Investment Guidelines - Economic and Social Stabilization Fund

The following document corresponds to the translation of the Investment Guidelines for the Economic and Social Stabilization Fund (hereinafter, "ESSF"), Official Notice N° 1,085 from June, 2023. This section contains detailed information about the investment rules and restrictions that must be followed in order to invest the ESSF's resources.

II. Guidelines for Investment of Resources

II.1 Management Objective

The objective of the management of the Resources 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 an investment portfolio (hereinafter, "IP") shall be constituted, the guidelines, parameters, and particular rules of which are contained in the following sections and in the respective investment guidelines.

II.2.1 Asset Classes and Benchmarks

The PI's Fiscal Resources will be invested in two asset classes: 1) Sovereign Fixed Income; and 2) U.S. Agency Mortgage-Backed Securities.

The Benchmarks associated with each asset class are identified in Table 1, along with the composition (%) of total Resources to be held by each asset class (hereinafter, "Strategic Asset Allocation").

Table 1: Strategic Asset Allocation and Benchmarks

Asset Class	*Benchmarks*	Percentage (%)
Sovereign Fixed Income	ICE BofaAML US Treasury Bills Index	10.0
	Bloomberg Global Aggregate- Treasury: U.S. 1-10 Yrs	40.0
	Bloomberg Euro Aggregate- Treasury: Aaa 1-10 Yrs [1] Bloomberg Euro Aggregate- Treasury: Aa 1-10 Yrs [2]	19.0 [3]
	Bloomberg Global Aggregate- Treasury: Japan 1-10 Yrs	9.0
	Bloomberg Global Aggregate- Treasury: China 1-10 Yrs	3.0
	Bloomberg Global Inflation-Linked: U.S. TIPS 1-10 Yrs	4.0
U.S. Agency Mortgage-Backed Securities	Bloomberg US Mortgage-Backed Securities Index	15.0

1 Luxembourg is excluded.
2 Excludes Estonia and Ireland.
3 Each sub-index is aggregated according to its relative market capitalization.

II.3 Management of Resources

Sovereign Fixed Income assets will be managed by the Fiscal Agent and will constitute the Fiscal Agent Managed Portfolio - Internal.

U.S. Agency Mortgage-Backed Securities assets will be managed by Delegated Managers and will constitute the Fiscal Agent Managed Portfolio - Delegated.

II.4 Investment Guidelines

The specific investment guidelines with respect to each asset class are contained in the attached document listed below:

- Appendix A: Investment Guidelines Sovereign Fixed Income.
- Appendix B: Investment Guidelines U.S. Agency Mortgage-Backed Securities.

II.5 Rebalancing policy

The rebalancing policy for the ESSF requires convergence to the Strategic Asset Allocation established in Table 1 in the following situations: i) in case of a contribution to the ESSF and ii) in case of a withdrawal from the ESSF. Notwithstanding the above, the Ministry of Finance will determine the specific date of the rebalancing associated to i) and ii) of this paragraph. If situations i) and ii) do not occur, the Ministry of Finance shall instruct a rebalancing in the ESSF at least once a year.

Notwithstanding the foregoing, when a rebalancing is carried out, the Manager of the Financial Markets Division of the Central Bank of Chile may request, via e-mail, the International Finance Coordinator of the Ministry of Finance to maintain the relative positions of the Portfolio Managed by the Fiscal Agent in relation to the Benchmark and not have to converge to the Strategic Asset Allocation set forth in Table 1. The International Finance Coordinator of the Ministry shall authorize the maintenance of such positions through an e-mail addressed to the Manager of the Financial Markets Division of the Central Bank of Chile.

II.6 Others

The Fiscal Agent is authorized to transfer directly to or between the current accounts opened in the name of the Chilean Treasury in the respective correspondent banks, the proceeds from the liquidation or maturity of deposits of the investment portfolio of the Portfolio Managed by the Fiscal Agent, or from foreign exchange operations, in the form of spot, forward or swaps, or other operations, when, due to error or other causes, the eligible counterparties and/or the custodian, have credited such resources in other current accounts held or managed by the Central Bank of Chile, either on its own account or on behalf of and in representation of the Treasury. The same provision shall apply when, due to error or other causes, monies corresponding to the Central Bank of Chile have been credited to the current accounts opened in the name of the Chilean Treasury in the respective correspondent banks, in which case the Fiscal Agent may transfer such resources to the corresponding account. The Fiscal Agent shall make such transfers as soon as possible after receiving the funds and shall take the necessary safekeeping measures it deems appropriate to minimize the occurrence of such transactions and report, in its monthly report, such events and the safekeeping measures adopted.

