

AIOS-OECD

Tour D'Horizon

México D.F., June, 2011

Comisión Nacional del Sistema de Ahorro para el Retiro



1. Fees and mergers

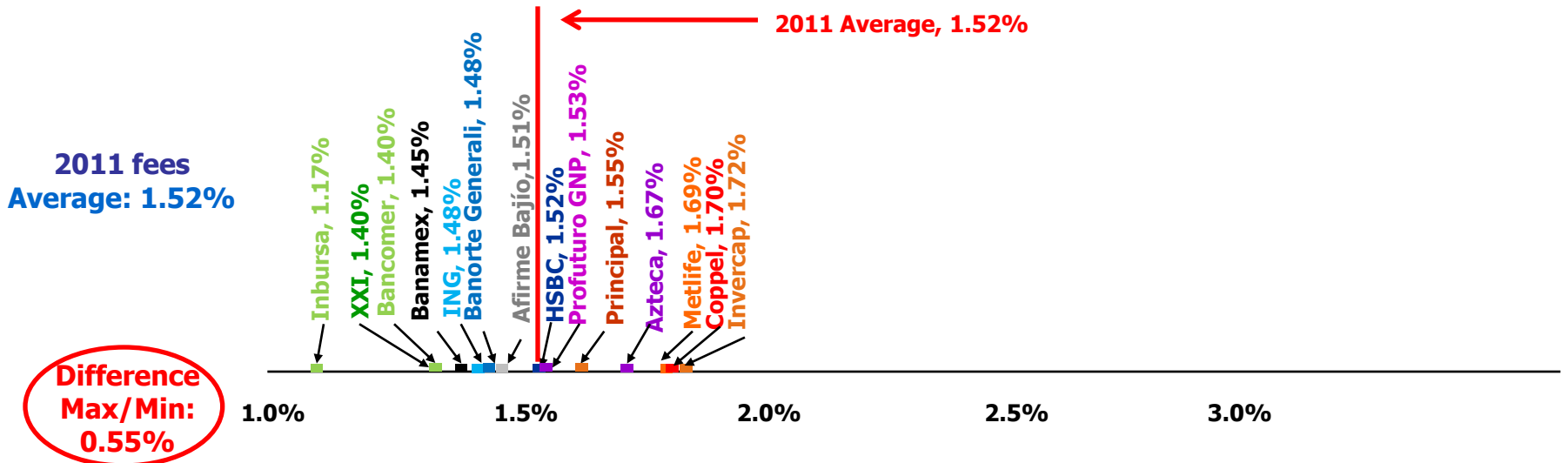
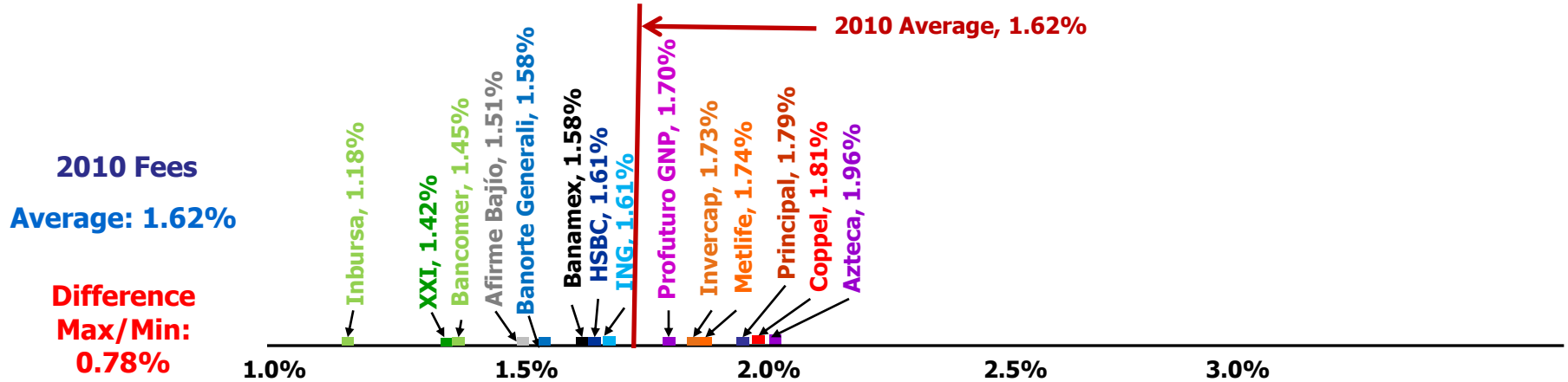
2. Returns and investments

In 2007 the law of the pension systems was reformed and only fees on AUM are allowed. During the period 2007-2011 **these fees have been reduced by 63%.**

AFORE	Converted fees by eliminating the fee on flows	Entry into force of the 2007 Reform		Entry into force of the 2009 Reform		Authorized	
	June 15, 2007	March 16 2008	February 27, 2009	Current 2010	2011		
Afirmé Bajío	3.29	1.70	1.70	1.51	1.51		
Azteca	1.96	1.96	1.96	1.96	1.67		
Banamex	1.84	1.84	1.84	1.58	1.45		
Bancomer	1.47	1.47	1.47	1.45	1.40		
Banorte Generali	1.71	1.71	1.71	1.58	1.48		
Coppel	5.14	3.30	3.30	1.81	1.70		
HSBC	1.77	1.77	1.77	1.61	1.52		
Inbursa	1.18	1.18	1.18	1.18	1.17		
ING	1.82	1.74	1.74	1.61	1.48		
Invercap	2.48	2.48	1.93	1.73	1.72		
Metlife	2.26	2.26	1.89	1.74	1.69		
Principal	2.11	2.11	1.94	1.79	1.55		
Profuturo GNP	1.96	1.96	1.92	1.70	1.53		
XXI	1.90	1.45	1.45	1.42	1.40		
Simple Average*	4.06	1.96	1.81	1.62	1.52		
Decrease with respect to June 07		-51.7%	-55.3%	-60.1%	-62.6%		

This trend will continue since pension funds have to present to the board of CONSAR on a yearly basis their proposals of fees for the following year.

The spread between the highest and lowest fee was reduced last year to **0.55%**. The continuous growth of assets and the economies of scale in part explain this dynamics.



There are several reasons that has led to a significant fee reduction, among which outstand the following:

1 Maturing system

The startup cost of the system had to be covered with fees, which pushed these charges upwards (the system started in 1997.) As the system matures, variable costs and competition have become the most relevant variables.

2 Efficient collection and distribution

The process of collection and distribution of resources is centralized in a regulated entity, called PROCESAR, which exploits the economies of scale in these activities. This efficiency is in turn (partially) transferred to workers with an individual account.

3 Fees once were the unique driver of competition

As the services provided to workers were refined over time, but with a investment regime still narrowed, fees became the main driver of competition among Pension Funds, even statutorily. Before the reform in 2007, it was possible for workers to move from one fund to another as long the destination was cheaper.

4 Net returns are the main driver of competition

The reform in 2007 changed the driver of switches of workers from fees to net returns, that is, returns net of fees. This driver incentivizes pension funds to be cheap and to be better investment and risk manager.

There are several reasons that has led to a significant fee reduction...

5 Rapid growth of AUM

There are important economies of scale in the activities related to investment and risk management of portfolios. This along with the rapid growth of AUM in the system and the fee structure have allowed the fee level to drop.

6 High profits in the system

The ROE and profits of the system indicate that fees have had room to drop, even in comparison with other sectors, without compromising the viability of the system.

7 Deregulation of operational activities

CONSAR has deregulated significantly the activities related to record keeping, collection and payment of resources and switching among pension funds. This is in accordance with RBS. The focus in these topics now is on outcomes rather than on the processes.

