



CHALLENGES AND OPPORTUNITIES FOR THE PENSION FUNDS SYSTEM IN MEXICO

MEXICO PE DAY

AMEXCAP

June, 2014

I. Introduction

II. Overview of the Mexican Pension System (SAR)

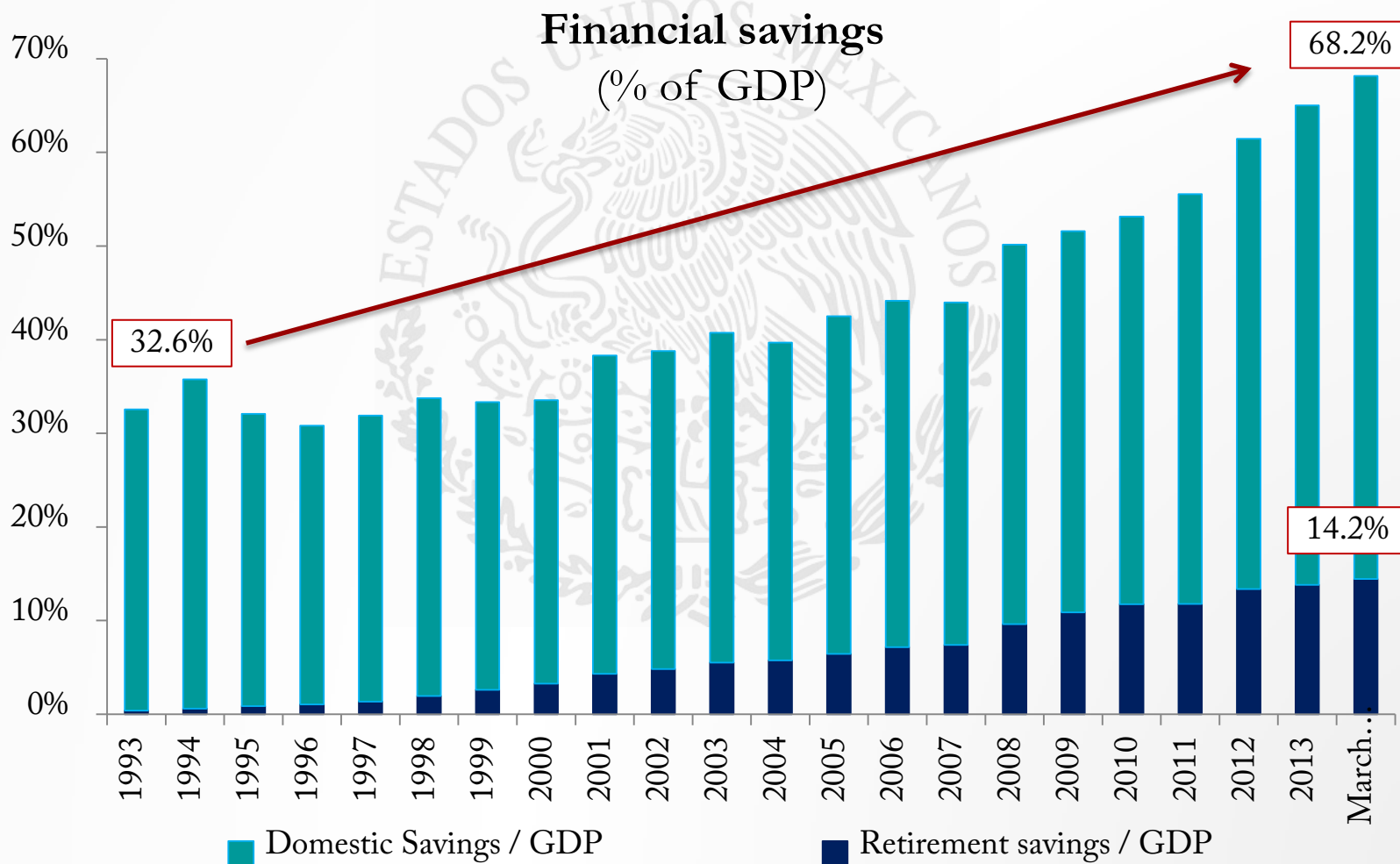
III. Investment regime

IV. Challenges for long-term investments in Mexico

V. Concluding remarks

MEXICO IS IN THE PROCESS OF OVERCOMING TWO OF ITS MAIN OBSTACLES FOR GROWTH

1 Healthier level of financial savings



MÉXICO IS BUILDING NEW AND MULTIPLE INVESTMENT OPPORTUNITIES

2 Modernization of its legal framework

Reforms and investments plans launched by President Peña Nieto

1. Energy Reform

2. Telecommunications and Competition Reform

3. Infrastructure National Plan

Open new opportunities to businesses in different sectors

AFOREs can and must play a main role as investors in infrastructure projects and private equity

