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Long Term Investing: Market Practice, Regulation and Supervision

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IOPS/AIOS International Seminar on Pension Systems "Global pension perspectives: Investment, financial culture for retirement and new generation reforms"

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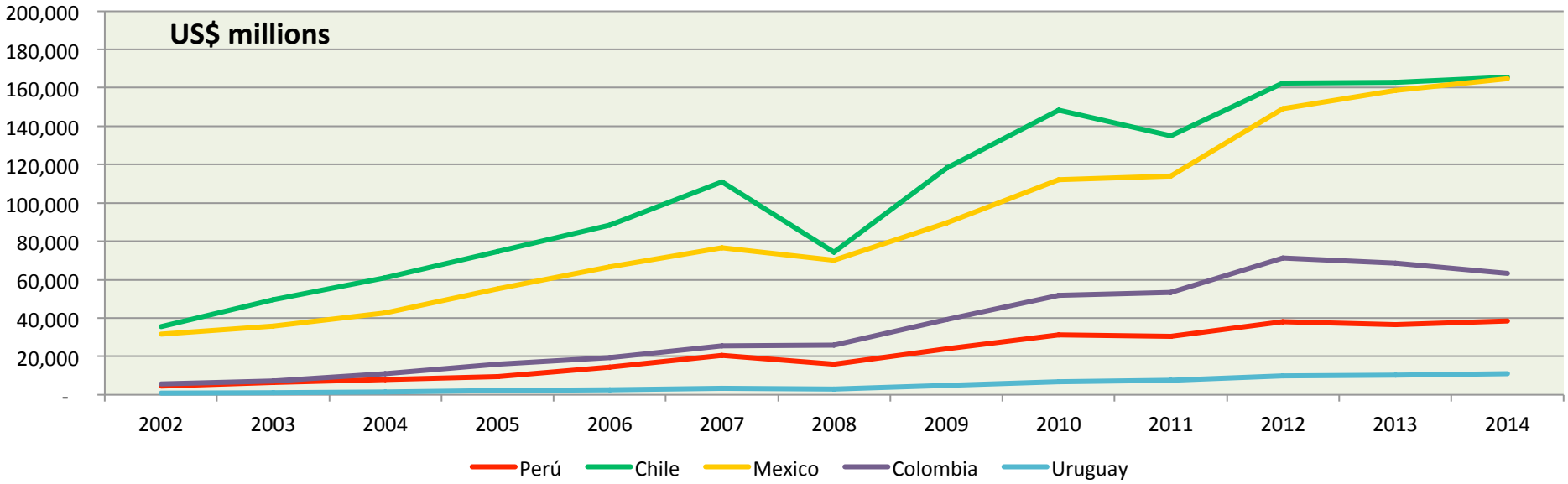
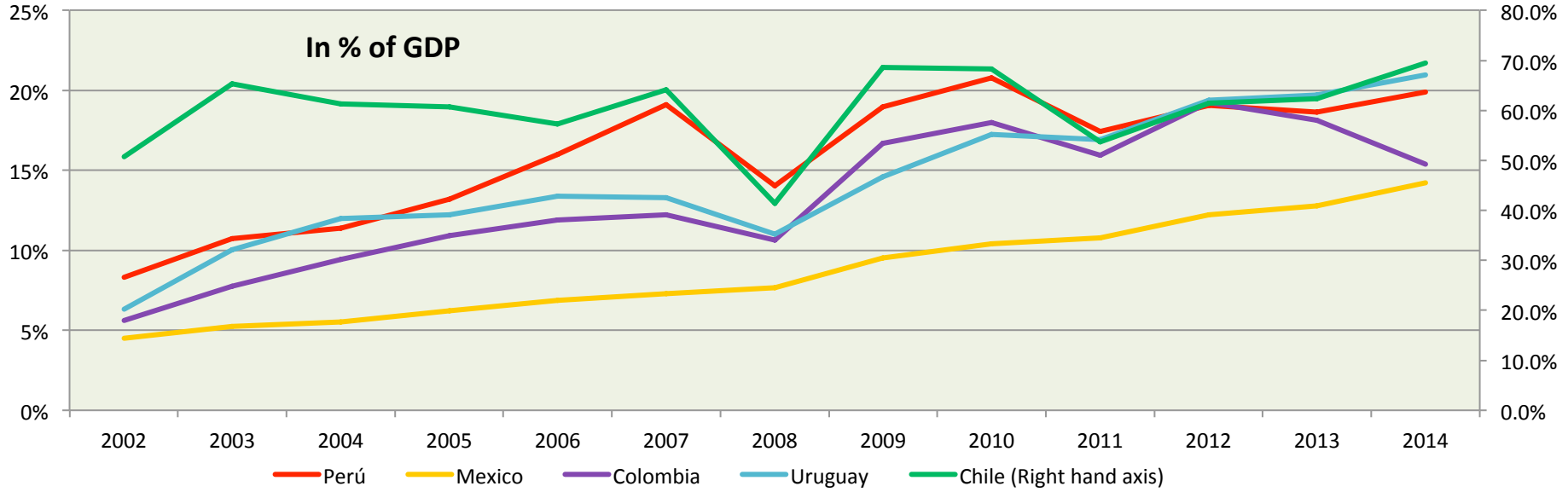
Agenda

- **Investment Performance**
- **Investments´ Term Structure**
- **Regulations and Supervision**
- **Final Remarks**

Investment Performance

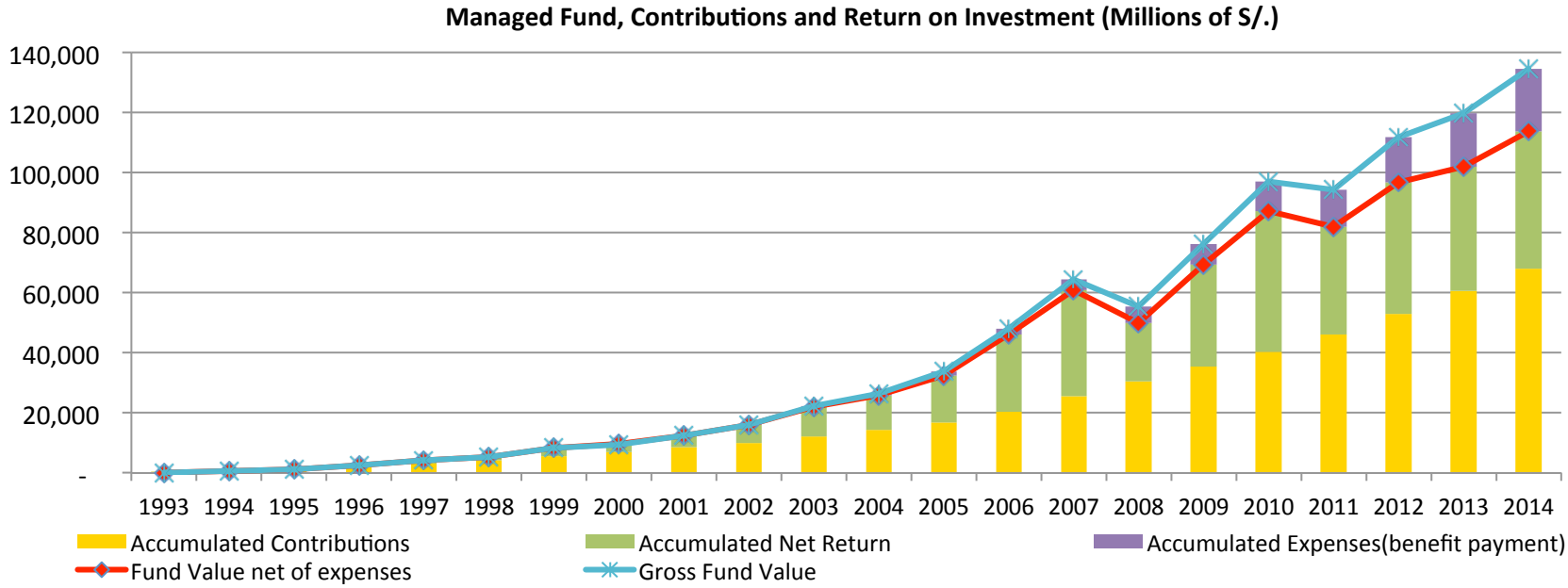
AUM have grown steadily in the last several years

