

# ANNUAL REPORT FINANCIAL COMMITTEE

Advisory Committee to the Ministry of Finance  
for Chile's Sovereign Wealth Funds

2024

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Ministry of Finance's Financial Committee.  
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# Preface

As stipulated in the Fiscal Responsibility Law of 2006, the Financial Committee was created in 2007 to advise the Finance Minister on the investment of Chile's two Sovereign Wealth Funds: The Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF). The Financial Committee is an independent external advisory board, whose members have a vast experience in economic and financial areas. The Committee meets periodically to analyze matters relating to the investment of the funds. This Report—the eighteenth prepared by the Committee—describes its work and activities in 2024.

The publication of this Report fulfills the requirement established under Decree N° 621, issued by the Ministry of Finance in 2007, which stipulates that the Committee must present an annual report on its work to the Finance Minister and submit a copy of this report to the Finance Commissions of the Senate and the House of Representatives and to the Joint Budget Commission.

The Committee

## Executive summary

At the close of 2024, the market value of the funds was US\$ 12,996 million, of which US\$ 3,618 million was in the ESSF and US\$ 9,378 million was in the PRF. The net return in dollars in the year was -0.13% for the ESSF and 4.97% for the PRF,<sup>1</sup> while in pesos it was 12.01% and 17.73%, respectively. In the case of the ESSF, the strategic asset allocation by year end was 81.0% in sovereign bills and bonds, 4.0% in inflation-linked sovereign bonds and 15.0% in U.S. agency MBS. For the PRF, the strategic asset allocation was 34.0% in sovereign and government-related bonds, 8.0% in inflation-linked sovereign bonds, 6.0% in U.S. agency MBS, 13.0% in corporate bonds, 8.0% in high yield bonds, and 31.0% in equities.

**Member Pablo García Silva**

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<sup>1</sup> The returns published in this report are based on the time-weighted rate of return (TWR) methodology, unless the use of the internal rate of return (IRR) is explicitly identified. 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.

# Members of the Financial Committee



## **President Juan Andrés Fontaine Talavera**

Mr. Fontaine holds a degree in Business Administration from the Universidad Católica de Chile and a Master's degree in Economics from the University of Chicago, where he also undertook doctoral studies. He has previously served as Minister of Economy, Minister of Public Works, Research Director at the Central Bank of Chile, and board member for various companies. He was a Professor at the Universidad Católica de Chile and the Universidad de Chile, as well as a Visiting Professor at the University of California, Los Angeles (UCLA). He currently works as an economic and financial consultant. Mr. Fontaine joined the Committee in August 2021.



## **Vice President Jennifer Soto Urrea**

Ms. Soto holds a degree in Business Administration and Master in Finance from the University of Chile. She currently serves as Director of different companies, including Banco Bice, Bicecorp, Bicevida, Paz Corp, and Fundación Camino. She is a lecturer on the Master's Degree in Finance at the University of Chile and the Executive Master's Degree in Finance and Investments at the ESE Business School. In addition, she is a member of the Circle of Directors and Women Corporate Directors. Previously, she was Fixed Income Manager at Bice Vida Compañía de Seguros. She joined the Committee in August 2022.



## **Member Nicolás Eyzaguirre Guzmán**

Mr. Eyzaguirre holds a degree in Business Administration and a Master's degree in Economics from the Universidad de Chile, and a Master's degree in Economics from Harvard University, where he also undertook doctoral studies. He previously served as Minister of Finance, Secretary-General of the Presidency, Minister of Education, Research Manager and Director at the Central Bank of Chile, Executive Director and Director of the Western Hemisphere Department at the International Monetary Fund, Chairman of the Chilean National Innovation Council for Competitiveness, Chairman of the Canal 13 corporate group, and Professor at the Universidad de Chile, Universidad de Santiago de Chile, Harvard University, and other universities. He currently works as a consultant. He joined the Committee in August 2021.



Mr. García holds a degree in Business Administration and a Master in Economics from the Pontificia Universidad Católica de Chile, with a Ph.D. in Economics from the Massachusetts Institute of Technology. He was Director and Vice President of the Central Bank of Chile, previously holding the positions of Manager of the Research Division and Chief Economist, Manager of the Financial Policy Division, Manager of Macroeconomic Analysis and Manager of Financial Stability. He was Executive Director and Alternate Director of the Southern Cone Chair of the IMF, where he also chaired the Board's Ethics Committee. He is currently a Professor at the Business School of the Universidad Adolfo Ibáñez. He joined the Committee in September 2024.

**Member Marco Morales Sepúlveda**



Mr. Morales holds a degree in Business Administration from Universidad de Santiago, with a Master and Ph.D. in Economics from the Boston University. He has been an Advisor to the Technical Investment Council of the Superintendency of Pensions, Head of the Market Studies and Development Division of the Superintendency of Securities and Insurance and Advisor to the Ministry of Finance. He has been a Professor at the Pontificia Universidad Católica de Chile and Universidad de Chile and is currently a Professor in the Economics Department of Universidad Diego Portales. He joined the Committee in September 2024.

**Member Marcela Valenzuela Bravo<sup>2</sup>**



Ms. Valenzuela holds a degree in Industrial Civil Engineer and Master of Science in Engineering from the Pontificia Universidad Católica de Chile, PhD in Finance from the London School of Economics and Political Science. She is currently a professor at the School of Management of the Pontificia Universidad Católica de Chile, an Associate Researcher at the Center for Systemic Risk at the London School of Economics and Political Science and an Associate Researcher at the Millennium Institute on Market Imperfections and Public Policies. In addition, she was a professor in the Department of Industrial Engineering at the University of Chile and a researcher at the Institute of Infrastructure and Environment of the School of Engineering of the University of Edinburgh. She joined the Committee in August 2022.

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<sup>2</sup> Marcela Valenzuela submitted her resignation from the Financial Committee on 26 December 2024.

Chapter 1

Fiscal Policy and the  
Funds' Objectives,  
Institutional  
Framework, and  
Investment Policy

## A. Fiscal policy

Since 2001, Chile's fiscal policy is guided by a structural balance rule or, more precisely, a cyclically adjusted balance rule,<sup>3</sup> which mitigates the effect on public finances of fluctuations in economic activity and the copper price. This implies saving in boom times and being able to use those savings during periods of lower economic activity. On the other hand, as of 2022,<sup>4</sup> fiscal policy is anchored to a medium-term debt level to provide predictability to debt dynamics in that term.<sup>5</sup> Based on the above, the aim is to achieve fiscal sustainability. As a result, the fiscal rule has a stabilizing effect on public finances and the economic cycle and improves access to financing for both the public and private sectors.

## B. Objectives and rules on the use of the funds

To ensure the sustainability of public spending overtime and contribute to the competitiveness of the economy, Law 20,128 on Fiscal Responsibility was passed in September 2006. This law created the PRF and authorized the President of the Republic to create the ESSF, which was then officially established in February 2007. These two funds accumulate the resources resulting from the application of the structural balance rule as detailed below.

### Objectives

The funds created under the Fiscal Responsibility Law (sovereign funds) have defined objectives. In the case of the ESSF, its objective is to accumulate resources to finance fiscal deficits. The new administration reinforced this objective through the amendments to the Fiscal Responsibility Law approved by the National Congress in July 2024 (see Chapter 3, Section C), which establish that the main purpose of the fund is to stabilize public finances over time in the face of abrupt changes in the economic cycle and extraordinary events. In the case of the PRF, its objective is to complement the financing of fiscal obligations arising from the Universal Guaranteed Pension (UGP), the basic disability pension and the disability solidarity contribution (DSC).<sup>6</sup> In this way, the fund supports the financing of future contingencies in the pension system.

### Rules on fund contributions

The rules on establishing the funds and accumulating resources therein are established by law (see Figure 1).<sup>7</sup>

Before August 2024, the PRF received an annual contribution equivalent to 0.2 percent of the previous year's GDP. If the effective fiscal surplus exceeded 0.2 percent of GDP, it received an additional contribution equivalent to that surplus up to a maximum of 0.5 percent of GDP. However, starting in August 2024, considering the amendments to the Fiscal Responsibility Law approved by the National Congress in 2024, the PRF will receive an annual contribution only if an

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3 The structural balance rule (or cyclically adjusted balance rule) has undergone some changes since it was first implemented. For a detailed discussion of its design, modifications, application and results, see Marcel, Tokman, Valdés and Benavides (2001); García, García and Piedrabuena (2005); Rodríguez, Tokman, and Vega (2006); Velasco, Arenas, Rodríguez, Jorratt and Gamboni (2010); Comité Asesor para el diseño de una política fiscal de balance estructural de segunda generación para Chile (2011); Larraín, Costa, Cerda, Villena and Tomaselli (2011); Schmidt Hebbel (2012); Velasco and Parrado (2012) and the Budget Office (2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022 and 2023).

4 Decree 755, of 2022, which establishes the bases of fiscal policy in accordance with the provisions of Article 1 of Law N° 20,128 on fiscal responsibility.

5 Law No. 21,683, aimed at promoting responsibility and transparency in the management of the state, was approved by the National Congress in July 2024. It establishes that each administration must set the foundations of fiscal policy, its impact on the structural balance, and a gross debt anchor. It is worth noting that this administration established in 2022 that the structural balance rule should be anchored to a gross debt level of 45% of Gross Domestic Product.

6 Law No. 21,419, which created the UGP, modified the objective of the PRF in the Fiscal Responsibility Law in January 2022. Prior to this reform, the objective of the fund was to support the financing of the fiscal obligations arising from the 2008 Pension Reform, specifically, basic solidarity pensions for old age and disability, as well as solidarity pension contributions for old age and disability.

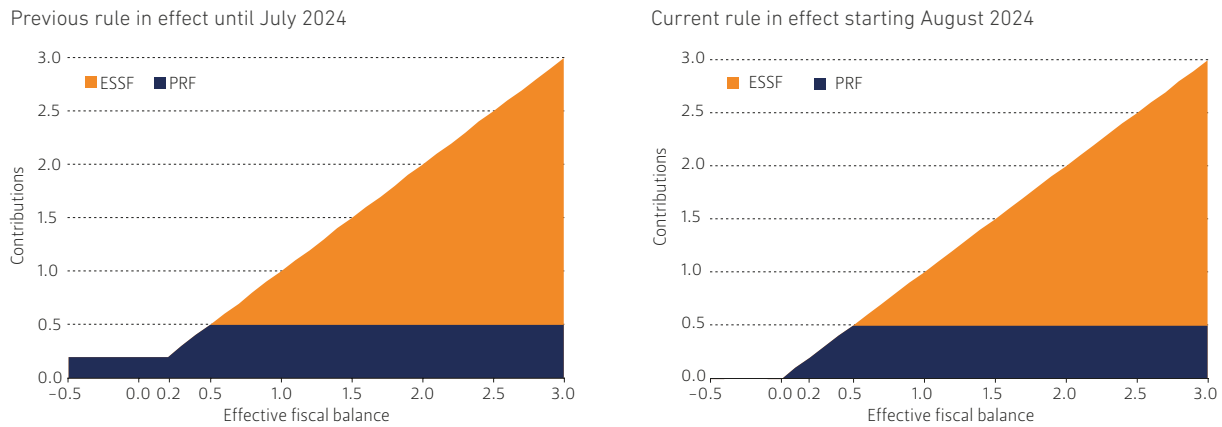
7 For the PRF, the Fiscal Responsibility Law; for the ESSF, Statutory Decree (DFL) N° 1, issued by the Ministry of Finance in 2006.

effective surplus was recorded in the previous year, up to a maximum of 0.5 percent of GDP. Contributions to the PRF must be made only until the year in which the resources accumulated in the fund reach an amount equivalent to UF 900 million (*Unidad de Fomento*, UF).<sup>8</sup>

The ESSF increases each year by the balance, only if positive, that results from deducting from the effective fiscal surplus the contribution to the PRF, public debt amortizations and any early contributions made to that fund.<sup>9,10</sup> Additionally, it may receive extraordinary contributions from asset sales or debt issuances.

**FIGURE 1**

Previous and current rules for the accumulation of the funds  
(percent of GDP)



Source: Ministry of Finance of Chile

### Rules on the use of the funds

Between 2022 and 2024, the amount of PRF resources that could be used each year could not exceed 0.1% of the previous year's Gross Domestic Product.<sup>11</sup> However, within the framework of the amendments to the Fiscal Responsibility Law approved by the National Congress in July 2024, the Minister of Finance must define a withdrawal rule aimed at maintaining the real value of the fund's capital and ensuring stability and continuity in the amount that may be withdrawn each year.<sup>12</sup>

<sup>8</sup> Law No. 21,225, which established measures to support families and micro, small, and medium-sized enterprises due to the impact of COVID-19, suspended contributions to the PRF in 2020 and 2021 under its Article Four.

<sup>9</sup> Current legislation allows public debt amortizations and early contributions to the ESSF to be made using resources from the current year's fiscal surplus that are required to be deposited into the fund in the following year or years.

<sup>10</sup> The amendments to the Fiscal Responsibility Law approved in July 2024 establish that making contributions to the fund is optional when the effective surplus is lower than the structural balance.

<sup>11</sup> Law N° 21,419, which created the Universal Guaranteed Pension, modified in January 2022 the PRF withdrawal rule established in the Fiscal Responsibility Law. Prior to this reform, the amount of PRF resources that could be used annually should not exceed one-third of the difference between the respective year's expenditure on pension obligations to the Fisco and the inflation-adjusted pension expenditure in 2008. Notwithstanding the foregoing, within the framework of the pandemic, Article 19 of Law No. 21,227 established that the amount of resources to be withdrawn from the PRF during the years 2020 and 2021 would correspond to the total difference between the social security obligations expenditure for the respective year and the total expenditure made for this concept in 2008, adjusted for inflation.

