Asset & Wealth Management Revolution

Latin America's flourishing opportunities

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Contents

Executive summary

The world's Asset & Wealth Management (AWM) industry has turned its eyes to the Latin American (LatAm) region, with many fund managers looking for growth in the burgeoning market. However, the fabric underlying the industry is set to be upended in the coming years as new clients enter the space and the existing, bank dominated, distribution model begins to face challenges as clients look for new, and cheaper, ways of buying products.

While economic uncertainty in the region is rife, the largest markets, Brazil, Mexico and Chile, continue to see sustained growth – with others in the region becoming more prominent, such as Peru or Colombia. We forecast that by 2025 assets under management (AuM) in LatAm will reach US$5.3 trillion, up from US$2.4 trillion in 2018. This growth is expected to pick-up pace post 2020 as the United States quantitative easing program picks up steam and currencies in the region strengthen against the dollar. However, obstacles, including a low savings rate, political instability and inadequate investor education challenge the future growth potential of the region.

Global trends have begun to affect the LatAm industry, including shifting demographics and client preferences, increasing regulatory burdens and the rapid rise of automation. Falling interest rates have also begun to propel institutional investors, like pension funds, away from bonds into equity and, especially, alternatives as they look to diversify their portfolios and increase their yield. Pension funds are also increasingly looking outside their borders and regulators have responded by upping foreign investment limits where appropriate. As the middle class in the region begins to flourish and individuals begin to save more for retirement we believe pension funds will become the driving force of AuM growth. The shift in the industry will also be seen as retail investors look to ETFs as a more cost effective way to invest.

In this report we expand on the four trends we identified in our Asset & Wealth Management Revolution: Embracing Exponential Change report, with a specific focus on Latin America. By 2025, we believe that these trends will be the drivers of change in the LatAm AWM industry.

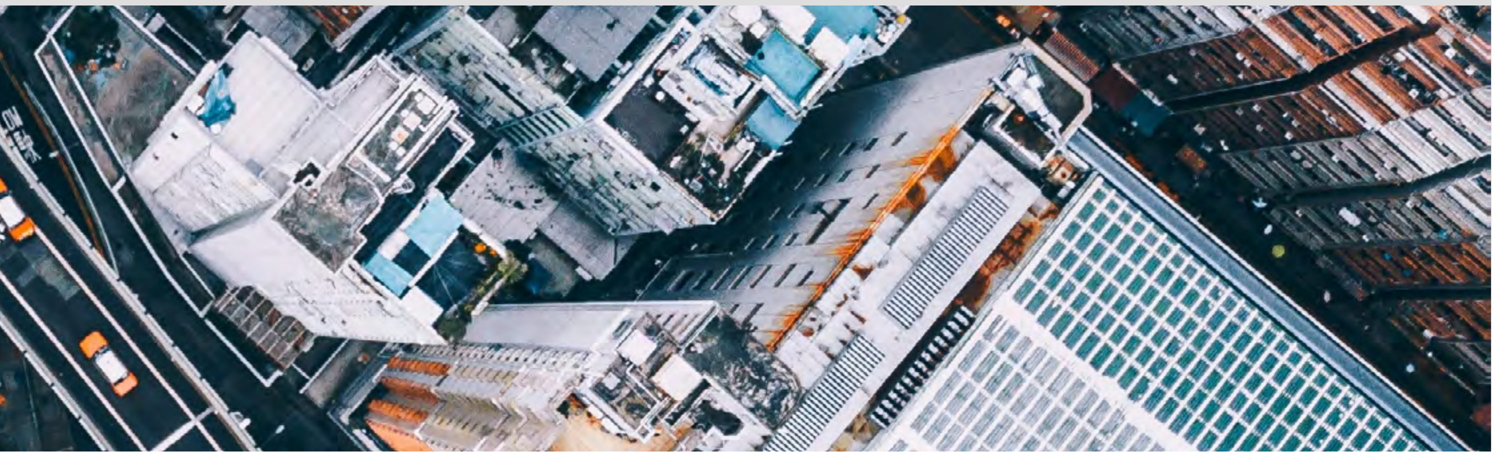
1. **Buyers' market**
   Mounting regulatory and investor pressure are driving up costs across the global AWM industry. Fund managers must be proactive in light of the current situation, meeting client demands with new technologies and looking for opportunities to harness emerging trends. At the same time, regulators across the region should look for ways to work together, bolstering existing relationships to create a fund passport bloc that can compete on the global stage.

2. **Digital technologies – do or die**
   Technology remains a key component of the AWM industry. Managers across the globe have begun to invest in newer technologies and upskill their staff in order to meet new demands. Across LatAm, governments are positioning themselves for this realisation, passing new regulations encouraging the use of new technology, such as robo-advisors. With a relatively younger population and lower annual income, robo-advisors in the region could see a stronger than expected growth.

3. **Funding the future**
   LatAm faces significant funding pressure and constraints in the coming years, especially as public debt continues to rise and populations begin to age. As banks around the globe retreat from financing, asset managers should look to play a larger role in this space. Additionally, with the strong growth expected in the pension systems of the region, asset managers will play a larger role in helping save for retirement.

4. **Outcomes matter**
   Asset managers across LatAm must adopt new strategies, especially regarding alternatives and ESG, if they are to succeed in the increasingly competitive market. As demand increases, institutional investors will critically analyse alpha and beta – those managers who are able to provide alpha will flourish, but those who cannot will struggle in the coming years.

The ongoing revolution is set to see major changes to fees, regulations, products, distribution, technology and talent in the coming years. In line with this, we believe asset managers are well-placed to seize the opportunities that the revolution will provide, as long as they take note of the new challenges that will emerge in the shifting environment.



