

The 2009 Balance

In a Year the Pension Funds Recovered the Value of the Investments

- * **Even before the economies emerge from the crisis, the funds have already recovered the value lost in 2008.**
- * **The value of the fund rose over US\$27 thousand million last year, a figure that includes yield and contributions but excludes benefit payments.**
- * **Multi-funds have achieved their record annual yield since the year 2002.**
- * **The funds reached the maximum investment limit in equities.**
- * **There is more buoyancy to be seen, with members switching to more risky funds.**

Introduction

In one year, for all intents and purposes, the pension funds recovered the value of the investments, which had been seriously affected by the world economic crisis. The time that elapsed between the steep falls of 2008 and the recovery of the savings in 2009 has been short, surpassing the best expectations that some analysts were able to forecast.

In the worst moments of the economic crisis, the AFP Association reassured members on the basis of economic and financial concepts linked with the pension system of saving and capitalisation.

These concepts state that:

- Pension saving is long-term. This means that members should not jump to conclusions based on short-term results.
- A transitory drop in the valuation of the investments does not result directly in a loss. This is because, provided the instruments are not sold, once the markets recover, the value of the investments does the same.
- The investments made by the AFPs are safe. They invest only in those instruments that are expressly authorised by Law and the investments are supervised by the Superintendence of Pensions.
- Economies do face crises. Pension funds are therefore exposed to these circumstances and as they overcome them, the value of the investments is recovered.
- The issue of pensions demands responsible, prudent action.

Table N° 1
Real Annual Yield of the Multi-funds*

| Year | A | B | C | D | E | Total* |
|----------------|-------|-------|-------|-------|------|---------|
| 2003 | 26.9 | 16 | 10.5 | 8.9 | 3.3 | 11.90% |
| 2004 | 12.9 | 1.03 | 8.9 | 6.8 | 5.4 | 9.10% |
| 2005 | 10.7 | 7.3 | 4.6 | 2.8 | 0.9 | 5.70% |
| 2006 | 22.3 | 18.8 | 15.8 | 11.5 | 7.4 | 17.00% |
| 2007 | 10.1 | 7.5 | 5 | 3.3 | 1.9 | 6.50% |
| 2008 | -40.3 | -30.1 | -18.9 | -9.9 | -0.9 | -22.00% |
| 2009 | 43.5 | 33.4 | 22.5 | 15.3 | 8.3 | 27.7% |
| Accumulated | 85.81 | 63.92 | 51.34 | 42.49 | 28.2 | |
| Annual Average | 8.9 | 7.03 | 5.86 | 4.99 | 3.47 | |

* Yield over UF

Fund's Average Annual Yield over 28 Years Amounts to UF + 9.2%

Medium and Long-term Results

From September 2002 to December 2009 the average annual result of the multi-funds has been positive for all types of fund, in spite of the crisis. It has registered values between UF + 8.9% for the A-type Funds and UF + 3.47% for Type E (see Table N° 1).

On a longer-term horizon, the average annual yield of the fund in 28 years amounts to UF + 9.2%, taking as the basis the C-type Fund, which is the continuation of the only fund that has been in existence since 1981. This result is better than the 4% considered necessary to obtain replacement pensions worth 70% of the last wages, considering a contribution density of 85% of the worker's active life, which was forecast when the system first began.

Members have to bear in mind that these savings are to pay pensions, after a long period of saving and capitalisation.

It is essential to look at the monthly figures with a long-term perspective. One needs to maintain an attitude of serenity, whether the results are unfavourable or very positive, as happened during 2009.

Results for the year 2009

The 2009 result is very positive, because the lower value of the investments registered during 2008 was completely reversed in the case of the C, D and E-type funds; they even show considerable gains compared with December 2007.

The importance of this is that most of the people in these funds are closer to retiring age. Given the lower transitory value of the fund during 2008, it was not a good year to retire, and those who postponed this decision can now take it without harming their pension.

Fund B is slightly under the value that it had in December 2007. If the yield from the first two weeks of January 2010 are taken into account, this fund has also recovered.

The most risky fund, Type A, which was most affected by the fall in share prices during 2008, is close to regaining its values prior to the financial crisis.

Increased Value of the Pension Funds

As of 31st December 2009, the pension fund had increased its value by US\$27,931 million, compared with the same date in 2008. Today it totals US\$118,053 million. This value is 31% higher than the US\$90,122 million at the end of 2008.

The increase is mainly a consequence of the yield obtained as a result of the recovery of the world's stock exchanges (see Table N° 2). In addition, the accumulated amount contains the money collected from contributors in the period. The value referred to is net of fund outgoings, such as pension payments, and other benefits, like withdrawals of freely-disposable surpluses.

Pension Funds

The largest amount of accumulated savings is invested in Chile: US\$66,287 million, which corresponds to 56.2% of the total. Most of this also corresponds to Fixed Income: US\$46,166 million, or 71%.

Investment in local equities amounted to US\$19,072 million, 29% of the total invested in Chile.