<sup>12</sup> However, the Budget Law approved for 2025 establishes that if this rule is not defined by 31 March, 2025, up to 0.1% of the previous year's GDP may be withdrawn from the PRF.

Starting from the amendments to the Fiscal Responsibility Law approved by the National Congress in July 2024, the PRF will be dissolved if the total value of its assets valued as of July of the respective year does not exceed 0.5% of the previous year's GDP. If the PRF is dissolved, its balance must be transferred to the ESSF.

For its part, the resources of the ESSF may be used at any time with the purpose of supplementing the fiscal revenues needed to finance authorized public expenditure in the event of a fiscal deficit. In addition, these resources may be used for the regular or extraordinary amortization of public debt, including Recognition Bonds, and to finance the annual contribution to the PRF when determined by the Minister of Finance.

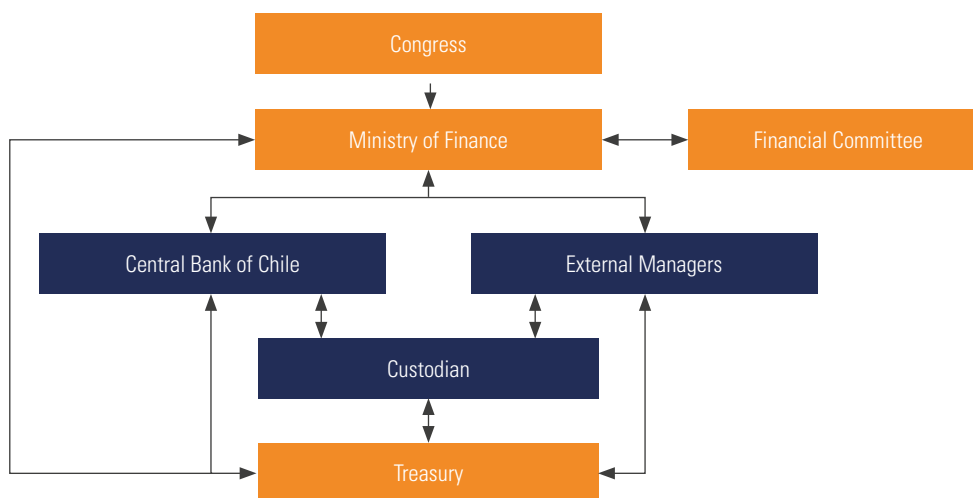
Withdrawals from the ESSF and the PRF are formalized through a decree issued by the Ministry of Finance (the Ministry or MoF).

### C. Institutional framework

The legal framework establishes a clear division of roles and responsibilities in order to ensure accountability and operational independence in the management of the funds. This section provides a brief description of the roles of each of the bodies involved in fund management (see Figure 2).

**FIGURE 2**

Institutional framework for Chile's Sovereign Wealth Funds



Source: Ministry of Finance of Chile

#### Ministry of Finance and dependent bodies

The Fiscal Responsibility Law establishes that the funds are the property of the Fisco of Chile and that the General Treasury (GTR) holds the legal title to the resources. The law authorizes the Finance Minister to make decisions on how the funds are managed and to dictate their investment policies. To this end, the Ministry of Finance draws up the investment guidelines, which define the criteria that must be followed by the funds' managers. The Ministry monitors the managers' performance and compliance with the investment guidelines and issues monthly, quarterly and annual reports on the state of the funds.

The GTR is responsible for the funds' accounting and the preparation of their audited financial statements, for monitoring compliance with the investment limits, for reconciling information on the portfolios from the managers and the custodian and for approving payments to the managers. The Budget Office is responsible for budgetary issues related to the funds.

## Central Bank of Chile

Through Decree N° 1,383 of 2006 ("Agency Decree"), modified by Decree N° 1,618 of 2012, the Ministry appointed the Central Bank of Chile (CBC) to the role of fiscal agent, with the following responsibilities: (i) manage portfolios comprising instruments that are eligible for investing the Bank's International Reserves; (ii) delegate the management of these portfolios to external managers; (iii) select external portfolio managers; and (iv) manage the custodian, among other duties. In carrying out these tasks, the CBC must follow the guidelines issued by the Finance Minister.

## External Managers

The external managers are international companies that have been contracted to manage a share of the Sovereign Wealth Fund investments. These firms are chosen based on a selection process carried out by the CBC, with the support of international consultants and Finance Ministry personnel.

In most cases, the Ministry is responsible for supervising the external managers, with support from the GTR; however, the CBC supervises external managers that invest in instruments that are eligible for its International Reserves.

Table 1 lists the external portfolio managers that were under contract at year-end 2024.

**TABLE 1**

Sovereign Wealth Fund external managers, 31 December 2024

External Manager	Supervision	PRF	ESSF
BlackRock Institutional Trust Company, N.A. (BlackRock)	Ministry/GTR	High yield bonds	
Management (UK) Limited (BlackRock)	Ministry/GTR	Corporate bonds	
BNP Paribas Asset Management (BNP Paribas)	CBC	U.S. agency MBS	U.S. agency MBS
Mellon Investments Corporation (Mellon)	Ministry/GTR	Equities	
Nomura Asset Management (Nomura)	Ministry/GTR	High yield bonds	
UBS Asset Management (Americas) Inc. (UBS)	Ministry/GTR	Equities	
		Corporate bonds	

Source: Ministry of Finance of Chile

It should be noted that in September 2024 the contract with Western Asset Management Company (Western), manager of US agency MBS in the ESSF and the PRF, came to an end. Its investment portfolios were transferred to BNP Paribas, which has since managed this entire asset class in both funds. Additionally, since April 2024, BlackRock has been managing part of the corporate bond portfolio. The firm was selected through a selection process carried out by the CBC.

## Financial Committee

The Fiscal Responsibility Law stipulates that the Ministry of Finance must establish an Advisory Committee to give advice to the Finance Minister on the Sovereign Wealth Funds (the Financial Committee). This Committee monitors the investment of the funds' resources and advises the Minister on the definition of the investment policies consistent with the funds' objectives. In compliance with these provisions, on 23 December 2006, the Finance Minister announced the establishment of both the Sovereign Wealth Funds and the Financial Committee. The Committee was then officially created through Decree N° 621, issued by the Ministry of Finance in 2007. In accordance with that decree, the Committee must be made up of six members who have experience in investment portfolio management, have held an executive position in a financial institution or have held or currently hold an academic post. The six Committee members are appointed for two years, with half the seats being renewed each year. The current and former members of the Financial Committee are presented in Appendix 1. The Committee's president receives a fee per session of 25.5 UTMs (*Unidades Tributarias Mensuales*, UTM), with an annual cap of 127.5 UTMs. The remaining members receive a fee of 17 UTMs per session, with an annual cap of 85 UTMs. The Committee must meet at least once every six months, but in practice it has met at least five times a year. A summary of the Committee's meetings during 2024 is presented in Appendix 2.

Decree N° 621 also stipulated the Financial Committee's functions and the rules of procedure for its proper functioning. Thus, the duties and powers of the Committee are as follows:

- To advise the Finance Minister, when requested, on key issues related to the funds' investment policy, such as the distribution of investments by asset class (asset allocation), the incorporation of new investment alternatives, the specification of portfolio benchmarks (see Box 1), the permissible range of deviation from the asset allocation and the limits on the funds' investment possibilities.
- To submit recommendations to the Finance Minister, when requested, on custody and investment instructions and on the tender and selection processes for the management of the funds' portfolios.
- To express an opinion at the request of the Finance Minister about the structure and content of the annual reports on the funds' portfolio management that are presented to the Ministry of Finance by the institution(s) responsible for their management or custody and, on the basis of these reports, to express an opinion about the funds' management and, particularly, its consistency with their investment policies.
- To express an opinion about the structure and content of the reports on the funds prepared quarterly by the Ministry of Finance.
- To advise the Finance Minister, when requested, on any matter related to the funds' investment.
- To express its views and recommendations regarding other matters related to the funds' investment policies, taking into account the principles, objectives, and rules that govern the funds.

To promote transparency, the Financial Committee decided that the decree regulating its activities, the minutes of its meetings, and the corresponding press releases should be publicly disclosed. The Ministry of Finance's website thus includes a special section containing all information on these issues.<sup>13</sup>

### **BOX 1: Portfolio benchmarks**

Portfolio benchmarks are representative market indexes for the different asset classes. In principle, they represent the passive investment performance of diversified portfolios invested in certain asset classes, where the return of each instrument is typically weighted by its relative share of market capitalization. The indexes are used as a reference for measuring the performance of the managers in charge of investing the funds.

Each asset class in an investment portfolio is associated with a benchmark. The benchmark for the total portfolio is thus constructed by weighting the selected indexes by the percentage allocation of each class, as defined in the investment policy.

Both the ESSF and the PRF have mainly passive investment policies. That is, their investment strategy aims to achieve the benchmark return.

## **D. Investment policy**

### **Economic and Social Stabilization Fund**

The main elements of the ESSF investment policy that came into force in November 2023 are outlined below:

**Investment objectives:** While the fund size is up to 5.0% of GDP, it is recommended to invest in a defensive portfolio whose primary objective is to maximize its market value in Chilean pesos during times of financial stress. Under such circumstances, it may become inconvenient to finance fiscal needs through bond issuance due to higher borrowing costs and potential adverse effects on sovereign spreads. Therefore, it is anticipated that under financial stress, the economic authority would prefer to use the ESSF. As a result, a portfolio with a high value under such circumstances is sought. It is understood that these assets must have high liquidity when Fisco requires them in such situations. If the fund size exceeds 5.0% of GDP, it is suggested to review the strategic asset allocation again with the objective of achieving higher long-term returns, particularly with respect to the resources that exceed that limit.

**Strategic asset allocation:** The ESSF investment policy stipulates a strategic asset allocation of 81% in sovereign bills and bonds, 4% in inflation-linked sovereign bonds, and 15% in U.S. agency MBS. The fixed-income portfolio has a currency allocation of 69% in USD, 19% in EUR, 9% in JPY, and 3% in CNY, expressed as a percentage of the total portfolio.

**Portfolio benchmarks:** A benchmark has been defined for each component of the strategic asset allocation, using a representative market index (see Table 2).

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<sup>13</sup> <https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds>.

**TABLE 2**

Benchmarks ESSF  
(percent of portfolio)

Asset Class	Benchmarks	Percentage of Portfolio
U.S. Treasury bills	ICE BofaAML US Treasury Bills Index	10
U.S. sovereign bonds (1-10 years)	Bloomberg Global Aggregate - Treasury: U.S. 1-10 Yrs	40
Europe sovereign bonds AAA/AA (1-10 years)	Bloomberg Euro Aggregate - Treasury: Aaa 1-10 Yrs <sup>1</sup> Bloomberg Euro Aggregate - Treasury: Aa 1-10 Yrs <sup>2</sup>	19 <sup>3</sup>
Japan sovereign bonds (1-10 years)	Bloomberg Global Aggregate - Treasury: Japan 1-10 Yrs	9
China sovereign bonds (1-10 years)	Bloomberg Global Aggregate - Treasury: China 1-10 Yrs	3
<b>Subtotal Treasury bills and sovereign bonds</b>		<b>81</b>
U.S. inflation-linked sovereign bonds (1-10 years)	Bloomberg Global Inflation-Linked: U.S. TIPS 1-10 Yrs	4
<b>Subtotal inflation-linked sovereign bonds</b>		<b>4</b>
U.S. agency MBS	Bloomberg US Mortgage-Backed Securities Index	15
<b>Subtotal U.S. agency MBS</b>		<b>15</b>
<b>Total</b>		<b>100</b>

<sup>1</sup> Luxembourg is excluded.

<sup>2</sup> Estonia and Ireland are excluded.

<sup>3</sup> Each subindex is aggregated according to its relative market capitalization.

Source: Ministry of Finance of Chile

**Management:** The portfolio of Treasury bills and sovereign bonds, as well as the portfolio of inflation-indexed sovereign bonds, is managed by the CBC. The portfolio of U.S. agency MBS is managed by external managers.

**Ex ante tracking error:**<sup>14</sup> The ex-ante tracking error is capped at 25 basis points for the sovereign fixed-income portfolio. For the U.S. agency MBS portfolio, the monthly average cannot exceed 20 basis points, provided that the maximum daily value does not exceed 30 basis points.

**Eligible currencies, issuers and instruments:** For each asset class, only currencies that are part of the corresponding benchmark are eligible. For issuers and instruments, those included in the benchmark are primarily allowed. Notwithstanding the foregoing, for each asset class, there are some eligible issuers and instruments that are not included in the corresponding benchmark and are allowed to provide greater flexibility to managers in the management of their portfolios. The most important ones are presented below:

- U.S. agency MBS: Debt instruments issued or guaranteed by the U.S. government or by MBS issuing agencies, interest rate futures, and TBAs.<sup>15</sup>

<sup>14</sup> The ex-ante tracking error is an estimate of the standard deviation of the difference between the portfolio and benchmark returns. The lower the ex-ante tracking error, the more passive the portfolio management.

<sup>15</sup> TBA or To Be Announced: Corresponds to MBS forwards. The term TBA is derived from the fact that the specific MBS to be delivered in the future to fulfill the transaction is not designated at the time the transaction is made. Instead, it is announced 48 hours before the established settlement date.

**Leveraging and the use of derivatives:** Leveraging is not allowed.<sup>16</sup> Regarding the use of derivatives, the use of forwards or swaps is allowed only for currency hedging, as well as futures for hedging purposes or that allow exposure to be obtained apart from the benchmark. The aggregate nominal amounts of futures, forwards and swaps may not exceed 10% of the portfolio.

**Rebalancing policy:** The portfolio must be rebalanced to the target asset allocation in the event of a fund inflow or outflow, or if any asset class deviates more than  $\pm 2\%$  from its target weight for thirty consecutive days.

