



Contribution of insurers to the allocation of savings and investment and capital market development and efficiency .

Investment Funds Long Term Infrastructure Projects in Latin America: the case of pension funds

December 2, 2010

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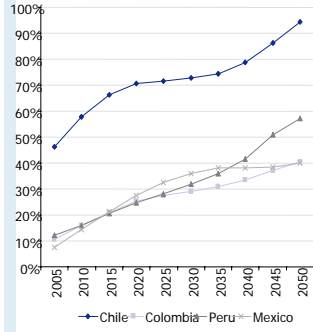
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Section I
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Accumulated Balance Projection of Private Pension Funds (% of GDP)



Source: BBVA Research

The private pension funds (PPF) can be an appropriate source of savings to partially cover these needs

PPFs will manage a large amount of resources in the next decades

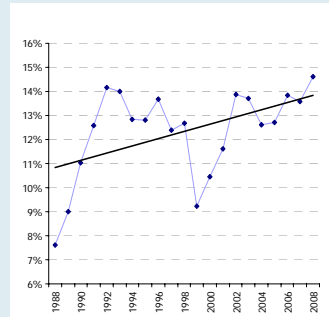
Source: Superintendencia Financiera

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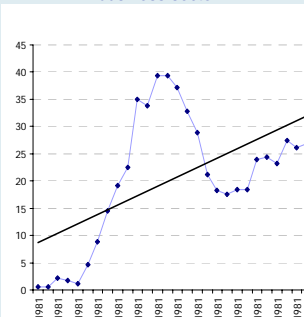
The savings channeled through pension funds can generate positive effects on national economies.
 Example: Chile's pension funds are increasingly contributing to the financing of the real sector in the economy.

Percentage of stock market capitalization in Chile represented by pension funds



Source: Superintendencia financiera y World development indicators

Percentage of funds invested in the business sector

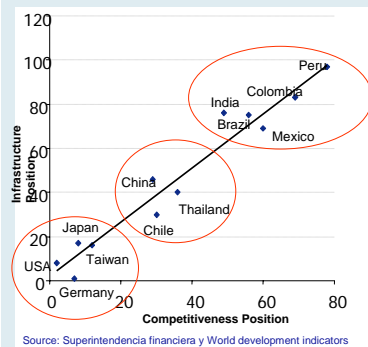


Source: Superintendencia Financiera

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Another relatively recent example is the possibility that pension funds supplement the public funding of infrastructure, particularly in LATAM because of their backwardness relative to other regions

Relationship of Competitiveness and Infrastructure



The lack of infrastructure investment provokes competitiveness problems

Official estimations calculate investment needs of 4% of annual GDP for the following years

But the international investment inflows have been reduced drastically

Positive Factors of the investment in infrastructure assets for the PPF

=Assets invested in infrastructure allow optimal long-term portfolio planning (Inderst, 2009).

=We expect that Pension Fund participation in infrastructure investment will reduce political and regulatory risks. (Vives, 2000).

=The right design of long-term project finance investment offers a good relationship between return/risk.

=Pension Fund investments in the same country considerably reduce some financial risks, for example with exchange rate fluctuations.

=Public opinion could be more favorable of PPF management if they invest in infrastructure projects which improve the quality of life

Positive elements for the country with the pension funds financing infrastructure participation

▫ Consolidation of fiscal budget, by facilitating resources for other social expenses, or for reducing fiscal pressure.

▫ Improvements of the economic efficiency and efficacy in the budgetary process, by allocating the infrastructure costs to beneficiary/users.

▫ If the public budget is not able to execute the project because of cyclical problems, the private sector participation could compensate.

▫ Higher probability of quality improvements and cost reductions due to more transparency and efficient projects managed by the private sector.

HOWEVER, THE LAST INVESTMENT DECISION IN INFRASTRUCTURE ASSETS SHOULD BELONG TO THE PPF AS A RESULT OF A COMPREHENSIVE ANALYSIS OF THEIR OPTIMAL PORTFOLIO MANAGEMENT

The current investment situation in infrastructures

	Indirect Investment		Direct Investment		Limit investment in direct infrastructure
	USD\$ millions	% portfolio	USD\$ millions	% portfolio	% of portfolio
Chile	9969 (1)	9,17%	1956	1,80%	without specific limit
Colombia	4431 (3)	17,10%	0	0	without specific limit
Mexico	5535	6,90%	0	0	10,7 (2)
Peru	2416	11,50%	700,2	3,3%	without specific limit

Source: SEE BBVA. Datos a septiembre de 2009

(1) (electricity, water, telecommunications)

(2) weight average by each Siefore investment

(3) December 2008

Indirect Investment of Pension Funds in the Infrastructure Sector in CHILE

- Pension Funds invest in infrastructure by purchasing financial instruments, such as stocks or bonds, issued by companies.