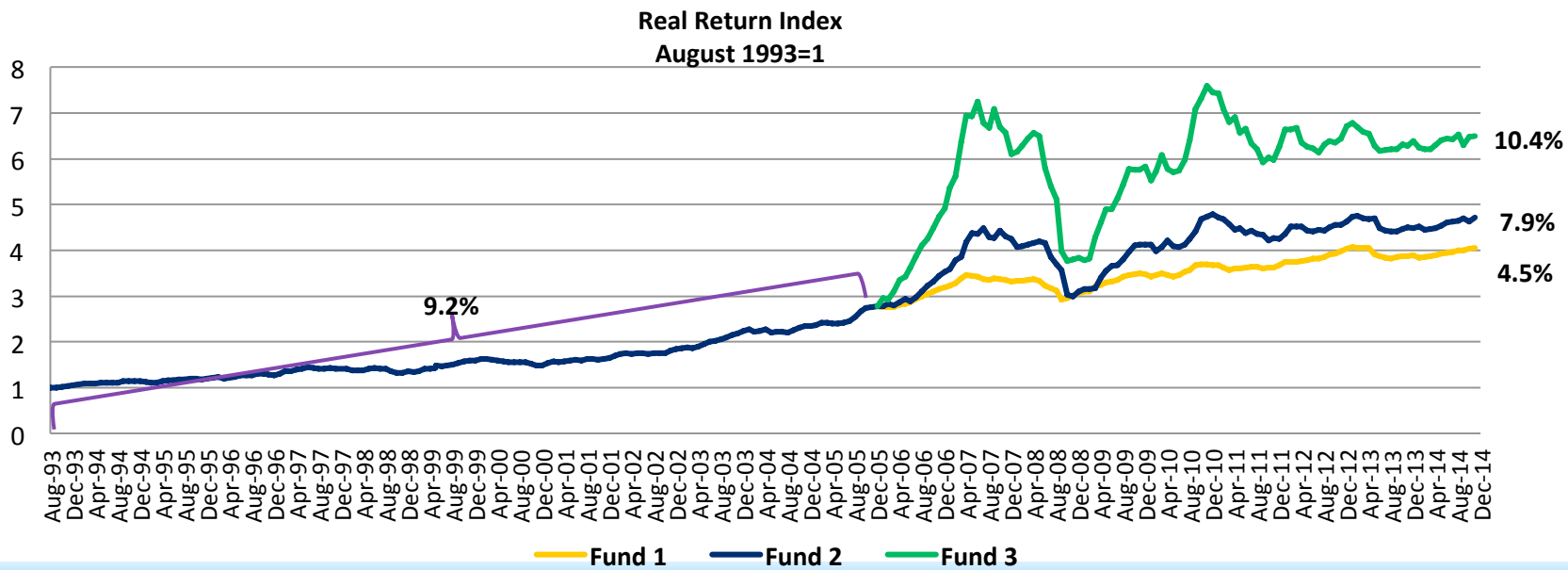




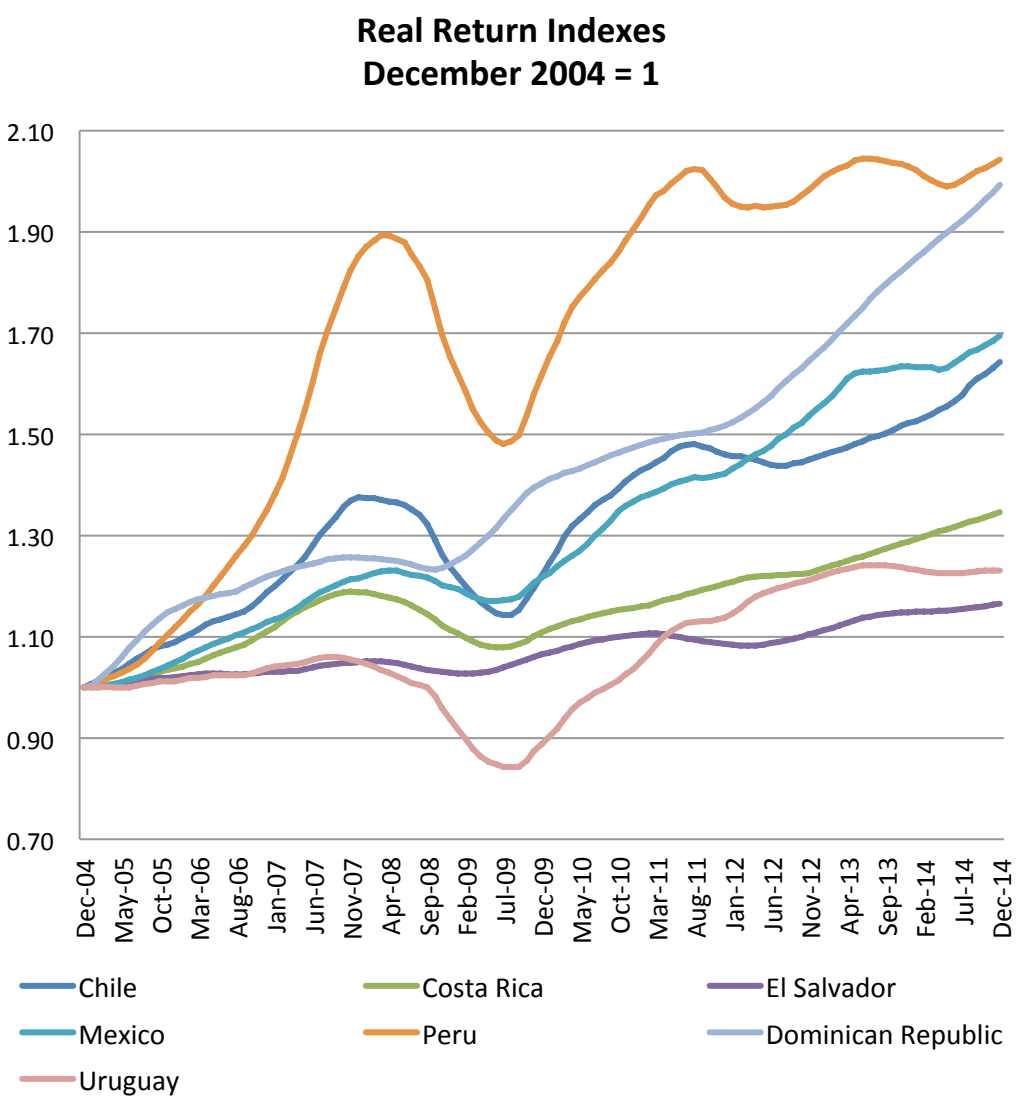
Source: National Regulatory Institutions.