**TABLE 3**

Rebalancing Policy ESSF  
(percent of portfolio)

Asset Class	Strategic Asset Allocation (Percentage of portfolio)	Allowable Deviation Range (Percentage of portfolio)
Sovereign fixed income	85	83 – 87
U.S. agency MBS	15	13 – 17

Source: Ministry of Finance of Chile

**Investment guidelines:** The investment guidelines, which are published in Spanish and English and available online at the Ministry of Finance website,<sup>17</sup> provide additional information on the ESSF investment policy, such as special restrictions on investment in specific countries and other relevant limits, as well as other aspects of portfolio management.

### Pension Reserve Fund

The Minister of Finance, based on the recommendations of the Finance Committee, divided the PRF into two investment portfolios in 2020: the Short-Term Investment Portfolio (STIP) and the Long-Term Investment Portfolio (LTIP).<sup>18</sup> In the first, the STIP, created in October of that year, most of the resources that were disbursed from the fund until June 2021 were kept there. Since then, this portfolio has remained without resources. In the other, the LTIP, resources with a medium- to long-term investment horizon are invested.<sup>19</sup> The LTIP investment policy is described below:<sup>20</sup>

<sup>16</sup> Leveraging is the purchase of assets through debt.

<sup>17</sup> <https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds/economic-and-social-stabilization-fund/investment-policy>.

<sup>18</sup> The Finance Committee recommended in 2020 to separate the PRF portfolio into two sub-portfolios. In the first, the STIP, the disbursements expected in 2020 and 2021 would be maintained, and in the other, the LTIP, the resources that would not be withdrawn in the short term would be maintained to invest them with a medium- to long-term investment horizon. For more information on this amendment, see Section B, Chapter 3, of the 2020 Financial Committee Report.

<sup>19</sup> For more information on this amendment, see Section B, Chapter 3, of the 2020 Financial Committee Report.

<sup>20</sup> For more information on the STIP's investment policy, see Section D, Chapter 1, of the 2021 Financial Committee Report.

## Long-term investment portfolio

**Investment objective:** The investment objective is to earn an expected annualized return in pesos of at least 2% over Chilean inflation in a ten-year period, with a probability of at least 60%. The risk tolerance establishes that the probability that the fund's real return will be less than -12%, expressed in pesos, must not be over 5% in any given year.<sup>21</sup>

**Strategic asset allocation:** The portfolio allocation is 31% equities, 34% sovereign and government-related bonds, 13% corporate bonds, 8% high yield bonds, 6% U.S. agency MBS, and 8% inflation-linked bonds.<sup>22</sup> In contrast to the ESSF, which has a fixed investment currency allocation, in the PRF the currency composition derives from the share of each currency in the benchmarks (see Box 2).

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<sup>21</sup> This objective was defined in the investment policy approved by the Minister of Finance in late 2017 but it must be revised considering the Minister's decision in 2020 to stop convergence to the strategic asset allocation of said policy (for more information see Chapter 3, Section B of the Annual Report of the Financial Committee 2020).

<sup>22</sup> The Finance Minister decided to maintain this strategic asset allocation that was in place for the fund in January 2020 when the decision was made to stop convergence to the investment policy defined in late 2017.

## BOX 2: Currency composition of the ESSF and PRF

The currency composition of the ESSF is directly linked to the strategic asset allocation assigned to each country. As shown in Table B2.1, the fund primarily invests in reserve currencies, which tend to strengthen during international crises that could prompt withdrawals. The currency composition of the ESSF also closely mirrors that of its benchmark, reflecting a passive management strategy.

**TABLE B2.1**

Currencies composition in the ESSF as of 31 December 2024  
(percent of portfolio)

Currency	ESSF	Benchmark
USD	69.2	69.0
EUR	18.8	19.0
JPY	9.0	9.0
CNY	3.0	3.0
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Ministry of Finance of Chile

The currency composition of the PRF is determined by the relative significance of each currency within the various benchmarks used by the fund. As shown in Table B2.2, the fund invests in a much broader range of currencies compared to the ESSF, due to its use of global indices across most asset classes.<sup>1</sup> Furthermore, the PRF's currency composition closely mirrors that of its benchmark,<sup>2</sup> reflecting a passive management approach in almost all asset classes.

**TABLE B2.2**

Currencies composition in the PRF as of 31 December 2024  
(percent of portfolio)

Currency	PRF	Benchmark
USD	58.7	56.9
EUR	16.2	16.4
JPY	6.3	6.4
GBP	4.9	5.0
CNY	4.9	5.1
CAD	2.5	2.4
AUD	1.3	1.2
HKD	0.8	0.8
KRW	0.9	0.8
CHF	0.8	0.8
SEK	0.3	0.3
Others	2.3	3.7
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Ministry of Finance of Chile<sup>1,2</sup>

- <sup>1</sup> U.S. agency MBS is the only asset class in the PRF invested solely in US dollars.
- <sup>2</sup> The difference observed between the PRF and the benchmark in USD is due to the use of ETFs for some restricted markets in the equity asset class where it has been decided not to invest locally due to operational costs or increased complexity (e.g., Taiwan, India, among others). Since these ETFs are traded in the U.S., they are considered invested in USD. However, from the benchmark's perspective, these restricted markets are reported in the "other currencies" category.

**Benchmarks:** A benchmark has been established for each component of the strategic asset allocation, using a representative market index (See Table 4).

**TABLE 4**

Benchmarks – LTIP  
(percent of LTIP)

Asset class	Percent of LTIP	Benchmarks
Sovereign and government-related bonds <sup>(a)</sup>	34	Bloomberg Global Aggregate: Treasury Bond Index (unhedged)
		Bloomberg Global Aggregate: Government-Related (unhedged)
Inflation-linked sovereign bonds	8	Bloomberg Global Inflation-Linked Index (unhedged)
Corporate bonds	13	Bloomberg Global Aggregate: Corporates Index (unhedged)
U.S. agency MBS	6	Bloomberg US Mortgage-Backed Securities (MBS) Index
High yield bonds	8	Barclays Global High Yield Index (unhedged)
Equities	31	MSCI All Country World Index ex Chile (unhedged, with reinvested dividends)

<sup>(a)</sup> The two subindexes of this asset class are added in accordance with their relative capitalization.

Source: Ministry of Finance of Chile

**Management:** The CBC directly manages the sovereign and government-related bonds portfolio and the inflation-linked bond portfolio. External portfolio managers manage the equity, corporate bond, high yield, and U.S. agency MBS portfolios.

**Ex ante tracking error:** The ex-ante tracking error has been set at 50 basis points for the aggregate portfolio of sovereign and government-related bonds and inflation-linked sovereign bonds, 60 basis points for the equity portfolio, 50 basis points for the corporate bond portfolio, and 150 basis points for the high yield bond portfolio. For the U.S. agency MBS portfolio, the monthly average cannot exceed 20 basis points, and the maximum daily value cannot exceed 30 basis points.

**Eligible currencies, issuers, and instruments:** For each asset class, only currencies that are included in the respective benchmarks are eligible for investment. Eligible issuers and instruments are mainly those included in the benchmark, but each asset class includes some eligible issuers and instruments that are not in the benchmark, so as to give the portfolio managers more flexibility in managing their portfolios. These include the following:

- U.S. agency MBS: debt instruments issued or guaranteed by the U.S. government or by MBS issuing agencies, interest rate futures and TBAs.
- Corporate bonds: market-traded futures and reopened issues that are comparable to the instruments included in the benchmark.
- High yield bonds: futures, reopened issues that are comparable to the instruments included in the benchmark, sovereign instruments and investment-grade bonds that leave the benchmark.
- Equities: ETFs, mutual funds, American Depositary Receipts (ADRs), Global Depositary Receipts (GDRs) and futures.

**Leveraging and use of derivatives:** The LTIP does not allow leveraging. The use of derivatives is differentiated by portfolio:

- Aggregate portfolio of sovereign and government-related bonds, and inflation-linked sovereign bonds: The use of forwards or swaps is allowed only for currency hedging, as well as futures for hedging purposes or that allow obtaining exposure to part of the benchmark. The nominal value of forwards or swaps contracted with a particular eligible counterparty may not exceed 1% of the market value of the portfolio if it has a risk rating of at least AA- and 0.5% if its risk rating is between A- and A+. The aggregate nominal amounts of futures, forwards and swaps may not exceed 10% of the portfolio.
- U.S. agency MBS: Exposure to TBAs cannot exceed 30% of the portfolio. The nominal amounts of U.S. interest rate futures valued at market price and expressed in absolute value cannot exceed 10% of the market value of the portfolio.
- Equities, corporate bond, and high yield bond portfolios: Each manager can only contract forwards or swaps for the purpose of currency hedging; and futures—equities or fixed-income, as indicated—for hedging purposes or to gain exposure to part of the benchmark. The nominal value of the forwards or swaps that are contracted by a given manager with a given eligible counterparty cannot exceed 3% of the market value of the portfolio under management. The aggregate nominal amount of futures, forwards, and swaps cannot exceed 10% of the portfolio of any given manager.

The investment guidelines for both, the STIP and LTIP, which are published on the Ministry of Finance’s website,<sup>23</sup> provide additional information on the PRF investment policy, including details on the admissible instruments and other key limitations, as well as other issues related to fund management

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<sup>23</sup> <https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds/pension-reserve-fund/investment-policy>.

Chapter **2**

State of the  
Sovereign Wealth  
Funds

## A. Analysis of the international economy

To better understand the recent performance of Sovereign Wealth Funds, this section summarizes the main events in the international economy during 2024.

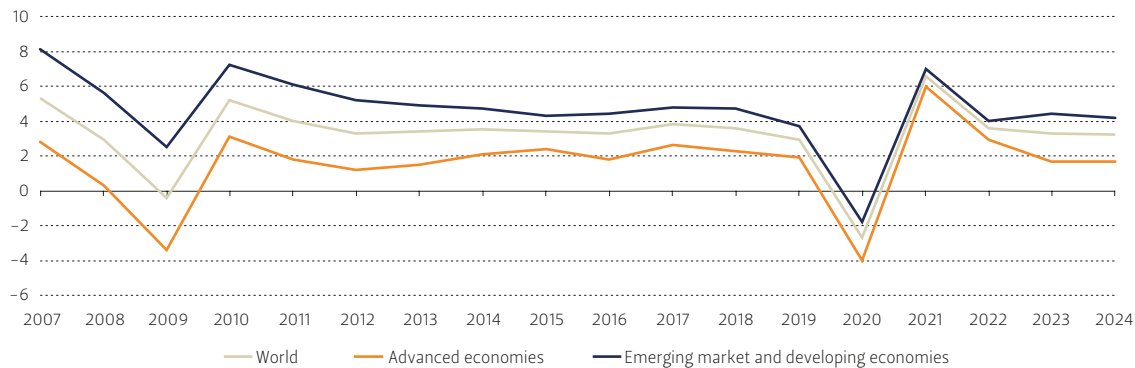
In 2024, the global economy faced a period of transition with significant challenges. Inflation, although declining, remained a key concern, leading several monetary authorities to maintain restrictive policies. Lower energy and food prices helped mitigate inflation, but underlying inflationary pressures were still felt in some areas.

Geopolitical tensions, including the conflict in Ukraine, instability in the Middle East, and trade relations between the U.S. and China, continued to affect international trade and global markets. The International Monetary Fund (IMF) estimated that the global economy grew by 3.2% in 2024, showing a slight decline from 3.3% in 2023, but still below pre-pandemic growth levels. This growth reflects a gradual recovery amid monetary and fiscal policies that sought to stabilize the global economy.

Overall, in this economic context, advanced economies experienced growth of 1.8% in 2024, compared with expansion of 1.7% in the previous year. On the other hand, emerging and developing economies recorded growth of 4.2% in 2024, slightly lower than the 4.4% recorded in 2023 (see Figure 3). Among developed economies, the U.S. and the United Kingdom showed higher relative growth of 2.8% and 1.1%, respectively (see Figure 4). In emerging and developing economies, India stood out with output growth of 7.0% (see Figure 5).