8 Approval of fees by the Board of CONSAR

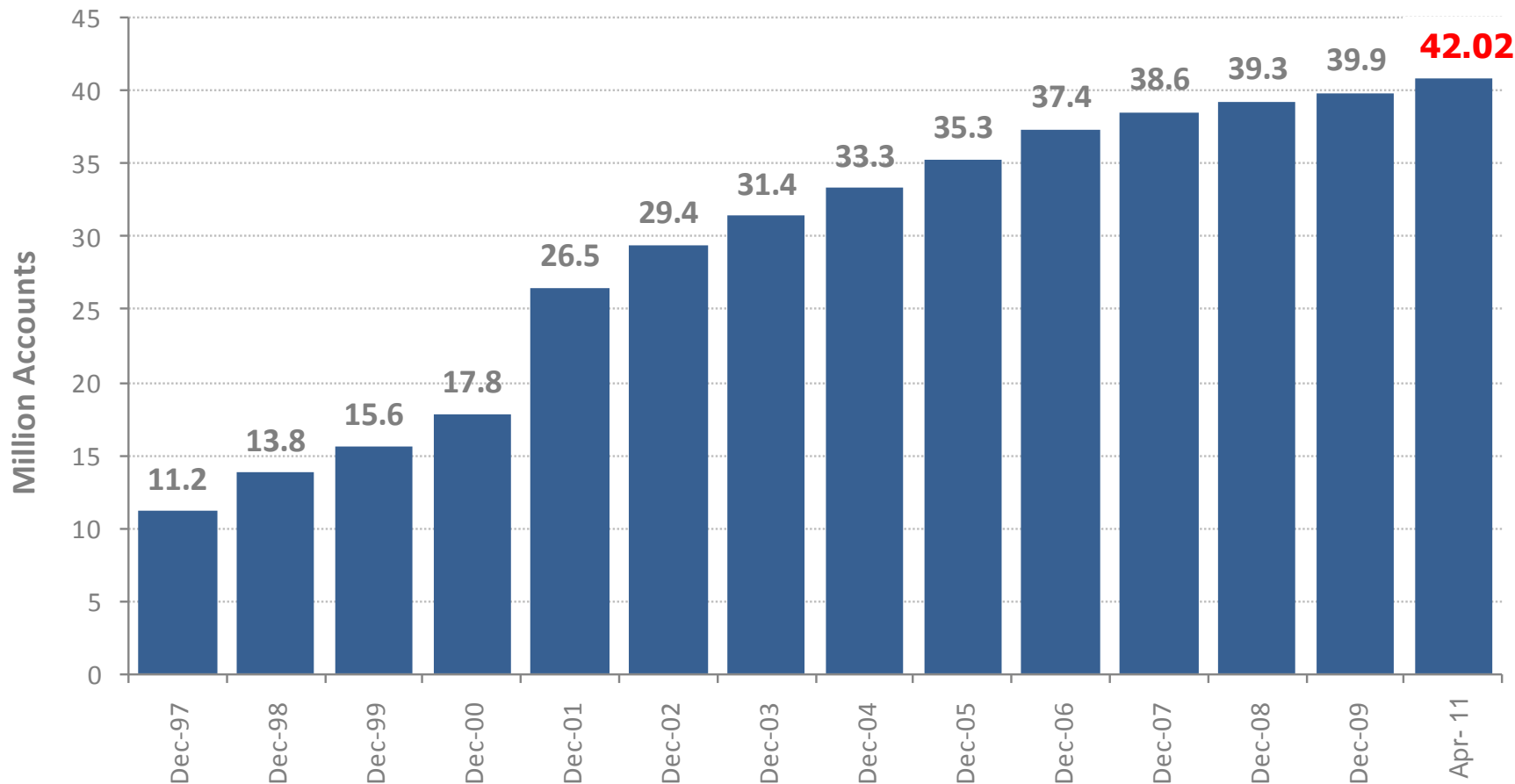
Pension funds on yearly basis have to submit their proposal of fees to be charged the following year to the Board of CONSAR.

1. Fees and mergers

2. Returns and investments

There are over 40 million registered accounts in the system.

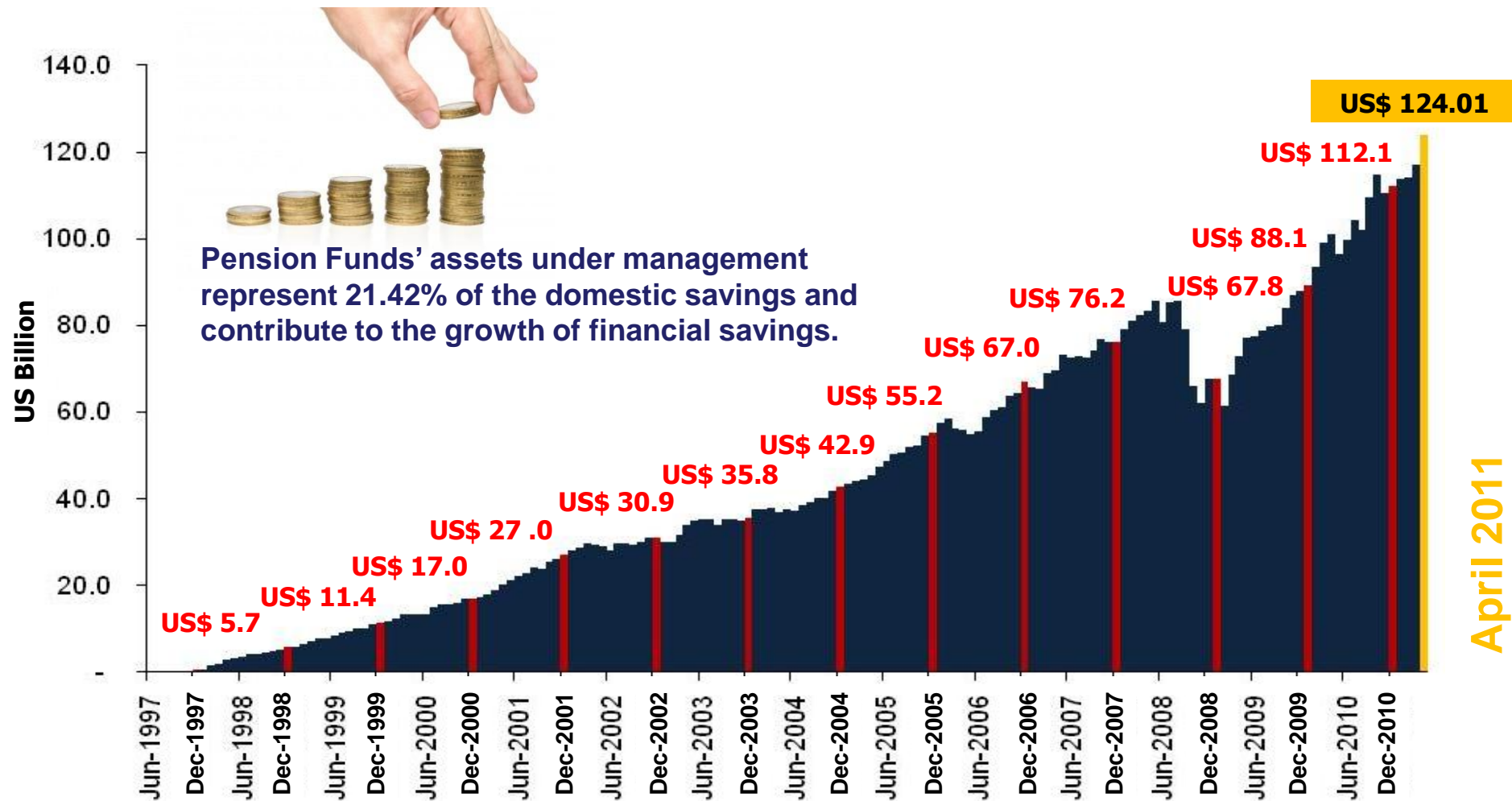
ACCOUNTS MANAGED BY AFORES



The managed accounts have grown from 11 million in 1997 to almost 42 million in April 2011 (282%).

