

Third quarter of 2007

Pension Funds Increased their Investment

Abroad by US\$ 3,559 million

- * **The increase in limits on investment abroad came into effect during the period: in this initial phase, the limit was raised from 30% to 35% of the fund.**
- * **Multi-funds completed 5 years in operation, with very favourable results for members' social security savings. They amassed profits, over and above the UF, ranging from 121% in the case of A-type funds to 18.5% in that of E-Type funds, which invest only in fixed income.**
- * **In the last 12 months, over 400 thousand members have chosen funds. 74% chose funds A and B, the majority of them being under 40 years of age.**
- * **In the July-September quarter, there have been high levels of volatility in all markets, meaning that the investments are not free from risk. However, investment in social security funds must be evaluated in the long term.**

During the third quarter of this year, the markets have been highly unstable. There have been strong price swings in most of the stock markets, reductions in the reference interest rate in the United States; injection of monetary resources into the financial markets in USA and Europe and, in general, authorities who have been more active in the task of controlling risks, improving the expectations of economic transactors and stabilising markets.

The negative scenario has been fuelled by various factors: uncertainty associated with problems of payment of high-risk mortgages in the United States, which are producing losses that are just starting to come to the surface; doubts about whether the high level of expansion in China can be maintained; and concern about the increase in prices of a number of important products. In general, there is a perception that the end of this period of economic boom, which has lasted longer than any other in recent decades, may well come sooner rather than later.

However, at the September close, the more negative views were defeated by those who see the prospects in a more favourable light. The market indicators seem to prove this latter group right. The stock markets of practically the whole world recovered from the falls in July and August, with ups and downs, and this included the local market whose selective share price index (IPSA) registered 22% in the first nine months of this year.

Table N° 1
Main Stock Exchange Results for Year,
as of September 2007

Country	Indicator	Profits
Chile	IGPA	18.0%
Chile	IPSA	20.6%
USA	DOW JONES	11.5%
USA	S&P 500	7.6%
USA	MATERIAL	20.5%
USA	NASDAQ	11.8%
Canada	S&P CANADA	9.2%
United Kingdom	FTSE 100	4.0%
France	CAC 40	3.1%
Germany	DAX 30	19.2%
Spain	IBEX 35	3.0%
Japan	NIKKEI	-2.6%
Hong Kong	HANG SENG	36.0%
China	SHANGAI	107.5%
India	INDIA	25.4%
Australia	AUSTRALIA	16.6%
Turkey	TURKEY	38.2%
Mexico	MEXBOL	14.5%
Brazil	IBOV	36.0%
Argentina	MERVAL	4.7%
Peru	IGBVL	69.4%

5-Year Balance of the Multi-funds Shows Excellent Yield Results

Yield Remains Firm

As may be seen in Figure N° 1, the funds showed very favourable yields up until June, but the good run of the early months of the years finished at the end of July. In August the environment was very negative. The stock markets began to fall steeply as increasingly serious information arrived concerning the high-risk mortgage crisis in the United States and the fears of a possible recession for that economy towards the end of this year.

But, all the same, the falls in yield of the Pension Funds in July and August were almost entirely recovered in September, a month in which there was a generalised recovery in the stock markets.

At local level, the Central Bank became aware of more serious problems in the trend of inflation and gave a new boost to the policy of monetary restriction by raising the reference interest rate from 5.50% to 5.75%.

The rise in the Central Bank monetary interest rate had a negative effect in September on the

Table N° 2
Real Yield of the Multi-funds*

FUNDS	Sept. 07 Month	Jan. 07- Sept. 07 9 months	Sept. 02 - Sept. 07 (Annualised)	Sept. 02 - Sept. 07 (Accumulated)
A	3.78%	12.62%	17.18%	121.43%
B	2.35%	9.72%	12.33%	79.19%
C	1.14%	6.89%	9.15%	55.11%
D	0.33%	4.24%	6.64%	38.03%
E	-0.07%	1.31%	3.44%	18.47

