Annual Report
Sovereign Wealth Funds

Ministry of Finance

2020

This publication constitutes the 2020 Annual Report on the Sovereign Wealth Funds maintained by the Ministry of Finance.

The electronic version of this report is available on the Ministry of Finance's web site:
https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds/annual-report.

Santiago, Chile

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01 FOREWORD BY THE MINISTER

The COVID-19 pandemic defined 2020. To face the pandemic, many countries were forced to close their borders, implement extensive lockdowns, and paralyze large swaths of economic activity, which has had an unprecedented impact on daily life and, therefore, on the world economy. Under this new economic context, the advanced economies went from growth of 1.6% in 2019 to a contraction of 4.9% in 2020; the emerging and developing economies, from 3.6% growth to a 2.4% contraction.

The consequences of the crisis have been no less severe in Chile. In 2020, the country's economic activity fell 5.8%, and unemployment reached 10.3%. The impact of the pandemic was mainly felt in the second and third quarters, with year-on-year contractions of 14.2% and 9.0%, respectively. Services and construction were the hardest-hit sectors, and, from a spending perspective, the effects were reflected in a sharp decline in household consumption and investment. Facing this negative shock has implied unprecedented fiscal challenges. Central government revenues fell 8.4%, while public budgetary expenditures grew 11%, all in real terms. Consequently, it was necessary to finance the fiscal deficit by issuing more debt and using some of the savings accumulated in the sovereign wealth funds.

Chile's sovereign wealth funds are a fundamental part of our fiscal responsibility policy. The Economic and Social Stabilization Fund (ESSF) has accumulated the fiscal surpluses generated in years of economic boom or high copper prices. This provides insurance for facing fiscal deficits in economically adverse times, like the current crisis. The Pension Reserve Fund (PRF), in turn, holds savings that will serve to complement the payment of future pensions for the less fortunate sectors of our society. These two funds have supplied the resources for ensuring the sustainable funding of social programs, independently of the economic cycle, and implementing countercyclical measures during times of crisis.

In 2020 the Finance Ministry implemented various initiatives to face the current economic and health crisis, which had an impact on the sovereign wealth funds. In the case of the ESSF, US$ 2,000 million was withdrawn in April, US$ 1.090 million in August, and, finally, US$ 1,000 million in December, in order to help finance the national budget, comply with the Economic Emergency Plan, and fund the amortization of external debt. Additionally, the Fiscal Responsibility Law was amended to increase the amount of withdrawals from the PRF in 2020 and 2021. Under this amendment, US$ 1,576 million was withdrawn from PRF in early October to fund the totality of the expenditures associated with the Solidarity Pillar.

Another measure to address the health crisis was the temporary suspension of contributions to the PRF. In accordance with the Fiscal Responsibility Law, the PRF ordinarily receives a minimum annual contribution equivalent to 0.2% of gross domestic product (GDP) of the previous year; if the overall fiscal surplus exceeds 0.2% of GDP, the fund receives a contribution equivalent to the surplus, up to a maximum of 0.5% of GDP. Under Law N° 21,225, which established support measures for families and micro, small, and medium-sized businesses to offset the impact of the pandemic, these contributions were suspended in 2020 and 2021.

In addition to these measures, in order to ensure faster, less costly access to the resources held in the PRF, the fund was divided into two portfolios in early October: namely, the short-term investment portfolio (STIP), which conservatively invests the resources that are expected to be disbursed in 2021; and the long-term investment portfolio (LTIP), which corresponds to the long-term PRF portfolio.

At year-end 2020, the sovereign wealth funds together had a market value of US$ 19,112 million, down from US$ 23,045 million at the end of the previous year. The ESSF recorded total withdrawals of US$ 4,090 million, used to support the funding needs of the Fisco due to the deterioration of fiscal revenues in 2020 as a result of the social crisis in late 2019 and the pandemic. The withdrawals were offset by a net return on investment in the ESSF of US$ 812 million. The PRF had withdrawals of US$ 1,576 million, which were partially offset by a net return on investment of US$ 921 million.

Net earnings in dollars in 2020 were 8.03% for the ESSF and 9.26% for the PRF. The latter breaks down into net earnings in the year of 0.03% for the short-term portfolio and de 11.36% for the long-term portfolio. It is important to note that the PRF tends to be more volatile than the ESSF in the short term, because a larger share of the fund is invested in riskier asset classes, which should earn higher expected returns in the long run. Thus, since the inception of the funds, the annualized net return in dollars is 4.27% for the PRF and 2.98% for the ESSF.

Following international best practices, which call for a periodic review of investment policies, a new study of the ESSF investment policy was commissioned from an international consultant. Considering the market volatility deriving from the pandemic, the study was postponed until early 2021 and will incorporate the new fiscal situation and the withdrawals made over the course of last year.

Finally, the initiatives taken by the Finance Ministry with regard to the changes, in terms of both withdrawals from and contributions to the sovereign wealth funds, meet the objectives established when the funds were created and demonstrate the importance of a responsible and transparent management of the country’s savings. In this context, we expect to withdraw around US$ 3,000 million from the PRF and US$ 1,750 million from the ESSF in 2021. The new challenges facing Chile make it necessary to maximize the good use of these resources, with a view to the long term. This will allow us to work on a sustainable recovery in the face of a world economy that changes day to day.

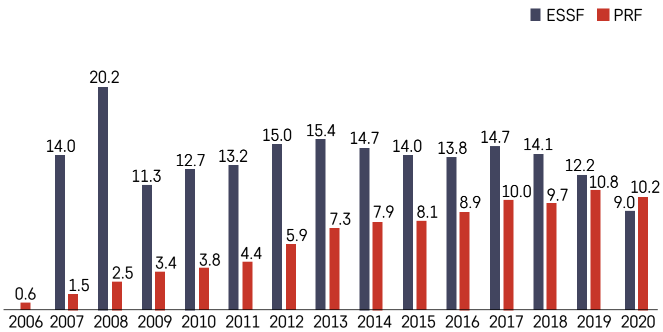
Rodrigo Cerda
Minister of Finance

02 SUMMARY

As of 31 December 2020, the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF) together had a market value of US$ 19,112 million. The net returns in dollars were 8.03% and 9,26% for the ESSF and PRF, respectively, in 2020 and 2.98% and 4.27% annualized since their inception.[1]

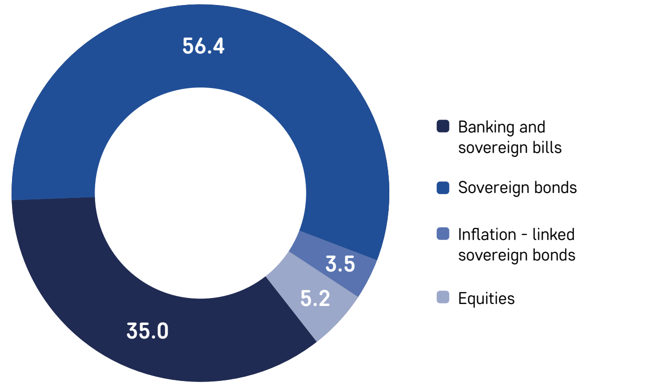
1 The returns published in this report are based on the time-weighted rate of return (TWR) methodology, unless the use of the internal rate of return (IRR) is explicitly identified. Returns for periods of over one year are compound annualized rates. For periods of less than one year, the return corresponds to the change in the given period. Net returns deduct the costs associated with managing the investment portfolios.

F1 Market value (billions of dollars)



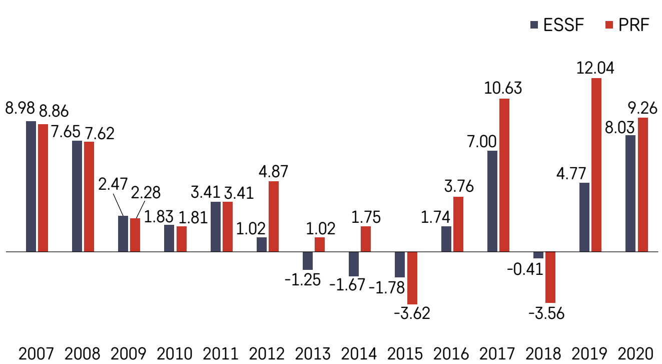
Source: Ministry of Finance

F4 Asset class allocation ESSF as of 31 December 2020 (percent of portfolio)



Source: Ministry of Finance

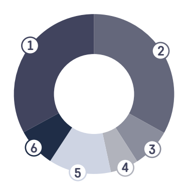
F2 Annual net returns in dollars[2] (percent)



Source: Ministry of Finance

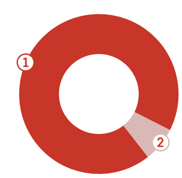
F5 Asset class allocation PRF as of 31 December 2020[3] (percent of portfolio)

Long - term investment portfolio



1	Equities	32.9
2	Sovereign and goverment-related bonds	33.1
3	Inflation - linked sovereign bonds	7.9
4	U.S. agency MBS	5.7
5	Corporate bonds	12.6
6	High yield bonds	7.9

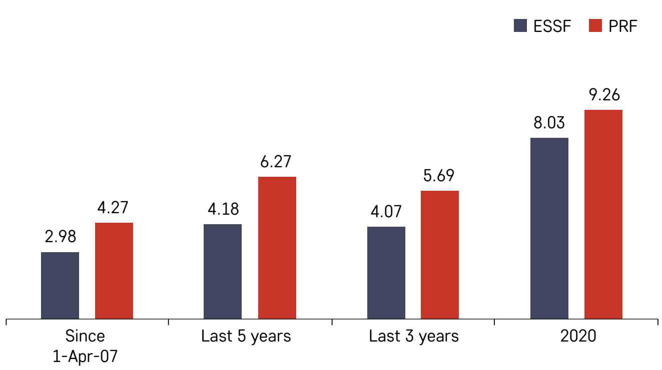
Short - term investment portfolio



1	Treasury bills	93.0
2	Sovereign bonds	7.0

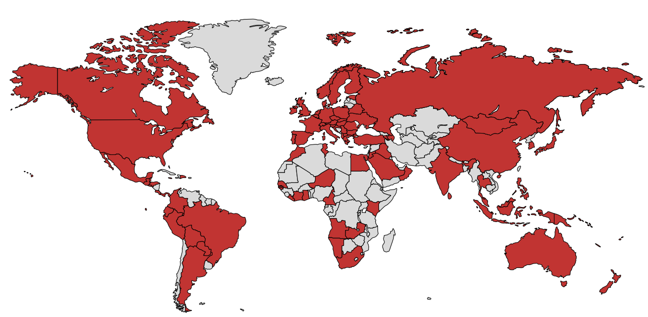
Source: Ministry of Finance

F3 Accumulated annual net returns in dollars (percent)



Source: Ministry of Finance

F6 Countries where the funds are invested as of 31 December 2020



Source: Ministry of Finance

2 The use of the TWR methodology to measure returns dates to 1 April 2007.

3 On 1 October 2020 the PRF was broken-down in the Long-term and the Short-term Investment Portfolios. For more information see Box 6.

03 SOVEREIGN WEALTH FUNDS

Chile has two sovereign wealth funds, the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF). Both funds were created through the Fiscal Responsibility Law of 2006, which established the regulations and institutional framework for the accumulation, management and operation of the fiscal savings generated from the application of the structural balance rule (see Box 1). This law stipulated the creation of the PRF, which received its first contribution on 28 December 2006, and the ESSF, which received its first contribution on 6 March 2007. The ESSF was officially formed by combining into a single fund the resources saved in accordance with Decree Law Nº 3,653 of 1981 and the Copper Revenue Compensation Fund, as specified in Ministry of Finance Statutory Decree Nº1 (DFL Nº 1) of 2006.

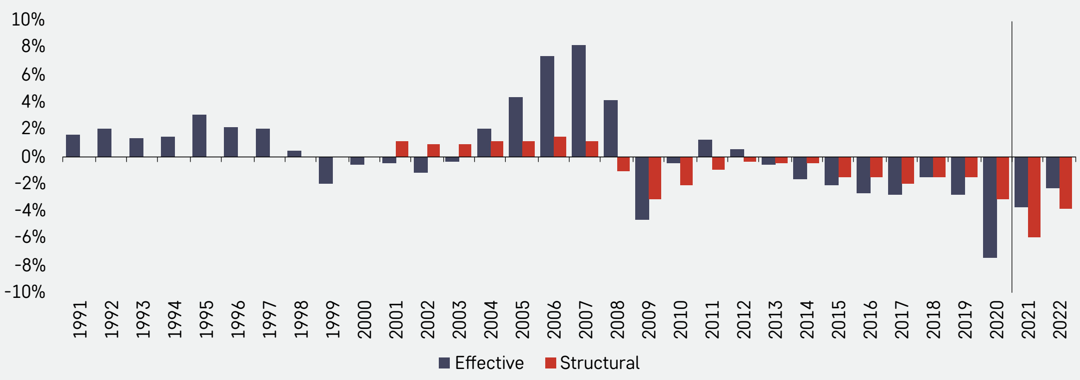
BOX 1 The structural balance rule

Chile implemented a structural balance rule in 2001 with the objective of establishing an annual fiscal spending level consistent with the central government's structural income. Through this rule, fiscal spending is detached from the cyclical fluctuations of economic activity and the price of copper. This is especially important for a country like Chile, where the volatility of fiscal revenue largely depends on the copper price. This allows the government to save in boom times, thereby avoiding drastic adjustments to fiscal expenditures during unfavorable economic periods. At the same time, when fiscal policy is credible and sustainable, monetary policy can be used as the main policy instrument for boosting or slowing down economic activity as needed. This policy has thus contributed to significantly reducing the volatility of fiscal spending and economic growth.

Initially, the structural balance rule was a commitment adopted by the Government which was reflected each year in the corresponding budget law, but after several years of application, it was formalized in the legislation. Thus, Law N°20,128 on Fiscal Responsibility was passed in the second half of 2006, requiring each Presidential Administration to announce its objective for the structural balance rule in its first year. The law further established the regulations and institutional framework for the accumulation, management and operation of fiscal savings. It created the PRF and authorized the President of the Republic to create the ESSF, which was officially founded in February 2007.

The structural balance target has changed over time. The target was initially set at 1% of structural surplus of GDP in 2001. The 2008 budget reduced it to 0.5% of GDP, because substantial resources were being accumulated in the sovereign wealth funds.[1] In 2009, the ex-ante target was reduced to 0% to face the crisis that was then in full swing, nevertheless, the structural deficit for that year reached 3.1%. From 2010 to 2014, the government proposed reducing the structural deficit so as to converge to a 1% of GDP in 2014, reaching 0.5% at the end of 2014. The past government announced in 2015 that the structural deficit will gradually be adjusted around a quarter of a point of GDP each year through 2018, however, at the end of 2017 the structural deficit increased up to 2% (see Figure B1). In 2018 and 2019 the structural deficit was 1.5% of GDP. Finally, the structural balance target was set at -3.2% for 2020 in order to face the social demands originated by the end of 2019 and the pandemic.[2, 3]

B1 Effective and structural fiscal balance (percent of GDP)



Source: Ministry of Finance

1 In 2008, the structural deficit ended at 1% of GDP.

2 The structural balance target was modified in February (Finance Ministry Decree 253) and in September 2020 (Finance Ministry Decree 1,579).

3 The methodology for calculating the fiscal balance has changed over time. Information on past methodologies is available online, at www.dipres.cl/598/w3-propertyvalue-16156.html.

3.1 Purpose of the Sovereign Wealth Funds

The ESSF was created to finance fiscal deficits that could arise in periods of low growth and/or a low copper price. Thus, using the resources in the ESSF is an alternative to issuing debt to finance public expenditures. The ESSF can also finance the payment of public debt and recognition bonds as well as regular contributions to the PRF, as established under Ministry of Finance Statutory Decree DFL N°1 of 2006.

The purpose of the PRF is to complement the financing of fiscal liabilities in the area of pensions and social welfare. Specifically, the fund backs the state guarantee for old-age and disability solidarity pension benefits, as well as solidarity pension contributions, as established under the pension reform of 2008.[4]

4 In 2008 the law 20,255 was enacted, it creates the solidarity pension system.

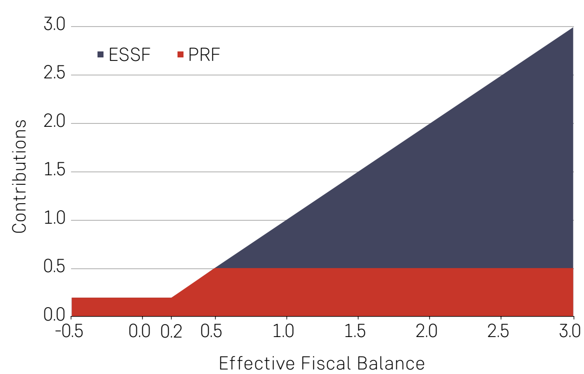
3.2 Rules on Contributions and Withdrawals

The Fiscal Responsibility Law of 2006 establishes the rules on fund contributions. The rules on withdrawals and the use of the funds are established in the same law, as well as in the Pension Law of 2008 for the PRF and DFL Nº 1 for the ESSF.

According to the Fiscal Responsibility Law, the PRF must receive a minimum annual contribution of 0.2% of the previous year's gross domestic product (GDP). If the effective fiscal surplus exceeds that amount, the contributions can be increased up to the amount of the surplus, with a maximum of 0.5% of the previous year's GDP. The transfer must occur in the first half of the year. This policy will be in place until the PRF reaches a balance equivalent to 900 million UFs (unidad de fomento).[5] In the framework of the current health crisis, Article 4 of Law N° 21,225, which establishes support measures for families and micro, small, and medium-sized businesses to address the impact of COVID-19, suspends contributions to the PRF in 2020 and 2021.

In the case of the ESSF, the fund must receive any positive balance remaining after subtracting the PRF contributions from the effective surplus, less the amortization of public debt and estimated contributions that were made in advance the previous year (see Figure 7).[6]

F7 Fund contribution rules (percent of GDP)



Source: Ministry of Finance

5 As of 31 December 2020, the PRF reached a market value of UF 248 million.

6 The current legislation allows a fiscal surplus in the current year, which must be transferred to the ESSF in the following year, to be used for the amortization of public debt or for estimated (advance) contributions to the fund.

Consistent with the objectives described above, and as it was mentioned before, the ESSF resources can be used at any time to complement fiscal revenue as needed in order to finance authorized public expenditures in the case of a fiscal deficit. They can also be used for the regular or extraordinary amortization of public debt (including recognition bonds) and for financing the annual contribution to the PRF when the Finance Minister so decides.

The PRF resources can only be used in accordance with the objectives cited earlier; that is, for the payment of pension and welfare system liabilities. Through 2015, annual withdrawals from the PRF must not exceed the fund's returns in the previous year. Starting in 2016, annual withdrawals will be capped at an amount equal to a third of the difference between the pension liabilities expense in the respective year and the inflation-adjusted pension liabilities expense in 2008.

In the framework of the COVID-19 pandemic, Law N° 21,227, which authorizes exceptional access to the unemployment insurance benefits stipulated in Law N° 19,728, establishes in Article 19 that, without detriment to the provisions of Article 8 of the Fiscal Responsibility Law, the amount of PRF resources that will be used in 2020 and 2021 will correspond to the full difference between total spending on social welfare and pension obligations in the respective year and total spending on social welfare and pension obligations in 2008, where the latter is adjusted annually to reflect the annual increase in the consumer price index.[7]

After September 2021, the PRF will cease to exist if the withdrawals in a calendar year do not exceed 5% of the total expenditures associated with the state guarantee for old-age and disability basic solidarity pension benefits and old-age and disability solidarity pension contributions as established in the budget for that year.

Contributions to and withdrawals from the ESSF and PRF are formalized through Ministry of Finance decree.

7 On 1 October 2020, US$ 1,576 million was withdrawn from the PRF, which is over three times the average withdrawals from 2017 to 2019 (US$ 472 million).

04 INSTITUTIONAL FRAMEWORK

The institutional framework of the sovereign wealth funds is designed to facilitate decision making, performance execution, risk monitoring, and investment policy oversight. This provides an adequate separation of roles and responsibilities, which allows for accountability and operational independence in fund management. The entities that make up the institutional framework of the funds are the Ministry of Finance (Ministry or MoF) and its dependent bodies, the Financial Committee, the Central Bank of Chile, the external portfolio managers, the Treasury of Chile, and the custodian (see Figure 8).

4.1 Ministry of Finance and Dependent Bodies

The Fiscal Responsibility Law establishes that the sovereign wealth funds are the property of the Fisco of Chile and that the General Treasury of Chile (GTC) holds the legal title to the resources. The law authorizes the Finance Minister to make decisions on investing and managing the resources in the sovereign wealth funds, and it grants the Minister the authority to decide whether the operational management of the investment of the funds will be carried out directly through the GTC or delegated to the Central Bank of Chile or other external managers. Additionally, the Finance Minister created the Sovereign Wealth Funds Unit within the Ministry to support the activities associated with investing the funds. The Unit's functions include monitoring the performance of the fund managers, acting as Technical Secretariat for the Financial Committee, and preparing monthly, quarterly, and annual reports on the state of the sovereign wealth funds for submission to the National Congress and the general public.

The GTC is responsible for the fund accounting, for preparing the audited financial statements, and for monitoring compliance with investment limits. The Budget Office is responsible for budgetary issues related to the funds.

4.2 Financial Committee

The Financial Committee is an external advisory board, whose members have a vast experience in economic and financial areas. The Financial Committee was officially created through Decree Nº 621, issued by the Ministry of Finance in 2007, to advise the Minister on the analysis and design of the sovereign wealth fund investment strategy, in compliance with Article 13 of the Fiscal Responsibility Law.

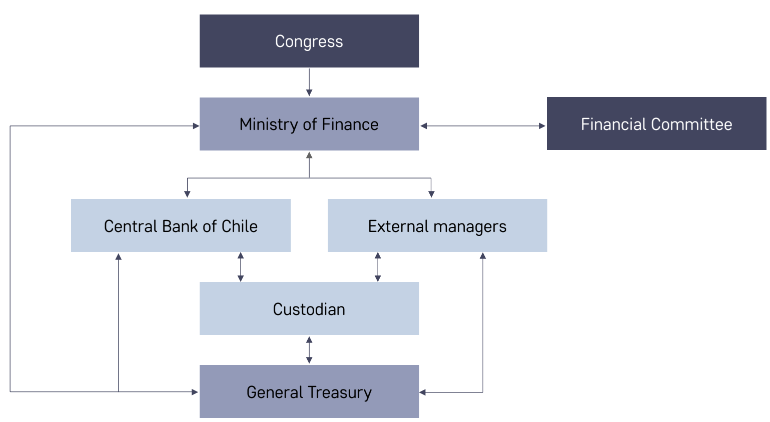
The main functions and powers of the Financial Committee are as follows:

> To advise the Finance Minister, when requested, on the long-term investment policy of the sovereign wealth funds, including the selection of asset classes, benchmarks, the acceptable range of deviation, eligible investments, and the inclusion new investment alternatives;

> To make recommendations to the Finance Minister regarding specific instructions on investment and custody, tender processes, the selection of fund managers, and the structure and content of reports;

> To provide an assessment, when requested by the Finance Minister, of the structure and content of the reports submitted to the Ministry of Finance by the agencies entrusted with the management and custody of the funds and to express an

F8 Institutional framework of the sovereign wealth funds



Source: Ministry of Finance

opinion on the quality of management and compliance with established investment policies;

> To provide an assessment of the structure and content of the quarterly reports prepared by the Ministry of Finance; and

> To advise the Finance Minister, when requested, on all matters relating to the investment of the funds.

In 2020, the Committee members were José De Gregorio Rebeco (Chairman), Cristián Eyzaguirre Johnston (Vice Chairman), Ricardo Budinich Diez, Jaime Casassus Vargas, Martín Costabal Llona, and Paulina Yazigi Salamanca.

For more information on the Finance Committee's activities in 2020, see their Annual Report, which is available online at https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds/financial-committee/annual-report.

4.3 Central Bank of Chile

The functions of the Central Bank of Chile (CBC) in the management of the Chilean sovereign wealth funds were established by Executive Decree Nº 1,383, issued by the Finance Ministry in 2006, which was later modified by Decree N° 1,618 of 2012.[8] Pursuant to these decrees, the CBC can perform the following functions in relation to the sovereign wealth funds at the request of the Finance Minister:

> To manage portfolios that include instruments that are eligible for the international reserves or other fixed-income instruments acceptable for CBC investments.

> To tender and delegate the management of all or part of the fiscal resources under its management to external managers in the name and on the account of the Fisco. As of 1 January 2014, the CBC can, at the request of the Ministry, carry out tenders for the selection of external managers of portfolios that are not under the management of the CBC.

> To open separate current accounts in the course of performing its role as fiscal agent.

> To maintain a register of transactions and other operations carried out in the management of the fiscal resources and, as of 1 January 2014, to reconcile the nominal daily positions of the portfolios that are not under its management.

> To contract the services of a custodian institution and to manage that contract.

> To supervise and evaluate the performance of appointed custodian institutions and external managers under the CBC's management.

> To report daily on investment positions, prepare monthly, quarterly and annual reports on the management of the portfolios, and to prepare an annual report on the services provided by the custodian.

> To make payments as needed in the performance of its role as fiscal agent.

The CBC, as fiscal agent, must comply with the investment guidelines established by the Ministry of Finance. These guidelines identify eligible assets, specify the strategic portfolio allocation, define the benchmarks for performance evaluation, and set investment limits and restrictions to control the sovereign wealth funds' risk exposure.

On the instruction of the Finance Ministry, the CBC contracted J.P. Morgan Chase Bank N.A. (J.P. Morgan) to serve as international custodian of the sovereign wealth fund investments. J.P. Morgan is also responsible for calculating the funds' returns, reporting on the investment portfolios and portfolio risk, monitoring compliance with investment limits, and performing some other middle office functions, which are complemented by Finance Ministry and GTC personnel.

8 Finance Ministry Decree 1,618, of 2012, established that the CBC will only manage asset classes that are also eligible for investment under the CBC's international reserve management guidelines.

4.4 External Portfolio Managers

The external managers are specialized portfolio investment companies that have been contracted to invest some asset classes to which the sovereign wealth funds have exposure. Like the CBC, the external managers must comply with the investment guidelines defined by the Ministry.

These companies are chosen through selection processes carried out by the CBC with support of international consultants and Ministry staff.

Table 1 presents the list of external portfolio managers that are investing part of the sovereign wealth funds as of year-end 2020 (see Box 2).

The Ministry and the GTC[9] are responsible for supervising the managers of the equity portfolio, the investment grade corporate bond (corporate bond) portfolio, and the high yield bond portfolio.[10] As of January 2019, the CBC supervises the managers of the U.S. agency mortgage-backed securities (U.S. agency MBS) portfolio.[11]

T1 List of External Managers by Fund

External Manager	Supervision	PRF	ESSF
BlackRock Institutional Trust Company, N.A. (BlackRock)	MoF/GTC	High yield bonds	
BNP Paribas Asset Management (BNP Paribas)	CBC	U.S. agency MBS	
Credit Suisse	MoF/GTC	Corporate bonds	
Mellon Investments Corporation (Mellon)	MoF/GTC	Equities	
Nomura Asset Management (Nomura)	MoF/GTC	High yield bonds	
UBS Asset Management (Americas) Inc. (UBS)	MoF/GTC	Equities Corporate bonds	Equities
Western Asset Management Company (Western Asset)	CBC	U.S. agency MBS	

Source: Ministry of Finance

9 In 2012, the CBC informed the Ministry that it wanted to reduce its duties with regard to the external portfolio managers of the sovereign wealth fund corporate bond and equity portfolios that supervised at that moment, such that, in the long run, the CBC would operate exclusively as a portfolio manager for the funds it was charged with investing, namely, the sovereign fixed-income and other government-related (semi-sovereign) bond portfolios. Thus, it asked the Ministry to write a new decree that would reduce its responsibility with regard to the external mandates. With the new decree, published in April 2013, the CBC ceased to perform, starting on 1 January 2014, a large share of its activities associated with tracking and monitoring the externally managed corporate bond and equity portfolios. For more information on the functions transferred from the CBC to the Ministry and the Treasury on 1 January 2014, see the 2013 Annual Report of the Sovereign Wealth Funds, available online at https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds/annual-report.

10 It includes sovereign and corporate securities that are not investment grade.

11 The CBC supervises the managers of the U.S. agency MBS portfolio because these instruments are eligible for investment of the Bank's international reserves.

BOX 2 External Managers Selection Processes[1]

Based on the Financial Committee's recommendation, in early March 2020 the Finance Ministry asked the CBC to initiate a process for selecting external fund managers that would be responsible for managing equity and corporate bond mandates in the PRF, taking into account that the current managers of these portfolios—namely, BlackRock and Mellon for equities and BlackRock and Allianz for corporate bonds—had been contracted in January 2012.

The process began in March when a Request for Information was sent to 136 firms that might be interested in participating. The list of firms contacted was drawn up using a database provided by consulting firm RVK, together with information from the CBC and the Finance Ministry on firms that had shown interest in participating in a previous selection process. A total of 14 firms expressed interest in the equity mandate and 15 in the corporate bond mandate. Based on the responses received, the CBC worked with RVK to narrow the field to eight for each asset class. These firms were then sent a Request for Proposal, aimed at measuring their portfolio management capacity in both qualitative and quantitative terms. The CBC and RVK evaluated the proposals received and chose four firms for each asset class, which were interviewed remotely by the Bank, RVK, and personnel from the Ministry.

Subsequently, each firm was rated on their Request for Proposal, interview, and a due diligence carried out by RVK, using a weighted point system, and the CBC chose the three firms with the highest score in each mandate. Details on the selection process and the resulting finalists were presented to the Financial Committee at its meeting in August 2020. The Committee gave its approval of both the selection process carried out by the CBC and the finalist firms. The CBC then proceeded to the final step in the selection process, reviewing the cost proposals to choose the two least expensive firms. The winning firms were Mellon and UBS for equities and Credit Suisse and UBS for corporate bonds.

Regarding equity managers in the ESSF, the Committee recommended that only one manager handle this asset class in the fund. Because the size of the fund—and therefore its equity portfolio—will continue to shrink, maintaining two managers would result in their portfolios falling below the minimum size required for efficient management. In this scenario, the Financial Committee recommended choosing one of the equity finalists from the PRF selection process, given that equity investments are identical in the two funds. Thus, in September 2020, the Finance Minister instructed the CBC to request a new cost proposal from UBS and Mellon, applicable solely to the ESSF, which resulted in UBS being selected based on their lower costs.

The transfer to the new portfolio managers was implemented on 1 December 2020 for both funds.

1 This section is a transcription of the Annual Report Financial Committee 2020, Chapter 3, Section C.

05 TRANSPARENCY

The government of Chile is committed to developing and improving all aspects of the management of the sovereign wealth funds, including areas related to the transparency of decisions and access to pertinent information on their administration. Therefore, systematic reports are regularly prepared and published on the funds' investments, contributions, withdrawals and market value. In addition, the web page and press releases are used to inform the public about the main issues covered in all Financial Committee meetings and the resulting recommendations, together with all important decisions made by the Finance Ministry on the management of the sovereign wealth funds.

Although by law the Finance Ministry is only required to prepare monthly and quarterly reports on the activity of the Chilean sovereign wealth funds, since 2008 the Ministry has also released an annual report containing detailed information on the funds' investment policy, performance and risks, as well as other activities associated with funds' management. Starting in 2011, the annual report includes the audited financial statements, prepared in accordance with international accounting standards.

The quality of the information included in the monthly and quarterly reports has also been improved. For example, since mid-2010 the data frequency on fund performance was increased from quarterly to monthly, and more information on the investment portfolios was made available.

To guarantee public access to all important information on the ESSF and the PRF, many of the reports are published in both Spanish and English and are available on the sovereign wealth funds' website.[12] Also, as of 2018, it is possible to subscribe to receive email notifications on the availability and updating of the monthly, quarterly, and annual reports that are published on the website.

Additionally, every two years the Ministry conducts a self-assessment of how well the Chilean sovereign wealth funds comply with each of the Santiago Principles.[13] The purpose of this exercise is to demonstrate to the public, both nationally and internationally, that the Chilean funds are managed in accordance with international best practices.[14]

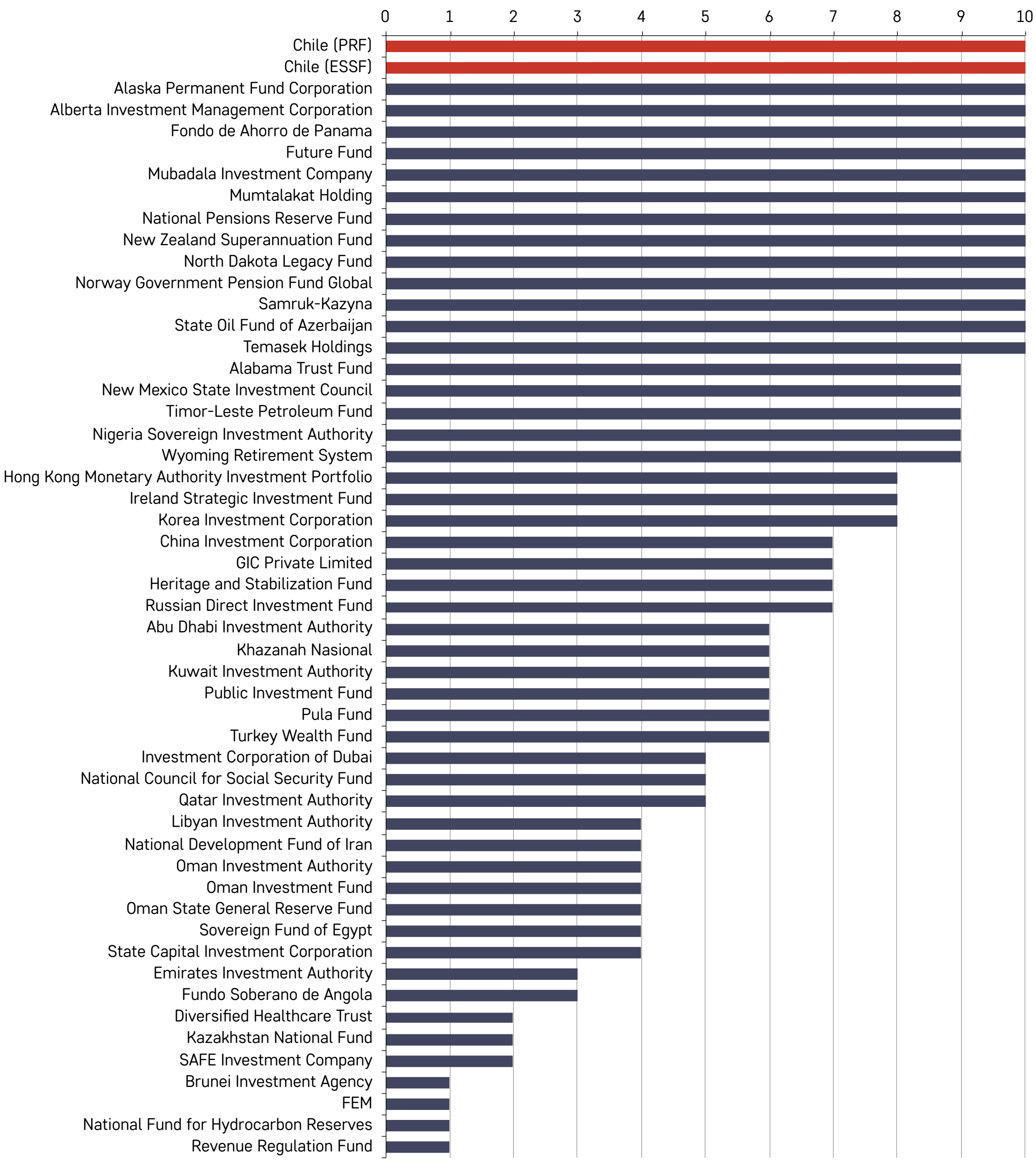
These efforts have been reflected in international recognition of the level of transparency of our funds. In particular, from the third quarter of 2009 to date, the Sovereign Wealth Fund Institute has awarded Chile the highest score on its Linaburg-Maduell Transparency Index, which measures the transparency of the main sovereign wealth funds (see Figure 8). In addition, the Chilean sovereign wealth funds are ranked among the most transparent funds in the world by the Peterson Institute for International Economics. The institute's report entitled "Sovereign Wealth Funds are growing more slowly, and governance issues remain" published in February 2021, included a new version of the SWF Scoreboard, which measures the transparency and accountability of the sovereign wealth funds analyzed. On this occasion, the ESSF and the PRF were placed in fourth and eighth place, with 92 and 89 points, respectively. The above represents an improvement in the score obtained by the ESSF and the PRF with respect to the previous version of Scoreboard, published in 2016.

12 https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds

13 The Santiago Principles are a series of principles and practices that have been accepted by the main countries with sovereign wealth funds. The purpose of the principles is to identify a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements as well as sound, prudent investment practices by the sovereign wealth funds (source: www.iwg-swf.org/pubs/esl/gapplists.pdf).

14 Prior self-assessments are available online at https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds/good-governance-practices-santiago-principles.

F9 Linaburg-Maduell transparency index[15]



Source: Sovereign Wealth Fund Institute

15 Information at fourth quarter of 2020.

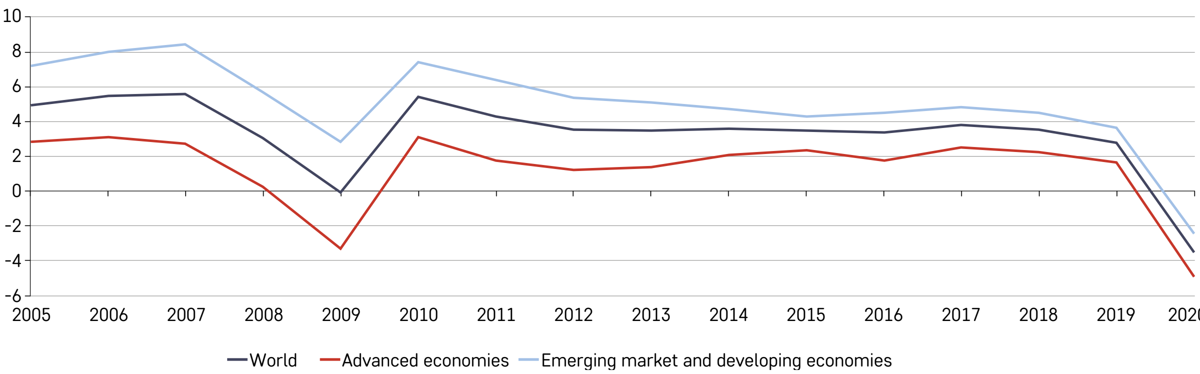
06 ANALYSIS OF THE INTERNATIONAL ECONOMY

To better understand the recent performance of the sovereign wealth funds, this section reviews the main events and trends in the world economy in 2020.

The global spread of COVID-19 and the lockdown measures and border closures implemented in many countries to contain and reduce the speed of contagion had a major impact on the world's population and economies. This required the implementation of extraordinary support measures by governments and central banks to stimulate domestic consumption and economic activity. In this scenario, according to estimates by the International Monetary Fund (IMF),[16] the world economy contracted 3.5% in 2020, following growth of 2.8% in 2019.

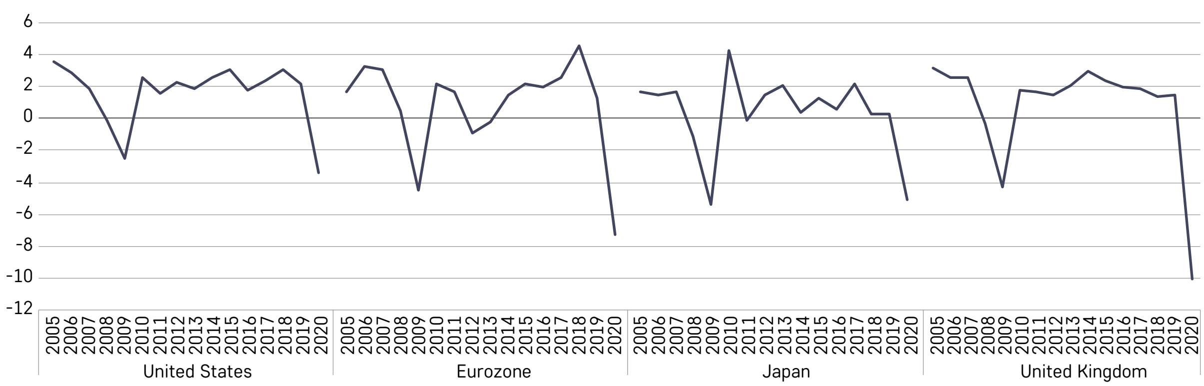
Under this new economic context, the advanced economies, on aggregate, saw growth slow from 1.6% in 2019 to –4.9% in 2020. The emerging and developing economies recorded a contraction of –2.4% in 2020, down from growth of 3.6% the previous year (see Figure 10). In the advanced economies, the sharp contractions were led by the United Kingdom and Japan, where estimated growth was –10.0% and –5.1%, respectively (see Figure 11). Among the emerging and developing economies, key shifts included the slowdown in China and the contraction in India and Brazil (see Figure 12).

F10 Real GDP growth, 2005 – 2020 (percent)



Source: International Monetary Fund

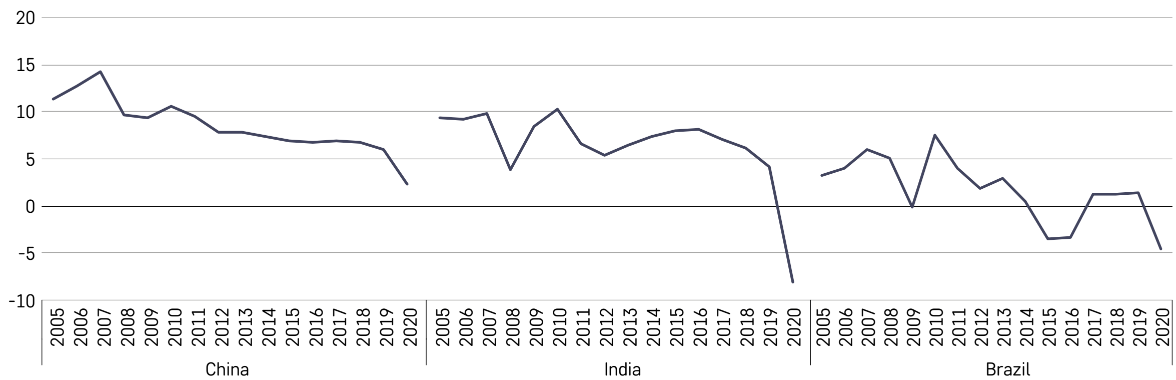
F11 Real GDP growth in specific developed economies, 2005–2020 (year-on-year change, percent)



Source: International Monetary Fund

16 The growth figures in this section are extracted from the IMF World Economic Outlook Database (October 2020 and the January 2021 update).

F12 Real GDP growth in specific emerging economies, 2005–2020 (year-on-year change, percent)



Source: International Monetary Fund

In the case of the United States, the economy is estimated to have contracted 3.4%, a major drop from the 2.2% growth of 2019. In December 2020, the unemployment rate rose to 6.7%, ending the downward trend recorded between 2010 and 2019 (see Figure 13). The nominal hourly wage at year-end was up 5.1% relative to the previous year (see Figure 14).[17] In the case of inflation, the general price index ended the year up 1.4% relative to 2019, below the 2.0% annual target of the U.S. Federal Reserve (Fed), while core inflation, which excludes food and energy prices, was 1.6% in the year (see Figure 15). In a context in which both the global and U.S. economy contracted sharply, especially in the second quarter, the Fed lowered its policy rate range (the federal funds rate) in 2020, first by 50 basis points and then by 100 basis points, to 0.0–0.25%.[18] Two fiscal stimulus plans were approved in 2020 in an attempt to contain the economic impact of the pandemic. The first was passed in March and totaled US$ 2.2 trillion; the second, passed in December, was for US$ 900 billion. They included direct transfers to households, small business loans, and an extension of unemployment benefits, among other measures.

The Eurozone went from annual growth of 1.3% in 2019 to an estimated contraction of 7.2% in 2020, reflecting the impact of the pandemic on the member economies. The biggest drops were in Spain and Italy, which recorded estimated growth rates of –11.1% and –9.2%, respectively. In Germany, GDP is estimated to have contracted by 5.4%. (see Figure 16). Inflation in the Eurozone ended the year at –0.3% (see Figure 17). Unemployment increased over the course of the year, ending at 8.3%, in a reversal of the downward trend recorded since 2013 (see Figure 18). In this scenario, to address the pandemic's impact on the economy, the European Central Bank (ECB) announced a new Pandemic Emergency Purchase Programme (PEPP) in March 2020,[19] with an initial fund of 750 billion euros, as a way to offset the risks to the monetary policy transmission mechanism and expectations of an economic contraction. The PEPP was increased by 600 billion euros in June and 500 billion euros in December, closing the year with a total of 1.85 trillion euros. In this context, the ECB held its deposit interest rates at –0.5%.

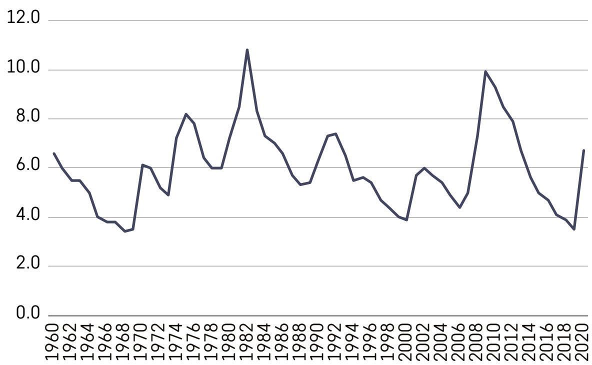
Japan experienced an important contraction in the year, from a small growth rate of 0.3% in 2019 to -5.1% in 2020. The Central Bank of Japan kept its short-term interest rate target at -0.1% and expanded its ten-year bond purchase program to almost 80 billion yens with the aim of holding ten-year rates around 0%.

17 The higher wages in April 2020 reflect the sharp reduction in low-wage jobs due to the pandemic.

18 The Fed lowered the fed funds rate twice in March 2020, first from 1.50–1.75% to 1.00–1.25% and then to 0.0–0.25%.

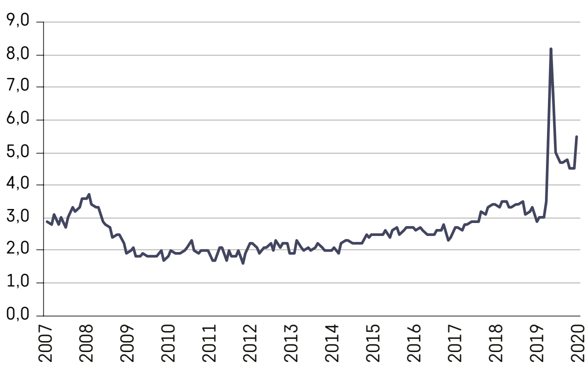
19 The PEPP is a temporary asset purchase program of private and public sector securities.