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A coming of age story

> "Latin America neither wants, nor has any reason, to be a pawn without a will of its own."[1]

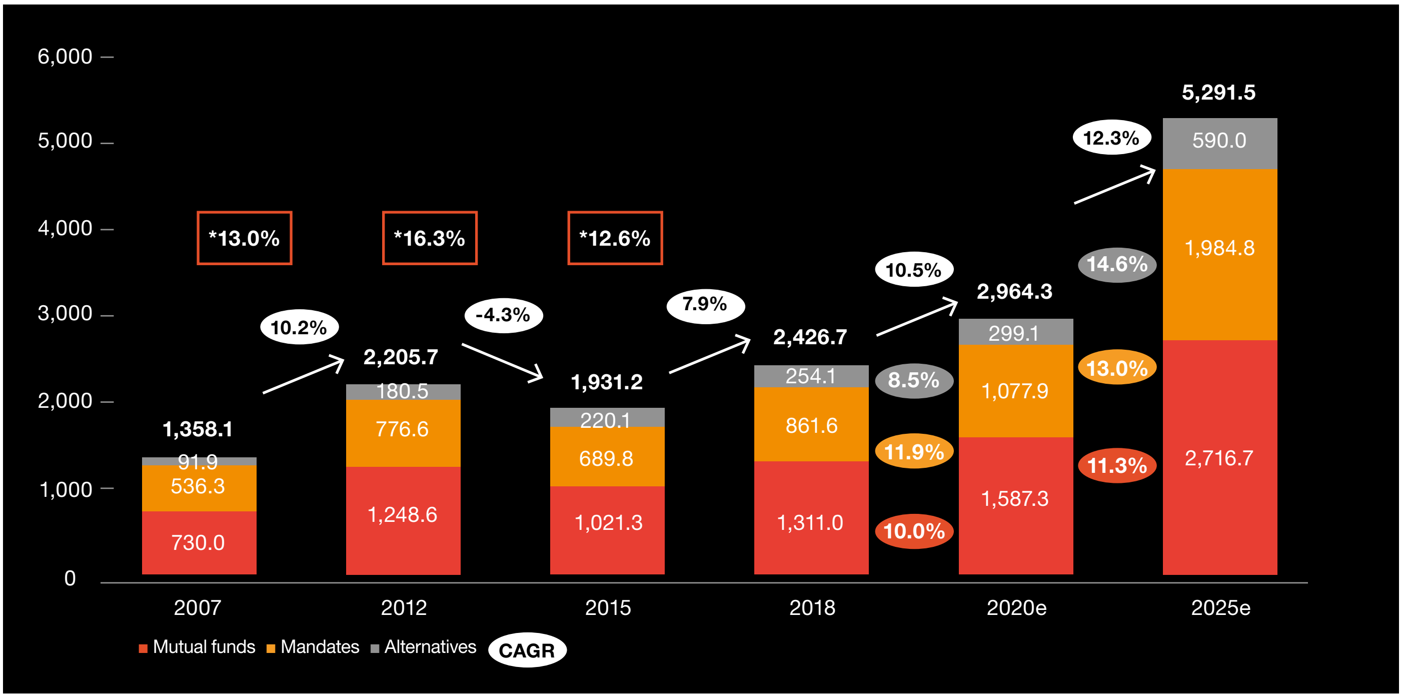
Those words, uttered by Gabriel García Márquez during his Nobel Prize acceptance speech starkly reflect the state of the AWM industry in LatAm. Its will has become strong and single-minded, reflecting a desire for growth and recognition in the eyes of the global AWM industry. This growth, however, will not be without challenges.

Economic outlook: Growth rebounds post recession

Growth has been strong in recent years, however even post Global Financial Crisis assets grew by a 13% compound annual growth rate (CAGR) at a fixed exchange rate between 2007 and 2012. Despite this growth continuing, currency depreciation against the US dollar, when looking at nominal values, saw assets fall in US$ terms between 2012 and 2015. Global economic uncertainties, including rising geopolitical uncertainty and trade tensions, as well as local political instability could stunt the region's growth in the future. However, we believe that any short-term effects will be shrugged off post 2020 and assets (in US$) will rise up to 2025, especially given that local currencies are expected to appreciate against the US dollar, especially considering the relaunching of quantitative easing in the US. Further, bearing in mind that the three largest markets in the region, Brazil, Mexico and Chile made up 87.5% of the total AuM in 2018 and 83% of total pension assets in the region, as their markets grow the overall regional market will as well.

The economic outlook has improved significantly since 2017 and we believe LatAm will show modest growth up to 2025, with Andean[2] countries showing stronger growth than the rest of the region.

Figure 1: Evolution of AuM (in US$ billion)



Source: PwC Global AWM Research Centre, National Regulators, Lipper, IMF, FSB, ANBIMA

*Note: percentage values within red squares respond to the CAGR for each respective period when fixing the constant US$ exchange rate at 2007.

1. Gabriel Garcia Marquez, *The Solitude of Latin America*, 1982
2. In the context of this study, when referring to Andean countries the following are taken into consideration: Colombia, Peru and Chile.

Additionally, as countries in the region begin to tame inflation in an environment of decreasing interest rates, we should see currencies recover compared to the US$. In line with this, we believe that the industry is ripe for growth and AuM is set to rise substantially between 2018 and 2025, more than doubling to reach almost US$5.3 trillion (see Figure 1). Looking at the low penetration rate of LatAm compared to the global rate this growth seems even more likely (see Figure 2).