APPENDIX A
INVESTMENT GUIDELINES SOVEREIGN FIXED INCOME

1. Management Objective

The objective of the management of the resources of the Sovereign Fixed Income Portfolio of the ESSF is to obtain total monthly returns, gross of fees, similar to that of the benchmark comparators in accordance with a passive management style. The Fiscal Agent will select the investment strategy that will enable it to achieve this objective, within the risk standards set forth in the relevant guidelines and parameters in section 2 below.

2. Guidelines and Parameters

2.1 Benchmark

The Benchmarks associated with the Sovereign Fixed Income Portfolio are presented in Table 1.

Table 1: Benchmark

Asset Class	Components	Benchmark	Percentage (%)
Sovereign Fixed Income	U.S. Treasury Bills	ICE Bofa US Treasury Bills Index	11.8
	U.S. Sovereign Bonds	Bloomberg US Treasury: Intermediate Index (ticker LT08TRUU)	47.1
	European Sovereign Bonds AAA/AA-[1]	Bloomberg Euro Aggregate- Treasury: Aaa 1-10 Yrs[2] Bloomberg Euro Aggregate- Treasury: Aa 1-10 Yrs[3]	22.3
	Japan Sovereign Bonds	Bloomberg Global Treasury Japan 1-10 Year (ticker I20132)	10.6
	China Sovereign Bonds	Bloomberg China Treasury 1-10yrs Index (ticker I33620)	3.5
	U.S. Inflation-Linked Sovereign Bonds	Bloomberg Treasury Inflation Notes 1-10 Yrs Index (ticker LTI1TRUU)	4.7
Total			100.0

1 Each sub-index of this asset class is aggregated according to its relative market capitalization.
2 Excludes Luxembourg.
3 Excludes Estonia and Ireland.
2.2. Risk budget.

2.2 Risk Budget

The risk budget is defined in terms of the ex-ante tracking error measured in basis points and will be calculated daily by the Custodian Bank or the institution performing the Middle Office services.

For the Portfolio Managed by the Fiscal Agent, a risk budget of 25 basis points of tracking error (ex-ante) per year is assigned.

2.3 Eligible Issuers

2.3.1 Eligible Cash Instruments

Exposure to cash shall 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 Sovereign Fixed Income Portfolio.

The following shall be eligible as Cash: current accounts balances, overnight deposits, weekend deposits, and term deposits with a maximum maturity of 15 calendar days in banks with long-term instrument ratings equal to or over A- in at least two of the international risk rating agencies: Fitch, Moody's and Standard & Poor's.

For the Sovereign Fixed Income Portfolio, investments in the same bank issuer are permitted in line with the following limits:

a. Maximum of 1% of the Sovereign Fixed Income Portfolio, for issuers with an average rating of at least AA-.

b. Maximum of 0.5% of the Sovereign Fixed Income Portfolio, for issuers with an average rating between A- and A+.

Notwithstanding the above, each time a contribution is made to the Sovereign Fixed Income Portfolio, it may be invested in the same bank issuer for a maximum of 10 business days from the day of the contribution, for a maximum equivalent amount up to US$ 80 million. In addition, whenever the Fiscal Agent is instructed to generate liquidity for a cash withdrawal, the Fiscal Agent may invest up to US$ 80 million 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 held with the Custodian Bank, in the custody account, up to an aggregate amount equal to 5% of the market value of the portfolio. In the event that the Custodian Bank loses eligibility as a financial intermediary, the investment limit in its role as custodian will be maintained.

2.3.2 Treasury Bills and Sovereign Bonds

In the case of Treasury Bills, the eligible issuer is the United States of America, for Sovereign Bonds, the eligible issuers are the United States of America, the European countries included in the Benchmark, Japan, and China, and for Inflation-Linked Bonds, the eligible issuer is the United States of America.

2.4 Eligible Currencies

Only the currencies which form part of the corresponding Benchmark shall be eligible.

2.5 Eligible Securities

Eligible securities for the Sovereign Fixed Income Portfolio shall be the following:

a. Treasury Bills, Sovereign Bonds and Inflation-Linked Sovereign Bonds: in the case of Sovereign Bonds and Sovereign Inflation-Linked Bonds, only instruments with a remaining maturity between 1 year and 10 years and one month at the time of purchase are eligible. Notwithstanding the foregoing, it will not be necessary to sell the Sovereign Bonds or Inflation-Linked Sovereign Bonds, as the case may be, that no longer meet the minimum maturity requirement required at the time of purchase. In the case of Treasury Bills, there are no restrictions per instrument.

b. U.S. Sovereign futures traded on the Chicago Board of Trade (CBOT), Secured Overnight Financing Rate (SOFR) futures traded on the Chicago Mercantile Exchange (CME) and German Euro government bond interest rate futures traded on Eurex used only for hedging purposes to minimize differences with respect to the Benchmark or to gain exposure to part of it.