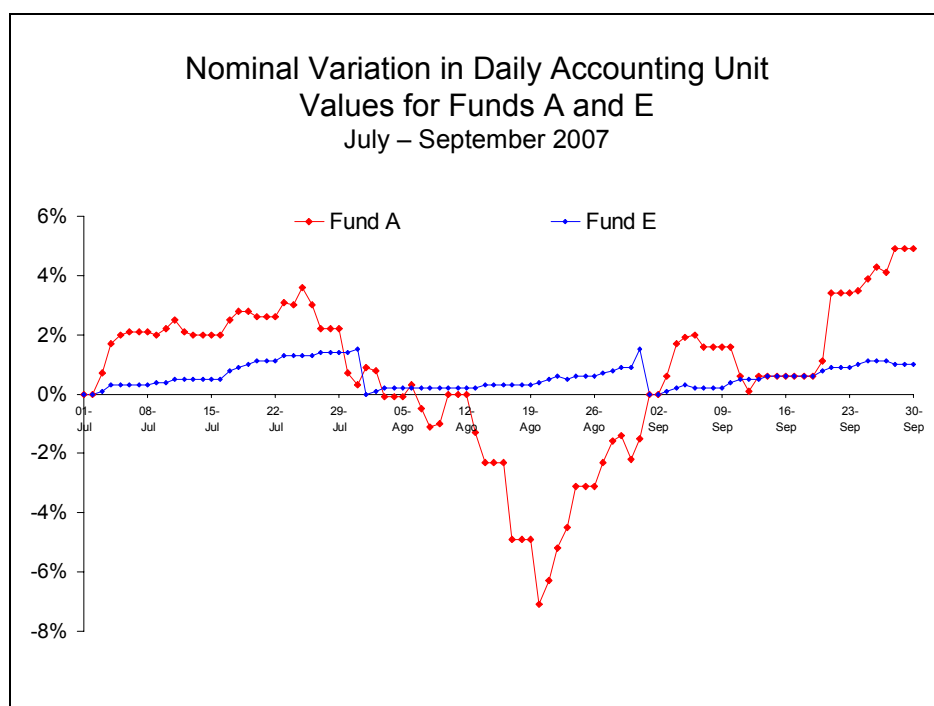
*Deflated by the variation of the UF during the period

valuation of investments in the E-Type Fund, which invests only in fixed income.

The movement of the interest rate has produced, as a side-effect, a higher rating of the peso against the dollar, thereby creating a dilemma for the monetary authorities which is very difficult to solve. If they hold the rates, it may create space for higher local inflation and, if they raise the rate, it may produce an influx of dollars into Chile in search of better returns, causing the parity to fall even further and leading to losses of competitiveness in many

exports, which would eventually damage the level of economic activity.

Graph N° 1



As a Result of the Rise in Limits, over US\$2,000 Million in Time Deposits were Replaced by Foreign Mutual Funds

45% of the Fund Abroad

Anticipating that the dollar would become weaker against the peso, due to the maintenance of high prices for various "commodities" that Chile exports, the authorities sent a bill to Parliament to increase the percentage of the pension fund that can be invested in foreign instruments from 30 to 45%. This was approved. In August the measure began to operate, after the Central Bank authorised raising the investment margin for the August – October quarter from 30% to 35%, with the option of reaching 45% in the early months of 2008, if the issuing authority considers this to be advisable.

In September, the Funds had US\$38,358 million invested abroad, of the US\$106,855 million that they handle in total.

This is a help for local exchange parity and good news for members too, because the world markets have definitely continued in very positive ways, both those that have not

