

## 1. Economic and Financial Background

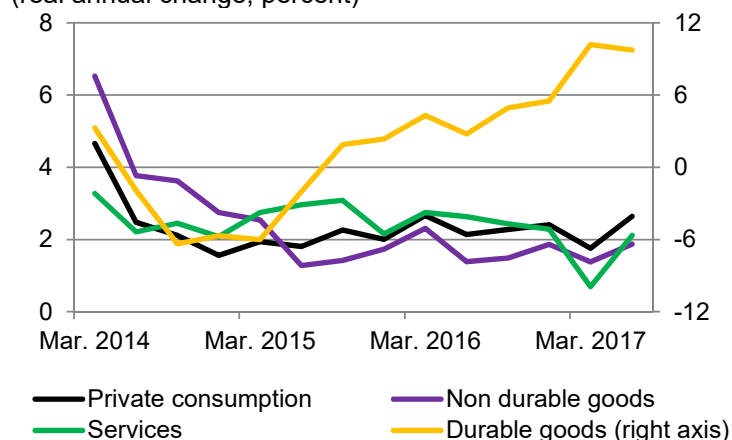
In the second quarter of this year, GDP grew by 0.9%. The activity reflects two trends. On one hand, mining and construction activity performed weakly, and on the other hand, it is possible to discern a more stable trade performance, driven strongly by growth in durables (Table N°1 and Graph 1). In terms of investment, the Gross Fixed Capital Formation recorded a downturn, which was a result of the construction and works component, in contrast to the machinery and equipment item, which is associated with the need to replenish machinery inventories after many years of slow growth and the exchange rate path (Graph 2).

**Table N°1**  
**Gross Domestic Product**  
(real annual change, percent)

	2016				2017	
	I	II	III	IV	I	II
Agriculture, livestock and forestry	6.3	-1.4	2.0	8.3	-1.5	-0.8
Fishery	-6.9	0.1	0.8	1.6	38.6	9.5
Mining	-1.4	-6.1	-0.8	-3.3	-13.8	-3.0
Manufacturing	0.2	-0.9	-0.8	-2.2	1.0	0.0
Electricity, gas and water	9.6	10.0	-2.8	-7.6	-0.2	0.6
Construction	5.7	3.3	2.2	-0.2	-1.7	-3.7
Trade, restaurants and hotels	2.7	3.3	2.6	2.5	4.8	2.9
Transport	3.3	3.7	4.2	2.0	0.7	0.8
Communications	4.1	4.0	2.6	1.7	2.4	3.5
Financial and business services	1.8	0.1	-0.6	-1.5	-1.6	-0.3
Residential property	2.3	4.1	2.2	2.1	1.8	2.4
Personal services	5.0	6.2	6.4	3.0	3.7	2.8
Public administration	3.2	3.5	2.9	2.5	1.2	2.3
<b>GDP</b>	<b>2.5</b>	<b>1.7</b>	<b>1.8</b>	<b>0.5</b>	<b>0.1</b>	<b>0.9</b>

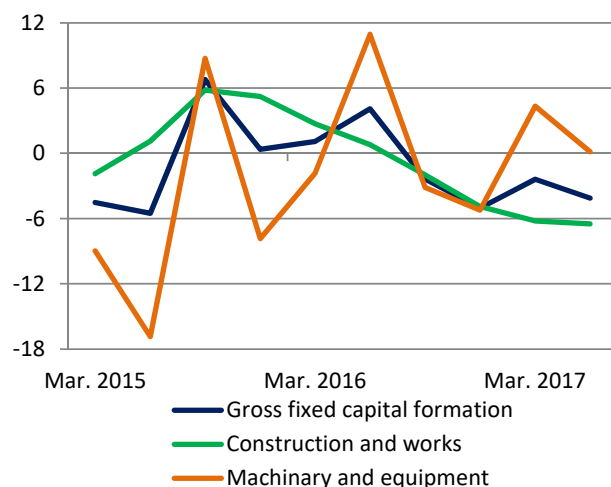
Source: Central Bank of Chile.

**Graph N°1**  
**Consumption**  
(real annual change, percent)



Source: Central Bank of Chile.