Pension funds' assets under management amount to more than **US\$124 billion** as of April 2011. These assets grow rapidly, and **provide funding**, through different mechanisms, mainly to **Mexico's productive sector**.

Pension Funds' assets under management

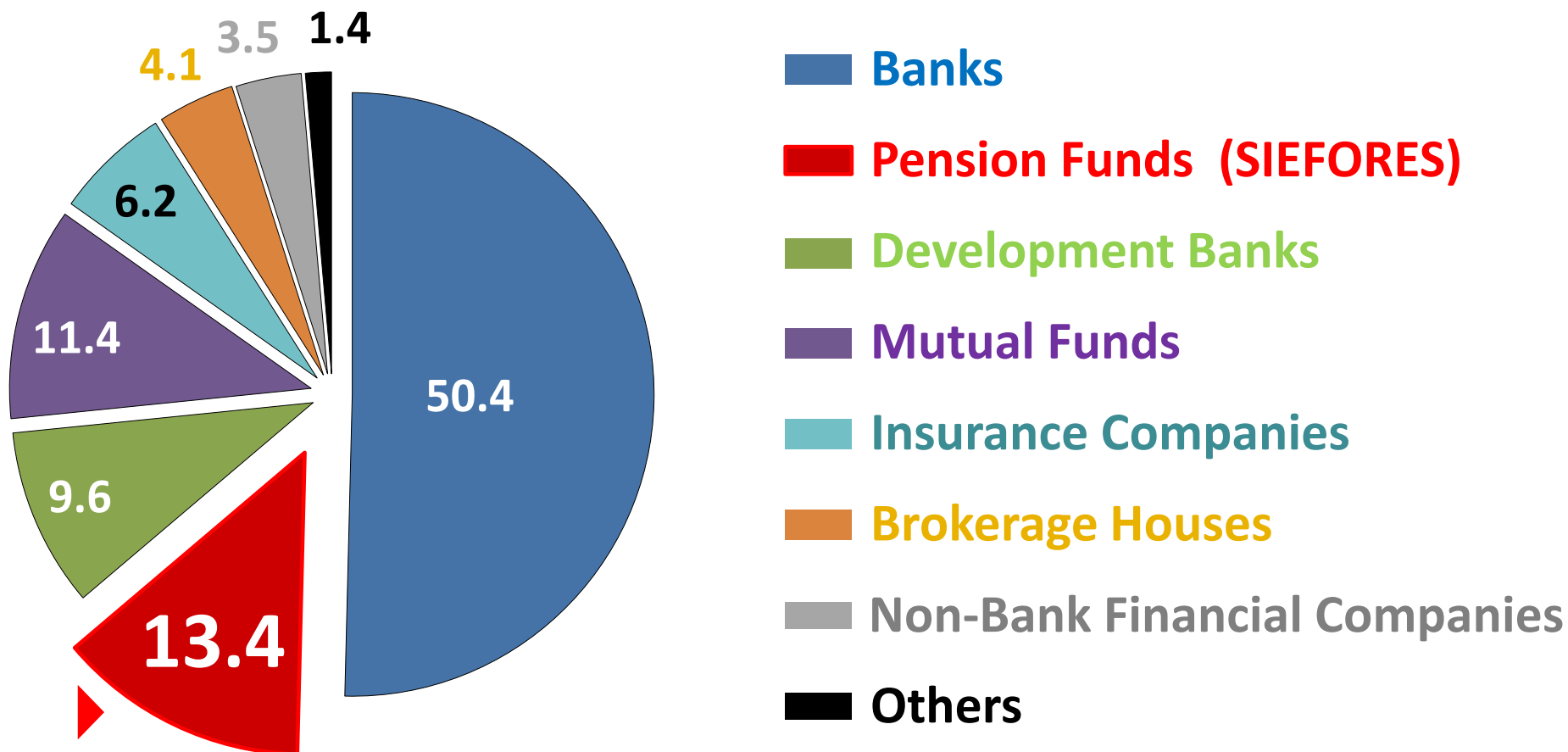


SOURCE: CON SAR

Pension Funds' assets under management represent **10.9%** of the GDP

Assets managed by SIEFORES represent 13.4% of assets in the Mexican Financial System, just behind Banks.

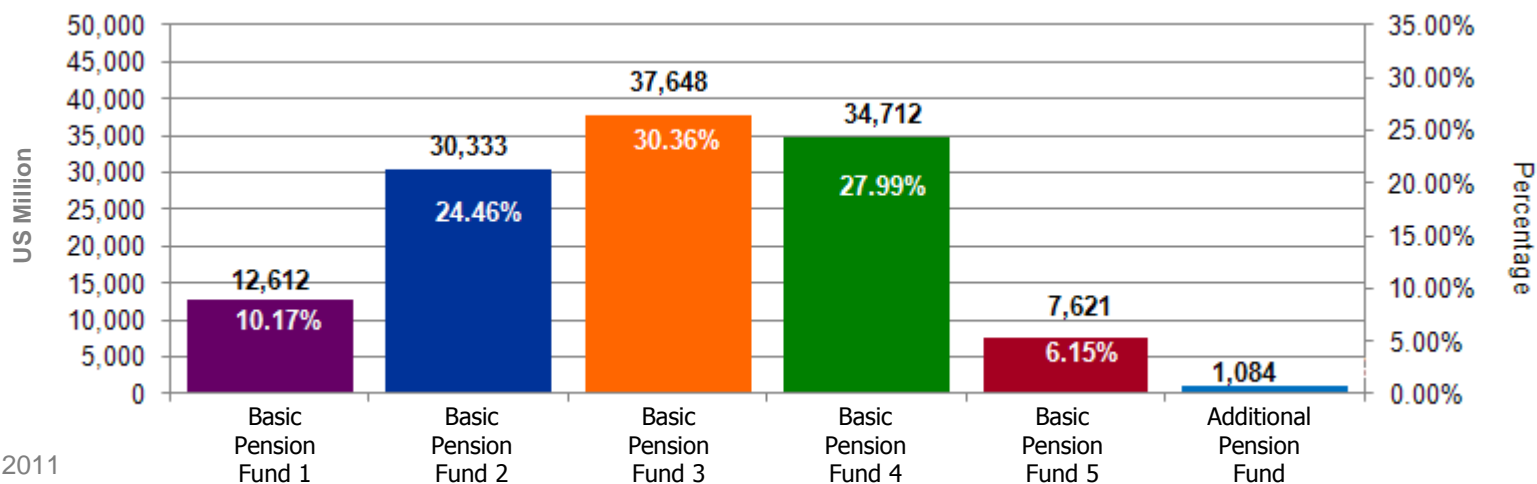
MEXICAN FINANCIAL SYSTEM (Market Share)



In the last ten years the Assets Under Management (AUM) by SIEFORES have grown on average 21.93% per year.

The total amount allocated to Social Prevision amounts to **US \$1,363.12 million***.