This rise in assets will be more noticeable after 2020 as personal wealth accumulates more quickly, especially in the Andean countries, where we expect pension fund assets will grow at a fast clip (see Figure 2). High Net-Worth Individuals' (HNWIs) assets are also set to grow rapidly up to 2025, reaching US$3.4 trillion. As assets grow and wealthy families' needs become more complex, Family Offices will emerge as their vehicle of choice for managing their money, given their highly customisable services. In Chile, for example, there were 206 Family Offices in 2018, with an AuM of US$52 billion, and this number will continue to rise in coming years – especially due to the high wealth concentration in the country.[3] Mexico also shows promise in this space, with family businesses accounting for 70% of the country's total GDP. Alternative assets are emerging as a particularly popular asset class for these investors, with Mexican Family Offices investing 4.4% of their AuM into Venture Capital and this is expected to grow to 4.8% in the next three years. Many are also looking for diversification by increasingly investing abroad, particularly in the US.[4]

Figure 2: LatAm Client Assets (in US$ billion)

Clients	2007	2012	2018	2020e	2025e	CAGR 2018-2025e
Pension funds	277.9	717.3	954.8	1,181.5	2,444.5	14.4%
Insurance companies	163.1	311.6	435.5	532.2	1,082.0	13.9%
HNWI	1,316.8	1,449.2	1,674.0	1,981.1	3,413.7	10.7%
Mass Affluent	923.4	1,135.2	1,557.7	1,829.4	2,920.8	9.4%
Retail	1,882.0	3,205.7	2,844.6	3,212.2	4,808.4	7.8%
Total LatAm assets by client type	**4,563.2**	**6,819.0**	**7,466.5**	**8,736.4**	**14,669.4**	**10.1%**
Total Assets managed by LatAm AWM industry	1,358.1	2,205.7	2,426.7	2,964.3	5,291.5	11.8%
LatAm Penetration rate	**29.8%**	**32.3%**	**32.5%**	**33.9%**	**36.1%**	**1.5%**
Global Penetration rate	**37.2%**	**36.5%**	**41.2%(e)**	**39.8%**	**42.1%**	**0.3%**

Source: PwC Global AWM Research Centre analysis. Past data based on Lipper, Brazilian Financial and Capital Markets Association (ANBIMA), Cámara Argentina de Fondos Comunes de Inversión (CAFCI), Mexican Venture Capital and Private Equity Association (AMEXCAP), Asociación Colombiana de Fondos de Capital Privado (ColCapital), Asociación Chilena Administradoras de Fondos de Inversión (ACAFI), IMF, ICI, Asociación Internacional de Organismos de Supervisión de Fondos de Pensiones (AIOS), Superintendencia de Banca de Perú (SBS), Financial Stability Board (FSB).

Note: Penetration rate here refers to the amount of client assets managed by the industry. The penetration rate in Latin America is low compared to the Global rate and is mainly driven by mutual funds in Brazil. In Brazil, mutual investment funds are treated as condominiums (not as legal entities); therefore, any income or gains obtained by such funds from their transactions are not subject to taxation in Brazil. The taxation occurs only when the income or gains are eventually distributed to quota holders.

3. ESE Business School
4. Expansion

Emerging middle class as an agent for change

As demographics shift, the growing middle class in emerging LatAm is an untapped market for many asset managers. The future size and potential wealth of this market is enticing for managers who can confront the needs of investors in the region, both institutional and retail. The middle class has expanded rapidly between 2008 and 2018, growing from 33 million to 46 million households. Over the same period, there has been an upsurge of median income, US$7,971 to US$10,745 per annum, meaning there are more people with more money to manage.[5] While the middle class only accounts for less than a quarter of the population, we expect it to be the largest growth driver for the LatAm AWM industry up to 2025 as they will boost pension fund, insurance companies and overall retail assets. Despite the expected rise in both the annual median income and the middle class, due to the still relatively low median income, retail investments in the region are likely to remain relatively low in the coming years.

Pension fund assets in LatAm are some of the fastest growing in the world and despite recessions between 2012 and 2018, managed to maintain strong growth, especially when using a fixed exchange rate. We remain bullish on their growth and believe they will show the highest CAGR up to 2025. This is as population growth remains modest, employment becomes more formalised, urbanisation continues and a growing working population drive assets from US$954.8 billion in 2018 to US$2,444.5 billion by 2025.

Insurance companies will closely follow pension funds and will see their assets more than double by 2025. Despite historically high growth, in the double digits, domestic demand stalled in 2016 with the economic slowdown and the penetration rate[6] of 3% remains well below developed market averages of 10% to 12% in Europe and the United States. In the future, we expect higher purchasing power, provided tax incentives are put in place, to boost the demand for personal and commercial insurance. As such, we see a high double figure CAGR of 15.2% between 2020 and 2025, boosting insurance assets from US$532.2 billion to US$1,082 billion.

AWMs are set to profit in the coming environment, especially as investors become more financially educated and aware of the various financial products that are available to them. AWMs will be further bolstered as pension funds are expecting to increase the number of contributors as the proportion of undeclared workers decreases and the proportion of companies providing employees with pension schemes increases. This combines with an increase in the workers contribution to those pension schemes. Consequently, they will manage an ever-increasing amount of pension assets, especially as some countries in the region move towards defined contribution (DC). This has already begun in Brazil, for example, where new proposals aim to raise the retirement age. In Mexico, the Chamber of Deputies recently published an amendment to the Pension Savings System Law (LSAR) that aims to enable pension fund managers (AFOREs) to expand their investment options to increase their returns. On the insurance side, most countries in the region have already introduced tax incentives to promote insurance demand.[7] We believe that if these incentives were channeled more efficiently, for example, through a reduction of the income tax burden, insurance demand for saving purposes would soar. Given the low penetration rate there is significant room for AWMs to capture market share.

5. World Bank
6. Penetration rate refers to the ratio of premiums underwritten in a year to the total GDP of the country/region.
7. Some of these incentives include reductions of the value-added tax, as is the case in Argentina (occupational risk insurance, life risk insurance), Brazil (insurance against credit risk), Chile (life risk and health), Colombia (life risk and health), Mexico (life), El Salvador (insurance and reinsurance, in general).