F13 U.S. unemployment rate, 1960 - 2020 (percent)



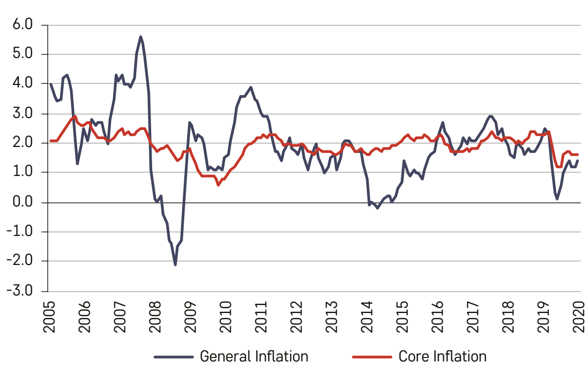
Source: Bureau of Labor Statistics

F14 U.S. wage growth, 2007 - 2020 (year-on-year change, percent)



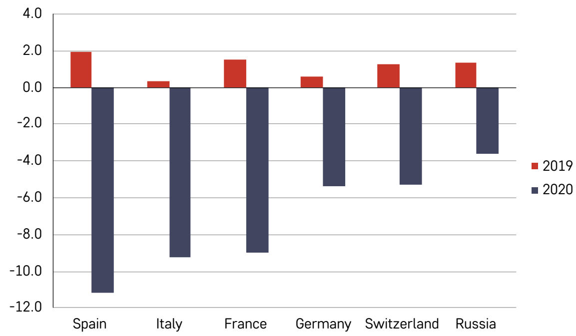
Source: Bloomberg

F15 U.S. consumer price index, 2005 - 2020 (year-on-year change, percent)



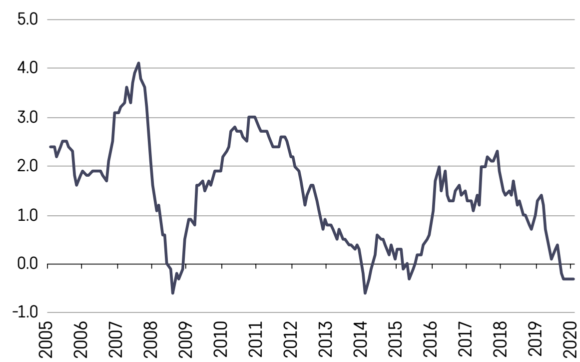
Source: Bloomberg

F16 Real GDP growth in selected Eurozone countries in 2020 (year-on-year change, percent)



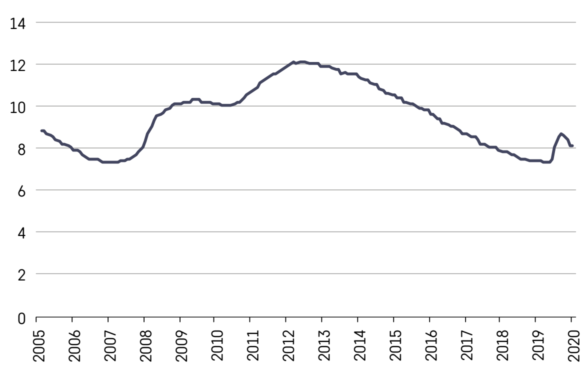
Source: International Monetary Fund. Estimates

F17 Eurozone annual inflation, 2005 - 2020[20] (percent)



Source: Bloomberg

F18 Eurozone unemployment rate, 2005 - 2020 (percent)



Source: Bloomberg

20 The data corresponds to the HICP.

China grew 2.3% in 2020, far below the 6.0% recorded in 2019. Despite the strong contraction in the first quarter (–6.8%) due to the closure of factories and industrial plants, the country was able to recover after quickly implementing a series of strict lockdown measures to control the spread of the virus, together with stimulus measures to inject funds to support consumers and businesses.[21]

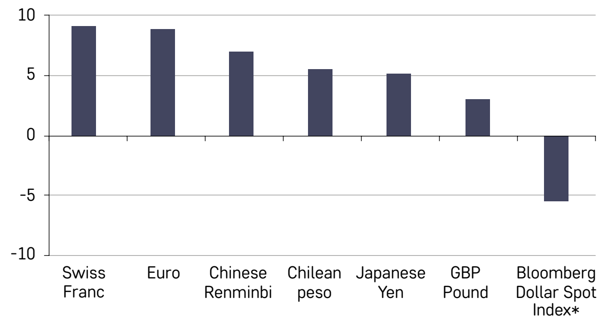
In this global context, the U.S. dollar weakened against the main world currencies by 5.45% (see Figure 19).[22] Among the investment currencies of the sovereign wealth funds, the Swiss franc and the euro appreciated the most (9.2% and 9.0%, respectively). The Chilean peso appreciated 5.6%.

In 2020, share prices fluctuated widely and returns were mixed for a selected sample of stock markets (see Figure 20). The best performing markets were South Korea, China, and the United States, which posted returns, measured in local currency, of 31.4%, 26.7%, and 19.2%, respectively. The indexes with the worst performance in relative terms, in local currency, were the United Kingdom, France, and Australia, with –16.1%, –6.0%, and –3.7%, respectively.

Equity market volatility (S&P 500), measured by the Chicago Board Options Exchange (CBOE) Volatility Index (VIX), was higher, on average, in 2020 than in the previous year. The maximum value was 82.7 which was registered in March (see Figure 21).

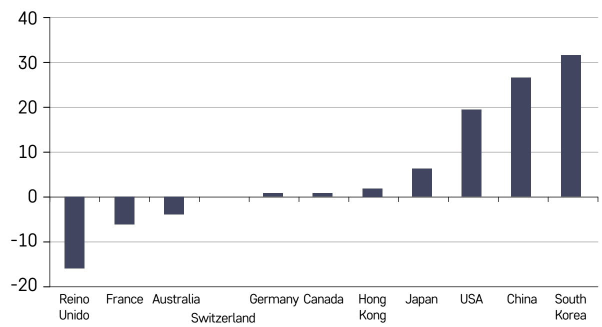
At year-end, two-year and ten-year nominal sovereign interest rates had decreased in the United States, Germany and Switzerland relative to year-end 2019, while in Japan increased slightly (see Figures 22 y 23).

F19 Selected currencies against the U.S. dollar in 2020[23] (year-on-year change, percent)



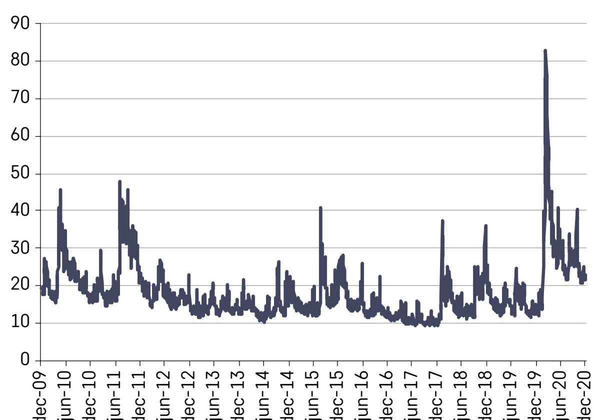
Source: Bloomberg

F20 MSCI equity indices returns in 2020 (percent, measured in local currency)



Source: Bloomberg

F21 Equity market volatility (VIX): S&P 500, 2009–2020 (in levels)



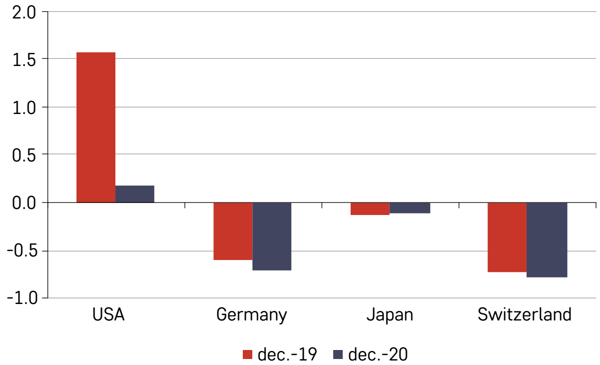
Source: Bloomberg

21 The People's Bank of China announced in May 2020 that it would ensure ample liquidity, using aggregate and structural policy measures, and that it would continue to deepen interest rate reforms to reduce the cost of loans. With regard to other economic stimulus measures, China focused on local government investment in infrastructure and increased production to supply goods to countries paralyzed by the pandemic.

22 The Bloomberg Dollar Spot Index is a tradable index that shows the value of the dollar relative to the world's ten main currencies. Index returns above zero indicate that the dollar appreciated against the basket of currencies, while negative returns reflect a depreciation of the dollar vis-à-vis the value of the basket.

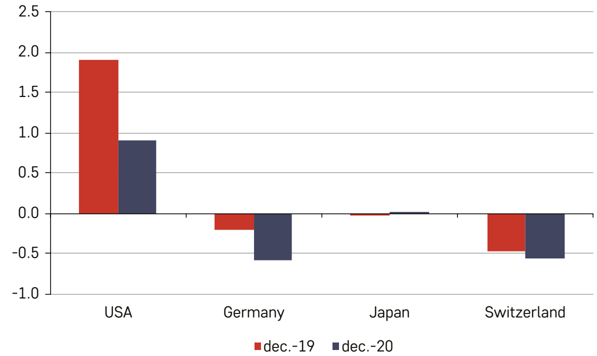
23 Negative performances indicate depreciation of the currency, while positive performance indicates appreciation.

F22 Internal rate of return (IRR) on two-year bonds in selected countries, 2019–2020 (percent)



Source: Bloomberg

F23 Internal rate of return (IRR) on ten-year bonds in selected countries, 2019-2020 (percent)



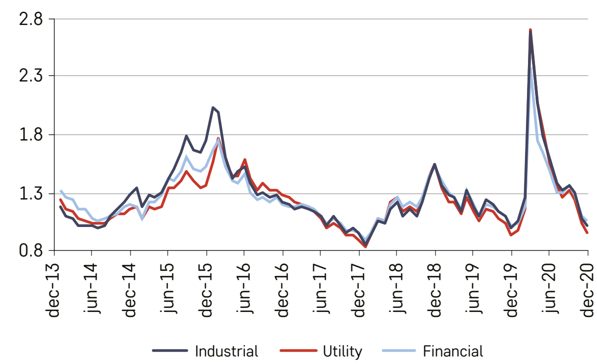
Source: Bloomberg

With regard to the corporate market in 2020, the spreads of the industrial, utility, and financial sectors in the Bloomberg Barclays Global Aggregate Corporate Index peaked in March at 2.7%, 2.4%, and 2.7%, respectively, although they closed the year at around the level of year-end 2019 (see Figure 24). High-yield bond spreads, in turn, decreased relative to 2019: as measured by the Bloomberg Barclays Global High-Yield Index, spreads spiked to 10.1% in March but declined to 4.1% by year-end, versus 4.8% at the close of 2019 (see Figure 25).

In 2020, investment-grade sovereign bonds and U.S. agency MBS recorded positive returns in local currency. Thus, the Bloomberg Barclays Global Aggregate: Treasury Bond Index (hedged) and the Bloomberg Barclays U.S. Mortgage-Backed Securities (MBS) closed the year with yields of 5.1% and 3.9%, respectively (see Figure 26). Investment-grade corporate bonds, represented by the Bloomberg Barclays Global Aggregate: Corporates Index (hedged), and high-yield bonds (sovereign and corporate), represented by the Bloomberg Barclays Global High-Yield Index (hedged), closed the year with returns of 8.3% and 5.7%, respectively (see Figure 27).

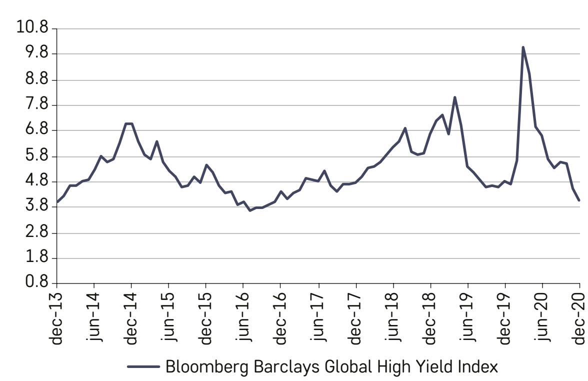
A comparison of average commodity prices in 2020 versus 2019 reveals price hikes in agriculture, industrial metals, and copper, which rose 14.9%, 14.8%, and 3.0%, respectively. In the energy sector, the average price dropped sharply by 46.3% (see Figure 28).

F24 Investment grade corporate spreads by industry, 2013 – 2020 (percent)



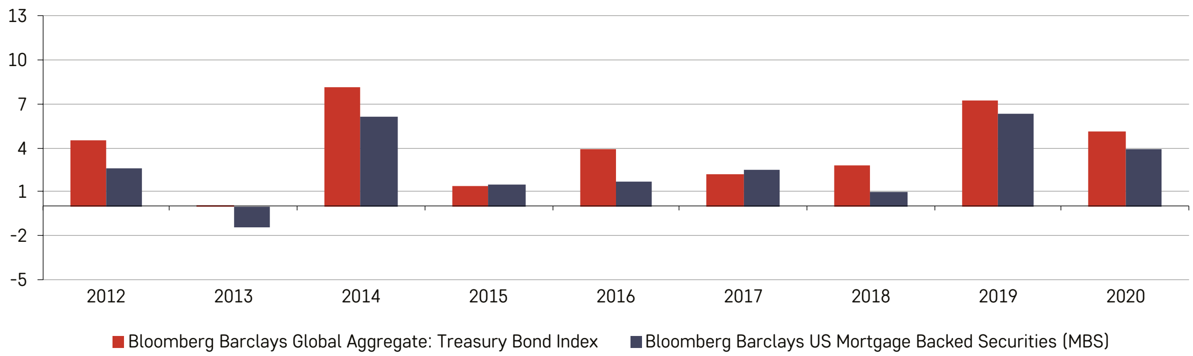
Source: Bloomberg Barclays

F25 High yield bonds spreads, 2013 – 2020 (percent)



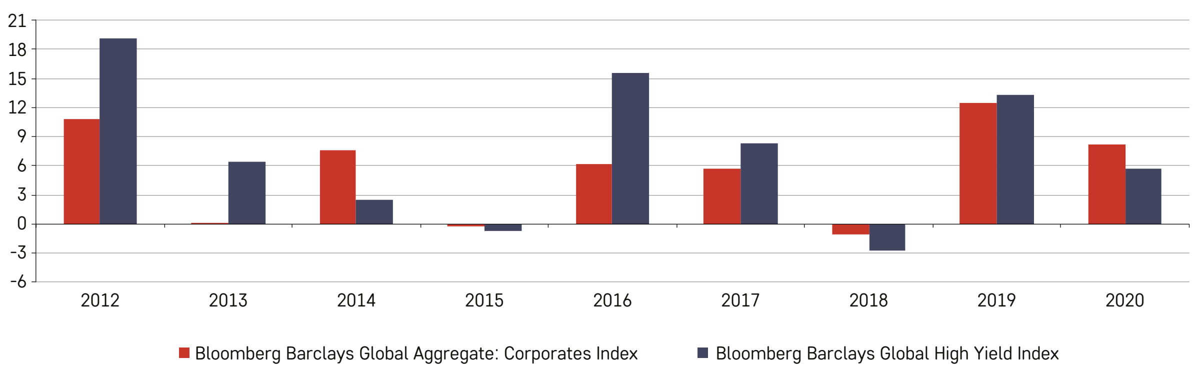
Source: Bloomberg Barclays

F26 Bloomberg Barclays: Global Aggregate Treasury bonds (hedged) and US MBS (hedged), 2012 - 2020 (percent, measured in local currency)



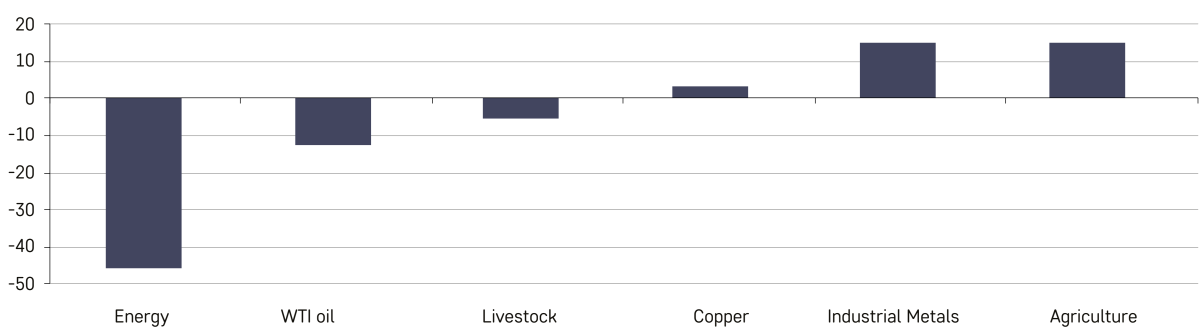
Source: Bloomberg Barclays

F27 Bloomberg Barclays Global: Aggregate Corporates (hedged) and High Yield (hedged), 2012 – 2020 (percent, measured in local currency)



Source: Bloomberg Barclays

F28 Standard & Poor's commodity index in 2020 (year-on-year change, percent)

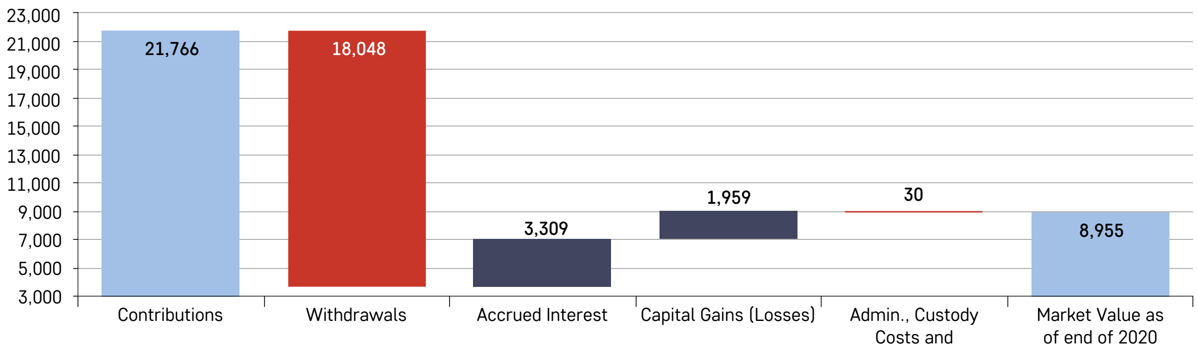


Source: Bloomberg

07 ECONOMIC AND SOCIAL STABILIZATION FUND

The market value of the ESSF at year-end 2020 was US$ 8,955 million. Since its inception on 6 March 2007, the fund has recorded total capital contributions of US$ 21,766 million, withdrawals of US$ 18,048 million, and net investment income of US$ 5,238 million. The latter breaks down into US$ 3,309 million in interest earned, US$ 1,959 million in capital gains, and US$ 30 million in management and custody costs (see Figure 29). In 2020, the fund's return in dollars (net of management costs) was 8.03%; the equivalent net return in pesos was 3.19%. Since the fund's inception, the annualized net return in dollars has been 2.98%; in pesos, 5.07%. The IRR in dollars was 7.85% in 2020 and 2.80% annualized since the creation of the fund.

F29 Change in market value, March 2007 – December 2020 (millions dollars)



Source: Ministry of Finance

7.1 Investment Policy[24]

The main elements of the ESSF investment policy are presented below.

Investment objectives: Consistent with the ESSF objectives, the investment policy aims to maximize the fund's accumulated value in order to partially cover cyclical reductions in fiscal revenues while maintaining a low level of risk. Its aversion to risk is reflected in the choice of an investment portfolio with a high level of liquidity and low credit risk and volatility, thereby ensuring the availability of the resources to cover fiscal deficits and avoiding significant losses in the fund's value.

Strategic asset allocation: The ESSF investment policy stipulates a strategic asset allocation of 15.5% in bank deposits, 76% in sovereign bills and bonds, 3.5% in inflation-linked sovereign bonds, and 5% in equities. On 1 April 2020, equities allocation was reduced from 7.5% to 5% compensated with small increments on the other asset classes (see Box 3). The fixed-income portfolio has a currency allocation of 40% in USD, 25% in EUR, 20% in JPY and 7.5% in CHF, expressed as a percentage of the total portfolio.

Portfolio benchmarks: A benchmark has been defined for each component of the strategic asset allocation, using a representative market index (see Table 2).

Management: The ESSF is largely managed by the CBC, which, acting as fiscal agent, manages the fixed-income portfolio (95% of total assets). The equity portfolio is managed by an external manager contracted by the CBC following a tender process.

Ex-ante tracking error:[25] The ex-ante tracking error is capped at 50 basis points for the fixed-income portfolio and 60 basis points for the equity portfolio.

Eligible currencies and issuers: Only currencies in the benchmark are eligible for investment. In the case of sovereign exposure, the issuers that make up the corresponding benchmark, the supranational institutions, agencies and eligible entities with an explicit government guarantee according to the eligibility criteria used by the CBC in the International Reserves and according to the pre-established limits set in the investment guidelines. With

24 Section prepared based on the Annual Report Financial Committee 2020.

25 The ex-ante tracking error is an estimate of the standard deviation of the difference between the portfolio and benchmark returns. The lower the ex-ante tracking error, the more passive the portfolio management.

BOX 3 Changes to the ESSF investment policies

In late 2019, the Financial Committee was informed by the International Finance Coordinator that the ESSF would record withdrawals of around US$ 4,000 million dollars between 2020 and 2021, equivalent to about 33% of the fund's value in 2019. In this context, the Committee considered that it would be prudent to reduce equity exposure from 7.5% to 5.0%, taking into account the following observations:

It is prudent and logical for an investor facing upcoming disbursements to maintain a less volatile portfolio than a longer-term investor.

The ESSF portfolio was designed for an indefinite horizon of withdrawals tied to uncertain, but not immediate macroeconomic factors.

In the scenario of expected withdrawals, the ESSF can be thought of as a set of two sub-portfolios:

The first contains expected disbursements in 2020 and 2021, in which the 7.5% equity share under the current strategic asset allocation is redistributed into the fixed-income component. This sub-portfolio accounted for approximately one-third of the ESSF in early 2020.

The remainder, equivalent to two-thirds of the fund, would continue to be invested according to the strategic asset allocation in place at the start of the year, which includes a 7.5% equity exposure.

Reducing the portfolio share of equities from 7.5% to 5.0% in the consolidated ESSF is equivalent to segregating the two sub-portfolios.

This change was implemented on 1 April 2020.

T2 Strategic asset allocation and benchmarks (percent)

Benchmark	USD	EUR	JPY	CHF	Equities	Total
1. Bank deposits	**5.25**	**6.25**	**4.00**	**0.00**	**0.00**	**15.50**
ICE BofA US Dollar 3 Month Deposit Bid Rate Average Index	5.25	—	—	—	—	5.25
ICE BofA Euro Currency 3 Month Deposit Bid Rate Average Index	—	6.25	—	—	—	6.25
ICE BofA Japanese Yen 3 Month Deposit Bid Rate Average Index	—	—	4.0	—	—	4.00
2. Treasury bills and sovereign bonds	**33.3**	**18.50**	**16.50**	**7.75**	**0.00**	**76.00**
2.1 Treasury bills	**6.00**	**7.25**	**6.25**	**0.00**	**0.00**	**19.50**
ICE BofA US Treasury Bills Index	6.00	—	—	—	—	6.00
ICE BofA Germany Treasury Bills Index	—	7.25	—	—	—	7.25
ICE BofA Japan Treasury Bills Index	—	—	6.25	—	—	6.25
2.2 Sovereign bonds	**27.25**	**11.25**	**10.25**	**7.75**	**0.00**	**56.50**
Bloomberg Barclays Global Aggregate - Treasury: U.S. 7-10 Yrs	27.25	—	—	—	—	27.25
Bloomberg Barclays Global Aggregate - Treasury: Germany 7-10 Yrs	—	11.25	—	—	—	11.25
Bloomberg Barclays Global Aggregate - Treasury: Japan 7-10 Yrs	—	—	10.25	—	—	10.25
Bloomberg Barclays Global Aggregate - Treasury: Switzerland 5-10 Yrs	—	—	—	7.75	—	7.75
3. Inflation-linked sovereign bonds	**2.50**	**1.00**	**0.00**	**0.00**	**0.00**	**3.50**
Bloomberg Barclays Global Inflation-Linked: U.S. TIPS 1-10 Yrs	2.50	—	—	—	—	2.50
Bloomberg Barclays Global Inflation-Linked: Germany 1-10 Yrs	—	1.00	—	—	—	1.00
4. Equities	**—**	**—**	**—**	**—**	**5.00**	**5.00**
MSCI All Country World Index* (Ex Chile, Unhedged with reinvested dividends)	—	—	—	—	5.00	5.00
5. Total	**41.00**	**25.75**	**20.50**	**7.75**	**5.00**	**100.00**

Source: Ministry of Finance

BOX 4 ESSF investment policy study

The ESSF investment policy was defined in 2012, based on recommendations from the Financial Committee and a study carried out by Eduardo Walker (2011). At that time, the currency mix was adjusted (with a reduction in the share of dollars and euros and an increase in yen), and the diversification of the investment portfolio was increased, adding sovereign instruments denominated in Swiss francs (7.5%) and a small equity share (7.5%). These changes were implemented in mid-2013. In addition, as described above, the equity share was reduced in 2020 from 7.5% to 5.0%, considering that the fund would record significant withdrawals in 2020 and 2021.

Based on best practices, which include a periodic review of investment policies, and the Committee's recommendation, the Minister commissioned a study from RVK, which has been contracted to support the Ministry on issues related to the investment of the sovereign wealth funds.

RVK made an initial presentation to the Committee at its April 2020 meeting. The team of presenters discussed possible fund objectives; suggested asset classes for consideration; explained the methodology for estimating return assumptions, volatility, and covariance between different asset classes; and provided their estimates of each. They also presented a preliminary exercise on the efficient frontier with different portfolios and Monte Carlo simulations to illustrate the methodology that would be used in a more advanced phase of the study to obtain the optimal portfolio. Finally, they explained how the fund's expected cash flows could be incorporated into the definition of the strategic asset allocation. Based on this presentation, the Financial Committee provided comments to the consultant for incorporation in future stages of the study. The Committee also suggested extending the deadline for the study in order to give the consultant a little more time to better assess the impact of Covid-19 in the assumptions that will be used.

Finally, in December 2020 the Financial Committee agreed with RVK's suggestion to reinitiate the study in January 2021, when the firm undertakes an annual review of the assumptions used in modeling each asset class. The study is expected to be finished in 2021

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regard to bank exposure, the fund can only be invested in banks with a risk rating of A-/A3 or higher (Standard & Poor's, Moody's and Fitch) and in accordance with the limits stipulated in the investment guidelines. For exposure to equities, only the issuers that make up the corresponding benchmark are eligible for investment, however the investment in exchange traded funds, mutual funds, American depositary receipts, global depositary receipts, and futures are also allowed.

Leveraging and the use of derivatives: Leveraging is not allowed.[26] The use of derivatives is defined according to the type of portfolio:

- Fixed-income portfolio: The use of forwards and swaps is only allowed for foreign currency hedging. The total notional amount cannot exceed 4% of the fixed-income portfolio.

- Equity portfolio: The use of forwards and swaps is only allowed for foreign currency hedging. In addition, the use of equity futures is allowed for hedging purposes or to gain exposure to part of the benchmark. The aggregate nominal amount of the futures, forwards and swaps cannot exceed 10% of the portfolio of each external manager.

Rebalancing policy: The rebalancing policy will be revised in 2021 to take into account both the reduction of the equity share in the strategic asset allocation defined in 2020 and the investment policy study, which could modify the strategic allocation (see Box 4). Any time there is a withdrawal or contribution, the portfolio must converge to the target allocation defined for the fund.

Investment guidelines: The investment guidelines, which are published in Spanish and English and available online at the Ministry of Finance website,[27] provide additional information on the ESSF investment policy, such as special restriction on investment in specific countries and other relevant limits, as well as other aspects of portfolio management.

7.2 Market Value

The market value of the ESSF at year-end 2020 was US$ 8,955 million, versus US$ 12,233 million at year-end 2019. The decrease in value of the ESSF was mainly due to withdrawals of US$ 4,090 million, partially offset by net investment gains of US$ 812 million. Since its inception on 6 March 2007, the ESSF has recorded capital contributions of US$ 21,766 million and withdrawals of US$ 18,048 million and has generated net financial gains of US$ 5,238 million (see Tables 3 and 4).

T3 Contributions and withdrawals (millions of dollars)

Period	Contribution	Withdrawals
2007	13,100	—
2008	5,000	—
2009	—	9,278[(a)]
2010	1,362	150[(b)]
2011	—	—
2012	1,700	—
2013	603	—
2014	—	499[(c)]
2015	—	464[(c)]
2016	—	462[(c)]
2017	—	—
2018	—	542[(c)]
2019	—	2,564[(d)]
2020	—	4,090[(e)]
Total	**21,766**	**18,048**

(a) US$ 837 million of the withdrawals were used to finance the full contribution to the PRF. US$ 441 million were used to pay public debt and the rest to finance a fiscal stimulus plan, and the fiscal deficit.
(b) The withdrawal was used to finance part of the contribution to the PRF.
(c) The withdrawal was used to finance the full contribution to the PRF.
(d) US$ 564 million was used to finance the contribution to the PRF, and the rest to finance the fiscal deficit.
(e) US$ 1,090 million was used to pay off the public debt and the rest to finance the fiscal deficit.

Source: Ministry of Finance

26 Leveraging is the purchase of assets through debt.

27 https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds/economic-and-social-stabilization-fund/investment-policy.

T4 Decomposition of market value (millions of dollars)

Decomposition	2012	2013	2014	2015	2016	2017	2018	2019	2020	Since inception[a]
Starting market value	13,157	14,998	15,419	14,689	13,966	13,772	14,739	14,134	12,233	0
Contributions	1,700	603	0	0	0	0	0	0	0	21,766
Withdrawals	0	0	-499	-464	-462	0	-542	-2,564	-4,090	-18,048
Accrued interest	202	184	188	167	162	153	167	171	95	3,309
Capital gains (losses)	-60	-364	-417	-423	109	817	-228	495	719	1,959
Management, custody and other costs	-1.3	-2.2	-2.7	-2.9	-2.6	-2.8	-2.8	-3.2	-2.9	-29.5
Net financial gains	141	-182	-231	-259	268	967	-63	663	812	5,238
Ending market value	14,998	15,419	14,689	13,966	13,772	14,739	14,134	12,233	8,955	8,956

(a) The ESSF was created by combining into a single fund the additional fiscal revenue stabilization resources specified in Decree Law Nº 3,653 of 1981 and the Copper Revenue Compensation Fund; it received its first contribution on 6 March 2007.

Source: Ministry of Finance

7.3 Performance

In 2020, the return in dollars, net of management costs, was 8.03%. This was due to equities returns of 15.87% in the year and the positive effect of the 7.94% return on the fixed income portfolio, which represents 94.8% of the fund. The return of this last portfolio is explained by the return in local currency, 3.44%, and by the effect of the exchange rate, 4.35%.[28] The equivalent net return in pesos in the year was 3.19%, explained by the appreciation of the Chilean peso against the dollar in the year. Since 1 April 2007, the annualized net return was 2.98% in dollars and 5.07% pesos (see Table 5 and Figure 30). The IRR in dollars was 7.85% in 2020 and 2.80% annualized since the creation of the fund.

Figure 31 shows the fund's quarterly net return in dollars in 2020, including the total return as well as the return on the fixed-income portfolio, disaggregated into the local currency return and

T5 Net returns[29] (percent)

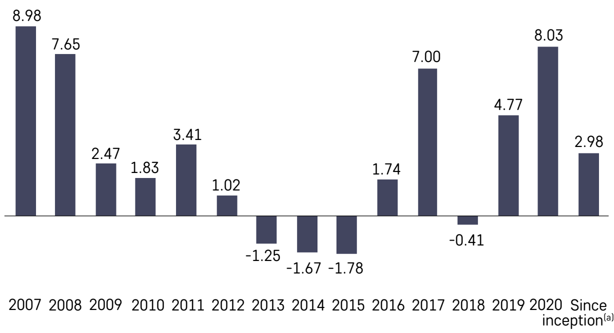
Returns [a]	2020	Last 3 years	Last 5 years	Since inception	Inception date
Fixed-income	**7.94**	**3.73**	**3.57**	**2.66**	**01-apr-07**
Local currency	3.44	2.62	2.02	2.61	01-apr-07
Exchange rate	4.35	1.08	1.53	0.05	01-apr-07
Equities	**15.87**	**10.09**	**12.40**	**10.27**	**21-aug-13**
Return in USD	**8.03**	**4.07**	**4.18**	**2.98**	**01-apr-07**
Exchange rate return, CLP	-4.48	4.95	0.11	2.03	01-apr-07
Return in CLP	**3.19**	**9.22**	**4.29**	**5.07**	**01-apr-07**

Source: Ministry of Finance

28 The performance of the ESSF fixed income portfolio is mainly affected by the interest rates and exchange rates. The level and movements of interest rates largely determine the value of financial instruments in their currency of issue (local currency). However, since this portfolio is invested in dollars, euros, yen and Swiss francs, and that the return on the portfolio is measured in dollars, the parity of this currency with respect to the others impacts its result (exchange rate effect).

29 Returns are presented in dollars unless otherwise indicated.

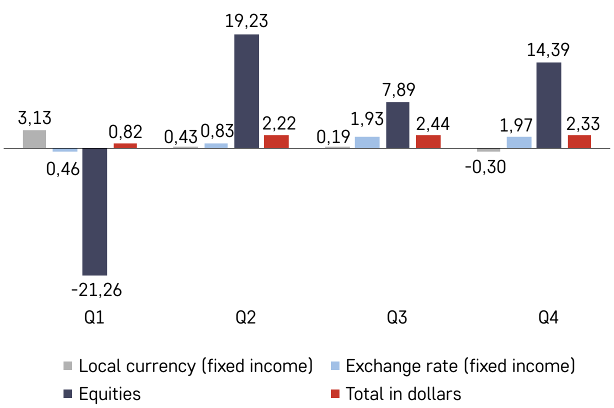
F30 Annual net returns in dollars (percent)



(a) Calculated from 1 April 2007.

Source: Ministry of Finance

F31 Net quarterly returns in 2020 (percent)



Source: Ministry of Finance

F32 Return index in dollars (31 March 2007 = 100)

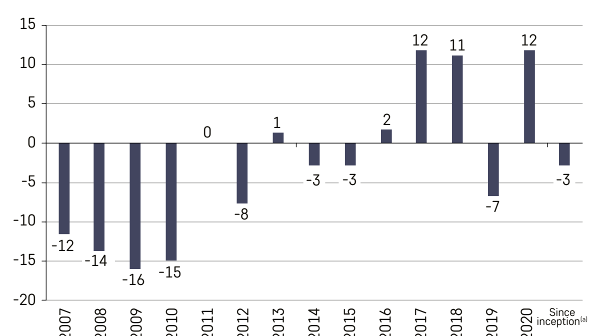
Source: Ministry of Finance

the exchange rate effect,[30] and on the equity portfolio. In the first quarter, the ESSF return was the lowest of the year with 0.82%, explained by the performance of the fixed-income portfolio in local currency (3.13%), partially offset by the return of the equity portfolio, whose return was -21.26%. In the second quarter, the fund recorded a return in dollars of 2.22%, due to the good performance of the equity portfolio and fixed-income. The third quarter posted the highest return of the year, 2.44%, explained by the positive exchange rate effect in the fixed-income portfolio and the positive return on the equity portfolio. The fourth-quarter return, 2.33%, was mainly due to a positive exchange rate effect in the fixed-income portfolio, 1.97%, and the return on the equity portfolio, 14.39%.

The fund's investment performance can be illustrated using an index of the portfolio's daily returns. Taking a starting value of 100 on 31 March 2007, the index reached 149.7 at year-end 2020 (see Figure 32).

In 2020, the performance of the ESSF, measured as the difference between the portfolio return and the benchmark return, was positive and 12 basis points. Since 1 April 2007, the annualized return of the ESSF was 3 basis points below the benchmark (see Figure 33).

F33 Net returns against the benchmark (basis points)



(a) Calculated from 1 April 2007.

Source: Ministry of Finance

30 See footnote 28.

By asset class, the return on the fixed-income portfolio in 2020 was 4 basis points above the benchmark, while that of the equity portfolio was 97 basis points below (see Table 6). The negative performance of the equity portfolio relative to the benchmark in 2020 was mainly due to the impact of withdrawals in the year. When the months in which withdrawals were made are excluded (April, August and December), the excess return is –28 basis points, which is within the expected range given the impact of taxes on the excess return.[31] Finally, the excess return since the inception of the portfolio was –3 basis points. This performance has mainly been influenced by the fixed-income portfolio, an asset class that has been included in the investment portfolio since the creation of the ESSF, and only in part by the equity portfolio, where exposure began in August 2013.

T6 Net returns against the benchmark, by asset class[32] (basis points)

Asset class	2020	Last 3 years	Last 5 years	Since Inception	Inception date
Fixed-income	4	6	5	-3	01-apr-07
Equities	-97	-58	-48	-22	21-aug-13
Total portfolio	**12**	**6**	**6**	**-3**	**01-apr-07**

Source: Ministry of Finance

7.4. Portfolio Allocation

As of December 2020, the allocation of the ESSF by asset class comprised US$ 6,699 million in Treasury bills and sovereign bonds, US$ 312 million in inflation-linked sovereign bonds, US$ 1,481 million in bank time deposits and US$ 463 million in equities (see Table 7).

By country, the sovereign portfolio is invested in the United States, Japan, Germany, and Switzerland, where investments in

31 In general, the equity portfolio return is lower than the benchmark because the latter does not take into account the payment of taxes (for example, on dividends), whereas the portfolio return does. This effect is approximately 2 basis points each month.

32 The total excess return of the portfolio is calculated as the difference between the weighted sum of the returns of each asset class of the portfolio and the benchmark.

T7 Asset class allocation, 31 December 2020 (millions dollars and percent of the portfolio)

Exposure	Country	US$ million	% of Total
Sovereign	United States	2,514	28.1
	Japan	1,832	20.5
	Germany	1,651	18.4
	Switzerland	702	7.8
	Total[(a)]	**6,699**	**74.8**
Inflation-linked sovereign	United States	223	2.5
	Germany	89	1.0
	Total	**312**	**3.5**
Banking	Japan	366	4.1
	France	222	2.5
	United Kingdom	187	2.1
	Singapore	176	2.0
	Denmark	174	1.9
	United Arab Emirates	154	1.7
	Spain	137	1.5
	China	39	0.4
	Germany	25	0.3
	Others[(b)]	0	0.0
	Total	**1,481**	**16.5**
Equities	United States	276	3.1
	Japan	31	0.3
	China	19	0.2
	United Kingdom	18	0.2
	Switzerland	13	0.1
	Canada	13	0.1
	France	13	0.1
	Germany	11	0.1
	Australia	8	0.1
	South Korea	8	0.1
	The Netherlands	7	0.1
	Hong Kong	6	0.1
	Ireland	6	0.1
	Sweden	4	0.0
	Denmark	3	0.0
	Brazil	3	0.0
	Spain	3	0.0
	Italy	3	0.0
	South Africa	2	0.0
	Others[(b)]	15	0.2
	Total	**463**	**5.2**
	Total Fund	**8,955**	**100.0**

(a) As of June 17, 2015, may include supranationals, agencies and state own companies with explicit guarantees.

(b) It includes cash, cash equivalents, and unsettled transactions.

Source: Ministry of Finance

the United States account for almost 41% of the portfolio and around a third of the total value of the ESSF. Bank deposits, as of year-end, are invested in banks from a number of countries, with exposures of over US$ 170 million in Japan, France, United Kingdom, Singapore and Denmark. These bank investments are time deposits in eligible banks selected by the CBC in accordance with the Finance Ministry's investment guidelines. Table 8 presents the breakdown of banks in which term deposits were held at the close of 2020. The equities portfolio at year-end was concentrated in the United States (around 60%) and, to a lesser extent, in Japan, China, United Kingdom, Switzerland, Canada, France, Germany as well as 41 countries with investments of less than US$ 10 million each. The equity distribution by country tracks the country allocation in the benchmark.

T8 Banks with deposits, 31 December 2020

Banks	Country
DBS Bank Ltd	Singapore
First Abu Dhabi Bank (FAB)	United Arab Emirates
Bred Banque Populaire	France
The Chiba Bank, Ltd.	Japan
Lloyds Bank Corporate Markets Plc	United Kingdom
The Shizuoka Bank Ltd	Japan
Banco Bilbao Vizcaya Argentaria SA	Spain
Nykredit Bank A/S	Denmark
Danske Bank Aktieselskab	Denmark
Societe General	France
Sumitomo Mitsui Banking Corporation	Japan
Bank of China (Hong Kong) Ltd.	China
Standard Chartered Bank	United Kingdom
Landesbank Baden-Württemberg	Germany

Source: Ministry of Finance

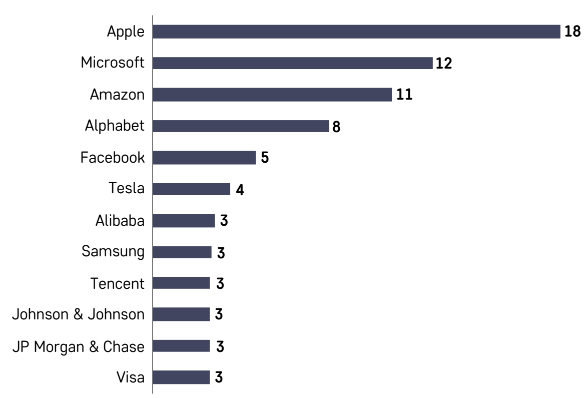
Figure 34 shows the main corporate exposures in the ESSF equity portfolio at year-end 2020. The exposure to different issuers depends primarily on the share of each firm in the benchmark, due to the fund's passive investment strategy.

Relative to the benchmark, the asset allocation of the ESSF at year-end had an overweight in bank deposits with a participation of around 16.5%, at the expense of Treasury bills and sovereign bonds which was 74.8%. This is due to the fact that the CBC, which is responsible for the ESSF fixed-income portfolio, prioritized investments in time deposits over Treasury bills due to the low—or even negative—interest rates in some of the countries where the ESSF is invested. Exposure to inflation-linked sovereign bonds is in line with the benchmark, with a share of 3.5% of the portfolio. Finally, there is a small overexposure to equities of approximately 0.2%, mainly due to the positive return recorded by this asset class in the year (see Figures 35 and 36).

With regard to the currency allocation, at year-end the portfolio was aligned with the benchmark (see Figure 37).

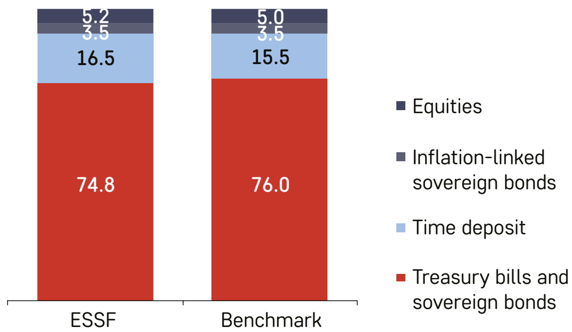
The credit quality of the sovereign investments included in the ESSF is directly related to the benchmark allocation. That is, the distribution by credit rating depends on the shares established in the benchmark for the United States, Germany, Japan, and Switzerland. Bank exposure depends on the CBC's assessment of the risk-return ratio of each bank at the time the deposit was made (see Table 9).

F34 Main exposures to companies (millions of dollars)



Source: Ministry of Finance

F35 Asset allocation, 31 December 2020 (percent of portfolio)



Source: Ministry of Finance

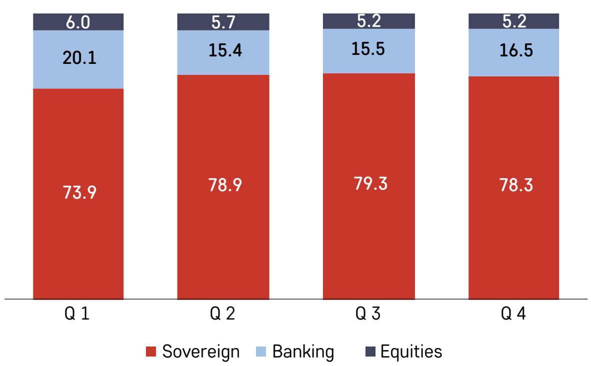
T9 Credit risk exposure, 31 December 2020 (percent of the fixed-income portfolio)

Issuer	Credit Rating								
	AAA	AA+	AA	AA-	A+	A	A-	Others[a]	Total
Sovereign	61.0	0.0	0.0	0.0	21.6	0.0	0.0	0.0	82.6
Bank	0.0	0.0	0.0	3.9	4.5	3.7	5.4	0.0	17.4
Total	61.0	0.0	0.0	3.9	26.0	3.7	5.4	0.0	100.0

(a) It includes cash, cash equivalents, and unsettled transactions.

Source: Ministry of Finance

F36 Risk allocation in 2020 (percent of portfolio)



Source: Ministry of Finance

F37 Currency allocation on 31 December 2020 (percent of portfolio)

Source: Ministry of Finance

7.5. Management Costs and Income from the Securities Lending Program

The total cost of managing the ESSF in 2020 included US$ 1,305,133 for custody services, US$ 1,101,679 for CBC management services, and US$ 385,946 for external management services. In the year, there were also payments associated with other services for a total of US$ 70,819. Total management costs were equivalent to 3 basis points of the average size of the fund in 2020. Income from the securities lending program was US$ 908,754, which offset 32% of the total management costs of the ESSF (see Table 10).

T10 Management and custody costs and income from the securities lending program (dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Custody (J.P. Morgan)	530,901	1,379,420	1,302,645	1,295,073	1,113,997	1,186,530	1,144,991	1,284,856	1,305,133
Management (CBC)	768,014	789,277	802,573	957,404	935,495	932,360	1,153,147	1,189,801	1,101,679
External Managers	-	-	581,047	622,359	454,957	613,880	442,031	625,927	385,946
Others[a]	-	-	-	-	107,143	71,017	74,988	66,286	70,819
Total costs	**1,298,915**	**2,168,697**	**2,686,265**	**2,874,836**	**2,611,593**	**2,803,787**	**2,815,156**	**3,166,870**	**2,863,577**
Total costs in basis points[b]	1	1	2	2	2	2	2	2	3
Securities lending program	**2,914,649**	**2,654,248**	**2,332,681**	**2,563,815**	**3,440,007**	**3,743,103**	**2,057,520**	**1,597,618**	**908,754**

(a) Includes payments for consulting, auditing, tax advisory services, among others.
(b) Calculated Based on the average fund's size for the year.
Source: Ministry of Finance

7.6. Main Financial Risks

The ESSF is exposed to various types of risk as a result of the fund's investment in different financial instruments, including market risk, credit risk, liquidity risk and operational risk. Most of these risks are directly related to the asset and currency allocations and the choice of benchmarks, especially given the passive approach of the fund's investment policy. This section describes each risk in detail, together with the control mechanisms set up for controlling them.

7.6.1. Market Risk

The market value of the financial instruments in the ESSF investment portfolio can be exposed to possible losses as a result of changes in market conditions. In the case of the ESSF, the main variables affecting market value are interest rates, exchange rates, credit spread risk, and changes in stock values.

Interest rate risk

Interest rate movements directly affect the price of fixed-income instruments. A rate increase causes a drop-in market value, while a decrease produces a gain. The parameter that measures a portfolio's sensitivity to a parallel movement of the rate structure is duration: the longer the portfolio duration, the greater the risk of loss in response to an interest rate hike.

In the case of the ESSF, the interest rate risk that is tolerated in the benchmark is defined based on the duration of the individual indexes that make up the benchmark. This risk is monitored controlling that the portfolio duration stays near the benchmark duration. At year-end 2020, the benchmark duration and the actual duration were approximately 4.9 and 5 years, respectively.