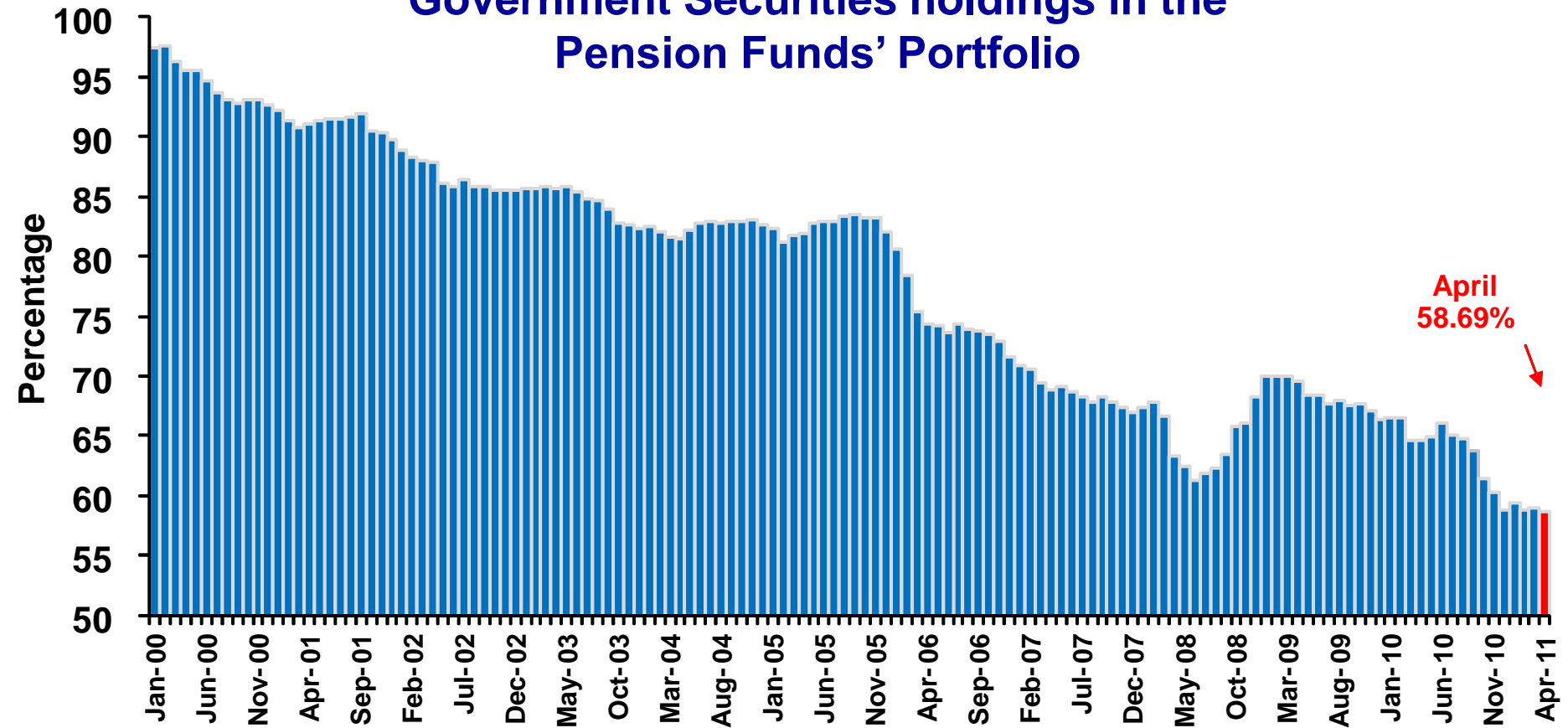
Afore	Basic Pension Fund 1	Basic Pension Fund 2	Basic Pension Fund 3	Basic Pension Fund 4	Basic Pension Fund 5	Additional Pension Fund	TOTAL
Banamex	7.88%	20.87%	30.84%	32.26%	7.94%	0.21%	100.00%
Bancomer	8.75%	24.66%	33.30%	25.35%	3.53%	4.41%	100.00%
ING	8.42%	23.34%	34.62%	29.57%	3.84%	0.22%	100.00%
Profuturo GNP	5.38%	20.65%	35.84%	34.63%	3.31%	0.19%	100.00%
Inbursa	9.60%	30.69%	34.18%	21.47%	4.06%	0.00%	100.00%
XXI	11.44%	35.24%	28.43%	18.56%	6.33%	0.00%	100.00%
PensionISSSTE	40.97%	39.86%	7.99%	8.25%	2.93%	0.00%	100.00%
Banorte Generali	6.87%	18.67%	26.76%	34.84%	10.88%	1.98%	100.00%
Principal	12.58%	25.23%	29.82%	28.19%	4.18%	0.00%	100.00%
Invercap	5.83%	20.52%	31.34%	33.42%	8.89%	0.00%	100.00%
Coppel	3.26%	13.39%	24.18%	37.75%	21.41%	0.00%	100.00%
HSBC	6.94%	18.33%	29.55%	36.61%	8.57%	0.00%	100.00%
MetLife	8.80%	24.18%	31.00%	27.51%	8.22%	0.28%	100.00%
Azteca	5.59%	15.47%	25.99%	36.84%	16.12%	0.00%	100.00%
Afirme Bajío	6.78%	13.48%	19.44%	23.90%	36.40%	0.00%	100.00%
System	10.17%	24.46%	30.36%	27.99%	6.15%	0.87%	100.00%



*As of April 2011

In recent years the portfolios of Pension Funds **have reduced** their concentration **in government securities**. Although the portfolios are still highly concentrated in these securities.

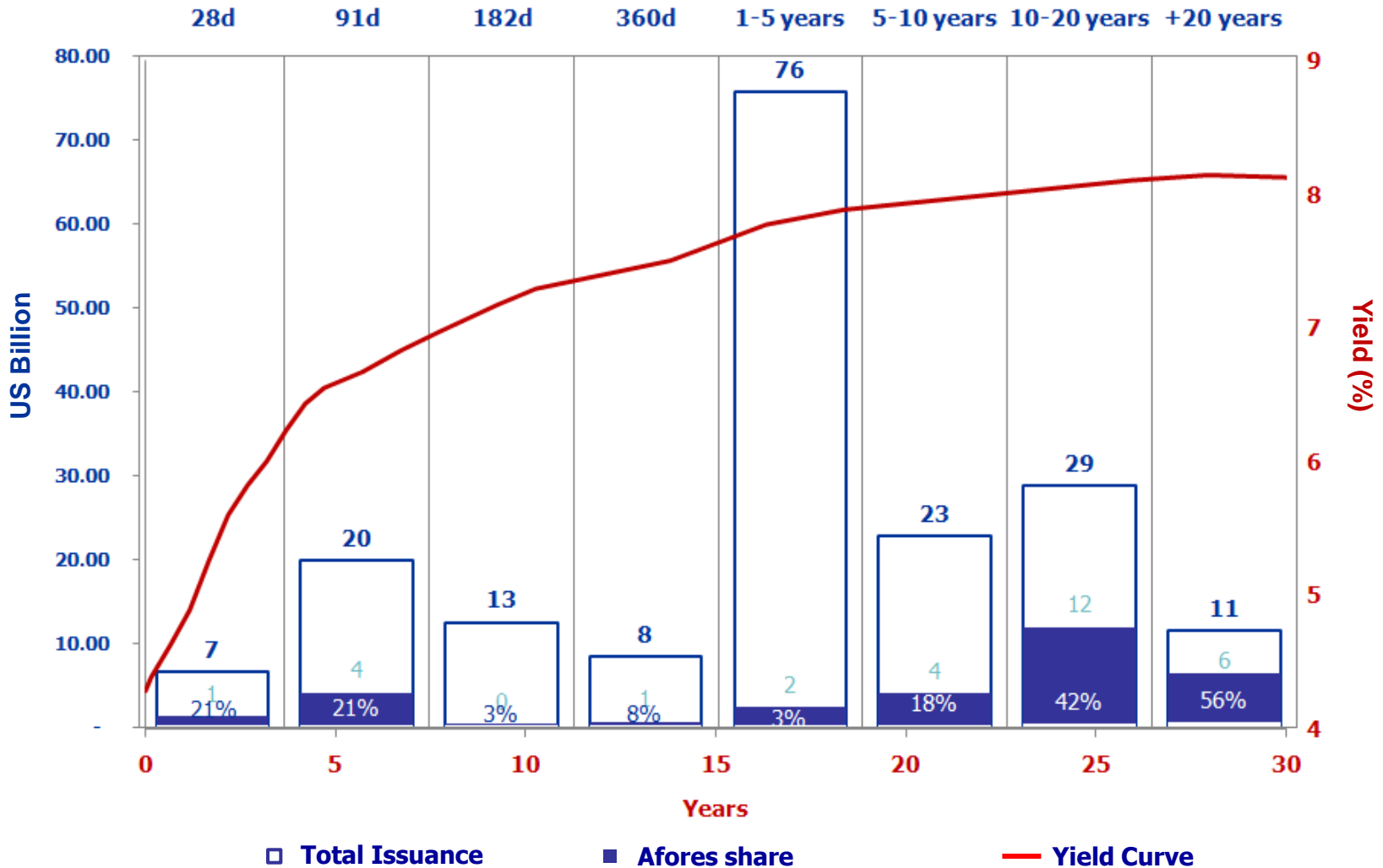
Government Securities holdings in the Pension Funds' Portfolio