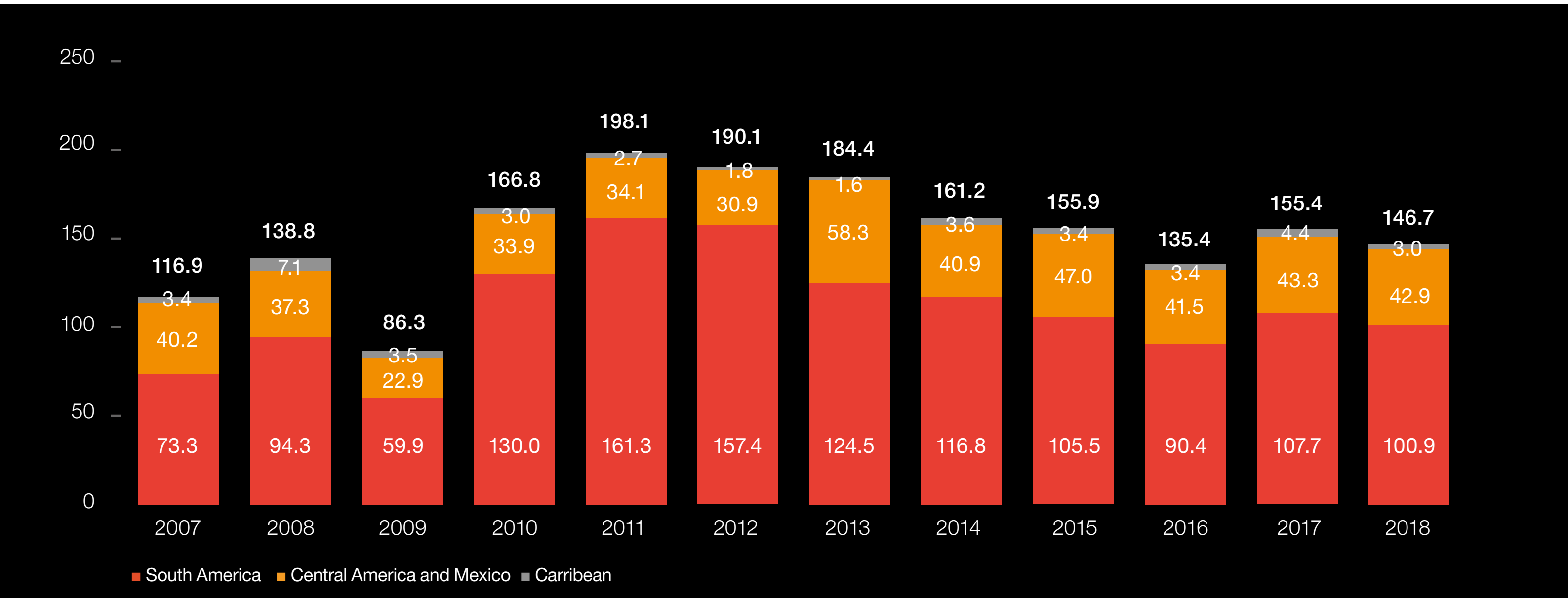
Obstacles challenge future growth

Low savings rates, political instability and inadequate investor education are among the main challenges to future growth in the LatAm region. However, there are a number of others including increased trade tensions, slowing external export demand, commodity prices recovering slower than expected and China's economy losing momentum.

Political and structural risks are key areas of concern for LatAm's future growth. Unequal wealth distribution, possibly due to inefficient tax systems, have, in the past constrained lower-income households from growing their wealth. In some countries, these systems have even regressed, with higher income households paying a lower tax rate than those with lower incomes.[8] However, in order to be included as part of the OECD, Chile and Colombia have performed several and significant amendments to their tax systems, with the purpose of aligning their legislation with the other member countries and reduce any unjustified breach.[9] Despite the rising middle class, these tax systems remain a burden on the AWM sector, as a large proportion of the population is unable to make use of the financial products available.

Tax systems are not the only structural issue affecting the LatAm AWM sector. Policy uncertainty has been, historically, a major factor influencing the downward trend of foreign direct investments (see Figure 3) which has a strong impact on how foreign investors view the region. Political stability across the region is a fundamental that needs to be addressed before true competitiveness can be reached. A number of other structural issues that are significantly different from those observed in more developed regions

Figure 3: FDI inflows in Latin America, US$ billion



Notes: Central America includes Costa Rica and Panama. Numbers may not add due to rounding.
Source: PwC Global AWM Research Centre, United Nations Conference on Trade and Development

8. Focus Economics
9. Chile is a member country of the OECD since 2010. In 2018, Colombia was invited to be a member of the Organisation and its accession is imminent.
10. World Economic Forum

will also need to be addressed in the coming years, including high unemployment.[10] The Foreign Direct Investment (FDI) slump, which was thought to have reversed in 2017, returned in 2018, with FDI dropping 6% to US$146.7 billion. However, should policy uncertainty be reined in and a more accommodative business environment be established we expect FDI to increase in the more stable countries. This ought to lead to a more competitive AWM industry as a higher FDI leads to more productivity, which contributes to a more innovative economy overall. Which in-turn contributes to increased capital flows and a faster growth in the AWM industry.

Investor education is also key for strengthening the overall financial sector, and therefore the AWM industry, of Latin America. While there is an innumerable amount of information available to investors, much of this information is difficult to understand. In addition, with changing demographics and significant amounts of undeclared workers not enrolled in public pension systems, state run pensions will be unable to cover the increasing pension gap, meaning individual investors will need to become more financially literate in order to ensure they are able to save appropriately for their retirement.