In Peru around half of the increase is explained by affiliates´ contributions and half by returns on investment





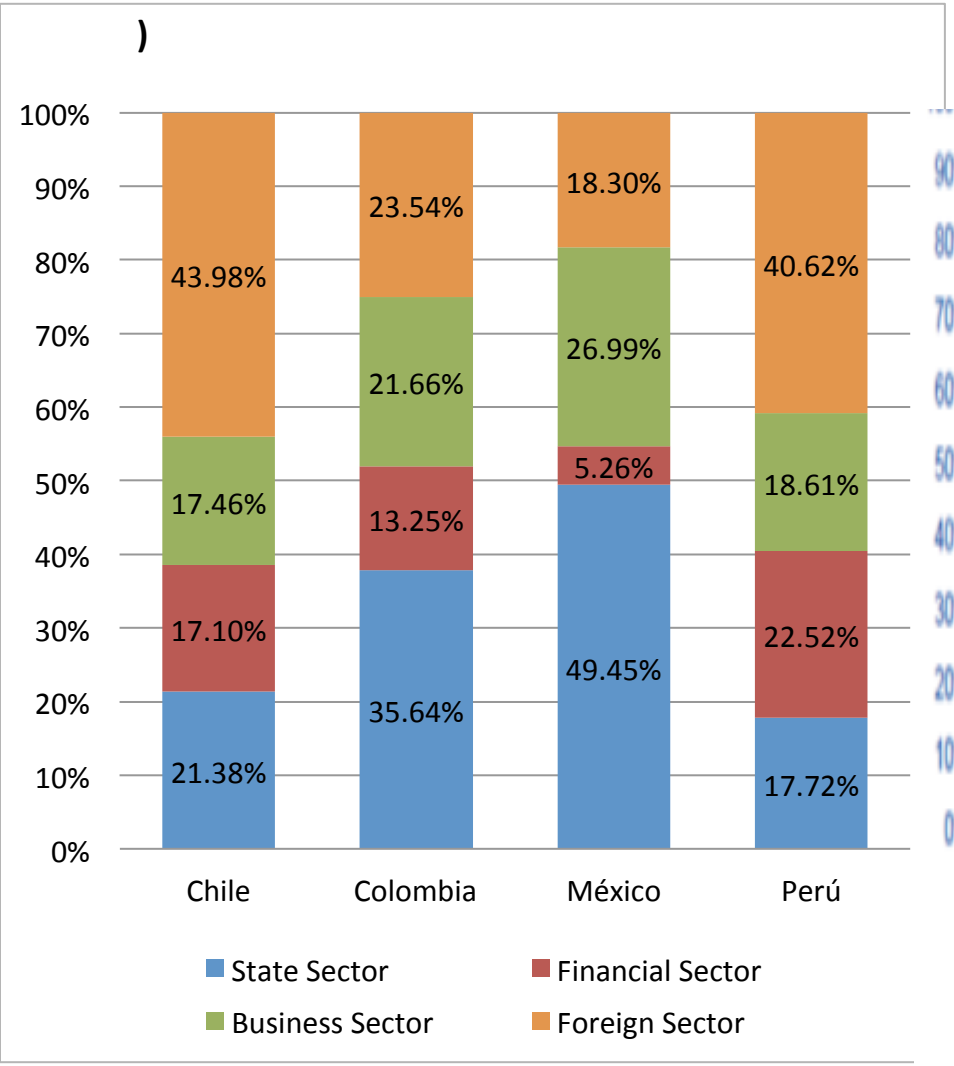
Peru has recorded the highest cumulative real return since 2006

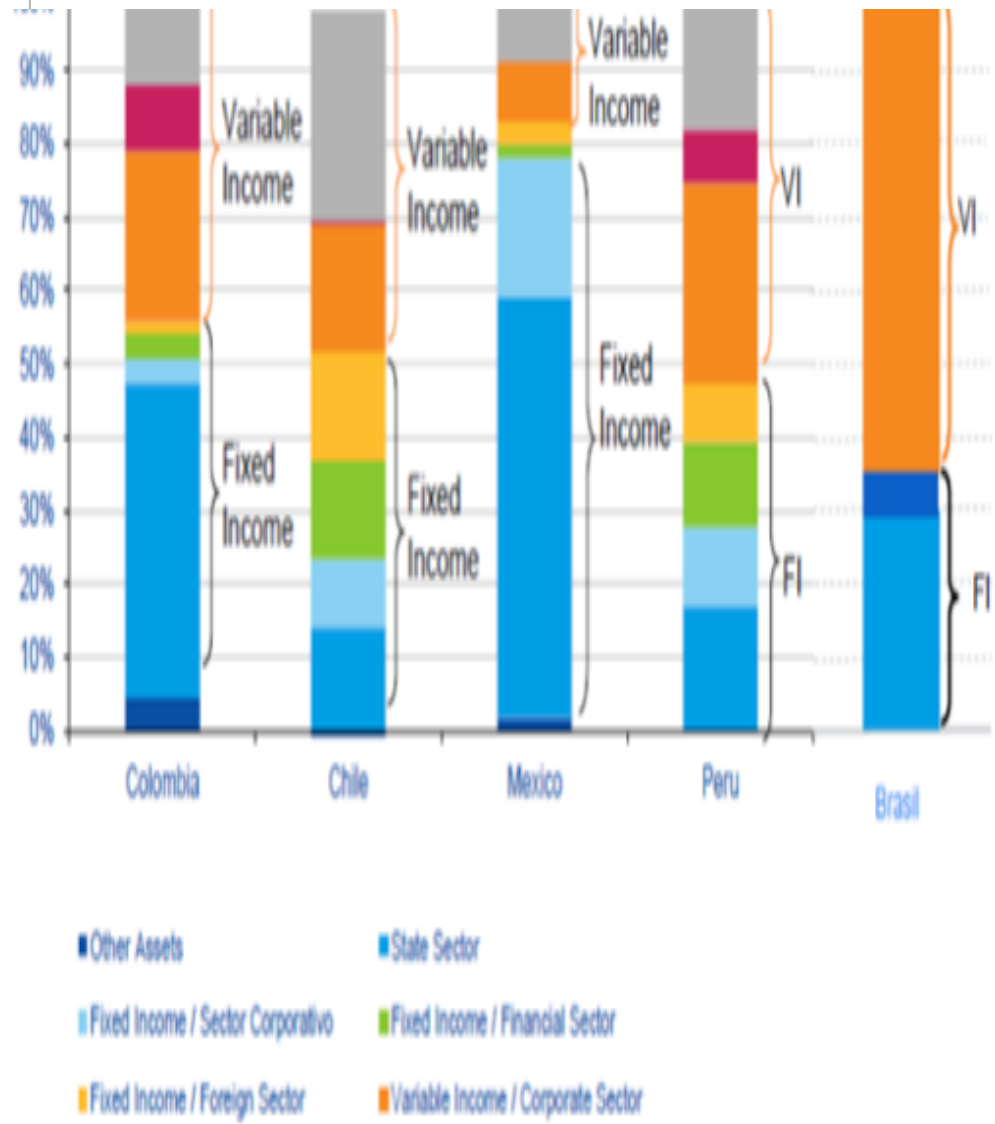


2005-2014	Real Return	Standard Deviation	Sharpe Ratio	Rank
Perú	8.67	16.53	0.52	6
Rep. Dominicana	7.27	5.44	1.34	1
México	5.55	5.35	1.04	2
Chile	5.61	10.33	0.54	5
Uruguay	2.60	10.07	0.26	7
Costa Rica	3.12	4.68	0.67	3
El Salvador	1.58	2.57	0.61	4