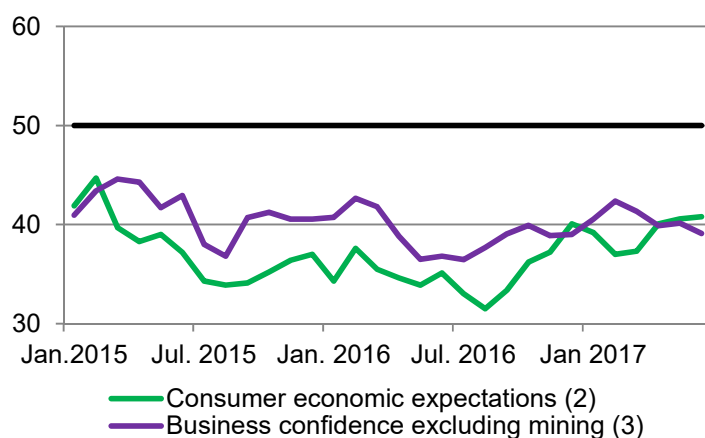
**Graph N°2**  
**Gross fixed capital formation**  
(real annual change, percent)



Source: Central Bank of Chile.

The increased stability of consumption occurs in a context where the consumers' expectations, while still in pessimistic territory, have improved somewhat. The labor market has continued to adjust, with the unemployment rate still low by historic standards, but with a weak performance of salaried employment (Graph 4 and 5).

**Graph N°3**  
**Expectation of businesses and consumers (1)**  
(original series)

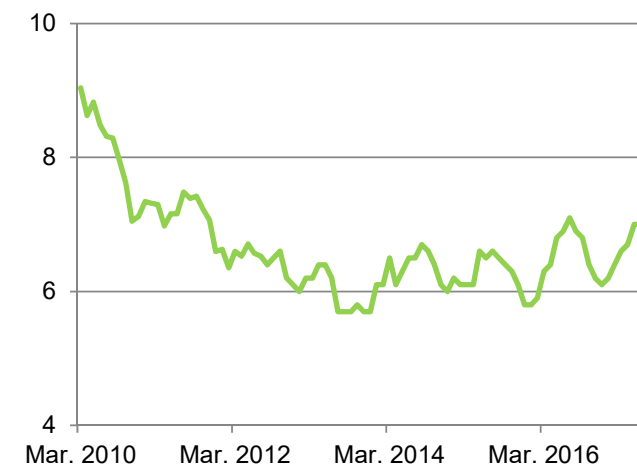


(1) A value over (under) 50 indicates optimism (pessimism).

(2) Consumer economic expectations. (3) Business confidence.

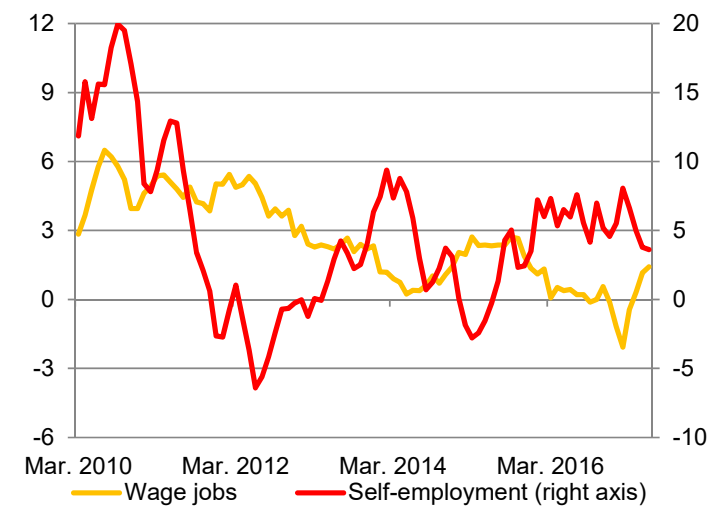
Sources: Adimark and Icare/Universidad Adolfo Ibañez.

**Graph N°4**  
**Unemployment rate**  
(percent)



Source: National Statistics Institute (INE).