Pension Funds Investment in Shares and Bonds of Chilean Infrastructure Companies						
At 29 May 2009						
	Shares		Bonds		Total	
	USD million	% Pension Funds	USD million	% Pension Funds	USD million	% Pension Funds
Electricity	5 485	5.90	2 133	2.29	7 618	8.19
Telecommunications	864	0.93	325	0.34	1 189	1.27
Gas and Water	329	0.36	833	0.85	1 162	1.21

Note of caution: Purchasing these types of financial instruments is not considered funding new projects that will increase or improve existing infrastructure, except when it is first issued.

Direct Investment of Pension Funds in the Infrastructure Sector in CHILE

Pension Funds Investment in Infrastructure Bonds

At May 2008

BOND NAME	Date of issue	M \$ USD	% issued amount
SOC. CONCESIONARIA RUTAS DEL PACÍFICO	2002	155,143	33%
SOC. CONCESIONARIA AUTOPISTA DEL SOL	2002 & 2006	139,822	52%
SOC. CONCES. AUTOPISTA LOS LIBERTADORES	2003 & 2007	53,229	27%
SOC. CONCES. AUTOPISTA INTERPORTUARIA	2006	8,871	21%
AUTOPISTA DEL MAIPO SOC. CONCESIONARIA	2004 & 2006	212,851	43%
TALCA-CHILLÁN SOC. CONCESIONARIA	1998 & 2005	162,486	34%
RUTA DEL BOSQUE SOCIEDAD CONCESIONARIA	2001 & 2006	199,759	52%
RUTA DE LA ARAUCANÍA SOC. CONCESIONARIA	2000	125,126	42%
SCL TERMINAL AEREO SANTIAGO S.A. SOC. CONCES.	2004	104,273	84%
SOC. CONCESIONARIA AUTOPISTA CENTRAL	2003	257,180	47%
SOC. CONCESIONARIA VESPUICIO NORTE EXPRESS S.A.	2004	301,906	45%
SOC. CONCESIONARIA COSTANERA NORTE	2003	155,317	39%
SOC. CONCESIONARIA AUTOPISTA VESPUICIO SUR S.A.	2004	80,651	39%
TOTAL		1,956,612	42%

SOURCE: SUPERINTENDENCIA DE PENSIONES

Chilean pension funds held over 42% of the bonds issued as of May 2008 .

Indirect Investment of Pension Funds in the Infrastructure Sector in COLOMBIA

Indirect Infrastructure Investment of CPFs
(% of Total Portfolio)

	(% Portafolio Total)					
	jun-08			dic-08		
	Debt	Equity	Total	Debt	Equity	Total
Water	0,7%	0,0%	0,7%	0,4%	0,0%	0,4%
Communications	0,8%	0,2%	1,0%	0,8%	0,2%	1,0%
Electric	3,1%	4,7%	7,7%	4,2%	3,4%	7,6%
Energy	0,6%	8,3%	8,9%	0,6%	6,5%	7,0%
Mortgage securitization	0,2%	0,0%	0,2%	0,3%	0,0%	0,3%
Roads	0,9%	0,0%	0,9%	0,8%	0,1%	0,8%
Total	6,3%	13,1%	19,4%	7,0%	10,1%	17,1%

Fuente: ASOFONDOS

1. Increased indirect investment due to different types of new securities in the market.

2004: 0.45% of Total Portfolio (COP 115 billion)

2008: June 19.4% of total portfolio, December 17.1%

2. Greater weight of stocks in comparison to debt securities.
3. The sectors with the greatest participation are the electric and energy sectors, which reached 7.6% and 7% of the total investments at the end of 2008, respectively.

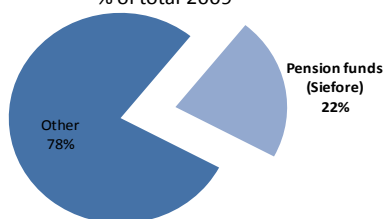
Direct Investment in infrastructure by PFAs does not exist In Colombia .

Investment of Pension Funds in the Infrastructure Sector in Mexico

Due to its investment regime, the Afore System has mainly supported indirect investments in infrastructure.

In 2009, however, direct investments in infrastructure were allowed in the Afore System through structured notes.