**FIGURE 3**

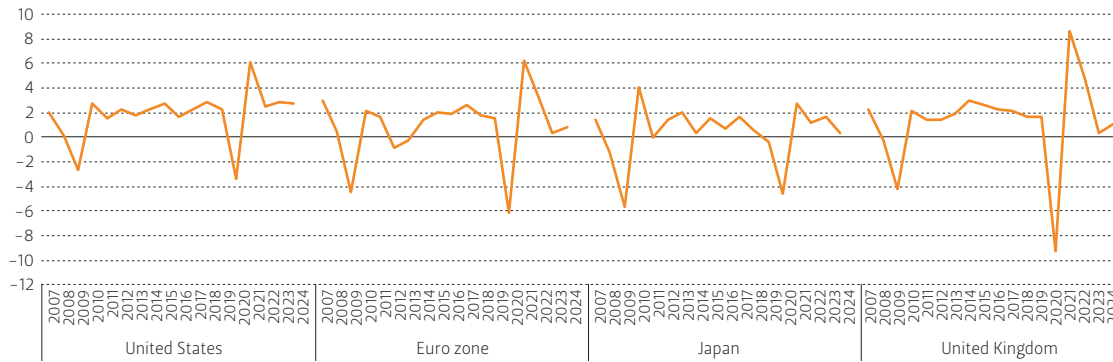
Real GDP growth, 2007 – 2024  
(percent)



Source: International Monetary Fund

**FIGURE 4**

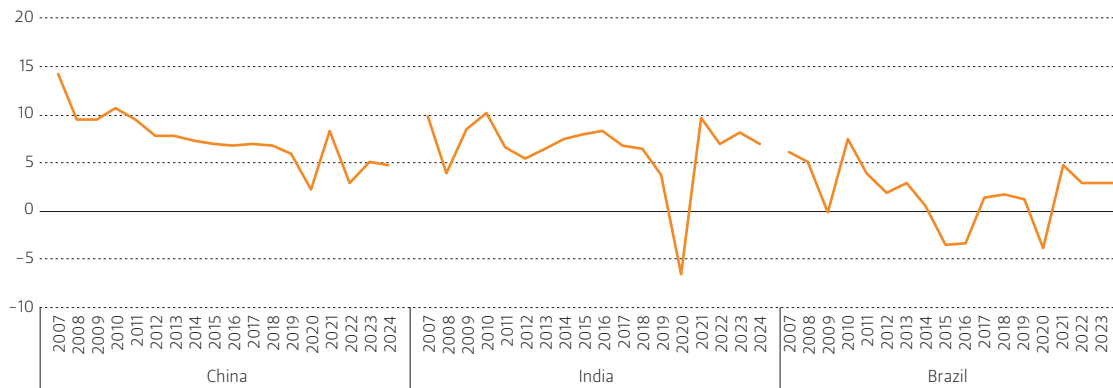
Real GDP growth in specific developed economies, 2007–2024  
(year-on-year change, percent)



Source: International Monetary Fund

**FIGURE 5**

Real GDP growth in specific emerging economies, 2007–2024  
(year-on-year change, percent)



Source: International Monetary Fund

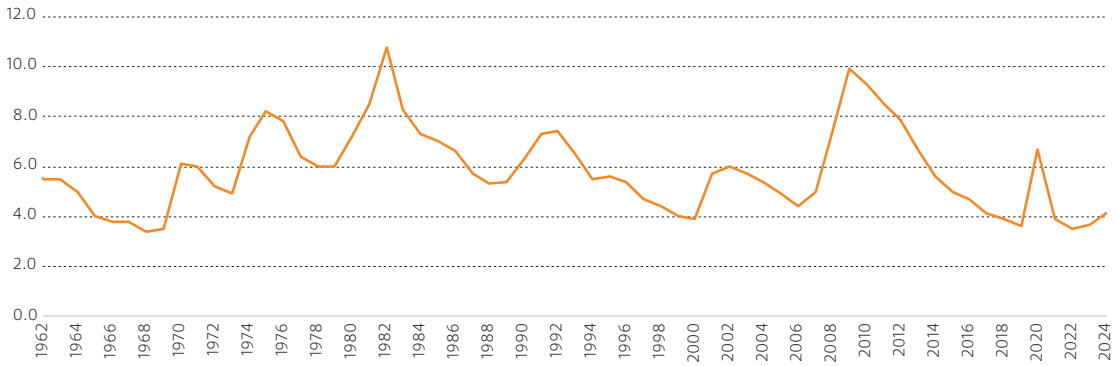
In the U.S., the unemployment rate in December 2024 was 4.1%, representing an increase from 3.7% the previous year and similar to the pre-pandemic level (see Figure 6). Nominal hourly wages increased by 3.9% at the end of the year (see Figure 7).<sup>24</sup> In terms of inflation, the general price index closed the year with an increase of 2.9%, representing a decrease from the 3.4% recorded in December 2023. However, this level remains above the annual target of 2% set by the Federal Reserve (FED). Core inflation, which excludes food and energy prices, registered an annual variation of 3.2% (see Figure 8).

In this context, the FED gradually adjusted its restrictive monetary policy stance, lowering the federal funds rate during 2024 to a range of 4.25% to 4.50% in December of that year.

<sup>24</sup> The low annual wage growth in April 2021 was primarily due to the high wage base in April of the previous year. Conversely, the wage increase in April 2020 was driven by a sharp decline in low-wage employment due to the pandemic.

**FIGURE 6**

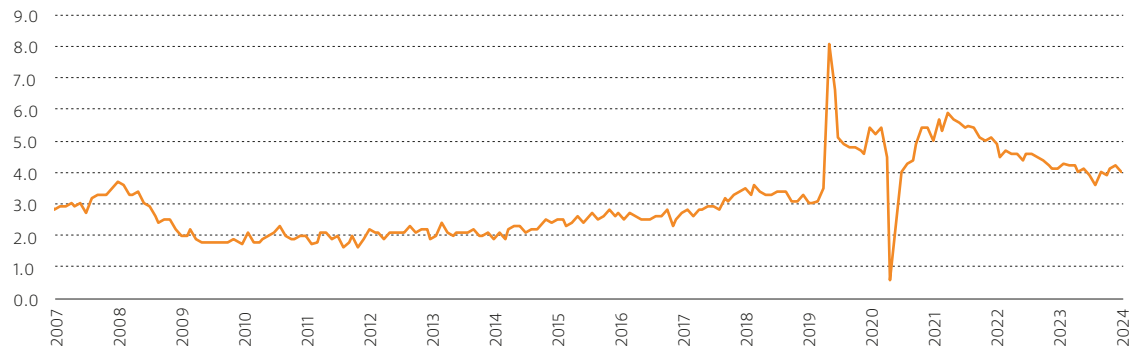
U.S. unemployment rate, 1962 - 2024  
(percent)



Source: Bureau of Labor Statistics

**FIGURE 7**

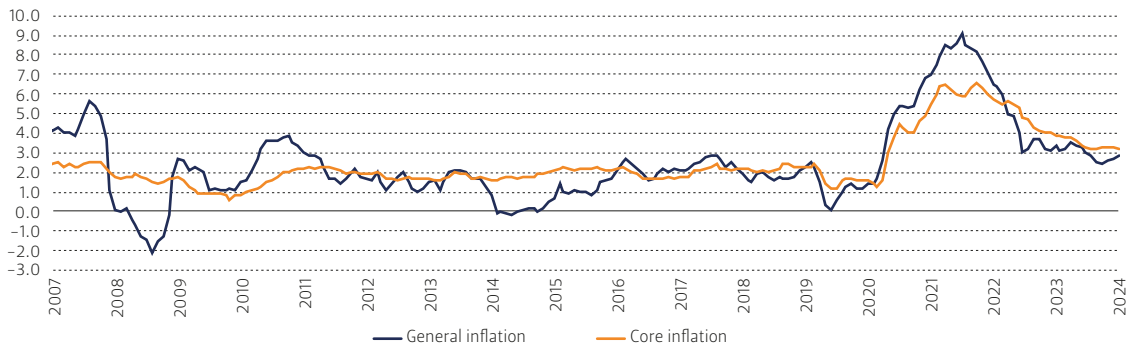
U.S. wage growth, 2007 - 2024  
(year-on-year change, percent)



Source: Bloomberg

**FIGURE 8**

U.S. consumer price index, 2007 - 2024  
(year-on-year change, percent)

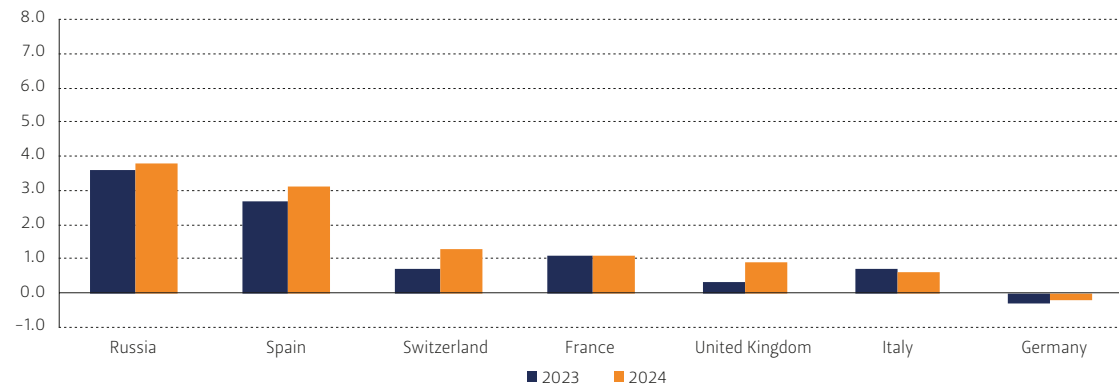


Source: Bloomberg

The Eurozone experienced a slight increase in economic growth, rising from an annual expansion of 0.4% in 2023 to 0.8% in 2024. Among selected European countries (see Figure 9), Russia and Spain performed best, with GDP increases of 3.8% and 3.1%, respectively. On the other hand, the inflation rate in the Eurozone closed the year at 2.4%, in contrast to the 2.9% recorded at the end of 2023 (see Figure 10). Unemployment fell throughout the year, ending December at 6.3% (see Figure 11). In this scenario, and in response to falling inflation, the European Central Bank (ECB) lowered the main interest rates it uses as part of its monetary policy. Thus, the interest rates on main refinancing operations, the marginal lending facility, and the deposit facility ended the year at 3.15%, 3.40%, and 3.00%, respectively.

**FIGURE 9**

Real GDP growth in selected European countries in 2023-2024  
(year-on-year change, percent)



Source: International Monetary Fund. Estimates

**FIGURE 10**

Eurozone annual inflation, 2007 – 2024<sup>25</sup>  
(percent)

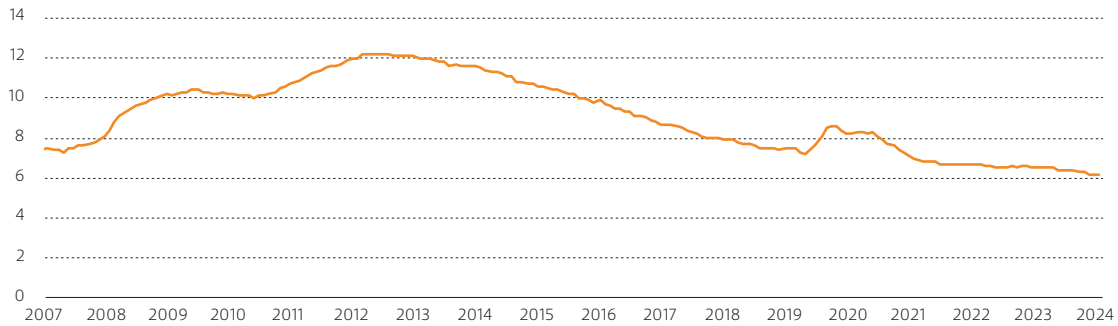


Source: Bloomberg

<sup>25</sup> The data corresponds to the Harmonized Index of Consumer Prices (HICP).

**FIGURE 11**

Eurozone unemployment rate, 2007 - 2024  
(percent)



Source: Bloomberg

In 2024, Japan experienced GDP growth of only 0.3%. Added to this scenario were the weakening of the yen and a drop in exports. In addition, the country reached inflation levels not seen since the early 1980s, even exceeding the 2% target set by the Bank of Japan (BoJ), closing the year with inflation at 3%.

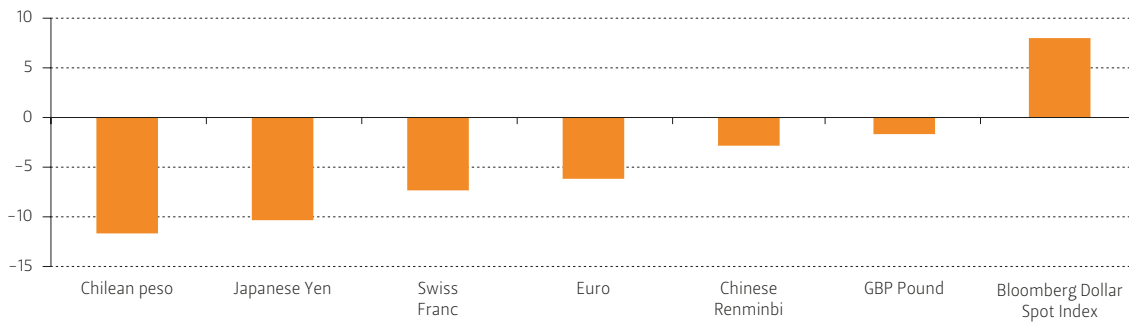
For its part, China experienced growth of 4.8% during the year, down from 5.2% in 2023. In this context, the People's Bank of China (PBOC) implemented several reductions in benchmark interest rates in order to stimulate the economy, which was showing signs of slowing down. The PBOC also lowered reserve requirements for banks in order to boost the local financial sector. Despite these measures, the real estate sector continued to deteriorate, prompting the authorities to re-establish financing channels for real estate developers and relax some of the previous restrictions on home purchases.

In this global context, the U.S. dollar appreciated by 8.0% against the world's major currencies, in contrast to the 2.7% depreciation it had experienced during 2023 (see Figure 12).<sup>26</sup> Among the selected currencies, the Chilean peso was the currency that experienced the greatest depreciation (11.7%).

<sup>26</sup> The Bloomberg Dollar Spot Index tracks the value of the dollar against ten major currencies. Positive returns indicate dollar appreciation, while negative returns indicate depreciation.

**FIGURE 12**

Selected currencies against the U.S. dollar in 2024<sup>27</sup>  
(year-on-year change, percent)

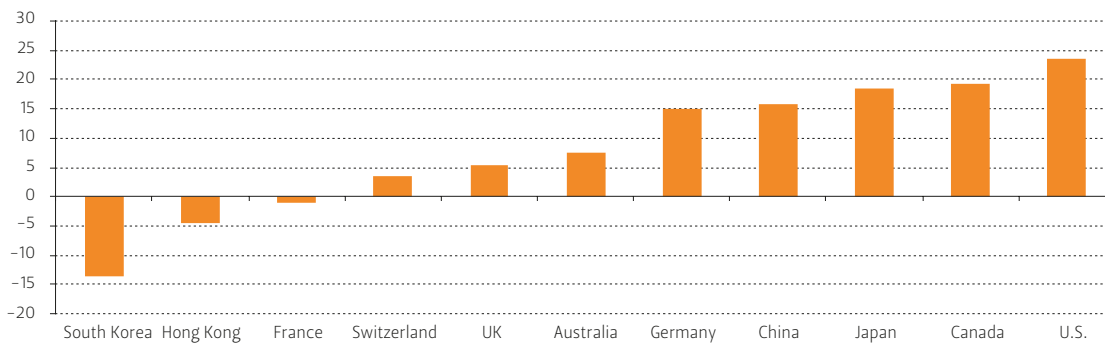


Source: Bloomberg

During 2024, stocks in the world's major markets performed very well. For the selected sample (see Figure 13), the best-performing indices in relative terms were those of the U.S., Canada, and Japan, whose returns, measured in local currency, were 23.4%, 19.2%, and 18.5%, respectively. The worst-performing stock markets were those of South Korea and Hong Kong, with returns of -13.7% and -4.69%, respectively.