**Graph N°5**  
**Job creation by occupational category**  
(annual change, percent)

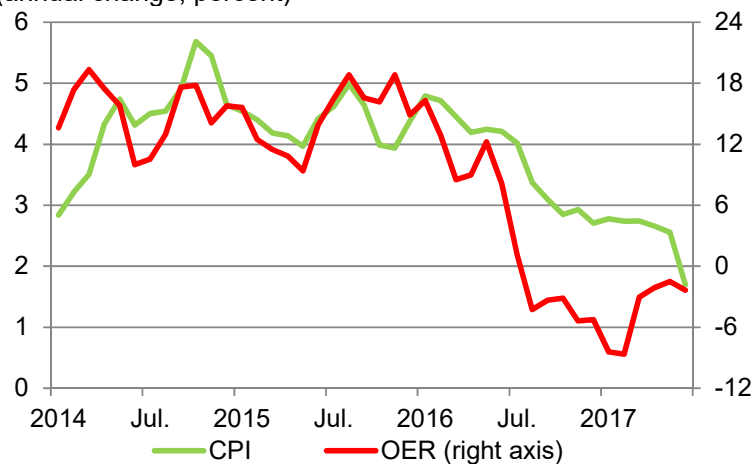


Source: National Statistics Institute (INE).

In June 2017, the CPI annual variation registered at 1.7% for the year, which is coherent with the exchange rate trajectory from mid-last year (Graph 6). In this context, the Board reduced the MPR by 100 basis points from mid-2016 (Graph 7).

**Graph N°6**

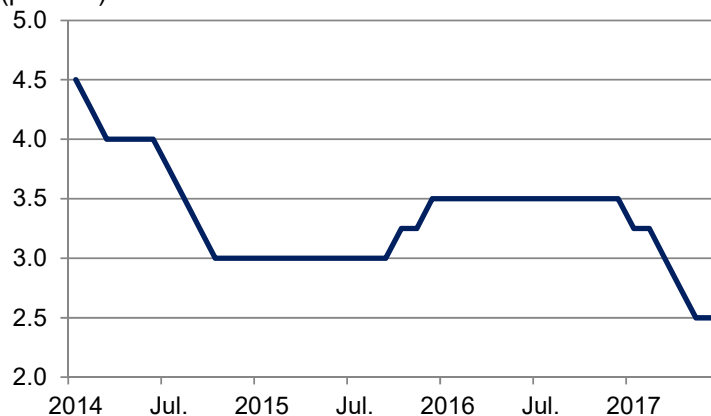
**Consumer Price Indicator and Observed Exchange Rate**  
(annual change, percent)



Source: National Statistics Institute (INE).

**Graph N°7**

**MPR**  
(percent)



Source: Central Bank of Chile.

## 2. Funds Under Management and Portfolios

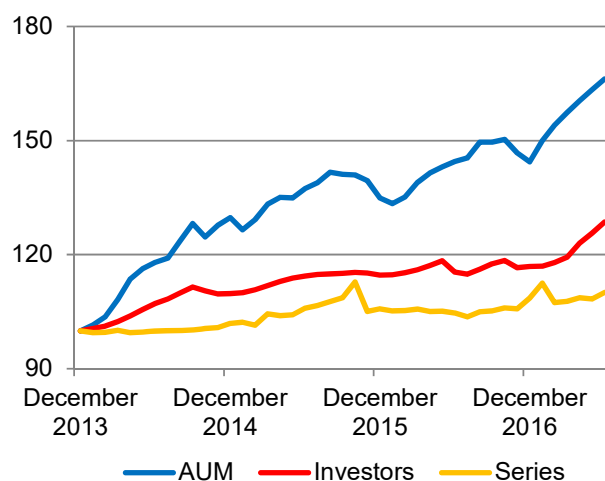
### 2.1 Mutual funds industry

By June 2017, the assets under management (AUM) reached USD 53,978 million (Graph N°7). This meant an annual growth rate of 15.1% in local currency. However, this does not include the depreciation of the peso. In mid-2017 the industry represented 22% of annual GDP (Graph N°8).

### Graph N°7

#### Mutual Funds

(index December 2013=100)

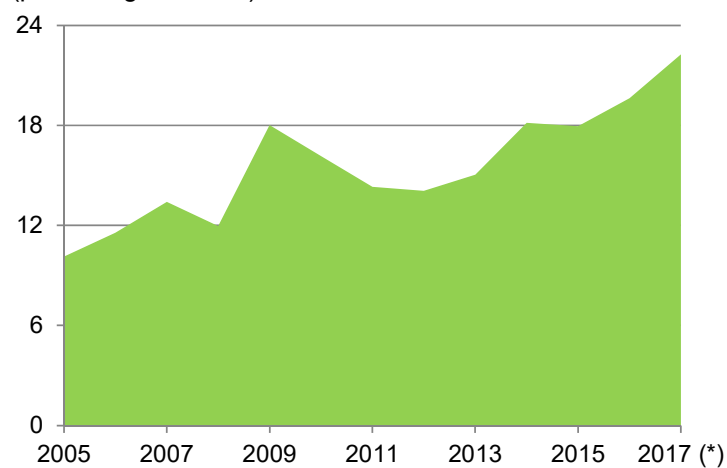


Source: Chilean Mutual Funds Association (AAFM).