Outstanding debt of the Public Sector in Infrastructure by sources of financing
% of total 2009



Source: ERD BBVA with CONSAR data

Investment in infrastructure through structured notes

% of total portfolio

Pension Fund	Up to January 2010	Maximum exposure allowed
SB1	0	-
SB2	0.7	5.0
SB3	1.5	10.0
SB4	1.6	10.0
SB5	1.5	10.0
System	1.2	

Source: ERD BBVA with CONSAR data

Indirect Investment of Pension Funds in the Infrastructure Sector in PERU

This investment represents most of the amount invested by PFAs in infrastructure (approximately 77.4%, or USD 2,413 million, of the total USD 3,117 million) (two different sorts of transactions)

1) Purchases of bonds or debt instruments issued by companies related to those who participate in infrastructure projects (this represents 95% of the indirect investments by PFAs). It is worth mentioning that investments in these companies are not necessarily directed towards investment in infrastructure development.

2) Purchase of participation bonds from infrastructure investment funds:

- SAFI AC Capitals Funds: Investment in this fund has grown significantly over the last few years from USD 12 millions at the end of 2005 to USD 100 millions in December 2008.
- Infrastructure fund: At the beginning of 2009, Peru's Government authorized the establishment of an infrastructure investment fund with an estimated USD500 million of total capital. PFAs will contribute USD 300 million, making them the main funding source.
- Infrastructure investment fund trust: In June 2009, the PFA Association formalized the creation of an Infrastructure Investment Trust (USD 300 million) by the four PFAs of the Peruvian Private Pension System.

Direct Investment of Pension Funds in the Infrastructure Sector in Peru

Direct investment reflects the purchase of debt instruments or bonds issued by concession companies of infrastructure projects

PFA: Participation in main infrastructure projects June 2009

Company	Sector	Invested amount June 2009 (USD mill.)	Total% Investment in infrastructure
Peru Enhanced Pass Through	Infrastructure	342	11.0%
Transportadora de Gas del Perú	Energy and Petroleum	136	4.4%
Pluspetrol Camisea	Energy and Petroleum	91	2.9%
Concesión Transvase Olmos	Water and Sanitation	63	2.0%
Red de Energía del Perú	Energy and Petroleum	58	1.9%
Consorcio Agua Azul	Water and Sanitation	11	0.3%
Consorcio Transmantaro	Energy and Petroleum	1	0.03%

Direct investment in infrastructure reached USD 700 million or 22.6% of the total amount invested in infrastructure

Source: Superintendency of Banking, Insurance and Pension Funds, June 2009

Elaborated by: ERD BBVA

Opportunity cost of not investing in infrastructure by PPF

	2020	2030	2040	2050	2005-2050
difference in % with present trend (GDP per capita)					Discount Present Value/GDP (2005)
dif en % Mexico	0,8%	1,0%	1,1%	1,1%	24,1%
dif en % Chile	1,8%	2,7%	3,2%	3,6%	89,3%
dif en % Colombia	0,9%	1,4%	1,8%	2,2%	49,1%
dif en % Peru	1,6%	2,3%	3,0%	3,6%	103,3%

Fuente: SEE BBVA

Constraints in México

Problems for finding good projects due to the concessions Law.

- A fragmented legal body among different economic sectors, levels of government and agencies in the central government.
- Public-Private Partnerships are not part of the Concessions Law. In November 2009 a bill was sent to Congress to provide an ad hoc regulation.
- Contracting authorities are generally subject to regulatory restrictions limiting their ability to agree on the extent of risk allocated between parties.
- State and local budgetary laws do not entitle the contracting authority to make long-term commitments.

Constraints in Colombia

Problems in the regulatory framework

- The performance of studies before bidding and development of projects has not been emphasized enough.
- Searching for economies of scale in order to avoid fragmentation.
- Contracts should correspond to twenty year periods or more.
- In the case of road concessions, tolls should be considered a source of income incentives rewarding self-financing capacity. Re-negotiation must only be allowed in very extreme cases.

Constraints in Chile

Weak aspects of the Legislation

The bilateral renegotiation between the ministry and the private company awarded the contract is not sufficiently constraintive, as it does not guaranty competitive results, reduce adverse selection or encourage accountability.

Constraints in Peru

Problems in the administrative framework

- Delays in the concession processes affect the length of the project. In a sample of six projects, the average duration is more than five years.
- Inefficient cost/benefit analysis of the projects
- Innovation of financial assets related to infrastructure projects other than infrastructure funds and bonds.

Pension funds have the resources to help finance infrastructure.

If given the necessary and sufficient risk/return, this asset class would be very attractive for the AFPs, because they allow portfolio diversification and are conveniently adjusted according to the timing of the affiliate's life cycle.

Although significant progress has been made in recent times (especially in Chile and Peru), many countries need reforms in the various phases of the concession process for the projects to be attractive to private investors, and in particular to the AFP.

The opportunity cost of not carrying out these reforms is quite high in the region in terms of GDP growth

BBVA

A balance and projections of the experience in infrastructure of pension funds in Latin America



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