Foreign exchange risk

Because the fund's performance is measured mainly in dollars, the value of investments in other currencies is affected by movements in the corresponding exchange rates. Most of the portfolio's fixed-income investments are denominated in dollars, euros, yen and Swiss francs, while the equity portfolio includes a small exposure to an additional 23 currencies. At the close of 2020, the foreign currency exposure, measured in dollars, deriving from investments in euros (26.0%), yen (20.8%), Swiss francs (7.9%), pounds sterling (0.2%) and other currencies with a minor share (0.8%).

Credit spread risk

The market value of the instruments in the ESSF fixed-income portfolio is exposed to changes in the market's perception of the solvency of the issuers of those instruments. In general, if an issuer's solvency worsens, the credit spread on the instruments issued by that entity widens, and the market value of the instruments drops.

This risk is low in the ESSF, because the fixed-income portfolio includes mainly sovereign issues from the United States, Japan, Germany, and Switzerland, for which the lowest credit rating is A+ (Japan). Finally, the portfolio also includes bonds issued by institutions with an explicit government guarantee, agencies, and supranational entities with a high credit rating.

Equity risk

The ESSF is exposed to the risk of losses from a decrease in the price of the equities included in its portfolio. The intrinsic risk of an individual equity is eliminated by investing in a highly diversified portfolio. The fund's tolerance for equity risk is defined as the systemic risk associated with the equity index used as the benchmark (the MSCI ACWI excluding Chile). At the close of 2020, equities accounted for 5.2% of the ESSF.

Volatility, VaR, and tracking error

Some indicators that are commonly used to monitor market risk in absolute terms are return volatility,[33] the minimum and maximum returns, and the Value-at-Risk (VaR). In the case of the ESSF, the annual volatility of the fund was 3.50% in 2020, versus 4.84% since 1 April 2007. Since the fund's inception, the highest monthly return was 5.44% (in December 2008), while the lowest was -3.87% in November 2016. The highest quarterly return was 7.31% in the first quarter of 2008; the lowest was -6.45% in the fourth quarter of 2016 (see Table 11). At year-end 2020, the VaR, which quantifies potential losses in a given period with a given probability, was 4.5% at a one-year horizon, with a 95% confidence level.[34]

T11 Historical minimum and maximum returns (percent)

Range	Month	Quarter
Highest return	5.44 (Dec-08)	7.31 (I 08)
Lowest return	-3.87 (Nov-16)	-6.45 (IV 16)

Source: Ministry of Finance

Volatility can also be measured relative to the benchmark in order to assess how close the portfolio is to the stipulated benchmark. At the close of 2020, the ex-ante tracking error of the ESSF was 3 basis points, while the ex-post tracking error was 8 basis points,[35] consistent with a passive management strategy.

7.6.2. Credit Risk

The issuer of a fixed-rate instrument could enter into default if a liquidity or capital shortage makes it unable to meet its financial obligations. The funds' credit risk thus rises in response to an increase in the default probability of any of their host institutions or governments. The ESSF limits exposure to this type of risk differently depending on whether it is sovereign or bank risk. For sovereign exposure, investment is confined to the United States, Germany, Japan and Switzerland, all of which have a sovereign rating of A+ or higher, and securities issued by eligible entities with an explicit government guarantee, supranational institutions and agencies with a high credit rating, which are selected based on the eligibility criteria used by the CBC for investing its international reserves. Bank investment, in turn, is subject to minimum credit ratings and maximum investments by institution (see Table 12). The credit risk associated with forward and swap operations is contained through minimum credit ratings for counterparties and maximum exposure to each one: eligible counterparties must have a minimum rating of A- from at least two of the international credit rating agencies (Fitch, Moody's and Standard & Poor's), and investment in any given counterparty is capped at 1% of the portfolio managed by the CBC and up to 3% in the case of an external manager. Furthermore, forward and swap operations cannot exceed a given percentage of the portfolio under management: for the portfolio managed by the

33 Volatility is the standard deviation of the returns; it indicates the degree of dispersion of returns around the average. For this indicator a range of 3 years of data is taken.

34 This means that 95% of the time, the losses in the fund over a horizon of one year would not exceed 4.5% of its nominal value in dollars.

35 The ex post tracking error is the standard deviation of the historical monthly excess returns recorded from 31 December 2017 through 31 December 2020.

CBC, forwards and swaps cannot exceed 4% of the portfolio; for the externally managed portfolios, forwards, swaps and futures cannot exceed 10% of each manager's portfolio.

The risk arising from the execution of a transaction—that is, the losses that could occur if the counterparty does not deliver the securities purchased or pay for the securities sold—is mitigated through the use of delivery versus payment (DVP) transactional or post-transactional systems, in which payment is conditional on simultaneous delivery. Finally, the risk of holding the funds' securities at a custodian institution is addressed by registering them in the name of the Republic of Chile and keeping them in separate accounts.

7.6.3. Liquidity Risk

Liquidity risk arises from the losses that would occur from the early sale of securities in order to cover cash-flow needs. This risk is exacerbated during times of economic uncertainty, when some investments could be substantially discounted due to lack of demand or market depth.

In the ESSF, this risk is mitigated by maintaining a high percentage of liquid short-term assets. As of 31 December 2020, money market instruments accounted for 34.9%, which is in line with the 35% proposed under the current strategic allocation. Liquid assets include Treasury bills, certificates of deposit and time deposits, all of which are less sensitive to interest rate fluctuations. In addition, the market for Treasury bills and certificates of deposit allows for quick sale without heavy penalization, and time deposits provide liquidity as they reach their maturity date.

7.6.4. Operational Risk

Operational risk arises from the losses that would occur from mistakes in internal processes and systems, external events or human error. Examples of operational risk include transaction errors, fraud, failure to comply with legal obligations (contracts), etc.

This risk has been mitigated by delegating a large share of the operational management of the funds to the CBC, thereby taking advantage of the infrastructure that the CBC uses to manage its international reserves. The CBC has also set up a series of controls, including the division of responsibilities and functions, software in line with market quality standards, backup systems to ensure the operational continuity of the funds and internal and external auditing processes to assess the effectiveness of the existing controls.

In the case of the external portfolio managers, operational risk has been mitigated by contracting managers with vast experience in the field, a strong reputation in the market and robust management systems. Furthermore, the managers' performance is monitored, and the contract can be terminated in the event of dissatisfaction with some aspect of the services provided. Starting in 2015, support for monitoring is provided by an international consulting firm.[36]

T12 Maximum credit exposure by bank issuer

Rating	Maximum
AAA	3.0% * IP at close of last quarter[(a)]
AA+ AA AA-	2.0% * IP at close of last quarter
A+ A A-	1.5% * IP at close of last quarter

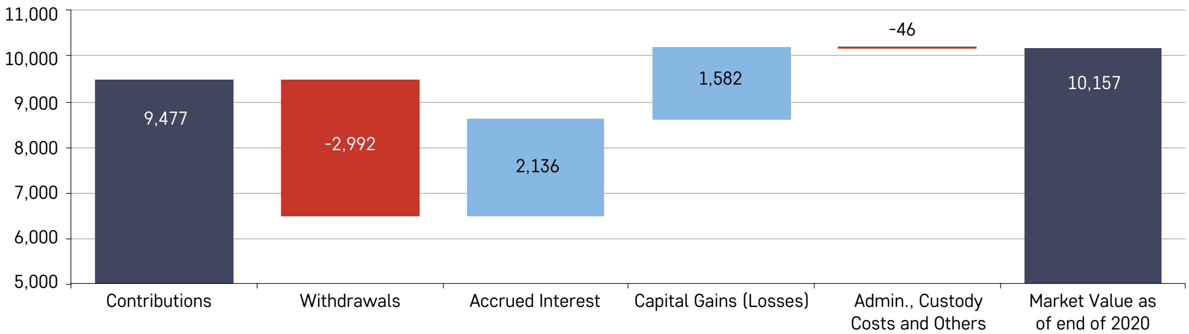
(a) IP means Investment Portfolio managed by the CBC.
Source: Ministry of Finance

36 In 2015, the firm Verus was contracted to provide consulting services for the sovereign wealth funds through April 2018. Starting in May 2018, and following a selection process carried out by the CBC, RVK, Inc., was contracted to serve as the funds' international consultant.

08 PENSION RESERVE FUND

The market value of the PRF on 31 December 2020 was US$ 10,157 million. Since its inception on 28 December 2006, the fund has recorded total capital contributions of US$ 9,477 million, withdrawals of US$ 2,992 million, and net investment income of US$ 3,672 million, which breaks down into US$ 2,136 million in interest earned, US$ 1,582 million in capital gains, and US$ 46 million in management and custody costs (see Figure 38). In 2020, the return in dollars, net of management costs, was 9.26%; the equivalent net return in pesos in the same period was 4.36%. Since the fund's inception, the annualized net return in dollars was 4.27%; the equivalent in pesos, 6.38%. The IRR in dollars was 8.89% in 2020 and 3.98% annualized since the creation of the fund.

F38 Change in market value, March 2007 – December 2020 (millions of dollars)



Source: Ministry of Finance

8.1 Investment Policy[37]

In 2020, the PRF investment policy was modified to incorporate the impact of some legal reforms on the size of the fund and on current and projected disbursements in 2020 and 2021. These reforms were approved by Congress as part of the social agenda implemented in late 2019 and as a funding source for the fiscal policy response to the pandemic in 2020 (see Box 5).

Based on recommendations by the Financial Committee, the Finance Ministry divided the investment portfolio as follows: the short-term investment portfolio (STIP) and the long-term investment portfolio (LTIP).[38] For more information about the changes in the investment policy see Box 6.

The main characteristics of the respective investment policies are described below:

Short-term investment portfolio

Investment objective: The main investment objective is to have exposure to highly liquid instruments, so as to preserve the value of the invested funds, within the risk standards specified in the investment guidelines.

Strategic asset allocation: The portfolio allocation is 93% U.S. Treasury bills and 7% U.S. Sovereign bonds.

Benchmarks: Each component of the strategic asset allocation has a defined benchmark, which corresponds to a representative index of the respective market (see Table 13).

Management: The entire portfolio is managed by the CBC, in its role as fiscal agent.

Benchmark duration: The effective duration of the total portfolio cannot deviate from the benchmark by more than +/– 0.5 years.

Eligible currencies, issuers, and instruments: Only currencies and issuers that are included in the corresponding benchmark are eligible for investment. Eligible instruments are those that are included in the benchmark and those that will be incorporated into the benchmark in the coming month.

Use of leverage and derivatives: The STIP does not allow the use of leverage or derivatives.

T13 Benchmarks – STIP (percent of STIP)

Asset class	Percent of the STIP	Benchmarks
Treasury bills	93	ICE BofA US Treasury Bill Index
Sovereign bonds	7	Bloomberg Barclays Global Aggregate – Treasury: U.S. 1 – 3 Yrs

Source: Ministry of Finance

37 This section was prepared based on the Annual Report Financial Committee 2020.

38 In 2020, the Financial Committee recommended dividing the PRF portfolio into two sub-portfolios. The STIP will hold expected disbursements in 2020 and 2021; the LTIP will hold resources that will not be withdrawn in the short term, in order to invest the funds at a medium- to long-term investment horizon.

BOX 5 Legal reforms that affected the PRF in 2019–2020

In 2019 and 2020, a series of legal reforms were passed that had an impact on the future evolution of the PRF. These include the following:

The law on the Solidarity Pension System, passed in December 2019, introduced a 50% increase in the basic solidarity pension (PBS) and the maximum solidarity pension contribution (PMAS), defined in Articles 7 and 13 of Law N° 20,255. Additionally, it standardized the calculation rule for the old-age solidarity pension contribution (APS) for new beneficiaries; created a new rule on the use of capitalization account resources for funding the APS, using individual funds first; and incorporated a benefit for people who have a self-funded reference pension (PAFE) that is higher than the PMAS, but whose scheduled withdrawal potentially falls below the value of the PBS.

In the framework of the pandemic, Law N° 21,225, passed in March 2020, which establishes support measures for families and micro, small, and medium-sized businesses to address the impact of COVID-19, suspends contributions to the PRF in 2020 and 2021 (Article 4).

Law N° 21,227, passed in April 2020, which facilitates access to unemployment insurance under Law N° 19,728, established in Article 19 that under exceptional circumstances, and without prejudice to the provisions of Article 8 of the Fiscal Responsibility Law, the amount of resources that will be withdrawn from the PRF in 2020 and 2021 will be equivalent to the full difference between total expenditures classified as pension expense for each year and total expenditures for that expense item in 2008, adjusted for inflation.

Long-term investment portfolio

Investment objective: The investment objective is to earn an expected annualized return in pesos of at least 2% over Chilean inflation in a ten-year period, with a probability of at least 60%. The risk tolerance establishes that the probability that the fund's real return will be less than –12%, expressed in pesos, must not be over 5% in any given year.[39]

Strategic asset allocation: The portfolio allocation is 31% equities, 34% sovereign and government-related bonds, 13% corporate bonds, 8% high-yield bonds, 6% U.S. agency MBS, and 8% inflation-linked bonds.[40]

Benchmarks: A benchmark has been established for each component of the strategic asset allocation, using a representative market index (see Table 14).

Management: The sovereign and government-related bonds portfolio and the inflation-linked bond portfolio are managed directly by the CBC, acting as fiscal agent. The equity, corporate bond, high yield, and agency U.S. agency MBS portfolios are managed by external portfolio managers. All these managers were selected by the CBC with support from the Ministry of Finance and a consulting firm (RVK, Inc.).

Ex-ante tracking error: The ex-ante tracking error has been set at 50 basis points for the aggregate portfolio of sovereign and government-related bonds and inflation-linked sovereign bonds, 60 basis points for the equity portfolio, 50 basis points for the corporate bond portfolio, and 150 basis points for the high yield bond portfolio. For the U.S. agency MBS portfolio, the monthly average cannot exceed 20 basis points, and the maximum daily value cannot exceed 30 basis points.

Eligible currencies, issuers, and instruments: For each asset class, only currencies that are included in the respective benchmarks are eligible for investment. Eligible issuers and instruments are mainly those included in the benchmark, but each asset class includes some eligible issuers and instruments that are not in the benchmark, so as to give the portfolio managers more flexibility in managing their portfolios. These include the following:

39 This objective was defined in the investment policy approved by the Minister of Finance in late 2017 but it will be revised in 2021 taking into account the Minister's decision to stop convergence to the strategic asset allocation of said policy.

40 This strategic asset allocation has been in place for the fund since January 2020; the Finance Minister decided to maintain this allocation when the decision to stop convergence to the investment policy defined in late 2017, was made.

T14 Benchmarks – LTIP (percent of LTIP)

Asset class	Percent of the LTIP	Benchmarks
Sovereign and government-related bonds[(a)]	34	Bloomberg Barclays Global Aggregate: Treasuries Index (USD unhedged) Blooomberg Barclays Global Aggregate: Government-Related Index (USD unhedged)[(b)]
Inflation-linked sovereign bonds	8	Bloomberg Barclays Global Inflation-Linked Index (USD unhedged)
Corporate bonds	13	Bloomberg Barclays Global Aggregate: Corporates Index (unhedged)
High yield bonds	8	Bloomberg Barclays Global High Yield Index (USD unhedged)
U.S. agency MBS	6	Bloomberg Barclays US Mortgage Backed Securities Index
Equities	31	MSCI All Country World Index (USD unhedged con dividendos reinvertidos) ex Chile
Total	100	

(a) The two subindexes of this asset class are added in accordance with their relative capitalization.
(b) Includes other related sovereign issuers such as municipalities, state-owned enterprises, agencies, etc.

Source: Ministry of Finance

> U.S. agency MBS: debt instruments issued or guaranteed by the U.S. government or by MBS issuing agencies, interest rate futures, and TBAs.[41]

> Corporate bonds: market-traded futures and reopened issues that are comparable to the instruments included in the benchmark.

> High yield bonds: futures, reopened issues that are comparable to the instruments included in the benchmark, sovereign instruments, and investment-grade bonds that leave the benchmark.

> Equities: ETFs, mutual funds, American Depositary Receipts (ADRs), Global Depositary Receipts (GDRs), and futures.

Leveraging and use of derivatives: The LTIP does not allow leveraging. The use of derivatives is differentiated by portfolio:

> Aggregate portfolio of sovereign and government-related bonds, and inflation-linked sovereign bonds: forwards or swaps can only be contracted for the purpose of currency hedging. The nominal value of forwards or swaps that are contracted with a given eligible counterparty cannot exceed 1.0% of the market value of the portfolio if the counterparty has a credit rating of at least AA– and 0.5% if the credit rating is A– to A+. At the same time, the aggregate notional value of all current forward or swap contracts cannot exceed 4% of portfolio.

> U.S. agency MBS: Exposure to TBAs cannot exceed 30% of the portfolio. The nominal amounts of U.S. interest rate futures valued at market price and expressed in absolute value cannot exceed 10% of the market value of the portfolio.

> Equities, corporate bond, and high yield bond portfolios: Each manager can only contract forwards or swaps for the purpose of currency hedging; and futures—equities or fixed-income, as indicated—for hedging purposes or to gain exposure to part of the benchmark. The nominal value of the forwards or swaps that are contracted by a given manager with a given eligible counterparty cannot exceed 3% of the market value of the portfolio under management. The aggregate nominal amount of futures, forwards, and swaps cannot exceed 10% of the portfolio of any given manager.

Investment guidelines: The investment guidelines for both, the STIP and LTIP, which are published on the Ministry of Finance's website,[42] provide additional information on the PRF investment policy, including details on the admissible instruments and other key limitations, as well as other issues related to fund management.

41 To be announced (TBA): MBS forwards.

42 https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds/pension-reserve-fund/investment-policy.

BOX 6 Modifications to the investment policy of the PRF

Taking into account the impact on the size of the fund of the reforms described in Box 5, the Minister of Finance considered that it was prudent to stop the convergence towards the new investment policy that had been defined at the end of 2017.[1] This decision was based on that the risk tolerance of the fund decreased because it will reduce its size by about 40% in two years, and the cash needs may increase considerably in relation to its size from 2022. In this scenario, the Finance Committee was asked to review the investment policy of the fund.

In this scenario, based on the recommendations of the Finance Committee, the PRF portfolio was separated into two sub-portfolios. In the first, the STIP, the expected disbursements in 2020 and 2021 would be maintained, investing it in highly liquid instruments, in dollars, and that are exposed to a very low probability of losses.[2] In this way, it was recommended to invest the majority in U.S. treasury bills, and a lesser part in sovereign bonds with a maturity between one and three years, issued by the government of the same country. In the second portfolio, the LTIP, the resources that have a longer investment horizon would remain invested. In this scenario, the Financial Committee recommended maintaining in said portfolio the strategic composition of assets that the PRF already had since January 2020, taking into account that it was more conservative than the policy approved in 2017, since it only invests 31% in equities and not 40%, and excludes illiquid investments associated with the real estate sector. On the other hand, it was decided not to implement the exchange rate hedge, which had been approved as part of the 2017 investment policy, taking into account what was reported by the Budget Office about the impact that the settlements of forward operations have on the fiscal balance (see Section G of Chapter 3 of the Annual Report Financial Committee 2020).[3]

1 For more information about the investment policy of the PRF that was approved by the Minister of Finance in 2017 and its implementation plan, review the Annual Report Financial Committee 2019.

2 The STIP will remain without resources once the withdrawals corresponding to 2021 have been made.

3 The report is available at https://www.hacienda.cl/english/work-areas/international-finance/sovereign-wealth-funds/financial-committee/annual-report.

8.2 Market Value

The market value of the PRF on 31 December 2020 was US$ 10,157 million, which represents a decrease of US$ 655 million relative to year-end 2019. The decrease is mainly due to withdrawals of 1,576 million despite of net financial gains of US$ 921 million. It is important to highlight that no contributions were made during 2020.

Since its inception on 28 December 2006, the fund has recorded contributions totaling US$ 9,477 million, withdrawals of US$ 2,992 million, and net investment gains of US$ 3,672 million (see Table 15).

T15 Annual contributions and withdrawals (millions of dollars)

Period	Contribution	% GDP of prev. year	Withdrawal[a]
2006	605	0,5	
2007	736	0,5	
2008	909	0,5	
2009	837	0,5	
2010	337	0,2	
2011	443	0,2	
2012	1.197	0,5	
2013	1.377	0,5	
2014	499	0,2	
2015	464	0,2	
2016	462	0,2	
2017	505	0,2	314
2018	542	0,2	525
2019	564	0,2	577
2020[b]	-	0,0	1.576
Total	**9,477**		**2,992**

(a) For more information about the withdrawal rules of PRF see section 3.2 of this report.

(b) During 2020 and 2021 the contributions to the PRF were suspended, and the Fiscal Responsibility Law was modified to temporarily withdraw, for these two years ,three times more than was authorized before the legal modification.

Source: Ministry of Finance

T16 Decomposition of market value (millions of dollars)

Decomposition	2012	2013	2014	2015	2016	2017	2018	2019	2020	Since Inception[(a)]
Starting market value	4.406	5.883	7,335	7,944	8,112	8,862	10,011	9,663	10,812	0
Contributions	1.197	1.377	499	464	462	505	542	564	0	9,477
Withdrawals	0	0	0	0	0	-314	-525	-577	-1,576	-2,992
Accrued interest	131	174	190	194	197	208	222	265	220	2,136
Captil gains (losses)	151	-95	-76	-485	94	755	-581	904	709	1,582
Management, custody and other costs	-1,2	-4,4	-4,6	-4,5	-4,2	-4,9	-4,7	-7,5	-8,5	-46,0
Net financial gains	280	75	110	-295	288	958	-364	1,161	921	3,672
Ending market value	**5.883**	**7.335**	**7,944**	**8,112**	**8,862**	**10,011**	**9,663**	**10,812**	**10,157**	**10,157**

(a) The PRF was created on 28 December 2006, with an initial contribution of US$ 604.5 million. 0.09 million were also contributed corresponding to the accrual of interest produced in 2006.

Source: Ministry of Finance

8.3 Performance

In 2020, the fund's return net of administration costs in dollars was 9.26%. This is broken-down into 11.36% of the LTIP and 0.03% of the STIP. The return of the LTIP is explained by the returns experienced in the portfolios of sovereign and government-related bonds, inflation-linked bonds, U.S. agency MBS, corporate bonds, high-yield bonds and equities that were 10.23%, 12.68%, 4.04%, 10.29%, 6.85%, and 15.06%, respectively. For its part, the return on the STIP, which corresponds to a portfolio of sovereign bills and bonds, was 0.03%.[43] Meanwhile, the fund's equivalent net return in pesos in 2020 was 4.36%. On the other hand, the net profitability in dollars and annualized during the last 3 years was 5.69% while in pesos it was 10.92%. Since 1 April 2007, the net annualized return in dollars since inception was 4.27% and in pesos, 6.38% (see Table 17 and Figure 39). In relation to the IRR in dollars, this was 8.89% in 2020 and 3.98% annualized since the creation of the fund.

T17 Net returns[44] (percent)

Portfolio	Asset Class	2020	Last 3 Years	Last 5 Years	Since Inception	Inception
Long-Term	Sovereign and government-related bonds	10.23	5.09	4.90	1.91	01-jan-12
	Inflation-linked sovereign bonds	12.68	5.27	5.73	3.64	01-jan-12
	U.S agency MBS	4.04	–	–	5.10	22-jan-19
	Corporate bonds	10.29	5.82	6.13	4.32	17-jan-12
	High yield bonds	6.85	–	–	7.77	22-jan-19
	Equities	15.06	9.88	12.29	11.00	17-jan-12
	Total	**11.36**	**6.36**	**6.67**	**4.41**	**01-apr-07**
Short-Term	Sovereign Bills and Bonds	0.03	–	–	0.03	01-oct-20
	Total	**0.03**	**–**	**–**	**0.03**	**01-oct-20**
Composite	**Total USD**	**9.26**	**5.69**	**6.27**	**4.27**	**01-apr-07**
	Exchange rate effect, CLP	-4.48	4.95	0.11	2.03	01-apr-07
	Total CLP [(a)]	**4.36**	**10.92**	**6.39**	**6.38**	**01-apr-07**

(a) The return in CLP corresponds to the sum of the percentage change in the peso-dollar parity and the return in dollars.

Source: Ministry of Finance

43 This return is since 1 October 2020 when the STIP was implemented.

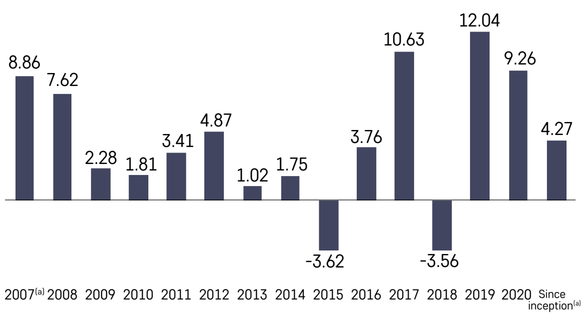
44 Returns are presented in dollars unless otherwise indicated.

An analysis of the quarterly returns in dollars (see Table 18) shows that the fund recorded the most negative return of the year in the first quarter, due to the losses experienced by equities, high-yield bonds and corporate bonds with returns of -21.30%, -14.78%, and -5.89%, respectively. On the contrary, the second quarter return was the highest of the year, mainly driven by the same asset classes, which experience returns of 19.4%, 11.56%, and 9.18%, respectively. In the third and fourth quarters, all asset classes presented positive returns, highlighting the good performance of equities and high-yield bonds. Finally, it should be noted that on October 1, the STIP was implemented, which experienced a return of 0.03% in the last quarter, which is consistent with the conservatism of its investment strategy.

One way to visualize the evolution of the returns obtained by the fund is through an index that adjusts its value according to the daily returns experienced by the portfolio (see Figure 40). At the end of 2020 the index stood at 177.6 from a starting value of 100 on 31 March 2007.

The performance of the PRF in 2020, measured as the difference between the profitability of the portfolio and that of the benchmark, was negative and -109 basis points, while since 1 April 2007 the annualized performance was -29 basis points (see Figure 41).[45] It should be noted that the 2020 performance was largely due to the impact of the losses experienced by equities in the first quarter, as this reduced their relative weight in the PRF portfolio while their weight in the benchmark remained constant at 31% since January 2020. This meant that when equities rallied in the second and third quarters of the year, their returns

T39 Annual net returns in dollars (percent)



(a) Calculated since 1 April 2007.

Source: Ministry of Finance

T18 Net quarterly returns in dollars in 2020, by asset class (percent)

Portfolio	Asset Class	Q 1	Q 2	Q 3	Q 4
Long-Term	Sovereign and government-related bonds	1.08	2.35	3.13	3.32
	Inflation-linked sovereign bonds	-2.75	6.60	3.58	4.93
	U.S agency MBS	2.66	0.79	0.25	0.31
	Corporate bonds	-5.89	9.18	2.99	4.22
	High yield bonds	-14.78	11.56	4.66	7.38
	Equities	-21.30	19.40	7.00	14.43
	Total	**-8.23**	**8.72**	**4.20**	**7.12**
Short-Term	Sovereign Bills and Bonds	-	-	-	0.03
	Total	**-**	**-**	**-**	**0.03**
Composite	**Total USD**	**-8.23**	**8.72**	**4.20**	**5.10**

Source: Ministry of Finance

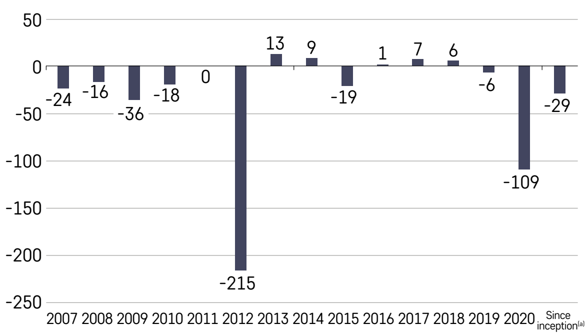
F40 Return index in dollars (31 March 2007 = 100)

Source: Ministry of Finance

45 It is important to note that the -215 basis points performance reported for 2012 was largely due to the implementation of the new investment policy. If the months of January and February 2012 are excluded, corresponding to the investment policy implementation period in which a portfolio other than the strategic composition of assets was maintained, and if the periods with special permits granted to administrators are considered of the fund in the year, the performance in 2012 was -3 basis points.

were weighted more heavily in the benchmark than in the PRF.[46] Another factor that affected the performance of 2020 was the withdrawal and rebalancing that took place on 1 October 2020 because significant amounts of cash were maintained for a few days in the different portfolios to satisfy liquidity needs, which decreased the return of the PRF relative to its benchmark comparator.[47]

F41 Returns against the benchmark (basis points)



(a) Calculated from 1 April 2017.

Source: Ministry of Finance

In 2020, the excess return of the LTIP and the STIP in relation to their benchmark comparators was -110 basis points and 0 basis points, respectively. In the case of the first, the explanation is the same as that given for the PRF portfolio, that is, this was the result of the impact that the fall of equity prices had in the relative weights on the PRF in the first quarter, and to a lesser extent, to the withdrawal and rebalancing carried out on 1 October. By asset class, the sovereign bond portfolio (the aggregate portfolio of sovereign and government-related bonds and inflation-linked bonds), U.S. agency MBS, corporate bonds, high-yield bonds, and equities, all part from the LTIP, experienced a performance of 39 basis points, 17 basis points, -7 basis points, -18 basis points, and -178 basis points, respectively. It is important to highlight that, in the case of equities, the excess negative return was due to a significant amount of cash that had to be kept in said portfolio to satisfy the withdrawal and the resources that were transferred to the STIP on 1 October (see Table 19).

T19 Net returns against the benchmark, by asset class[48] (basis points)

Portfolio	Asset Class	2020	Last 3 Years	Last 5 Years	Since Inception	Inception
Long-Term	Sovereign portafolio (a)	39	18	13	-10	01-jan-12
	U.S agency MBS	17	-	-	-3	22-jan-19
	Corporate bonds	-7	-6	-5	-26	17-jan-12
	High yield bonds	-18	-	-	-30	22-jan-19
	Equities	-178	-79	-60	-58	17-jan-12
	Total	**-110**	**-35**	**-19**	**-29**	**01-apr-07**
Short-Term	Sovereign Bills and Bonds	0	-	-	0	01-oct-20
	Total	**0**	**-**	**-**	**0**	**01-oct-20**
Composite	**Total USD**	**-109**	**-35**	**-19**	**-29**	**01-apr-07**

(a) The sovereign portfolio represents the aggregate performance of sovereign bonds, government-related bonds and inflation-linked bonds.

Source: Ministry of Finance

46 At the end of the first quarter, equities represented 26% of the PRF, while in the second and third quarters their weight was 29% and 30%, respectively. To calculate the return of the benchmark comparator, a constant weight of 31% of equities was used as of January 2020.

47 On 1 October 2020, a withdrawal of US$ 1,576 million was made from the PRF and about US$ 2,806 million was transferred from the LTIP to the STIP when the latter was created.

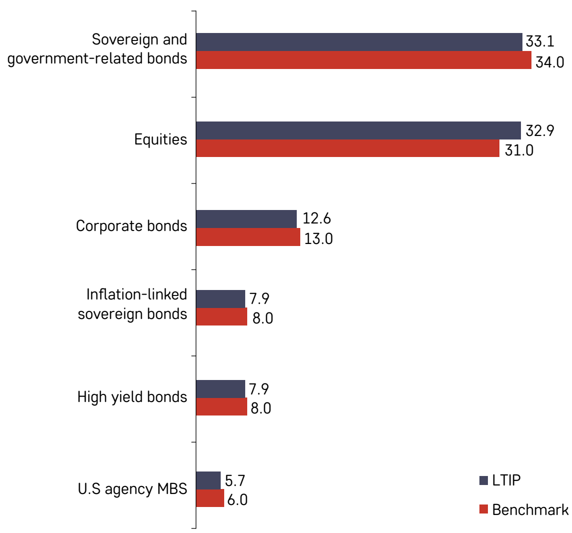
48 The excess return of the total portfolio is calculated as the difference between the weighted sum of the returns of each asset class in the portfolio and the benchmark.

8.4 Long-Term Investment Portfolio (LTIP)

As of December 2020, the asset class composition for the LTIP consisted of US$ 2,431 million in sovereign and government-related bonds, US$ 579 million in inflation-linked bonds, US$ 417 million in U.S. agency MBS, US$ 926 million in corporate bonds, US$ 578 million in high yield bonds and US$ 2,421 million in equities. In percentage terms, the fund had an asset class composition relatively similar to its benchmark, although slightly underexposed in sovereign and government-related bonds and overexposed in equities (see Figure 42). Regarding the composition of currencies, at the end of 2020, the fund was in line with its benchmark concentrating around 86% in US dollars, Euro, Japanese Yen and British Pound (see Figure 43).

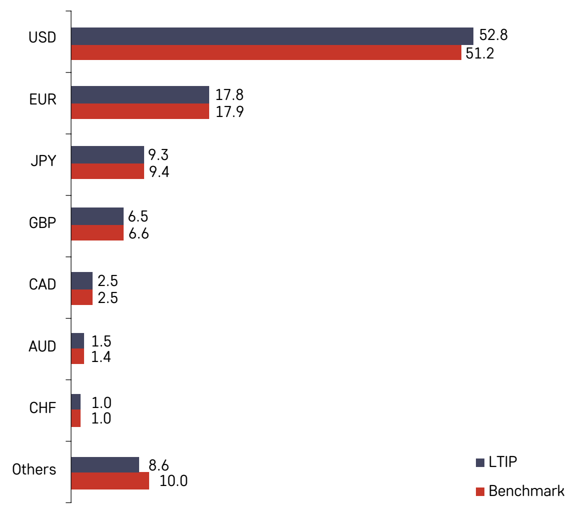
In terms of credit composition, at the end of the year, 28.9% of the LTIP fixed income portfolio was invested in instruments with a maximum AAA rating, 42.5% between AA + and A-, and 28.7% remaining between BBB +, CCC + and others (see Table 20).

F42 Asset class allocation, 31 December 2020 (percent of LTIP)



Source: Ministry of Finance

F43 Currency allocation, 31 December 2020 (percent of LTIP)



Source: Ministry of Finance

T20 Credit risk exposure - LTIP, 31 December 2020 (percent of fixed-income of LTIP)

	Sovereign and government-related bonds	Inflation-linked sovereign bonds	U.S agency MBS	Corporates bonds	High yield bonds	Total LTIP fixed-income
AAA	15.4	5.0	8.5	0.1	-	28.9
AA+ / AA-	8.7	5.4	-	1.1	-	15.2
A+ / A-	19.9	0.4	-	7.0	-	27.3
BBB+ / BBB-	5.0	1.0	-	10.0	-	16.1
BB+ / BB-	0.1	-	-	0.2	5.7	6.0
B+ / B-	0.1	-	-	-	4.2	4.3
CCC+ or lower	-	-	-	-	1.3	1.3
Others[(a)]	0.1	0.0	-	0.4	0.4	1.0
Total	**49.3**	**11.7**	**8.5**	**18.8**	**11.7**	**100.0**

(a) It includes cash and cash equivalents.

Source: Ministry of Finance

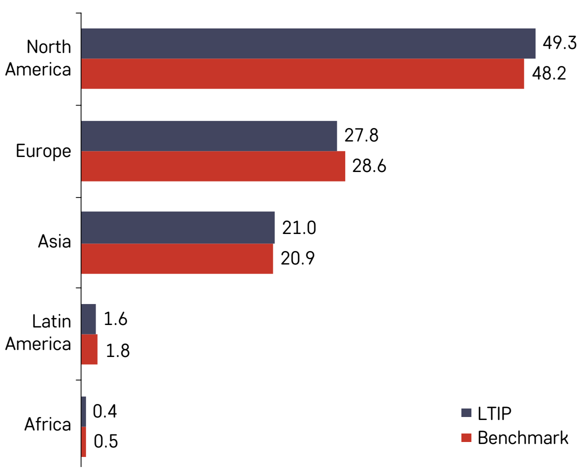
Regarding the geographical composition of the LTIP, it is mainly concentrated in North America, Europe and Asia. Relative to the benchmark, at the end of 2020 the fund was overweight in North America and Asia, 1.2% and 0.1%, respectively, and underweight in Europe, Latin America, and Africa at 0.9%, 0.2%, and 0.1%, respectively (see Figure 44).

At the economic sector level, more than half of the fund is invested in the Government sector, followed by the Financial and the Technological. Regarding the benchmark, at the end of 2020 the fund was slightly underweight in the Financial sector offset by a slight overweight in Government and, to a lesser extent, in other sectors (see Figure 45).

The exposure of the long-term investment portfolio by country shows a concentration in the US, with 45.8% of the total portfolio at the end of 2020, followed by Japan, with 9.8%. The exposures of the five first countries account for about 70% of the total fund (see Table 21).

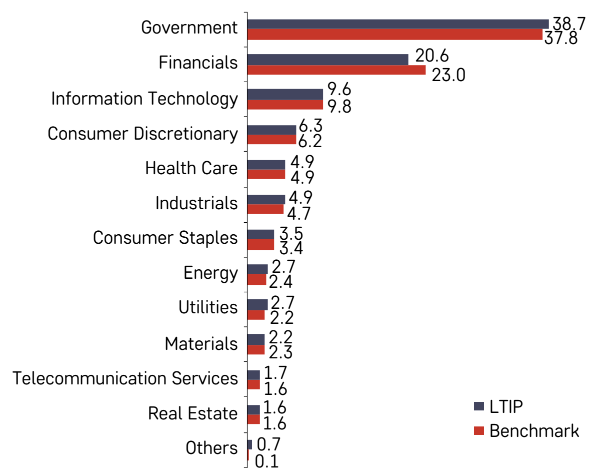
The LTIP is invested in a highly diversified way and the exposure to each issuer depends mainly on its participation in the benchmark comparator of the corresponding asset class. Figures 46, 47, 48, 49 and 50 present the main exposures by issuer in each asset class.

F44 Regional allocation, 31 December 2020 (percent of LTIP)



Source: Ministry of Finance

F45 Sector allocation, 31 December 2020 (percent of LTIP)



Source: Ministry of Finance

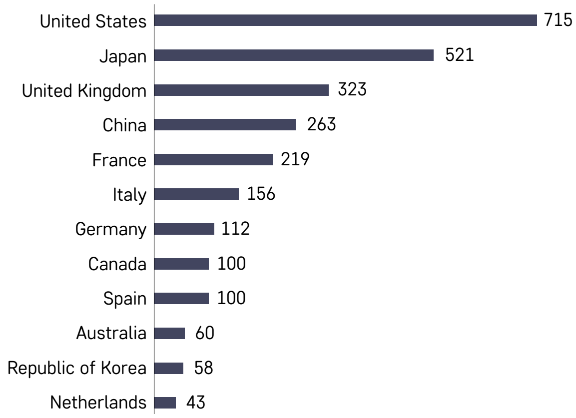
T21 Allocation by country, 31 December 2020 (percent of LTIP)

Country allocation	Sovereign and government-related bonds	Inflation-linked sovereign bonds	U.S agency MBS	Corporate bonds	High yield bonds	Equities	Total
United States	6.8	3.0	5.7	7.2	3.7	19.5	45.8
Japan	6.9	0.3	0.0	0.4	0.0	2.2	9.8
United Kingdom	1.8	2.6	0.0	1.0	0.3	1.3	7.0
France	2.3	0.7	0.0	0.7	0.1	0.9	4.7
Canada	1.2	0.2	0.0	0.6	0.2	0.9	3.1
Italy	1.6	0.5	0.0	0.1	0.2	0.2	2.6
Germany	1.3	0.2	0.0	0.3	0.1	0.8	2.8
Holland	0.6	0.0	0.0	0.7	0.4	0.5	2.2
Spain	1.2	0.2	0.0	0.2	0.0	0.2	1.8
Australia	0.7	0.1	0.0	0.2	0.0	0.6	1.6
South Korea	0.8	0.0	0.0	0.0	0.0	0.6	1.4
Switzerland	0.1	0.0	0.0	0.0	0.0	1.0	1.1
Ireland	0.2	0.0	0.0	0.1	0.1	0.4	0.7
Others[a]	7.7	0.1	0.0	1.0	2.7	3.8	15.3
Total	**33.1**	**7.9**	**5.7**	**12.6**	**7.9**	**32.9**	**100.0**

(a) It includes cash and cash equivalents.

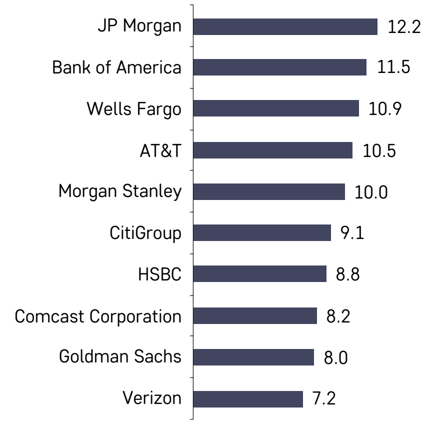
Source: Ministry of Finance

F46 Main exposures to nominal and inflation-linked sovereign bonds, and government-related bonds[49] (millions of dollars)



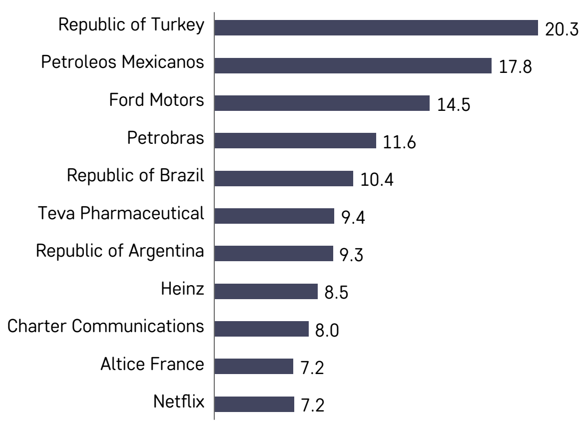
Source: Ministry of Finance

F47 Main exposures to corporate bonds (millions of dollars)



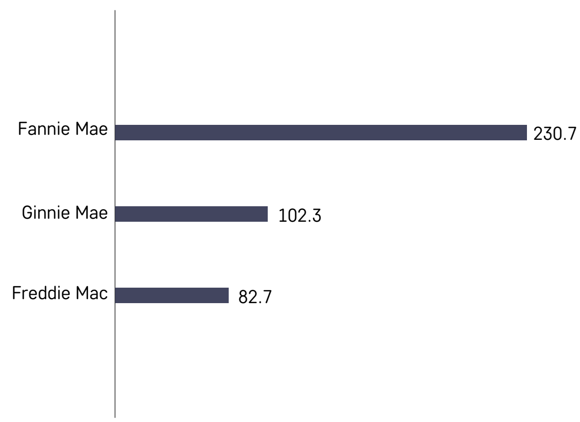
Source: Ministry of Finance

F48 Main exposures to high yield bonds (millions of dollars)



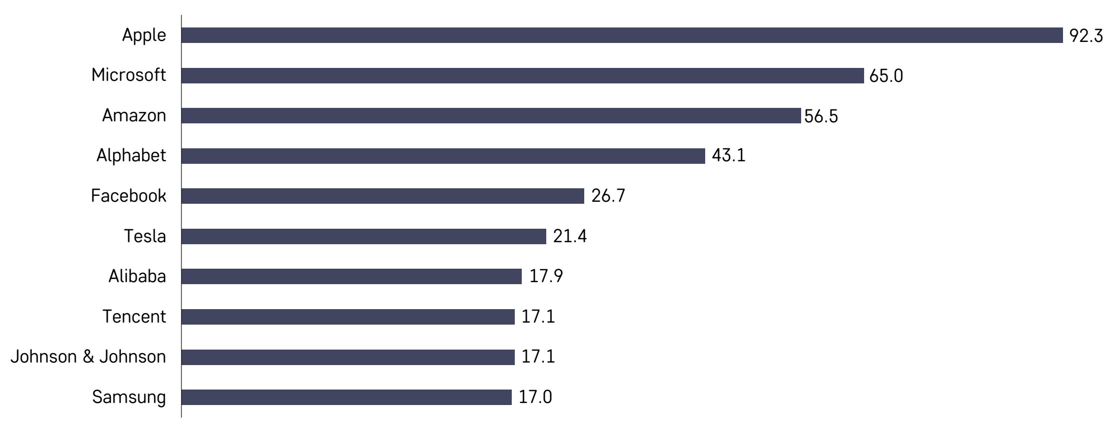
Source: Ministry of Finance

F49 Main Exposures to U.S agency MBS (millions of dollars)



Source: Ministry of Finance

F50 Main equities exposures to companies (millions of dollars)



Source: Ministry of Finance

49 It includes inflation-linked bonds.

8.5 Short-Term Investment Portfolio (STIP)

As of December 2020, the STIP had resources for US$ 2,806 million that consisted of US$ 2,609 million invested in U.S. treasury bills and US$ 197 million in U.S. sovereign bonds. In percentage terms, the STIP was aligned with its benchmark (see Figure 51). It is important to note that the STIP can be invested only in US dollars.

In terms of credit composition, at the end of 2020 100% of the STIP was rated AAA (see Table 22).

8.6 Manamegent Costs and Income from the Securities Lending Program

The total cost associated with the management of the PRF is broken down into custody services, for US$ 2,310,230, the remuneration associated with the administration of the CBC, for US$ 1,251,219, and that of external administrators, for US$ 4,586,013. Additionally, payments for external services and others were made for a total of US$ 318,984. As a whole, the total cost associated with the administration and custody of the PRF represented 8 basis points of the average size of the fund in 2020. On the other hand, the income generated by the securities lending program, for US$ 912,198, allowed financing part administration and custody expenses (see Table 23).

F51 Asset class allocation, 31 December 2020 (percent of STIP)

Source: Ministry of Finance

T22 Credit risk exposure - STIP, 31 December 2020 (percent of STIP)

	Treasury Bills	Sovereign Bonds	Total
AAA	93.0	7.0	100.0

Source: Ministry of Finance

T23 Management and custody costs and income from the securities lending program (dollars)

Items	2012	2013	2014	2015	2016	2017	2018	2019	2020
Custody (J.P. Morgan)	91,572	1,971,424	2,296,139	1,639,504	1,449,173	1,595,229	1,540,339	2,322,776	2,310,230
Management (CBC)	520,186	1,032,599	724,115	947,984	1,003,643	995,777	1,115,871	1,085,958	1,251,219
Management (external)	548,098	1,347,401	1,608,982	1,884,965	1,550,659	2,147,271	1,545,941	3,948,867	4,586,013
Other costs [a]	70,588	—	—	—	241,507	111,763	537,400	104,645	318,984
Total costs	**1,230,443**	**4,351,424**	**4,629,236**	**4,472,453**	**4,244,983**	**4,850,040**	**4,739,550**	**7,462,246**	**8,466,446**
Total cost in basis points [b]	2	6	6	6	5	5	5	7	8
Securities lending program	**219,422**	**235,855**	**567,458**	**278,184**	**307,653**	**338,324**	**394,528**	**833,796**	**912,198**

(a) Includes payments for consulting, auditing, tax advisory services, among others.
(b) Calculated on the average size of the fund in the year.
Source: Ministry of Finance

8.7 Main Financial Risks

The PRF portfolio is largely exposed to the same risks as the ESSF. However, credit risk is higher in the PRF due to its exposure to a larger number of countries. Moreover, because the fund invests in investment grade and high yield corporate bonds, it is exposed to the idiosyncratic credit risk of the issuing companies. It also has a larger share of equities investments than the ESSF, which increases its exposure to the higher volatility of this asset class. As in the case of the ESSF, most of these risks depend directly on the asset class allocation and the chosen benchmarks, given the passive management stipulated in the fund's investment policy.