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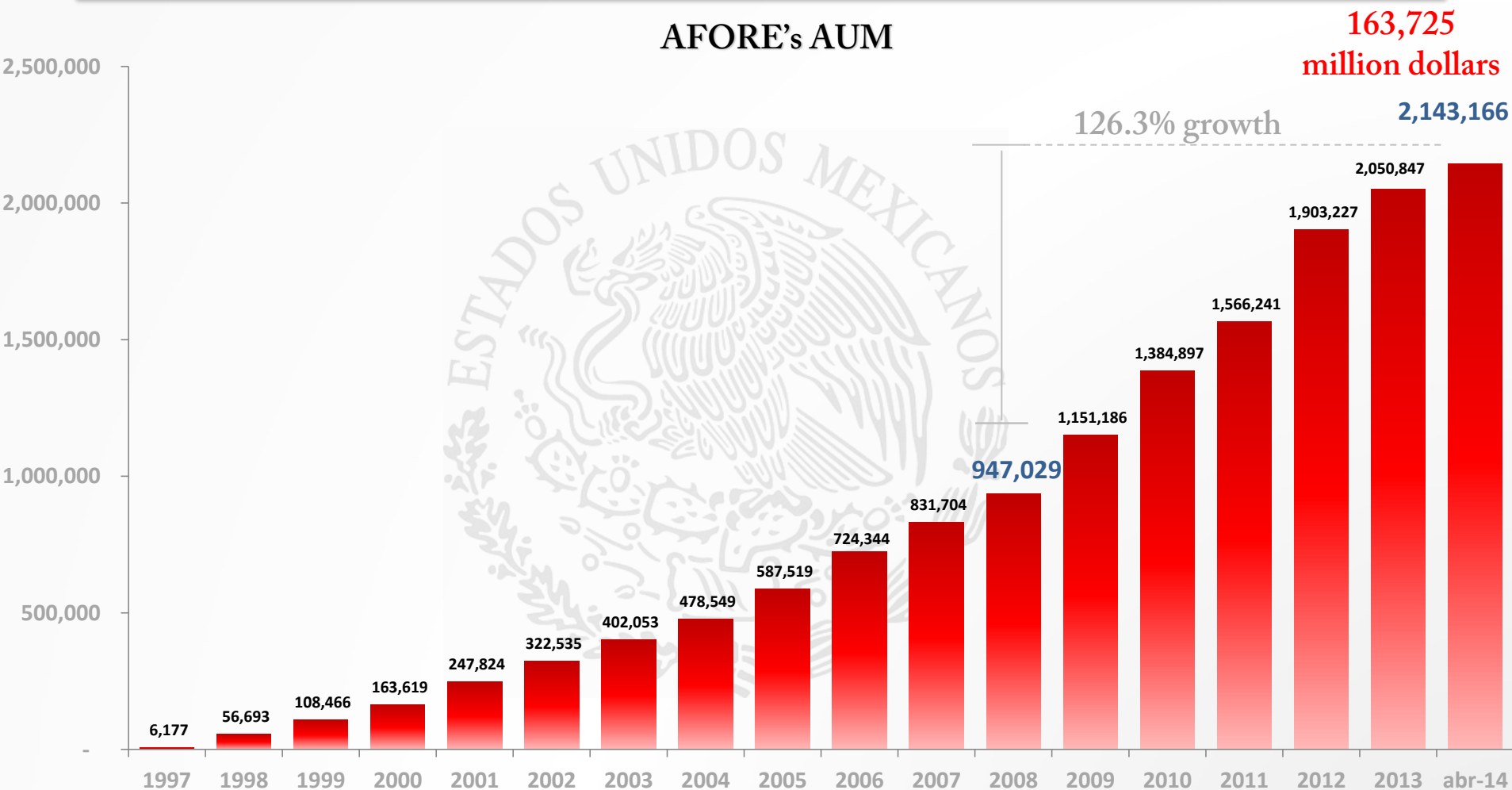
IV. Challenges for long-term investments in Mexico

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MEXICO'S PENSION SYSTEM DEVELOPMENT

- In 1997, the pension system for private sector employees was amended from a pay-as-you-go scheme to a defined contribution structure based on individual accounts managed by private agents known as AFOREs.
- In 2007 new public sector employees were incorporated to the individual accounts pension system.
- AFORES, through their funds, invest the employees' mandatory savings complying with the investment regime defined by CONSAR.