Investment, both in Chile and in the world, has been subject to massive market swings. In the first months of

Table N°2
Ranking of World Stock Exchanges 2009
(Annual variation as of 31st December)

| | | | |
|--------------|--------|-----------------|-------|
| Russia | 128.6% | Sweden* | 43.7% |
| Argentina* | 115.0% | Mexico | 43.5% |
| Peru | 101.0% | Portugal | 40.0% |
| Turkey | 97.3% | Netherlands | 36.4% |
| Indonesia* | 87.0% | Egypt | 34.2% |
| Brazil* | 82.7% | Canada | 30.7% |
| India | 81.0% | Czech Republic* | 30.2% |
| China | 80.0% | Spain* | 29.8% |
| Taiwan | 78.3% | South Africa | 28.6% |
| Israel | 74.9% | Germany* | 23.9% |
| Hungary | 73.4% | Greece | 22.9% |
| Singapore | 63.5% | France | 22.3% |
| Thailand* | 63.3% | England | 22.1% |
| Venezuela* | 57.0% | Euro* | 21.2% |
| Colombia* | 53.5% | Italy* | 19.2% |
| Hong Kong | 52.0% | Japan* | 19.0% |
| South Korea* | 51.6% | USA | 18.8% |
| Chile* | 50.7% | Switzerland* | 18.3% |
| Poland | 46.9% | Croatia | 16.4% |
| Malaysia | 45.2% | | |

* Close as of 30/12/09

In Emerging Economies, 53% of the Total is Invested Abroad

Figure N° 1

Investment in Equities and Fixed Income
as % of total Local Investment

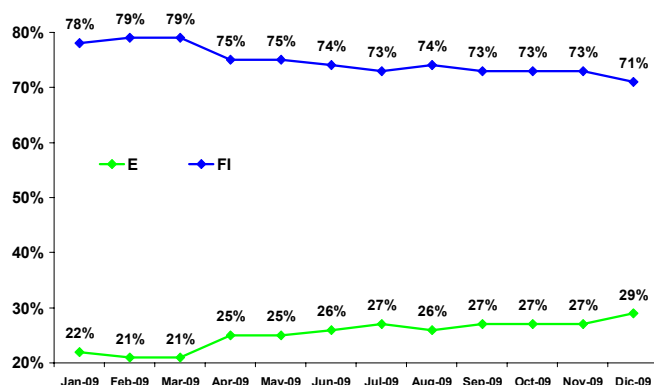


Figure N° 2

Investment in Equities and Fixed Income
as % of total Foreign Investment

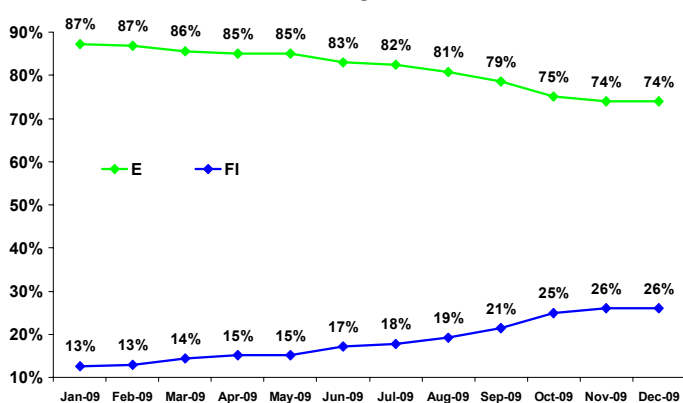


Table N°3

Foreign Investment by Geographical Area

| GEOGRAPHICAL AREA | DEC. 08 | DEC.09 |
|-------------------------|-------------|---------------|
| NORTH AMERICA | 47.4% | 23.6% |
| ASIA: EMERGING | 4.4% | 22.5% |
| LATIN AMERICA | 21.1% | 21.4% |
| ASIA: DEVELOPED PACIFIC | 1.2% | 10.3% |
| EUROPE | 10.7% | 9.4% |
| EUROPE: EMERGING | 9.6% | 7.3% |
| OTHERS | 3.6% | 3.8% |
| MIDDLE EAST – AFRICA | 2.0% | 1.7% |
| Total | 100% | 100.0% |
| EMERGING | 37.1% | 52.9% |
| DEVELOPED | 59.3% | 43.3% |
| OTHERS | 3.6% | 3.8% |
| Total MM US\$ | 100% | 100.0% |

2009, local FI served as a refuge in the face of the prevailing uncertainty, at one point representing 79% of local investment. That volume then fell as a result of equities becoming more attractive. An example of this can be found in term deposits, which represented 18.9% of the total Fund in January 2009 and by December had fallen to 7.2%

In Figure N° 1 it is possible to see a change in the composition of the local investment portfolio, with equities increasing from 21% to 29% of total local investment. This change reflects the rise in share prices during most of the year and an increase of stock in the last month.

The funds have US\$51,765 million abroad, 43.8% of the total. This reveals an ample margin for foreign investment, given that, since August 2009, the authorised limit has been 60%.

Foreign equities fell 13 percentage points between January and December 2009. There was an increase of the same proportion in fixed income (See Figure N° 2). These movements are a response to the attractiveness of foreign fixed income over local, the diversification of the portfolio, and the fact that the investment margin in equities is being used virtually to the limit, due to the rise in the price of share securities.