### Graph N°8

#### Mutual Funds

(percentage of GDP)

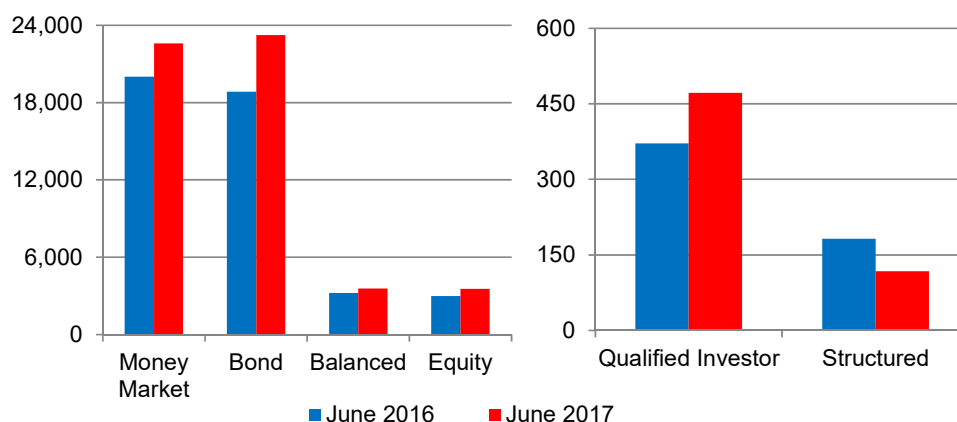


(\*) It Includes data through June 2017.

Source: Chilean Mutual Funds Association (AAFM).and Central Bank of Chile.

AUM in Chile has always been concentrated in debt funds (Graph N°9). Money market funds captured most of the assets managed in the industry (Table N°2). Nevertheless, in recent years, long-term debt funds have increased their AUM (Table N°3).

**Graph N°9**  
**AUM by Fund Type**  
(US \$ million)



Source: Chilean Mutual Funds Association (AAFM).

**Table N°2**  
**AUM by Fund Type**

	AUM (US\$ million)		Share of Total (percentage)		Annual change (percent)	YTD (percent)
	Jun. 16	Jun.17	Jun. 16	Jun.17	Jun. 17	Jun.17
Money Market	20,008	22,588	43.7	41.8	12.9	8.9
Bond	18,845	23,247	41.1	43.1	23.4	20.4
Balanced	3,218	3,583	7.0	6.6	11.3	19.2
Equity	2,991	3,553	6.5	6.6	18.8	23.8
Structured (1)	182	118	0.4	0.2	-35.4	-25.4
Qualified Investor	371	472	0.8	0.9	27.1	25.5
Others (2)	201	417	0.4	0.8	N/A	N/A
<b>Total</b>	<b>45,816</b>	<b>53,978</b>	<b>100</b>	<b>100</b>	<b>17.8</b>	<b>15.4</b>

(1) 38% of the Structured Funds to June 2016 ended operations during the year.

(2) It corresponds to funds not rated or have been recently created or that have changed their effective investment policy during the period of comparison.

Source: Chilean Mutual Funds Association (AAFM).

**Table N°3**  
**Share of Total**  
(percentage)

	June 2013	June 2014	June 2015	June 2016	June 2017
Short term	9.8	10.1	8.9	8.4	8.2
Money Market	66.7	51.4	52.5	51.5	49.3
Long term	23.5	38.4	38.6	40.1	42.6
<b>Total Debt</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Chilean Mutual Funds Association (AAFM).

By mid-year, the number of investors was around 2.3 million (Table N°4). Investment preference has changed as noted in the above table and in Graph N°10.