FROM 2008 TO DATE, PENSION FUNDS' ASSETS UNDER MANAGEMENT (AUM) HAVE INCREASED MORE THAN DOUBLE



Assets invested by SIEFOREs represent 14.2% of Mexico's GDP

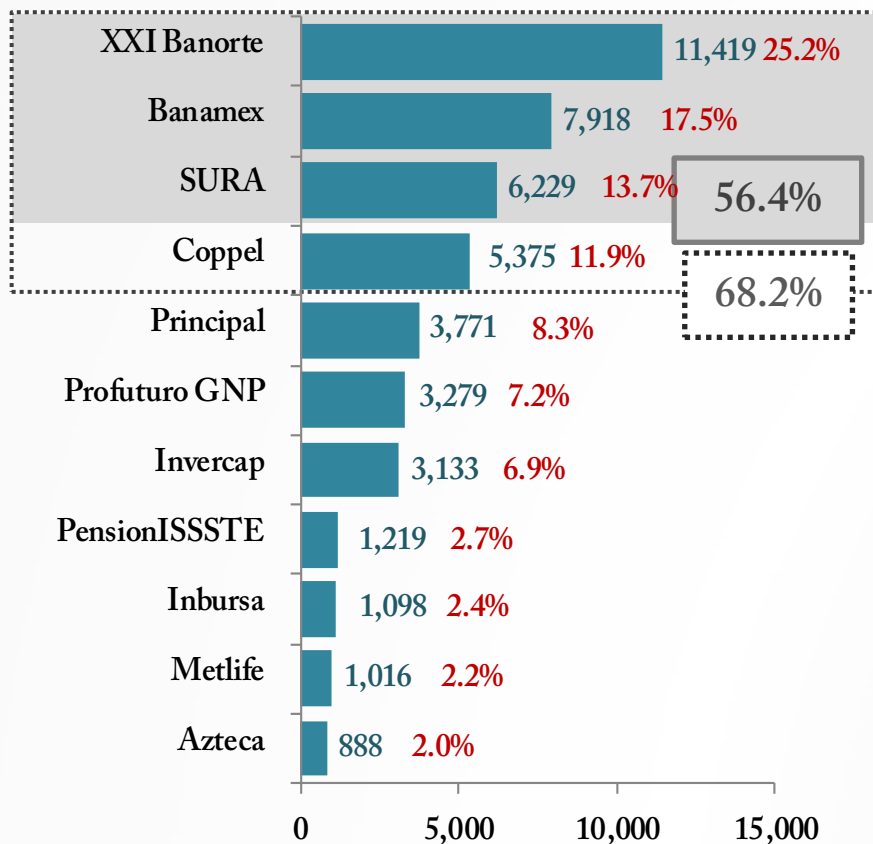
51.1 MILLION WORKERS SAVE FOR THEIR RETIREMENT IN AFORES

Accounts
(millions)

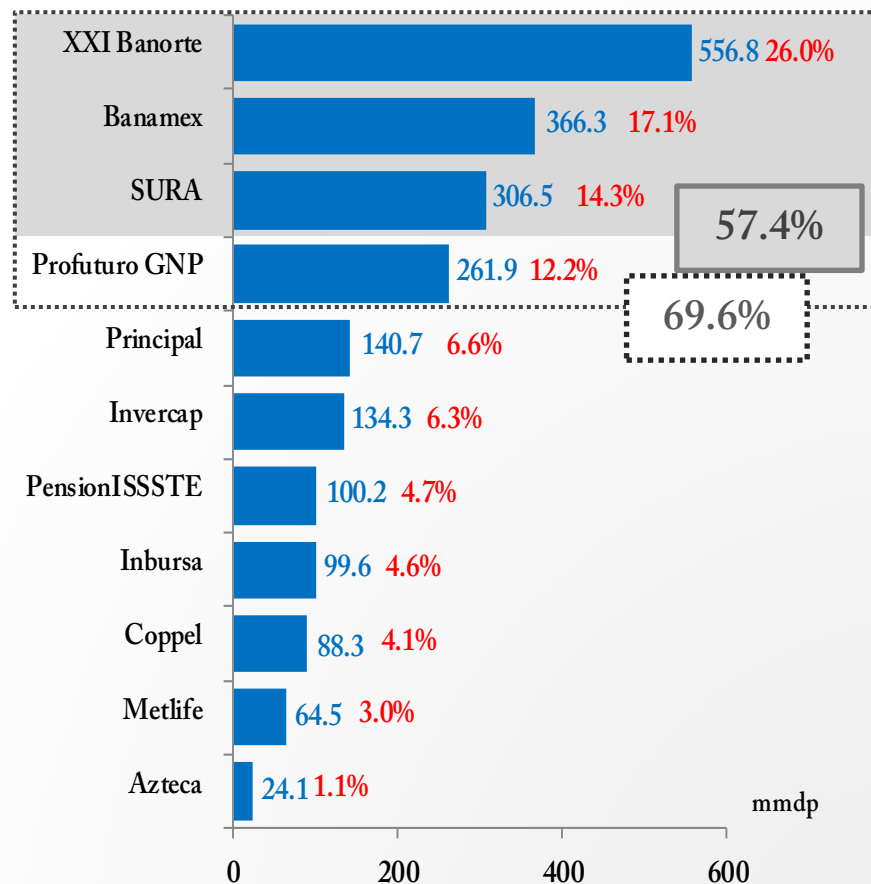


11 AFORES PARTICIPATE IN MEXICO'S PENSION SYSTEM

Accounts
(thousands and market participation)



Assets under management
(million pesos and market participation)



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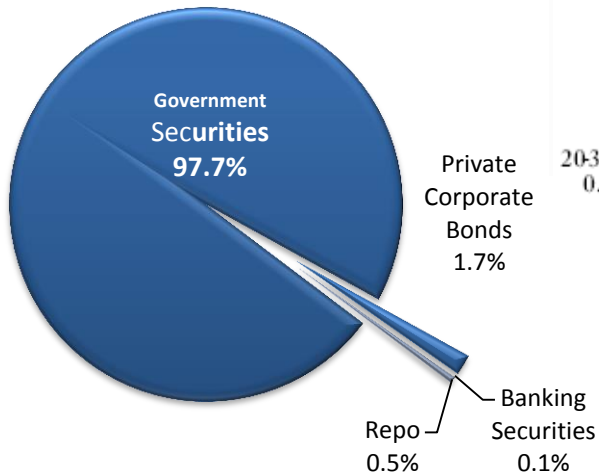
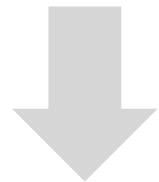
THE INVESTMENT REGIME HAS BEEN GRADUALLY LIBERALIZED