Fund managers in LatAm will need to have strong value propositions in the coming years if they wish to gain future clients, be they institutional, HNWI or retail. It will be crucial that they adapt to shifting client preferences, search for international investment opportunities in order to minimise the effect of local shocks, and engage with local regulators and governments to ensure a business friendly environment.

Global AWM trends are showing in LatAm

Shifting demographics, increasing regulatory burdens and falling fees, rapid technological advancement, a shift towards alternatives and the rapid rise of ESG are forcing change across the global AWM space and LatAm is not immune. While the global industry is evolving, each region is doing so in a different way and at a different pace.

Changing client preferences are at the forefront of change within the AWM industry and failure to adapt to these changes will leave the LatAm industry far behind other emerging markets. The rise of millennials across the globe is changing the face of AWM. As much of global wealth shifts to millennials, they will become the wealthiest generation in history. Their investment needs are vastly different from previous generations: they are more eager to embrace new technologies and invest according to that preference, and they're more risk averse (understandable given the high debt and low wage scenario that many find themselves in), and twice as likely to put their money into sustainable or impact investments.[11]

Regulators across LatAm have implemented transparency regulations in recent years. Brazil, Chile, Colombia and Mexico, some of the most advanced markets in the region, have had these regulations in place for a number of years now. Complying with an increased regulatory burden is often a cost burden on AWMs and as investors continue to call for lower fees, historically high management fees in the region will begin to face pressure.

As the industry seeks to lower costs, a wave of automation is sweeping across the global AWM space. Already middle and back office work is shifting with the implementation of game changing technologies such as artificial intelligence (AI), robotic process automation (RPA), RegTech and Blockchain become more entrenched in the industry. Many AWM firms will welcome these shifts as they look to cut operational costs and lower fees in an ever increasingly competitive environment. As the market in LatAm shifts and international players move into the region, domestic fund managers cannot become complacent – they must harness these technologies and gain a competitive advantage before it is too late.

Across the globe, investors are looking to diversify and increase their yield and alternatives are set to benefit. Private Equity, which has outperformed equity on a five, ten and 20 year basis,[12] will stay the largest alternative asset class, however its growth rate will be slowest as the asset class matures. In emerging markets, rising urbanisation rates are quickly driving up the need for infrastructure – and infrastructure funds in LatAm are no different. With high levels of public debt, governments are turning to institutional investors in search of additional financing. Local managers, with high governance standards, strong relationships with many of these institutional investors, and high investment standards have a window of opportunity to manage substantial sums. As growth continues in the coming years and as more foreign institutional investors look to the region, many managers, both domestic and global, with substantial knowledge of local intricacies and strong track records could benefit.

ESG or sustainable investments have seen substantial growth in recent years. Changing demographics, as mentioned above, as well as institutional investors are forcing this change. Across the globe, institutional investors are increasing their allocation to these investments. As Pension Funds and Insurance Companies expect to make up over US$3.5 trillion in assets in LatAm by 2025 (see Figure 2), they will be a dominant decider of the future in the region. This change, in our opinion, should be enforced by regulations similar to those seen in Europe regarding ESG.

While the industry has begun to adapt to these changes, more is necessary to ensure the region remains competitive. In the coming pages we outline the four trends driving LatAm's AWM industry growth.

11. Morgan Stanley, CNBC, TD Ameritrade

12. PwC, *Rising attractiveness of alternative asset classes for sovereign wealth funds,* 2018

2

Four trends fundamentally driving change

1| Buyers’ market

2| Digital technology: do or die

3| Funding the future

4| Outcomes matter

1 | Buyers' market

Fierce competition, and mounting regulatory and investor pressures are squeezing the AWM industry globally. Operational costs have begun to creep upwards while at the same time management fees across the globe are falling. LatAm fund managers must be proactive in the coming years, harnessing emerging technologies and trends in order to survive in the future environment.

As transparency becomes a prominent issue, fund fees in LatAm will be scrutinised by investors, both retail and institutional. Pension administration fees are already being adapted in order to maximise investor returns and align with international standards.

As the Bancassurance model[13] faces challenges the entire LatAm industry will be upended. A more traditional and modern industry will take its place, with ETFs and D2C becoming more prominent, especially as asset managers cater to a new generation of clients and the need to provide value for money.

Costs mount while fees fall

Across all facets of the AWM industry there are calls from investors, be they retail or institutional, to lower fees. At the same time, regulators are pursuing their own agendas, with MiFID II in Europe, the new Value for Money framework in the UK and Best Interest in the US. In LatAm, the fragmented market means that individual regulators have pushed different requirements to the market (see Transparency – a preeminent issue for regulators). As the regulatory burden increases for managers, costs are slowly but surely creeping upwards. Combined with falling management fees in the region (see Figure 5), the LatAm AWM industry could face turbulent times ahead, similar to the global industry.[14]

Transparency – a preeminent issue for regulators[15]

Brazil
The Brazilian Securities and Exchange Commission implement Instruction number 555 in December 2014. This establishes that the fund's prospectus needs to disclose administration, performance, custody, entrance and exit fees, as well as other expenses of the fund. Additionally, the published performance of the funds must already discount all fees charged by the fund. The Brazil regulator has begun the consultation process on the Open Banking framework to ensure that smaller FinTechs are able to gain a foothold in the market and offer a number of tech-based or lower cost services to clients. These services include fund distribution, tools to consolidate and compare portfolios across institutions, and to gain access to investor education and alternative assets that retail investors would not previously have been able to access. The framework is expected to be signed into law in September 2020 and implemented by the end of that year.

Chile
The Financial Market Commission in Chile established General Norm number 365 in May 2014. Under this, a fund's prospectus must disclose fixed and/or variable remuneration of the fund manager for each of the fund's series, as well as the calculation methodology.