**Table N°4**  
**Investors by Fund Type**

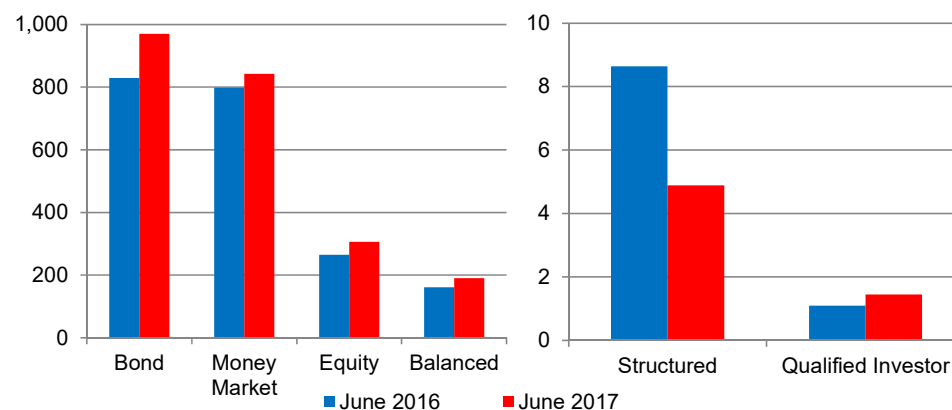
	Investors (thousands)		Share of Total (percentage)		Annual change (percent)	YTD (percent)
	Jun. 16	Jun.17	Jun. 16	Jun.17	Jun. 17	Jun.17
Money Market	798.7	842.8	38.1	36.1	5.5	2.0
Bond	829.8	969.7	39.6	41.5	16.9	13.4
Balanced	161.6	190.7	7.7	8.2	18.0	13.5
Equity	264.8	306.1	12.6	13.1	15.6	20.2
Structured	8.6	4.9	0.4	0.2	-43.4	-32.9
Qualified Investor (1)	1.1	1.4	0.1	0.1	32.9	21.7
Others (2)	31.9	20.1	1.5	0.9	-36.9	59.5
<b>Total</b>	<b>2,097</b>	<b>2,336</b>	<b>100</b>	<b>100</b>	<b>11</b>	<b>10</b>

(1) 38% of the Structured Funds to June 2016 ended operations during the year.

(2) It corresponds to funds not rated or have been recently created or that have changed their effective investment policy during the period of comparison.

Source: Chilean Mutual Funds Association (AAFAM).

**Graph N°10**  
**Investors by Fund Type**  
(thousands)



Source: Chilean Mutual Funds Association (AAFAM).

## 2.2 APV Market (non-mandatory pension savings)

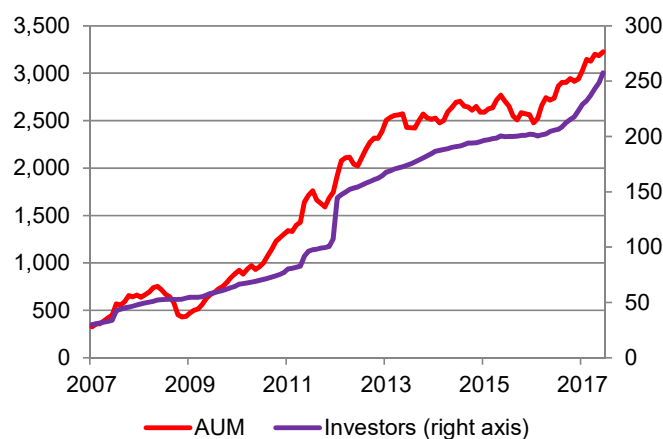
As of June this year, the AUM of APV in the mutual funds industry reached USD 3,226 million<sup>1</sup> (Graph N°11). The market share was 32%, keeping the second place of the market (Graph N°12). In terms of evolution, the AUM expressed in dollars increased 17.9% annually (15.1% in local currency). In 2017, number of investors was around 257,000 representing an increase of 25% annually.

<sup>1</sup> It corresponds to 6% of the total managed by the mutual fund industry.

**Graph N°11**

**APV**

(US \$ million; thousands)

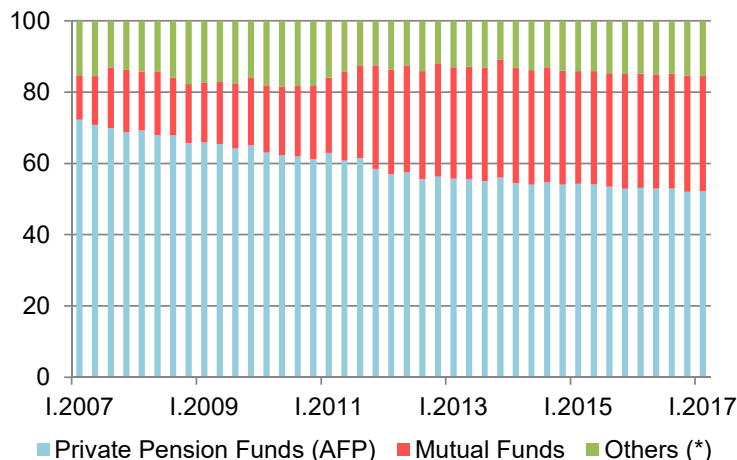


Source: Chilean Mutual Funds Association (AAFM).