2.6 Limits on Forward or Currency Swap Transactions

For the Portfolio Managed by the Fiscal Agent, the following rules shall be applicable to currency hedging procedures by using currency forwards or swaps:

a. Forwards or swaps shall only be made among eligible currencies.

b. Currency forward or swap contracts shall only be made with eligible counterparties having long term instruments risk ratings equal to or over A- in at least two of the following international risk rating agencies: Fitch, Moody's, and Standard & Poor's.

c. Currency forward or swap contracts shall be cash delivery or offsetting contracts.

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

e. The counterparty risk pertinent to each forward or swap contract shall be a 100% of the notional value of the contract, as denominated in USD. For the purpose of these investment guidelines, the notional value of the forward or swap shall be the long leg of the forward or swap contract. For measuring counterparty risk, forward or swap contracts shall be valued in USD on a daily basis throughout the effective term of the contract.

f. Notwithstanding the above, the counterparty risk pertinent to each contract that includes a close-out netting clause in case of the counterparty's insolvency or bankruptcy shall be a 15% of the notional value of the forward and a 30% of the notional value of the swap, as denominated in its equivalent value in USD. Moreover, if the forward or swap contract is aimed to close or partially close a position associated with another forward or swap contract, and provided that these contracts have close out netting clauses, the same counterparty, the same maturity date, and the same pair of currencies, the total net position between the contracts involved shall be taken into account for measuring counterparty risk. Forwards or swaps contracts shall be valued in USD on a daily basis throughout the effective term of the contract for purposes of measuring counterparty risk. For the purposes of the final paragraph of section 2.8, said renewal shall not be considered within the exposure to derivatives.

g. The counterparty risk pertinent to each currency forward or swap contract shall be considered for the purpose of observing the limits set forth in 2.3.1 above.

h. The sum of notional value of the forwards or swaps contracted by the Fiscal Agent with an eligible counterparty shall not exceed the limits per issuer established in letters a. and b. of section 2.3.1 above. Nevertheless, when there is a rollover of a forward contract with the same counterparty and in the same pair of currencies, even if the amount may differ from the original contract, the limit will increase twice its value for said counterparty during two business days starting from the day the forward is renewed. The aforementioned notwithstanding, counterparty risk limit established in letters a. and b. of section 2.3.1 above shall not take into account said rollover for two business days starting from the day the rollover begins.

2.7 Limits to Spot Currency Transactions

The Fiscal Agent may execute currency spot transactions with counterparties with long term instruments risk rating equal to or over A- in at least two of the following international risk rating agencies: Fitch, Moody's, and Standard & Poor's.

2.8 Special Restrictions

Investment in instruments issued by Chilean issuers is not permitted, nor can investments be made in instruments denominated in Chilean pesos.

No leverage or indebtedness is permitted for investment purposes except to cover any failure in the settlement of an instrument.

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

2.9 External Cash Flows

External cash movements in the Sovereign Fixed Income Portfolio shall be instructed by the Minister of Finance.

When an external cash contribution is made for the Portfolio Managed by the Fiscal Agent, the Fiscal Agent may be granted special permission (waiver) of up to 10 banking days, from the day of the contribution, with respect to compliance with the requirements of sections 1, 2.2. and the first and last paragraph of 2.3.1. above. When an external cash withdrawal is made for the Portfolio Managed by the Fiscal Agent, the Fiscal Agent may be granted special permission of up to 10 banking days, prior to and up to the day before the withdrawal, with respect to compliance with the requirements of sections 1, 2.2. and the first and last paragraph of 2.3.1. The special permission may be extended upon request of the Fiscal Agent to the Ministry of Finance, justifying the reasons for such extension. In the event that between the date of the cash withdrawal instruction and the day prior to the withdrawal itself there is a period of less than 10 working days, it shall be understood that the special leave shall be for that period. The Head of the Sovereign Wealth Funds Unit, via e-mail, shall inform the Fiscal Agent of the waiver period, which shall be defined in consultation with said entity.