8.7.1 Market Risk

The market value of the financial instruments in the PRF portfolio can be exposed to losses as a result of changes in market conditions. As with the ESSF, the fixed-income portfolio is exposed to interest rate risk, foreign exchange risk and credit spread risk. In addition, the PRF is exposed to equity risk. This section describes these risk in detail, together with the control mechanisms set up for monitoring them.

Interest rate risk

The interest rate risk is mainly a function of the duration of the benchmark and is calculated from the duration of the indices that compose it. Unlike the ESSF, the fixed income portfolio of the PRF is exposed to the interest rate risk of a greater number of countries. In addition, the LTIP is more sensitive due to its longer duration. This risk is monitored by controlling that the duration of the portfolio is close to that of the benchmark. At the end of 2020, the duration of the fund was 4.89 years and of the benchmark was 4.90 years. In the case of the LTIP, its duration was 7.45 years and of its benchmark 7.51 years. For its part, the duration of the STIP was 0.39 years and of its benchmark 0.31 years.

Prepayment risk

Prepayment risk is associated with securities that allow the premature return of principal by the issuer. The U.S. agency MBS portfolio is exposed to this risk because the underlying assets are mortgage loans, which could be refinanced when mortgage interest rates are low. When a loan is prepaid, the individual borrower who is refinancing the mortgage loan returns the value of the principal owed to the MBS investor, and the investor loses the present value of future interest payments that would otherwise have been received, which are higher than the current rates for reinvestment. This risk is monitored by controlling that the prepayment speed in the portfolio of each U.S. agency MBS portfolio manager is similar to the benchmark.

Foreign exchange risk

As a consequence of the PRF return being measured in dollars, the value of investments in other currencies is also affected by movements in exchange rates. Due to the passive management mandate, the currency exposure that the PRF is willing to tolerate depends on the currency composition of the benchmark. At the end of 2020, approximately 97% of the portfolio was invested in 10 different currencies, including the dollar, while the rest is exposed to 19 currencies. Specifically, the fund's currency risk comes mainly from investments denominated in euros (17.8%), yen (9.3%), British pounds (6.5%), Canadian dollars (2.5%), and US dollars. Australians (1.5%).

Credit spread risk

The market value of the instruments in the PRF fixed-income portfolio is exposed to changes in the market's perception of the solvency of the issuers of those instruments. The PRF is subject to higher credit spread risk than the ESSF because its fixed-income portfolio includes instruments from many issuers around the world, such as governments of developed and developing countries with and without investment grade, and other issuers such as public and semi-public agencies, multilateral financial institutions, corporations and so on. In the case of investment grade corporations and sovereigns, credit spread risk is mitigated by having a well-diversified portfolio and investing only in instruments with a rating of BBB– or higher. In the case of high yield bonds, the investment involves instruments that, by definition, have a higher credit risk. To mitigate this risk, the fund has contracted portfolio managers that incorporate credit analysis in their investment process, so as to exclude corporate issuers which could experience a significant worsening of their credit rating, and that construct well-diversified portfolios to eliminate the idiosyncratic risk of a particular issuer.

Equity risk

The PRF is exposed to the risk of losses from a decrease in the price of the equities included in its portfolio. The intrinsic risk of an individual equity is eliminated by investing in a highly diversified portfolio. The fund's tolerance for equity risk is defined as the systemic risk associated with the equity index used as the benchmark (the MSCI ACWI excluding Chile). At the close of 2020, equities accounted for 32.9% of the fund, which is higher than the strategic asset allocation (31%) mainly due to the good return experienced in the year.

Volatility, VaR, and tracking error

The annual volatility of the PRF was 11.09% in 2020, versus 5.83% for the period from 1 April 2007 onward. Since the fund's inception, the highest monthly return was 5.47% (in December 2008), while the lowest was de -6.66% (in March 2020). The highest quarterly return was 8.72% in the second quarter of 2020; the lowest was -8.23% in the first quarter of 2020 (see Table 24). At year-end 2020, the VaR was 5.82% in a one-year horizon, with a 95% confidence level.[50]

Volatility can also be measured relative to the benchmark. This allows evaluating the degree of closeness of the portfolio with respect to the benchmark used. At the end of 2020, the ex post tracking error of the PRF was 36 basis points.[51] In the case of the LTIP, the ex-ante tracking error is also analyzed, which was 26 basis points at the end of the year.

T24 Historical minimum and maximum returns (percent)

Range	Month	Quarter
Highest return	5.47 (Dec-08)	8.72 (II 20)
Lowest return	-6.66 (Mar-20)	-8.23 (I 20)

Source: Ministry of Finance

8.7.2 Credit Risk

In the PRF bond portfolio, exposure to this type of risk is mitigated by having a well-diversified portfolio and investing only in instruments from issuers included in the benchmark. For bank deposits, credit risk is minimal, given that the time deposits are very short term and are mainly associated with investing the cash on hand that is necessary for managing the portfolio. There is also a minimum credit rating for eligible banks and limits on the amount that can be deposited in any given bank. The credit risk associated with forwards and swaps is controlled through minimum credit rating requirements for eligible counterparties and limits on exposure to any given counterparty (see Table 25). In addition, forwards and swaps cannot exceed a stipulated percentage of each manager's portfolio. For the portfolio managed by the CBC, forwards and swaps cannot exceed 4% of the portfolio. In the case of the external managers, forwards, swaps and futures cannot exceed 10% of each manager's portfolio.

In the case of high yield bonds, the very nature of the asset class implies that there is a higher probability of default due to the fact that the fund is investing in issuers that do not have an investment grade rating, that is, that have a rating of BB+/Ba1 or less (see Table 20). Of these, around 10% are in the CCC+/C range, which corresponds to higher risk and a higher default probability. As indicated above, to mitigate this risk, the external managers responsible for this asset class construct well-diversified portfolios and carry out a credit analysis to exclude firms that, in their opinion, are more likely to enter default.

The risk arising from the execution of a transaction—that is, the losses that could occur if the counterparty does not deliver the securities purchased or pay for the securities sold—is mitigated through the use of delivery versus payment (DVP) transactional or post-transactional systems, in which payment is conditional on simultaneous delivery. Finally, the risk of holding the funds' securities at a custodian institution is addressed by registering them in the name of the Republic of Chile and keeping them in separate accounts.

50 This means that 95% of the time, the losses in the fund over a horizon of one year would not exceed 5.82% of its nominal value in dollars.

51 The ex post tracking error corresponds to the annualized standard deviation of the historical monthly excess returns between 31 December 2017 and 31 December 2020.

T25 Credit limits on bank deposits and forwards

Limits		Time deposits	Forwards
Minimum rating		A-	A-
Maximum per issuer[(a)]	CBC portfolio	1% (above AA-) 0,5% (between A- y A+)	1% (above AA-) 0,5% (between A- y A+)
	Externally managed portfolios	5%	3%

(a) Percent of each manager's portfolio (CBC or a given external manager).

Source: Ministry of Finance

8.7.3 Liquidity Risk

Liquidity risk increased significantly in the PRF due to legal modifications that were approved by Congress to address the pandemic and that significantly increased disbursements from the fund in 2020 and 2021. To minimize transaction cost and risk of generating liquidity at inappropriate times, the STIP was implemented on 1 October 2020, which is a highly liquid and conservative portfolio where the resources that will be withdrawn during 2021 will be maintained.[52] As of 2022, the timing of the annual contributions will be coordinated with the withdrawals in order to offset such movements as far as possible.

8.7.4 Operational Risk

Operational risk arises from the losses that would occur from mistakes in internal processes and systems, external events or human error. Examples of operational risk include transaction errors, fraud, failure to comply with legal obligations (contracts), etc.

For the portfolio managed by the CBC, this risk has been mitigated because the operational management of the funds is carried out using the same infrastructure that the CBC uses to manage its international reserves. The CBC has also set up a series of controls, including the division of responsibilities and functions, software in line with market quality standards, backup systems to ensure the operational continuity of the funds and internal and external auditing processes to assess the effectiveness of the existing controls.

In the case of the external portfolio managers, operational risk has been mitigated by contracting managers with vast experience in the field, a strong reputation in the market and robust management systems. Furthermore, the managers' performance is monitored, and the contract can be terminated in the event of dissatisfaction with some aspect of the services provided. Starting in the second half of 2015, support for monitoring is provided by an international consulting firm.[53]

52 If the amount held in the STIP is not enough to cover the total amount of the withdrawal, it will be necessary to withdraw additional resources from the LTIP, but it is estimated that said additional resources are not significant and, therefore, that the liquidity risk will be minimal.

53 See footnote 36.

09 FINANCIAL STATEMENTS: ECONOMIC AND SOCIAL STABILIZATION FUND

Financial statements for the years ended on 31 December 2019 and 2020 and the independent auditors' report[54]

54 The numbering on the pages of this chapter corresponds to the original numbering of the audited financial statements that is independent of the rest of the report.

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INDEPENDENT AUDITOR'S REPORT

Santiago, March 22nd, 2021

General Treasury of the Republic
Economic and Social Stabilization Fund

Financial statements report

We have audited the accompanying financial statements of Economic and Social Stabilization Fund (hereinafter the "Fund"), which comprise the statements of financial position for the years ended December 31st, 2020 and 2019, and the related statements of income and comprehensive income, changes in equity and cash flows for the years then ended and the related notes to the financial statements.

Management's responsibility for the financial statements

General Treasury of the Republic is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility involves the design, implementation and maintenance of an internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards generally accepted in Chile. Those standards require that we plan and perform the audit order to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the consolidated financial statements in order to design auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Economic and Social Stabilization Fund for the years ended December 31st, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other matters

As indicated in Note 1, the use of resources from Economic and Social Stabilization Fund is intended to consolidate into a fund the additional stabilization resources from tax revenue referred to in Decree Law N° 3.653 from 1981 and the Compensation Fund copper revenues constituted according to the loan agreement BIRF N°2.625 CH, as indicated in Decree with Force of the Law N° 1 dated December 11th, 2006.

The above translation of the auditor's report is provided as a free translation from the original Spanish language, which is the official and binding version. Such translation has been made solely for the convenience of non-Spanish readers.

Sergio Bascuñán Rivera

ECONOMIC AND SOCIAL STABILIZATION FUND

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ECONOMIC AND SOCIAL STABILIZATION FUND

STATEMENTS OF FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31st, 2020 AND 2019

ASSETS	Notes	31/12/2020	31/12/2019
		US$	US$
CURRENT ASSETS			
Cash and cash equivalents	1	4,029,743	4,715,538
Total current assets			4,715,538
FINANCIAL ASSETS THROUGH PROFIT OR LOSS			
Stocks	6	450,255,233	913,294,367
Other capitalization instruments	6	8,616,985	21,767,232
Time deposits	6	1,480,983,773	2,761,773,234
Government bonds	6	5,058,332,191	6,716,234,500
Indexed bonds	6	312,106,914	429,606,972
Treasury bills	6	1,640,868,518	1,386,145,221
Derivatives		50,237	122,418
Total investments		8,951,213,850	12,228,943,944
Total assets		8,955,243,593	12,233,659,482
		=============	============

LIABILITIES AND NET EQUITY	Notes	31/12/2019	31/12/2018
		US$	US$
LIABILITIES			
Derivative financial instruments	7	-	252,995
Total liabilities		-	252,995
NET EQUITY			
Fiscal resources		7,807,437,518	10,371,326,865
Fiscal withdrawals	8	(4,090,000,000)	(2,563,889,347)
Retained earnings		4,425,968,969	3,762,520,423
Profit (loss) for the year		811,837,106	663,448,546
Total net equity		8,955,243,593	12,233,406,487
TOTAL LIABILITIES AND NET EQUITY		8,955,243,593	12,233,659,482
		=============	============

The accompanying notes N° 1 to 17 are an integral part of these financial statements.

ECONOMIC AND SOCIAL STABILIZATION FUND

STATEMENTS OF INCOME

	Notes	For the period between January 1 and 31/12/2020	31/12/2019
		US$	US$
OPERATING INCOME			
Interests earned	9	81,659,798	144,543,358
Dividend income	10	13,776,439	26,738,171
Net realized gain		780,738,289	245,961,292
Net unrealized gain		-	249,372,595
Total operating income		876,174,526	666,615,416
OPERATING LOSSES			
Net realized loss from sale of financial instruments		-	-
Net unrealized loss from price changes of financial instruments		(61,473,842)	-
Total operating losses		(61,473,842)	-
Total operating income		814,700,684	666,615,416
ADMINISTRATIVE EXPENSES			
Fiscal Agency Expense (Central Bank of Chile)	8	(1,487,625)	(1,815,729)
Custodian and External Managers expenses	8	(1,305,133)	(1,284,856)
Other Custodian Expenses and External Managers	8	(69,703)	(62,146)
J.P. Morgan adjustment		(1,117)	(4,140)
PROFIT FOR THE YEAR		811,837,106	663,448,546
		==========	==========

The accompanying notes N° 1 to 17 are an integral part of these financial statements.

ECONOMIC AND SOCIAL STABILIZATION FUND

STATEMENTS OF COMPREHENSIVE INCOME

	For the period between January 1 and	
	31/12/2020	31/12/2019
	US$	US$
Profit for the year	811,837,106	663.448.546
Other comprehensive income reclassified to profit and loss	-	-
Other comprehensive income not reclassified to profit and loss	-	-
Total comprehensive income	-	-
Comprehensive income for the year	811,837,106	663.448.546
	==========	==========

The accompanying notes N° 1 to 17 are an integral part of these financial statements

ECONOMIC AND SOCIAL STABILIZATION FUND

STATEMENTS OF CHANGES IN NET EQUITY

FOR THE YEARS ENDED

DECEMBER 31st, 2020 AND 2019

	Notes	Fiscal Resources	Retained earning	Comprehensive income for the year	Total
		US$	US$	US$	US$
Beginning balance as of January 1, 2020		7,807,437,513	3,762,520,423	663,448,546	12,233,406,487
Final dividend distribution		-	663,448,546	(663,448,546)	-
Fiscal withdrawal	8	(4,090,000,000)	-	-	(4,090,000,000)
Profit for the year		-	-	811,837,106	811,837,106
Ending balance as of December 31, 2020		3,717,437,518	4,425,968,969	811,837,106	8,955,243,593
Beginning balance as of January 1, 2019		10,371,326,865	3,825,920,225	(63,399,802)	14,133,847,288
Final dividend distribution		-	(63,399,802)	63,399,802	-
Fiscal withdrawal	8	(2,563,889,347)	-	-	(2,563,889,347)
Profit for the year		-	-	663,448,546	663,448,546
Ending balance as of December 31, 2019		7,807,437,513	3,762,520,423	663,448,546	12,233,406,487

The accompanying notes N° 1 to 17 are an integral part of these financial statements

ECONOMIC AND SOCIAL STABILIZATION FUND

CASH FLOWS STATEMENTS

(Indirect method)

	Notes	For the years ended 31/12/2020	31/12/2019
		US$	US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		811,837,106	663,448,546
Net unrealized loss (profit)		61,473,842	(249,372,595)
Changes in Administration and Custody Funds		3,216,003,256	2,149,510,186
Cash flows from operating activities		4,089,314,204	2,563,586,137
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease from capital withdrawal	8	(4,090,000,000)	(2,563,889,347)
Cash flows from financing activities		(4,090,000,000)	(2,563,889,347)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(685,796)	(303,210)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		4,715,538	5,018,748
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	4,029,743	4,715,538

The accompanying notes N° 1 to 17 are an integral part of these financial statements

ECONOMIC AND SOCIAL STABILIZATION

NOTES TO FINANCIAL STATEMENTS

AS OF DECEMBER 31st, 2020 AND 2019

NOTE 1 – GENERAL INFORMATION

The Economic and Social Stabilization Fund (hereinafter the “Fund” or ESSF) was set up under the Law 20.128 on September 30th, 2006 of the Chilean Ministry of Finance for the purpose of consolidating into a fund the additional stabilization resources of tax revenue referred to in Decree Law N° 3.653 from 1981 and the Compensation Fund for income from copper constituted according to the loan agreement BIRF N°2.625 CH, as indicated in Decree Law N° 1 dated December 11th, 2006.

The adoption of this Fund has been regulated by the following instructions, provided by the Ministry of Finance:

a) Decree N° 1.618 from April 18th, 2013, which authorizes the Central Bank of Chile, as Fiscal Agent, to administrate the Economic and Social Stabilization Fund and instructs that it reports about Investments to the Ministry of Finance and the General Treasury of the Republic.

b) Ministry of Finance's Official Letter N° 68 of January 11th, 2019, in which the new Execution Guidelines related to the management of resources of the Economic and Social Stabilization Fund are communicated to the Fiscal Agent.

c) Comptroller General of the Republic's Official Letter N° 71.390 of 2009, which instructs on the valuation criteria of the Fund.

d) Decree N° 1.492 of 2015, which regulates the coordination and operation of advisory activities, supports the management and inspection of financial assets and liabilities of the Public Treasurer, especially, of the Social Stabilization Fund and of the Pension Reserve Fund (renders invalid Decree N° 1.636 of 2009).

   In article 4 of the mentioned Decree it is possible to highlight the following activities related to the General Treasury of the Republic:

   - Register the investments of the Treasure Resources, as well as the lending operations, in accordance with the accounting and budgetary standards established by the Comptroller General of the Republic and/or the Budget Office, as appropriate.

   - Carry out the accounting of Sovereign Wealth Fund in accordance with international accounting standards or their local equivalent, prepare quarterly and annual financial statements of the Sovereign Wealth Fund in accordance with those standards, and order, charged to the Sovereign Wealth Fund's resources, independent audits of the annual financial statements, all subject to the limit established in Article 7 of this Decree. For that purpose, it will select and hire audit firm or firms among those that are authorized to provide their professional services to entities supervised by the Commission of Banks and Financial Institutions.

   - Support the Ministry of Finance in the preparation of Sovereign Wealth Fund's reports and the Report on Public Debts Statistics.

- Verify that nominal and valued records of the investments of the Sovereign Wealth Fund are consistent with the Custodians' records. This activity has been carried out since January 1st, 2014 for the portfolios managed by External Managers, and since July 1st, 2014 for the portfolios managed by Central Bank of Chile.

- Issue the transfer instructions related to contributions and withdrawals from and to the Sovereign Wealth Funds, pursuant to the instructions given by the Ministry of Finance, validate the payments related to the administration and custody of the Sovereign Wealth Funds, as appropriate, and instruct the Central Bank of Chile the payment of the different services provided by the External Managers.

- Supervise compliance with standards and limits established by the Ministry of Finance for investments in the capital markets of the Public Treasury resources other than the Sovereign Wealth Fund, and periodically send a report on that matter to the Budget Office and to the Ministry of Finance.

- Keep an updated manual of procedures for the execution of all the functions and attributions that are detailed in this article.

- Carry out any other advisory, coordination or management support work necessary for the performance of its duties.

The information provided by the accounting of the Sovereign Wealth Funds, derives from an entity such as the General Treasury of the Republic, whose temporary existence has full force and future projection, so the figures resulting from the accounting process are not referred to estimated realization values.

e) The Ministry of Finance's Record N° 2.463 of December 13th, 2018, communicates the new Guidelines on Custody and other fund's matters.

f) Ordinary Official Letter N° 69 of January 14th, 2019, modifies the ordinary official letter N° 2.463 of 2018 that informs the new Custody Guidelines to the fiscal agent.

g) Ordinary Official Letter N° 778 of April 20th, 2020, the Ministry of Finance communicates to the Central Bank of Chile, in its capacity as Fiscal Agent, that it grants authorization or special permission (waiver) regarding the investment limits per issuer for the Eligible risk classifications established in Annex A, Table 2.

h) Ordinary Official Letter N° 68 of January 11th, 2019, modifies the ordinary letter No. 2,463 of 2018, by which the new Custody Guidelines are communicated to the fiscal agent.

i) Ministry of Finance's Decree N° 1.618 of 2013 that redefines the activities of the Central Bank of Chile as Fiscal Agent.

In Article 15, letter a) of Decree N° 1.618 of 2013, the Fiscal Agent is authorized to carry out, under request of the Ministry of Finance, one or more tenders for the portfolio management, and to hire its External Managers, on behalf of the Treasury. Consequently, in 2019, the custody services of the following External Managers were hired:

- BNY Mellon Equities.
- Blackrock Equities.
- Allianz Global Investors.
- Nomura Corporate Research and Asset Management.

And by Memorandum N°. 802 of October 7th, 2020, the following External Administrators were hired for custody:

- UBS Asset Management (Americas) Inc.

j) Official Letter N°1.073 of the Ministry of Finance of June 3rd, 2019 for contracting an agent and custodian in China for local investment management.

k) Decree N° 892 of the Ministry of Finance of 2014 establishing the fiscal policy, in accordance with the provisions of Article 1 of Law N° 20.128.

l) Ordinary Official Letter N°. 2,219 of November 22nd, 2019, communicates the remuneration of the Fiscal Agent in relation to the Economic and Social Stabilization Fund and the Pension Reserve Fund for the year 2020.

Qualitative characteristics of the Fund's financial statements

i) The Relevance Principle, as a category of the Fund's Financial Statements, from which the Materiality and Relative Importance Principle is inferred implies that in accounting, in order to weight the correct implementation of the principles and rules, it is necessary to always act with practical sense as long as the overall picture of information is not distorted.

ii) Reliability of Information Principle, as a gender category from which the following principles of information are inferred as species: Faithful Representation Principle, Substance over Form Principle, Neutrality Principle, Prudence Principle, and Integrity Principle, within an internal control system mainly based on the Chilean Central Bank verification role of the information prepared by the Custodian Agent, in its capacity as Fiscal Agent.

iii) Comparability principle that constitutes one of the purposes of the Sovereign Wealth Funds' accounting of adhering to the international financial standards, in order to be consistent with global accounting practices.

iv) Understandability Principle to create financial statements of the Sovereign Wealth Funds prepared for general information purposes.

On January 11th, 2019, the Ministry of Finance reported, in the Official Letter N° 68, the new Investment Guidelines related to the Economic and Social Stabilization Fund's resources, which is effective since August 5th, 2015, replacing and invalidating, as appropriate, the Investment guidelines included in the Official Letter N° 1.567, of 2015, from the Ministry of Finance.

On March 18th, 2020, the Ministry of Finance in its Official Letter N° 649, modifies the previous letter (N° 68) and in which the Fiscal Agent is notified of the New Execution Guidelines associated with the investment of Resources of the Economic and Social Stabilization Fund.

NOTE 2 - SIGNIFICANT ACOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are presented below. These policies have been systematically applied to all the activities presented, unless otherwise indicated.

2.1 Basis of preparation

The Fund's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issues by the International Accounting Standard Board (IASB).

The Fund has applied the IFRS 9, which establish that the debt instruments are measured at amortized cost if and only if: i) The asset is held within the business model whose objective is to hold assets in order to collect contractual cash flows, and ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If one of these criteria is not met, the debt instruments are classified at fair value through profit or loss. However, the Fund may choose to designate at the initial recognition of a debt instrument that meets the criteria of amortized cost to measure it at fair value through profit or loss if at doing it significantly eliminates or reduces an accounting mismatch. In the current period, the Fund has not decided to measure at fair value through profit or loss any debt instruments meeting the amortized cost criteria.

Investments in equity instruments (stocks) are classified and measured at fair value through profit or loss, unless the equity instrument is not held for negotiations and is designated by the Fund to be measured at fair value through other comprehensive income. If the equity instrument is designated at fair value through other comprehensive income, all the losses and profits of its valuation, except for the dividend income, which is recognized in profit or loss in accordance with IFRS 15, are recognized in other comprehensive income and will not be subsequently reclassified to profit or loss.

Financial statements are presented in USA dollars and have been prepared from the Sovereign Wealth Fund information that the Central Bank of Chile, as Fiscal Agent, receives from its Custodian Agent J.P. Morgan Chase & Co.

The financial statements presented by the General Treasury of the Republic for the Fund are:

- Classified Statements of Financial Position.
- Statements of Comprehensive Income.
- Statements of Changes in Equity.
- Statements of Cash Flows.
- Notes to Financial Statements.

2.2 Accounting period

The Financial statements comprise the years between January 1 and December 31st, 2020 and 2019.

2.3 Presentation and functional currency

Items included in the Financial Statement of the Fund are recorded using the currency of the primary economic environment in which the Fund operates. Thus, the Fund's values are presented in US dollars, defined as the presentation and functional currency.

Transactions in foreign currencies, other than US dollar, are translated to the functional currency at the rate current at the time of the transaction. Exchange differences arising when monetary items are settled or when monetary items are translated at closing rates are recognized in the statement of comprehensive income.

2.4 Classification and valuation of investments

Investments of the Sovereign Wealth Funds are liquid assets in foreign currency made by the Central Bank of Chile, as Fiscal Agent, JP Morgan, as Custodian Bank, and External Managers in order to capitalize fiscal resources, which are immediately available to finance the activities of the Sovereign Wealth Funds.

Financial Assets and liabilities, Classification and measurement

The Fund has applied the provisions in IFRS 9, which establishes that for the purposes of classification and measurement of its financial assets, the Fund must consider its business model to manage its financial instruments and the characteristics of the contractual flows of those instruments. The fund has classified its financial assets in the following categories:

Financial assets at amortized cost

This category classifies those financial instruments that are held within a business model whose objective is to hold them in order to collect contractual cash flows. Likewise, the contractual terms of the financial asset give rise, on specified dates to cash flows that correspond to payments of principal and interests.

Financial assets at fair value through other comprehensive income

This category classifies those financial instruments that are held in a business model whose objective is achieved by both collecting contractual cash flows and selling those financial assets. Likewise, the contractual conditions of the financial asset give rise on specified dates to cash flows that correspond to payments of principal and interests. Additionally, the Fund may choose to designate investments in equity instruments, as financial assets at fair value through other comprehensive income. In any other case, they are recorded at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets are measured at fair value through profit or loss, unless they are classified at amortized cost or at fair value through other comprehensive income. Additionally, the Fund can make an irrevocable designation at the moment of initial recognition, as financial asset at fair value through profit or loss, if this eliminates accounting mismatch. The Fund adopted the policy of not using hedge accounting.

The purpose of the Fund is to obtain monthly returns similar to those of benchmark comparator, according to a passive management style, for which investment strategies that allow the achievement of this purpose are selected.

The Fund classifies in this category the following instruments: Government Bonds, Inflation-indexed Bonds, Corporate Bonds, Time Deposits, common and preferred stocks, ADR, GDR, REIT, Treasury Bills, Commercial Papers and Derivative Instruments. The basis of classification within this investment category are that the instruments have a reasonably active secondary market, under normal conditions, and that are consistent with the provisions of ORD 68 of January 11th, 2019, in which the Execution Guidelines related to the Fund's resources are established. These investments are recorded at their fair value through profit or loss.

The determination of fair values is made by the Custodian, using the last transaction price of the closing day in the market where they are traded.

Financial liabilities

The Fund classifies its liabilities at amortized cost, except:

- Financial liabilities at fair value through profit or loss, including derivatives which are measured after the fair value.
- Financial liabilities that arise when an asset transfer does not qualify for derecognition or are recorded under the continuing involvement approach.
- Financial liabilities that arise from financial guarantee contracts.
- Financial liabilities that arise from commitments to provide loans at a below-market interest rate.
- Financial liabilities from a business combination.

The Fund may, at initial recognition, designate a financial liability at fair value through profit or loss, if that eliminates an accounting mismatch or a group of financial instruments is managed and measured at fair value as part of its business model.

Recognition, derecognition and measurement

Investment purchases and sales in regular bases are recognized on the transaction date, when the Fund agrees to buy or sell the investment. Financial assets and financial liabilities are initially recognized at fair value.

Transaction costs are expensed as incurred in the income statement, in the case of assets and liabilities at fair value through profit or loss, and they are registered as part of the initial value of the instrument in the case of assets at amortized cost and other liabilities.

Transaction costs are those incurred to acquire financial assets or liabilities. They include fees, commissions and other concepts related to the operation paid to agents, advisors, brokers and operators.

Financial assets are derecognized when the right to receive cash flows from the investments has expired or the Fund has significantly transferred all the risks and benefits related to its ownership.

Following the initial recognition, all the financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Profits and losses arising on changes in the fair value of the category “Financial assets or financial liabilities at fair value through profit or loss” are presented in the Statements of Comprehensive Income within “Net changes in fair value of financial assets and liabilities at fair value through profit or loss” in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss are recognized in results within “Dividend income” when the right of the Fund to receive its payment is established. Interest over debt security at fair value through profit or loss is recognized in results within “Interests and Adjustments” according to the effective interest rate.

Financial assets at amortized cost and other liabilities are valued after their initial recognition, based on the effective interest method. Accrued interests and adjustments are recorded in “Interests and adjustments” of the Statement of Comprehensive Income.

The effective interest method is used to calculate the amortized cost of a financial asset or liability and to assign financial income or expenses in the corresponding period. The effective interest is the rate that discounts the expected future cash inflows or outflows expected over the life of the financial instrument, or when appropriate, a shorter period in respect to the book value of the financial asset or liability. On calculating the type of effective interest, the Fund estimates cash flows considering all the contractual terms of the financial instrument, but it does not consider future credit losses.

The calculation includes all the fees and percent points paid or received among the contracting parties that are a comprehensive part of the type of effective interest, transaction costs and all the other premiums or discounts.

Fair value estimate

The fair value of financial assets and liabilities traded in active markets (such as derivatives and investments to negotiate) is based on quoted markets prices on the date of the statement of financial position; quoted market prices used for financial assets maintained by the Fund is the purchase price; the quoted market price appropriate for financial liabilities is the asking price (in case purchase and asking prices are different). When the Fund maintains derivative financial instruments paid through compensation, it uses intermediate market prices as a basis to establish fair values in order to compensate the risk positions, and applies this purchase or asking price to the net open position, as appropriate.

The fair value hierarchy will have the following levels:

a) Quoted prices (without adjustment) in active markets for identical assets and liabilities (Level 1).

b) Variables other than the quoted prices within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

c) Variables used for asset or liability that are not based on observable market data (unobservable variables) (Level 3).

2.5 Cash

In preparing the Financial Statements of the Fund, a distinction is made between the cash in current account of the General Treasury of the Republic held for the Funds, and the cash held by the Custodian from operations of the Fund's administration.

2.6 Administration Funds

They represent securities delivered to the Central Bank of Chile, in its capacity as Fiscal Agent, to J.P. Morgan, as Custodian Bank, and to External Managers for the management of the Fund's resources, securities that can be partially or totally disposed for the entrusted work.

2.7 Fund in custody

They represent securities delivered by the Central Bank of Chile, in its capacity as Fiscal Agent, to J.P. Morgan Chase & Co., and to External Managers providing global custody services of the securities and instruments of the Fund.

2.8 Net equity

The net equity of the Fund is composed by the initial balance of Total Assets at par value plus Fiscal contributions minus Fiscal Withdrawals, including the profit or loss for the year.

According to the dispositions in articles N° 1, 2, 3 and 4 of the Statutory Decree N° 1 of September 11th, 2006, the Fund will be constituted and increased with the following contributions:

The additional stabilization resources of fiscal income referred to in Decree Law N° 3.653 of 1981 and the Compensation Fund for Copper Income established in accordance with the Loan Agreement BIRF N° 2.625 CH are merged in a single Fund. The new Fund will be called "Economic and Social Stabilization Fund", hereinafter "the Fund".

Additionally, it states that:

a) With those that since the adoption of Decree Law are deposited in the accounts corresponding to the Funds mentioned in Article 1, be hereby refunded.

b) With the resources derived from the application of the transitory second article of the Law N° 19.030.

c) With an annual contribution equivalent to the balance resulting from subtracting the actual surplus, the contribution referred to in letter a) of article 6 and contributions made in use of the power indicated in article 11, both from Law N° 20.128, as long as the balance is positive; and

d) With other extraordinary contributions arranged for the Fund, by a decree from the Ministry of Finance, from the sale of assets or debt issues, as well as the other resources authorized by other laws.

The resources mentioned in the previous letter will be paid through one or more installments until completing the total payment.

The resources of the Fund will be held in one or more special accounts of the Treasury Service.

In spite of the dispositions of article N° 2 of the Decree Law N° 1, during the budgetary execution it will be possible to make contributions to the Fund, as advance payments and charged to the determination that will be done in the same budgetary year, or in future budgetary years, in accordance with Article N° 20 from the Law N° 20.128.

The product of the profitability generated by the investment of Fund's resources, that is, the returns obtained from the financial investment of resources, discounted the costs of that management, will be held as advanced payments made to such Fund.

Nonetheless, if the advances made exceed the amounts to be contributed according to the determination made in the respective budgetary year, the excess will constitute and advance with charge to the determination that must be made in the subsequent budgetary year.

The resources of the Fund can be used for:

a) The financing of the Budget Law, up to the amount established by that law, and included in the Calculation of General Income of the respective Nation.

b) The substitution of income and/or financing higher expense derived from the budgetary execution, in accordance with the authorizations and limitations established in the current legislation.

c) Amortizations, interests or other expenses for Public Debt, including those originated from interest and/or exchange rate swap contracts.

d) The amortization, interests or other expenses due to the payment of Recognition Bonds referred to in provisional article 11 of Decree Law N° 3.500 on interest and/or exchange rates.

e) The financing of the contribution referred to in letter a) of Article 6 from the Law 20.128, when stipulated by the Ministry of Finance, and

f) The financing of extraordinary contributions to the Fund referred to in Article 5 from the Law 20.128, when stipulated by the Ministry of Finance.

In spite of the foregoing, the Ministry of Finance may issue a decree to refund to General Income the resources of the Fund, those amounts from fiscal contribution for payments under the concepts indicated in the preceding letter in the previous year, and that were included in the calculation of the contributions referred to in the final paragraph of Article 20 of Law 20.128.

2.9 Statements of Cash Flows

To prepare the Statements of Cash Flows, the Sovereign Wealth Fund has defined the following considerations:

- Cash and cash equivalents include cash on hand, time deposits in credit institutions and other highly-liquid short term investments.

- Cash flow from operating activities includes administrative expenses of the operation of Sovereign Wealth Funds.

- Cash flow from financing activities includes activities producing changes in the size and composition of net equity, such as income from fiscal contributions and expenses due to fiscal withdrawal.

The Fund uses the indirect method to prepare the Statements of Cash Flows, for which purpose the operational net result, formed by costs incurred in the year due to administration expenses, commissions and insurance, and the financing net result due to the difference in fiscal contributions of the year are considered as components of the annual fund variation.

2.10 Net or offset presentation of financial instruments

Financial assets and liabilities are compensated and the net amount is reported in the statement of financial position when there is a legal right to offset recognized amounts and there is an intention to settle on a net basis or to realize the asset make and settle the liability simultaneously.

2.11 New accounting pronouncements

2.11. 1 New pronouncements that are not yet effective

At the issuance date of these Consolidated Financial Statements, new standards, amendments and interpretations have been issued to the current standards that are not yet effective and the Company has not early adopted any standard or that has been applied when appropriate.

The following standards, amendments and interpretations are effective for annual periods beginning on the dates included below:

	New Standard, Improvements, Amendments and Interpretations	**Mandatory application for fiscal years initiated in:**
IFRS Amendment 16	Leases.	June 1st, 2020
IFRS 17	Insurance Contracts.	January 1st, 2021
Amendment IAS 1	Presentation of Financial Statements and accounting policies, changes in estimates and accounting errors.	January 1st, 2022

The management of the Fund estimates that the adoption of these new Standards, Amendments and Interpretations will not have a significant impact on financial statements.

2.11.2 Standards that have been used in the preparation of these financial statements.

IAS 12 Income tax

In January 2016, the IASB issued amendments to the IAS 12, which clarify the requirements for the recognition of assets for deferred taxes that correspond to debt instruments measured at fair value. Their recognition should be assessed as long as it is probable that the entity has future fiscal income to use the deductible temporary difference.

This amendment did not affect the financial statements of the Fund.

IFRS 9 Financial instruments

On July 24th, 2014, the IFRS finished its project to improve the financial instruments accounting by publishing the IFRS 9 Financial instruments. This standard includes new requirements based on principles for classification and measurement, introduces a “prospective” model of expected credit losses for accounting the impairment and changes in hedge accounting.

The classification designation determines how the financial assets and liabilities are accounted in the financial statements and, in particular, how they are measured. The IFRS 9 introduces a new approach to classify financial assets, based on the business model of the entity for the financial assets management and the characteristics of their contractual flows.

About impairment, the standards establish a unique model that will be applied to all the financial instruments, eliminating the complexities associated to prior accounting requirements, which will require timely recognition of expected credit losses.

IFRS 9 introduces adjustments to regulatory requirements for hedge accounting, as well as new strategy alternatives, the new dispositions represent an important revision of hedge accounting, to align the accounting treatment with the risk management activities, allowing the entities to better reflect these activities in their financial statements. Moreover, as a result of these changes, the financial statements users will receive better information about the risk management and the effect of hedge accounting on financial statements.

This standard also establishes that the change in the fair value that corresponds to the own credit risk will be registered in other comprehensive income, allowing to decrease any eventual volatility that could rise in the results of the entity due to its recognition. The anticipated application of this improvement is allowed before any other requirement of the IFRS 9.

IFRS 15 Revenue from contracts with customers

The purpose is to establish the principles an entity should apply to present useful information to financial statements users about the nature, amount, opportunity and uncertainty of income from ordinary activities and cash flows rising from a contract with customers. This new standard replaced the following current standards and interpretation: IAS 8 Revenue, IAS 11 Construction contracts, IFRIC 13 Costumer loyalty programs, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from costumers, and SIC 31 Revenue – Barter transactions involving advertising services. The new model applies to all the contracts with clients except for those within the scope of other IFRS, such as leases, insurance contracts and financial instruments.

IASB published amendments to IFRS 15, clarifying requirements for the implementation of the new standards. These amendments clarify how:

- To identify a performance obligation (the promise to transfer a good or service to a customer) in a contract;
- To determine whether a company is the principal (the provider of a good or service) or an agent (responsible for organizing the good or service provided); and
- To determine whether the product of granting a license must be recognized at a point in time or over time.

NOTE 3 - INVESTMENT GUIDELINES OF THE ECONOMIC AND SOCIAL STABILIZATION FUND (FEES)

I.- Functions entrusted to the Fiscal Agent

In accordance with the provisions of articles 4 and 15 of the Agency Decree, the Fiscal Agent is entrusted with the functions indicated below. For these purposes, two portfolios are distinguished: on the one hand, the portfolio of article 4 of the Agency Decree (hereinafter, the "Portfolio Managed by the Fiscal Agent"), and, on the other hand, the portfolio corresponding to article 15 of the Agency Decree, whose Resources are managed by external managers of the Treasury (hereinafter, the "Portfolio Managed by External Managers").

I.1. Functions related to checking accounts at the Central Bank of Chile

I.1.1. Portfolio Managed by the Fiscal Agent:

a. Open and maintain a checking account at the Central Bank of Chile on behalf of the General Treasury of the Republic (hereinafter, the "Treasury") for the Resources (hereinafter, the "Checking Account Portfolio Managed by the Fiscal Agent of the FEES").

b. Receive, register and deposit in the Checking Account Portfolio Managed by the Fiscal Agent of the FEES, the sums of money transferred to it by the Treasury, in order to apply them to the administrative order conferred on the Fiscal Agent.

c. Receive, register and deposit in the Checking Account Portfolio Managed by the Fiscal Agent of the FEES, the sums of money that come from the investment or liquidation of the Resources and that are going to be transferred to the Treasury, to other portfolios, to the Checking Account Portfolio Managed by External Managers of the FEES for purposes of payments to third parties corresponding to said portfolio or to whom the Minister of Finance indicates, either during the term of the Fiscal Agency or at its end.

d. For the account and on behalf of the Treasury, make the corresponding payments in relation to the administration or custody of the Resources, in the terms provided in subparagraph f) of article 4 of the Agency Decree.

e. Report daily account activity through electronic communication to the Minister of Finance and the General Treasurer of the Republic (hereinafter, the "Treasurer"), or whoever they designate.

I.1.2. Portfolio Managed by External Managers:

a. Open and maintain a checking account at the Central Bank of Chile on behalf of the Treasury for Resources (hereinafter, the "Checking Account Portfolio Managed by External Managers of the FEES").

b. Receive, register and deposit in the Checking Account Portfolio Managed by External Managers of the FEES, the sums of money transferred to it by the Treasury, in order to apply them to the administration order conferred on the External Managers.

c. Receive, register and deposit in the Checking Account Portfolio Managed by External Managers of the FEES, the sums of money coming from the investment or liquidation of the Resources and that will be transferred to the Treasury, other portfolios or to whom the Minister of Finance indicates, either during the term of the Fiscal Agency or at its end.

d. Make the payments that correspond to the custody of the Resources for and on behalf of the Treasury, in the terms provided in subparagraph e) of article 15 of the Agency Decree.

e. Make payments for and on behalf of the Treasury to the External Managers or other third parties prior instruction from the Treasury.

f. Report daily account activity through electronic communication to the Minister of Finance and the Treasurer, or whoever they designate.

I.2. Custody-related functions

I.2.1. Portfolio Managed by the Fiscal Agent:

On behalf of the Treasury, hire one or more foreign financial institutions or security depositories, to provide the Treasury with custody services for the securities and instruments acquired by the Resources (hereinafter, the "Custodians"), in accordance with subparagraph (d) of article 4 of the Agency Decree and with the Custody Guidelines that are in force. Likewise, hire, on behalf of the Treasury, related complementary services, such as tax counselling or international consulting.

I.2.2. Portfolio Managed by External Managers:

On behalf of the Treasury, hire one or more foreign financial institutions or security depositories, that provide the Treasury with custody services for the securities and instruments acquired by the Resources, in accordance with subparagraph (c) of article 15 of the Agency Decree and with the Custody Guidelines that are in force. Likewise, hire, on behalf of the Treasury, related complementary services, such as tax counseling or international consulting.

I.3. Administration related functions

I.3.1. Portfolio Managed by the Fiscal Agent:

a. The Fiscal Agent will administer, in representation and on behalf of the Treasury, all or part of the Portfolio Resources Managed by the Fiscal Agent.

   In the same capacity, the Fiscal Agent will be authorized to delegate to one or more legal persons, national or foreign (hereinafter, the "Delegated Managers"), the portfolio administration of a part or of the total of the Resources administered by the Agent. Fiscal.

The Delegated Managers must be selected, in accordance with the Ministry of Finance's requirements, and hired by the Fiscal Agent on behalf of and representing the Treasury, using its internal procedures and standards, having previously received the approval of the Ministry of Finance, in order to comply with these guidelines.

The net effective returns obtained from the Resources investments will be considered additional amounts and will be managed by the Fiscal Agent.

The Minister of Finance may modify at any time the amount of the Resources corresponding to the Portfolio Managed by the Fiscal Agent. If it increases, the additional resources must be delivered by the Treasury to the Fiscal Agent by means of a cash transfer to the Checking Account of the Portfolio Managed by the Fiscal Agent of the FEES. Nevertheless, resources may only be transferred to the Fiscal Agent on business days in the United States of America.

However, the Treasury must instruct contributions and withdrawals at least 3 business days prior according to the calendar of bank holidays in the United States of America and Chile.

b. To accomplish this (and subject to the objectives, guidelines and restrictions established in this document), the Fiscal Agent will have full authority on behalf of the Treasury to make decisions on its investments, sales and other activities that may apply. The Fiscal Agent will be able to select, buy, sell, maintain, tender, redeem or exchange investment instruments of any nature; subscribe instrument issues; make foreign exchange contracts both spot and forward; instruct the custodian to make the payments associated with the completion of the transactions; collect dividends, interests, repayments and other benefits, and carry out the other operations, acts and contracts that the Fiscal Agent deems appropriate in relation to the administration of the Resources and for the fulfillment of the functions entrusted in this document.

   Likewise, the Fiscal Agent will have the power to execute the acts and contracts referred to in the preceding paragraph through banks, brokers or any other financial intermediaries.

c. The Fiscal Agent may add transactions to those that are carried out for the own portfolio, corresponding to the international reserves of the Central Bank of Chile, as well as other fiscal resources administered by the Fiscal Agent. The Fiscal Agent is not entitled to directly acquire for themselves the instruments of the Portfolio Managed by the Fiscal Agent of the FEES that are sold on behalf of the Treasury, nor can they directly acquire for the Portfolio Managed by the Fiscal Agent of the FEES the instruments owned by the Central Bank of Chile that are sold from their own portfolio.

d. For all legal purposes, the fiscal agent will hold the funds and investments managed in separate accounts, indicating that they are owned by the treasury of Chile.

I.3.2. Portfolio Managed by External Managers:

a. Carry out, at the request of the Minister of Finance, one or more tenders for the complete or partial administration of the Portfolio Managed by External Managers Resources and hire them for and on behalf of the Treasury, in accordance with subparagraph a) of Article 15 of the Agency Decree.

b. The net effective profitability obtained from the investments in this portfolio will be considered additional amounts to be managed by the External Managers.

c. The Minister of Finance may modify at any time the amount of the Resources corresponding to the Portfolio Managed by External Managers. If the Minister increases them, the additional resources must be delivered by the Treasury to the External Managers, through the Fiscal Agent, by means of cash transfer to the Checking Account Portfolio Managed by External Managers of the FEES. Despite the above, the resources may only be transferred to the External Managers, through the Fiscal Agent, on business days in the United States of America. All in all, the Treasury must instruct contributions and withdrawals at least 3 business days in advance according to the calendar of bank holidays in the United States of America and in Chile.

d. The Custodian(s), for all legal purposes, will hold the funds in custody and in separate accounts, indicating that they are the property of the Chilean Treasury.

I.3.3 Rebalancing

The Ministry of Finance and/or the Treasury will instruct the Fiscal Agent the contributions, withdrawals and transfers of resources from the Portfolio Managed by the Fiscal Agent to the Portfolio Managed by External Managers, or vice versa, that are required to achieve compliance with the deviation ranges that are established in the respective investment guidelines, with at least 3 business days in advance, according to the calendar of bank holidays in the United States of America and Chile.