Instruments allowed in the Investment Regime of the SIEFORE																	
Debt	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Foreign Exchange	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Equity	x	x	x	x	x	x	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓
CKDs and FIBRAS	x	x	x	x	x	x	x	x	x	x	✓	✓	✓	✓	✓	✓	✓
Securitization	x	x	x	x	x	x	x	x	x	x	✓	✓	✓	✓	✓	✓	✓
Commodities	x	x	x	x	x	x	x	x	x	x	x	x	x	x	✓	✓	✓
Swaptions	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	✓
REITs	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	✓
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013

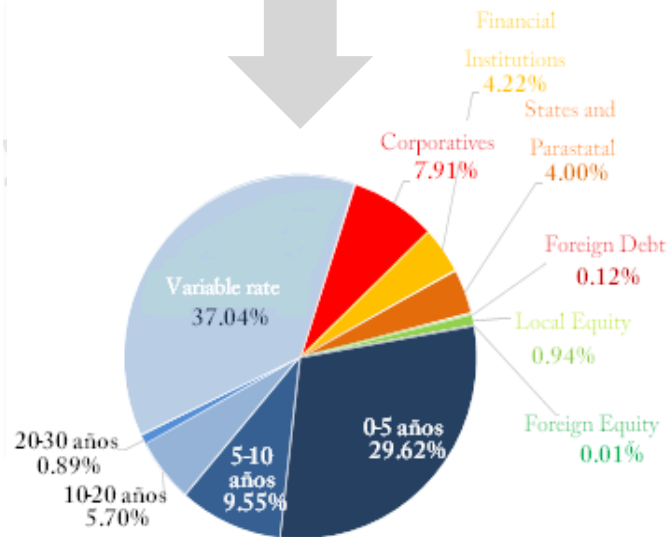
COMPARED TO 1998, SIEFORE'S PORTFOLIO IS HIGHLY DIVERSIFIED