Sources: Chile: Superintendencia de Pensiones, Mexico: Comisión Nacional del Sistema de Ahorro para el Retiro (CONSAR), Peru: Superintendencia de Banca, Seguros y AFP, Costa Rica: Superintendencia de Pensiones, El Salvador: Superintendencia del Sistema Financiero, Dominican Republic: Superintendencia de Pensiones

The portfolio has been well diversified in terms of issuers and instruments (in % of AUM)

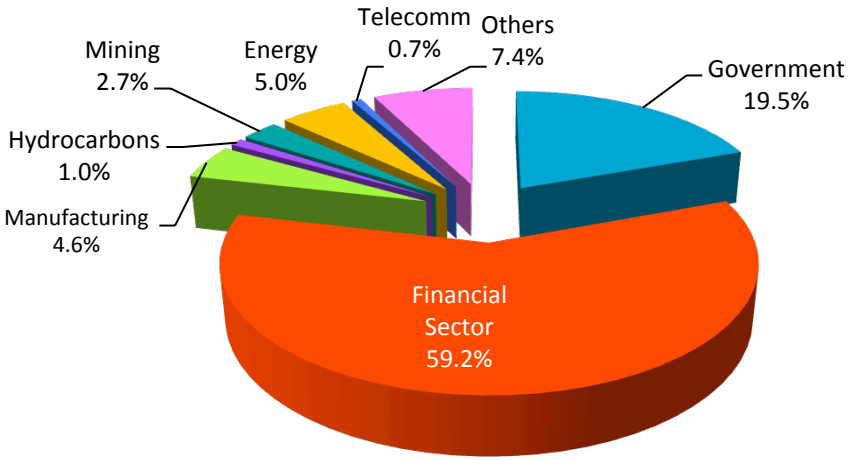




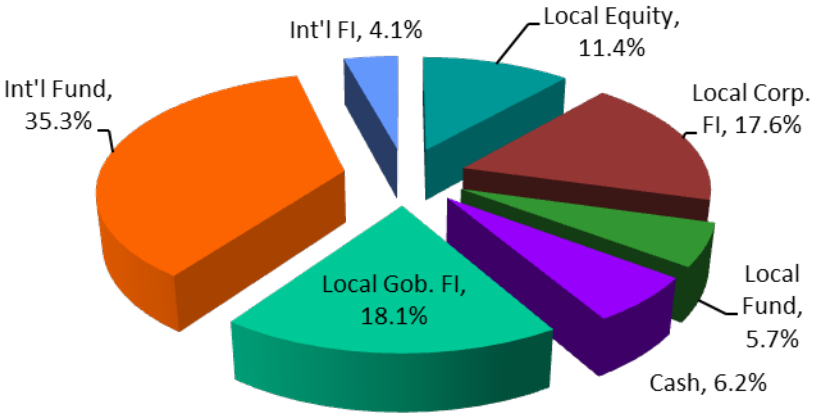
Sources: **Chile**: Superintendencia de Pensiones, **Colombia**: Superintendencia Financiera. Nov 2014**, Mexico**: Comisión Nacional del Sistema de Ahorro para el Retiro (CONSAR), **Peru**: Superintendencia de Banca, Seguros y AFP, FIAP

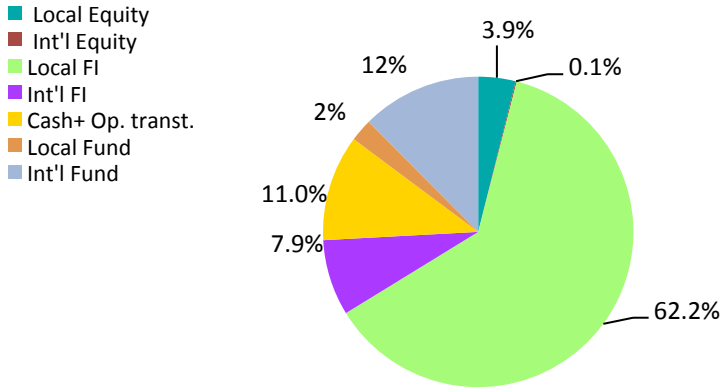
…as well as by economic sector

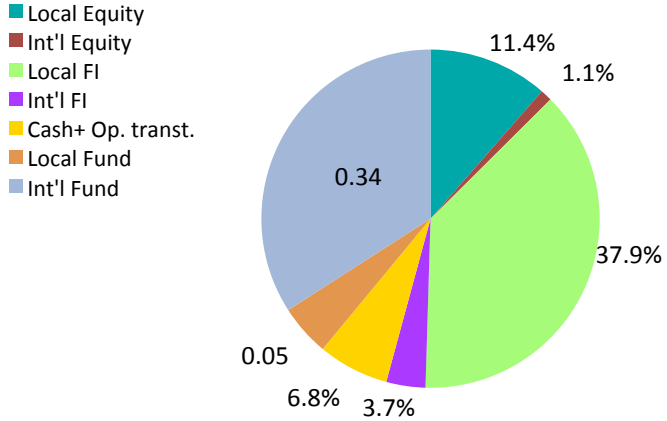
By sector (Jan 2015)

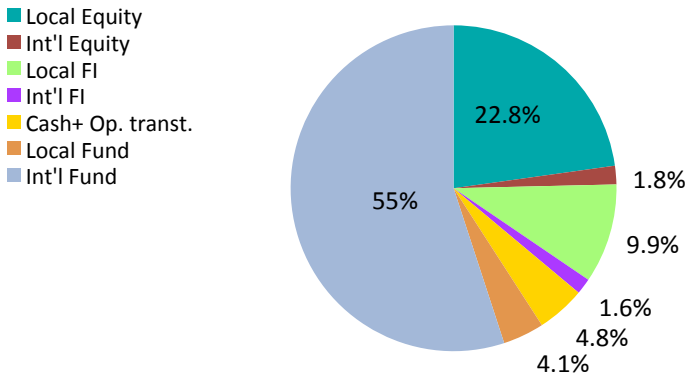


By asset type (Jan 2015)