I.4. Functions related to monitoring and reporting

I.4.1. Portfolio Managed by the Fiscal Agent:

a. To oversee the Portfolio Resources Managed by the Fiscal Agent, maintain complete and detailed information on all transactions and other operations carried out, in accordance with subsection g) of Article 4 of the Agency Decree.

b. Carry out the supervision, monitoring and evaluation of the Delegated Manager(s) of the Fiscal Agent's performance and the Custodian(s)'s service; establish and clarify, where appropriate, on a daily basis the differences that may arise between the records of the Fiscal Agent, the Delegated Managers and the Custodians, as well as the other discrepancies detected corresponding to the hired services; inform the Minister of Finance, or whoever they designate, to determine the exercise of legal or administrative actions that are appropriate for the defense or protection of the Resources and to enforce the corresponding civil, criminal and administrative responsibilities, by the damages, crimes or infractions committed by the Delegated Managers or the Custodians.

c. Inform the Minister of Finance and the Treasurer, or whoever they designate, through electronic means, the daily position of the investments made with the Resources, with a delay of no more than three business days from the reported date. The obligation of information provided in this letter shall be deemed fulfilled by sending the respective electronic communication in the formats instructed by the Minister of Finance or whoever they designate, under the sole responsibility of the person in charge. In any case, if there are discrepancies between the information sent by the Fiscal Agent and that received by the Ministry of Finance and the Treasury, the information entered in the Fiscal Agent's records will remain.

d. Inform the Minister of Finance and the Treasurer, or whoever they designate, through electronic means, any change or correction regarding the information in subsection c) above, concerning the daily position of the investments made with the Resources.

e. Deliver to the Minister of Finance and the Treasurer, or whoever they designate, monthly, quarterly and annual reports concerning the management of the Portfolio Managed by the Fiscal Agent and an evaluation regarding the Delegated Managers' performance.

f. In addition, a report containing the procedure used by the Custodian(s) and the Fiscal Agent (serving as the basis for preparing management reports) will be delivered annually to the same representatives. Likewise, with the same frequency, both representatives will be provided with a report concerning the Custodian (s)' service. These reports will be prepared by comparing the background and information supplied by the Custodian(s), with the records and background maintained by the Fiscal Agent regarding the Portfolio Managed by the Fiscal Agent. The monthly reports will include a copy of the payment orders associated with the Portfolio Managed by the Fiscal Agent of the FEES and the corresponding invoices, as well as information about any methodological changes in the preparation of the reports.

g. The Minister of Finance, the Coordinator of International Finance or the Head of the Sovereign Funds Unit will decide on the quarterly and annual reports referred to in the preceding paragraph, either to approve them or comment on them by email. Any sort of approval or comment will be sent to the Manager of International Markets and to the Manager of the Financial Markets Division of the Central Bank of Chile within a period of 30 calendar days from the date the report was submitted. In case observations are presented in the terms set forth, which will have to be well-founded and specific, the Fiscal Agent will have a period of 15 calendar days to answer them with the purpose of clarifying or resolving them, as needed. For their part, the Minister of Finance, the Coordinator of International Finance or the Head of the Sovereign Funds Unit will decide on the response received, by email, and must approve or reject it with the same requirements previously indicated within 15 calendar days.

h. Write out, maintain and send to the Ministry of Finance (on a monthly basis, at the least) the list of eligible banks and places, according to the criteria indicated in the respective investment regulations included in these guidelines.

i. Meet monthly with staff from the Ministry of Finance to discuss any aspects related to the administration of the Portfolio Managed by the Fiscal Agent of the FEES. These meetings will be held within five business days following the delivery of the respective monthly management report prepared by the Fiscal Agent, mentioned in subsection e) above. Despite the abovementioned, the Ministry of Finance may request additional meetings when deemed appropriate. In coordination with the Fiscal Agent, the Ministry of Finance may participate in organizational instances (telephone calls and meetings) with the Delegated Managers of the Fiscal Agent.

j. As established in Article 7 of the Agency Decree, the Treasury is responsible for the accounting of fiscal resources and the preparation of audited financial statements. However, the administration of the Resources of the Portfolio Managed by the Fiscal Agent will be supervised when determined by the Fiscal Agent in the terms established in its Organic Constitutional Law. Despite the abovementioned points, the Fiscal Agent will require from the Custodians the reports issued by the corresponding supervisory bodies and/or by their external auditors regarding operations with the Portfolio Resources Managed by the Agent at least once a year. However, the Minister of Finance, or whoever they designate, may request from the Fiscal Agent the background on the operations carried out, as well as the processes carried out in the administration of the Portfolio Managed by the Fiscal Agent. In addition, the Fiscal Agent, upon acceptance by the Ministry of Finance, may consider hiring an external expert advisor to evaluate and monitor the management and processes used in the performance of their duties.

I.4.2. Portfolio Managed by External Managers:

a. Verify, in accordance with the standards that the industry normally applies concerning investments in the same type of assets in question, that the Registers of transactions and other operations issued by the External Manager (s) of fiscal resources are consistent in each daily closing as to its nature, that is, regarding its notional amount, term and date, with those reported at said closing by the Custodian (s). For the purposes of subsection a), "daily closing" shall mean the closing of the business day of the Fiscal Agent. Despite the above, the Fiscal Agent shall subsequently verify closings recorded on non-working days of the Fiscal Agent that are business days of the Custodian or External Managers. The Fiscal Agent shall report monthly to the Minister of Finance and the Treasurer, or whoever they designate, the result of said verification. However, the Fiscal Agent shall make reconciliations of notional transactions and positions daily and inform the differences that may arise between their Registers and/or the Registers informed by the External Managers with which the Custodians maintain, as well as the other discrepancies corresponding to the hired services, which will be informed to the Minister of Finance, or whoever he designates, to determine the exercise of the legal or administrative actions that proceed for the defense or protection of the Resources and to make effective the civil, penal and administrative responsibilities that correspond for the damages, crimes or infractions committed by the External Managers or the Custodians.

b. For the purposes of this section I.4.2., and in all that concerns the Portfolio Managed by External Managers, "Records" shall be understood as the information received from the External Managers and/or the Custodians, to verify that the Custodians have the same notional positions as reported by the External Manager (s).

c. An annual report will be submitted to the Minister of Finance and the Treasurer, or whoever they designate, containing the methodology used by the Custodian (s) and the Fiscal Agent. This will serve as the basis for preparing management reports. Likewise, with the same frequency, both representatives will be provided with a report on the service rendered by the Custodian (s). These reports will be prepared by comparing the background and the information provided by the Custodian(s), with the information submitted by the External Managers in reference to the Portfolio Managed by External Managers. The monthly reports referred to in paragraph a) above will include a copy of the payment orders associated with the Portfolio Managed by External Managers of the FEES and the corresponding invoices, as well as information about any methodological change in the preparation of the reports.

d. The Minister of Finance, the Coordinator of International Finance or the Head of the Sovereign Funds Unit will approve or make observations regarding any matter contained in the reports referred to in paragraphs a) and c) above, by email, which will be sent to the Manager of International Markets of the Central Bank of Chile once they decide on the reports of the Portfolio Managed by the Fiscal Agent in accordance with the deadlines and procedures indicated in section I.4.1.g.

e. The Fiscal Agent will require, at least once during the year, from the Custodian(s), the reports referring to their operations with the Fiscal Resources issued by the corresponding supervisory bodies and/or by their external auditors. Likewise, the Fiscal Agent may consider hiring an external expert advisor to evaluate and follow up on the management and processes used in the performance of their duties by the Custodian(s).

The Fiscal Agent will only perform the functions described in paragraphs a), c) and e) above in relation to the Custodian(s).

II.- Resource Investment Guidelines

II.1 Management objective

The objective of Resource management is to obtain exposure to the asset classes detailed in section II.3 in accordance with the specific objectives defined in the investment guidelines established for each of them and indicated in section II.4.

II.2 Investment portfolio

For the investment of the Resources, an investment portfolio (hereinafter "IP") will be established, made up of the sum of the Portfolio Managed by the Fiscal Agent and the Portfolio Managed by External Managers, whose guidelines, parameters and particular rules are contained in the following sections and in the respective investment guidelines.

II.3 Asset Classes and Benchmarks

The IP's fiscal resources will be invested in four asset classes: 1) Banking; 2) Treasury Bills and Sovereign Bonds; 3) Inflation-Indexed Sovereign Bonds (all of the above corresponding to the Portfolio Managed by the Fiscal Agent); and 4) Stocks (corresponding to the Portfolio Managed by External Managers).

The comparator benchmark or Benchmarks (hereinafter, the "Benchmarks") associated with each asset class are those identified in Table 1, together with the composition (%) of the total Resources that each asset class must have (hereinafter, the "Referential Composition").

Table 1: Benchmark Composition and Benchmarks

Benchmark Composition		
Asset class	**Benchmark**	**IP Percentage**
Banking	ICE BofaAML US Dollar 3 Month Deposit Bid Rale Average Index	5.25%
	ICE BofaAML Euro Currency 3 Month Deposit Bid Rate Average Index	6.25%
	ICE BofaAML Japanese Yen 3 Month Deposit Bid Rale Average Index	4.0%
	BANKING TOTAL	**15.5%**
Treasury Bills and Sovereign Bonds	ICE BofaAML US Treasury Bills Index	6.0%
	ICE BofaAML Euro Treasury Bills Index	7.25%
	ICE BofaAML Japan Treasury Bills Index	6.25%
	Treasury bills	**19.5%**
	Bloomberg Barclays Global Aggregate - Treasury: U.S. 7-10 Yrs.	27.25%
	Bloomberg Barclays Global Aggregate - Treasury: Germany 7-10 Yrs.	11.25%
	Bloomberg Barclays Global Aggregate - Treasury: Japan 7·10 Yrs.	10.25%
	Bloomberg Barclays Global Aggregate - Treasury: Switzerland 5-10 Yrs.	7.75%
	Sovereign Bonds	**56.5%**
	Total Treasury bills and sovereign bonds	**76.0%**
Inflation-Indexed Sovereign Bonds	Bloomberg Barclays Global Inflation-Linked: U.S. TIPS 1-10 Yrs.	2.5%
	Bloomberg Barclays Global Inflation-Linked: Germany 1-10 Yrs.	1.0%
	Total Inflation-Indexed Sovereign Bonds	**3.5%**
Stocks	**MSCI All Country World Index· (unhedged with reinvested dividends)**	**5.0%**
TOTAL FEES		**100%**

*Chile is excluded

II.4 Investment Guidelines

The specific investment guidelines for each asset class are contained in the attached documents indicated below:

Appendix A: Investment Guidelines for Bank Assets, Treasury Bills and Sovereign Bonds and Sovereign Bonds Indexed to Inflation.

Appendix B: Stock Investment Guideline.

II.5 Rebalancing policy.

The rebalancing policy for the FEES requires converging the Referential Composition established in Table 1 in the following situations: i) in the event of a contribution to the FEES and ii) in the event that the deviation ranges indicated are exceeded for three consecutive days in Table 2. Despite the above, the Ministry of Finance will determine the specific date of the rebalancing associated with i) and ii) of this paragraph. If situations i) and ii) do not occur, the Ministry of Finance will instruct a rebalancing in the FEES at least once a year and will also monitor compliance with the deviation ranges indicated in Table 2.

Table 2: Deviation ranges for rebalancing

Portfolio	IP Percentage	Deviation range (IP Percentage)
Portfolio Managed by the Fiscal Agent	95%	93% - 97%
Portfolio Managed by External Managers	5%	3% - 7%

Nevertheless, when a rebalancing is carried out, the Manager of the Financial Markets Division of the Central Bank of Chile may request, by email, that the Coordinator of International Finance of the Ministry of Finance maintain the relative positions of the Portfolio Managed by the Fiscal Agent in relation to the Benchmark and not having to converge to the Referential Composition established in Table 1. The Coordinator of International Finance of the Ministry must authorize to maintain said positions through email sent to the Manager of the Financial Markets Division of the Central Bank of Chile.

APPENDIX A
INVESTMENT GUIDELINE FOR BANKING ASSETS, TREASURY BILLS AND SOVEREIGN BONDS AND SOVEREIGN BONDS INDEXED TO INFLATION

1. Management Objective

The objective of managing the resources of Bank Assets, Treasury Bills and Sovereign Bonds and Sovereign Bonds Indexed to Inflation from the Economic and Social Stabilization Fund (FEES) is to obtain total monthly return, before fees, similar to that of benchmark comparators according to a passive management style. The Fiscal Agent will select the necessary investment strategy, within the risk standards established in the guidelines and parameters in section 2 below.

2. Guidelines and Parameters

2.1. Comparator Benchmark

The Comparator Benchmark associated with the Portfolio of Bank Assets, Treasury Bills and Sovereign Bonds and Sovereign Bonds Indexed to Inflation are those presented in Table 1.

Table 1: Comparator Benchmark

Asset class		Comparator Benchmark(Benchmarks)
Banking	Time deposits in dollars	ICE BofaAML US Dollar 3 Month Deposit Bid Rate Average Index
	Time deposits in euros	ICE BofaAML Euro Currency 3 Month Deposit Bid Rate Average Index
	Time deposits in yen	ICE BofaAML Japanese Yen 3 Month Deposit Bid Rate Average Index
Treasury Bills and Sovereign Bonds	US Treasury Bills	ICE BofaAML US Treasury Bills Index
	German Treasury Bills	ICE BofaAML Euro Treasury Bills Index
	Japanese Treasury Bills	ICE BofaAML Japan Treasury Bills Index
	US sovereign bonds	Bloomberg Barclays Global Aggregate - Treasury: U.S. 7-10 Yrs
	German sovereign bonds	Bloomberg Barclays Global Aggregate - Treasury: Germany 7-10 Yrs.
	Japanese sovereign bonds	Bloomberg Barclays Global Aggregate - Treasury: Japan 7-10 Yrs
	Swiss sovereign bonds	Bloomberg Barclays Global Aggregate - Treasury: Switzerland S-ID Yrs.
Inflation-Indexed Sovereign Bonds	US Inflation-Indexed Sovereign Bonds	Bloomberg Barclays Global Inflation-Linked: U.S. TIPS 1-10 Yrs
	German Inflation-Indexed Sovereign Bonds	Bloomberg Barclays Global Inflation-Linked: Germany 1-10 Yrs

2.2. Risk budget

The deviation margins for the Portfolio of Bank Assets, Treasury Bills and Sovereign Bonds and Sovereign Inflation-Indexed Bonds under management are subject to a risk budget. This allows deviations to be limited with respect to the Benchmark. The risk budget is defined in terms of the *ex ante* tracking error that is measured in base points and that will be calculated daily by the Custodian Bank or the institution that performs the middle office services. For the Portfolio Managed by the Fiscal Agent, a risk budget of 50 basis points of annual tracking error (ex ante) is assigned.

2.3. Eligible issuers

2.3.1. Bank issuers

Banks with long-term instrument classifications equal to or greater than A- are eligible in at least two of the international risk classifiers Fitch, Moody's and Standard & Poor's. The investment limits per issuer for the eligible risk classifications (between categories AAA and A-) will be those specified in Table 2. It will be calculated each quarter and considering each contribution, based on the final value of the FEES in the previous quarter or the value of the fund the day prior to the contribution adding the amount of said contribution.

Table 2: Limits by issuer of bank exposure

Risk classification	Maximum limit
AAA	3.0% *FEES previous quarter close
AA+ AA AA-	2.0% * FEES previous quarter close
A+ A A-	1.5% *FEES previous quarter close

It should be noted that there is a difference between exposure to the Custodian Bank, in its role as custodian, and exposure to said bank in its role as intermediary. The end of day cash balances may be held with the Custodian Bank, in the custody account, up to an aggregate amount equivalent to 5% of the market value of the portfolio. If the Custodian Bank loses eligibility as a financial intermediary, the investment limit in its custodian role will be maintained.

On April 20th, 2020 in accordance with document N°778 of the Ministry of Finance, a special waiver is granted to the Central Bank of Chile, in its role as fiscal agent, for the implementation of Investment Guidelines of the resources of the Economic and Social Stabilization Fund. The new temporary limits by issuer of bank exposure are set up for a three-month period.

Table 2: Limits by issuer of bank exposure (Temporary)
(In millions of US Dollars)

Risk classification	Maximum limit
A-	180
A	180
A+	360
AA- / AA+	480
AAA	740

2.3.2. Treasury Bills and Sovereign Bonds

Sovereign issuers that are part of the corresponding Benchmark will be eligible.

In addition, the Supranational Entities, Agencies and Entities with Explicit State Guarantee that are eligible for investment in the portfolio of the International Reserves invested by the Central Bank of Chile will be considered as eligible issuers.

In order to monitor positioning, performance and risk indicators, the instruments issued by Supranational Entities, Agencies and Entities with Explicit State Guarantee with a remaining maturity date of less than one year will be considered as part of the portfolio of Treasury Bills in Table 1. The instruments issued by Supranational Entities, Agencies and Entities with Explicit State Guarantee with a remaining maturity date equal or over one year will be considered as part of the Sovereign Bonds in Table 1.

2.4. Eligible currencies

Only the currencies that are part of the corresponding Benchmark will be eligible.

2.5. Eligible instruments

The instruments eligible for the Portfolio of Bank Assets, Treasury Bills and Sovereign Bonds and Sovereign Bonds Indexed to Inflation will be the following:

a. Banking: only checking account balances in banks, night and weekend deposits, time deposits with a maximum limit of 365 calendar days and certificates of deposit, and checking account balances, time and overnight deposits in central banks will be eligible from authorized countries.

b. Treasury Bills and Sovereign Bonds and Sovereign Bonds Indexed to Inflation: only the instruments that are part of the Benchmark Comparator and those that meet the eligibility criteria of the Benchmark Comparator are eligible. They should therefore be incorporated into the latter the next month or the succeeding one. If an instrument is not definitely incorporated into the Benchmark as expected for any reason, the Fiscal Agent will have a period of 7 business days to sell said instrument. In addition, instruments that are no longer eligible and that are eliminated from the Reference Comparator will be eligible as a result of their maturity being less than the minimum required, as long as the issuer remains part of the index.

c. Supranational Entities, Agencies and Entities with Explicit State Guarantee: only discounted letters and notes (including Euro Commercial Papers) will be eligible; "Bullet" bonds both "Callables" and not "Callables"; whose remaining maturity date, in all cases, is less than or equal to 10 years.

To estimate the maximum investment amount, the maximum limit must be rounded to the ten million.

2.6. Limits on *forward* or currency *swap* operations

For the Portfolio managed by the Fiscal Agent, the following regulations are established for the use of exchange hedging mechanisms using *forwards* or currency *swaps*:

a. Forwards or swaps may only be carried out between the eligible currencies.

b. Forward contracts or currency swaps can only be made with bank counterparties that have a risk rating equivalent to at least A- or higher, in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

c. Forward contracts or currency swaps may be in the form of "cash delivery" or compensation.

d. The term of these contracts may not exceed 95 calendar days.

e. The counterparty risk associated with each forward and swap contract will correspond to 100% of its notional value, in equivalent US$. Because of these guidelines, the notional value of the forward or swap shall be understood as the amount associated with the purchase currency in the forward or swap contract. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract.

f. Notwithstanding the foregoing, the counterparty risk associated with each contract that includes a close-out netting clause in the event of insolvency or bankruptcy of the counterparty, will correspond to 15% of the notional value of the forward and 30% of the notional value of the swap, in its equivalent in US$. Likewise, when hiring a forward or swap that aims to completely or partially close a position associated with another forward or swap, and provided that these contracts include clauses of close-out netting, have the same counterparty, the same maturity date and the same currency pair, the counterparty risk will be measured taking into account the total net position of 105 different forwards and swaps involved. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ for the entire duration of the contract. For the purposes of section 2.6, letter h., said renewal will not be considered within the exposure to derivatives.

g. The counterparty risk corresponding to each forward or swap contract will be considered for the purposes of complying with the limits established in Table 2 above.

h. The notional amount of the forward or swap contracts in force may not exceed 4% of the Portfolio Managed by the Fiscal Agent.

i. The notional value of the forwards or swaps that the Fiscal Agent hires with an eligible counterparty may not exceed 1% of the market value of the portfolio. However, when there is a renewal of a forward (rolling) contract with the same counterparty and in the same currency pair, although for an amount that may differ from the original, these limits per issuer will double for said counterparty, for two business days, counting from the day the forward is renewed. Likewise, for the purposes of calculating the counterparty risk, this renewal will not be considered for the calculation of the risk limits per issuer established in Table 2 above for two business days from the day the forward is renewed.

2.7. Limits to spot currency operations

The Fiscal Agent may carry out spot currency transactions with counterparties that have long-term instrument risk ratings in a category equal to or greater than A- in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

2.8. Limits to investment in Supranational Entities, Agencies and Entities with Explicit State Guarantee.

The limit that may be invested in instruments issued by Supranational Entities, Agencies and Entities with Explicit State Guarantee with a remaining maturity of less than one year will correspond to a maximum of 3.0% for instruments expressed in US$ and 3.5% for instruments expressed in EUR, both stated as a percentage of the FEES. Investments in JPY will not be allowed for these instruments.

The maximum limit that may be invested in instruments issued by Supranational Entities, Agencies and Entities with Explicit State Guarantee with a remaining maturity equal or over one year will correspond to 2.65% for instruments in US$, 1.10% for EUR, 1.00% for JPY and 0.75% for CHF, all expressed as a percentage of the FEES.

2.9. Special restrictions

No part of the portfolio may be invested in any type of instrument of Chilean issuers or in instruments expressed in Chilean pesos. The Fiscal Agent may not use derivatives to increase the exposure to financial instruments beyond the market value of the resources managed. Debt is not allowed for investment purposes except to cover any failure in the settlement of an Instrument.

2.10. External cash movements

External cash movements in the Portfolio of Bank Assets, Treasury Bills and Sovereign Bonds and Sovereign Bonds Indexed to Inflation will result from applying the rebalancing policy to converge the Strategic Composition of Assets of the FEES or withdrawals from the fund.

The rebalancing policy for the FEES requires converging of the Reference Composition in the following situations: i) in the event of a contribution to the FEES and ii) in the event of exceeding the deviation range allowed for said asset class for three consecutive days. Notwithstanding the foregoing, the Ministry of Finance will determine the specific date of rebalancing associated with i) and ii) of this paragraph. If situations i) and ii) do not occur, the Ministry of Finance will instruct a rebalancing in the FEES at least once a year.

Every time a rebalance or withdrawal is materialized from the FEES, the Ministry of Finance will instruct the amounts to be transferred between the External Managers and the Portfolio Managed by the Fiscal Agent. When an external cash contribution is made for the Portfolio Managed by the Fiscal Agent, the Fiscal Agent will be granted a special waiver of 10 bank business days, from the day of the contribution, regarding compliance with the requirements of the sections 1, 2.2 and the limits in Table 2. When an external cash withdrawal is made for the Portfolio Managed by the Fiscal Agent, the Fiscal Agent will be granted a special waiver of 10 bank business days, before and until the day of the withdrawal, regarding compliance with the requirements of sections 1, 2.2 and the limits in Table 2. The special waiver may be extended upon request to the Ministry of Finance, justifying the reasons for said extension. If between the date of the cash withdrawal instruction and the withdrawal itself there is a period of less than 10 business days, it will be understood that the special waiver will correspond to that term.

Nevertheless, when a rebalance is carried out, the Manager of the Financial Markets Division of the Central Bank of Chile may request, by email, that the Coordinator of International Finance of the Ministry of Finance maintain the relative positions of the Portfolio Managed by the Fiscal Agent in relation to the Benchmark and not having to converge to the respective Referential Composition. The Coordinator of International Finance of the Ministry must authorize to maintain said positions through email addressed to the Manager of the Financial Markets Division of the Central Bank of Chile.

3. Valuation criteria

The valuation of the portfolio will be according to the "marked to market" criterion, using the valuation sources of the Custodian Bank. Nevertheless, it is worth stating that the Central Bank of Chile, for internal purposes related to the Portfolio Managed by the Fiscal Agent, may use the same procedure for its own operations corresponding to international reserves, in order to provide compliance with subsection g) of article 4 of the Agency Decree.

4. Securities loan program

The Fiscal Agent for the Portfolio Managed by the Internal Fiscal Agent may agree with the Custodian (s) of the FEES securities lending programs (hereinafter, "Programs" or "Securities Lending") provided that the Custodians with whom the Administration of said Programs are obliged to meet the operating criteria established in the Custody Guidelines, especially including the obligation to make the restitution of the respective titles or of their market value.

5. Others

Foreign exchange operations will be considered spot operations according to the convention used in each market. However, exchange operations that are related to the purchase or sale of an instrument will be considered a spot when the number of days between the trade date and the settlement date corresponds to the market convention for the instrument's settlement period that is being bought or sold.

The base currency of the portfolio for the purpose of the Fiscal Agent’s performance is the United States dollar.

In the event that at any time any of the Instructions described in these guidelines is breached due to fluctuations in market prices, abnormal market conditions or any other reason beyond the control of the Fiscal Agent, they will not be considered a breach of the guidelines as long as it takes the necessary measures to ensure compliance within 7 business days after the situation has been detected. The term applicable to the Portfolio Managed by the Fiscal Agent may be extended upon request made by the Fiscal Agent to the Minister of Finance, or whoever they designate, and the reasons for the extension must be justified.

APPENDIX B

STOCKS INVESTMENT GUIDELINE

1. Management objective

The objective of the Economic and Social Stabilization Fund Stocks Portfolio (FEES) resource administration is to obtain total monthly return, before fees, similar to that of the Benchmark Comparator according to a passive administration style, within the standards of risk established in the relevant guidelines and parameters of section 2 below.

2. Guidelines and parameters

2.1. Benchmark Comparator

The Benchmark Comparator associated with the Stock Portfolio is MSCI ALL Country World/Index Ex-Chile (unhedged with the dividends re-invested) index.

For the purposes of calculating performance and tracking error, the Benchmark will be used before taxes.

2.2. Risk budget

The deviation margins for the Portfolio of Stocks under management are subject to a risk budget. This allows deviations to be limited with respect to the Benchmark Comparator. The risk budget is defined in terms of the ex-ante tracking error that is measured in base points and that will be calculated daily by the Custodian Bank or the institution that performs the middle office services.

For the Portfolio of Stocks, a risk budget of 60 basis points of annual tracking error (ex-ante) is assigned.

2.3. Eligible issuers and currencies

Only the issuers and currencies that are part of the corresponding Benchmark Comparator are eligible.

2.4 Instruments eligible for Stocks

The instruments eligible for the Portfolio of Stocks are the following:

a. Instruments that are part of the Benchmark Comparator and those that will be incorporated into the Benchmark Comparator from the moment their inclusion is formally communicated by the supplier of the Benchmark Comparator. If for any reason the instruments are not added to the Benchmark as expected, the External Manager will have 7 business days in the local market to sell said instruments from the date their incorporation was expected.

b. The Ministry of Finance will generate, maintain and communicate to the Fiscal Agent a list of eligible Mutual Funds and Exchange Traded Funds (ETFs), which may also include ETFs advised, under-advised or managed by a subsidiary of the External Manager. The Ministry of Finance may modify the mentioned list from time to time through written means to the External Manager. The External Manager will continue depending on these instructions until notified otherwise by the Ministry of Finance.

c. American Depositary Receipts (ADRs), Global Depository Receipts (GDRs) and other Depositary Receipts traded on the stock exchange, of the stocks that constitute the Benchmark, provided they do not require the use of tax agents in the country of the issuer of the underlying instrument.

d. Futures traded on stock exchange indexes used for hedging reasons that allow minimizing differences with respect to the Benchmark or that allow gaining exposure to part of it. No leverage will be allowed. In other words, the exposure to these derivatives may not exceed the market value of the portion of the underlying assets. If the underlying asset is effective, it must be held in the instruments allowed in section 2.5 below.

2.5. Cash eligible instruments

The cash exposure may not exceed 5% of the value of the portfolio under management. The return obtained in cash must be incorporated into the return calculation of the portfolio under management.

Checking account balances, overnight deposits and/or weekend deposits in banks with classifications of long-term instruments in a category equal to or greater than A- will be eligible as cash in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's. The markets eligible for the investment of cash will be those of countries or jurisdictions where the eligible instruments of the respective mandates are listed.

The maximum exposure to an eligible bank issuer is equivalent to 5% of the market value of the portfolio based on its market value at the end of the previous quarter. Nevertheless, each time the External Manager receives a contribution in cash, the External Manager may invest up to 10% of the market value of the portfolio in the same bank issuer for a maximum of 10 business days from the day of the contribution. Furthermore, when the External Manager receives the instruction to produce liquidity for a cash withdrawal, the External Manager may invest up to 10% of the market value of the portfolio in the same bank issuer for 10 business days before and until the date of the cash withdrawal.

It should be noted that a distinction is made between exposure to the Custodian Bank, in its role as custodian, and exposure to said bank in its role as intermediary. The end of day cash balances may be held with the Custodian Bank, in the custody account, up to an aggregate amount equivalent to 5% of the market value of the portfolio. If the Custodian Bank loses eligibility as a financial intermediary, the investment limit in its custodian role will be maintained.

2.6 Limits on currency forward or swap operations

The External Manager may enter into forward or swap contracts to minimize the differences with respect to the currency composition of the Benchmark Comparator.

The following regulations are established for the use of currency hedging mechanisms using forwards or currency swaps:

a. Forwards or swaps may only be carried out between the eligible currencies.

b. Forward contracts or currency swaps can only be made with counterparties that have long-term instruments with a risk rating equivalent to at least A- or higher in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

c. Forward contracts or currency swaps may be in the form of "cash delivery" or for compensation.

d. The term of these contracts may not exceed 95 calendar days.

e. The counterparty risk associated with each forward and swap contract will correspond to 100% of its notional value, in its equivalent in US$. For the purpose of these guidelines, the notional value of the forward or swap shall be understood as the amount associated with the purchase currency in the forward or swap contract. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract.

f. However, the counterparty risk associated with each contract that includes a close-out netting clause in the event of insolvency or bankruptcy of the counterparty, will correspond to 15% of the notional value of the forward and 30% of the notional value of the swap, in its equivalent in US$. Likewise, when entering a forward or swap contract whose objective is to completely or partially close a position associated with another forward or swap, and provided that these contracts include close-out netting clauses, whether they are with the same counterparty, they have the same maturity date and the same currency pair, the counterparty risk will be measured considering the total net position of the different forwards and swaps involved. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract for the purpose of measuring counterparty risk.

g. The counterparty risk corresponding to each forward and swap contract will be considered for the purposes of complying with the limits established in section 2.5.

h. The notional value of the forwards or swaps that the External Manager contracts with an eligible counterparty may not exceed 3% of the market value of the portfolio managed by him. However, when there is a renewal of a forward (rolling) contract with the same counterparty and in the same currency pair, although for an amount that may differ from the original, this limit per issuer will increase to 6% for said counterparty, for two business days, from the day the forward is renewed. Likewise, for the purposes of calculating counterparty risk, this renewal will not be considered for the calculation of the risk limits per issuer established in section 2.5 for two business days, counting from the day the forward is renewed. For the purposes of the third paragraph of section 2.8, said renewal shall also not be considered within the exposure to derivatives.

2.7. Limits to spot currency operations

The External Manager may execute spot currency transactions with counterparties that have long-term instrument risk classifications equal to or greater than A- in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor’s.

2.8. Special restrictions

It is not allowed to invest in any type of instruments of Chilean issuers or in instruments expressed in Chilean pesos.

The External Manager may not use derivatives to increase the exposure to financial instruments beyond the market value of the resources managed.

The External Manager may contract futures, forwards or currency swaps whose notional amounts valued at market price and in absolute value, may not in aggregate exceed 10% of the portfolio managed.

Mutual funds and Exchange Traded Funds (ETFs), taken together, may not represent, from the External Manager's portfolio, more than the aggregated shares of Egypt, the Philippines, India, Pakistan, Poland, Russia, Thailand, Taiwan and Turkey in the Benchmark comparator applicable to Stocks plus 2%.

The External Manager may not invest in the local markets of Chile, Egypt, the Philippines, India, Peru, Pakistan, Poland, Russia, Thailand, Taiwan and Turkey. Investments in China may only be made through the Hong Kong exchange or any other exchange in which the stocks of the Benchmark are traded, excluding the local markets of China, provided that the External Manager is authorized to invest in the respective local markets.

The External Stocks Manager may not invest in its own stocks or its affiliates.

Borrowing is not allowed for investment purposes except to cover any failure of an instrument in settlement.

2.9. External cash movements

External cash movements in the Portfolio of Bank Assets will result from the application of the rebalancing policy to converge the Strategic Composition of Assets of the FEES or withdrawals from the fund.

The rebalancing policy for the FEES requires convergence of the Benchmark Composition in the following situations: i) in the event of a contribution to the FEES and ii) in the event that the deviation range allowed for said asset clause has been exceeded for three consecutive days. However, the Ministry of Finance will determine the specific date of the rebalancing associated with i) and ii) of this paragraph. If situations i) and ii) do not occur, the Ministry of Finance will instruct a rebalancing in the FEES at least once a year.

Every time a rebalance or withdrawal occurs from the FEES, the Ministry of Finance will instruct the amounts to transfers to/from and/or between the External Managers, if applicable. When an external cash contribution is made for the Portfolio Managed by the Fiscal Agent, the Fiscal Agent will be granted a special waiver of 10 bank business days, from the day of the contribution, regarding compliance with the requirements of sections 1,2.2, and the first and last paragraph of section 2.5. When an external cash withdrawal is made for the Portfolio Managed by the Fiscal Agent, the Fiscal Agent will be granted a special waiver of 10 bank business days, before and until the day of the withdrawal, regarding compliance with the requirements of sections 1, 2.2 and the first and last paragraph of section 2.5. The special waiver may be extended at the request of any of them to the Ministry of Finance, justifying the reasons for said extension. If there is a term of less than 10 business days between the date of the cash withdrawal instruction and the withdrawal itself, it will be understood that the special waiver will be of that term.

3. Valuation criteria

The valuation of the portfolio will be according to the "marked to market" criterion, using the valuation sources of Custodian Bank.

4. Securities loan program

The External Manager may not carry out or agree on securities lending programs. Nonetheless, the Ministry of Finance understands and accepts that the FEES portfolio may be exposed to a securities lending program through the investment of the ETFs authorized in these guidelines. In addition, the Central Bank of Chile, in its role as Fiscal Agent, may agree with the Custodian (s) of the FEES securities lending programs for the Portfolio of Stocks (hereinafter, "Programs" or "Securities Lending") provided that the Custodians with whom the administration of said Programs are obliged to comply with the operating criteria established in the Custody Guidelines, especially including the obligation to make the restitution of the respective titles or of the market value of themselves.

5. Others

Foreign exchange operations will be considered spot operations according to the convention used in each market. However, exchange operations related to the purchase or sale of an instrument will be considered a spot when the number of days between the trade date and the settlement date corresponds to the market convention for the settlement period of the instrument that is being bought or sold.

The base currency of the portfolio for the purposes of the performance of the External Manager is the US$.

In the event that at any time any of the instructions described in these guidelines are breached due to fluctuations in market prices, abnormal market conditions or any other reason beyond the control of the External Manager, the latter will not be considered in default of the guidelines if it takes the necessary measures to ensure compliance within seven business days after the situation has been detected. This period may be extended from a request made by the External Manager to the Ministry of Finance, justifying the reason for the extension.

However, the External Manager may temporarily hold ineligible instruments received due to corporate events or that were no longer eligible due to corporate events. The External Manager will have 30 calendar days from the corporate event to sell said instruments. If the above is not possible, the External Manager must notify the Treasury and communicate an action plan for the liquidation of those instruments. In the particular case of entitlements, preferred stocks, rights, warrants or other equivalent instruments received as a result of corporate events that grant the right to buy, exchange for eligible stocks or receive cash, these may be held in the portfolio until their expiration.

The External Manager is expressly authorized to carry out internal cross operations.

Note 4 – SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

4.1. Significant accounting estimates.

Management makes estimates and formulates assumptions about the future. The resulting accounting estimates rarely tend, by definition, to be equivalent to the actual related results. The estimates and assumptions having a significant risk of causing important adjustments to the accounting values of assets and liabilities within the next financial year are described below:

Fair value of instruments are not quoted in an active market, or traded in the stock market.

The fair value of such values not quoted in an active market cannot be determined using sources of price such as pricing agencies or indicative prices of “Market Markers” for bonds and debts, so they are obtained from the Custodian's information.

The models use observable data, as applicable. However, factors such as credit risk (both own and counterparty), volatilities and correlations require the management to make estimates. Changes in the assumptions about these factors may affect the reported fair value of the financial instruments.

Determining what “observable” means requires a significant criterion of the Fund’s management. Thus, observable data are considered to be those market data that can be readily available, regularly distributed or updated, reliable and verifiable, not private (for exclusive use), and provided by independent sources that participate actively in the relevant market.

4.2 Significant judgments when applying accounting policies

Functional currency

The Administration considers the US dollar as the currency that most faithfully represents the economic effect of transactions, facts and underlying conditions. The US dollar is the currency in which the contributions from the Chilean State are received.

NOTE 5 – FINANCIAL RISK MANAGEMENT

The ESSF is exposed to different kind of risks due to its investments in different financial instruments. These risks can be categorized as market, counterparty, liquidity and operational risk. Most of these risks depend directly on the compositions by asset class and currency, and the selected benchmarks, especially given the passive emphasis of the Fund's investment policy. Each of these risks and the mechanisms created for each one of them are described in detail below.

5.1 Market Risk

Market risk refers to possible losses that may occur in the ESSF as a consequence of changes in the market conditions that affect the value of instruments of its investment portfolio. In the case of this Fund, the main variables that affect its market value are the interest rates, the rate of exchange, credit risk premium (credit spread risk), and the change in the stocks' value.

Interest rate risk: The interest rate movements affect directly the price of fixed income instruments. An increase in rates produces a fall in its market value, while the fall of these rates causes a profit. The parameter that measures the sensitivity of a portfolio to a parallel movement of the structure of interest rates is the duration. The longer the duration, the higher the loss risk to which the portfolio is exposed to an increase of interest rates. The ESSF is prepared to tolerate the interest rate risk of the benchmark, which depends on the individual durations of the indexes that comprise it.

Exchange rate risk: Since the ESSF return is measured in dollars, the value of investments is also affected by the variations in exchange rates. The portfolio includes, mostly, fixed income that is denominated in dollars, euros, yens and Swiss francs. Moreover, there is a small exposure to other 27 currencies in the equity portfolio.

Credit risk premium: The market value of the fixed income instruments of the ESSF are exposed to changes in the market perception about the solvency of the issuers of these instruments. In general, a worsening in the issuer's solvency is related to a credit risk premium in the instruments issued, which originates the fall of its market value. This risk is limited in the ESSF since its fixed income portfolio only includes the USA, Germany, Japan and Switzerland as sovereign issuers. Moreover, since 2015 it is possible to invest in supranational entities, agencies and entities with explicit state guarantees that are eligible to invest in the portfolio of international reserves where the Central Bank of Chile invests, which have a high credit quality.

Equity risk: This risk refers to losses the ESSF may suffer as a result of falls in stock prices included in its portfolio. The intrinsic risk of an individual stock is eliminated at investing in a highly diversified portfolio and willing to tolerate the systematic risk related to the used equity index (MSCI ACWI ex Chile). The strategic composition of assets considers between 5 to 10% of the total portfolio of stocks.

5.2 Counterparty Risk

The issuer of a fixed income instrument may come into a situation of default if, due to a lack of liquidity or capital, cannot meet its financial obligations. In this way, the resources are exposed to a higher counterparty risk as the probabilities of default of an institution or government that is the payee of the funds' investments increase. In the case of the ESSF, the exposure to this kind of risk is controlled in different ways, depending whether the exposure is sovereign or bank. In the first case, the investment is only allowed in USA, Germany, Japan and Switzerland, countries whose sovereign risk classification is higher than AA-

Moreover, since 2015 it is possible to invest in supranational entities, agencies and entities with explicit state guarantees that are eligible to invest in the portfolio of internationals reserves where the Central Bank of Chile invests, which have a high credit quality. For banks, minimum credit classification and limits to the maximum per counterparty have been defined (see Table 6).

Table 6:

Risk Class	Maximum limit (US$ millions)
AAA	3.0% *ESSF, previous quarter-end closing (a)
AA+ AA AA-	2.0% * ESSF, previous quarter-end closing
A+ A A-	1.5% * ESSF, previous quarter-end closing

(a) IP means investment portfolio.
Source: Ministry of Finance.

On the other hand, the risk rising from executing transactions, that is, the losses that may occur in case that the counterparty does not deliver the instruments when they are purchased or the payment when they are sold, is mitigated through the use of transactional or post-transactional structure that allow the delivery of instruments against payment. Finally, the risk of maintaining the investments under a custodian institution is controlled registering the property of the funds in Treasury's name and in segregated accounts.

5.3 Liquidity Risk

The liquidity risk comes from losses that can be generated if it is necessary to sell an instrument in advance to satisfy cash needs. The risk is higher in uncertain situations, since some investment may be exposed to significant discounts in theirs prices as a result of the lack of demand or market depth.

In the ESSF, this risk is mitigated maintaining a high percentage in short-term liquid assets. Treasury Bills, Certificates of Deposit and Time deposits, among others, are considered as liquid assets. All of them are characterized by a lower sensitivity to rate variations. Treasury bills and certificate of deposits can be traded in a market that allows selling them quickly without significant penalties. Time deposits provide liquidity as they reach their maturity date.

5.4 Operational Risk

The operational risk refers to losses that may occur as a result of errors in internal processes, systems, external events or human failures. Examples of operational risks are transaction errors, frauds, failures in the execution of legal responsibilities (contracts), etc.

In the case of the portfolio managed by the Central Bank of Chile, the operational administration of the Funds will be made using the same infrastructure of the issuer available for the management of international reserves.

The operational management of the Fund lies in the International Investment Management. The Central Bank of Chile ("BCCh") also has control processes that consider an appropriate separation of responsibilities and duties, computer applications according to market quality standards and backup systems to guarantee the operational continuity of the Fund investment. This is in addition to internal and external audit processes performed at the BCCh in order to assess the efficacy of current controls.

On the other hand, in the case of the portfolio managed by External Managers, this risk is reduced hiring Managers who have wide experience in the area, a high reputation in the market and strong management systems. Likewise, the Managers' performance is overseen and if their job is unsatisfactory, the contract will be terminated.

NOTE 6 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

a) As of December 31st 2020 and 2019, the investments at fair value amount US$ 7,470,230,078 and US$ 9,467,170,710 respectively.

Custodian Investment J.P. Morgan	**Fair Value Hierarchy level**	**2020 US$**	**2019 US$**
Stocks	1	450,255,233	913,294,367
Other capitalization instruments	1	8,616,985	21,767,232
Government bonds	1	5,058,332,191	6,716,234,500
Indexed bonds	1	312,106,914	429,606,972
Treasury bills	1	1,640,868,518	1,386,145,221
Derivatives	1	50,237	122,418
Subtotal		**7,470,230,078**	**9,467,170,710**

Custodian Investment Central Bank of Chile	**Fair value Hierarchy level**	**2020 US$**	**2019 US$**
Time deposits	1	1,480,983,773	2,761,773,234
Subtotal		**1,480,983,773**	**2,761,773,234**
Total		**8,951,213,850**	**12,228,943,944**

b) As of December 31st, 2020 and 2019, the detail of investments, in accordance with investment currency, is the following:

Original currency	Fair value instruments, JP Morgan			
	2020		2019	
	US$	% of IP	US$	% of IP
US dollar	3,028,916,702	40.55	4,096,180,935	43.27
Euro	1,780,200,010	23.83	1,712,782,392	18.09
Yen	1,863,543,396	24.95	2,518,864,270	26.61
Other	797,569,971	10.68	1,139,343,113	12.03
Subtotal	**7,470,230,078**	**100.00**	**9,467,170,710**	**100.00**

Original currency	Fair value instruments, Central Bank of Chile			
	2020		2019	
	US$	% of IP	US$	% of IP
US dollar	923,621,329	62.37	1,320,029,735	47.80
Euro	557,362,443	37.63	1,441,743,499	52.20
Yen	-	-	-	-
Other	-	-	-	-
Subtotal	**1,480,983,773**	**100.00**	**2,761,773,234**	**100.00**
Total	**8,951,213,850**		**12,228,943,944**	**100.00**

c) As of December 31st, 2020 and 2019, the total value of assets per risk sector is detailed below:

Risk sector	Market value			
	2020		2019	
	US$	%	US$	%
Capitalization instruments	458,872,218	5.12	935,061,599	7.65
Bank (*)	1,485,063,752	16.58	2,766,611,190	22.61
Bonds	7,011,307,623	78.29	8,531,986,693	69.74
Total	**8,955,243,593**	**100.00**	**12,233,659,482**	**100.00**

Asset class	Market value			
	2020		2019	
	US$	%	US$	%
Capitalization instruments	458,872,218	5.12	935,061,599	7.64
Money market (*)	3,125,932,270	34.91	4,152,756,411	33.95
Sovereign bonds	5,058,332,191	56.48	6,716,234,500	54.90
Inflation-indexed bonds	312,106,914	3.49	429,606,972	3.51
Total	**8,955,243,593**	**100.00**	**12,233,659,482**	**100.00**

(*) Including cash and cash equivalents

NOTE 7 – DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31st, 2020 and 2019, the derivative financial liabilities at fair value through profit or loss amount US$ - and US$ 252,995 respectively.

a) The detail of derivative (liabilities) is as follows:

Investment, Custodian J.P. Morgan	**Fair value hierarchy level**	**2020 US$**	**2019 US$**
Derivatives	2	-	252,995
Subtotal		**-**	**252,995**

b) The details of liabilities for derivatives, in accordance with the investment currency is as follows:

Original currency	**Instruments at Fair value, JP Morgan**			
	2020		**2019**	
	US$	**% of IP**	**US$**	**% of IP**
US dollar	-	-	90,355	35.71
Euro	-	-	54,213	21.43
Yen	-	-	72,284	28.57
Others	-	-	36,143	14.29
Total	**-**	**-**	**252,995**	**100.00**

c) The detail of liabilities for derivatives, classified by risk sector, is as follows:

Risk sector	**Market value**			
	2020		**2019**	
	US$	**%**	**US$**	**%**
Banking	-	-	252,995	100.00
Total	**-**	**-**	**252,995**	**100.00**

Liability class	**Market value**			
	2020		**2019**	
	US$	**%**	**US$**	**%**
Money market	-	-	252,995	100.00
Total	**-**	**-**	**252,995**	**100.00**

NOTE 8 – FOUNDATION OF THE FUND

The Fund was founded on September 30th, 2006, designating the Central Bank of Chile to manage it as Fiscal Agent, J.P. Morgan as Custodian Bank, and also designating the External Managers. The movements recorded for these entities for the year ended December 31st, 2020 and 2019, are as follows:

	2020								
	Contributions US$	Withdrawals US$	Retribution to BCCh as Fiscal Agent (1) US$	Custody Of the Portfolio Administrated by BCCh US$	Custody of the portfolios External Managers US$	BlackRock US$	Mellon US$	Rogge US$	Other US$
January	-	-	-	(62,412)	(72,921)	-	-	-	(1,015)
February	-	-	-	(61,987)	(60,285)	-	(67,485)	-	-
March	-	-	(275,420)	-	-	(56,348)	-	-	-
April	-	(2,000,000,000)	-	(64,499)	(29,156)	-	-	-	(68,522)
May	-	-	-	(131,492)	(70,253)	-	(54,288)	-	(1,181)
June	-	-	(275,420)	(60,664)	(94,288)	-	-	-	-
July	-	-	-	(61,323)	(38,256)	(45,446)	-	-	-
August	-	(1,090,000,000)	-	-	10,650	-	(37,847)	-	-
September	-	-	(275,420)	(62,636)	(34,919)	(31,748)	-	-	-
October	-	-	-	(122,423)	(118,629)	-	-	-	-
November	-	-	-	(58,962)	(26,144)	(30,458)	(36,283)	-	-
December	-	(1,000,000,000)	(275,420)	(58,452)	(26,082)	-	(26,043)	-	(101)
Total	**-**	**(4,090,000,000)**	**(1,101,679)**	**(744,851)**	**(560,281)**	**(164,001)**	**(221,945)**	**-**	**(70,819)**

(1) Ordinary Official Letter N° 2219 of 22-1-2019 of the Ministry of Finance authorizes retribution payments of 2020, for the services of Portfolio management and others.