Evolution of the portfolio composition of the SIEFOREs

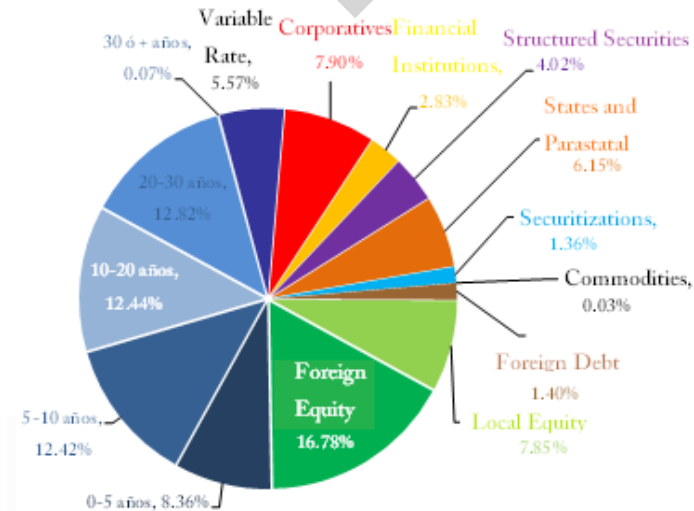
January 1998



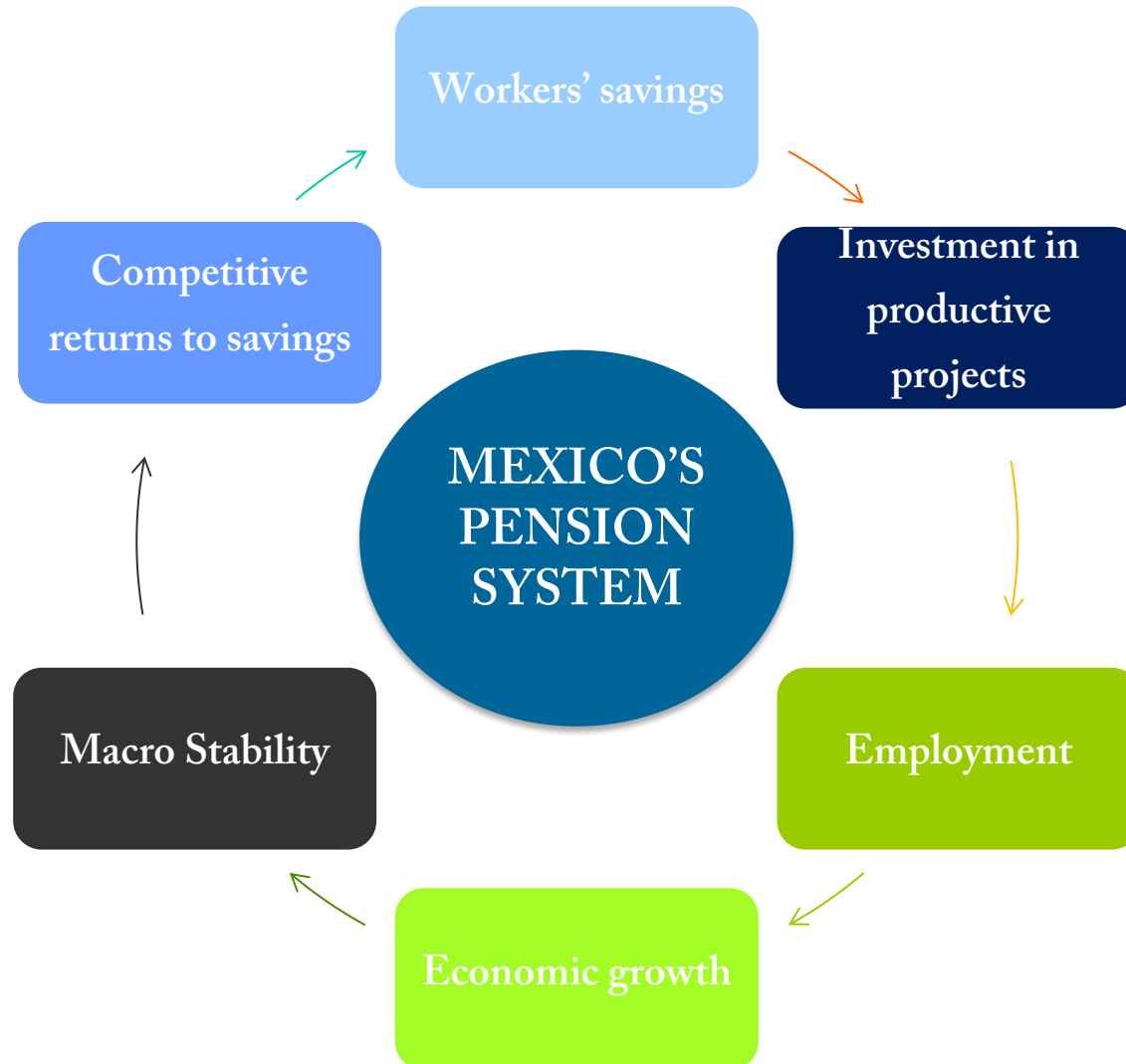
September 2005



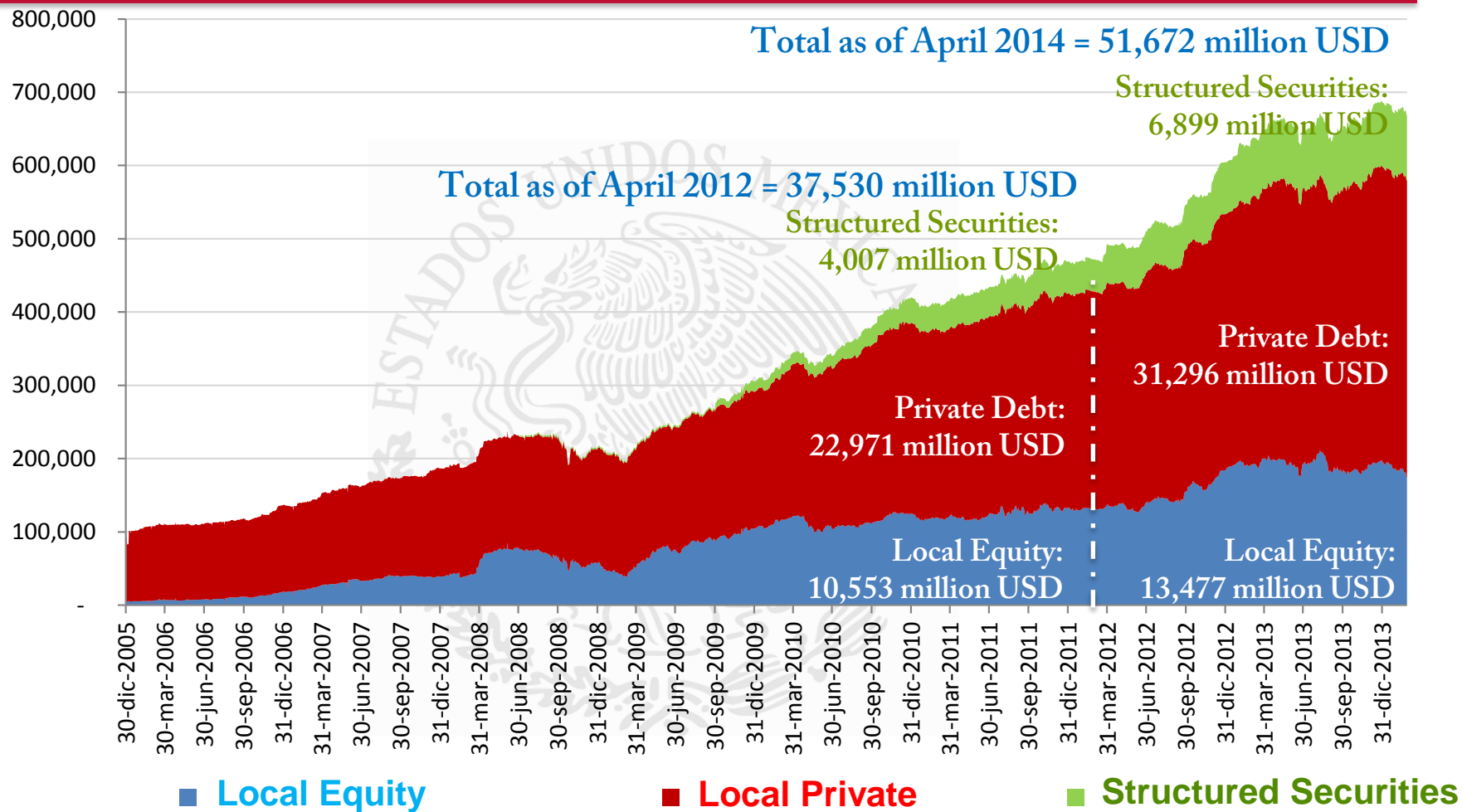
February 2014



AN INCREASING AMOUNT OF PENSION SAVINGS IS FINANCING PRODUCTIVE PROJECTS, GENERATING A VIRTUOUS CIRCLE



INVESTMENT IN DOMESTIC PRODUCTIVE ACTIVITIES IS GROWING RAPIDLY, BENEFITING FIRMS OF DIFFERENT SIZES



TOTAL (April, 2014) = 51,672 million USD

THE INVESTMENT REGIME ALLOWS AFOREs TO INVEST IN INFRASTRUCTURE, HOUSING, AND PRIVATE EQUITY THROUGH DIVERSE VEHICLES

1 CKDs



Aimed for the development of projects and companies

2 FIBRAs