Basics Pension Funds

Within the investment in **government securities**, Pension Funds stand out as the main investor in the government long-term bonds.

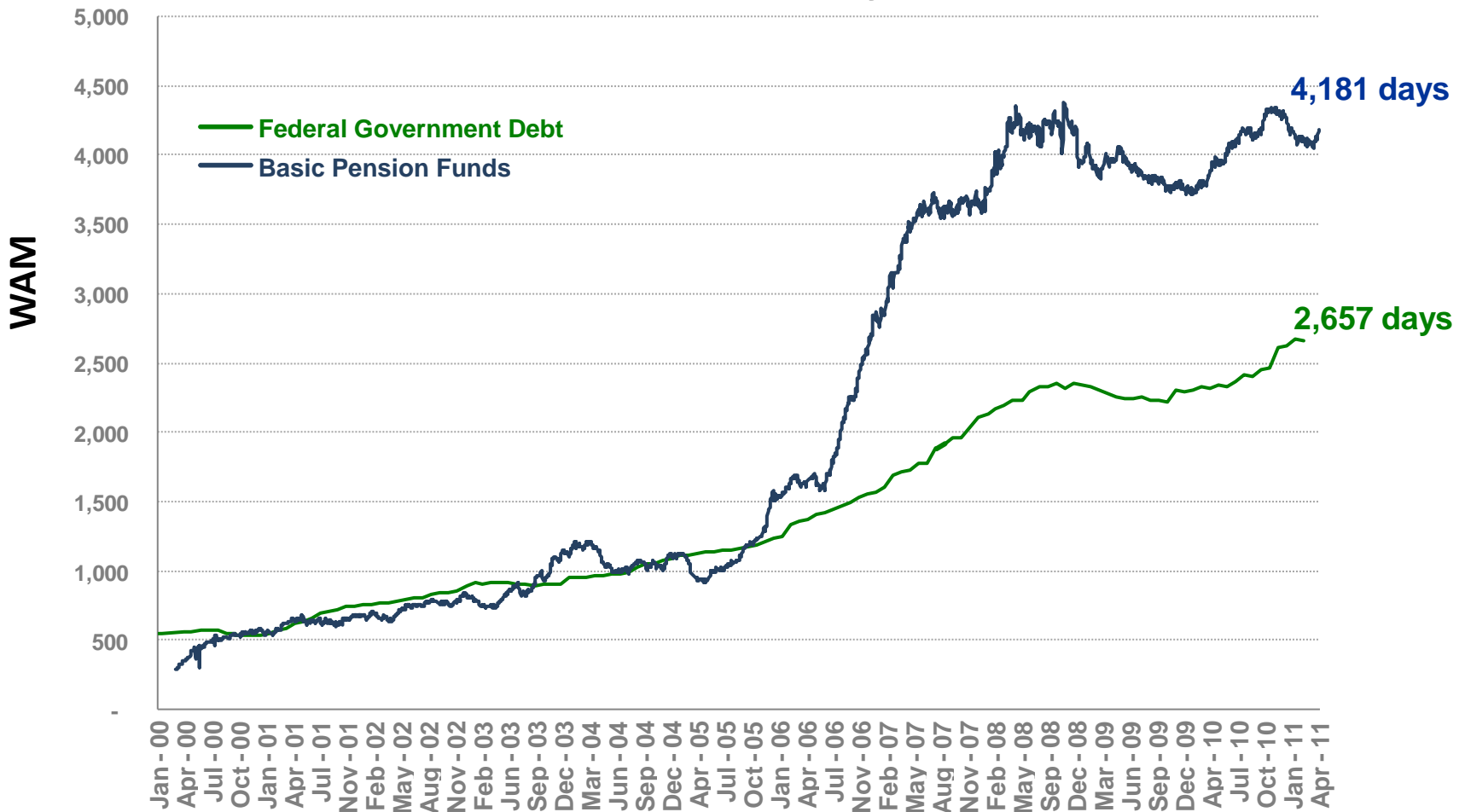
Government Bonds yield curve



Over time retirement savings have increased significantly the **financing of longer-term investments (WAM)**, consistent with its object, and outstanding in comparison with the government supply of financial assets.

Weighted Average Maturity Evolution (WAM)