	2019								
	Contributions US$	Withdrawals US$	Retribution to BCCh as Fiscal Agent (1) US$	Custody Of the Portfolio Administrated by BCCh US$	Custody of the portfolios External Managers US$	BlackRock US$	Mellon US$	Rogge US$	Other US$
January	-	-	-	(129,112)	(67,231)	(129,950)	-	-	-
February	-	-	-	-	-	-	(63,649)	-	-
March	-	-	(297,450)	(66,941)	(33,092)	-	-	-	-
April	-	-	-	-	-	(53,263)	-	-	(40,765)
May	-	-	-	(132,164)	(62,075)	-	(65,758)	-	(21,381)
June	-	(563,889,347)	(297,450)	(64,014)	(30,006)	-	-	-	-
July	-	-	-	-	-	(55,011)	-	-	-
August	-	-	-	-	-	-	(69,962)	-	-
September	-	-	(297,450)	(65,316)	(30,656)	(57,601)	-	-	-
October	-	-	-	(133,447)	(72,235)	-	-	-	-
November	-	(1,000,000,000)	-	(132,696)	(71,701)	(59,919)	(71,714)	-	-
December	-	(1,000,000,000)	(297,450)	(131,890)	(62,279)	-	-	-	-
Total	**-**	**(2,563,889,347)**	**(1,189,800)**	**(855,580)**	**(429,275)**	**(355,744)**	**(270,183)**	**-**	**(62,146)**

(1) Ordinary Official Letter N° 2242 of 20-08-2018 of the Ministry of Finance authorizes retribution payments of 2019, for the services of Portfolio management and others.

NOTE 9 – INTEREST EARNED

As of December 31st, 2020 and 2019, the detail of income for interest earned short-term debt at fair value through profit or loss is as follows:

	2020 US$	2019 US$
Interest earned, Portfolio Art. 4	81,661,587	144,544,260
Interest earned, Externally managed portfolio	(1,790)	(902)
Total	**81,659,798**	**144,543,358**

NOTE 10 – DIVIDEND INCOME

As of December 31st 2020 and 2019, the detail of "Dividend income" is as follows:

Dividend due to investment administrated by	**31/12/2020 US$**	**31/12/2019 US$**
Fiscal Agent	904,015	1,572,248
Mellon Capital Management Corporation	5,713,882	12,590,719
BlackRock Institutional Trust Company, N.A.	5,725,353	12,575,204
UBS Equities	1,433,189	-
Total	**13,776,439**	**26,738,171**

NOTE 11 – CASH AND CASH EQUIVALENTS

As of December 31st, 2020 and 2019, the detail of cash and cash equivalents is as follows:

Cash in Custodian's and External Manager's accounts	**31/12/2020 US$**	**31/12/2019 US$**
J.P. Morgan	390,363	933,000
Mellon Capital Management Corporation	-	1,209,895
BlackRock Institutional Trust Company, N.A.	-	2,572,643
UBS Equities	3,639,379	-
Total	**4,029,743**	**4,715,538**

NOTE 12 – PROFITABILITY OF THE FUND

In the years ended December 31st, 2020 and 2019, the profitability of the Fund has been as follows:

Type of Profitability	**Accumulated profitability**		
	Current period	**Last 12 months**	**Last 24 months**
Nominal	8.03%	8.03%	4.07%

NOTE 13 – FAIR VALUE

The Fund has applied IFRS 13 to determine the fair value of its financial assets and liabilities, in accordance with the requirements of the International Accounting Standards Board (IASB).

The definition of fair value corresponds to the price that would be received for selling an asset or paid for transferring a liability in a transaction between market participants on the date of measure (that is, an input price). The transaction is made in the main or most advantageous market and it is not forced, that is, it does not consider Fund's specific factors that may be included in the real transaction.

FINANCIAL ASSETS	31/12/2020			31/12/2019		
	Level	Net Book Value US$	Fair Value US$	Level	Net Book Value US$	Fair Value US$
Cash and cash equivalent.	1	4,029,743	4,029,743	1	4,715,538	4,715,538
Stocks	1	450,255,233	450,255,233	1	913,294,367	913,294,367
Other capitalization instruments	1	8,616,985	8,616,985	1	21,767,232	21,767,232
Time deposits	1	1,480,983,773	1,480,983,773	2	2,761,773,234	2,761,773,234
Government bonds	1	5,058,332,191	5,058,332,191	1	6,716,234,500	6,716,234,500
Indexed bonds	1	312,106,914	312,106,914	1	429,606,972	429,606,972
Treasury bills	1	1,640,868,518	1,640,868,518	1	1,386,145,221	1,386,145,221
Commercial papers	1	-	-	1	-	-
Derivatives	1	50,237	50,237	1	122,418	122,418
FINANCIAL LIABILITIES 3,942,084						
Derivative financial instruments	1	-	-	1	252,995	252,995

During the years 2020 and 2019, all the assets and liabilities of the Fund have been valued at fair value through profit or loss, using for that purpose, the prices quoted in the stock market (level 1). As of December 31st, 2020 and 2019, the Fund has not made transfers of fair value hierarchy.

NOTE 14 – LIENS AND PROHIBITIONS

In accordance with the Official Letter N° 1.267 of June 4th, 2013, Title II N° 5 of the Ministry of Finance of Chile, the Fiscal Agent for the Portfolio, Article 4, may arrange with the Fund Custodian(s), securities lending programs, in accordance with the operational criteria established in the Guidelines on Custody of the Fund, including the obligation to return the respective titles or, otherwise, their market value. The resources obtained or disbursed will be registered on the financial statements of the Sovereign Wealth Fund as results of the year.

As of December 31st, 2020 and 2019, the Fund has the following instruments as “Securities Lending”:

Year 2020		
Location	**Nominal Amounts**	**Market value US$**
Europe	467,860,533	617,117,501
United States of America	1,835,266,137	1,993,465,334
Total	**2,303,126,670**	**2,610,582,835**

Year 2019		
Location	**Nominal Amounts**	**Market value US$**
Europe	921,809,585	1,092,316,016
United States of America	722,240,381	774,177,851
Total	**1,644,049,966**	**1,866,493,867**

NOTA 15 – CUSTODY OF SECURITIES

As of December 31st, 2020 and 2019, the detail of the custody of securities is as follows:

December 31st, 2020:

	Custody of Securities					
Entities	**Amount in Custody (US$)**	**National Custody % of total investments in instruments issued by National Issuers**	**% of total Asset of the Fund**	**Amount in Custody (US$)**	**Foreign Custody % of total investments in instruments issued by Foreign Issuers**	**% of total Asset of the Fund**
Security Deposit Companies	-	-	-	-	-	-
Other entities (*)	-	-	-	8,951,213,850	100.00	99.96
Total portfolio of investments in custody	**-**	**-**	**-**	**8,951,213,850**	**100.00**	**99.96**

(*) These amounts are compensated between financial instruments of asset and liability.

December 31st, 2019:

	Custody of Securities					
Entities	**Amount in Custody (US$)**	**National Custody % of total investments in instruments issued by National Issuers**	**% of total Asset of the Fund**	**Amount in Custody (US$)**	**Foreign Custody % of total investments in instruments issued by Foreign Issuers**	**% of total Asset of the Fund**
Security Deposit Companies	-	-	-	-	-	-
Other entities (*)	-	-	-	12,228,690,948	100.00	99,96
Total portfolio of investments in custody	**-**	**-**	**-**	**12,228,690,948**	**100.00**	**99,96**

(*) These amounts are compensated between financial instruments of asset and liability.

NOTE 16 – RELEVANT EVENTS

At the closing date of these financial statements, no relevant events that could significantly affect the balance or interpretations of these financial statements have been presented.

NOTE 17 – SUBSEQUENT EVENTS

Between January 1st, 2021 and the issuance date of these financial statements (March 22nd, 2021) there are not significant events that might affect their presentation.

10 FINANCIAL STATEMENTS: PENSION RESERVE FUND

Financial statements for the years ended on 31 December 2019 and 2020 and the independent auditors' report[55]

55 The numbering on the pages of this chapter corresponds to the original numbering of the audited financial statements that is independent of the rest of the report.

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INDEPENDENT AUDITOR'S REPORT

Santiago, March 22nd, 2021

General Treasury of the Republic
Pension Reserve Fund

Financial statements report

We have audited the accompanying financial statements of Pension Reserve Fund (hereinafter the "Fund"), which comprise the statements of financial position for the years ended December 31st, 2020 and 2019, and the related statements of income and comprehensive income, changes in equity and cash flows for the years then ended and the related notes to the financial statements,

Management's responsibility for the financial statements

General Treasury of the Republic is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility involves the design, implementation and maintenance of an internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error,

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards generally accepted in Chile. Those standards require that we plan and perform the audit order to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the consolidated financial statements in order to design auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Pension Reserve Fund for the years ended December 31st, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other matters

As indicated in Note 1, the Pension Reserve Fund was set up in order to complement the financing of fiscal obligations derived from the state guarantee for minimum old-age, disability and survivor’s pensions, regulated by Decree Law N°3,500 of 1980, and the welfare pensions stipulated in Decree Law N°869 of 1975.

The above translation of the auditor’s report is provided as a free translation from the original Spanish language, which is the official and binding version. Such translation has been made solely for the convenience of non-Spanish readers.

Sergio Bascuñán Rivera

PENSION RESERVE FUND

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PENSION RESERVE FUND

STATEMENTS OF FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31st, 2020 AND 2019

ASSETS	Notes	31/12/2020	31/12/2019
		US$	US$
CURRENT ASSETS			
Cash and cash equivalents	11	42,135,248	44,427,161
Total current assets		12,135,248	44,427,161
FINANCIAL ASSETS THROUGH PROFIT OR LOSS			
Stocks	6	2,365,308,144	3,044,464,557
Other capitalization instruments	6	44,576,539	72,406,412
Corporate bonds	6	1,329,430,766	2,040,701,638
Government bonds	6	2,836,942,056	4,077,862,200
Mortgage backed securities (MBS)	6	363,258,122	554,187,511
Indexed bonds	6	514,627,383	917,760,925
Treasury bills	6	2,660,434,112	58,987,701
Derivatives	6	116,945	1,426,289
Total investments		10,114,694,067	10,767,797,233
Total assets		10,156,829,315	10,812,224,394

LIABILITIES AND NET EQUITY	Notes	31/12/2020	31/12/2019
		US$	US$
LIABILITIES			
Derivative financial instruments	7	1,843	140,315
Total liabilities		1,843	140,315
NET EQUITY			
Fiscal resources		8,069,577,207	8,082,197,471
Fiscal contributions	8	-	563,889,347
Retained earnings		2,742,506,872	1,581,052,047
(Loss) profit for the year	8	921,218,633	1,161,454,825
Fiscal Withdrawals		(1,576,475,239)	(576,509,611)
Total net equity		10,156,827,472	10,812,084,079
TOTAL LIABILITIES AND NET EQUITY		10,156,829,315	10,812,224,394

The accompanying notes N° 1 to 17 are an integral part of these financial statements.

PENSION RESERVE FUND

STATEMENTS OF INCOME

	Notes	For the years ended 31/12/2020	31/12/2019
		US$	US$
OPERATING INCOME			
Interests earned	9	162,065,436	200,844,318
Dividend income	10	58,382,235	64,283,603
Net realized gain		1,002,195,049	26,921,015
Net unrealized gain		-	876,866,754
Total operating income, net		1,222,612,719	1,168,915,690
OPERATING LOSSES			
Net realized loss from sale of financial instruments		-	-
Net unrealized loss from price changes of financial instruments		(292,927,640)	-
Total operating losses, net		(292,927,640)	-
Total operating income, net		929,685,079	1,168,915,690
ADMINISTRATIVE EXPENSES			
Fiscal agency expense (Central Bank of Chile)	8	(5,837,232)	(5,034,825)
Custodian and external managers expenses	8	(2,310,230)	(2,322,776)
Other expenses		(318,391)	(102,671)
J.P. Morgan adjustment		(593)	(593)
PROFIT FOR THE YEAR		921,218,633	1,161,454,825

The accompanying notes N° 1 to 17 are an integral part of these financial statements.

PENSION RESERVE FUND

STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended 31/12/2020	31/12/2019
	US$	US$
Profit for the year	921,218,633	1,161,454,825
Other comprehensive income reclassified to profit and loss	-	-
Other comprehensive income not reclassified to profit and loss	-	-
Total comprehensive income	-	-
Comprehensive income for the year	921,218,633	1,161,454,825

The accompanying notes N° 1 to 17 are an integral part of these financial statements.

PENSION RESERVE FUND

STATEMENTS OF CHANGES IN NET EQUITY

FOR THE YEARS ENDED

DECEMBER 31st, 2020 AND 2019

	Notes	Fiscal Resources	Retained earnings	Comprehensive income for the year	Total
		US$	US$	US$	US$
Beginning balance as of January 1, 2020		8,069,577,207	1,581,052,047	1,161,454,825	10,812,084,079
Final dividend distribution		-	1,161,454,825	(1,161,454,825)	-
Fiscal contribution	9	-	-	-	-
Fiscal withdrawal	9	(1,576,475,239)	-	-	(1,576,475,239)
Profit for the year		-	-	921,218,633	921,218,633
Ending balance as of December 31, 2020		6,493,101,967	2,742,506,872	921,218,633	10,156,827,472
		============	===========	===========	============
Beginning balance as of January 1, 2019		8,082,197,471	1,945,277,883	(364,225,836)	9,663,249,518
Final dividend distribution		-	(364,225,836)	364,225,836	-
Fiscal contribution	9	563,889,347	-	-	563,889,347
Fiscal withdrawal	9	(576,509,611)	-	-	(576,509,611)
Profit for the year		-	-	1,161,454,825	1,161,454,825
Ending balance as of December 31, 2019		8,069,577,207	1,581,052,047	1,161,454,825	10,812,084,079
		============	===========	===========	============

The accompanying notes N° 1 to 17 are an integral part of these financial statements,

PENSION RESERVE FUND

CASH FLOWS STATEMENTS

(Indirect method)

	Notes	For the years ended 31/12/2020	31/12/2019
		US$	US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		921,218,633	1,161,454,825
Net unrealized (profit) loss		292,927,640	(876,866,754)
Changes in Administration and Custody Funds		360,037,053	(267,880,413)
Cash flows from operating activities		1,574,183,326	16,707,658
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in capital contributions	8	(1,576,475,239)	(12,6120,265)
Cash flows from financing activities		(1,576,475,239)	(12,620,265)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(2,291,913)	4,087,393
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		44,427,161	40,339,768
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	42,135,248	44,427,161

The accompanying notes N° 1 to 17 are an integral part of these financial statements
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PENSION RESERVE FUND

NOTES TO FINANCIAL STATEMENTS

AS OF DECEMBER 31st, 2020 AND 2019

NOTE 1 – GENERAL INFORMATION

The Pension Reserve Fund (hereinafter the "Fund" or "FRP") was set up under the Law Nº 20,128 on September 30th, 2006 of the Chilean Ministry of Finance, for the purpose of complementing the financing of fiscal obligations derived from the state guarantee for minimum old-age, disability and survivor's pensions, regulated by Decree Law N°3,500 of 1980, and the welfare pensions stipulated in Decree Law N°869 of 1975.

The adoption of this Fund has been regulated by the following instructions, provided by the Ministry of Finance:

a) Decree N° 1,618 from April 18th, 2013, which authorizes the Central Bank of Chile, as Fiscal Agent, to administrate the Pension Reserve Fund and instructs that it reports about Investments to the Ministry of Finance and the General Treasury of the Republic.

b) Decree N° 1,247 from August 31st, 2007, which sets the standards, limits, procedures and controls for investments of the Fund's resources.

c) Decree N°1,247 from 2007, which modifies the limits for the Fund's investments.

d) Comptroller General of the Republic's Official Letter N° 71,390 of 2009, which instructs on the valuation criteria of the Fund.

e) Decree N° 1,492 of 2015, which regulates the coordination and operation of advisory activities, supports the management and inspection of financial assets and liabilities of the Public Treasurer, especially, of the Pension Reserve Fund (renders invalid Decree N° 1,636 of 2009).

In article 4 of the mentioned Decree it is possible to highlight the following activities related to the General Treasury of the Republic:

- Account for the investments of the Treasure Resources, as well as the lending operations, in accordance with the accounting and budgetary standards established by the Comptroller General of the Republic and/or the Budget Office, as appropriate.

- Account for the Sovereign Wealth Fund in accordance with international accounting standards or their local equivalent, prepare quarterly and annual financial statements of the Sovereign Wealth Fund in accordance with those standards, and order, charged to the Sovereign Wealth Fund's resources, independent audits of the annual financial statements, all subject to the limit established in Article 7 of this Decree. For that purpose, it will select and hire audit firm or firms among those that are authorized to provide their professional services to entities supervised by the Commission of Banks and Financial Institutions.

- Support the Ministry of Finance in the preparation of Sovereign Wealth Fund's reports and the Report on Public Debts Statistics.

- Verify that nominal and valued records of the investments of the Sovereign Wealth Fund are consistent with the Custodians' records. This activity has been carried out since January 1st, 2014 for the portfolios managed by External Managers, and since July 1st, 2014 for the portfolios managed by Central Bank of Chile.

- Issue the transfer instructions related to contributions and withdrawals from and to the Sovereign Wealth Funds, pursuant to the instructions given by the Ministry of Finance, validate the payments related to the administration and custody of the Sovereign Wealth Funds, as appropriate, and instruct the Central Bank of Chile the payment of the different services provided by the External Managers.

- Supervise managers' compliance with the investment policy limits of the Sovereign Wealth Funds, in accordance with the controls defined by the Ministry of Public Treasury through resolutions. This activity has been carried out since April 1st, 2014 for the portfolios managed by External Managers and since July 1st, in the same year for the portfolios managed by the Central Bank of Chile.

- Supervise compliance with standards and limits established by the Ministry of Finance for investments in the capital markets of the Public Treasury resources other than the Sovereign Wealth Fund, and periodically send a report on that matter to the Budget Office and to the Ministry of Finance.

- Keep an updated manual of procedures for the management of all the functions and attributions that are detailed in this article.

- Carry out any other advisory, coordination or management support work necessary for the performance of its duties.

The information provided by the accounting of the Fund, derives from an entity such as the General Treasury of the Republic, whose temporary existence has full force and future projection, so the figures resulting from the accounting process are not referred to estimated realization values:

f) Ordinary Official Letter N° 1.838 of August 21st, 2020 that states the new Guidelines on investments for the Pension Reserve Fund. It repeals Ordinary Official Letter N°2424 of 2018.

g) Ordinary Official Letter N° 2,463 of December 13th, 2018 stating the new Custodian Guidelines.

h) Decree No. 1.890 of October 8th, 2018 that communicates the remuneration of the Fiscal Agent in relation to the Sovereign Funds.

i) Decree N° 1.378 of the Ministry of Finance of October 5th, 2015 establishing the fiscal policy, in accordance with the provisions of Article 1 of Law N° 20,128.

j) Ministry of Finance Official Letter No. 99 of January 15th, 2020, which establishes the Rebalancing of the Pension Reserve Fund.

k) Official Letter from the Ministry of Finance No. 130 of January 15th, 2020, which reports on the new Transitory Referential Positioning and instructs modifications to the amounts administered by the Central Bank of Chile and the External Administrators of the Pension Reserve Fund.

l) Ministry of Finance Official Letter No. 1.891 dated August 27th, 2020, on the appointment of External Administrators to manage part of the Resources of the Pension Reserve Fund, in assets.

Qualitative characteristics of the Fund's financial statements

i) The Relevance Principle, as a category of the Fund's Financial Statements, from which the Materiality and Relative Importance Principle is inferred implies that in accounting, in order to weight the correct implementation of the principles and rules, it is necessary to always act with practical sense as long as the overall picture of information is not distorted.

ii) Reliability of Information Principle, as a gender category from which the following principles of information are inferred as species: Faithful Representation Principle, Substance over Form Principle, Neutrality Principle, Prudence Principle, and Integrity Principle, within an internal control system mainly based on the Chilean Central Bank verification role of the information prepared by the Custodian Agent, in its capacity as Fiscal Agent.

iii) Comparability principle that constitutes one of the purposes of the Sovereign Wealth Funds' accounting of adhering to the international financial standards, in order to be consistent with global accounting practices.

iv) Understandability Principle to create financial statements of the Sovereign Wealth Funds prepared for general information purposes.

In accordance with Article N°7, of Law N° 20,128, the Ministry of Finance shall commission an actuarial study every three years in order to assess the sustainability of the Pension Fund Reserve.

Likewise, this study shall be developed each time a modification to the minimum or welfare pension is proposed, Except for the automatic readjustment of Article 14, of Decree Law N°2,448 of 1979, and Article 10 of Law N°18,611, The result of these studies shall be included in the records referred to in Article 14 of Constitutional Law N°18,918 of the National Congress.

On December 6th, 2018, the Ministry of Finance reported in the Official Letter N°2424 the new Investment Guidelines related to the Pension Reserve Fund resources, which replace and invalidate as appropriate the investment guidelines included in the Official Letter N°1,566 of 2015 of the Ministry of Finance.

In Article 1, number 4 of Decree N°1,618 of 2013 the Fiscal Agent is authorized by the Ministry of Finance to make one or several tenders for the administration of the Externally Managed Portfolio and hire External Managers, on behalf and in representation of the Treasury. Consequently, in 2013 the custodian services of the following External Managers were hired. This is why during 2020 the custody of the following External Administrators is maintained:

- BlackRock Institutional Trust Company, N.A.
- UBS Asset Management (Americas) Inc.
- Allianz Global Investors.
- BlackRock Institutional Trust Company, N.A.
- Credit Suisse Asset Management (Switzerland) Ltd.
- UBS Asset Management (Americas) Inc.

In July, 2016 the Microdata Center of the Department of Economics of the University of Chile issued a report of the Actuarial Study on the Sustainability of the Pension Reserve Fund; the development of the expected projection for the Fund was assessed in different scenarios and for the next 20 years. Accordingly, the Pension Reserve Fund showed a sustainable performance in each one of the scenarios.

NOTE 2 - SIGNIFICANT ACOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are presented below. These policies have been systematically applied to all the activities presented, unless otherwise indicated.

2.1 Basis of preparation

The Fund's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issues by the International Accounting Standard Board (IASB).

Since January 1st, 2018, the Fund has applied the IFRS 9, which establish that the debt instruments are measured at amortized cost if and only if: i) The asset is held within the business model whose objective is to hold assets in order to collect contractual cash flows, and ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If one of these criteria is not met, the debt instruments are classified at fair value through profit or loss. However, the Fund may choose to designate at the initial recognition of a debt instrument that meets the criteria of amortized cost to measure it at fair value through profit or loss if at doing it significantly eliminates or reduces an accounting mismatch. In the current period, the Fund has not decided to measure at fair value through profit or loss any debt instruments meeting the amortized cost criteria.

The debt instruments that are subsequently measured at amortized cost are subject to impairment.

Investments in equity instruments (stocks) are classified and measured at fair value through profit or loss, unless the equity instrument is not held for negotiations and is designated by the Fund to be measured at fair value through other comprehensive income. If the equity instrument is designated at fair value through other comprehensive income, all the losses and profits of its valuation, except for the dividend income, which is recognized in profit or loss in accordance with IFRS 15, are recognized in other comprehensive income and will not be subsequently reclassified to profit or loss.

Financial statements are presented in USA dollars and have been prepared from the Sovereign Wealth Fund information that the Central Bank of Chile, as Fiscal Agent, receives from its Custodian Agent J.P. Morgan Chase & Co.

The financial statements presented by the General Treasury of the Republic for the Fund are:

- Classified Statements of Financial Position.
- Statements of Comprehensive Income.
- Statements of Changes in Equity.
- Statements of Cash Flows.
- Notes to Financial Statements.

2.2 Accounting period

The Financial statements comprise the years between January 1st and December 31st, 2020 and 2019.

2.3 Presentation and functional currency

Items included in the Financial Statement of the Fund are recorded using the currency of the primary economic environment in which the Fund operates. Thus, the Fund's values are presented in US dollars, defined as the presentation and functional currency.

Transactions in foreign currencies, other than US dollar, are translated to the functional currency at the rate current at the time of the transaction. Exchange differences arising when monetary items are settled or when monetary items are translated at closing rates are recognized in the statement of comprehensive income.

2.4 Classification and valuation of investments

Investments of the Sovereign Wealth Funds are liquid assets in foreign currency made by the Central Bank of Chile, as Fiscal Agent, through eligible intermediaries, such as Banks and Financial Institutions, in order to capitalize fiscal resources, which are immediately available to finance the activities of the Sovereign Wealth Funds.

Financial Assets and liabilities, Classification and measurement

As of January 1st, 2018, the Fund has applied the provisions in IFRS 9, which establishes that for the purposes of classification and measurement of its financial assets, the Fund must consider its business model to manage its financial instruments and the characteristics of the contractual flows of those instruments. The fund has classified its financial assets in the following categories:

Financial assets at amortized cost

This category classifies those financial instruments that are held within a business model whose objective is to hold them in order to collect contractual cash flows. Likewise, the contractual terms of the financial asset give rise, on specified dates to cash flows that correspond to payments of principal and interests.

Financial assets at fair value through other comprehensive income

This category classifies those financial instruments that are held in a business model whose objective is achieved by both collecting contractual cash flows and selling those financial assets. Likewise, the contractual conditions of the financial asset give rise on specified dates to cash flows that correspond to payments of principal and interests. Additionally, the Fund may choose to designate investments in equity instruments, as financial assets at fair value through other comprehensive income. In any other case, they are recorded at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets are measured at fair value through profit or loss, unless they are classified at amortized cost or at fair value through other comprehensive income. Additionally, the Fund can make an irrevocable designation at the moment of initial recognition, as financial asset at fair value through profit or loss, if this eliminates accounting mismatch. The Fund adopted the policy of not using hedge accounting.

The purpose of the Fund is to obtain monthly returns similar to those of benchmark comparator, according to a passive management style, for which investment strategies that allow the achievement of this purpose are selected.

The Fund classifies in this category the following instruments: Government Bonds, Mortgage Backed Securities (MBS), High- Performance Bonds, Inflation-indexed Bonds, Time deposits, Common and Preferred stocks, ADR, GDR, REIT, ETF, RIGHT, Treasury bills, Commercial Papers and Derivative Instruments. The basis of classification within this investment category are that the instruments have a reasonably active secondary market, under normal conditions, and that are consistent with the provisions of ORD 68 of January 11th, 2019, in which the Execution Guidelines related to the Fund's resources are established. These investments are recorded at their fair value through profit or loss.

The determination of fair values is made by the Custodian, using the last transaction price of the closing day in the market where they are traded.

Financial liabilities

The Fund classifies its liabilities at amortized cost, except:

- Financial liabilities at fair value through profit or loss, including derivatives which are measured after the fair value.
- Financial liabilities that arise when an asset transfer does not qualify for derecognition or are recorded under the continuing involvement approach.
- Financial liabilities that arise from financial guarantee contracts.
- Financial liabilities that arise from commitments to provide loans at a below-market interest rate.
- Financial liabilities from a business combination.

The Fund may, at initial recognition, designate a financial liability at fair value through profit or loss, if that eliminates an accounting mismatch or a group of financial instruments is managed and measured at fair value as part of its business model.

Recognition, derecognition and measurement

Investment purchases and sales in regular bases are recognized on the transaction date, when the Fund agrees to buy or sell the investment. Financial assets and financial liabilities are initially recognized at fair value.

Transaction costs are expensed as incurred in the income statement, in the case of assets and liabilities at fair value through profit or loss, and they are registered as part of the initial value of the instrument in the case of assets at amortized cost and other liabilities.

Transaction costs are those incurred to acquire financial assets or liabilities. They include fees, commissions and other concepts related to the operation paid to agents, advisors, brokers and operators.

Financial assets are derecognized when the right to receive cash flows from the investments has expired or the Fund has significantly transferred all the risks and benefits related to its ownership.

Following the initial recognition, all the financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Profits and losses arising on changes in the fair value of the category "Financial assets or financial liabilities at fair value through profit or loss" are presented in the Statements of Income.

Dividend income from financial assets at fair value through profit or loss are recognized in results within “Dividend income” when the right of the Fund to receive its payment is established. Interests over debt security at fair value through profit or loss is recognized in results within “Interests and Adjustments” according to the effective interest rate.

Financial assets at amortized cost and other liabilities are valued after their initial recognition, based on the effective interest method. Accrued interests and adjustments are recorded in “Interests earned” of the Statement of Comprehensive Income.

The effective interest method is used to calculate the amortized cost of a financial asset or liability and to assign financial income or expenses in the corresponding period. The effective interest is the rate that discounts the expected future cash inflows or outflows expected over the life of the financial instrument, or when appropriate, a shorter period in respect to the book value of the financial asset or liability. On calculating the type of effective interest, the Fund estimates cash flows considering all the contractual terms of the financial instrument, but it does not consider future credit losses.

The calculation includes all the fees and percent points paid or received among the contracting parties that are a comprehensive part of the type of effective interest, transaction costs and all the other premiums or discounts.

Fair value estimate

The fair value of financial assets and liabilities traded in active markets (such as derivatives and investments to negotiate) is based on quoted markets prices on the date of the statement of financial position; quoted market prices used for financial assets maintained by the Fund is the purchase price; the quoted market price appropriate for financial liabilities is the asking price (in case purchase and asking prices are different). When the Fund maintains derivative financial instruments paid through compensation, it uses intermediate market prices as a basis to establish fair values in order to compensate the risk positions, and applies this purchase or asking price to the net open position, as appropriate.

The fair value hierarchy will have the following levels:

a) Quoted prices (without adjustment) in active markets for identical assets and liabilities (Level 1).

b) Variables other than the quoted prices within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

c) Variables used for asset or liability that are not based on observable market data (unobservable variables) (Level 3).

2,5 Cash

In preparing the Financial Statements of the Fund, a distinction is made between the cash in current account of the General Treasury of the Republic held for the Funds, and the cash held by the Custodian from operations of the Fund’s administration.

2,6 Administration Funds

They represent securities delivered to the Central Bank of Chile, in its capacity as Fiscal Agent, to J.P. Morgan, as Custodian Bank, and to External Managers for the management of the Fund’s resources, securities that can be partially or totally disposed for the entrusted work.

2,7 Fund in custody

They represent securities delivered by the Central Bank of Chile, in its capacity as Fiscal Agent, to J.P. Morgan Chase & Co, and to External Managers providing global custody services of the securities and instruments of the Fund.

2,8 Net equity

The net equity of the Fund is composed by the initial balance of Total Assets at par value plus Fiscal Contributions minus Fiscal Withdrawals, including the profit or loss for the year.

According to the dispositions in articles N° 6 and 7 of Law N°20,128, the Pension Reserve Fund will be constituted and increased with the following contributions:

a) A contribution equivalent to the effective surplus and up to 0,5% of the Gross Domestic Product (GDP) of the previous year, If the resulting amount of the annual contribution mentioned in the previous paragraph was less than 0,2% of the GDP of the previous year, an annual contribution would be paid in order to reach the 0,2% annual contribution of the GDP of the previous year.

   The amount referred to in this letter shall be paid to the Pension Reserve Fund within the first semester of each year, through one or more deposits until the total is reached.

b) Through the product of the investment profitability of the resources of the Pension Reserve Fund, and

c) Through the other contribution stated by Law.

The contribution referred to in letter a) shall be made only until the accumulated resources in the Pension Reserve Fund reach an amount equivalent to UF900,000,000, Once that amount is reached, the obligation will be met, consequently no other contribution shall be made under this concept.

The resources of the Fund will have as a single objective to complement the payment of obligations referred to in the objective of the Fund. And they shall be used exclusively for this purpose after ten years Law 20,128 came into effect.

The Pension Reserve Fund will be extinguished in its full right, if after fifteen years Law N°20,128 came into effect, the drafts to be made in a calendar year are below a 5% of the amount of expense in state guarantee for minimum pensions and in welfare pensions as considered in the Budget Law of that year.

2,9 Statements of Cash Flows

To prepare the Statements of Cash Flows, the Sovereign Wealth Fund has defined the following considerations:

- Cash and cash equivalents include cash on hand, time deposits in credit institutions and other highly-liquid short term investments.

- Cash flow from operating activities includes administrative expenses of the operation of Sovereign Wealth Funds.

- Cash flow from financing activities includes activities producing changes in the size and composition of net equity, such as income from fiscal contributions and expenses due to fiscal withdrawal.

The Fund uses the indirect method to prepare the Statements of Cash Flows, for which purpose the operational net result, formed by costs incurred in the year due to administration expenses, commissions and insurance, and the financing net result due to the difference in fiscal contributions of the year are considered as components of the annual fund variation.

2,10 Net or offset presentation of financial instruments

Financial assets and liabilities are compensated and the net amount is reported in the statement of financial position when there is a legal right to offset recognized amounts and there is an intention to settle on a net basis or to realize the asset make and settle the liability simultaneously.

2.11 New accounting pronouncements

2,11, 1 New pronouncements that are not yet effective

At the issuance date of these Consolidated Financial Statements, new standards, amendments and interpretations have been issued to the current standards that are not yet effective and the Company has not early adopted any standard or that has been applied when appropriate.

The following standards, amendments and interpretations are effective for annual periods beginning on the dates included below:

	New Standard, Improvements, Amendments and Interpretations	**Mandatory application for fiscal years initiated in:**
IFRS Amendment 16	Leases,	June 1st, 2020
IFRS 17	Insurance Contracts,	January 1st, 2021
Amendment IAS 1	Presentation of Financial Statements and accounting policies, changes in estimates and accounting errors,	January 1st, 2022

The management of the Fund estimates that the adoption of these new Standards, Amendments and Interpretations will not have a significant impact on financial statements.

2.11.2 Standards that have been used in the preparation of these financial statements,

IAS 12 Income tax

In January 2016, the IASB issued amendments to the IAS 12, which clarify the requirements for the recognition of assets for deferred taxes that correspond to debt instruments measured at fair value. Their recognition should be assessed as long as it is probable that the entity has future fiscal income to use the deductible temporary difference.

This amendment did not affect the financial statements of the Fund.

IFRS 9 Financial instruments

On July 24th, 2014, the IFRS finished its project to improve the financial instruments accounting by publishing the IFRS 9 Financial instruments. This standard includes new requirements based on principles for classification and measurement, introduces a “prospective” model of expected credit losses for accounting the impairment and changes in hedge accounting.

The classification designation determines how the financial assets and liabilities are accounted in the financial statements and, in particular, how they are measured. The IFRS 9 introduces a new approach to classify financial assets, based on the business model of the entity for the financial assets management and the characteristics of their contractual flows.

About impairment, the standards establish a unique model that will be applied to all the financial instruments, eliminating the complexities associated to prior accounting requirements, which will require timely recognition of expected credit losses.

IFRS 9 introduces adjustments to regulatory requirements for hedge accounting, as well as new strategy alternatives, the new dispositions represent an important revision of hedge accounting, to align the accounting treatment with the risk management activities, allowing the entities to better reflect these activities in their financial statements. Moreover, as a result of these changes, the financial statements users will receive better information about the risk management and the effect of hedge accounting on financial statements,

This standard also establishes that the change in the fair value that corresponds to the own credit risk will be registered in other comprehensive income, allowing to decrease any eventual volatility that could rise in the results of the entity due to its recognition. The anticipated application of this improvement is allowed before any other requirement of the IFRS 9.

The mandatory application date was January 1st, 2018, allowing its early application,

IFRS 15 Revenue from contracts with customers

In May 2014, IFRS 15 was issued, which purpose is to establish the principles an entity should apply to present useful information to financial statements users about the nature, amount, opportunity and uncertainty of income from ordinary activities and cash flows rising from a contract with customers. This new standard replaced the following current standards and interpretation: IAS 8 Revenue, IAS 11 Construction contracts, IFRIC 13 Costumer loyalty programs, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from costumers, and SIC 31 Revenue – Barter transactions involving advertising services. The new model applies to all the contracts with clients except for those within the scope of other IFRS, such as leases, insurance contracts and financial instruments.

On April 12th, 2016, IASB published amendments to IFRS 15, clarifying requirements for the implementation of the new standards. These amendments clarify how:

- To identify a performance obligation (the promise to transfer a good or service to a customer) in a contract.
- To determine whether a company is the principal (the provider of a good or service) or an agent (responsible for organizing the good or service provided); and
- To determine whether the product of granting a license must be recognized at a point in time or over time.

The application date of this new standard was as of January 1st, 2018, allowing its early application. The adoption of IFRS 15 does not have significant impacts on the financial position or results of the operations of the Fund.

NOTE 3 - INVESTMENT GUIDELINES OF THE PENSION RESERVE FUND

I.- Functions entrusted to the Fiscal Agent

In accordance with the provisions of articles 4 and 15 of the Agency Decree, the Fiscal Agent is entrusted with the functions indicated below. For these purposes, two portfolios are distinguished: on the one hand, the portfolio of article 4 of the Agency Decree (hereinafter, the "Portfolio Managed by the Fiscal Agent"), which is in turn divided into the portfolio where Resources are directly managed by the Fiscal Agent (hereinafter, the “Portfolio Managed by the Internal Fiscal Agent”) and the Portfolio where the resources are managed by delegation of the Fiscal Agent to external delegated managers (hereinafter, the “Portfolio Managed by the Delegated Fiscal Agent”), and, on the other hand, the portfolio corresponding to article 15 of the Agency Decree, whose Resources are managed by external managers of the Treasury (hereinafter, the "Portfolio Managed by External Managers").

I.1. Functions related to checking accounts at the Central Bank of Chile

I.1.1. Portfolio Managed by the Fiscal Agent:

a. Open and maintain a checking account at the Central Bank of Chile on behalf of the General Treasury of the Republic (hereinafter, the "Treasury") for the Resources (hereinafter, the "Checking Account Portfolio Managed by the Fiscal Agent of the FRP").

b. Receive, register and deposit in the Checking Account Portfolio Managed by the Fiscal Agent of the FRP, the sums of money transferred to it by the Treasury, in order to apply them to the administrative order conferred on the Fiscal Agent.

c. Receive, register and deposit in the Checking Account Portfolio Managed by the Fiscal Agent of the FRP, the sums of money that come from the investment or liquidation of the Resources and that are going to be transferred to the Treasury, to other portfolios, to the Checking Account Portfolio Managed by External Managers of the FRP for purposes of payments to third parties corresponding to said portfolio or to whom the Minister of Finance indicates, either during the term of the Fiscal Agency or at its end.

d. For the account and on behalf of the Treasury, make the corresponding payments in relation to the administration or custody of the Resources, in the terms provided in subparagraph f) of article 4 of the Agency Decree.

e. Report daily account activity through electronic communication to the Minister of Finance and the General Treasurer of the Republic (hereinafter, the "Treasurer"), or whoever they designate.

I.1.2. Portfolio Managed by External Managers:

a. Open and maintain a checking account at the Central Bank of Chile on behalf of the Treasury for Resources (hereinafter, the "Checking Account Portfolio Managed by External Managers of the FRP").

b. Receive, register and deposit in the Checking Account Portfolio Managed by External Managers of the FRP, the sums of money transferred to it by the Treasury, in order to apply them to the administration order conferred on the External Managers.

c. Receive, register and deposit in the Checking Account Portfolio Managed by External Managers of the FRP, the sums of money coming from the investment or liquidation of the Resources and that will be transferred to the Treasury, other portfolios or to whom the Minister of Finance indicates, either during the term of the Fiscal Agency or at its end.

d. Make the payments that correspond to the custody of the Resources for and on behalf of the Treasury, in the terms provided in subparagraph e) of article 15 of the Agency Decree.

e. Make payments for and on behalf of the Treasury to the External Directors or other third parties prior instruction from the Treasury.

f. Report daily account activity through electronic communication to the Minister of Finance and the Treasurer, or whoever they designate.

I.2. Custody-related functions

I.2.1. Portfolio Managed by the Fiscal Agent:

On behalf of the Treasury, hire one or more foreign financial institutions or security depositories, to provide the Treasury with custody services for the instruments acquired by the Resources (hereinafter, the "Custodians"), in accordance with subparagraph (d) of article 4 of the Agency Decree and with the Custody Guidelines that are in force. Likewise, hire, on behalf of the Treasury, related complementary services, such as tax counselling or international consulting.

I.2.2. Portfolio Managed by External Managers:

On behalf of the Treasury, hire one or more foreign financial institutions or security depositories, that provide the Treasury with custody services for the securities and instruments acquired by the Resources, in accordance with subparagraph (c) of article 15 of the Agency Decree and with the Custody Guidelines that are in force. Likewise, hire, on behalf of the Treasury, related complementary services, such as tax counseling or international consulting.

I.3. Administration related functions

I.3.1. Portfolio Managed by the Fiscal Agent:

a. The Fiscal Agent will administer, in representation and on behalf of the Treasury, all or part of the Portfolio Resources Managed by the Fiscal Agent, which may be part of the Short and Long-Term Investment Portfolios mentioned in section II.2 of these guidelines.

   In the same capacity, the Fiscal Agent will be authorized to delegate to one or more legal persons, national or foreign (hereinafter, the "Delegated Managers"), the portfolio administration of a part or of the total of the Resources administered by the Agent, Fiscal.

   The Delegated Managers must be selected, in accordance with the Ministry of Finance’s requirements, and hired by the Fiscal Agent on behalf of and representing the Treasury, using its internal procedures and standards, having previously received the approval of the Ministry of Finance, in order to comply with these guidelines.

   The net effective returns obtained from the Resources investments will be considered additional amounts and will be managed by the Fiscal Agent.

   The Minister of Finance may modify at any time the amount of the Resources corresponding to the Portfolio Managed by the Fiscal Agent. If it increases, the additional resources must be delivered by the Treasury to the Fiscal Agent by means of a cash transfer to the Checking Account of the Portfolio Managed by the Fiscal Agent of the FRP. Nevertheless, resources may only be transferred to the Fiscal Agent on business days that they are banking skills both in Santiago de Chile and in the State of New York of the United States of America.

Likewise, subject to the previous authorization of the Minister of Finance, and based on the provisions of Article 4, letter (f), of Decree Law N°1 of 2005, of the Ministry of Finance, all or part of the contributions to the FRP may come from the Economic and Social Stabilization Fund (hereinafter, “FEES”), In such case, the Fiscal Agent will be authorized to determine if the contributions from the FEES, shall be made through direct transfer of financial instruments from the Portfolio Managed by the Fiscal Agent of the FEES to the Portfolio Managed by the Fiscal Agent of the FRP, as well as through the transfer of the cash resulting from the settlement of those instruments. In order to value the instruments contributed from the FEES to the FRP the price of the business day previous to such transfer in accordance with the criteria stated in the corresponding investment guidelines. However, the Treasury shall instruct the contributions and withdrawals at least three business days prior to the date they are disbursed in accordance with the calendar of bank holidays in Santiago de Chile and the State of New York in the United States of America.

b. To accomplish this (and subject to the objectives, guidelines and restrictions established in this document), the Fiscal Agent will have full authority on behalf of the Treasury to make decisions on its investments, sales and other activities that may apply. The Fiscal Agent will be able to select, buy, sell, maintain , tender, redeem or exchange investment instruments of any nature; subscribe instrument issues; make foreign currency contracts both spot and forward; instruct the custodian to make the payments associated with the completion of the transactions; collect mortgages, interests, repayments and other benefits, and carry out the other operations, acts and contracts that the Fiscal Agent deems appropriate in relation to the administration of the Resources and for the fulfillment of the functions entrusted in this office.

   Likewise, the Fiscal Agent will have the power to execute the acts and contracts referred to in the preceding paragraph through banks, brokers or any other financial intermediaries,

c. The Fiscal Agent may add Resources administration transactions to those that are carried out for the own portfolio, corresponding to the international reserves of the Central Bank of Chile, as well as other fiscal resources administered by the Fiscal Agent. The Fiscal Agent is not entitled to directly acquire for themselves the isolated instruments of the Portfolio Managed by the Fiscal Agent of the FEES on behalf of the Treasury, nor can they directly acquire for the Portfolio Managed by the Fiscal Agent of the FEES the isolated instruments owned by the Central Bank of Chile from their own portfolio.

d. For all legal purposes, the fiscal agent will hold the funds and investments managed in separate accounts, indicating that they are property of the treasury of Chile.

I.3.2. Portfolio Managed by External Managers:

a. Carry out, at the request of the Minister of Finance, one or more tenders for the complete or partial administration of the Portfolio Managed by External Managers Resources and hire them for and on behalf of the Treasury, in accordance with subparagraph a) of Article 15 of the Agency Decree.

b. The net effective profitability obtained from the investments in this portfolio will be considered additional amounts to be managed by the External Managers.

c. The Minister of Finance may modify at any time the amount of the Resources corresponding to the Portfolio Managed by External Managers. If the Minister increases them, the additional resources must be delivered by the Treasury to the External Managers, through the Fiscal Agent, by means of cash transfer to the Checking Account Portfolio Managed by External Managers of the FRP. Despite the previous points, the resources may only be transferred to the External Managers, through the Fiscal Agent, on business days in the United States of America. All in all, the Treasury must instruct contributions and withdrawals at least 3 business days prior according to the calendar of bank holidays banking both in Santiago de Chile and in the State of New York in the United States of America.

d. However, the Treasury must instruct the contributions and withdrawals at least 3 business days in advance of the date on which they must materialize according to the calendar of bank holidays in Santiago de Chile and the State of New York in the United States of America.

e. The Custodian(s), for all legal purposes, will hold the funds in custody and in separate accounts, indicating that they are the property of the Chilean Treasury.

I.3.3. Contributions, withdrawals and transfers

The Ministry of Finance and/or the Treasury will instruct the Fiscal Agent the contributions, withdrawals and transfer of resources from the Portfolio Managed by the Fiscal Agent to the Portfolio Managed by External Managers, or vice versa, that are required to achieve compliance with the deviation ranges that are established in the respective investment guidelines, with at least 3 business days in advance, according to the calendar of bank holidays in Santiago de Chile and the State of New York of the United States of America.

Likewise, the Fiscal Agent will be empowered to determine whether the contributions to the Short-Term Investment Portfolio may be completed by direct transfer of financial instruments from the Portfolio Managed by the Fiscal Agent - Internal and / or through the transfer of the cash resulting from the liquidation of such instruments, if the latter were subject to a simultaneous withdrawal.