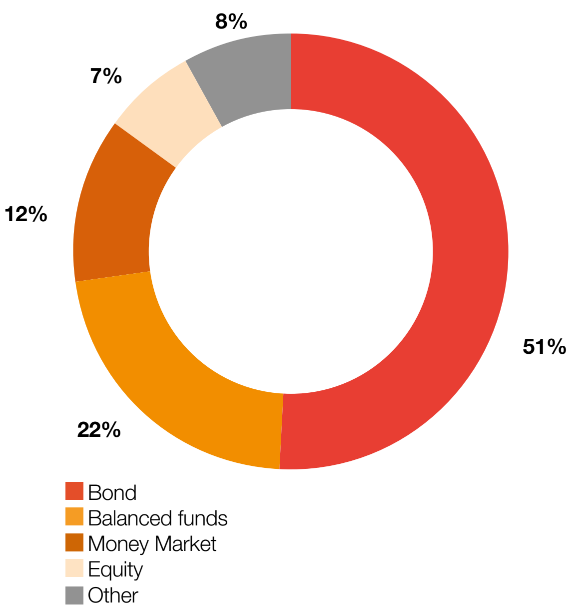
Colombia
The Colombian Ministry of Finance issued Ordinary Decree number 1242 in 2013. The decree establishes that the fund's prospectus needs to disclose administration, management and custody expenses of the fund. Additionally, funds must, at least every trimester, publish the expenses regarding the administration and management of the fund.

Mexico
The Mexican Congress enacted the Law of Investment Funds in June 2014. This law underlines that the concept and calculation of fees, as well as how often they must be paid, is one of the mandatory requirements that must be present in a fund's prospectus.

13. The selling/promotion of life assurance and other insurance products and services by banks, making them the leading distributors of asset and wealth management products.
14. PwC, *Asset & Wealth Management Revolution: Pressure on Profitability*, 2018
15. CVM, SVS, Camara de Diputados Del H. Congreso de la Union, Superintendencia Financiera de Colombia

Despite a future of falling margins, LatAm's fund managers have done well to keep fees low for investors, with average management fees for active and passive bond and equity mutual funds sitting at 0.42% in 2017, down from 0.45% in 2012. However, with the majority of funds in LatAm being active bond funds (see Figure 4), we see a much higher decline in this asset class driven by decreasing interest rates. We expect these high interest rates to fall in the coming years, which will put increasing pressure on asset managers' margins as investors shift away from this asset class for ones with higher yields, such as equities.

Figure 4: Breakdown of AuM by type of fund, 2018



Source: PwC Global AWM Research Centre, based on ICI

Fund managers are not the only ones feeling fee pressure. Notably, fees for retail investors are often higher than expected due to fees charged by the administrators of retirement funds. In order to try reduce these charges, some countries have created a maximum ceiling that fund managers are allowed to charge. In LatAm, the average commission of individual capitalisation systems (except Mexico) amounts to 0.66% of AuM.[16] For Mexico, CONSAR published a new ruling on AFOREs fees, targeting a significant reduction in the coming years to align the level with the international average. As calls for transparency echo across the industry, these fees are likely to be increasingly challenged by investors, associations and regulators.

This constant and unrelenting pressure on the industry will likely, in our view, mean the industry will begin to see consolidation – both on a fund and asset manager level. This is particularly true of the active side of the industry that has faced tough times in recent years as investors shift to lower cost ETFs and other passive type funds. As the LatAm industry opens up and more international players begin to either set up shop in the region or partner with distributors, local fund managers will also find competition ramping up significantly.

16. OECD

In light of this, active LatAm managers will need to differentiate themselves to become leaders of the pack in the coming years. They will need to target high-risk high-reward products that are specialised on the region or a particular product type. Local passive players will also find themselves under significant strain as the global price war begins to penetrate the LatAm market.

Figure 5: Management fees evolution by region, 2012 to 2017 in %

	2012	2013	2014	2015	2016	2017	12-17 (%)
Global Active and Passive	**0.52**	**0.51**	**0.49**	**0.47**	**0.45**	**0.44**	**-14.30%**
LatAm Active and Passive	0.45	0.43	0.46	0.44	0.42	0.42	-7.30%
Global Bond Active	**0.52**	**0.52**	**0.50**	**0.48**	**0.47**	**0.47**	**-9.60%**
Latin America	0.42	0.41	0.43	0.40	0.38	0.37	-12.30%
United States	0.42	0.42	0.41	0.40	0.39	0.39	-7.80%
Europe	0.72	0.70	0.67	0.63	0.62	0.62	-14.60%