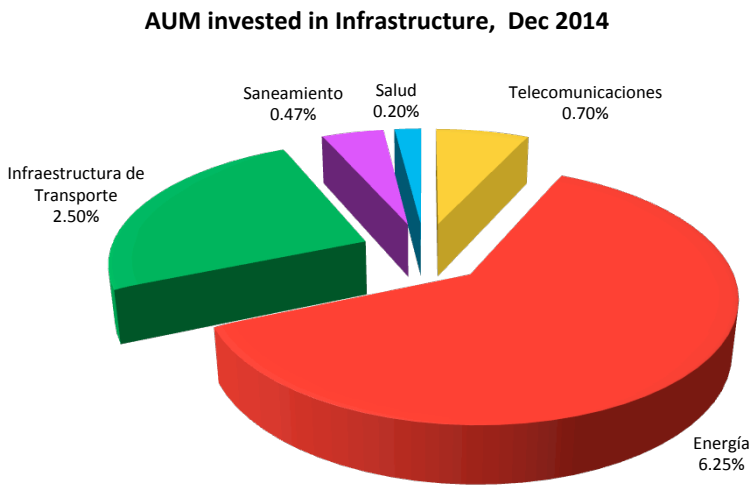


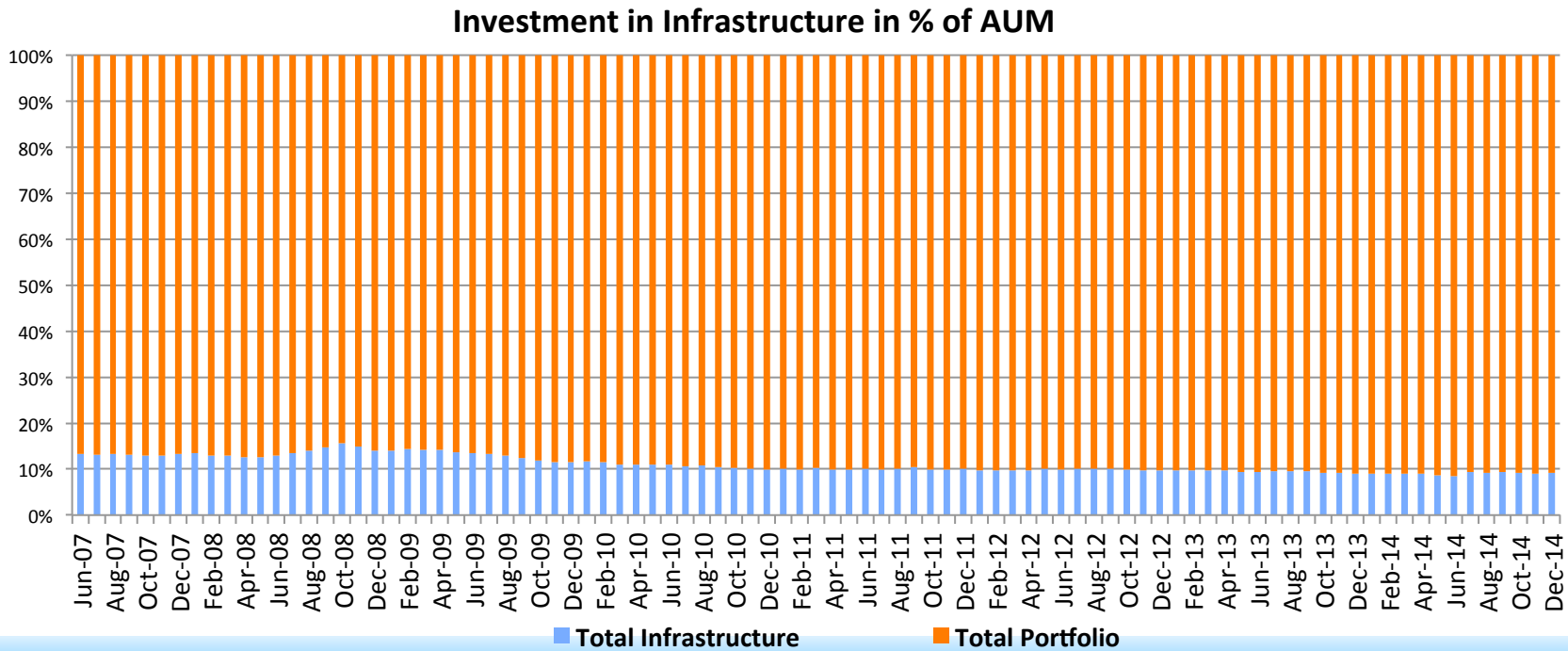


Source: SBS

Exposure to Infrastructure investments has averaged 10% of AUM

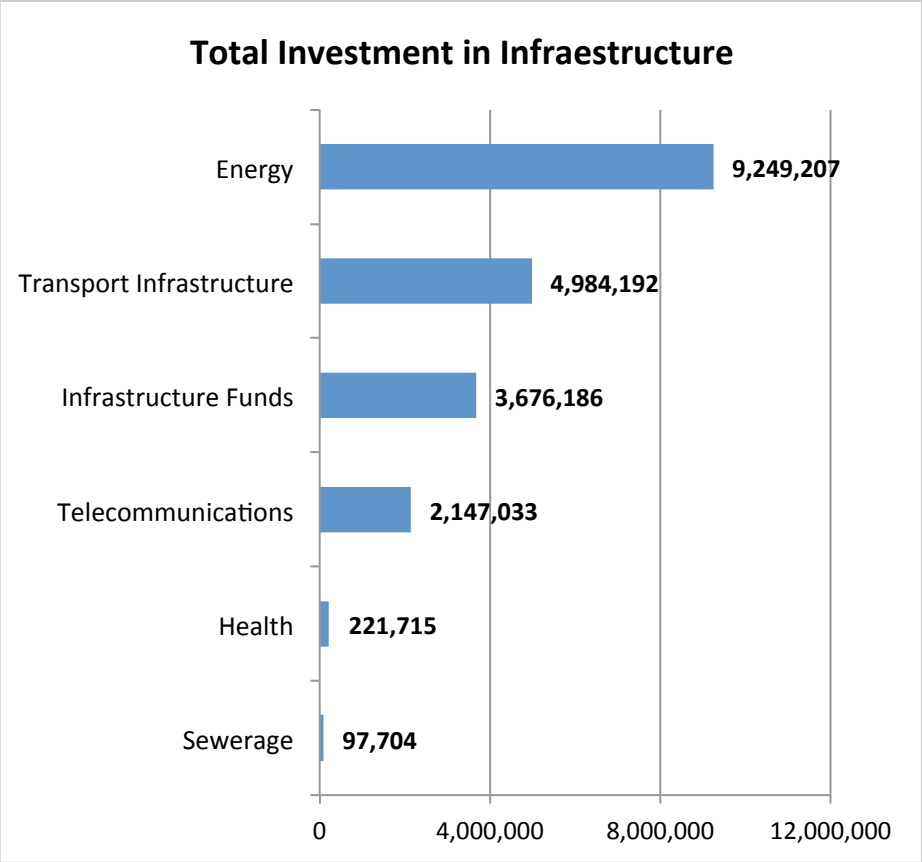
	Dec 2014	
Sector	**Millions of S/.**	**% of AUM**
Telecomm	806	0.70%
Energy	7161	6.25%
Transport Infrastructure	2866	2.50%
Sewerage	538	0.47%
Health	231	0.20%
TOTAL	**11,603**	**10.13%**