I.4. Functions related to monitoring and reporting

I.4.1. Portfolio Managed by the Fiscal Agent:

a. To oversee the Portfolio Resources Managed by the Fiscal Agent, maintain complete and detailed information on all transactions and other operations carried out, in accordance with subsection g) of Article 4 of the Agency Decree,

b. Carry out the supervision, monitoring and evaluation of the Delegated Manager(s) of the Fiscal Agent's performance and the Custodian(s)'s service; establish and clarify, where appropriate, on a daily basis the differences that may arise between the records of the Fiscal Agent, the Delegated Managers and the Custodians, as well as the other discrepancies detected corresponding to the hired services; inform the Minister of Finance, or whoever they designate, to determine the exercise of legal or administrative actions that are appropriate for the defense or protection of the Resources and to enforce the corresponding civil, criminal and administrative responsibilities, by the damages, crimes or infractions committed by the Delegated Managers or the Custodians.

c. Inform through electronic means to the Minister of Finance and the Treasurer, or whoever they designate, through electronic means, the daily position of the investments made with the Resources, with a delay of no more than three business days from the reported date. The obligation of information provided in this letter shall be deemed fulfilled by sending the respective electronic communication in the formats instructed by the Minister of Finance or whoever they designate, under the sole responsibility of the person in charge. In any case, if there are discrepancies between the information sent by the Fiscal Agent and that received by the Ministry of Finance and the Treasury, the information entered in the Fiscal Agent's records will remain,

d. Inform through electronic means to the Minister of Finance and the Treasurer, or whoever they designate, through electronic means, any change or correction regarding the information in subsection c) above, concerning the daily position of the investments made with the Resources.

e. Deliver through electronic means to the Minister of Finance and the Treasurer, or whoever they designate, monthly, quarterly, and annual reports concerning the management of the Portfolio Managed by the Fiscal Agent and an evaluation regarding the Delegated Managers' performance.

f. In addition, and through electronic means, a report containing the methodology used by the Custodian (s), entities that provide Middle Office services and the Fiscal Agent that serves as the basis, will be delivered to those who correspond as indicated in letter e) above, to prepare management reports, as appropriate. Likewise, with the same periodicity, a report on the service provided by the Custodian (s) and / or entities that provide Middle Office services will be provided. These reports will be prepared by comparing the background and information supplied by the Custodian (s), with the records and background maintained by the Fiscal Agent regarding the Portfolio Managed by the Fiscal Agent. The monthly reports will include a copy of the payment orders associated with the Portfolio Managed by the Fiscal Agent of the FRP and the corresponding invoices, as well as information about any methodological changes in the preparation of the reports.

g. The Minister of Finance, the Coordinator of International Finance or the Head of the Sovereign Funds Unit will decide on the quarterly and annual reports referred to in the preceding paragraph, either to approve them or comment on them (by email). Any sort of approval or comment will be sent to the Manager of International Markets and to the Manager of the Financial Markets Division of the Central Bank of Chile within a period of 30 calendar days from the date the report was submitted. In case observations are presented in the terms set forth, which will have to be well-founded and specific, the Fiscal Agent will have a period of 15 calendar days to answer them with the purpose of clarifying or resolving them, as needed. For their part, the Minister of Finance, the Coordinator of International Finance or the Head of the Sovereign Funds Unit will decide on the response received, by email, and must approve or reject it with the same requirements previously indicated within 15 calendar days.

h. Write out, maintain and send through electronic means to the Ministry of Finance, at least monthly, to the Ministry of Finance (on a monthly basis, at the least) the list of eligible banks and places, according to the criteria indicated in the respective investment regulations included in these guidelines.

i. Meet monthly with staff from the Ministry of Finance to discuss aspects related to the administration of the Portfolio Managed by the Fiscal Agent of the FRP. These meetings will be held within five business days following the delivery of the respective monthly management report prepared by the Fiscal Agent, mentioned in subsection e) above. Despite the abovementioned points, the Ministry of Finance may request additional meetings when deemed appropriate. In coordination with the Fiscal Agent, the Ministry of Finance may participate in organizational instances (telephone calls and meetings) with the Delegated Managers of the Fiscal Agent.

j. As established in Article 7 of the Agency Decree, the Treasury is responsible for the accounting of fiscal resources and the preparation of audited financial statements. However, the administration of the Resources of the Portfolio Managed by the Fiscal Agent will be supervised when determined by the Fiscal Agent in the terms established in its Organic Constitutional Law. Despite the abovementioned points, the Fiscal Agent will require from the Custodians the reports issued by the corresponding supervisory bodies and/or by their external auditors regarding operations with the Portfolio Resources Managed by the Agent at least once a year. However, the Minister of Finance, or whoever they designate, may request from the Fiscal Agent the background on the operations carried out, as well as the processes carried out in the administration of the Portfolio Managed by the Fiscal Agent. In addition, the Fiscal Agent, upon acceptance by the Ministry of Finance, may consider hiring an external expert advisor to evaluate and monitor the management and processes used in the performance of their duties.

I.4.2. Portfolio Managed by External Managers:

a. Verify, in accordance with the standards that the industry normally applies concerning investments in the same type of assets in question, that the Registers of transactions and other operations issued by the External Manager (s) of fiscal resources are consistent in each daily closing as to its nature, that is, regarding its notional amount, term and date, with those reported at said closing by the Custodian (s). For the purposes of subsection a), "daily closing" shall mean the closing of the business day of the Fiscal Agent.

   The Fiscal Agent shall subsequently verify closings recorded on non-working days of the Fiscal Agent that are business days of the Custodian or External Managers. The Fiscal Agent shall report monthly to the Minister of Finance and the Treasurer, or whoever they designate, the result of said verification.

   Taking into consideration the previous mentioned points, the Fiscal Agent shall make reconciliations of notional transactions and positions daily and inform the differences that may arise between their Registers and/or the Registers informed by the External Managers with which the Custodians maintain, as well as the other discrepancies corresponding to the hired services, which will be informed to the Minister of Finance, or whoever he designates, to determine the exercise of the legal or administrative actions that proceed for the defense or protection of the Resources and to make effective the civil, penal and administrative responsibilities that correspond for the damages, crimes or infractions committed by the External Managers or the Custodians.

b. For the purposes of this section I.4.2., and in all that concerns the Portfolio Managed by External Managers, "Records" shall be understood as the information received from the External Managers and/or the Custodians, to verify that the Custodians have the same notional positions as reported by the External Manager (s).

c. An annual report will be delivered to the Minister of Finance and the Treasurer, or whoever they designate, containing the methodology used by the Custodian (s) the entity that provides Middle Office services and the Fiscal Agent. This will serve as the basis for preparing management reports. Likewise, with the same frequency, both representatives will be provided with a report on the service provided by the Custodian (s). These reports will be prepared by comparing the background and the information provided by the Custodian (s), with the information submitted by the External Managers in reference to the Portfolio Managed by External Managers. The monthly reports referred to in paragraph a) above will include a copy of the payment orders associated with the Portfolio Managed by External Managers of the FEES and the corresponding invoices, as well as information about any methodological change in the preparation of the reports.

d. The Minister of Finance, the Coordinator of International Finance or the Head of the Sovereign Funds Unit will approve or make observations regarding any matter contained in the reports referred to in paragraphs a) and c) above, by email, which will be sent to the Manager of International Markets of the Central Bank of Chile once they decide on the reports of the Portfolio Managed by the Fiscal Agent in accordance with the deadlines and procedures indicated in section I.4.1.g.

e. The Fiscal Agent will require, at least once during the year, from the Custodians, the reports referring to their operations with the Fiscal Resources issued by the corresponding supervisory bodies and/or by their external auditors. Likewise, the Fiscal Agent may consider hiring an external expert advisor to evaluate and follow up on the management and processes used in the performance of their duties by the Custodian (s).

The Fiscal Agent will only perform the functions described in paragraphs a), c) and e) above in relation to the Custodian (s),

II.- Resource Investment Guidelines

II.1 Management objective

The objective of Resource management is to obtain exposure to the asset classes detailed in section II.2 in accordance with the specific objectives defined in the investment guidelines established for each of them and indicated in section II.4.

II.2 Investment portfolio

For the investment of the Resources, a Long-Term Investment Portfolio (hereinafter also "PI LP") and a Short-Term Investment Portfolio (hereinafter also "PI CP") will be established. Both portfolios will be managed in accordance with the particular guidelines, parameters and rules contained in the respective investment guidelines.

II.2.1 Referential composition and benchmarks of the Long-Term Investment Portfolio

The Resources of the PI LP will be invested in six classes of assets: 1) Sovereign Bonds and other Related Assets; 2) Inflation Indexed Sovereign Bonds; 3) US Agency Mortgage Backed Bonds (MBS); 4) Corporate Bonds; 5) High Yield Bonds; and 6) Stocks.

The reference comparators or Benchmarks (hereinafter, the “Reference Comparators”) associated with each class of asset are those identified in Table 1, together with the composition (%) of the total Resources that each class of asset must have. (hereinafter, the "Referential Composition").

Table 1: Referential Composition and Benchmarks Long-Term Investment Portfolio

Benchmark Composition		**Benchmarks**
Asset Class	**IP Percentage**	
Sovereign Bonds and Other related assets [1]	34%	Bloomberg Barclays Global Aggregate: Treasuries Index (USD unhedged)
		Bloomberg Barclays Global Aggregate: Government Related Index (USD unhedged)
Sovereign Bonds Indexed to Real Inflation	8%	Bloomberg Barclays Global inflation-linked Index (USD unhedged)
Mortgage Backed Securities from USA Agencies, (MBS)	6%	Bloomberg Barclays US Mortgage Backed Securities Index
Corporate Bonds	13%	Bloomberg Barclays Global Aggregate: Corporates Index (USD unhedged)
High-Yield Bonds	8%	Bloomberg Barclays Global High Yield Index (USD unhedged)
Stocks	31%	MSCI All Country World Index[2] (USD unhedged, With reinvested dividends)
Total	**100%**	

1 Each sub index of this class of asset is added in accordance with its relative capitalization.
2 Chile excluded.

II.2.2 Referential composition and reference comparators of the Short-Term Investment Portfolio

The PI CP Resources will be invested in two classes of assets: 1) Sovereign Letters; and 2) Sovereign Bonds.

The Referential Comparators associated with each asset class are those identified in Table 2, together with the Referential Composition.

Table 2: Referential Composition and Benchmarks Short-Term Investment Portfolio

Benchmark Composition		Benchmarks
Asset Class	IP Percentage	
Sovereign letters	93%	ICE BofA US Treasury Bill Index (ticker Bloomberg GoBA)
Sovereign Bonds	7%	Bloomberg Barclays Global Aggregate - Treasury: U.S. 1- 3 Yrs (ticker Bloomberg LT01TRUU)
Total	**100%**	

II.3 Resource Management

The assets Sovereign Bonds and Other Related Assets and Inflation-Indexed Sovereign Bonds of the Long-Term Investment Portfolio and the assets Sovereign Bills and Sovereign Bonds of the Short-Term Investment Portfolio will be managed by the Fiscal Agent and will constitute the Portfolio Managed by the Agent. Prosecutor - Internal.

The assets of the US Agency Mortgage-Backed Bonds (MBS) of the Long-Term Investment Portfolio will be managed by Delegated Administrators and will constitute the Portfolio Managed by the Fiscal Agent - Delegated.

The assets Corporate Bonds, High Yield Bonds and Shares of the Long-Term Investment Portfolio will be managed by External Administrators and will constitute the Portfolio Managed by External Administrators.

II.4 Investment Guidelines

The investment guidelines required to administer the FRP by the Fiscal Agent, Delegated Administrators and External Administrators are contained in the attached documents indicated below:

- Appendix A: Investment Guideline for Sovereign Bonds and Other Related Assets, and Sovereign Bonds indexed to Inflation Long-Term.
- Appendix B: Long-Term Investment Guideline for Mortgage Backed Securities from USA Agencies (MBS).
- Appendix C: Long-Term Investment Guideline for Stocks.
- Appendix D: Long-Term Investment Guideline for Corporate Bonds.
- Appendix E: Long-Term Investment Guideline for High-Yield Bonds.
- Appendix F: Short-Term Investment Portfolio Investment Guideline.

II.5 Transition Period and Rebalancing Policy

The Minister of Finance will define the Resources assigned to the Short and Long-Term Investment Portfolios mentioned above.

Likewise, the Minister of Finance must communicate the rebalancing policy that will be used to keep the Long-Term Investment Portfolio aligned with its Referential Composition.

APPENDIX A

LONG-TERM INVESTMENT GUIDELINE FOR SOVEREIGN BONDS AND OTHER RELATED ASSETS, AND SOVEREIGN BONDS INDEXED TO INFLATION

1. Management Objective

The objective of managing the resources of the Portfolio of Sovereign Bonds and Other Related Assets, and Sovereign Bonds Indexed to Inflation of the Pension Reserve Fund (FRP) is to obtain total monthly return, before fees, similar to that of benchmark comparators according to a passive management style. The Fiscal Agent will select the necessary investment strategy, within the risk standards established in the guidelines and parameters in section 2 below,

2. Guidelines and parameters

2.1. Comparator Benchmark

The Comparator Benchmark associated with the asset class Sovereign Bonds and Other Related Assets are *Bloomberg Barclays Global Aggregate: Treasuries Index (USD unhedged), ticker: LGTRTRUU, y Bloomberg Barclays Global Aggregate: Government-Related Index (USD unhedged), ticker: BGAGTRUU.* Each sub index of this asset class is added in accordance with their new relative capitalization.

The Comparator Benchmark associated with the asset class Sovereign Bonds Indexed to Inflation is *Bloomberg Barclays Global inflation-Linked Index (USD unhedged), ticker: LF94TRUU.*

The portfolio of Sovereign Bonds and Other Related Assets, and Sovereign Bonds indexed to inflation correspond to the Portfolio Managed by the Internal Fiscal Agent, which is part of the PI LP.

2.2. Risk budget

The deviation margins for the Portfolio of Sovereign Bonds and other Related Assets, and Sovereign Bonds Indexed to Inflation under management are subject to a risk budget. This allows deviations to be limited with respect to the Benchmark. The risk budget is defined in terms of the *ex ante* tracking error that is measured in base points and that will be calculated daily by the Custodian Bank or the institution that performs the middle office services.

For the Portfolio of Sovereign Bonds and Other Related Assets, and Inflation Indexed Sovereign Bonds Managed by the Fiscal Agent, a risk budget of 50 basis points of annual tracking error (ex ante) is assigned.

2.3. Eligible issuers and currencies

The issuers and currencies that are part of the corresponding Benchmark will be eligible.

2.4. Eligible instruments

The instruments eligible for Sovereign bonds and Other Related Assets will be the following:

a. Instruments that form part of the Benchmark Comparator and those instruments estimated to be incorporated to the Benchmark Comparator in the next or the following month. If for any reason the instrument estimated to be incorporated to the Benchmark comparator is not included as expected, the Fiscal Agent will have 7 business days to sell such instrument.

b. Reopening of instruments, provided that in the prospect of each reopening, is stated in its ISIN will be homologated to an instrument already included in the Benchmark Comparator. It will be allowed to invest in this instrument during the time necessary for its homologation. If the instrument is not homologated as expected, the Fiscal Agent will have 7 additional business days to sell such instrument.

c. Reg S Instruments, 144a or SEC registered, provided that there is one identical in the Benchmark Comparator that is equivalent with the following characteristics: the issuer, coupon, type of coupon (fixed, variable, etc.), maturity, risk rating agencies Fitch, Moody's Standard & Poor's, currency, payment priority (subordinated, unsecured, etc.) and type of maturity (callable, puttable, etc.).

d. Instruments that are no longer eligible for the Benchmark Comparator and that are eliminated from that product, their maturity is lower than the minimum requested, provided that the issuer is still part of the index. Likewise, the instruments that were acquired in letter c) above will also continue to be eligible if their equivalent within the Benchmark Comparator is eliminated because their maturity is lower than the minimum requested, and the issuer is still part of the index.

The eligible instruments for Inflation Indexed Bonds are as follows:

a. Instruments that are part of the Benchmark Comparator and those instruments that are estimated to be incorporated to the Benchmark Comparator the next or the following month. If for any reason the instrument estimated to be incorporated to the Benchmark comparator is not included as expected, the Fiscal Agent will have 7 business days to sell such instrument. Besides, instruments are eligible, if they were no longer eligible and were eliminated from the Benchmark Comparator because their maturity is lower than the minimum requested, provided that the issuer is still part of the index.

2.5. Instruments eligible for cash

The cash exposure cannot exceed 5% of the value of the portfolio under management. The income obtained in the cash must be incorporated to the calculation of income of the Portfolio Managed by the Internal Fiscal Agent of Sovereign Bonds and Other Related Assets, and Inflation Indexed Sovereign Bonds.

The instruments eligible for cash are balances in checking accounts account, overnight deposits, weekend and time deposits with a maximum term of 15 calendar days in banks with classifications of long-term instruments with risk rating agencies such as Fitch, Moody's and Standard & Poor's. The eligible markets for cash investments will be those countries or jurisdictions where the eligible instruments are quoted from the respective mandates.

For the Portfolio Managed by the Internal Fiscal Agent, it is allowed to have investments in the same issuing bank as follows:

a. A maximum of 1% of the Portfolio Managed by the Internal Fiscal Agent, for issuers with an average rating of at least AA-.

b. A maximum of 0,5% of the Portfolio Managed by Internal Fiscal Agent, for issuers with an average rating between A- and A+.

However, each time a contribution is made to the Portfolio Managed by the Internal Fiscal Agent, it is allowed to invest in the same banking issuer for a maximum of 10 business days from the contribution date for a maximum amount up to US$80 million. Besides, when the Fiscal Agent receives the instruction to produce liquidity for a cash withdrawal, the Fiscal Agent will be able to invest up to US$ 80 million in the same banking issuer for 10 business days before and until the date of the cash withdrawal.

It should be noted that a distinction is made between exposure to the Custodian Bank, in its role as custodian, and exposure to said bank in its role as intermediary. The end of day cash balances may be held with the Custodian Bank, in the custody account, up to an aggregate amount equivalent to 5% of the market value of the portfolio. If the Custodian Bank loses eligibility as a financial intermediary, the investment limit in its custodian role will be maintained.

2.6. Limits on forward or currency swap operations

For the Portfolio of Sovereign Bonds and Other Related Assets, and Inflation Indexed Sovereign Bonds Managed by the Fiscal Agent, the following regulations are established for the use of exchange hedging mechanisms using forwards or currency swaps:

a. Forwards or swaps may only be carried out between the eligible currencies.

b. Forward contracts or currency swaps can only be made with bank counterparties that have a risk rating equivalent to at least A- or higher, in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

c. Forward contracts or currency swaps may be in the form of "cash delivery" or compensation.

d. The term of these contracts may not exceed 95 calendar days.

e. The counterparty risk associated with each forward and swap contract will correspond to 100% of its notional value, in equivalent US$. Because of these guidelines, the notional value of the forward or swap shall be understood as the amount associated with the purchase currency in the forward or swap contract. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract.

f. Notwithstanding the foregoing, the counterparty risk associated with each contract that includes a close-out netting clause in the event of insolvency or bankruptcy of the counterparty, will correspond to 15% of the notional value of the forward and 30% of the notional value of the swap, in its equivalent in US$. Likewise, when hiring a forward or swap that aims to completely or partially close a position associated with another forward or swap, and provided that these contracts include clauses of close-out netting, have the same lifetime and the same currency pair, the counterparty risk will be measured taking into account the total net position of different forwards and swaps involved. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ for the entire duration of the contract. For the purposes of section 2.6, letter h, said renewal will also not be considered within the exposure to derivatives.

g. The counterparty risk corresponding to each forward or swap contract will be considered for the purposes of complying with the limits established in Section 2.5 above.

h. The notional amount of the forward or swap contracts in force may not exceed 4% of the Portfolio Managed by the Fiscal Agent, of Sovereign Bonds and Other Related Assets, and Inflation Indexed Sovereign Bonds.

i. The sum of the notional value of the forwards or swaps that the Fiscal Agent hires with an eligible counterparty may not exceed the limits per issuer stated in letters a) and b) of section 2.5 above. However, when there is a renewal of a forward (rolling) contract with the same counterparty and in the same currency pair, although for an amount that may differ from the original, these limits per issuer will double for said counterparty, for two business days, counting from the day the forward is renewed. Likewise, for the purposes of calculating the counterparty risk, this renewal will not be considered for the calculation of the risk limits per issuer established in letters a) and b) of section 2.5 above for two business days from the day the forward is renewed.

2.7. Limits of Sovereign Bonds Assets and Other Related Assets, and Sovereign Bonds Indexed to Inflation.

The investment limits by risk classification of Sovereign Bonds and Other Related Assets, and Sovereign Bonds Indexed to Inflation as a percentage (%) of the Portfolio Managed by the Internal Fiscal Agent is detailed in Table 1.

Table 1: Limits by risk classification of Sovereign Bonds and Other Related Assets and Sovereign Bonds Indexed to Inflation,

Risk Classification	Maximum Percentage of the portfolio managed by the Internal Fiscal Agent
AAA	100%
AA+	
AA	
AA-	
A+	60%
A	
A-	
BBB+	40%
BBB	
BBB-	

In order to monitor the above mentioned limits, the median credit risk classification given to the long-term instruments by the international rating agencies Standard & Poor's, Moody's or Fitch. If there are only two risk classifications, the lowest will prevail. If there is only one risk classification, that one will be selected.

2.8. Limits to spot currency operations

The Fiscal Agent may carry out spot currency transactions with counterparties that have long-term instrument risk ratings in a category equal to or greater than A- in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

2.9. Special restrictions

No part of the portfolio may be invested in any type of instrument of Chilean issuers or in instruments expressed in Chilean pesos. The Fiscal Agent may not use derivatives to increase the exposure to financial instruments beyond the market value of the resources managed. Debt is not allowed for investment purposes except to cover any failure in the settlement of an Instrument.

2.10. External Cash Movements

The external cash movements in the Portfolio of Sovereign Bonds and Other Related Assets, and Inflation Indexed Sovereign Bonds will be instructed by the Ministry of Finance.

External cash movements in the Portfolio of Sovereign Bonds and Other Related Assets, and Sovereign Bonds Indexed to Inflation will result from applying the rebalancing policy to converge the Strategic Composition of Assets of the FRP or withdrawals from the fund. The rebalancing policy of the FRP will take place in the following situations:

a. In the event of exceeding the deviation ranges allowed once converged to the strategic composition of assets for the FRP, or

b. In the event of a contribution to the FRP.

Every time a rebalance or withdrawal is materialized from the FRP, the Ministry of Finance will instruct the amounts to be transferred between the External Managers and the Portfolio Managed by the Fiscal Agent. When an external cash contribution is made for the Portfolio Managed by the Fiscal Agent, the Fiscal Agent will be granted a special permit (waiver) of 10 bank business days, from the day of the contribution, regarding the fulfillment of the requirements of the sections 1, 2.2 and the first and last paragraph of 2.5. When an external cash withdrawal is made for the Portfolio Managed by the Fiscal Agent, the Fiscal Agent will be granted a special permit of 10 bank business days, before and until the day of the withdrawal, regarding compliance with the requirements of sections 1, 2.2 and the first and last paragraph of 2.5 The special permit may be extended upon request to the Ministry of Finance, justifying the reasons for said extension. If between the date of the cash withdrawal instruction and the withdrawal itself there is a period of less than 10 business days, it will be understood that the special permit will correspond to that term.

Notwithstanding the foregoing, when a rebalance is carried out, the Manager of the Financial Markets Division of the Central Bank of Chile may request, by email, the Coordinator of International Finance of the Ministry of Finance to maintain the relative positions of the Portfolio Managed by the Fiscal Agent in relation to the Benchmark Comparator and not having to converge to the respective Reference Composition. The coordinator of International Finance of the Ministry of Finance must authorize maintaining these positions through email addressed to the Manager of the Financial Markets Division of the Central Bank of Chile.

3. Valuation criteria

The valuation of the portfolio will be according to the "marked to market" criterion, using the valuation sources of the Custodian Bank or the entity that provides Middle Office services. Nevertheless, it is worth stating that the Central Bank of Chile, for internal purposes related to the Portfolio Managed by the Fiscal Agent, may use the same procedure for its own operations corresponding to international reserves, in order to provide compliance with subsection g) of article 4 of the Agency Decree.

4. Securities loan program

The Fiscal Agent for the Portfolio of Sovereign Bonds and Other Related Assets, and Inflation Indexed Sovereign Bonds Managed by the Internal Fiscal Agent may agree with the Custodian (s) of the FRP securities lending programs (hereinafter, "Programs" or "Securities Lending") provided that the Custodians with whom the Administration of said Programs are obligate to meet the operating criteria established in the Custody Guidelines, especially including the obligation to make the restitution of the respective titles or their market value.

5. Others

Foreign currency operations will be considered spot operations according to the convention used in each market. However, exchange operations that are related to the purchase or sale of an instrument will be considered a spot when the number of days between the trade date and the settlement date corresponds to the market convention for the instrument's settlement period that is being bought or sold.

The base currency of the portfolio for the purpose of the Fiscal Agent’s performance is the United States dollar.

In the event that at any time any of the Instructions described in these guidelines is breached due to fluctuations in market prices, abnormal market conditions or any other reason beyond the control of the Fiscal Agent, they will not be considered a breach of the guidelines as long as it takes the necessary measures to ensure compliance within 7 business days after the situation has been detected. The term applicable to the Portfolio of Sovereign Bonds and Other Related Assets, and Inflation Indexed Sovereign Bonds Managed by the Fiscal Agent may be extended upon request made by the Fiscal Agent to the Minister of Finance, or whoever they designate, and the reasons for the extension must be justified.

APPENDIX B

INVESTMENT GUIDELINE FOR MORTGAGE BACKED SECURITIES FROM USA AGENCIES (MBS)

1. Management objective

The objective of the resource administration for the Mortgage Backed Securities from USA Agencies (MBS) of the Pension Reserve Fund (FRP) is to obtain total monthly return, before fees, similar to that of the Benchmark Comparator according to a passive administration style, within the standards of risk established in the relevant guidelines and parameters of section 2 below.

2. Guidelines and parameters

2.1. Benchmark Comparator

The Benchmark Comparator associated with the Portfolio of Mortgage Backed Securities from USA Agencies (MBS) is *Bloomberg Barclays US Mortgage Backed Securities (MBS) Index, ticker: LUMSTRUU.*

2.2. Risk Budget

a. The deviation margins for the Mortgage Backed Securities from USA Agencies (MBS) under management are subject to a risk budget. This allows deviations to be limited with respect to the Benchmark. The risk budget is defined in terms of the *ex ante* tracking error that is measured in base points and that will be calculated daily by the Custodian Bank or the institution that performs the middle office services.

b. For the Portfolio of Mortgage Backed Securities from USA Agencies (MBS) the risk budget is defined as a monthly average of 20 basis points of annual tracking error (ex ante) annualized as long as the maximum value does not exceed 30 basis points.

c. The deviation of the effective duration of the total portfolio in relation to the Benchmark may not exceed +/-0,5 years.

2.3. Eligible issuers and currencies

The issuers and currencies that are part of the corresponding Benchmark Comparator are eligible.

2.4. Eligible Instruments

The eligible instruments for the Portfolio of Mortgaged Backed Securities from USA Agencies (MBS) are the following:

a. Pass-Through Mortgage Backed Securities with fixed rate secured by GNMA, FNMA and FHLMC that are part of the programs included in the Benchmark Comparator.

b. Debt instruments nominated in dollars that are issued or secured by the USA Government or by the Agencies (FNMA, FHLMC, FHLB y GNMA).

c. *To Be Announced* (TBAs): The underlying pools for the TBA transactions must derive from eligible MBS, Leverage is not allowed. This means that the Delegated Manager must hold, at all times, at least an amount of cash equal to the exposure of the TBA's. The instruments eligible as cash are detailed in section 2.5 below.

d. Futures of sovereign instruments of USA traded in the *Chicago Mercantile Exchange* (CME) or Eurodollar futures traded in the *Chicago Board of Trade* (CBOT), only used for hedging purposes, that allow to minimize the differences with respect to the Benchmark Comparator, or that allow to improve exposure to part of it. Leverage is not allowed. In other words, the exposure to these futures may not exceed the market value of the portion of the underlying assets. If the underlying asset is effective, it must be held in the instruments allowed in section 2.5 below.

2.5. Cash eligible instruments

The cash held in excess to TBA requirements cannot exceed 5% of the portfolio value under management. The return obtained in cash must be incorporated into the return calculation of the portfolio under management.

Checking account balances, overnight deposits and/or weekend deposits and time deposits with a maximum limit of 15 calendar days in banks with classifications of long-term instruments in a category equal to or greater than A- will be eligible as cash in at least two of the international risk classifiers Fitch, Moody's and Standard & Poor's. USA Treasury Bills are considered as cash and cash equivalents.

The maximum exposure to an eligible bank issuer is equivalent to 5% of the market value of the portfolio based on its market value at the end of the previous quarter. Nevertheless, each time the Delegated Manager receives a contribution in cash, he may invest up to 10% of the market value of the portfolio in the same bank issuer for a maximum of 10 business days from the date of the contribution. Furthermore, when the Delegated Manager receives the instruction to produce liquidity for a cash withdrawal, he may invest up to 10% of the market value of the portfolio in the same bank issuer for 10 business days before and until the date of the cash withdrawal.

It should be noted that a distinction is made between exposure to the Custodian Bank, in its role as custodian, and exposure to said bank in its role as financial intermediary. The end of day cash balances may be held with the Custodian Bank, in the custody account, up to an aggregate amount equivalent to 5% of the market value of the portfolio. USA Treasury Bills are not considered as part of this limit. If the Custodian Bank loses eligibility as a financial intermediary, the investment limit in its custodian role will be maintained.

2.6. Limits on TBAs

The restrictions for TBAs are the following:

a. The exposure to TBA’s cannot exceed 30% of the portfolio.

b. The maturity date of any TBA must be less than 90 days.

c. TBA short positions are not allowed, Nonetheless, it is allowed the sell TBA current positions.

d. TBA underlying securities are not allowed.

TBA must be traded only with US *Primary Dealers* or eligible banks with classification of long-term instruments in categories equal or higher than A- in at least, two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

e. All TBA transactions must be conducted through clearing agencies registered in the USA Securities Exchange Commission (SEC) or must be traded under a *Master Securities Forwards Transaction Agreement* (MSFTA) that complies with FINRA Rule 4210.

2.7. Special Restrictions

a. The External Manager may not use derivatives to increase the exposure to financial instruments beyond the market value of the resources managed.

b. Future notional amounts with USA interest rates in USA at market value and expressed in absolute value, cannot exceed 10% of the market value of the portfolio.

c. The maturity date of a future of interest rate or Eurodollar future must be less than 90 days.

d. It is not allowed to submit or receive the underlying securities in futures of USA sovereign instruments.

e. It is not allowed to invest more than 20% of the market value of the portfolio in the instruments allowed in letter b) of Section 2.4 above.

f. Borrowing is not allowed for investment purposes except to cover any failure of an instrument in settlement.

2.8. External cash movements

External cash movements in the Portfolio of Mortgage Backed Securities from USA Agencies (MBS) will result from the application of the rebalancing policy to converge the Strategic Composition of Assets of the FRP or withdrawals from the fund.

The rebalancing policy for the FRP will take place in the following situations:

a. When an asset class exceeds the deviation range allowed for such asset class, or

b. In case of a contribution to the FRP.

Every time a rebalance or withdrawal occurs from the FRP, the Ministry of Finance through the Fiscal Agent will instruct the amounts to transfer from/to and/or between the managers, if applicable., When an external cash contribution is made, the External Manager will be granted a special waiver of 10 bank business days, from the day of the contribution, regarding compliance with the requirements of sections 1, 2.2, 2.5 a) y 2.5 d). When an external cash withdrawal is made, the Delegated Manager will be granted a special permit of 10 bank business days, before and until the day of the withdrawal, regarding compliance with the requirements of sections 1, 2.2, 2.5 a) y 2.5 d). The special permit may be extended at the request of any of them to the Fiscal Agent, justifying the reasons for said extension. If there is a term of less than 10 business days between the date of the cash withdrawal instruction and the withdrawal itself, it will be understood that the special permit will be of that term.

3. Valuation criteria

The valuation of the portfolio will be according to the "marked to market" criterion, using the valuation sources of Custodian Bank.

4. Securities loan program

The Delegated Manager cannot make or agree on securities loan programs.

5. Others

The base currency of the portfolio for the purposes of the performance of the External Manager is the US$.

In the event that at any time any of the instructions described in these guidelines are breached due to fluctuations in market prices, abnormal market conditions or any other reason beyond the control of the Delegated Manager, the latter will not be considered in default of the guidelines if it takes the necessary measures to ensure compliance within seven business days after the situation has been detected. This period may be extended from a request made by the External Manager to the Ministry of Finance, justifying the reason for the extension.

APPENDIX C

LONG-TERM STOCKS INVESTMENT GUIDELINE

1. Management objective

The objective of the Pension Reserve Fund Stocks Portfolio (FRP) resource administration is to obtain total monthly result, before fees, similar to that of the Benchmark Comparator according to a passive administration style, within the standards of risk established in the relevant guidelines and parameters of section 2 below.

2. Guidelines and parameters

2.1. Benchmark Comparator

The Benchmark Comparator associated with the Stock Portfolio is MSCI ALL Country World/Index Ex-Chile (unhedged with the dividends re-invested) index.

For the purposes of calculating performance and tracking error, the Benchmark will be used before taxes.

2.2. Risk budget

The deviation margins for the Portfolio of Stocks under management are subject to a risk budget. This allows deviations to be limited with respect to the Benchmark Comparator. The risk budget is defined in terms of the ex-ante tracking error that is measured in base points and that will be calculated daily by the Custodian Bank or the institution that performs the middle office services.

For the Portfolio of Shares, a risk budget of 60 basis points of annual tracking error (ex-ante) is assigned,

2.3. Eligible issuers and currencies

Only the issuers and currencies that are part of the corresponding Benchmark Comparator are eligible.

2.4. Instruments eligible for Stocks

The instruments eligible for the Portfolio of Stocks are the following:

a. Instruments that are part of the Benchmark Comparator and those that will be incorporated into the Benchmark Comparator from the moment their inclusion is formally communicated by the supplier of the Benchmark Comparator. If for any reason the instruments are not added to the Benchmark as expected, the External Manager will have 7 business days in the local market to sell said instruments from the date their incorporation was expected.

b. The Ministry of Finance will generate, maintain and communicate to the Fiscal Agent a list of eligible Mutual Funds and Exchange Traded Funds (ETFs), which may also include ETFs advised, under-advised or managed by a subsidiary of the External Manager. The Ministry of Finance may modify the mentioned list from time to time through written means to the External Manager. The External Manager will continue depending on these instructions until notified otherwise by the Ministry of Finance.

c. American Depositary Receipts (ADRs), Global Depository Receipts (GDRs) and other Depositary Receipts traded on the stock exchange, of the stocks that constitute the Benchmark, provided they do not require the use of tax agents in the country of the issuer of the underlying instrument.

d. Futures traded on stock exchange indexes used for hedging reasons that allow minimizing differences with respect to the Benchmark or that allow gaining exposure to part of it. No leverage will be allowed. In other words, the exposure to these derivatives may not exceed the market value of the portion of the underlying assets. If the underlying asset is effective, it must be held in the instruments allowed in section 2.5 below.

2.5. Cash eligible instruments

The cash exposure may not exceed 5% of the value of the portfolio under management. The return obtained in cash must be incorporated into the return calculation of the portfolio under management.

Checking account balances, overnight deposits and/or weekend deposits in banks with classifications of long-term instruments in a category equal to or greater than A- will be eligible as cash in at least two of the international risk classifiers Fitch, Moody's and Standard & Poor's. The markets eligible for the investment of cash will be those of countries or jurisdictions where the eligible instruments of the respective mandates are listed.

The maximum exposure to an eligible bank issuer is equivalent to 5% of the market value of the portfolio based on its market value at the end of the previous quarter. Nevertheless, each time the External Manager receives a contribution in cash, the External Manager may invest up to 10% of the market value of the portfolio in the same bank issuer for a maximum of 10 business days from the day of the contribution. Furthermore, when the External Manager receives the instruction to produce liquidity for a cash withdrawal, the External Manager may invest up to 10% of the market value of the portfolio in the same bank issuer for 10 business days before and until the date of the cash withdrawal.

It should be noted that a distinction is made between exposure to the Custodian Bank, in its role as custodian, and exposure to said bank in its role as intermediary. The end of day cash balances may be held with the Custodian Bank, in the custody account, up to an aggregate amount equivalent to 5% of the market value of the portfolio. If the Custodian Bank loses eligibility as a financial intermediary, the investment limit in its custodian role will be maintained.

2.6. Limits on currency forward or swap operations

The External Manager may hire forwards or swaps to minimize the differences with respect to the currency composition of the Benchmark Comparator.

The following regulations are established for the use of currency hedging mechanisms using forwards or currency swaps:

a. Forwards or swaps may only be carried out between the eligible currencies.

b. Forward contracts or currency swaps can only be made with counterparties that have long-term instruments with a risk rating equivalent to at least A- or higher in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

c. Forward contracts or currency swaps may be in the form of "cash delivery” or for compensation.

d. The term of these contracts may not exceed 95 calendar days.

e. The counterparty risk associated with each forward and swap contract will correspond to 100% of its notional value, in its equivalent in US$. For the purpose of these guidelines, the notional value of the forward or swap shall be understood as the amount associated with the purchase currency in the forward or swap contract. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract.

f. However, the counterparty risk associated with each contract that includes a close-out netting clause in the event of insolvency or bankruptcy of the counterparty, will correspond to 15% of the notional value of the forward and 30% of the notional value of the swap, in its equivalent in US$. Likewise, when hiring a forward or swap whose objective is to completely or partially close a position associated with another forward or swap, and provided that these contracts include close-out netting clauses, whether they are with the same counterparty, they have the same expiration date and the same currency pair, the counterparty risk will be measured considering the total net position of the different forwards and swaps involved. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract for the purpose of measuring counterparty risk.

g. The counterparty risk corresponding to each forward and swap contract will be considered for the purposes of complying with the limits established in section 2.5.

h. The notional value of the forwards or swaps that the External Manager contracts with an eligible counterparty may not exceed 3% of the market value of the portfolio managed by him. However, when there is a renewal of a forward (rolling) contract with the same counterparty and in the same currency pair, although for an amount that may differ from the original, this limit per issuer will increase to 6% for said counterparty, for two business days, from the day the forward is renewed. Likewise, for the purposes of calculating counterparty risk, this renewal will not be considered for the calculation of the risk limits per issuer established in section 2.5 for two business days, counting from the day the forward is renewed. For the purposes of the third paragraph of section 2.8, said renewal shall also not be considered within the exposure to derivatives.

2.7. Limits to spot currency operations

The External Manager may execute spot currency transactions with counterparties that have long-term instrument risk classifications equal to or greater than A- in at least two of the international risk classifiers Fitch, Moody's and Standard & Poor’s.

2.8. Special restrictions

It is not permitted to invest in any type of instruments of Chilean issuers or in instruments expressed in Chilean pesos.

The External Manager may not use derivatives to increase the exposure to financial instruments beyond the market value of the resources managed.

The External Manager may contract futures, forwards or currency swaps whose notional amounts valued at market price and in absolute value, may not in aggregate exceed 10% of the portfolio managed.

Mutual funds and Exchange Traded Funds (ETFs), taken together, may not represent, from the External Manager's portfolio, more than the aggregated shares of Egypt, the Philippines, India, Pakistan, Poland, Russia, Thailand, Taiwan and Turkey in the Benchmark comparator applicable to Stocks plus 2%.

The External Manager may not invest in the local markets of Chile, Egypt, the Philippines, India, Peru, Pakistan, Poland, Russia, Thailand, Taiwan and Turkey. Investments in China may only be made through the Hong Kong exchange or any other exchange in which the stocks of the Benchmark are traded, excluding the local markets of China, provided that the External Manager is authorized to invest in the respective local markets.

The External Stocks Manager may not invest in its own stocks or its affiliates.

Borrowing is not allowed for investment purposes except to cover any failure of an instrument in settlement.

2.9. External cash movements

External cash movements in the Portfolio of Stocks will result from the application of the rebalancing policy to converge the Strategic Composition of Assets of the FRP or withdrawals from the fund.

The rebalancing policy for the FRP will take place in the following situations:

a. When an asset class exceeds the deviation range allowed for such asset class, or

b. In case of a contribution to the FRP.

Every time a rebalance or withdrawal occurs from the FRP, the Ministry of Finance will instruct the amounts to transfer to/from and/or between the External Managers, if applicable. When an external cash contribution is made, the External Manager will be granted a special waiver of 10 bank business days, from the day of the contribution, regarding compliance with the requirements of sections 1, 2.2, and the first and last paragraph of section 2.5. When an external cash withdrawal is made, the External Manager will be granted a special permit of 10 bank business days, before and until the day of the withdrawal, regarding compliance with the requirements of sections 1, 2.2, and the first and last paragraph of section 2.5. The special permit may be extended at the request of any of them to the Ministry of Finance, justifying the reasons for said extension. If there is a term of less than 10 business days between the date of the cash withdrawal instruction and the withdrawal itself, it will be understood that the special permit will be of that term.

3. Valuation criteria

The valuation of the portfolio will be according to the "marked to market" criterion, using the valuation sources of Custodian Bank.

4. Securities loan program

The External Manager may not carry out or agree on securities lending programs. Nonetheless, the Ministry of Finance understands and accepts that the FRP portfolio may be exposed to a securities lending program through the investment of the ETFs authorized in these guidelines. In addition, the Central Bank of Chile, in its role as Fiscal Agent, may agree with the Custodian (s) of the FRP securities lending programs for the Portfolio of Stocks (hereinafter, "Programs" or "Securities Lending") provided that the Custodians with whom the administration of said Programs are obliged to comply with the operating criteria established in the Custody Guidelines, especially including the obligation to make the restitution of the respective titles or of the market value of themselves.

5. Others

Foreign exchange operations will be considered spot operations according to the convention used in each market. However, exchange operations related to the purchase or sale of an instrument will be considered a spot when the number of days between the trade date and the settlement date corresponds to the market convention for the settlement period of the instrument that is being bought or sold.

The base currency of the portfolio for the purposes of the performance of the External Manager is the US$.

In the event that at any time any of the instructions described in these guidelines are breached due to fluctuations in market prices, abnormal market conditions or any other reason beyond the control of the External Manager, the latter will not be considered in default of the guidelines if it takes the necessary measures to ensure compliance within seven business days after the situation has been detected. This period may be extended from a request made by the External Manager to the Ministry of Finance, justifying the reason for the extension.

However, the External Manager may temporarily hold received ineligible instruments due to corporate events. The External Manager will have 30 calendar days from the corporate event to sell said instruments. If the above is not possible, the External Manager must notify the Treasury and communicate an action plan for the liquidation of those instruments. In the particular case of entitlements, preferred stocks, rights, warrants or other equivalent instruments received as a result of corporate events that grant the right to buy, exchange for eligible stocks or receive cash, these may be held in the portfolio until their expiration.

The External Manager is expressly authorized to carry out internal cross operations.

APPENDIX D

LONG-TERM INVESTMENT GUIDELINE FOR CORPORATE BONDS

1. Management Objective

The objective of managing the resources of the Portfolio of the Corporate bonds of the Pension Reserve Fund (FRP) is to obtain total monthly return, before fees, similar to that of Benchmark Comparators according to a passive management style, within the risk standards established in the guidelines and parameters in section 2 below.

2. Guidelines and Parameters

2.1. Comparator Benchmark

The Comparator Benchmark associated with the Portfolio of Corporate Bonds is *Bloomberg's Barclays Global Aggregate: Corporates Index (unhedged), ticker: LGCPTRUU.*

2.2. Risk budget

The deviation margins for the Portfolio of Corporate Bonds under management are subject to a risk budget. This allows deviations to be limited with respect to the Comparator Benchmark. The risk budget is defined in terms of the *ex ante* tracking error that is measured in base points and that will be calculated daily by the Custodian Bank or the institution that performs the middle office services.

For the Portfolio of Corporate Bonds, a risk budget of 50 basis points of annual tracking error (ex ante) is assigned.

2.3. Issuers and eligible currencies

Only the currencies that are part of the corresponding Benchmark will be eligible.

2.4. Eligible instruments

The instruments eligible for the Portfolio of Corporate bonds are the following:

a. Instruments that are part of the Benchmark Comparator and those instruments that are estimated to be incorporated to the Benchmark Comparator the next or the following month. If for any reason the instrument estimated to be incorporated to the Benchmark comparator is not included as expected, the Fiscal Agent will have 7 business days to sell such instrument.

b. Futures traded in the stock exchange about instruments or fixed income index, only used for hedging purposes, that allow to minimize the differences with respect to the Benchmark Comparator, or that allow to improve exposure to part of it. Leverage is not allowed. In other words, the exposure to these derivatives may not exceed the market value of the portion of the underlying assets. If the underlying asset is effective, it must be held in the instruments allowed in section 2.5 below.

c. Instruments that are no longer eligible for the Benchmark Comparator and that are eliminated from that product, their maturity is lower than the minimum requested, provided that the issuer is still part of the index. Likewise, the instruments that were acquired in letter e) of this section will also continue to be eligible if their equivalent within the Benchmark Comparator is eliminated because their maturity is lower than the minimum requested, and the issuer is still part of the Benchmark Comparator.

d. Reopening of instruments, provided that in the prospect of each reopening, is stated in its ISIN will be homologated to an instrument already included in the Benchmark Comparator. It will be allowed to invest in this instrument during the time necessary for its homologation. If the instrument is not homologated as expected, the External Manager will have a month to sell such instrument.

e. Reg S Instruments, 144a or SEC registered, provided that there is one identical in the Benchmark Comparator that is equivalent with the following characteristics: the issuer, coupon, type of coupon (fixed, variable, etc.), maturity, risk rating agencies Fitch, Moody's Standard & Poor's, currency, payment priority (subordinated, unsecured, etc.) and type of maturity (callable, puttable, etc.).

2.5. Cash eligible instruments

The cash exposure may not exceed 5% of the value of the portfolio under management. The return obtained in cash must be incorporated into the return calculation of the portfolio under management.

Checking account balances, overnight deposits and/or weekend deposits in banks with classifications of long-term instruments in a category equal to or greater than A- will be eligible as cash in at least two of the international risk classifiers Fitch, Moody's and Standard & Poor's. The markets eligible for the investment of cash will be those of countries or jurisdictions where the eligible instruments of the respective mandates are listed.

The maximum exposure to an eligible bank issuer is equivalent to 5% of the market value of the portfolio based on its market value at the end of the previous quarter. Nevertheless, each time the External Manager receives a contribution in cash, the External Manager may invest up to 10% of the market value of the portfolio in the same bank issuer for a maximum of 10 business days from the day of the contribution. Furthermore, when the External Manager receives the instruction to produce liquidity for a cash withdrawal, the External Manager may invest up to 10% of the market value of the portfolio in the same bank issuer for 10 business days before and until the date of the cash withdrawal.

It should be noted that a distinction is made between exposure to the Custodian Bank, in its role as custodian, and exposure to said bank in its role as intermediary. The end of day cash balances may be held with the Custodian Bank, in the custody account, up to an aggregate amount equivalent to 5% of the market value of the portfolio. If the Custodian Bank loses eligibility as a financial intermediary, the investment limit in its custodian role will be maintained.

2.6. Limits on currency forward or swap operations

The External Manager may enter into forward or swap contracts to minimize the differences with respect to the currency composition of the Benchmark Comparator.

The following regulations are established for the use of currency hedging mechanisms using forwards or currency swaps:

a. Forwards or swaps may only be carried out between the eligible currencies.

b. Forward contracts or currency swaps can only be made with counterparties that have long-term instruments with a risk rating equivalent to at least A- or higher in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

c. Forward contracts or currency swaps may be in the form of "cash delivery" or for compensation.

d. The term of these contracts may not exceed 95 calendar days. The counterparty risk associated with each forward and swap contract will correspond to 100% of its notional value, in its equivalent in US$. For the purpose of these guidelines, the notional value of the forward or swap shall be understood as the amount associated with the purchase currency in the forward or swap contract. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract.

e. However, the counterparty risk associated with each contract that includes a close-out netting clause in the event of insolvency or bankruptcy of the counterparty, will correspond to 15% of the notional value of the forward and 30% of the notional value of the swap, in its equivalent in US$. Likewise, when hiring a forward or swap whose objective is to completely or partially close a position associated with another forward or swap, and provided that these contracts include close-out netting clauses, whether they are with the same counterparty, they have the same expiration date and the same currency pair, the counterparty risk will be measured considering the total net position of the different forwards and swaps involved. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract for the purpose of measuring counterparty risk.

f. The counterparty risk corresponding to each forward and swap contract will be considered for the purposes of complying with the limits established in section 2.5,

g. The notional value of the forwards or swaps that the External Manager contracts with an eligible counterparty may not exceed 3% of the market value of the portfolio managed by him. However, when there is a renewal of a forward (rolling) contract with the same counterparty and in the same currency pair, although for an amount that may differ from the original, this limit per issuer will increase to 6% for said counterparty, for two business days, from the day the forward is renewed. Likewise, for the purposes of calculating counterparty risk, this renewal will not be considered for the calculation of the risk limits per issuer established in section 2.5 for two business days, counting from the day the forward is renewed. For the purposes of the third paragraph of section 2.10, said renewal shall also not be considered within the exposure to derivatives.