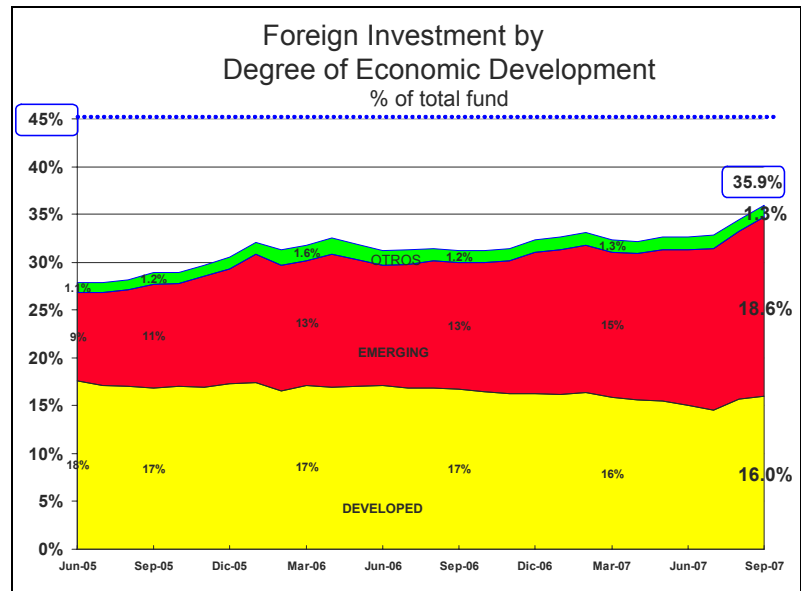
Table N° 3

Foreign Investment by Geographical Zone
September 2007

GEOGRAPHICAL ZONE	MM US\$	%
EMERGING ASIA	9,052	23.6
EMERGING EUROPE	6,713	17.5
EUROPE	6,291	16.4
DEVELOPED PACIFIC ASIA	5,907	15.4
NORTH AMERICA	4,871	12.7
LATIN AMERICA	4,181	10.9
MIDDLE EAST – AFRICA	729	1.9
OTHERS	614	1.6
TOTAL	38,358	100

TOTAL EMERGING	20,675	53.9
TOTAL DEVELOPED	17,069	44.5
GLOBAL TOTAL	614	1.6
TOTAL	38,358	100

Graph N° 2



yet decided on important economic adjustments and the emerging markets of Asia and Latin America.

When the margin of 45% of the pension fund in foreign investment is reached, provided that yields remain steady and there are no very drastic alterations, pension fund investments abroad could exceed US\$50,000 million. This is a flow of investments that has never been seen before and that will contribute to a greater diversification of the investment portfolio, thereby helping to moderate the level of risk.

When the margin for investing abroad was increased in August, over US\$2,000 million dollars were immediately channelled into foreign investments, mainly foreign mutual funds. These funds came essentially from time deposits in local banks.

Of the US\$38,358 million invested abroad, a little over half is in emerging economies, with almost a quarter of the total in Asian countries, followed by Emerging Europe (See Table N° 3). The above is related with the results of the stock markets in these economic zones, as may be seen in Table N° 1, where there are stock markets showing high variations in the prices of the securities.

Young Members Choose Higher-Risk Funds

Members Prefer More Risk

The yields of the more risky funds during these five years of multi-fund operations have been extraordinarily positive. It is very likely that this performance is the main reason for the fact that members who have opted for one or two funds have constantly chosen funds A and B.

In the last 12 months, up to August 2007, the number of members who have made a choice has risen by 400 thousand. The majority, about 300 thousand, have chosen the A-type fund and 100 thousand, type B.

In August 2007, of the total number of members who have chosen funds, those who chose A-type funds exceeded those who chose B-type funds and amount to over a million accounts, as may be seen in Table N° 4.

A positive fact is that those in the A and B-type funds are people of 40 years of age or less, so they have a long period of saving ahead of them in which to revert possible periods of negative yield (See Table N° 5).

The data on average taxable income of contributors show that those with higher incomes are in the A and E-type funds. In the case of those in the A-type fund: they register an average taxable income of \$525 thousand and an average age of around 32 years. For the E-type fund, the average taxable income is \$400 thousand and the average age, 48 years.

Table N° 4

Number of Members who have Chosen a Fund

(Number of accounts in existence belonging to members who have chosen funds)

Funds	August 2007		August 2006		Variation 2007 - 2006	
	Number	%	Number	%	Number	%
A	1,079,328	38%	765,830	32%	313,498	41%
B	1,026,004	36%	926,003	38%	100,001	11%
C	596,114	21%	597,630	25%	-1,516	-0.3%
D	80,651	3%	80,218	3%	433	1%
E	51,861	2%	60,360	2%	-8,499	-14%
Total	2,833,958	100%	2,430,041	100%	403,917	17%

Source: Monthly Statistics of Members and Contributors (SAFP)

Table N° 5

N° of Members in Funds A and B By Age as of 31st June 2007

Edad	Número	%
< = 40	4,101,297	90.3%
40-45	174,975	3.9%
45-50	127,801	2.8%
50-55	85,592	1.9%
55-60	41,170	0.9%
60-65	9,749	0.2%
65-70	1,108	0.0%
> 70	0	0.0%
S/I	0	0.0%
Total A y B	4,541,692	100%

Source: Quarterly Statistics of Members and Contributors (SAFP)

The information contained in this Bulletin may be reproduced in its entirety by the communications media.

Inquiries: Research Department, The Chilean Pension Fund Administrators' Association

Address: Avenida 11 de Septiembre 2155, TorreB, piso 14, Providencia, Santiago – Chile

Telephone: (56-2) 381 1717

Fax: (56-2) 381 1721

E-mail: estudios@afp-ag.cl

Internet: www.afp-ag.cl