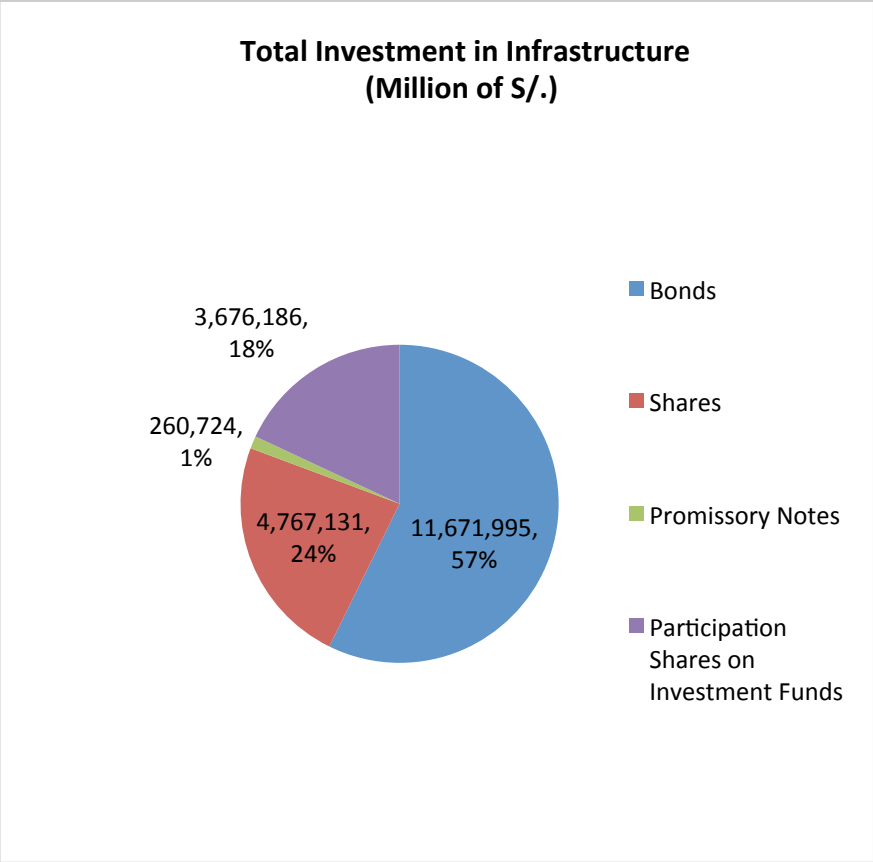




Source: SBS

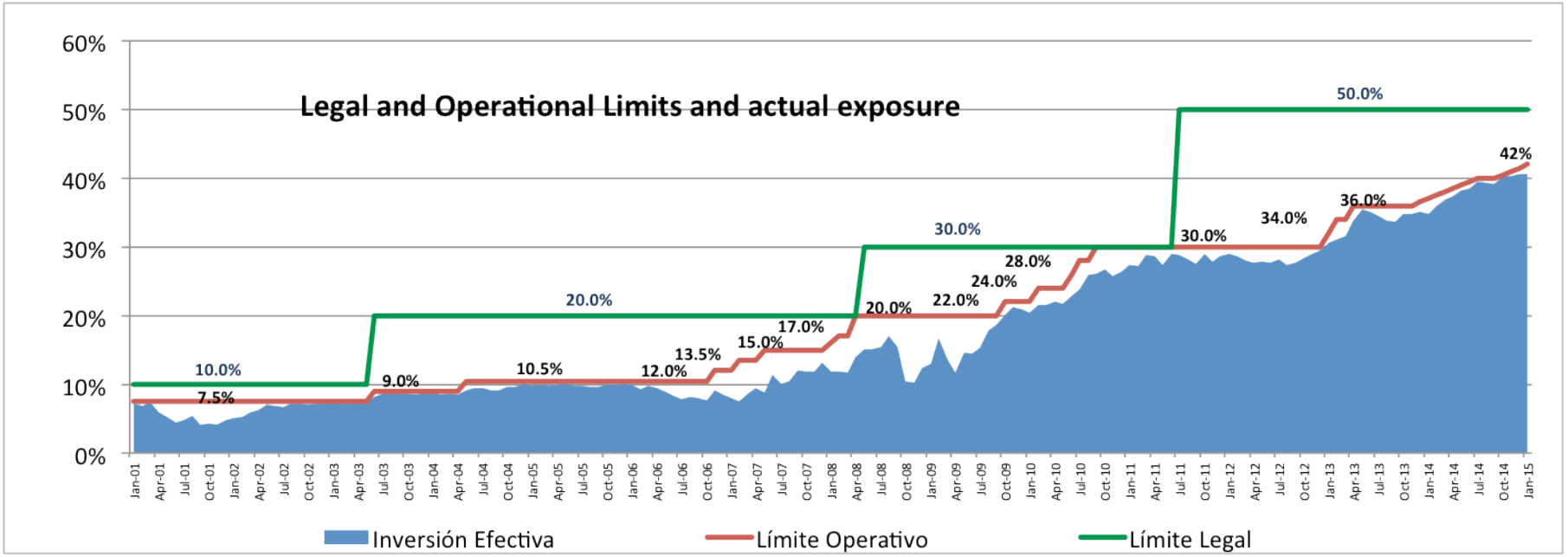
Historically, investment in infrastructure investment amounts to S/.20.4 billion (about US$6.8 bn).

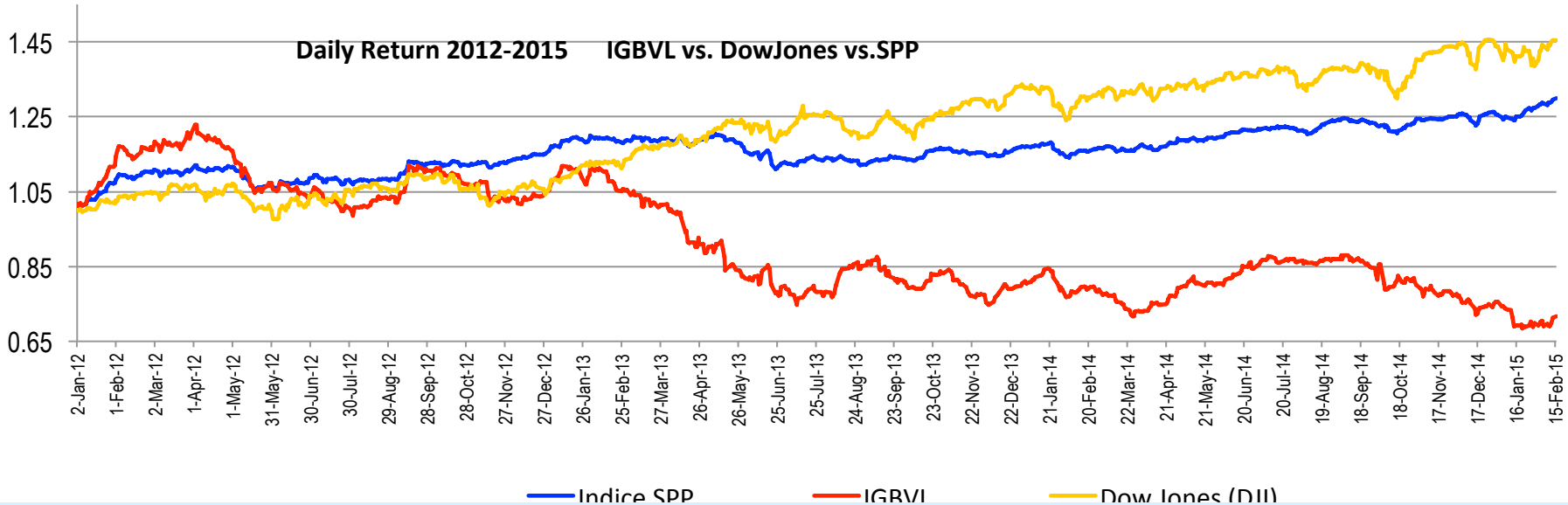




Source: SBS

Investments abroad have progressively increased contributing to counter weakening domestic market conditions

