



Central Bank of Chile, the Fiscal Agent of the Chilean SWF

Chilean Investors Forum

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In December 2006, the Ministry of Finance requested to the CBC to become a Fiscal Agent for the SWF.

- Since 2007, the CBC manage two SWF, the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF).
- The objectives of the investment policies of each fund and the risk–return profile associated, respond to a decision of the Ministry of Finance. The Bank is responsible to manage the fiscal resources according to the decrees and guidelines of the funds.
- The main functions of the CBC are:
 - Manage the funds according the guidelines provided by the Min. of Finance.
 - Manage all bank accounts related with the funds.
 - Hire on behalf of the Ministry of Finance, custodian services.
 - Maintain detailed records of all transactions made by the CBC and the External Managers.
 - Supervision, monitoring and evaluation of external managers and custodian.
 - Develop the process of selecting external managers. (The last one was in 2011, for the PRF).
 - Deliver reports daily, monthly, quarterly and annual, detailing the status of funds.
 - Advise the Ministry of Finance in the develop of new investment policies.



During the first semester of 2012, the CBC has been implemented the new investment policy for the PRF.

- In 2011 was changed the investment strategy of the SWF, the new strategy is a “Passive Strategy”. In January 2012, the investment policy of the PRF was also changed.
- To implement the new strategy and the new policy of the SWF, the CBC proceeds according to the specific instructions given by the Ministry of Finance and based on the new guidelines of the SWF.
- The implementation process was made through phases. To prevent major impacts in the performance of the funds.



All the procedures used by the CBC for the management of the SWF are the same that have been used in the management of the International Reserves.

- The CBC has a specific department within the International Markets Area, in charge of the implementation of the guidelines and management of the SWF.
- There is also a Financial Services Area that cares about back office functions, they process all the operations of the internal portfolios, they do the settlement, registers, manages the books, and processes transactions carried out by operators of the Fiscal Agency Department (front office).
- All the operations are registered and processed by the WSS system, this system connects the front office with the back office. All benchmarks, currencies and durations are configure in the system to control operations.
- The main costs related with the management of the SWF are:
 - Fee to the CBC.
 - External managers fees
 - Custody
 - Middle Office

To the first half of 2012 these costs represent 0.13bp for the ESSF and 0.6bp for the PRF.



The differential return of the SWF after the change on the investment strategy has been more neutral, consistent with the passive strategy.

- In the case of the PRF, since the change in the investment policy in January 2012, the differential return has been affected by the transition period between the previous policy to the current one, it means for example, the transfers of money to the new external managers and the transactions that they need to have the proper composition of the portfolio.
- To the CBC the challenges of new changes in the investment policy of the ESSF are related with the risk control, the configuration of the systems with the least impact in the operations, to have the necessary resources to implement the changes in the related areas within the Bank and maintain the alignment the guidelines of the fund.



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