**Graph N°12**

**Market share in APV industry**

(percentage)



(\*) Life Assurance Companies, Housing Funds, Banks y Stockbrokers.  
Sources: Chilean Mutual Funds Association (AAFM), Superintendency of Banks and Financial Institutions of Chile (SBIF), Superintendency of Pension Funds of Chile (SP) and Superintendency of Securities and Insurance of Chile (SVS).

## 2.3 Investment

In June 2017 investments in domestic instruments represented 90%. Resources were mainly invested in deposits, as well as in banks and financial institution bonds (Table N°5). Meanwhile, foreign investment represented 10% and was mainly concentrated in ETF and mutual funds (Table N°6).



**Table N°5**  
**Domestic investment**  
(US\$ million)

	June 2016	June 2017
Deposits	24,346	25,291
Banks and financial institutions bonds	8,798	10,094
Corporate bonds	2,430	3,436
Government Bonds	1,947	2,837
Central Bank of Chile Bonds	1,829	1,731
S.A Shares	847	1,492
Mutual funds	409	1,035
Central Bank of Chile commercial papers	531	865
Corporate commercial papers	157	287
Banks and financial mortgage notes	217	171
Investment funds	26	81
Mortgage bonds	21	19
Secured bonds	19	16
Others (*)	5	7
<b>Total</b>	<b>41,581</b>	<b>47,362</b>

(\*) Contract on products consisting invoice (Law N°19,220).

Sources: AAFM and Superintendency of Securities and Insurance of Chile (SVS).

**Table N°6**  
**Foreign investment**  
(US\$ million)

	June 2016	June 2017
Mutual funds	1,632	2,009
ETF	1,646	1,870
Corporate bonds	180	456
S.A Shares	305	361
Banks and financial institutions bonds	93	245
Government and Central Bank Bonds	185	207
Investment funds	9	112
Structured note equity	24	53
ADR	27	44
Banks and financial institutions deposits and commercial papers	61	19
Other equity instrument	1	1
Corporate commercial papers	10	0
<b>Total</b>	<b>5,501</b>	<b>4,174</b>

Sources: AAFM and Superintendency of Securities and Insurance of Chile (SVS).

92% of foreign instruments were issued in the United States, Luxembourg, Ireland, Brazil, Mexico, Colombia and England (Table N°7).

**Table N°7**  
**Issuing countries concentration investments abroad**  
(percentage of total)

	June 2016	June 2017
United States	50,5	42,3
Luxemburg	27,4	29,1
Ireland	5,6	6,9
Brazil	4,7	4,7
Mexico	2,3	4,6
Colombia	1,0	2,6
England	0,7	1,7
Peru	1,3	1,6
Britain	0,8	1,2
Cayman Islands	0,5	1,0
Others (*)	5,0	4,2

(\*) In June 2017, these countries account for less than 1% of the total.

Sources: AAFM and Superintendency of Securities and Insurance of Chile (SVS).

### 3. Key trends in flows and assets under management

#### 3.1 Education and information efforts of the Industry

The Chilean Mutual Funds Association (AAFM) has organized several financial literacy activities, such as:

**Educational campaigns in schools:** Since 2015 until now, the AAFM has delivered a financial education program called “A Fondo en mi futuro” (“Deep into my future”), which has been successfully implemented in schools, teaching children and youngsters the importance of saving early and responsibly. To the date, more than 2100 students from 20 schools from different locations in Chile (Santiago, Iquique and Concepción) have participated

**Educational campaigns in universities:** AAFM, Universia (a network that consists of 1,000 universities over 15 countries), and other trade associations launched a program in 2014, which aims to provide information and basic tools for students to better address the labor market. Additionally, the general managers of the entities associated to the AAFM visit universities to present in a simple and friendly manner the importance of financial planning and the basics of operating mutual funds. At the end of 2016, more than 17,000 from 13 universities took this course. To the date, more than 41.000 students have participated.