Notwithstanding the foregoing, when a rebalancing is carried out, the Manager of the Financial Markets Division of the Central Bank of Chile may request, via e-mail, to the International Finance Coordinator of the Ministry of Finance to maintain the relative positions of the Portfolio Managed by the Fiscal Agent in relation to the Benchmark and not to converge to the respective Strategic Asset Allocation. The International Finance Coordinator of the Ministry of Finance shall authorize the maintenance of such positions through an e-mail addressed to the Manager of the Financial Markets Division of the Central Bank of Chile.

3. Valuation Criteria

The portfolio valuation shall be according to the "marked to market" criterion, using the prices given by the Custodian Bank or the entity that provides Middle Office services. Notwithstanding the above, it should be noted that the Central Bank of Chile, for internal purposes related to the Portfolio Managed by the Fiscal Agent, may use the same method it uses for its own international reserves transactions, in order to comply with letter g. of section 4 of the Agency Decree.

4. Securities Lending Program

The Fiscal Agent for the Portfolio Managed by the Fiscal Agent may agree securities lending programs with the ESSF custodians (hereinafter, "Programs" or "Securities Lending"), as long as the custodians with which the management of said Programs is agreed oblige themselves to comply with the operating criteria set forth in the Custody Guidelines, specially including the obligation to restitute the pertinent securities or, failing that, the market value thereof.

5. Other

Foreign Exchange transactions are considered to be spot operations according to the market conventions utilized in each market. The aforementioned notwithstanding, foreign exchange transactions which are related to the purchase or sale of an instrument are considered to be spot when the number of days between the trade date and the settlement date equals the market convention settlement period of the instrument being purchased or sold.

The base currency of the portfolio for the effects of the performance of the Fiscal Agency is the USD.

f, at any time, any of the instructions herein described are breached due to market price fluctuations, abnormal market conditions, or any other reason beyond the Fiscal Agent's control, the Fiscal Agent shall not be considered as defaulting the applicable guidelines if, within 7 business days after having detected such situation, it takes the necessary steps to ensure their compliance. This period applicable to the Portfolio Managed by the Fiscal Agent may be extended at the Fiscal Agent's request to the Ministry of Finance, or to the person it may appoint, justifying the reasons for said extension.

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APPENDIX B
INVESTMENT GUIDELINES U.S. AGENCY MORTGAGE-BACKED SECURITIES

1. Management Objective

The objective of managing the resources of the U.S. Agency Mortgage-Backed Securities Portfolio of the ESSF is to closely approximate the monthly total return of the Benchmark, gross of fees, by means of a passive management approach, within the risk standards stipulated in the pertinent guidelines and parameters of Section 2 below.

2. Guidelines and Parameters

2.1. Benchmark

The Benchmark associated with the U.S. Agency Mortgage-Backed Securities Portfolio (the "Benchmark") is the Bloomberg Barclays US Mortgage Backed Securities (MBS) Index, ticker: LUMSTRUU.

2.2. Risk Budget

a. The margins of deviation for the U.S. Agency Mortgage-Backed Securities Portfolio under management are subject to a risk budget. This allows for limiting overall deviations with regards to the Benchmark. The risk budget is measured in terms of basis points of ex-ante tracking error and will be calculated daily by the custodian or the institution providing middle office services.

   The following risk budget is assigned for the U.S. Agency Mortgage-Backed Securities Portfolio: monthly average of 20 basis points of annual tracking error (ex-ante) provided that the maximum daily value does not exceed 30 basis points.

b. The deviation of the effective duration of the total portfolio from the Benchmark should not exceed +/-0.5 years.

2.3. Eligible Currencies and Issuers

Only issuers and currencies included in the Benchmark are eligible.

2.4. Eligible Securities

The following securities are eligible for the U.S. Agency Mortgage-Backed Securities Portfolio:

a. Fixed rate Agency Mortgage-Backed Pass-Through Securities guaranteed by GNMA, FNMA, and FHLMC that are part of the programs included in the Benchmark.

b. U.S. Dollar denominated debt securities issued or guaranteed by the U.S. Government or Agencies (FNMA, FHLMC, FHLB, and GNMA).

c. To Be Announced (TBAs): The underlying pools for TBA trades must come from eligible Mortgage-Backed Securities. No leverage is allowed. This means that the Delegated Manager must always maintain at least an amount of cash equal to the TBAs. Instruments permissible as cash equivalents are described in Section 2.5.

d. US Treasury futures traded in the Chicago Board of Trade (CBOT) or Eurodollar futures traded in the Chicago Mercantile Exchange (CME) used only for hedging purposes, which allow for minimizing differences with the Benchmark, or which allow exposure to part of the Benchmark.