**FIGURE 13**

MSCI equity indices returns in 2024  
(percent, measured in local currency)



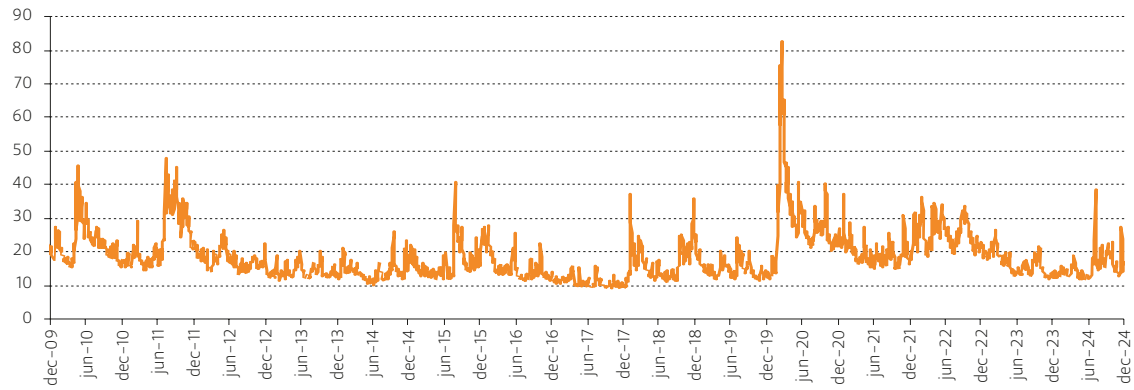
Source: Bloomberg

For its part, stock market volatility (S&P 500), measured by the CBOE Volatility Index (VIX Index), averaged 15.6 points in 2024, 1 point lower than the previous year. The index reached its peak for the year in August, with a value of 38.6. It should be noted that the average value of the index in 2024 was below the average value for the last 10 years (see Figure 14).

<sup>27</sup> Negative performances indicate depreciation of the currency, while positive performance indicates appreciation.

**FIGURE 14**

Equity market volatility (VIX): S&P 500, 2009–2024  
(in levels)

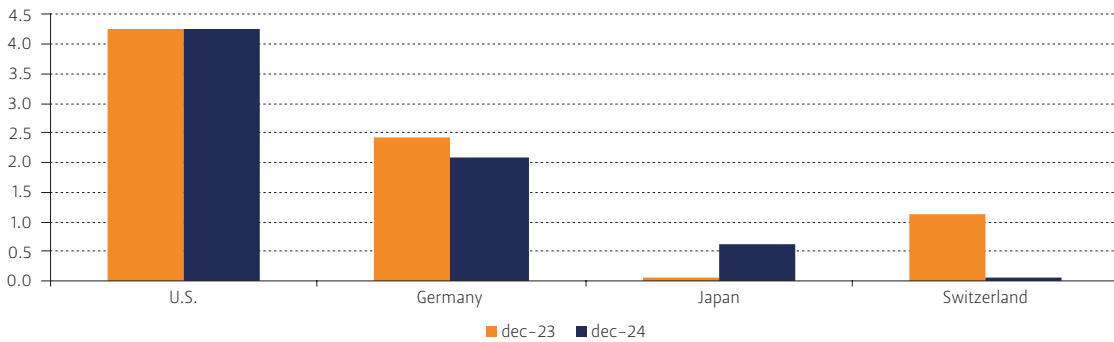


Source: Bloomberg

At the end of 2024, nominal 2-year sovereign interest rates declined compared to the levels observed at the end of the previous year in Germany and Switzerland. Meanwhile, they remained unchanged in the U.S. and increased in Japan (see Figure 15). On the other hand, 10-year nominal sovereign interest rates increased compared to the levels observed at the end of the previous year in the U.S., Germany, and Japan. However, in Switzerland, they decreased (see Figure 16).

**FIGURE 15**

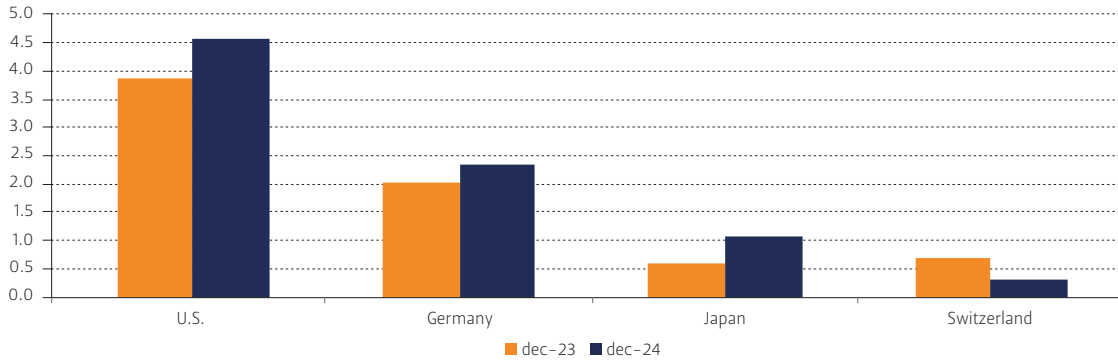
Internal rate of return (IRR) on two-year bonds in selected countries, 2023–2024  
(percent)



Source: Bloomberg

**FIGURE 16**

Internal rate of return (IRR) on ten-year bonds in selected countries, 2023-2024  
(percent)

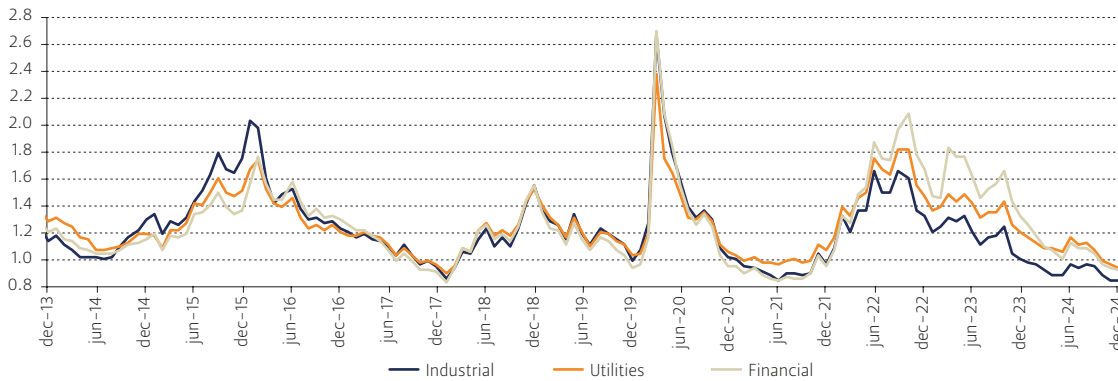


Source: Bloomberg

In the investment-grade corporate market, spreads in the industrial, utilities, and financial sectors of the Bloomberg Global Aggregate Corporate Index narrowed during 2024 (see Figure 17). High yield bonds also saw a tightening of spreads compared to 2023. This is reflected in the spread of the Bloomberg Global High Yield Index, which ended the year at 3.3%, a decrease of 94 basis points from the end of 2023 (see Figure 18).

**FIGURE 17**

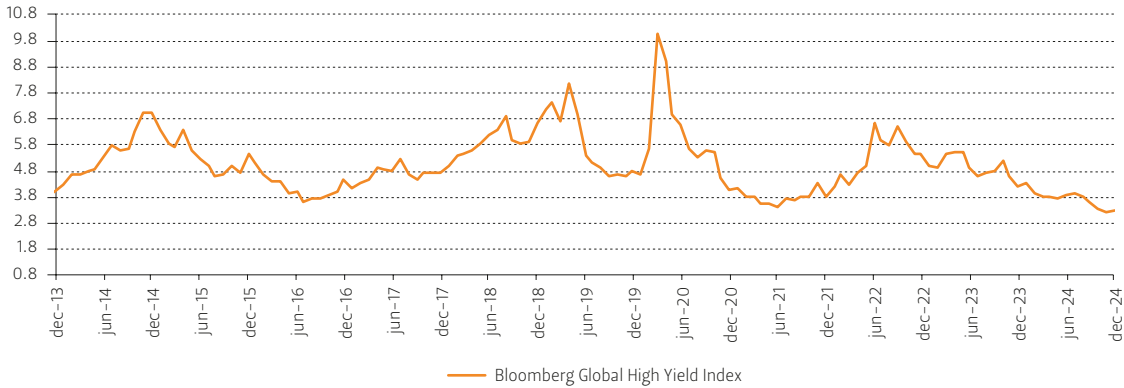
Investment grade corporate spreads by industry, 2013 – 2024  
(percent)



Source: Bloomberg

**FIGURE 18**

High yield bonds spreads, 2013 – 2024  
(percent)

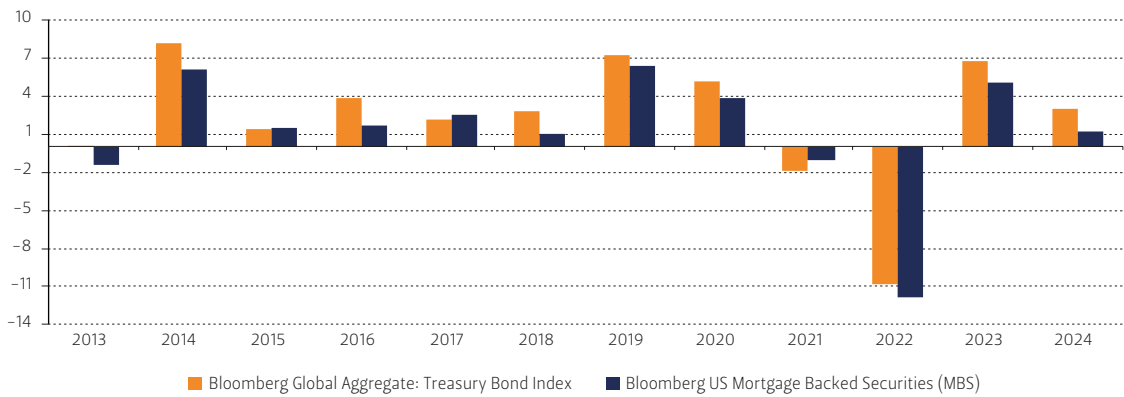


Source: Bloomberg

During 2024, investment-grade sovereign bonds and US agency MBSs posted positive returns, continuing the trends seen in the previous year. The Bloomberg Global Aggregate: Treasury Bond Index (hedged) and the Bloomberg US Mortgage-Backed Securities (MBS) closed the year with returns of 3.0% and 1.2%, respectively (see Figure 19). On the other hand, investment-grade corporate bonds, represented by the Bloomberg Global Aggregate: Corporates Index (hedged), ended the year with a return of 3.7%, while high yield bonds (sovereign and corporate), represented by the Bloomberg Global High Yield Index (hedged), ended the year with a return of 10.7% (see Figure 20).

**FIGURE 19**

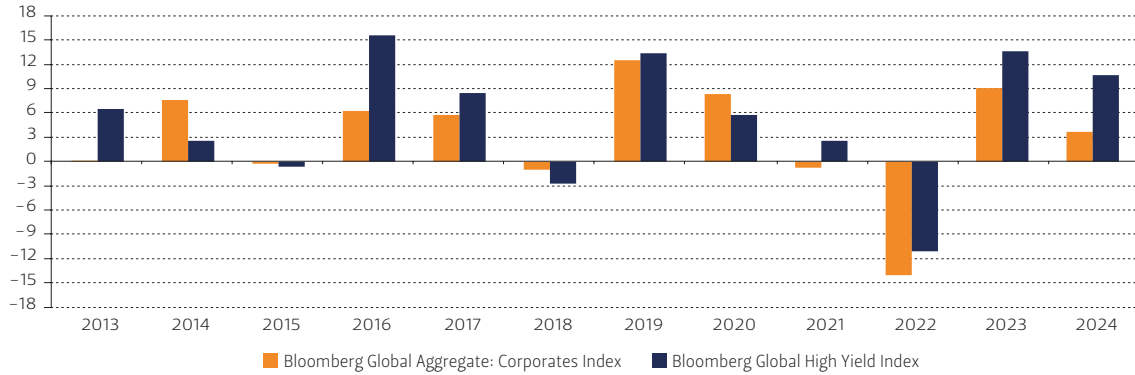
Bloomberg: Global Aggregate Treasury bonds (hedged) and U.S. MBS (hedged), 2013 - 2024  
(percent, measured in local currency)



Source: Bloomberg

**FIGURE 20**

Bloomberg Global: Aggregate Corporates (hedged) and High Yield (hedged), 2013 – 2024  
(percent, measured in local currency)

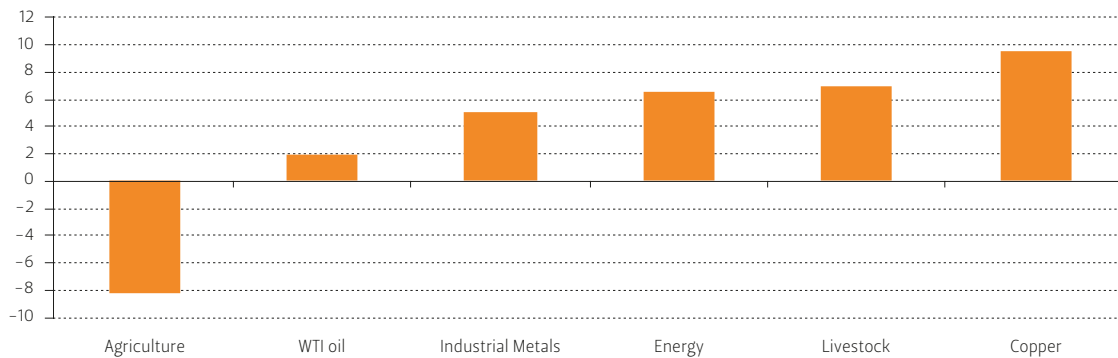


Source: Bloomberg

When comparing average commodity prices in 2024 with those of the previous year, positive variations can be observed in all selected sectors, with the exception of agriculture. The sectors that experienced the largest increases were copper and livestock, with variations of 9.6% and 7.0%, respectively. Meanwhile, the average price of oil increased by 2.0%, while the agricultural sector saw a decrease of 8.2% (see Figure 21).