**Increasing use of digital media:** Since 2014, the AAFM has had in place Facebook and Twitter sites AFondochile and FondosmutuosCL, respectively. These networks have succeeded in creating and involving a responsive community to the content offered. Additionally, the AAFM has a page about financial education: [www.afondochile.cl](http://www.afondochile.cl). This site explains, using a simple and clear language, various fundamental aspects associated with investing or saving through mutual funds. Additionally, in August 2017 AAFM launched their linkedin page, called FONDOS MUTUOS CHILE.

**Journalist education:** Through media, the AAFM can inform and educate people effectively. So, encouraging thorough, impartial and correct business journalism is highly relevant. In order to jointly analyze various topics related to the industry, and resolve queries or concerns about this, the Association continues to hold meetings with journalists, coordinators and editors from different media.

**Economic and Financial Journalism Award in Chile (PEF):** For the fourth consecutive year, the Association organized the PEF award. This award recognizes excellence, thoroughness and quality of journalistic work in the financial sector — specifically in matters relating to savings and the mutual funds industry investment.

**Financial Literacy Fair:** In October 2016, the AAFM participated in the fourth version of the Financial Literacy Fair organized by the Superintendency of Banks and Financial Institutions (SBIF), which is aimed at children up to 13 years.

## **4. Regulatory and self-regulatory developments**

### **4.1 Regulatory Framework**

The AAFM's efforts during the 2016 and 2017 year were focused on ensuring the correct implementation and establishment of amendments to the Law N° 20,712 (Unitary Funds Law – LUF [Spanish acronym]), the laws N° 20,780 and 20,899 dealing with tax reforms, the SII [Internal Revenue Service] bulletins that regulate LUF and tax reform matters, and the implications of the law N° 20,956 which establishes measures to drive productivity in the economy. On the one hand, this translates to promoting regulatory modifications aligned with the industry, ensuring a simplified and flexible legal framework, considering the vision and potential of the industry with a view to strengthening its growth and development, and, on the other hand, in constituting a voice in the market, generating opportunities of participation and discussion on behalf of the industry in the public and private sectors.

To solidify these efforts, various meetings were held with representatives of the Internal Revenue Service (SII [Spanish acronym]), the Ministry of Finance, and the Superintendency of Securities and Insurance (SVS [Spanish acronym]), as well as private sector entities that allow the AAFM to advance in areas of interest to the industry.

**SII Bulletin N° 67 and 71:** At the end of December 2016, the SII published the final versions of these bulletins, including in N° 71 the full tax credit for mutual funds, and clarification of the issue of the distribution of bonus shares, understanding that they are revenue that do not constitute income.

**Law N° 20,956:** Establishes measures to drive productivity in the economy: During the discussion of the bill, the AAFM requested an increase in the investment limit of pension funds in mutual funds from 35% to 49%, standardizing investment funds. This measure was not incorporated, given that the Ministry of Finance expressly requested the elimination of each amendment in the suggestions document that modifies Legal Decree 3,500, considering the risk in the material.

On October 26, 2016 the Law that establishes measures to drive productivity was published.

During the second half of 2016 and the first half of 2017, the AAFM channeled its efforts so that the aforesaid request was included in a miscellaneous law.

**Commission for the Financial Market Law:** During 2016, the AAFM performed a follow-up of the bill and presented its concerns about the sanctioning procedure in the circumstances that the Ministry of Finance created for these purposes. In February 2017, Law N° 21,000 was published, which creates the Commission for the Financial Market, a collegial and technical body that will replace the SVS, and which provides for the creation of a Self-Regulatory Committee, which will come into effect in 18 months' time. This commission will provide an integrated view of the financial industries and separates the investigating process from the sanctionatory one.

**Implementation Process of Common Reporting Standard (CRS) of the OCDE [OECD]:** During 2016 and 2017, the efforts of the AAFM were focused on simplifying and adapting the implementation of the CRS to the national legislative reality. On July 1, 2017, the rules came into effect.

**Bill against financial fraud:** During 2016, the AAFM expressed its interest in participating and collaborating in the development of the law against financial fraud, supporting its vision of the construction of indicators and protocols that allow the quick detection of potential risks in the financial system.