2.5. Eligible Instruments for Cash

a. Any cash held beyond the required TBA cash exposure shall not exceed 5% of the portfolio under management. The return obtained on the cash maintained by the Delegated Manager shall be included in the calculation of the return of the total portfolio under management.

b. The following shall be eligible as cash equivalent: current account balances, overnight and/or weekend deposits and time deposits with a maximum limit of 15 days at banks with long term instruments rating equal to or greater than A- in at least two of the following international risk rating agencies: Fitch, Moody's, and Standard & Poor's. US T-Bills are defined as cash equivalents.

c. The maximum exposure to each eligible bank is equivalent to 5% of the market value of the portfolio based on the closing market value of the portfolio at the previous quarter. Notwithstanding the above, whenever the Delegated Manager receives a cash contribution, the Delegated Manager may invest up to 10% of the market value of the portfolio in one same bank issuer for 10 business days from the day of the cash contribution. In addition, whenever the Delegated Manager is instructed to generate liquidity for a cash withdrawal, the Delegated Manager may invest up to 10% of the market value of the portfolio in one same bank issuer for 10 business days before and until the day of the cash withdrawal.

d. A distinction is made between exposure to the Custodian Bank in its role as custodian, and the exposure to said bank in its role as financial intermediary. Day-end cash balances equivalents may be held with the Custodian Bank, for up to an amount equivalent to 5% of the market value of the portfolio. US T-Bills are not considered as part of this limit. In the event that the Custodian Bank loses eligibility as a financial intermediary, its investment limit in the role of custodian shall be maintained.

2.6. Limits to TBAs

The following constraints exist for TBAs:

a. TBAs shall not exceed 30% of the portfolio.

b. The time to settlement of any TBA shall be less than 90 days.

c. Short positions in TBA are not allowed (selling of existing TBA positions is allowed).

d. Taking delivery of the underlying securities of any TBA is not allowed.

e. TBAs shall only be traded using US Primary Dealers or eligible banks which have long term instruments risk ratings equal to or greater than A- in at least two of the following international risk agencies: Fitch, Moody's, and Standard & Poor's.

f. All TBA transactions must be conducted through a clearing agency registered with the US Securities and Exchange Commission (SEC) or must be traded under a Master Securities Forward Transaction Agreement (MSFTA) that complies with FINRA Rule 4210.

2.7. Special Restrictions

a. The notional of US interest rate futures valued at market price and in absolute terms shall not exceed 10% of the market value of the portfolio.

b. The time to settlement of any interest rate future or Eurodollar future shall be less than 110 days.

c. Delivery of underlying securities of US Treasuries futures is not allowed.

d. No more than 20% of the market value of the portfolio may be maintained in the instruments allowed in letter b. of Section 2.4.

e. Borrowing for investment purposes shall not be accepted except as required to cover any failure of settlement.

2.8. External Cash Flows

External cash movements in the U.S. Agency Mortgage-Backed Securities Portfolio shall be instructed by the Ministry of Finance, through the Fiscal Agent.

For external cash contributions, the Delegated Manager may be granted a special waiver up to 10 banking days regarding fulfillment of requirements of Sections 1, 2.2, 2.5a. and 2.5d. from the day of the cash contribution. For external cash withdrawals, the Delegated Manager may be granted a special waiver up to 10 banking days regarding fulfillment of the requirements of Sections 1, 2.2, 2.5a. and 2.5d. prior to and up to the day before of the withdrawal. The waiver period may be extended at the request of the Delegated Manager to the Fiscal Agent, justifying the reasons for said extension. In the event that less than 10 working days elapse between the date of the cash withdrawal instruction and the day prior to the withdrawal itself, it shall be understood that the special permit shall be for that period.

3. Valuation Criteria

The portfolio valuation shall be implemented under "marked to market" criteria, using the prices given by the custodian.

4. Securities Lending Program

The Delegated Manager shall neither execute nor enter into securities lending agreements.

5. Other

The base currency of the portfolio for the effects of the performance of the Manager is the USD.

If, at any time, any of the instructions herein described are breached due to market price fluctuations, abnormal market conditions, or any other reason beyond the Delegated Manager's control, within their respective terms of office, the Delegated Manager shall not be considered as breaching the applicable guidelines if, within 7 business days after having detected such situation, they take the necessary steps to ensure their compliance. This period may be extended at the Delegated Manager's request to the Fiscal Agent, justifying the reasons for said extension.

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