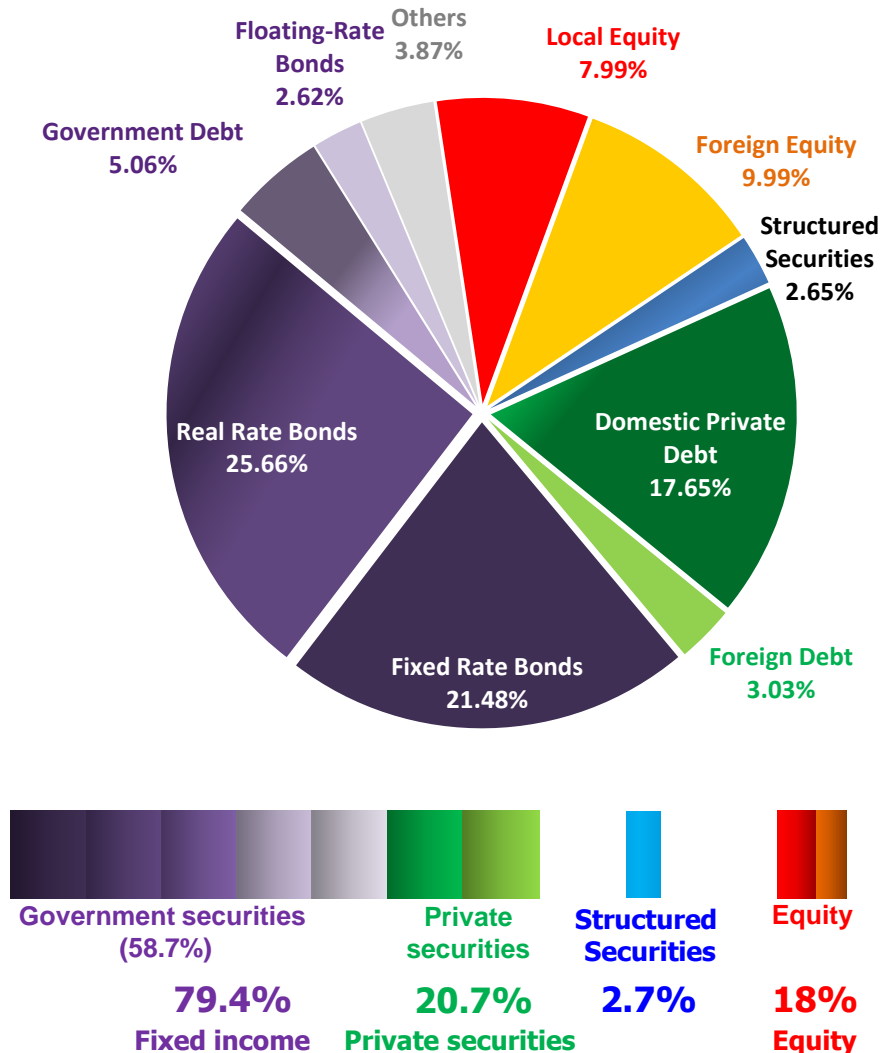
Basic Pension Funds - Days



Data as of April 2011. Federal Government Public Debt information as of the last date published by Banxico.

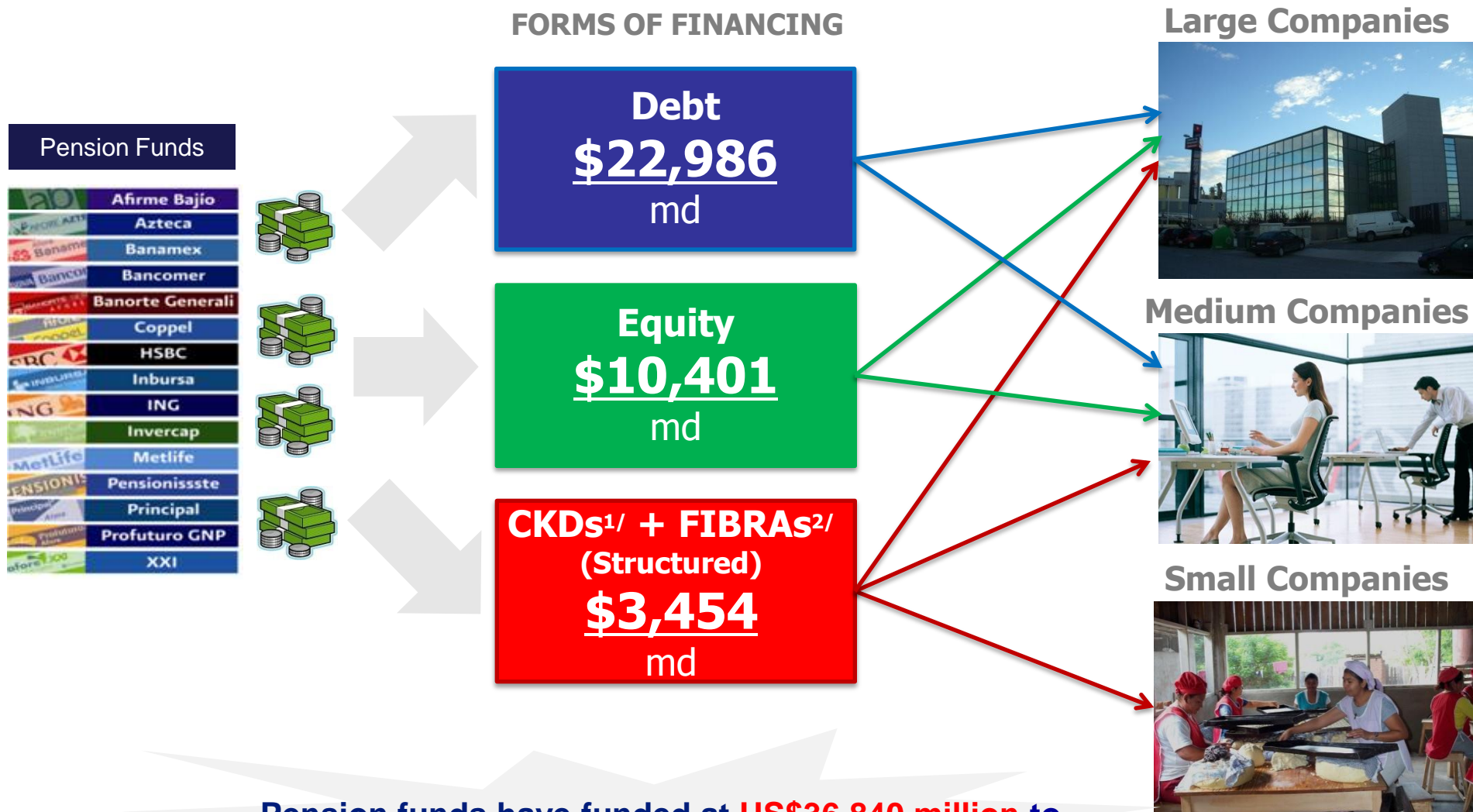
The investment regime's opening has resulted in better diversified portfolios that **manage resources of US\$124 billion.**

(Pension Funds' Portfolio)



- The historical performance of the Retirement Savings System at the end of April 2011 is **13.27%** in nominal terms .
- The **average maturity** of the Pension Funds' portfolio is **11.5 years.**
- Pension Funds' share in the private sector debt market is close to **28.62%** of the total outstanding.

There are three main vehicles within which pension funds can finance the private sector: Debt, Equity and Structured Instruments.



Pension funds have funded at **US\$36,840 million** to Mexican companies

1/ Private Equity Financing.

CKDs: Capital Development Certificates

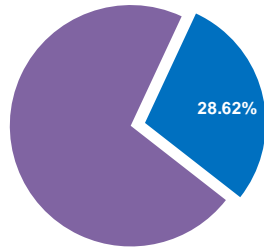
2/ Mexican REITS

Data as of April 2011

With regard to the private sector, pension funds **finance the 28.6% of the total outstanding long term debt**, channeling resources to large numbers of **productive sectors**.