Specialized in the acquisition, construction and financing of infrastructure and real estate

3 REITs



Similar to FIBRAs, but listed in eligible countries

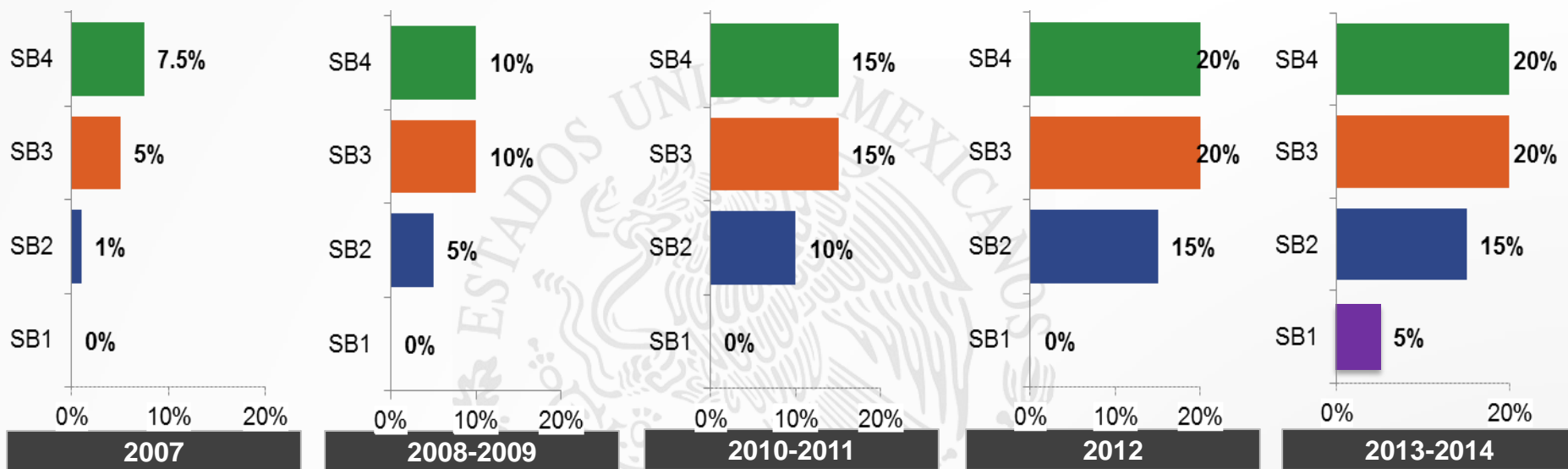
4 Debt linked
to real
assets



Debt whose source of payment are real assets or projects

PENSION FUNDS' INVESTMENT IN THESE VEHICLES WAS APPROVED IN 2007. THE LIMITS HAVE BEEN GRADUALLY RELAXED

Evolution of the investment limits in Structured Securities



The bucket of Structured Securities has two sub-limits related to the underlying projects:

Current limits of Structured Securities				
	SB1	SB2	SB3	SB4
Global Limit	5%	15%	20%	20%
<i>Infrastructure or Housing</i>	n.a	10%	13%	13%
<i>Others</i>	n.a	5%	7%	7%