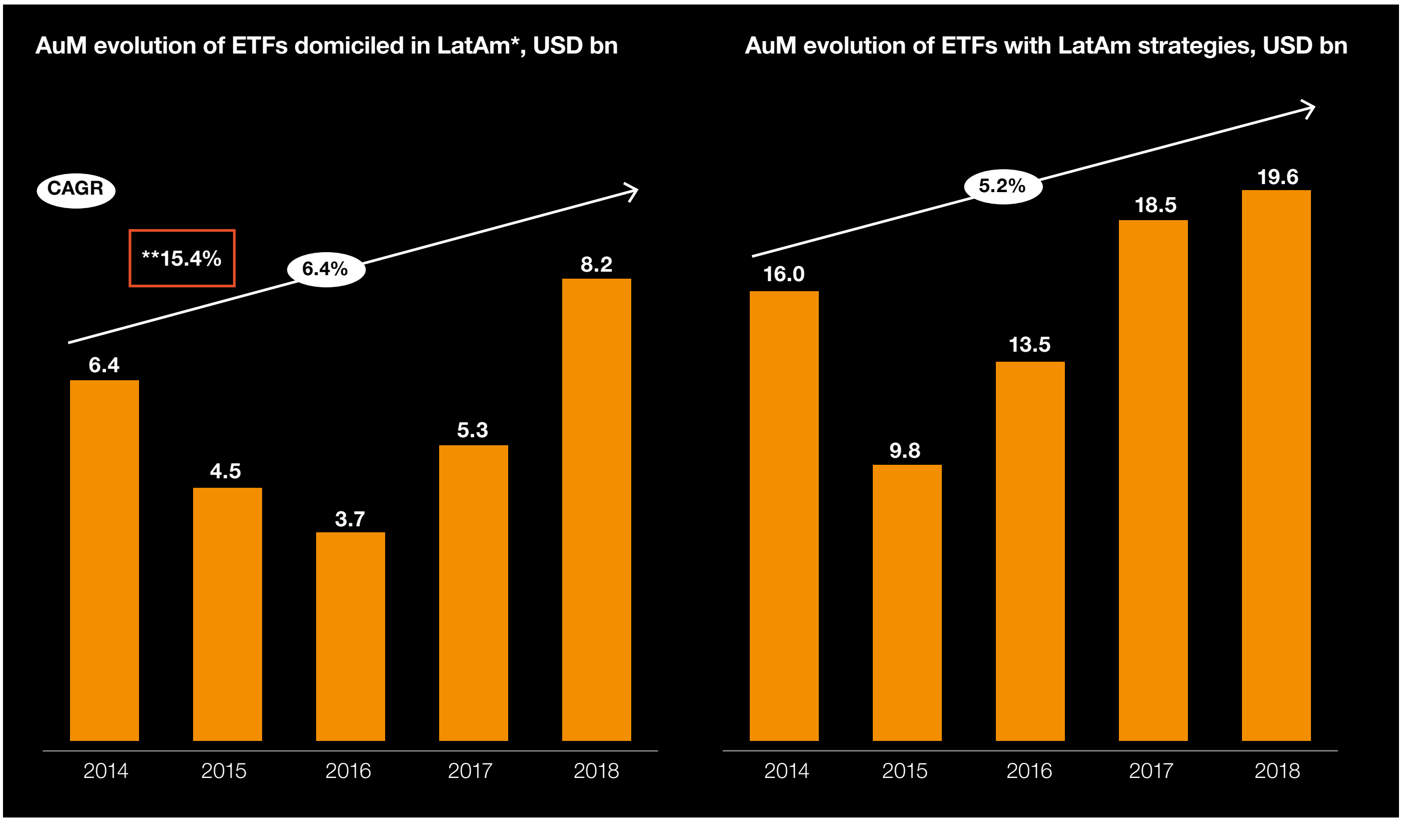
Source: PwC Global AWM Research Centre analysis and ICI. Past data based on Lipper and Morningstar

In search of low cost products

Perhaps in anticipation of more global players moving into the market we've seen the LatAm ETF market begin to pick up pace. Despite this, the market remains noticeably smaller than others, with approximately US$8.2 billion in AuM as of 2018 (see Figure 6). This is largely due to the slow pick-up of these products in Brazil, the region's largest market – which we discuss in more detail below. At the same time, demand for ETFs with LatAm strategies has clearly increased, seeing a 5.2% CAGR between 2014 and 2018, with a particularly strong increase post-recession. Notably, ETFs that followed an Equity Chile and Equity Brazil strategy were in particularly high demand, seeing the strongest CAGRs of 40.9% and 15.1% respectively.

As investors continue to demand value for money, many will turn to these low cost products more frequently. Further, as investors in the region seek a higher exposure to European and US markets, many have turned to ETFs to achieve these goals. LatAm institutional investors' share of ETFs as a part of their assets grew from 8% in 2016 to 18% in 2018,[17] but the majority have turned to international fund managers when looking to invest in ETFs.