**FIGURE 21**

Standard & Poor's commodity index in 2024  
(year-on-year change, percent)



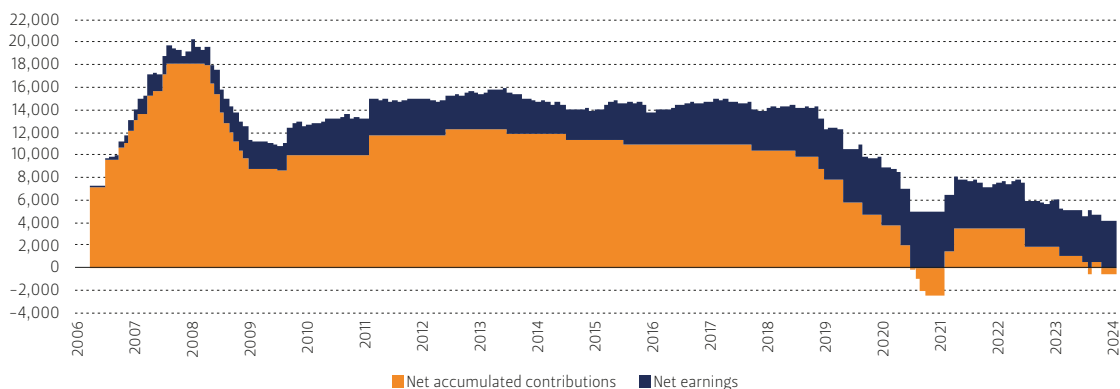
Source: Bloomberg

## B. Market value

At the end of 2024, the market values of the ESSF and the PRF reached US\$ 3,618 million and US\$ 9,378 million, respectively, compared to US\$ 6,030 million and US\$ 8,638 million at the end of 2023. The negative variation in the ESSF value was mainly due to a withdrawal of US\$ 2,407 million (see Figure 22). On the other hand, the positive variation in the PRF was mainly due to a contribution of US\$ 607 million and net investment gains of US\$ 719 million, offset by a withdrawal of US\$ 304 million (see Figure 23). It should be noted that the contribution to the PRF was entirely funded by the ESSF.

**FIGURE 22**

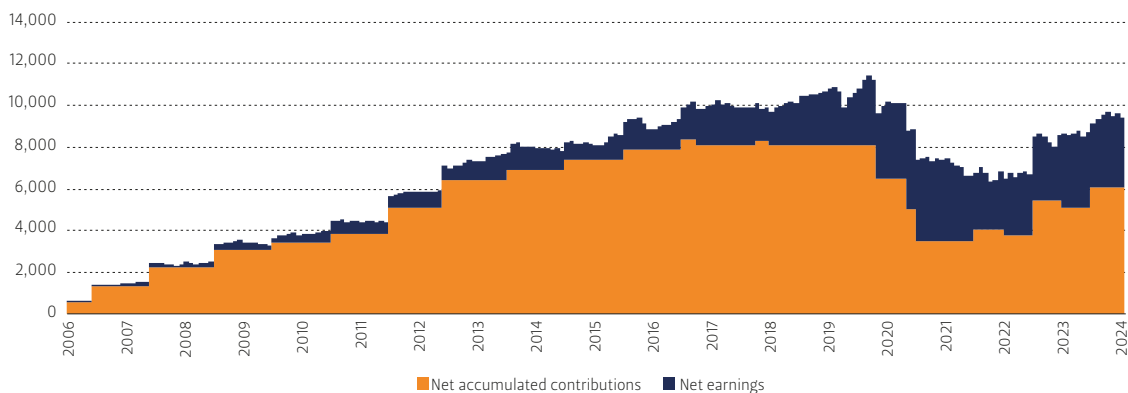
ESSF: Market value, March 2007 to December 2024  
(millions of dollars)



Source: Ministry of Finance of Chile

**FIGURE 23**

PRF: Market value, March 2007 to December 2024  
(millions of dollars)



Source: Ministry of Finance of Chile

## C. Returns

In 2024, the net return in dollars was -0.13% in the ESSF and 4.97% in the PRF (see Table 5).

The ESSF' return for the year was primarily driven by the yield obtained from the Treasury bills and sovereign bond portfolio of -0.58%. However, positive returns on inflation-linked sovereign bonds (3.25%) and U.S. agency MBS (1.44%) mitigated much of that loss.

As mentioned above, the PRF had a positive return of 4.97% in 2024. This result is mainly explained by positive returns on equities (17.71%), high yield bonds (9.25%), U.S. agency MBS (1.07%), and corporate bonds (0.99%), partially offset by losses of -3.14% in sovereign and government-related bonds and -3.64% in inflation-linked bonds (see Box 3).

The funds' return expressed in Chilean pesos depends on the peso-dollar exchange rate. Thus, the value of the portfolio expressed in pesos increases (decreases) when the peso depreciates (appreciates) against the dollar. In 2024, the Chilean peso depreciated against the dollar in 12.2%, which explains the higher annual returns in national currency of 12.01% in the ESSF and 17.73% in the PRF. The real return of the funds, which is calculated by taking the nominal return in pesos and discounting the variation in the UF for the respective period, was 7.27% for the ESSF and 12.75% for the PRF.

**TABLE 5<sup>28</sup>**

ESSF and PRF: Determinants of returns in dollars, 2024  
(percent)

Fund	Component	Quarter				2024
		I	II	III	IV	
ESSF	Treasury bills and sovereign bonds	-1.58	-0.55	5.42	-3.64	-0.58
	Inflation-linked sovereign bonds	0.35	1.17	3.52	-1.76	3.25
	U.S. agency MBS <sup>(a)</sup>	-1.05	0.15	5.67	-3.14	1.44
	<b>Total return (USD)</b>	<b>-1.43</b>	<b>-0.38</b>	<b>5.38</b>	<b>-3.49</b>	<b>-0.13</b>
	Total return (CLP)	9.47	-3.56	-0.69	6.83	12.01
	Total return (Real in UF)	8.57	-4.79	-1.57	5.42	7.27
PRF	Sovereign and government-related bonds	-2.66	-1.72	7.40	-5.73	-3.14
	Inflation-linked sovereign bonds	-1.65	-0.85	5.96	-6.74	-3.64
	U.S. agency MBS	-1.04	0.09	5.55	-3.33	1.07
	Corporate bonds	-0.82	-0.21	6.30	-4.01	0.99
	High Yield bonds	2.16	1.03	6.17	-0.30	9.25
	Equities	8.22	2.97	6.56	-0.86	17.71
	<b>Return LTIP (USD)</b>	<b>1.55</b>	<b>0.41</b>	<b>6.67</b>	<b>-3.48</b>	<b>4.97</b>
	<b>Total return (USD)</b>	<b>1.55</b>	<b>0.41</b>	<b>6.67</b>	<b>-3.48</b>	<b>4.97</b>
	Total return (CLP)	12.77	-2.80	0.52	6.85	17.73
Total return (Real in UF)	11.85	-4.04	-0.37	5.44	12.75	

(a) Investments in U.S. agency MBS started on 2 November 2023.

Source: Ministry of Finance of Chile

<sup>28</sup> Returns for periods of over one year are compound annualized rates. For periods of less than one year, the return corresponds to the change in the given period.

Since the inception of the funds, the annual return in dollars as of year-end 2024 was 1.38% for the ESSF and 3.31% for the PRF. Expressed in Chilean pesos, the annual return for this full period was 4.92% for the ESSF and 6.92% for the PRF. Finally, the real annual return since inception was 0.65% for the ESSF and 2.57% for the PRF.

In 2024, the ESSF's and PRF's returns were 1 and 2 basis points lower than their benchmarks, respectively. Since 31 March 2007, the difference between the average annual return of the ESSF and PRF and their benchmarks was -4 basis points and -24 basis points, respectively.<sup>29</sup>

### **BOX 3: Factors affecting returns in the Sovereign Wealth Funds**

The investment returns in the Sovereign Wealth Funds depend on a number of factors that affect the different types of instruments included in the different fund portfolios.

For the fixed-income portfolios, the main factors are interest rates, the credit quality of issuers, prepayment, and exchange rate fluctuations. Market interest rates level directly influence time deposit rates offered by financial institutions and sovereign bond rates at the time of issue. Moreover, changes in the interest rate level affect the price of fixed-income instruments that are traded in the market, especially in the case of medium- and long-term securities, where a rise has a negative effect, and a fall has a positive one. The credit quality of a fixed-income issuer also affects the price at which the security is traded in the market: a deterioration in quality causes the price to fall, while an improvement leads to an increase.<sup>1</sup> Additionally, all fixed-income instruments have some level of probability of default, that is, the probability that the issuer will not pay either the interest or the principal (or both). In investment-grade instruments, this probability is very low, but it increases with high yield bonds.<sup>2</sup> Prepayment risk, in turn, mainly affects U.S. agency MBS, since the underlying assets are mortgage loans that can be refinanced if interest rates fall. If a mortgage is paid off early, the individual who refinances their mortgage loan returns the value of what is owed to the MBS investor.<sup>3</sup> Finally, since the funds' performance is measured in dollars and a large share of their portfolios are invested in instruments denominated in other currencies, exchange rate fluctuations against the dollar will have an effect on yields.

For the equity portfolios, returns will largely depend on the market's perception of the issuing corporation's income generation capacity and the risks associated with the company, as well as market financial conditions.

- 
- 1 In the case of corporate bonds, credit quality is generally measured through the spread, that is, the difference between the bond's interest rate and the benchmark sovereign interest rate. An increase (decrease) in the spread on a corporate bond is associated with a reduction (increase) in the bond's value.
  - 2 To mitigate this risk in high yield bonds, the contracted external managers carry out an exhaustive analysis of each issuer in order to avoid these defaults to the extent possible.
  - 3 If the par value is greater (less) than the present value of future payments, the investor experiences a gain (loss) on the prepayment. Also, prepayment risk also affects some corporate bonds that give the issuer the option of prepaying the debt it has issued.

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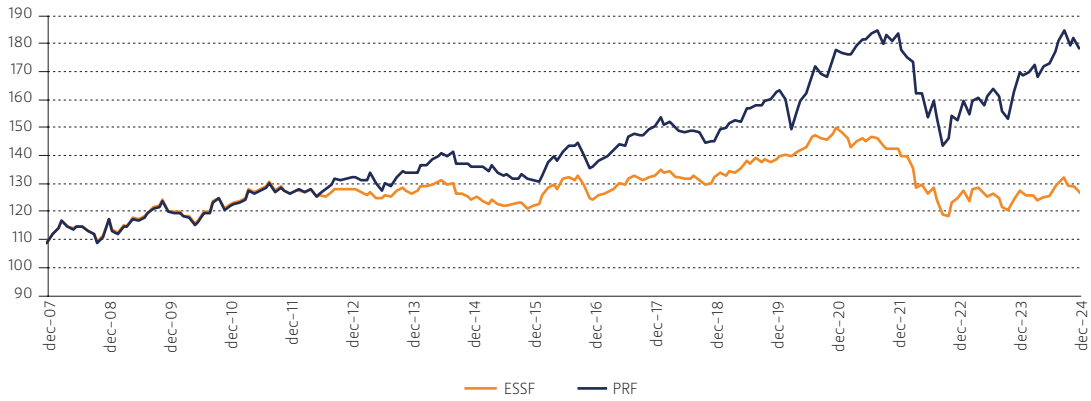
<sup>29</sup> This means that the manager's portfolio generated lower returns, on average, than the implicit benchmark portfolio in the full period (2007–2023).

Figure 24 shows the index of accumulated returns for each fund. For the ESSF, the index increased 27.5% between 31 March 2007 and year-end 2024; for the PRF, the increase was 78.2% in the same period. The Figure illustrates how the two funds' returns began to differentiate in 2012, when the PRF investment policy was changed.<sup>30</sup>

The internal rate of return in 2024 was 0.07% and 5% for the ESSF and PRF, respectively.

**FIGURE 24**

ESSF and PRF: Accumulated returns index, in dollars  
(31 March 2007 = 100)



Source: Ministry of Finance of Chile

<sup>30</sup> The investment policies of both funds were identical before 2012.