AFORES HAVE INVESTED USD \$5,000 MILLIONS IN CKDs

CKDs can finance a wide range of companies, projects and sectors

Type of CKD's

Forest Projects

Development
and
commerca-
lization of
plants
and wood in
Campeche

Infrastructure

Hospitals
Universities
Highways
Airports
Logistic
platforms

Financial Assets

Subordinated/
Mezzanine/
Convertible
Loans
Loan
Portfolios

Real Estate

Malls
Retail/office
properties
Housing

Private Equity

E-commerce
Health
industry
Touristic
services
Food and
restaurants

Energy

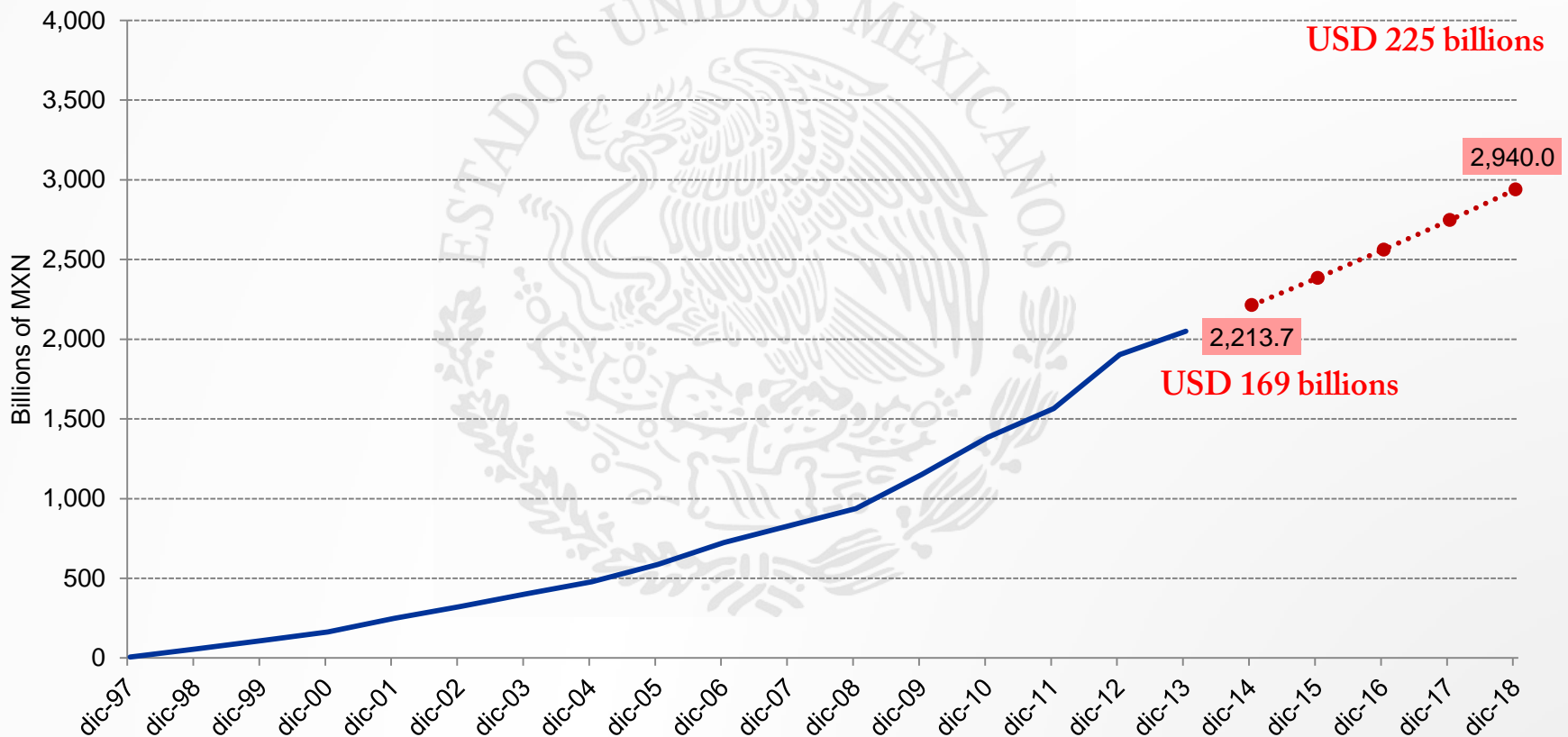
Hydroelectric
power stations
Oil platforms

AFOREs have the regulatory capacity to invest USD
\$20,000 millions more in CKDs

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RETIREMENT SAVINGS GROWTH WILL ALLOW AFORES TO KEEP PLAYING A MAIN ROLE AS INVESTORS