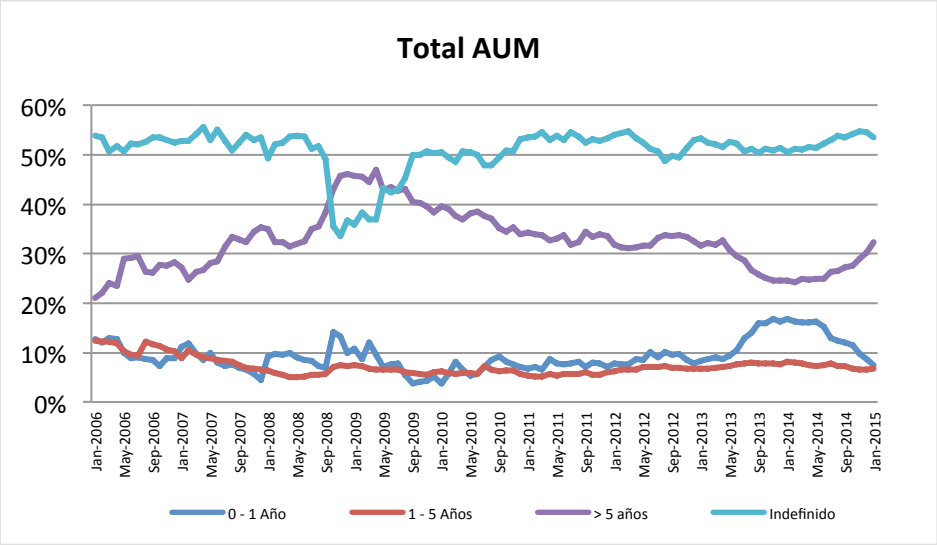


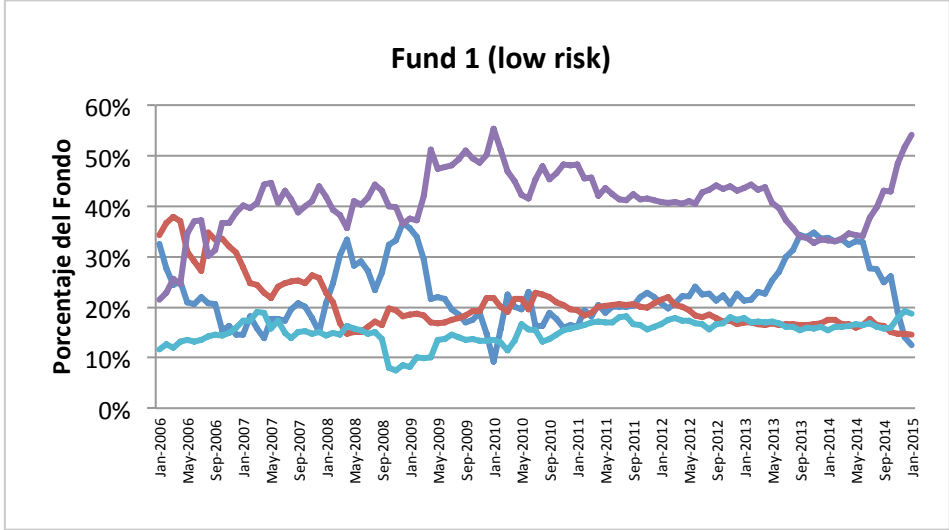


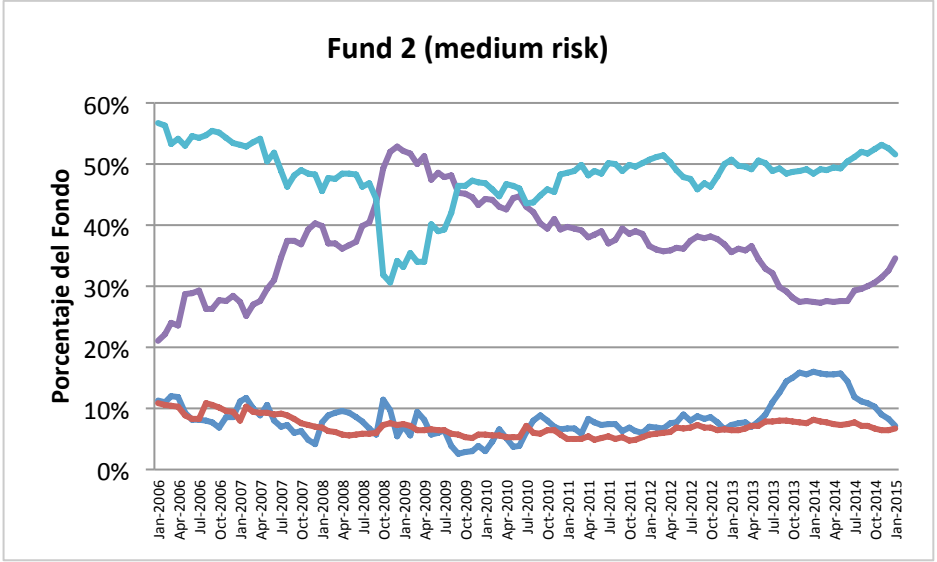
Investment Term Structure

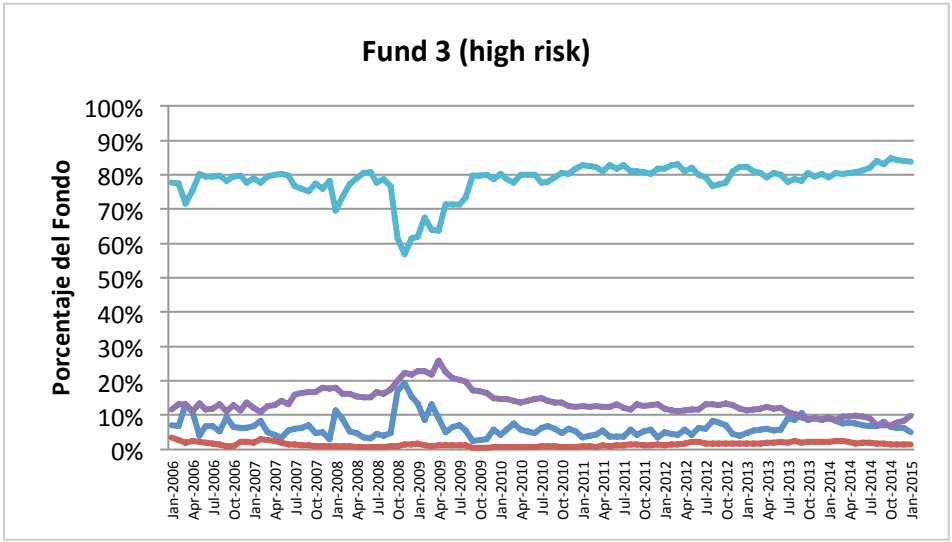
Total AUM have an average maturity longer than 5 years; the riskier the fund the longer the maturity

Portfolio´s Maturities by type of Fund
(in % of corresponding AUM)



