COMMENTARY & ANALYSIS | LATIN AMERICA MONTHLY MAGAZINE

New Rules to Free More Chilean Pension Money for Private Equity

By **LUIS GARCIA**
Oct. 30, 2017 9:33 a.m. ET

Fresh legislation promises to make it easier for Chile's private pension funds to invest in alternative assets, potentially boosting the small Chilean private-equity sector at a time when investors are warming up to the Andean region.

PHOTO: GOLDEN BROWN/SHUTTERSTOCK.COM

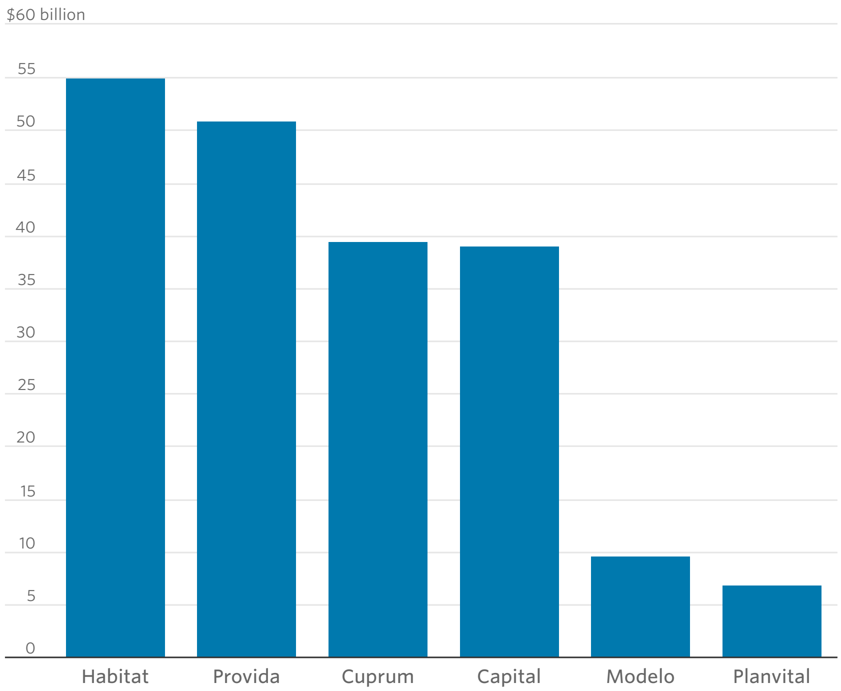
Chile's regulators are set to finalize on Nov. 1 new investment rules to allow the nation's private pension-fund managers to directly invest 5% to 10% of their funds' assets in private-market instruments, including private-equity funds. The rules for the managers, or Administradoras de Fondos de Pensiones, stem from a broader productivity-enhancement law passed last year.

The new regulation could unlock as much as $13 billion for direct investments in alternative assets, from a total of about $200 billion managed by Chile's pension funds, said Roberto Fuentes, studies manager at Asociación de AFP, a group that represents Chilean pension-fund managers. The AFPs—which were created as part of the privatization of Chile's pension system in the early 1980s—until now could invest in alternative assets, under limits, only through local feeder funds. Chilean pension funds had $4.67 billion indirectly invested in alternative assets as of April, according to Superintendencia de Pensiones, the nation's pension regulator.

"The AFPs have incentives to invest in private equity," Mr. Fuentes said. "There's the issue of current low interest rates in Chile and in the world...which have affected pension-fund returns."

Before pension-fund managers can start pouring capital in alternative assets, though, the regulation requires them to develop investing and risk-management policies for each asset class they include in the portfolio. Partially because of that, AFPs initially

Assets Overseen by Chile's AFP Pension Managers



Assets converted from Chilean pesos as of Sept. 30.
Source: Superintendencia de Pensiones

WSJ PRO PRIVATE EQUITY

should be more inclined to invest in established, global private-equity funds until they develop the necessary skills and systems to make more targeted investments, Mr. Fuentes said.

Still, the new rules likely will benefit local private-equity firms or others focused on the Andean region, where economic growth, political stability and market-friendly government policies are helping to attract more private-equity capital in relation to other markets in Latin America, consultants said.

The Andean region—which includes the countries along South America's western coast, such as Chile, Argentina, Colombia and Peru—represented 15% of the $2.05 billion in total private-equity capital raised in Latin America during the first half of 2017, according to data from trade group Emerging Market Private Equity Association. That percentage compares to 12% and 7% of total fundraising for all of 2016 and 2015, respectively. In contrast, Brazil saw its share of total Latin American private-equity fundraising shrink to 6% in the first six months of the year. The country accounted for 15% of all such fundraising in 2016 and 26% in 2015, according to Empea's data.

The increasing popularity of the Andean region among private-equity investors also was highlighted in a recent limited-partner survey conducted by the Latin America Private Equity & Venture Capital Association and investment consulting firm Cambridge Associates. Of 103 respondents to the survey, 41% of international private-equity investors and 24% of Latin American ones said they planned to invest in Latin America through pan-Andean funds in 2017, up from 8% of all limited partners in 2016.

HMC Capital is one firm trying to take advantage of rising investor interest for Andean countries. The Latin America-focused financial advisory and investment firm in 2015 launched a $100 million private-credit fund in Peru and is preparing to raise another credit vehicle in Colombia, said Felipe Held, HMC's co-founder and chief executive. The firm, which runs feeder funds in Chile, now will likely pursue a credit strategy there, he added.

"We started in Peru and Colombia because we had support from multilaterals and institutional investors," Mr. Held said. "Now in Chile, that we have this new regulation in place, there's going to be an opportunity to try to connect that institutional capital with the companies."

—Dawn Lim contributed to this article.

Write to Luis Garcia at luis.garcia@wsj.com