**Actual and Estimated Net Assets
(Conservative scenario)**

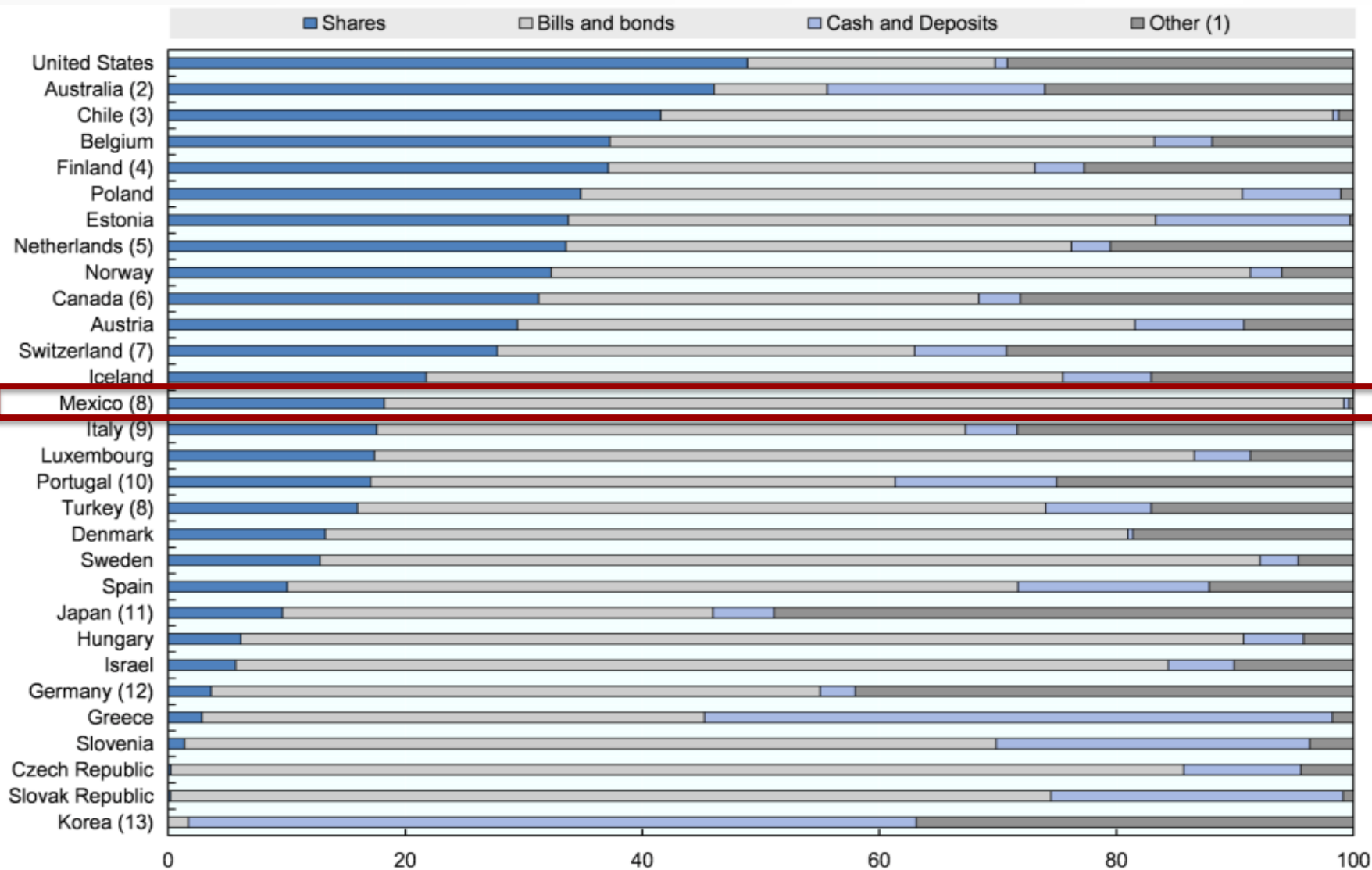


AFOREs MUST BE READY TO TAKE ADVANTAGE OF THE OPPORTUNITIES BROUGHT BY MEXICO'S CURRENT MOMENT



CONSAR is currently modifying pension funds' legal and regulatory framework to allow AFOREs to be ready to invest in these opportunities

THERE IS STILL SPACE AVAILABLE FOR DIVERSIFICATION



Some recent
regulatory
reforms:

- i. Inclusion of new assets and vehicles in the investment regime
- i. Portfolio benchmarks
- ii. Substitution of VaR for a methodology that incorporates leverage through derivatives
- iii. Lengthening of the horizon of the Net Return Index to align it with SIEFORE's investment horizon

Pending reforms to Mexico's Pension Fund System Law

- i. Performance fee
- ii. Further expansion of the investment regime
- iii. Corporate governance strengthening
- iv. More faculties to execute a risk based supervision
- v. Private offerings

PRIVATE OFFERINGS HAVE CLEAR ADVANTAGES FOR AFORES, HOWEVER THEIR RISKS SHOULD BE MITIGATED THROUGH REGULATION

Advantages

1 Active participation in new projects derived from the Energy Reform and the National Plan of Infrastructure (APPs)

2 Specialized co-investors in large-scale projects

3 Expand the universe of investment opportunities to SIEFOREs

4 Cost reduction to both, issuer and investor

5 Security of savings is preserved

6 International practices from other pension systems would be adopted

Risks

1 Conflicts of interests

2 Fund selection skills

3 Transparency of fees

4 Valuation

5 Corporate governance

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Pending issues

i. Increase in contributions

ii. Relaxation of SIEFORE's investment limit in international assets

iii. Relaxation of SIEFOREs investment limit in equity

- Mexico's growth of financial savings and intense agenda of structural reforms are opening new opportunities to businesses.
- AFORE's growing assets and long term investment horizon provide them of a unique position to continue playing a relevant role as strategic investors.
- CONSAR is modifying the legal and regulatory framework to allow AFORES to be ready to invest in these opportunities:
 - ✓ Inclusion of new vehicles in the Investment Regime.
 - ✓ Strengthening of AFORE's corporate government.
 - ✓ Aligning incentives for long term investment.



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