Chapter **3**

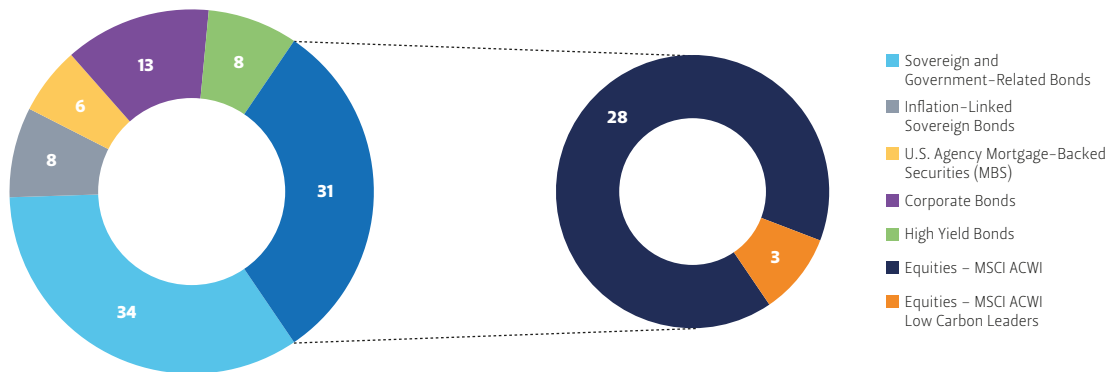
Activities and  
Recommendations  
of the Financial  
Committee

## A. Low-carbon equity mandate

In April 2024, the Financial Committee recommended that the Minister of Finance allocate 3% of the PRF to a global low-carbon equity portfolio. The Committee further suggested that this portfolio be managed passively, using the MSCI ACWI Low Carbon Leaders Index as its benchmark. It is worth noting that this index is very similar to the one currently used as the benchmark for the Fund's equity portfolio (MSCI ACWI); however, it is constructed to achieve at least a 50% reduction in the portfolio's carbon footprint relative to the latter. Additionally, the Committee recommended maintaining the PRF's total equity allocation at 31% (see Figure 25).

**FIGURE 25**

Strategic asset allocation of the PRF, including low-carbon equities  
(in percentages)

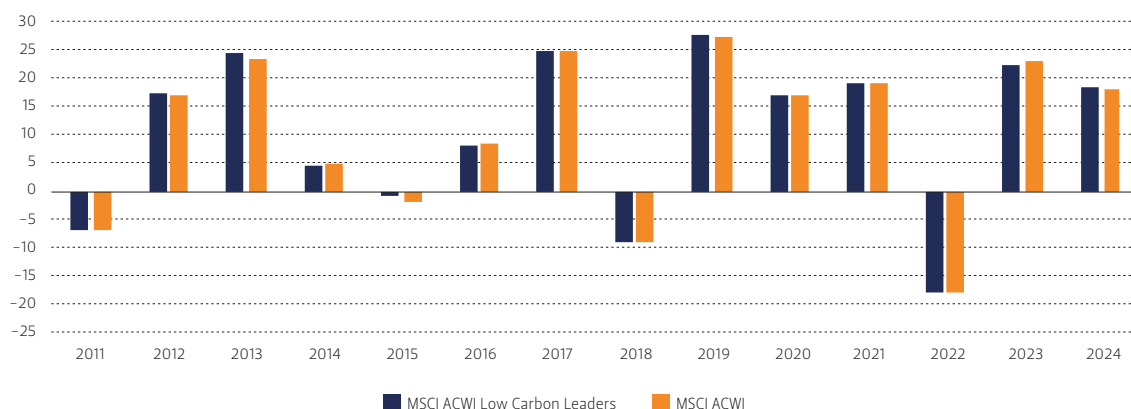


Source: Ministry of Finance of Chile

The selection of this index aims to achieve a portfolio that, from a risk and return perspective, performs similarly to the current equity benchmark while contributing to a reduction in the portfolio's carbon footprint (see Figure 26 and Table 6). The Committee also recommended assessing a gradual increase in the allocation to this new portfolio should the results prove satisfactory.

**FIGURE 26**

Annual returns of the MSCI ACWI Low Carbon Leaders and MSCI ACWI indices, 2011–2024  
(in percentages)



Source: Msci

**TABLE 6**

Characteristics of the MSCI ACWI Low Carbon Leaders and MSCI ACWI indices, December 2024  
(in percentages unless otherwise indicated)

	MSCI ACWI Low Carbon Leaders	MSCI ACWI
3-year annualized return	5.93	5.94
10-year annualized return	9.88	9.79
3-year standard deviation	16.38	16.44
10-year standard deviation	14.83	14.84
Number of securities	2.032	2.667
Turnover	8.95	2.57
Carbon intensity at enterprise value*	151	325
Tracking error	0.41	0
Maximum drawdown**	33.67	33.69

\*Expressed in weighted average tons of CO2 equivalent per million dollars of Enterprise Value, including cash.

\*\* Between 12 February 2020 and 23 March 2020.

Source: Msci

## B. Hiring of external managers

During 2024, two new external managers were selected for the PRF. The first, BlackRock, replaced Credit Suisse Asset Management (Credit Suisse) to manage half of the fund's corporate bond mandate.<sup>31</sup> BlackRock began managing this portfolio in April 2024. The second, Amundi Asset Management (Amundi), was selected to manage the PRF's low-carbon equity mandate. This firm is expected to start managing this mandate during the first quarter of 2025.

<sup>31</sup> The contract with Credit Suisse was terminated in November 2022. UBS assumed management of Credit Suisse's portfolio while the selection process for its replacement was carried out.

Both external managers were selected through processes conducted by the CBC, with support from the consulting firm Mercer and the staff of the Ministry of Finance.

In general, the processes carried out by the CBC involve the following stages: 1) Definition of the universe of external managers; 2) Issuance of a Request for Proposal (RFP); 3) Evaluation of the proposals received; 4) Interviews; 5) Selection of finalists; 6) Presentation to the Financial Committee; and 7) Evaluation of the financial proposal.

The first stage consists of defining the universe of firms that will be invited to participate in the selection process. To do this, the CBC, together with the consulting firm and the Ministry of Finance, prepares a preliminary list of firms based on their databases and applies initial filters to exclude those with strategies that are very different from the mandate being contracted. Firms that pass this initial filter are sent an invitation to inform them of the search and to express their interest in participating, also signing a confidentiality agreement. Interested firms then receive a Request for Proposal designed to assess their capabilities in qualitative and quantitative aspects. The CBC, together with the consulting firm, evaluates the proposals received and selects a small number of firms to be interviewed by the bank, the consulting firm, and Ministry staff. After the interviews, the CBC weights each firm's score from the Request for Proposal and the interview, and presents the results to the Financial Committee, indicating the finalist firms. If the Committee has no objections to the process and its results, the CBC proceeds to open the financial proposals.<sup>32</sup>

## C. Amendments to the Fiscal Responsibility Law

The Financial Committee analyzed the amendments to the Fiscal Responsibility Law approved by the National Congress on 3 July 2024, within the framework of the Law Promoting Responsibility and Transparency in the State's Financial Management. The following amendments have an impact on sovereign funds:

### PRF

- **Withdrawal:** It is established that the amount of PRF resources that can be used annually will be determined based on a withdrawal rule set by the Minister of Finance, which must meet two objectives:
  - i. the annual amount withdrawn from the Reserve Fund should be stable and predictable; and
  - ii. the value of the fund and contributions should be maintained over the long term, adjusted for inflation.
- **Extinction rule:** The fund is to be liquidated if the total value of its assets, valued as of July of the relevant year, does not exceed 0.5% of the previous year's GDP.

### ESSF

- **Objective:** The main objective of the fund is specified as stabilizing public finances over time in the face of abrupt changes in the economic cycle and extraordinary events.
- **Contributions:** It is established that making contributions to the fund is optional if the effective surplus is less than the structural balance.

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<sup>32</sup> It is worth noting that, in the case of the corporate bond selection process, the least expensive firm was chosen after the finalists were selected. For the low-carbon equity mandate, based on the recommendations of the Financial Committee, the CBC considered the financial proposal together with the other evaluation criteria.

## D. Analysis of endowments and PRF withdrawal rules

Following the amendments to the Fiscal Responsibility Law approved in 2024, the Ministry of Finance, with support from the Financial Committee, will be required in 2025 to define a withdrawal rule for the PRF with the following objectives: i) protect the real value of the fund's capital; and ii) provide stability and predictability to the annual amount withdrawn from the fund. These objectives will effectively transition the fund to operate as an endowment, which is characterized by the pursuit of financial sustainability, maintaining the purchasing power of its capital over time while providing a continuous and predictable flow of resources.

In this context, during 2024, the Financial Committee analyzed the main characteristics of endowments and some of the typical withdrawal rules used.

The analysis concluded that one of the distinguishing features of endowments is maintaining the real value of their assets in perpetuity while simultaneously providing annual funding to their beneficiary entities (e.g., a university). To achieve this, their investment policies aim to generate nominal returns large enough to finance both objectives.<sup>33</sup>

Endowments are also characterized by very long investment horizons, high risk tolerances, and low liquidity needs, which allows them to adopt more aggressive strategic asset allocations in pursuit of higher expected returns. Typically, they have significant concentrations in riskier asset classes, such as equities, less liquid investments, such as alternatives,<sup>34</sup> and relatively lower allocations to fixed income.

Because the returns on their investment portfolios can be highly volatile, directly affecting the size of their assets, they generally use withdrawal rules to provide stability to the annual amount that can be withdrawn, mitigating the impact of annual investment fluctuations (see Box 4).

## E. Hiring a consultant for the PRF strategic asset allocation study

The Financial Committee recommended hiring a consulting firm to carry out a study of the PRF's strategic asset allocation. This recommendation considered the provisions approved in the Fiscal Responsibility Law, which will lead the PRF to operate as an endowment.

Following this, the Technical Secretariat of the Financial Committee conducted a selection process to choose the firm responsible for the study. As part of this process, a Request for Proposal was sent to eleven international consulting firms, of which three submitted proposals. Various characteristics were evaluated, including organization, experience, methodology, willingness to perform additional tasks, knowledge transfer, legal status, and fees. Based on this assessment, two finalist firms were interviewed, and Mercer was selected. The Financial Committee agreed with the process carried out and the selection of this firm.

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<sup>33</sup> The nominal return of an investment consists of two components: inflation and real return (calculated by subtracting inflation from the nominal return). To ensure that the real value of an endowment's capital remains constant over time, only the income generated by the real return should be withdrawn. In this way, the portion of the return associated with inflation is reinvested, thus preserving the purchasing power of the capital.

<sup>34</sup> Alternative investments are not traded in public markets (private equity, private debt, infrastructure, and real estate).

Mercer is expected to perform the following tasks:

- International comparison of similar funds or endowments
- Define investment objectives and risk tolerance
- Propose withdrawal rules for the fund
- Estimate expected returns, volatilities, and covariances
- Recommend strategic asset allocations (without currency hedging)
- Conduct simulations, backtesting, and stress tests
- Recommend benchmarks for each asset class
- Suggest methods to monitor the achievement of investment objectives
- Analyze different deflators that could be used for the PRF
- Evaluate the benefits (from an endowment perspective) of hedging part or all of the fund's currency exposure and assess the implications for the recommended portfolios

The study is expected to be completed during the first quarter of 2025. Based on the results, the Financial Committee will recommend to the Minister of Finance any modifications to the fund's strategic asset allocation, if deemed appropriate.

## **F. Policy on concentration of external managers**

The Financial Committee recommended establishing a policy on the concentration of external managers to ensure adequate diversification among them. In making this recommendation, the Committee considered the following: i) in most asset classes in which sovereign funds invest, it is not possible to diversify the investment strategies of different managers due to the passive emphasis of the mandates (see Box 1); ii) the number of passive managers with the required scale to efficiently manage sovereign fund mandates is limited; iii) there are economies of scale when managers handle larger investment portfolios; and iv) having more than one manager for an asset class allows for the rapid termination of a contractual relationship if a manager fails to meet its investment objective or if the relationship could affect the reputation of the Ministry of Finance.

Accordingly, the Financial Committee recommended the following concentration policy for external managers:

- For each fund, a manager may not manage more than 22% of the fund at the time of hiring. Consistent with this, the CBC will not invite firms that have reached this limit at the start of a selection process or that would exceed it if awarded a new contract.
- There will be no limit on the number of mandates a manager may oversee.
- There will be no fixed limit on the tenure of an external manager, as each case will be evaluated individually.

## **G. Monitoring of external managers**

The Financial Committee met with delegations from the CBC, Nomura, BlackRock, and Western to receive presentations on the management of their portfolios. In these presentations, each manager details the results of their management, explaining the factors behind their performance, their investment methodologies, and key positions, as well as providing an overview of market conditions. All of these meetings are part of the activities that the managers are required to carry out to report on their management.

#### BOX 4: Withdrawal Rules in Endowments

Withdrawal rules in endowments are the formulas used to calculate the annual distribution amount. The use of these rules is important because, depending on the objective, they can smooth the annual withdrawal amount, making it less dependent on fluctuations in the fund's size, or they can prioritize the sustainability of the fund by limiting withdrawals if the capital has decreased due to investment performance.

Below are three examples of withdrawal rules:

**TABLE R4.1**

Examples of withdrawal rules in endowments

Rule	Formula	Description
Simple	$\text{Withdrawal}_t = \text{Target Withdrawal Rate} * \text{Market Value}_{t-1}$	A specific rate of the fund's size from the previous period is withdrawn
5-Year Moving Average	$\text{Withdrawal}_t = \text{Target Withdrawal Rate} * \text{5-Year Moving Average}$	A specific rate of the moving average of the fund's value over the past 5 years is withdrawn
Hybrid	$\text{Withdrawal}_t = [80\% * (\text{Withdrawal}_{t-1} * (1+\text{inflation})) + [20\% * (\text{Target Withdrawal Rate} * \text{Market Value}_{t-1})]]$	It considers an 80% weight on a rule that adjusts the previous period's withdrawal for inflation, and a 20% weight on the simple rule

Source: Ministry of Finance of Chile

The main advantage of the simple rule is that it is easy to estimate, as it is calculated directly from the fund's market value in the previous period. However, it is highly sensitive to fluctuations in the fund's value, which can result in significant volatility in withdrawals.