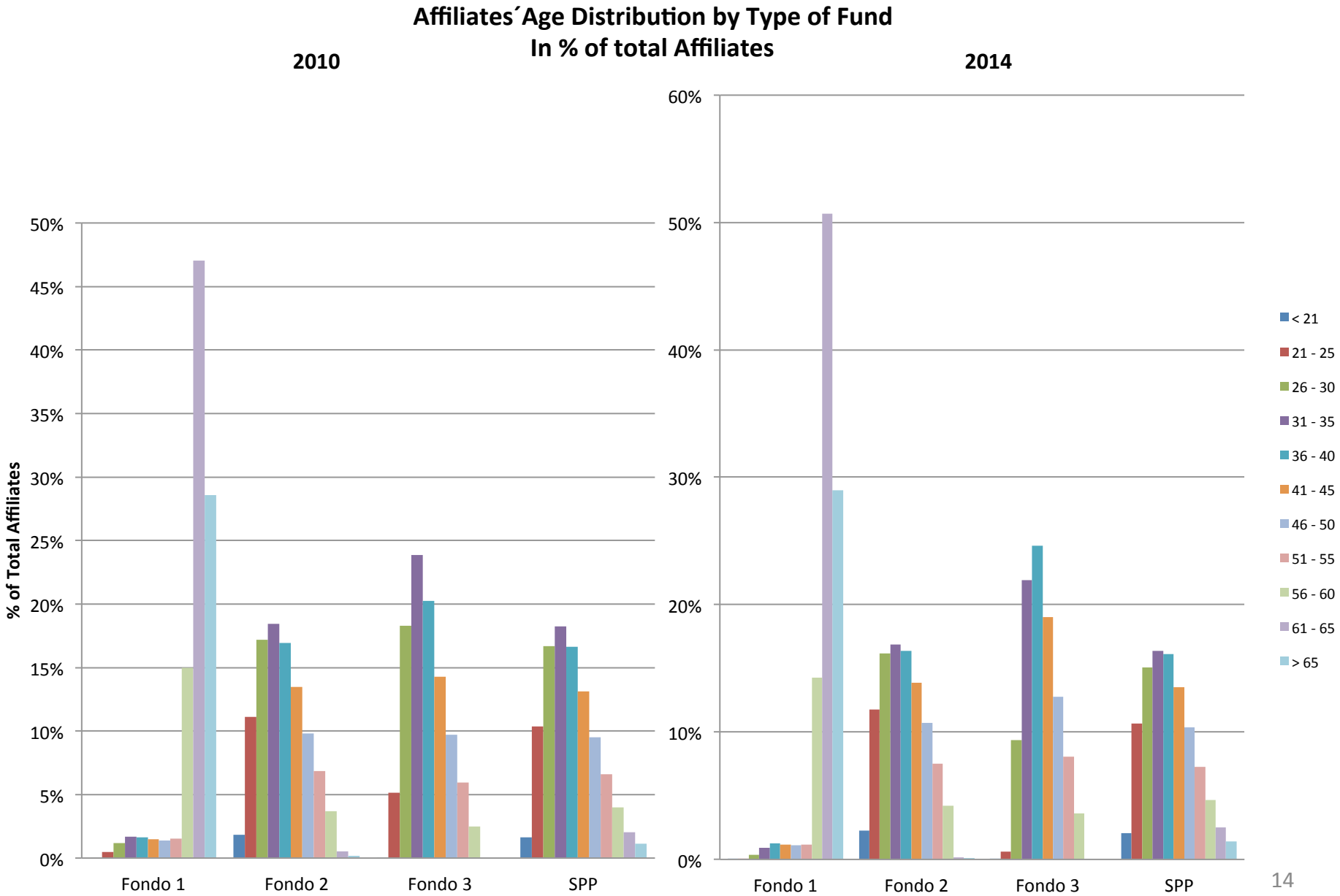






Source: SBS

The longer maturity is consistent with affiliates being on average 27 years away from retirement



Regulations and Supervision

Peru: Key features of the recent reform of the Investment Regulatory Framework

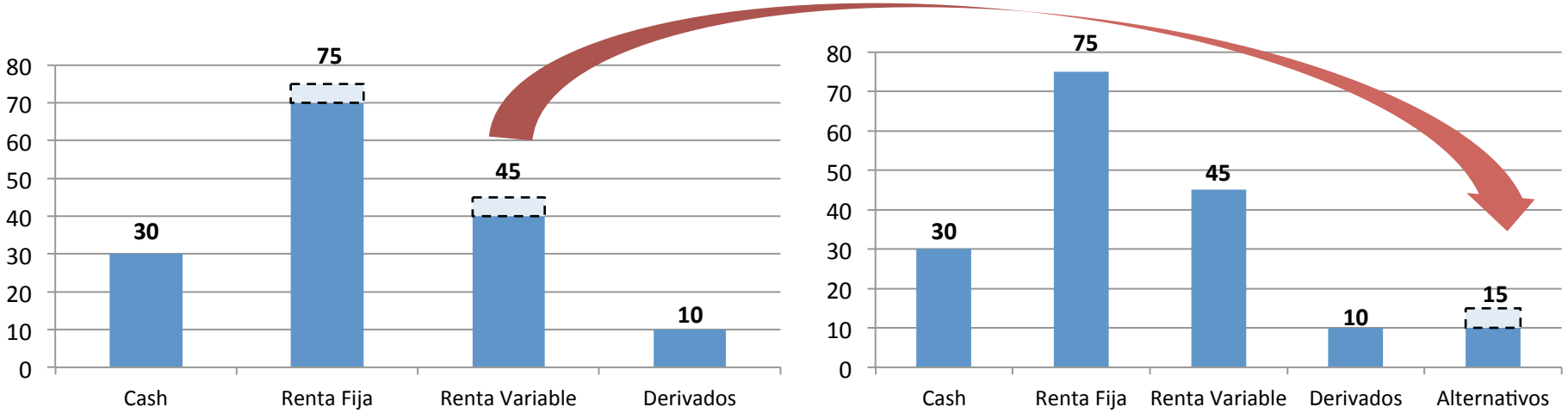
- The reform was oriented to help AFP to maximize risk adjusted returns and improve risk management
- Less emphasis was placed on life-cycle adjusted portfolios' term structure consistent with age structure of affiliates and low number of retirees
- Responsibility for elegibility and registry of investment vehicles transfered to AFP. They will need to keep records of elegibility process as well as consideration for final investment decision
- Change in limits and adoption of a more expeditious scheme for authorizing instruments using derivatives and alternatives (so called complex instruments)
- A new limit for innovation equivalent to 1% of AUM is created for investments in new instruments at the discretion of managers. Once investments are made they can be reclassified within other limit categories

Investment Limits by type of Fund

In % of AUM

PERU							
Type of Fund	Variable Income	Fixed Income	Derivatives	CDs/Deposits/ Financial sectors liabilities	Foreign Instruments	Treasury and Central bank Securities	Alternatives
	Máx	Máx	Máx	Máx	Global	Global	Máx
Fondo 1	10%	100%	10%	40%	42%	40%	0%
Fondo 2	45%	75%	10%	30%			15%
Fondo 3	80%	70%	20%	30%			20%

Fuente: Superintendencia de Banca, Seguros y AFP, Perú.



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Alternatives Sub limits

Type of Alternative Investments	in % of total AUM	
	Fund 2	Fund 3
Equity	12%	15%
Venture/Angel	6%	8%
Real Estate	6%	8%
Hedge Funds	4%	6%
Commodities	4%	6%
Infrastructure	15%	20%
Total Investment in Alternatives	**15%**	**20%**

Pending changes

- Mandates
- Investment risk management
- Back office's roles
- Revised qualifications for investment officers
- Minimum return rules (benchmarks)

Final Remarks

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Thank you