2.7. Limits by issuer of the Portfolio of Corporate Bonds

The limit by issuer of the Portfolio of Corporate Bonds as percentage (%) of the portfolio managed by each External Manager will be set in Table 1 below, in accordance with its risk classification:

Table 1: Limits for risk rating by corporate bonds issuer,

Risk Classification	Issuer limit
AAA	15%
AA+	10%
AA	10%
AA-	10%
A+	5%
A	5%
A-	5%
BBB+	5%
BBB	5%
BBB-	5%

2.8. Limits by risk classification of the Portfolio of Corporate Bonds

The investment limit by risk classification in Corporate Bonds, as percentage (%) of the portfolio managed by each External Manager, will be set in Table 2.

Table 1: Limits by risk classification of Sovereign Bonds and Other Related Assets and Sovereign Bonds Indexed to Inflation,

Table 2: Limits by risk classification of Corporate Bonds

Risk Classification	Maximum percentage of the Portfolio externally managed
AAA	100%
AA+	
AA	
AA-	
A+	60%
A	
A-	
BBB+	40%
BBB	
BBB-	

In order to monitor the limits set by the Ministry of Finance, mentioned in sections 2.7 and 2.8, the median credit risk classification given to the long-term instruments by the international rating agencies Standard & Poor's, Moody's or Fitch. If there are only two risk classifications, the lowest will prevail. If there is only one risk classification, that one will be selected.

2.9. Limits to spot currency operations

The Fiscal Agent may carry out spot currency transactions with counterparties that have long-term instrument risk ratings in a category equal to or greater than A- in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

2.10. Special restrictions

No part of the portfolio may be invested in any type of instrument of Chilean issuers or in instruments expressed in Chilean pesos.

The External Manager may not use derivatives to increase the exposure to financial instruments beyond the market value of the resources managed.

The External Manager may enter into future contract, forwards or currency swap whose notional values at market value and absolute values may not in the aggregate be above the 10% of the portfolio under management.

Debt is not allowed for investment purposes except to cover any failure in the settlement of an Instrument.

The External Manager may contract futures, forwards or currency swaps whose notional amounts valued at market price and in absolute value, may not in aggregate exceed 10% of the portfolio managed.

The External Manager may not invest in its own stocks or its affiliates.

Borrowing is not allowed for investment purposes except to cover any failure of an instrument in settlement.

2.11. External cash movements

External cash movements in the Portfolio of Corporate Bonds will result from the application of the rebalancing policy to converge the Strategic Composition of Assets of the FRP or withdrawals from the fund.

The rebalancing policy of the FRP will take place in the following situations:

a. In the event of exceeding the deviation ranges allowed for such asset class, or

b. In the event of a contribution to the FRP.

Every time a rebalance or withdrawal occurs from the FRP, the Ministry of Finance will instruct the amounts to transfer to/from and/or between the External Managers, if applicable. When an external cash contribution is made, the External Manager will be granted a special waiver of 10 bank business days, from the day of the contribution, regarding compliance with the requirements of sections 1, 2.2, and the first and last paragraph of section 2.5. When an external cash withdrawal is made, the External Manager will be granted a special permit of 10 bank business days, before and until the day of the withdrawal, regarding compliance with the requirements of sections 1, 2.2, and the first and last paragraph of section 2.5. The special permit may be extended at the request of any of them to the Ministry of Finance, justifying the reasons for said extension. If there is a term of less than 10 business days between the date of the cash withdrawal instruction and the withdrawal itself, it will be understood that the special permit will be of that term,

3. Valuation criteria

The valuation of the portfolio will be according to the "marked to market" criterion, using the valuation sources of Custodian Bank.

4. Securities loan program

The External Manager may not carry out or agree on securities lending programs.

5. Others

Foreign exchange operations will be considered spot operations according to the convention used in each market. However, exchange operations related to the purchase or sale of an instrument will be considered a spot when the number of days between the trade date and the settlement date corresponds to the market convention for the settlement period of the instrument that is being bought or sold.

The base currency of the portfolio for the purposes of the performance of the External Manager is the US$.

In the event that at any time any of the instructions described in these guidelines are breached due to fluctuations in market prices, abnormal market conditions or any other reason beyond the control of the External Manager, the latter will not be considered in default of the guidelines if it takes the necessary measures to ensure compliance within seven business days after the situation has been detected. This period may be extended from a request made by the External Manager to the Ministry of Finance, justifying the reason for the extension.

APPENDIX E

LONG-TERM INVESTMENT GUIDELINE FOR HIGH-YIELD BONDS

1. Management Objective

The objective of the Pension Reserve Fund (FRP) resource administration is to obtain total monthly return, net from fees, similar to that of the Benchmark Comparator according to an enhanced passive administration style, within the standards of risk established in the relevant guidelines and parameters of section 2 below.

2. Guidelines and parameters

2.1. Benchmark Comparator

The Benchmark Comparator associated with the Global High-Yield Bonds Portfolio is *Bloomberg Barclays Global High Yield Index (unhedged) in USD, ticker: LG30TRUU.*

2.2. Risk budget

The deviation margins for the Portfolio of Global High-Yield Bonds under management are subject to a risk budget. This allows deviations to be limited with respect to the Benchmark Comparator. The risk budget is defined in terms of the ex-ante tracking error that is measured in base points and that will be calculated daily by the Custodian Bank or the institution that performs the middle office services.

For the Portfolio of Global High-Yield Bonds, a risk budget of 150 basis points of annual tracking error (ex-ante) is assigned.

2.3. Eligible issuers and currencies

Only the issuers and currencies that are part of the corresponding Benchmark Comparator are eligible.

2.4. Eligible instruments

The instruments eligible for the Portfolio of Global High-Yield Bonds are the following:

a. Instruments that are part of the Benchmark Comparator and those instruments that are estimated to be incorporated to the Benchmark Comparator the next or the following month. If for any reason the instrument estimated to be incorporated to the Benchmark comparator is not included as expected, the External Manager will have two months to sell such instrument.

b. Instruments that are eliminated from the Reference Comparator as a result of their maturity or size being less than the minimum required, can be maintained as long as the issuer continues to be part of the Reference Comparator. In turn, the instruments that were acquired under letter e) of this section will also continue to be eligible if their equivalent within the Reference Comparator is eliminated because their maturity or size is less than the minimum required, and the issuer continues to be part of the Reference Comparator.

b. Futures traded on stock exchange for instruments or fixed income indexes used only for hedging reasons that allow minimizing differences with respect to the Benchmark or that allow gaining exposure to part of it. No leverage will be allowed. In other words, the exposure to these derivatives may not exceed the market value of the portion of the underlying assets, If the underlying asset is effective, it must be held in the instruments allowed in section 2.5 below.

c. Reopening of instruments, provided that in the prospect of each reopening, is stated in its ISIN that will be homologated to an instrument already included in the Benchmark Comparator. It will be allowed to invest in this instrument during the time necessary for its homologation. If the instrument is not homologated as expected, the Fiscal Agent will have 7 additional business days to sell such instrument.

d. Reg S Instruments, 144a or SEC registered, provided that there is one identical in the Benchmark Comparator that is equivalent with the following characteristics: the issuer, coupon, type of coupon (fixed, variable, etc.), maturity, risk rating agencies Fitch, Moody's Standard & Poor's, currency, payment priority (subordinated, unsecured, etc.) and type of maturity (callable, puttable, etc.).

e. Sovereign instruments, denominated in eligible currency, included in the *Bloomberg Barclays Global Aggregate Treasury Index Unhedged, ticker: LGTRTRUU,* and shall be used to manage cash and duration.

f. Instruments that are in default and that will be out of the Benchmark Comparator, if the External Manager thinks it is adequate, provided the External Manager tries to sell those instruments in commercially reasonable terms, considering liquidity and reasonability of the sales prices. The External Manager will have a three-month period to sell those instruments, after the instrument is out of the Benchmark Comparator. The External Manager will be able to request an extension such term in writing.

g. Instruments that are out of the Benchmark Comparator due to an improvement in risk classification can be held, subject the instrument is included in the Bloomberg Barclays Global Aggregate Credit Index Unhedged, ticker: LGDRTRUU.

h. The Ministry of Finance will generate, hold and communicate to the External Manager, a list with the eligible Exchange Traded Funds (ETFs), that can also include ETF's advised, sub advised, or managed by a subsidiary of the External Manager. The ministry of Finance may modify such list on a regular basis in writing with the External Manager. The External Manager will still be subject to instructions until he is notified otherwise by the Ministry of Finance.

2.5. Cash eligible instruments

The cash exposure may not exceed 5% of the value of the portfolio under management. The return obtained in cash must be incorporated into the return calculation of the portfolio under management.

Checking account balances, overnight deposits and/or weekend deposits in banks with classifications of long-term instruments in a category equal to or greater than A- will be eligible as cash in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's. The markets eligible for the investment of cash will be those of countries or jurisdictions where the eligible instruments of the respective mandates are listed. Treasury bills denominated in eligible currencies are considered as cash and cash equivalents.

The maximum exposure to an eligible bank issuer is equivalent to 5% of the market value of the portfolio based on its market value at the end of the previous quarter. Nevertheless, each time the External Manager receives a contribution in cash, the External Manager may invest up to 10% of the market value of the portfolio in the same bank issuer for a maximum of 10 business days from the day of the contribution. Furthermore, when the External Manager receives the instruction to produce liquidity for a cash withdrawal, the External Manager may invest up to 10% of the market value of the portfolio in the same bank issuer for 10 business days before and until the date of the cash withdrawal.

It should be noted that a distinction is made between exposure to the Custodian Bank, in its role as custodian, and exposure to said bank in its role as intermediary. The end of day cash balances may be held with the Custodian Bank, in the custody account, up to an aggregate amount equivalent to 5% of the market value of the portfolio. If the Custodian Bank loses eligibility as a financial intermediary, the investment limit in its custodian role will be maintained.

2.6. Limits on currency forward or swap operations

The External Manager may enter into forward or swap contracts to minimize the differences with respect to the currency composition of the Benchmark Comparator.

The following regulations are established for the use of currency hedging mechanisms using forwards or currency swaps:

a. Forwards or swaps may only be carried out between the eligible currencies.

b. Forward contracts or currency swaps can only be made with counterparties that have long-term instruments with a risk rating equivalent to at least A- or higher in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

c. Forward contracts or currency swaps may be in the form of "cash delivery" or for compensation.

d. The term of these contracts may not exceed 95 calendar days.

e. The counterparty risk associated with each forward and swap contract will correspond to 100% of its notional value, in its equivalent in US$. For the purpose of these guidelines, the notional value of the forward or swap shall be understood as the amount associated with the purchase currency in the forward or swap contract. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract.

f. However, the counterparty risk associated with each contract that includes a close-out netting clause in the event of insolvency or bankruptcy of the counterparty, will correspond to 15% of the notional value of the forward and 30% of the notional value of the swap, in its equivalent in US$. Likewise, when entering a forward or swap contract whose objective is to completely or partially close a position associated with another forward or swap, and provided that these contracts include close-out netting clauses, whether they are with the same counterparty, they have the same expiration date and the same currency pair, the counterparty risk will be measured considering the total net position of the different forwards and swaps involved. For the purpose of measuring counterparty risk, forwards and swaps will be valued daily in US$ throughout the term of the contract for the purpose of measuring counterparty risk.

g. The counterparty risk corresponding to each forward and swap contract will be considered for the purposes of complying with the limits established in section 2.5.

h. The sum of notional value of the forwards or swaps that the External Manager contracts with an eligible counterparty may not exceed 3% of the market value of the portfolio managed by him. However, when there is a renewal of a forward (rolling) contract with the same counterparty and in the same currency pair, although for an amount that may differ from the original, this limit per issuer will increase to 6% for said counterparty, for two business days, from the day the forward is renewed. Likewise, for the purposes of calculating counterparty risk, this renewal will not be considered for the calculation of the risk limits per issuer established in section 2.5 for two business days, counting from the day the forward is renewed. For the purposes of the third paragraph of section 2.8, said renewal shall also not be considered within the exposure to derivatives.

2.7. Limits to spot currency operations

The External Manager may execute spot currency transactions with counterparties that have long-term instrument risk classifications equal to or greater than A- in at least two of the international risk rating agencies Fitch, Moody's and Standard & Poor's.

2.8. Special restrictions

a. It is not allowed to invest in any type of instruments of Chilean issuers or in instruments expressed in Chilean pesos.

b. The External Manager may not use derivatives to increase the exposure to financial instruments beyond the market value of the resources managed.

c. The External Manager may contract futures, forwards or currency swaps whose notional amounts valued at market price and in absolute value, may not in aggregate exceed 10% of the portfolio managed.

d. The External Manager may not invest in its own stocks or its affiliates.

e. The External Manager may contract futures, forwards or currency swaps whose notional amounts valued at market price and in absolute value, may not in aggregate exceed 10% of the portfolio managed.

f. Borrowing is not allowed for investment purposes except to cover any failure of an instrument in settlement.

g. ETFs cannot represent more than 10% of the portfolio.

2.9. External cash movements

External cash movements in the Portfolio of High-Yield Bonds will result from the application of the rebalancing policy to converge the Strategic Composition of Assets of the FRP or withdrawals from the fund.

The rebalancing policy of the FRP will take place in the following situations:

a. When an asset class exceeds the deviation range for that asset class, or

b. In case of a contribution to the FRP.

Every time a rebalance or withdrawal occurs from the FRP, the Ministry of Finance will instruct the amounts to transfer to/from and/or between the External Managers, if applicable. When an external cash contribution is made, the External Manager will be granted a special waiver of 10 bank business days, from the day of the contribution, regarding compliance with the requirements of sections 1, 2.2, and the first and last paragraph of section 2.5. When an external cash withdrawal is made, the External Manager will be granted a special permit of 10 bank business days, before and until the day of the withdrawal, regarding compliance with the requirements of sections 1, 2.2, and the first and last paragraph of section 2.5. The special permit may be extended at the request of any of them to the Ministry of Finance, justifying the reasons for said extension. If there is a term of less than 10 business days between the date of the cash withdrawal instruction and the withdrawal itself, it will be understood that the special permit will be of that term.

3. Valuation Criteria

The valuation of the portfolio will be according to the "marked to market" criterion, using the valuation sources of Custodian Bank.

4. Securities loan program

The External Manager may not carry out or agree on securities lending programs. Nonetheless, the Ministry of Finance understands and accepts that the FRP portfolio may be exposed to a securities lending program through the investment of the ETFs authorized in these guidelines,

5. Others

Foreign exchange operations will be considered spot operations according to the convention used in each market. However, exchange operations related to the purchase or sale of an instrument will be considered a spot when the number of days between the trade date and the settlement date corresponds to the market convention for the settlement period of the instrument that is being bought or sold.

The base currency of the portfolio for the purposes of the performance of the External Manager is the US$.

In the event that at any time any of the instructions described in these guidelines are breached due to fluctuations in market prices, abnormal market conditions or any other reason beyond the control of the External Manager, the latter will not be considered in default of the guidelines if it takes the necessary measures to ensure compliance within seven business days after the situation has been detected. This period may be extended from a request made by the External Manager to the Ministry of Finance, justifying the reason for the extension.

APPENDIX F
SHORT-TERM INVESTMENT PORTFOLIO INVESTMENT GUIDELINE

1. Administration objective

The objective of managing the resources of the Short-Term Investment Portfolio is to invest in highly liquid instruments, preserving the value of the invested resources, within the risk standards indicated in the relevant guidelines and parameters in section 2 below.

2. Guidelines and parameters

2.1. Reference Comparator

The Reference Comparator associated with the Sovereign Letters asset class is ICE BofA US Treasury Bill Index (ticker Bloomberg G0BA) and the one for Sovereign Bonds is Bloomberg Barclays Global Aggregate - Treasury: U.S. 1- 3 Yrs (Bloomberg LT01TRUU ticker).

2.2. Referential duration

The deviation of the effective duration of the total portfolio in relation to the Reference Comparator cannot exceed +/- 0.5 years.

2.3. Eligible Issuers and Currencies

The issuers and currencies that are part of the corresponding Reference Comparator are eligible.

2.4. Eligible Instruments

The instruments eligible for the Short-Term Investment Portfolio are those Treasury Bills and Sovereign Bonds that are part of the Benchmark Comparator and those that meet the eligibility criteria of the Benchmark Comparator and should therefore be incorporated into the latter the following month. In the event that an instrument is not definitively incorporated into the Reference Comparator as expected, for whatever reason, the Fiscal Agent will have a period of 7 business days to sell said instrument. In addition, instruments that are no longer eligible and are eliminated from the Benchmark Comparator due to the fact that their maturity is less than the minimum required, as long as the issuer continues to be part of the index, will be eligible.

2.5. Instruments eligible for cash

Exposure to cash may not exceed 5% of the value of the portfolio under management. The return obtained in cash must be incorporated into the return calculation of the portfolio under management.

Balances in checking accounts, overnight deposits and / or weekend deposits in banks with classifications of long-term instruments in a category equal to or greater than A- in at least two of the international risk rating agencies Fitch, Moody's, will be eligible as cash. and Standard & Poor's.

The maximum exposure to an eligible bank issuer is equivalent to 5% of the market value of the portfolio based on its market value at the end of the previous quarter. Notwithstanding the foregoing, each time the Fiscal Agent receives a cash contribution, the Fiscal Agent may invest up to 10% of the market value of the portfolio in the same bank issuer for a maximum of 10 business days from the day of the contribution. In addition, when the Fiscal Agent receives the instruction to generate liquidity for a cash withdrawal, the Fiscal Agent may invest up to 10% of the market value of the portfolio in the same bank issuer for 10 business days before and until the day of the cash withdrawal.

It should be noted that a distinction is made between exposure to the Custodian Bank, in its role as custodian, and exposure to said bank in its role as intermediary. End-of-day cash balances may be maintained with the Custodian Bank, up to an aggregate amount equivalent to 5% of the market value of the portfolio. US Treasury Bills are not considered part of this limit. In the event that the Custodian Bank loses eligibility as a financial intermediary, the investment limit will be maintained in its custodial role.

NOTE 4 – SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

4.1. Significant accounting estimates.

Management makes estimates and formulates assumptions about the future. The resulting accounting estimates rarely tend, by definition, to be equivalent to the actual related results. The estimates and assumptions having a significant risk of causing important adjustments to the accounting values of assets and liabilities within the next financial year are described below:

Fair value of instruments is not quoted in an active market or traded in the stock market.

The fair value of such values not quoted in an active market cannot be determined using sources of price such as pricing agencies or indicative prices of “Market Markers” for bonds and debts, so they are obtained from the Custodian's information.

The models use observable data, as applicable. However, factors such as credit risk (both own and counterparty), volatilities and correlations require the management to make estimates. Changes in the assumptions about these factors may affect the reported fair value of the financial instruments.

Determining what “observable” means requires a significant criteria of the Fund’s management. Thus, observable data are considered to be those market data that can be readily available, regularly distributed or updated, reliable and verifiable, not private (for exclusive use), and provided by independent sources that participate actively in the relevant market.

4.2. Significant judgments when applying accounting policies.

Functional currency

The Administration considers the US dollar as the currency that most faithfully represents the economic effect of transactions, facts and underlying conditions. The US dollar is the currency in which the contributions from the Chilean State are received.

NOTE 5 – FINANCIAL RISK MANAGEMENT

The portfolio of the FRP is mostly exposed to the same risks of the FEES, However, the FRP has a higher financial risk as it is exposed to a larger number of countries and their investment in corporate bonds. As in the case of the FEES, most of the risks directly depend on the composition by asset class and the selected benchmarks given the passive investment strategy in the policy of the fund investment.

5.1. Market risk:

Market risk in the FRP derives on the one hand from potential losses due to decrease in the market value of the financial instruments of the portfolio. As in the FEES, the fixed income portfolio is exposed to the risks of interest rate and exchange rate, and the credit risk premium. On the other hand, this fund is also exposed to equity risk. These risks and their control are described below:

Interest rate risk: In the FRP this risk depends on the duration of the benchmark. This is calculated from the duration of the indexes that compose the benchmark. Unlike the FEES, the fixed income portfolio of the FRP is exposed to interest rate risk of a larger number of countries and is more sensitive as it has a longer duration. This risk is monitored controlling that the duration of the portfolio was closer to that of the benchmark.

Exchange rate risk: Since the FRP return is measured in dollars, the value of investments is also affected by the variations in exchange rates. Due to the passive investment strategy, the exchange exposure comes from investment denominated in Euros (18%, yens (11%) and sterling pounds (7%), Canadian dollars (3%), Australian dollars (1%) and others with lower participation.

Credit risk premium: The market value of the fixed income instruments of the FRP are exposed to changes in the market perception about the solvency of the issuers of these instruments. In general, a worsening in the issuer's solvency is related to a credit risk premium in the instruments issued, which originates the fall of its market value, This risk is higher in the FRP (compared to the FEES) because its fixed income portfolio includes many issuers around the world. For instance, the fund invests in instruments issued by several sovereign issuers, in developed or developing countries, and by issuers as public or semipublic agencies, multilateral financial institutions and companies among others. This risk is mitigated having a diversified portfolio and investing in instruments that only have investment degree (with a BBB- rating) or higher.

Moreover, since 2015 it is possible to invest in supranational entities, agencies and entities with explicit state guarantees that are eligible to invest in the portfolio of international reserves where the Central Bank of Chile invests.

Equity risk: This risk refers to losses the FRP may suffer as a result of falls in stock prices included in its portfolio. The intrinsic risk of an individual stock is eliminated at investing in a highly diversified portfolio and willing to tolerate the systematic risk related to the used equity index (MSCI ACWI ex Chile). The strategic composition of assets considers 40% of the total portfolio of stocks.

Volatility VaR and tracking error: Volatility can also be measured in terms of the Benchmark. It is possible to evaluate how closely a portfolio follows the index to which it is benchmarked. In the case of the FRP, the ex-ante tracking error is used, to predict with a certain degree of confidence, the deviation degree of the portfolio from the benchmark.

5.2. Credit Risk Management.

In the portfolio of bonds of the FRP, the exposure to this risk is controlled mainly through a diversified portfolio and allowing investments only in the benchmark issuers, In the case of banking deposits, this risk is low because the terms of bank deposits are very short and also associated primarily to cash investment that is necessary for the portfolio management. There is also a minimum credit rating and limits on the amount that can be deposited in a bank. In the case of credit rating associated to forward operations, it is limited through requirements for the minimum credit quality the counterparties must have and defining a maximum exposure in each one of them (please see Table 6). It has also been determined that forward operations do not exceed a certain percentage of the portfolios that each Manager controls. In the case of the portfolio managed by the Central Bank of Chile, forwards and swaps cannot represent more than 4% of the portfolio. For External Managers this limit also includes futures operations in order to limit the total use of derivative instruments. Therefore, forwards, swaps and futures cannot represent more than 10% of the portfolio of each external manager. From 2015, it is allowed to invest in supranational entities, agencies and entities with an explicit state guarantee eligible for investment by the Central Bank of Chile in the management of its International Reserve portfolio. These entities have a high credit rating.

Moreover, since 2015 it is possible to invest in supranational entities, agencies and entities with explicit state guarantees that are eligible to invest in the portfolio of internationals reserves where the Central Bank of Chile invests, which have a high credit quality.

Table 6, Credit limits, bank deposits and forwards
(in millions of Dollars unless otherwise stated)

Limits		Time Deposits	Forwards
Minimum risk Classification		A-	AA-
Counterparty maximum	Portfolio BCCh	20	1% (a)
	External managers	20	1% (a)

(a) Percentage of the portfolio of each manager
Source: Ministry of Finance

On the other hand, the risk rising from executing transactions, that is, the losses that may occur in case that the counterparty does not deliver the instruments when they are purchased or the payment when they are sold, is mitigated through the use of transactional or post-transactional structure that allow the delivery of instruments against payment. Finally, the risk of maintaining the investments under a custodian institution is controlled registering the property of the funds in Treasury's name and in segregated accounts.

5.3. Liquidity Risk:

The FRP is exposed to a low liquidly risk because the fund has little need for cash, because the disbursements from the fund started in 2016. The sale of instruments of the portfolio is mainly associated with changes in the benchmarks, which can require the portfolio managers to make an adjustment (that is to sell an instrument that is out of the benchmark in order to purchase one that was incorporated), and with the possible rebalancing which is triggered when an asset class exceeds the permissible deviation range or when the fund receives contributions. In the case of changes in the benchmark, the investment guidelines allow some flexibility for managers to make the necessary adjustments, to reduce the impact of selling at an unfavorable time. For rebalancing, there are clear standards on planning its implementation.

5.4. Operational Risk:

The operational risk refers to losses that may occur as a result of errors in internal processes, systems, external events or human failures. Examples of operational risks are transaction errors, frauds, failures in the execution of legal responsibilities (contracts), etc.

In the case of the portfolio managed by the Central Bank of Chile, the operational administration of the funds is made using the same infrastructure of the issuer available for the management of the international reserves. The Central Bank of Chile ("BCCh") also has control processes that consider an appropriate separation of responsibilities and duties, computer applications according to market quality standards and backup systems to guarantee the operational continuity of the funds. This is in addition to internal and external audit processes performed at the BCCh, in order to assess the efficacy of current controls.

On the other hand, in the case of the portfolio managed by External Managers, this risk is reduced hiring Managers who have wide experience in the area, a high reputation in the market and strong management systems. Likewise, the Managers' performance is overseen and if their job is unsatisfactory, the contract will be terminated.

NOTE 6 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As of December 31st 2020 and 2019, the investments at fair value amount US$ 10,114,694,067 and US$ 10,767,797,233 respectively:

a) As of December 31st, 2020 and 2019, the detail of investments at fair value through profit or loss is as follows:

Custodian Investment, J,P, Morgan	**Fair Value Hierarchy Level**	**2020 US$**	**2019 US$**
Stocks	1	3,265,308,144	3,044,464,557
Other capitalization instruments	1	44,576,539	72,406,412
Corporate bonds	1	1,329,430,766	2,040,701,638
Government bonds	1	2,836,942,056	4,077,862,200
Mortgage backed securities	1	363,258,122	554,187,511
Indexed bonds	1	514,627,383	917,760,925
Treasury bills	1	2,660,434,112	58,987,701
Derivatives	1	116,945	1,426,289
Subtotal		**10,114,694,067**	**10,767,797,233**

Custodian Investment Central Bank of Chile	**Fair value Hierarchy level**	**2020 US$**	**2019 US$**
Time deposits	2	-	-
Subtotal		**-**	**-**
Total		**10,114,694,067**	**10,767,797,233**

b) As of December 31st, 2020, and 2019, the detail of investments, in accordance with investment currency, is the following:

Original currency	**Fair value instruments, JP Morgan**			
	2020		**2019**	
	US$	**% of IP**	**US$**	**% of IP**
US dollar	6,661,346	65,85	5,862,802,027	54,45
Euro	1,308,559,764	12,94	1,928,010,605	17,91
Yen	685,774,654	6,78	1,125,980,972	10,46
Others	1,459,204,303	14,43	1,851,003,629	17,19
Subtotal	**10,114,694,067**	**100,00**	**10,767,797,233**	**100,00**

Original currency	**Fair value instruments, Central Bank of Chile**			
	2020		**2019**	
	US$	**% of IP**	**US$**	**% of IP**
US dollar	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**
Total	**10,114,694,067**	**-**	**10,767,797,233**	**-**

c) As of December 31st, 2020 and 2019, the total value of assets per risk sector is detailed below:

Risk sector	Market value			
	2020		2019	
	US$	%	US$	%
Capitalization instruments	2,409,884,684	23,73	3,116,870,969	28,83
Bank (*)	42,252,193	0,42	45,853,450	0,42
Bonds	5,044,258,326	49,66	7,590,512,274	70,20
Treasury bills	2,660,434,112	26,19	58,987,701	0,55
Total	**10,156,829,315**	**100,00**	**10,812,224,394**	**100,00**

Asset class	Market value			
	2020		2019	
	US$	%	US$	%
Capitalization instruments	2,409,884,684	23,73	3,116,870,969	28,83
Money market	42,252,192	0,42	45,853,450	0,42
Corporate bonds	1,329,430,766	13,09	2,040,701,638	18,86
Sovereign bonds	2,836,942,056	27,92	4,077,862,200	37,72
Inflation-indexed bonds	514,627,383	5,07	917,760,925	8,49
Mortgage backed securities	363,258,122	3,58	554,187,511	5,13
Treasury bills	2,660,434,112	26,19	58,987,701	0,55
Total	**10,156,829,315**	**100,00**	**10,812,224,394**	**100,00**

(*) Including cash and cash equivalents,

NOTE 7 – DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31st, 2020, and 2019, the financial liabilities at fair value through profit or loss amount US$ 1,482 and US$ 140,315 respectively:

a) The detail of derivatives valued at fair value is as follows:

Investment, Custodian J,P, Morgan	Fair value hierarchy level	2020 US$	2019 US$
Derivatives	1	1,842	140,315
Subtotals		**1,842**	**140,315**

b) The detail of derivatives, in accordance with investment currency is as follows:

Original currency	Instruments at Fair Value JP Morgan			
	2020		2019	
	US$	% del PI	US$	% del PI
USD	921	50,00	70,158	50,00
EUR	0	0.00	17,539	12,50
JPY	614	33.33	-	-
Others	307	16,67	52,618	37,50
Total	**1,842**	**100,00**	**140,315**	**100,00**

c) The detail of liabilities classified by risk sector is as follows:

Risk sector	Market value			
	2020		2019	
	US$	%	US$	%
Banking	1,842	100,00	140,315	100,00
Total	**1,842**	**100,00**	**140,315**	**100,00**

Liability class	Market value			
	2020		2019	
	US$	%	US$	%
Money market	1,842	100,00	140,315	100,00
Total	**1,842**	**100,00**	**140,315**	**100,00**

NOTE 8 – FOUNDATION OF THE FUND

The Fund was founded on September 30th, 2006, designating the Central Bank of Chile to manage it as Fiscal Agent, J.P. Morgan as Custodian Bank, and also designating the External Managers. The movements recorded for these entities for the year ended December 31st, 2020 and 2019, are as follows:

	2020											
	Contributions US$	Withdrawals US$	Retribution to BCCh as Fiscal Agent (1) US$	Custody Of the Portfolio Administrated by BCCh	Custody of the portfolios External Managers US$	BlackRock US$	Mellon US$	Allianz US$	BNP Paribas US$	Nomura HY US$	Western Asset US$	Others US$
January	-	-	-	(85,852)	(102,754)	-	-	-	-	-	(53,847)	(43,200)
February	-	-	-	(81,547)	(91,953)	-	(198,901)	(118,341)	-	-	-	-
March	-	-	(312,805)	-	-	(414,345)	-	-	(42,892)	-	(54,133)	-
April	-	-	-	(88,118)	(117,939)	-	-	-	-	(289,214)	-	(202,781)
May	-	-	-	(169,570)	(202,029)	-	(192,182)	(117,845)	(43,122)	-	(54,125)	(1,043)
June	-	-	(312,805)	(89,862)	(95,496)	(109,918)	-	-	-	-	-	-
July	-	-	-	(89,352)	(105,854)	(290,298)	-	-	-	-	-	(788)
August	-	-	-	-	10,650	-	(194,786)	(119,583)	(43,835)	-	(54,826)	(57)
September	-	-	(312,805)	(90,593)	(107,101)	(401,874)	-	-	-	-	-	(70,588)
October	-	(1,576,475,239)	-	(207,574)	(201,476)	-	-	-	-	(547,600)	-	(540)
November	-	-	-	(103,756)	(192,781)	(443,467)	(220,275)	(125,951)	-	-	(55,542)	-
December	-	-	(312,805)	(97,274)	-	-	-	(60,707)	(44,406)	(293,997)	-	14
Total	**-**	**(1,576,475,239)**	**(1,251,219)**	**(1,103,496)**	**(1,206,734)**	**(1,659,903)**	**(806,144)**	**(542,427)**	**(174,255)**	**(1,310,811)**	**(272,473)**	**(318,984)**

(1) Ordinary Official Letter N° 2,219 of 22/11/2019 of the Ministry of Finance authorizes retribution payments of 2020, for the services of Portfolio management and others,

	2019											
	Contributions US$	Withdrawals US$	Retribution to BCCh as Fiscal Agent (1) US$	Custody Of the Portfolio Administrated by BCCh	Custody of the portfolios External Managers US$	BlackRock US$	Mellon US$	Allianz US$	BNP Paribas US$	Nomura HY US$	Western Asset US$	Others US$
January	-	-	-	(151,369)	(143,609)	(488,630)	-	-	-	-	-	-
February	-	-	-	-	-	-	(115,730)	(155,218)	-	-	-	-
March	-	-	(271,489)	(74,804)	(66,232)	-	-	-	-	-	-	-
April	-	-	-	-	-	(248,424)	-	-	-	-	-	(82,765)
May	-	-	-	(133,027)	(196,671)	-	(155,058)	(110,491)	-	-	-	(14,618)
June	563,889,347	(576,509,611)	(271,489)	(82,625)	(93,554)	-	-	-	(30,679)	(211,505)	(38,520)	-
July	-	-	-	(25,989)	(46,084)	(327,898)	-	-	-	-	-	(788)
August	-	-	-	-	-	(105,579)	(168,802)	(113,590)	-	-	-	-
September		-	(271,489)	(86,659)	(89,985)	(271,562)	-	-	-	-	-	-
October	-	-	-	(173,293)	(217,751)	(110,104)	-	-	-	(281,276)	-	-
November	-	-	-	(177,560)	(202,505)	(290,784)	(187,018)	(116,872)	(83,799)	-	(52,505)	(4,500)
December	-	-	(271,489)	(171,380)	(189,678)	-	-	-	-	(284,820)	-	-
Total	**563,889,347**	**(576,509,611)**	**(1,085,956)**	**(1,076,706)**	**(1,246,069)**	**(1,842,981)**	**(626,608)**	**(496,171)**	**(114,478)**	**(777,601)**	**(91,025)**	**(102,671)**

(2) Ordinary Official Letter N° 1,890 of 08/10/2018 of the Ministry of Finance authorizes retribution payments of 2019, for the services of Portfolio management and others,

NOTE 9 – INTEREST EARNED

As of December 31st, 2020 and 2019, the detail of income for interest earned short-term debt at fair value through profit or loss is as follows:

	2020 US$	2019 US$
Interest earned, Portfolio Art, 4	63,765,693	102,484,472
Interest earned, Externally managed portfolio	98,269,743	98,359,846
Total	**162,035,436**	**200,844,318**

NOTE 10 – DIVIDEND INCOME

As of December 31st, 2020 and 2019, the detail of “Dividend income” is as follows:

Dividend due to investment administrated by	2020 US$	2019 US$
Fiscal Agent	901,617	826,596
Mellon Capital Management Corporation.	28,797,061	31,802,188
BlackRock Institutional Trust Company, N.A.	25,608,027	31,668,357
Allianz Global Investors Corps	(6,775)	(1,045)
Nomura Corporate Research and Asset Management Inc.	(10,716)	(12,493)
BNP Paribas Asset Management USA Inc.	1,125	-
UBS Assets Management	3,089,766	-
Westem Assets Management Company Llc.	2,129	-
Total	**58,382,235**	**64,283,603**

NOTE 11 – CASH AND CASH EQUIVALENTS

As of December 31st, 2020 and 2019, the detail of cash and cash equivalents is as follows:

Cash in Custodian’s and External Manager’s accounts	2020 US$	2019 US$
Custodian	5,456,963	8,915,505
Mellon Capital Management Corporation	3,984,379	3,933,674
Allianz Global Investors GmbH, VK Branch	-	4,930,023
BlackRock Institutional Trust Company, N.A.	1,583,563	16,472,572
Nomura Corporate Research and Asset Management Inc.	3,245,954	9,164,290
BNP Paribas Asset Management USA Inc	446,466	1,011,097
Westem Assets Management Company Llc.	1,921,236	-
Credit Suisse Assets Management	9,218,823	-
UBS Assets Management	16,277,724	-
Total	**42,135,248**	**44,427,161**

NOTE 12 – PROFITABILITY OF THE FUND

In the years ended December 31st, 2020 and 2019, the profitability of the Fund has been as follows:

Type of Profitability	Accumulated Profitability		
	2019	Last 12 months	Last 24 months
Nominal	9.26%	9.26%	5.69%

NOTE 13 – FAIR VALUE

The Fund has applied IFRS 13 to determine the fair value of its financial assets and liabilities, in accordance with the requirements of the International Accounting Standards Board (IASB).

The definition of fair value corresponds to the price that would be received for selling an asset or paid for transferring a liability in a transaction between market participants on the date of measure (that is, an input price). The transaction is made in the main or most advantageous market and it is not forced, that is, it does not consider Fund's specific factors that may be included in the real transaction:

FINANCIAL ASSETS	2020			2019		
	Level	Net Book Value US$	Fair Value US$	Level	Net Book Value US$	Fair Value US$
Cash and cash equivalent,	1	42,135,248	42,135,248	1	44,427,161	44,427,161
Stocks	1	2,365,308,144	2,365,308,144	1	3,044,464,557	3,044,464,557
Other capitalization instruments	1	44,576,539	44,576,539	1	72,406,412	72,406,412
Corporate bonds	1	1,239,430,776	1,239,430,776	1	2,040,701,638	2,040,701,638
Time deposits	1	-	-	1	-	-
Government bonds	1	2,836,942,056	2,836,942,056	1	4,077,862,200	4,077,862,200
Mortgage Backed Securities (MBS)	1	363,258,122	363,258,122	1	554,187,511	554,187,511
Indexed bonds	1	514,627,383	514,627,383	1	917,760,925	917,760,925
Treasury bills	1	2,660,434,112	2,660,434,112	1	58,987,701	58,987,701
Derivatives	1	116,945	116,945	1	1,426,289	1,426,289
Derivative Financial Instruments	1	1,843	1,843		140,315	140,315

During the years 2020 and 2019, all the assets and liabilities of the Fund have been valued at fair value through profit or loss, using for that purpose, the prices quoted in the stock market (level 1), As of December 31st, 2020 and 2019, the Fund has not made transfers of fair value hierarchy.

NOTE 14 – LIENS AND PROHIBITIONS

In accordance with the Official Letter N° 1,267 of June 4th, 2013, Title II N° 5 of the Ministry of Finance of Chile, the Fiscal Agent for the Portfolio, Article 4, may arrange with the Fund Custodian(s), securities lending programs, in accordance with the operational criteria established in the Guidelines on Custody of the Fund, including the obligation to return the respective titles or, otherwise, their market value. The resources obtained or disbursed will be registered on the financial statements of the Sovereign Wealth Fund as results of the year.

As of December 31st, 2020 and 2019, the Fund has the following instruments as “Securities Lending”:

2020		
Location	**Nominal Value**	**Market Value US$**
Europe	148,349,530	217,244,687
United States of America	154,257,239	180,106,012
Total	**302,606,769**	**397,350,699**

2019		
Location	**Nominal Value**	**Market Value US$**
Europe	241,707,914	302,056,613
United States of America	172,554,845	301,720,728
Total	**414,262,759**	**603,777,341**

NOTA 15 – CUSTODY OF SECURITIES

As of December 31st, 2020 and 2019, the detail of the custody of securities is as follows:

December 31st, 2020:

Entities	**Custody of Securities**					
	Amount in Custody amount (US$)	**National Custody % of total investments in instruments issued by National Issuers**	**% of total Asset of the Fund**	**Amount in Custody (US$)**	**Foreign Custody % of total investments in instruments issued by Foreign Issuers**	**% of total Asset of the Fund**
Security Deposit Companies	-	-	-	-	-	-
Other entities (*)	-	-	-	10,114,692,224	100.00	99.59
Total portfolio of investments in custody	**-**	**-**	**-**	**10,114,692,224**	**100.00**	**99.59**

(*) These amounts are compensated between financial instruments of asset and liability.

December 31st, 2019:

Entities	**Custody of Securities**					
	Amount in Custody amount (US$)	**National Custody % of total investments in instruments issued by National Issuers**	**% of total Asset of the Fund**	**Amount in Custody (US$)**	**Foreign Custody % of total investments in instruments issued by Foreign Issuers**	**% of total Asset of the Fund**
Security Deposit Companies	-	-	-	-	-	-
Other entities (*)	-	-	-	10,154,481,706	100,00	98,99
Total portfolio of investments in custody	**-**	**-**	**-**	**10,154,481,706**	**100,00**	**98,99**

(*) These amounts are compensated between financial instruments of asset and liability.

NOTE 16 – RELEVANT EVENTS

At the closing date of these financial statements, no relevant events that could significantly affect the balance or interpretations of these financial statements have been presented.

NOTE 17 – SUBSEQUENT EVENTS

Between January 1st, 2021 and the issuance date of these financial statements (March 22th, 2021), no subsequent events have occurred, which could significantly affect the balances or interpretation of these financial statements.

APPENDIXES

Appendix 1: Index of tables, figures, boxes and diagrams

N° Tables

N° Figures

N° Boxes

Appendix 2: Glossary of Terms

Active management — An investment strategy aimed at earning higher returns than a benchmark index.

American Depositary Receipt (ADR) — a financial security issued by a U.S. bank and negotiable in the United States, where the physical certificate represents a specific number of shares in a company that was incorporated outside that country.

Alternative investments — Investments in instruments other than traditional securities (such as equities and fixed-income instruments), in particular private equity, hedge funds, commodities and real estate.

Asset class — A specific investment category, such as equities, corporate bonds, sovereign bonds and money market instruments. The assets in a given class generally have similar risk characteristics, react similarly in the market and are subject to the same regulations.

Basis point — One one-hundredth of a percentage point: 1 basis point = (1/100) of 1%, or 0.01.

Bond — A financial liability of an organization (for example, a company or a government) to investors under which the issuer undertakes not only to return the capital, but also to pay an agreed interest rate at a specific date(as).

Cash — Cash on hand and bank demand deposits.

Corporate bond — A bond issued by a corporation or company.

Credit default swaps (CDS) — Financial instruments used by investors to protect against default on bond payments. They can also be used to take speculative positions on the bond covered by the CDS.

Credit rating — The degree of solvency of the issuer of a financial instrument (a company or country), as defined by a credit rating institution.

Duration — A parameter that measures a bond's sensitivity to interest rate movements. The longer the bond's duration, the greater its exposure to loss in response to an interest rate hike.

Equity (Stock) — An instrument that represents ownership in a corporation or company. Buyers of these securities become owners or shareholders and thus share in the firm's earnings and losses.

Exchange rate return — The share of the return deriving from fluctuations in the exchange rate between the dollar and the other currencies in which investments are made.

Exchange traded funds (ETFs) — Financial instruments traded on the stock exchange, which typically replicate a market index. They have traditionally been used to obtain passive exposure to equity indexes, but their use has been expanding into fixed-income instruments, commodities and even active strategies.

Fiscal Responsibility Law — Chilean Law N° 20,128, published in the Official Gazette on 30 September 2006.

Fixed-income instruments — Investment instruments that pay a fixed return at a specified time, which is known when the investment is made. Examples of fixed-income instruments include sovereign bonds, corporate bonds and bank deposits.

Global Depositary Receipt (GDR) — a financial security issued by a bank and negotiable in more than one country, where the physical certificate represents a specific number of shares in a company that was incorporated outside the countries in which the certificate is traded.

Inflation-linked sovereign bond — A bond that is adjusted based on a specified inflation index. In the case of the United States, these bonds are called Treasury Inflation-Protected Securities (TIPS).

Internal rate of return (IRR) — The effective rate of return on investments, calculated by setting the present value of all net cash flows to zero.

Investment policy — A set of criteria, principles and guidelines that regulate the amount, structure and dynamics of a portfolio's investments.

LIBID — The London interbank bid rate is the rate paid on interbank deposits; defined as the LIBOR less 0.125%.

LIBOR — The London interbank offered rate is the rate charged on interbank loans.

Liquidity — The facility with which an investment or instrument can be sold without significant loss of value.

Money market instruments — Short-term instruments with a maturity of less than one year, which are easily converted into cash and are less volatile than other asset classes.

Mutual funds (MFs) — An investment vehicle managed by an entity that pools capital from different investors in order to achieve exposure in different asset classes. Unlike ETFs, MFs are not traded on an exchange.

Passive management — An investment strategy aimed at replicating the returns of a representative index or indexes of a given asset class.

Passive management — An investment strategy aimed at replicating the returns of a representative index or indexes of a given asset class.

Portfolio — A collection of investment instruments held by an individual or an institutional investor.

Quantitative easing — an unconventional monetary policy tool used by some central banks to increase the supply of money, usually through the purchase of bonds issued by its own government.

Recognition bond (bonos de reconocimiento) — A bond issued by the Chilean Institute for Pension Normalization on account of contributions made by workers to the former pay-as-you-go pension system prior to joining the current AFP system.

Return in local currency — A financial instrument's return in the denomination currency. Corresponds to the share of the return deriving from the interest rate level, interest rate movements, changes in credit quality and other factors.

Risk — The possibility of suffering financial losses; the variability of an investment's return.

Securities risk (reputational risk or headline risk) —The risk that the public's perception of an entity will worsen.

Sovereign bond — A bond issued by a government.

Special Drawing Rights (SDR) — International reserve assets created by the IMF to supplement its member countries' official reserves. SDRs can be exchanged for freely usable currencies.

Spread — The difference between the yield rates at maturity of two fixed-income instruments, which is used to measure their relative risk.

Standard & Poor's Depositary Receipts (SPDR) — The first ETF, created in 1993 with the goal of replicating the performance of the U.S. S&P500 stock index.

TED spread — The difference between the bank lending rate (LIBOR) and the risk-free rate (U.S. Treasury bills). A larger TED spread is typically associated with less liquidity in the market.

Time-weighted rate of return (TWR) — A measure of returns calculated by compounding or multiplying the daily returns without taking into account any contributions or withdrawals. In contrast to the IRR, the TWR eliminates the contribution of net cash flows.

Total return — The sum of the return in the local currency and the return from exchange rate movements.

Tracking error (ex post or ex-ante) — An indicator used to measure how closely a portfolio tracks its benchmark. The ex post tracking error is calculated with historical data; the ex-ante tracking error is a prediction of future performance.

Value-at-Risk (VaR) — A measure of the potential loss in a portfolio over a given period of time and with a given probability.

Variable-income instruments — Equities.

Volatility — A measure of a financial asset's risk, based on the variability or dispersion of the asset's price over a period of time.

Appendix 3: Abbreviations

ADR	American Depositary Receipt
AUD	Australian dollar
bp	Basis points
CAD	Canadian dollar
CBC	Central Bank of Chile
CBJ	Central Bank of Japan
CDS	Credit Default Swaps
CHF	Swiss franc
ECB	European Central Bank
ETF	Exchange-Traded Fund
EUR	Euro
FC	Financial Committee
FED	U.S Federal Reserve
ESSF	Economic and Social Stabilization Fund
GAAP	Generally accepted accounting principles
GBP	Pound sterling
GDP	Gross domestic product
GDR	Global Depositary Receipt
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IIR	Internal rate of return
JPM	J.P. Morgan
JPY	Japanese yen
LIBID	London interbank bid rate
LIBOR	London interbank offered rate
M US$	Thousands of U.S. dollars
MM US$	Millions of U.S. dollars
MBS	Mortgage-backed securities
PRF	Pension Reserve Fund
TE	Tracking error
TWR	Time-weighted rate of return
UF	Unidad de Fomento (an inflation-linked unit of account)
USA	United States of America
USD	U.S. dollar
US$	U.S. dollar
VaR	Value at risk

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