. Indeed, in connection with the economic consequences generated by Covid-19, the CEO of the Chilean Association of Pension Fund Administrators (Asociación de AFP), Fernando Larraín, had proposed the creation of a fund in which Pension Funds, together with other institutional investors, can grant financing to small and medium-sized local enterprises. According to the Pension Fund Administrators' initiative, this fund should be

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organized as a listed fund (fondo de inversion público), raise an initial capital of at least USD 1 billion, focus on granting loans to local entrepreneurs in a massive scale, and have some form of state guarantee.

Also, during the last year Carey, together with the Chilean Venture Capital Association (ACVC - Asociación Chilena de Venture Capital), the Chilean Entrepreneurs Association (ASECH - Asociación de Emprendedores de Chile), the Ministry of Finance, the Ministry of Economy, and Congressmen from various political parties, have been working at a multi-sectoral table to facilitate the investment by pension funds in alternative assets related to the venture capital industry (as already occurs in the United States or Mexico) and impulse the formation of a public-private feeder fund.

It will be of high interest to follow the evolution of this discussion, in which a key factor are the investment limits that Pension Funds will have for this type of asset and how these limits interact with other thresholds applicable to the Pension Fund Administrators' portfolios.

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