It is a priority of the AAFM to establish a transversal regulation of the financial advisory sector. While Article 41 of the LUF promotes the optimization of the mutual funds industry through the requirement that every agent that sells shares in investment funds must certify that it is suitable and has sufficient knowledge to sell such shares, it is essential to establish common principles that go beyond this.

As such, it is requested that all those firms that provide advice however do not sell financial services and thus, do not directly administer third-party money, be considered market agents.

On 03.08.2017, the Ministry of Finance presented a bill that seeks to regulate financial advisors and avoid agent abuse. This law is currently being processed.

**Minimum Services:** On April 1, 2017, labor reforms came into force, in which minimum services are defined as those strictly necessary to protect the tangible goods and facilities of the business and prevent accidents, as well as to guarantee the delivery of public utility services, attention to the population's basic needs, including those related to the life, security or health of the people, and to guarantee the prevention of health or environmental harm, giving rise to interpretations as to their extent and understanding. To this regard, all financial industries have presented authorities with the required services to attend basic financial operations, such as money withdrawals from current and or savings accounts.

**Bulletin N° 57 of the Financial Analysis Unit:** On 06.08.2017, the final version of Bulletin N° 57 was published, which requires obligated subjects of the financial sector described in Article 3 of Law N° 19,913 (which creates the financial analysis unit and modifies various provisions on money laundering and the laundering of assets) to request from their clients who are legal persons or legal entities, a declaration that contains sufficient identification details with respect to the identity of their final beneficiary(s). As reported by the unit, this rule is a result of the work of the National Strategy Bureau for the prevention and combatting of asset laundering and the financing of terrorism. At the same time, it complies with the GAFI [Financial Action Task Force on Money Laundering] requirements in terms of final beneficiaries.

**Norma Carácter General (General Rule) No. 412 which establishes the manner, timing and requirements to be met for the purpose of certifying knowledge:** On September 6, 2016 the SVS (Superintendency of Securities and Insurance) issued rules for certifying the knowledge of intermediaries, third-party resource managers and quota marketing agents. The aim here is to establish the basis for the accreditation of directors, managers, operators, consultants and executives regarding knowledge of the following topics: (i) existing legal framework, (ii) risk management conceptual framework, (iii) basic financial and economic concepts and (iv) specific knowledge for each job title. The legislation provides a simplified accreditation process for those persons who are exclusively engaged in receiving buying and selling instructions for financial instruments and who do not make investment recommendations. Goes into effect in July 2018.

## **4.2 Self-regulator**

**AAFM Self-Regulation Council:** The Council focused its efforts on ensuring compliance with the resolutions adopted by the industry.

## 5. Corporate governance - major developments

No news for the industry regarding corporate governance, except for the fact that is a matter of great and continuous dedication by all associates.

## 6. Fund governance

The mutual fund industry created a fund categorization in 2007 through the Association, in order to provide valid comparisons between mutual funds. The classification of funds is based on their effective investment strategy assuring that those compared funds have similar investment policies Table N°8 shows the current categories.

**Table N°8**  
**Categories According to Effective Investment Strategy**

Category	Subcategory
Equity Funds	Latin America
	Emerging Asia
	Asia Pacific
	Brasil
	Developed
	United States
	Emerging
	Developed Europe
	Emerging Europe
	National Large CAP
	National Small & Mid CAP
	Country
	MILA countries
	Sectorial
Balanced Funds	Agressive
	Conservative
	Moderate
Money Market	International US Dollar
	International Euros
	National
Bond Funds< 365 days	International
	National
	Flexible Origin
Bond Funds >365 days	International, Investment in Emerging Markets
	International, Investment in International Markets
	National, Investment in Pesos
	National, Currency-indexed Invest<= 3 years
	National, Currency-indexed Invest>3 years
	Flexible Origin
Closed end Funds	Developed Equity
	Emerging Equity
	Debt
Qualify Investors Funds	Local Equity
	Foreign Equity
	Debt
Others Funds (*)	Others

(\*) It corresponds to funds that have not been rated or that have been recently created or that have changed their effective investment policy during the period of comparison.

Source: Chilean Mutual Funds Association (AAFMM).

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## **7. Other major issues and developments**

**FIAFIN:** Since January 2016, the constitution of the Iberoamerican Federation of Investment Funds in Chile (FIAFIN for its acronym in Spanish) was formalized. The annual meeting, held on 13 September in the Cartagenas de Indias, Colombia.