The 5-year moving average rule, on the other hand, smooths the fund size used to calculate withdrawals, thereby reducing their volatility. However, both the simple and moving average rules share the same limitation: withdrawals grow in line with the fund, which can constrain the growth of the capital.

The hybrid rule, in contrast, ensures a constant growth of withdrawals according to inflation while partially incorporating changes in the fund's size. Nevertheless, with this rule, there is a risk that after several years of financial losses, the fund's capital may deteriorate relative to the size of the withdrawals.

## APPENDIX 1 CURRENT AND FORMER FINANCIAL COMMITTEE'S MEMBERS

Members	Position	Incorporation Date	Departure Date
Juan Andrés Fontaine Talavera	President	August 2021	-
Jennifer Soto Urrea	Counselor Vice-president	August 2021 September 2024	-
Nicolás Eyzaguirre Guzmán	Counselor	August 2021	-
Pablo García Silva	Counselor	September 2024	-
Marco Morales Sepúlveda	Counselor	September 2024	-
Marcela Valenzuela Bravo	Counselor	August 2022	December 2024
Andrés Bianchi Larre	President	August 2007	August 2011
Ricardo Budinich Diez	Counselor	August 2016	August 2022
Jaime Casassus Vargas	Counselor	September 2014	August 2021
Pablo Castañeda Navarrete	Counselor	August 2022	September 2024
Arturo Cifuentes Ovalle	President Counselor	January 2014 August 2011	August 2014
Martín Costabal Llona	Counselor	August 2007	August 2022
José De Gregorio Rebeco	President	September 2014	August 2021
Cristián Eyzaguirre Johnston	Counselor Vice-president	March 2010 September 2011	August 2021
Ana María Jul Lagomarsino	Vice-president	August 2007	August 2011
Oscar Landerretche Moreno	Counselor	August 2007	June 2009
Igal Magendzo Weinberger	Counselor	September 2014	September 2018
Eric Parrado Herrera	Counselor	August 2011	March 2014
Macarena Pérez Ojeda	Vice-president	August 2021	September 2024
Andrés Sanfuentes Vergara	Counselor	August 2007	March 2010
Klaus Schmidt-Hebbel Dunker	President Counselor	August 2011 September 2009	January 2014
Rodrigo Valdés Pulido	Counselor	February 2014	April 2014
Mauricio Villena Chamorro	Counselor	August 2021	August 2022
Eduardo Walker Hitschfeld	Counselor	August 2007	August 2016
Paulina Yazigi Salamanca	Counselor	September 2018	August 2021

## APPENDIX 2 SUMMARY OF MEETINGS IN 2024

### MEETING 1 | 25 JANUARY 2024

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In the first session of the year, the Committee met with representatives from the CBC, who presented the process for selecting the external corporate bond manager they were conducting for the PRF. The Committee expressed its satisfaction with the process carried out and with the shortlisted firms. The CBC indicated that in the next stage they would open the financial proposals and select the firm offering the lowest fees. Afterwards, a delegation from Nomura, the company responsible for managing part of the high yield bond portfolio in the PRF, presented the main results of its management and provided an update on current conditions in international markets. Finally, a representative from the Ministry of Finance gave a presentation on the current status of the sovereign funds and informed the Financial Committee about the withdrawal of US\$ 800 million made in January 2024 from the ESSF.

### MEETING 2 | 19 APRIL 2024

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In its second session, the CBC presented the results of its 2023 management and a summary of all the activities it carried out during the year. It highlighted the implementation of the new strategic asset allocation for the ESSF and reported that BlackRock had been awarded the corporate bond management mandate for the PRF. Next, the consulting firm Mercer presented to the Financial Committee a set of recommendations for incorporating environmental, social, and governance considerations into the PRF's equity portfolio. Based on this presentation, the Committee members recommended investing 3% of the fund in a low-carbon equity mandate replicating the MSCI ACWI Low Carbon Leaders Index, and hiring a new manager to run that mandate. Subsequently, Juan Andrés Fontaine, President of the Financial Committee, briefed the other members on his meeting with the Minister of Finance, Mario Marcel, held in early April. In this context, it was suggested to begin preliminary work to advance the analysis of possible modifications to the PRF's investment policy in the event that the amendments submitted to Congress to revise the Fiscal Responsibility Law are approved. Finally, the Committee recommended making no changes to the ESSF strategic asset allocation.

### MEETING 3 | 7 JUNE 2024

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In the third meeting, the Committee members met with representatives from BlackRock, who presented their management of high yield bonds and corporate bonds, as well as their market outlook for 2024. Then, Mr. Andrés Sansone, Macroeconomic Coordinator at the Ministry of Finance, briefed the members on the country's current fiscal situation. Afterwards, a representative from the Ministry of Finance presented a preliminary analysis of the strategic asset allocation for the PRF in the context of the amendments to the Fiscal Responsibility Law being discussed in the National Congress. In particular, he presented several efficient investment frontiers that would be applicable if the fund were to operate as an endowment, and discussed the possibility of hedging part of the portfolio and including alternative assets as eligible instruments. The Committee suggested hiring a consultant to study the strategic asset allocation for the fund once these amendments are approved.

#### MEETING 4 | 9 AUGUST 2024

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In its fourth session, the Financial Committee met with a delegation from Western, the firm responsible for managing part of the US agency MBS portfolios in both the PRF and the ESSF. The company presented the results of its management and an update on current conditions in international markets. The Committee then discussed the implications of new withdrawals from the ESSF for its investment policy and recommended waiting for additional information before taking any corresponding measures. Subsequently, it analyzed and recommended a criterion limiting the maximum amount that may be managed by any single external manager in each fund, setting this limit at 22%. Afterwards, a representative from the Ministry of Finance presented the recent amendments to the Fiscal Responsibility Law approved by the National Congress that would affect the sovereign funds. The presentation focused in particular on the provisions concerning the PRF that aim to preserve the real value of its capital over the long term. In this context, possible withdrawal rules for the fund were analyzed. Finally, the Committee approved the terms of reference for a study to be commissioned from a consulting firm to define a new strategic asset allocation for the fund.

#### MEETING 5 | 18 OCTOBER 2024

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In its fifth session of the year, the Financial Committee welcomed Pablo García and Marco Morales, who joined the Committee in September. The Committee also acknowledged the important contributions of Macarena Pérez and Pablo Castañeda, whose terms ended at the beginning of the same month. Following these changes, Jennifer Soto was elected Vice President of the Committee. The Financial Committee then analyzed the current situation of the ESSF, considering the withdrawal of US\$ 1,000 million carried out in October. In light of this, it was proposed to consult the Minister of Finance on whether it is necessary to review the ESSF strategic asset allocation in relation to its objectives. Additionally, the Financial Committee agreed with the decision of the Sovereign Funds Unit to select Mercer to conduct a new strategic asset allocation study for the PRF. It also suggested not hiring a new MBS manager after the end of Western's contract, pending the results of the strategic asset allocation study that Mercer will carry out for the PRF. Finally, the Committee reviewed the investment results and management of the sovereign funds, along with the main portfolio positions relative to their benchmarks.

#### MEETING 6 | 13 DECEMBER 2024

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In its sixth and final session of the year, the President of the Financial Committee briefed the members on his meeting with the Minister of Finance held on 29 November 2024. In this context, the President reported that the objective of the ESSF has not changed and that no new withdrawals are budgeted for this fund in 2025. Taking this into account, the Committee recommended maintaining its strategic asset allocation. Next, a delegation from Dipres gave a presentation on the impact of the 2025 Budget Law on the sovereign funds. Afterwards, a delegation from the CBC presented to the Committee the results of the selection process carried out to hire an external manager for a low-carbon equity mandate in the PRF. It was reported that the process concluded with the selection of Amundi. The members thanked the work carried out and expressed their satisfaction with the selected firm. The Committee then agreed on the asset classes to be considered in the strategic asset allocation study being conducted by the consulting firm Mercer for the PRF, which is expected to be completed in the first half of 2025. Finally, a representative from the Ministry of Finance delivered a presentation on the current status of the sovereign funds.

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# Glossary

**Active management** — an investment strategy that seeks to obtain a higher return than a given benchmark.

**Alternative investments** — investments other than those traditionally used (equities and fixed-income); they mainly include private equity, venture capital, hedge funds, commodities and real estate.

**American depositary receipts (ADR)** —negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock traded on a U.S. exchange.

**Asset class** — a specific investment category such as equities, corporate bonds, sovereign bonds or money market instruments. Assets of the same class generally share characteristics that make them similar from a tax, legal and structural perspective, but this does not imply that they respond the same way to a given market event.

**Basis point** — one one-hundredth of a decimal point; 1 basis point = (1/100) of 1%.

**Bond** — a financial liability of an issuer (for example, a company or a government) to investors, under which the issuer undertakes not only to return the investors' capital, but also to pay an agreed interest rate on a specific date(s).

**Cash** — cash in hand and bank demand deposits.

**Corporate bond** — a bond issued by a corporation or company.

**Credit default swap (CDS)** — a financial instrument used by investors as protection against default on a bond; can also be used to take a speculative position on a bond covered by the CDS.

**Credit rating** — the level of solvency of the issuer of a financial instrument (company or country) as defined by a credit rating agency.

**Duration** — a measure of the sensitivity of a bond's price to changes in interest rates: the longer the duration, the further the bond's price will fall in response to an increase in interest rates.

**Equities** — securities that represent the ownership or capital of a company; buyers of equities become owners or shareholders of the company and thus have earnings or losses depending on the company's performance.

**Ex ante tracking error**— a measure of the difference between the return on an investment fund and its benchmark.

**Exchange-traded fund (ETF)** — a market-traded financial instrument that typically replicates a market index; traditionally used to obtain passive exposure to equity market indexes, but has expanded into fixed-income, commodities and even active strategies.

**Fiscal Responsibility Law** — Law N° 20,128, published in Chile's *Official Gazette* on 30 September 2006.

**Fixed-income** — investment instruments with a yield over a given period that is known at the time of their acquisition; sovereign and corporate bonds and bank deposits are fixed-income assets.

**Global depositary receipts (GDR)** —bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank. The shares trade as domestic shares but are offered for sale globally through the various bank branches.

**Headline or reputational risk** —the risk of an adverse public perception of an entity's management.

**High Yield Bonds** —non investment grade sovereign and corporate bonds.

**Inflation-linked bond** — a bond whose value varies in line with an inflation index; in the United States, these securities are known as Treasury Inflation-Protected Securities (TIPS).

**Internal rate of return (IRR)** — the effective yield on an investment, calculated taking the net present value of all cash flows as zero.

**Investment policy** — the set of criteria, guidelines and instructions that regulate the amount, structure and dynamics of an investment portfolio.

**Leverage** — the level of debt carried by a firm or investment vehicle.

**LIBID** — London interbank bid rate; the interest rate paid on interbank deposits. By definition, this rate is equal to the LIBOR minus 0.125%.

**LIBOR** — London interbank offered rate; the interest rate charged on interbank borrowing.

**Liquidity** — the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.

**Money market instrument** — a short-term asset with a maturity of less than a year, which can readily be converted into cash and is less volatile than other asset classes.

**Mortgage-backed securities (MBS) from U.S. agencies** — instruments that are secured by a mortgage related to the purchase of mortgage properties. These instruments are issued by Ginnie Mae, Fannie Mae and Freddie Mac.

**Mutual fund** — an investment vehicle managed by an entity that brings together the capital of different investors and provides them with exposure to different asset classes; unlike ETFs, mutual funds are not traded on the market.

**Passive management** — an investment strategy that seeks to replicate the return on a representative index of an asset class or combination of asset classes.

**Portfolio** — the combination of investments acquired by an individual or institutional investor.

**Quantitative easing** — an unconventional monetary policy tool used by some central banks to increase the money supply, usually through the purchase of the country's own government bonds.

**Recognition bond (bono de reconocimiento)** — an instrument issued by Chile's Pension Normalization Institute (Instituto de Normalización Previsional) representing a worker's contributions to the old pension system before joining the new (private) AFP system.

**Return (total)** — the combination of the return in local currency and the return generated by exchange rate fluctuations.

**Return generated by exchange rate movements** — the share of the return that is generated by variations in the value of the dollar against other currencies in which assets are held.

**Return in local currency** — the return generated by a financial instrument in the currency in which it is denominated; corresponds to the share of returns associated with the level of interest rates and their movements, creditworthiness and other factors.

**Risk** — the possibility of suffering a financial loss; the variability of the return on an investment.

**Sovereign bond** — a bond issued by a government.

**Special Drawing Rights (SDR)** — international reserve assets created by the IMF to supplement its member countries' official reserves. SDRs can be exchanged for freely usable currencies.

**Spread** — the difference between the yield rate at maturity of two fixed-income instruments; used to measure their level of relative risk.

**Swift** — Society for Worldwide Interbank Financial Telecommunication.

**TED Spread** — the difference between the interbank borrowing rate (LIBOR) and the risk-free rate (U.S. Treasury bills). A higher TED spread typically indicates a lower level of market liquidity.

**To Be Announced (TBA)** — denotes the forward mortgage-backed securities (MBS) trade, and pass-through securities issued by Freddie Mac, Fannie Mae and Ginnie Mae.

**Time-weighted rate of return (TWR)** — a measure of return obtained by compounding or multiplying daily returns, excluding contributions and withdrawals; unlike the IRR, it excludes the effect of net cash flows.

**Variable-income** — equities.

**VIX** — the Chicago Board Options Exchange (CBOE) Volatility Index, which reflects market expectations for volatility over the next 30 days; based on the implied volatilities of a wide range of S&P500 index options.

**Volatility** — a measure of a financial asset's risk, representing the variation shown by its price over a period of time.