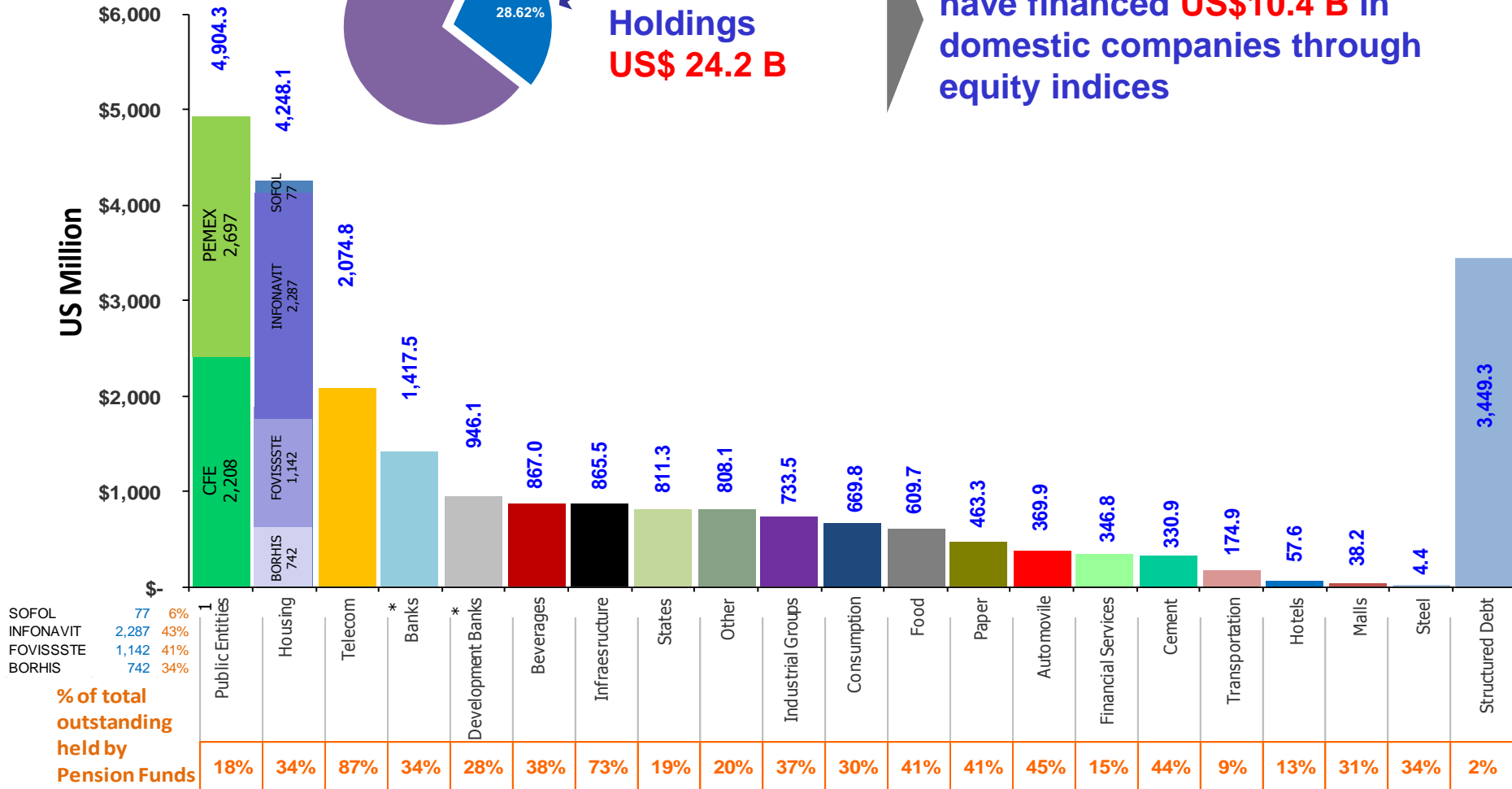
Total issuance

US\$ 84.6 B



Siefores' Holdings
US\$ 24.2 B

Besides this amount, Siefores have financed **US\$10.4 B** in domestic companies through equity indices



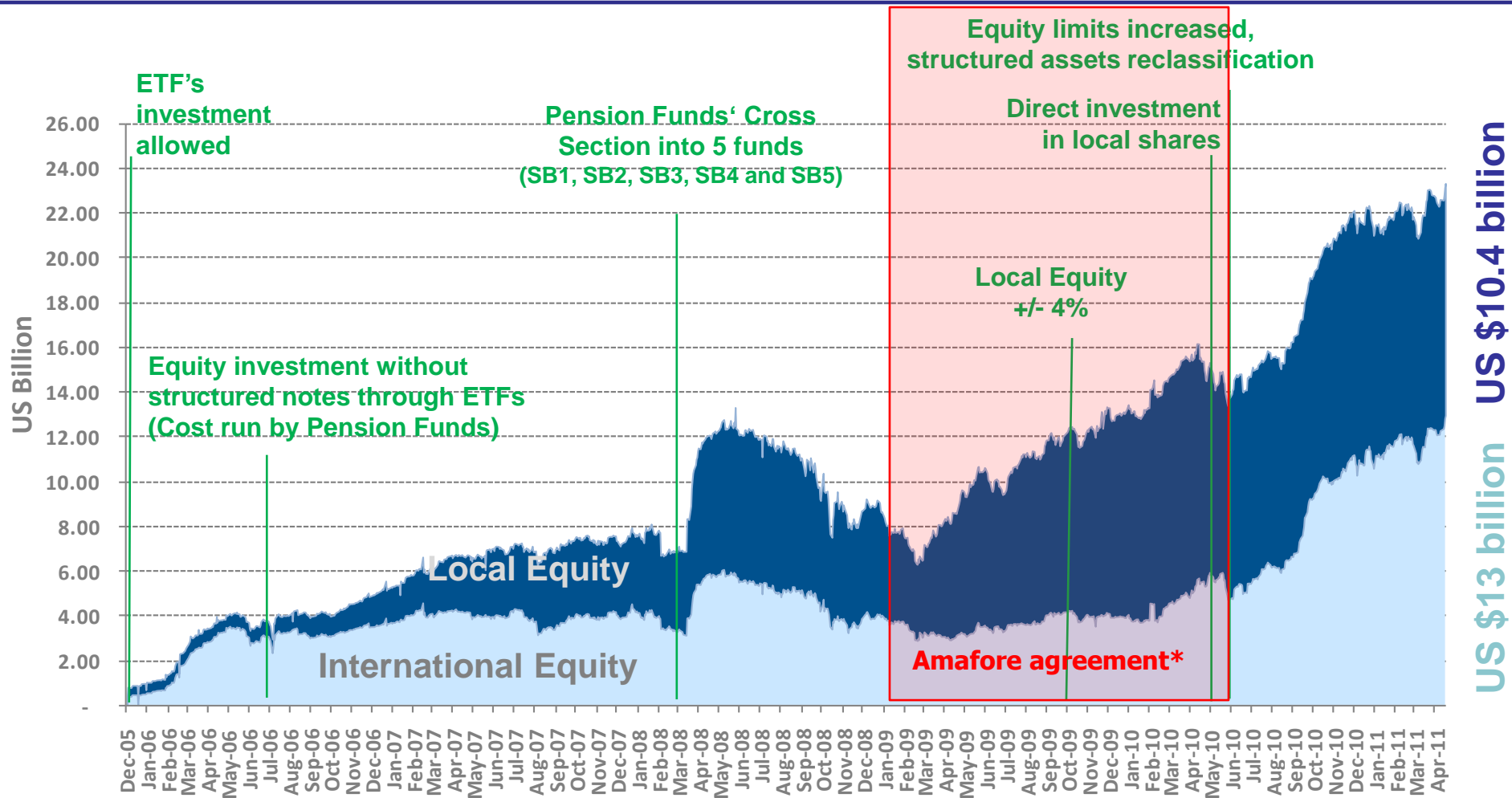
* Includes Siefores' holdings in Development Banks and Bank issuances. Data as of April 2011. Source: CON SAR and VALMER.

1. Includes PEMEX debt for an amount of US\$0.86 billion in international markets and US\$1.84 billion in the local market.

Due to regulatory changes, investments in Multilateral Organizations are considered as Local Debt. Siefores' holdings in this type of assets amount up to US\$0.37 billion.

Pension Funds have increased their diversification in equity as well.