For December 2009 it is possible to see a steep fall in investment in North America, compared with the same date in 2008, and a considerable resurgence of investment in Emerging Asia and Developed Pacific Asia (See Table N° 3).

As may be seen in Table N° 3, the composition of the portfolio has grown in emerging economies and fallen in developed ones in 12 months.

Number of Accounts and Choice of Funds

The System has 8.6 million members and handles 9.5 million accounts. Each person is allowed to separate his/her savings between up to two funds. There are 3.7 million people who have chosen one or two funds, and 5.9 million who have been assigned.

Transfers into Risky Funds Increase at the End of 2009

Table N° 4

Monthly Movement of Members
Between Multi-funds During the Crisis

| FUNDS | Assigned Members | Members who have chosen | Total Accounts |
|--------------|------------------|-------------------------|------------------|
| A | - | 1,338,471 | 1,338,471 |
| B | 2,389,213 | 1,304,429 | 3,693,642 |
| C | 2,772,066 | 797,555 | 3,569,621 |
| D | 708,306 | 140,338 | 848,644 |
| E | - | 132,836 | 132,836 |
| TOTAL | 5,869,585 | 3,713,629 | 9,583,214 |

Transfers

From May 2009 onwards there was a greater flow of members into the more risky funds, a trend that was maintained to the end of the year, implying a smaller flow into the more conservative funds. (See Table N° 4)

It is striking to find members in Fund E, the most conservative, choosing Funds A and B, the most risky. Undoubtedly past yield is what triggers these changes. However, it is important to be aware that yields fluctuate and depend on the economic environment. As a point of fact, a repeat of the yield magnitudes of 2009 would be difficult, due to the limited margin in equities and the recovery expectations of the economies.

| Conservadores a Riesgosos (Octubre 2009) | | | Riesgosos a Conservadores (Octubre 2009) | | |
|---|-----------------|---------------|---|--------------------|--------------|
| FROM FUND C | TO A + B | 7,357 | FROM FUND A | TO C, D + E | 601 |
| FROM FUND D | TO A + B | 2,043 | FROM FUND B | TO C, D + E | 987 |
| FROM FUND E | TO A + B | 7,726 | | | |
| FROM C, D + E | TO A + B | 17,126 | FROM A + B | TO C, D + E | 1,588 |

It is worth emphasizing that most people did not act precipitously when faced with the fall in values in the year 2008. The number of transfers in the last 28 months is not a significant one. Only 232 thousand switched to the more risky funds and 269 thousand to the more conservative ones, out of 8.6 million members, 9.6 million accounts and 3.7 million members making a choice.

Choice of Funds

Members should always consider their own characteristics when taking a decision: their age, risk tolerance and income level in the passive stage, and always bear in mind that the

| Month | Transfers into Risky ¹ Funds (Funds A and B) | Transfer into Conservative ² Funds (Funds C, D and E) |
|--------------|--|--|
| Jul-07 | 15,600 | 1,024 |
| Aug-07 | 14,031 | 5,606 |
| Sep-07 | 7,829 | 2,380 |
| Oct-07 | 10,207 | 1,491 |
| Nov-07 | 9,797 | 3,742 |
| Dec-07 | 7,834 | 2,975 |
| Jan-08 | 7,387 | 10,723 |
| Feb-08 | 4,994 | 7,264 |
| Mar-08 | 3,746 | 5,273 |
| Apr-08 | 4,590 | 9,153 |
| May-08 | 5,536 | 5,017 |
| Jun-08 | 6,130 | 5,335 |
| Jul-08 | 4,037 | 3,429 |
| Aug-08 | 3,481 | 17,191 |
| Sep-08 | 2,699 | 22,553 |
| Oct-08 | 4,132 | 54,568 |
| Nov-08 | 1,164 | 11,863 |
| Dec-08 | 1,852 | 18,105 |
| Jan-09 | 2,195 | 12,129 |
| Feb-09 | 1,645 | 9,300 |
| Mar-09 | 1,738 | 25,347 |
| Apr-09 | 6,916 | 15,818 |
| May-09 | 20,503 | 5,456 |
| Jun-09 | 24,484 | 3,351 |
| Jul-09 | 11,933 | 4,032 |
| Aug-09 | 15,609 | 2,157 |
| Sep-09 | 13,498 | 2,312 |
| Oct-09 | 17,126 | 1,588 |
| Total | 230,693 | 269,182 |

Note 1: Corresponds to changes of fund within a same AFP and transfers to another AFP, by members who were in C, D and E-type Funds, to A and B-type Funds.

Note 2: Corresponds to changes of fund within a same AFP and transfers to another AFP, by members who were in A and B-type Funds, to C, D and E-type Funds.

Source: AFP Association on basis of statistical information from the SUPEN.

performance of pension savings has to be measured in the long term.

People must be in the funds that match the risk profile that they are really prepared to accept.

Important: The comments and statements given in this document should be taken as general orientation to increase social security culture and can in no circumstances be considered as a recommendation to take the place of personal, free and informed evaluation and decision on the part of members.

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