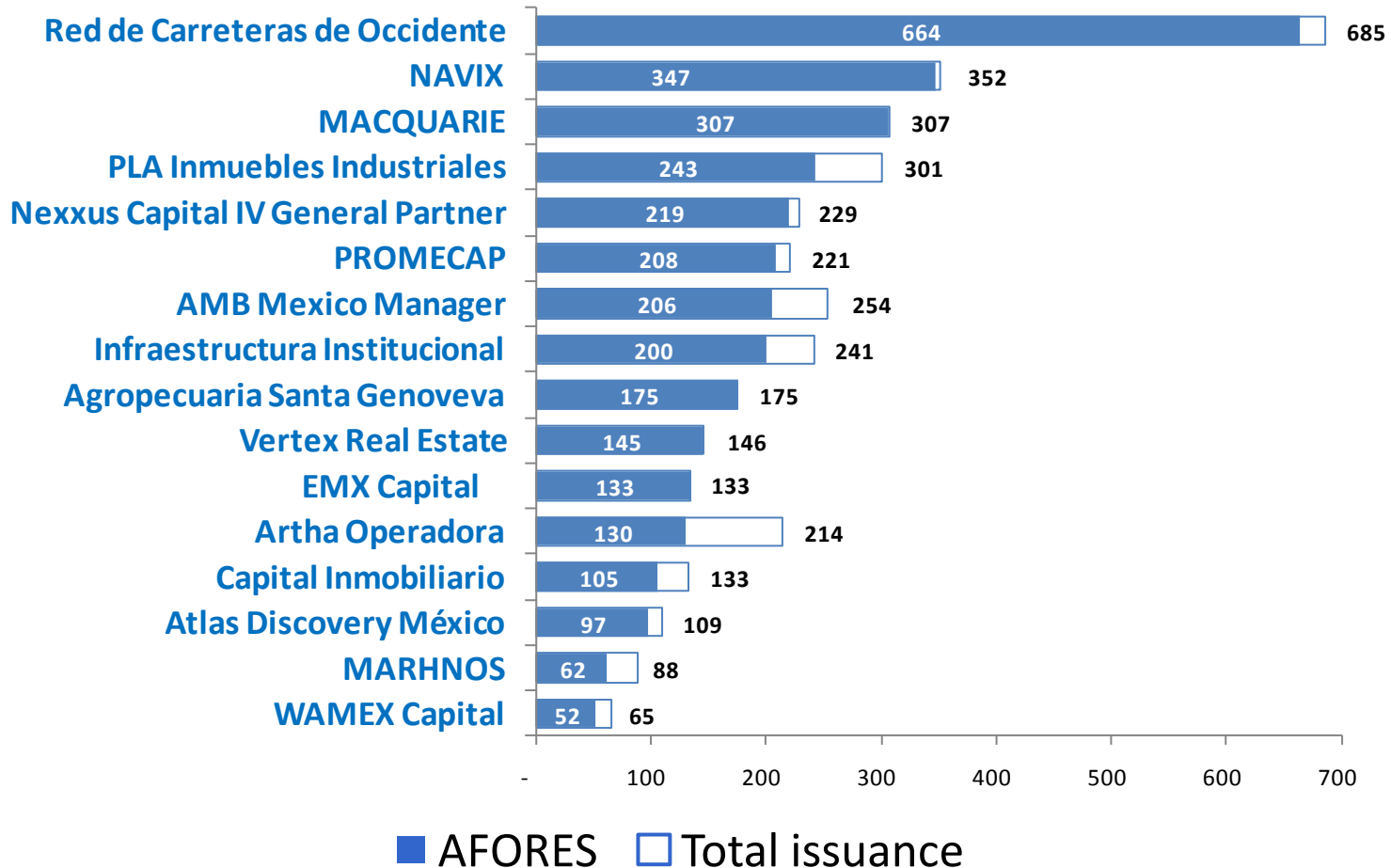
Pension Fund's Equity investments evolution. (Mark to Market value, including derivatives)



*Due to the recent financial crisis, in this period, pension funds were only allowed to invest the new contributions in local markets

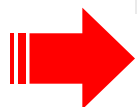
Figures in US billion. Data as of April 2011. Source: CONSAR.

Through the structured securities (called CKDs) Pension Funds have financed different real economy projects.

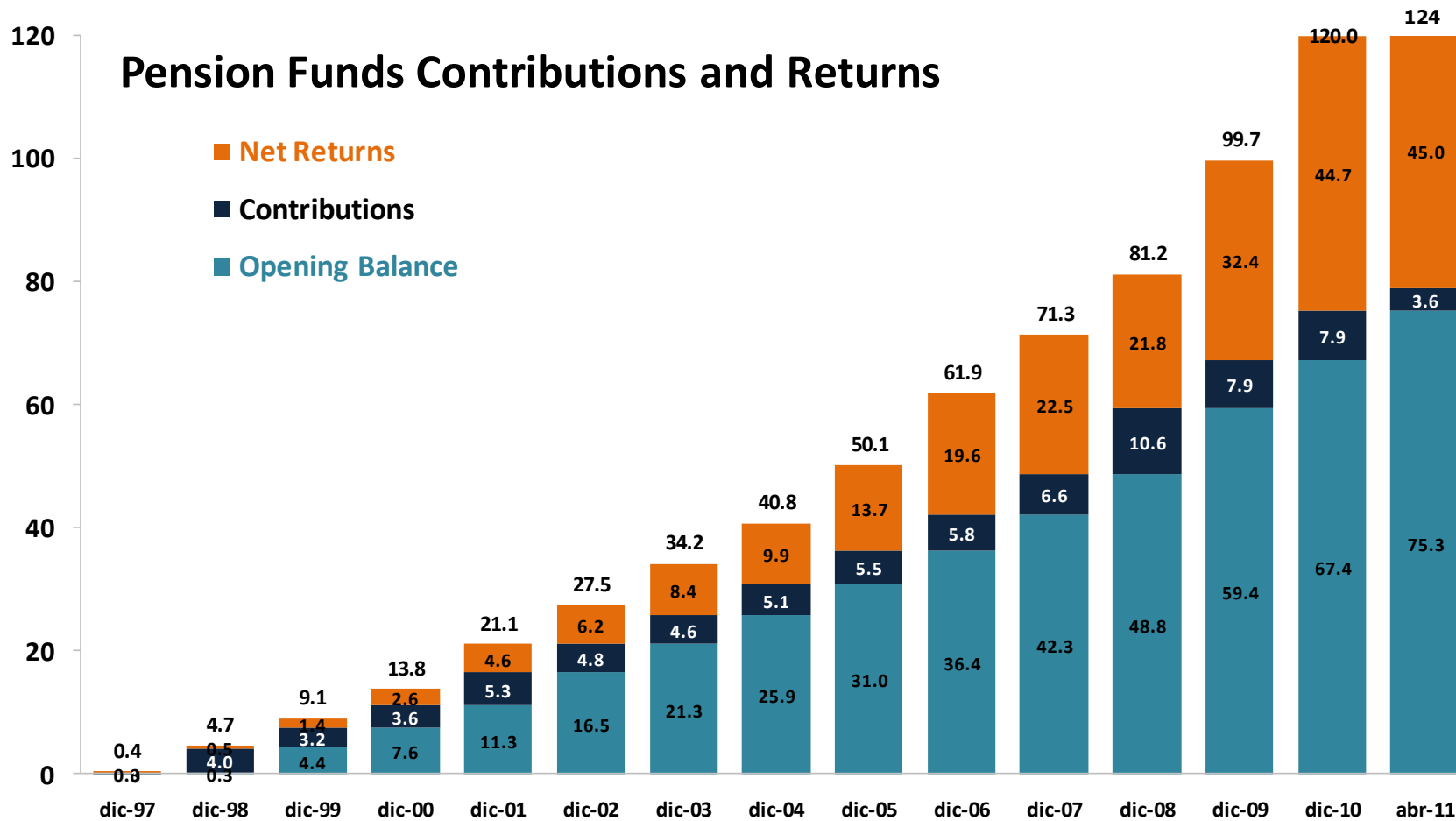


Within the structured securities has also been funded a Mexican REIT (called FIBRA) by US\$157 million (equivalent to 50.1% of the total issuance)

The competitive returns have been a central factor in order to increase the worker's account balances.



The system has been able to generate US\$45.1 billion of accumulated **net returns**, representing **36.3%** of the system balance.



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