Figure 6: LatAm* domiciled (L) and LatAm strategy (R) ETF AuM evolution

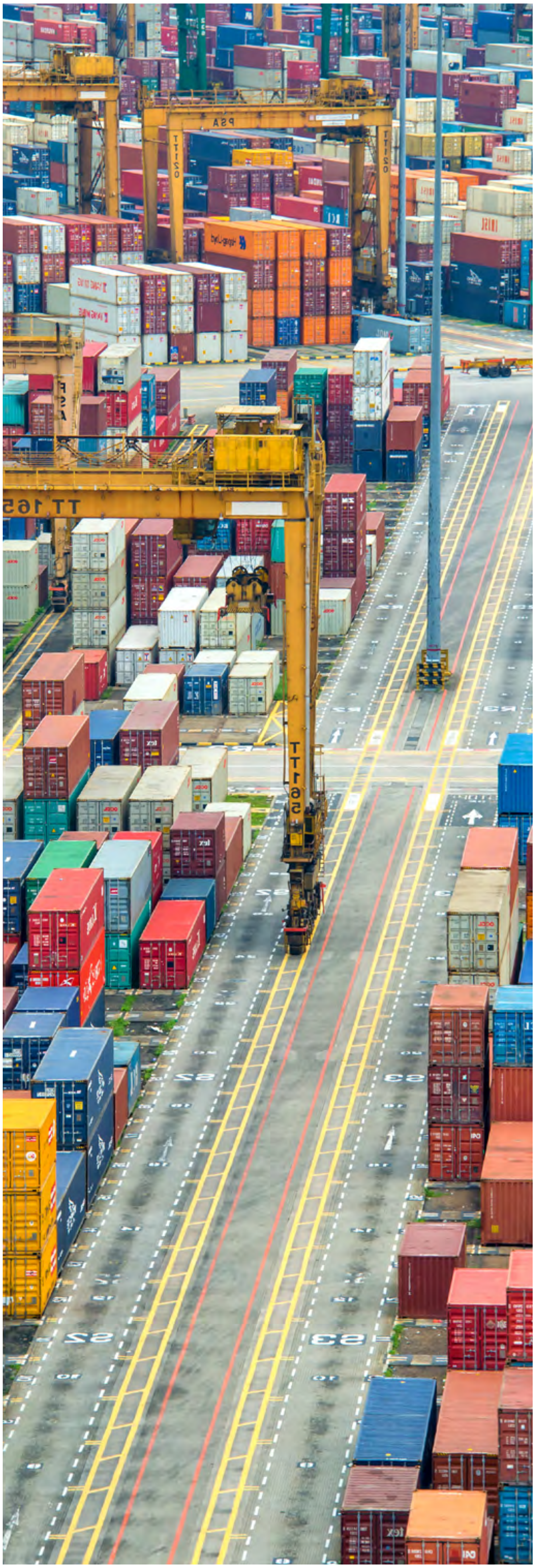


Note: *LatAm here refers to Brazil, Chile, Colombia and Mexico
Note: **Percentage value in the red square refers to the CAGR for the period 2014-2018 when fixing the exchange rate at 2007.
Source: PwC Global AWM Research Centre, Lipper, Greenwich

17. Greenwich Associates

Some large international fund managers have done particularly well in the LatAm market and have gained a significant portion of the region's ETF market share. The largest two managers are both international and control over 70% of the market. A local manager rounds of the top 3, who combined control over 90% of the market. Local fund managers failed to capitalise on ETFs early on and solidify their presence in the Latin American market and this, alongside the recession of 2015, hampered their ability to grab market share.

There is significant room for local managers to carve away at the two international players' lead. One is set to to launch a government-backed Brazilian bond ETF in 2019 that is expected to meet with considerable success in the market. However, in Brazil they would need to overcome a critical issue that plagues ETF development, which is that they are not listed on stock exchanges. Retail investors therefore need a broker account to trade, meaning they must go through an intermediary – upping the costs for the end investor, which could make them less attractive. With their knowledge of local investors' wants and needs, as well as a strong base on the ground, LatAm managers could see considerable success in the coming years as international investors look to invest in the region.



Millennials shape the future of the market

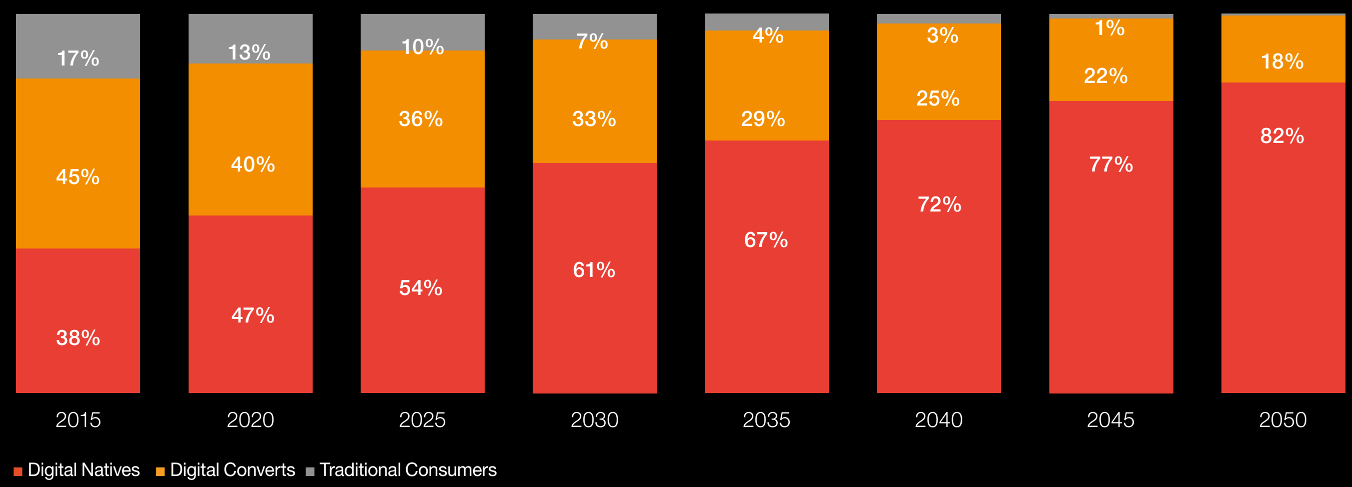
Millennials and subsequent generations are responsible for a large portion of the change that is currently sweeping across the global AWM industry. It's no different in Latin America with millennial client assets estimated to increase from US$600 billion in 2007 to US$6 trillion by 2025.[18] They are set to become the largest and wealthiest generation in history and will benefit from the biggest intergenerational wealth transfer in history. Their preferences also differ vastly from previously generations and managers must adapt to them, especially in LatAm where the first generation of digital natives (millennials) are already set to be the largest population group by 2020 (see Figure 7).

LatAm fund managers, if they are proactive in their decision-making, can harness the coming demographic shift to develop their value proposition based on efficient technological adoption. Regulators have already paved the way for this adoption by establishing regulations to smooth the process.

Brazil's market authority, in 2016, issued a regulation allowing managers to sell their products directly to clients, establishing the D2C model in Brazil. So far the country is the only to do so in the region. This also fostered the development of new FinTechs in the country who began offering products to clients via digital channels. Fund managers in the country also have the opportunity to set up robo-advisors in order to target the younger generations.

Millennials and subsequent generations are an excellent target for LatAm managers who have already, or are in the process, of adopting technologies into their client-facing operations. It is through these services, including fund platforms and robo-advisors, that LatAm managers could seize opportunities. On the other hand, a failure on their part to adapt to these changes will see the door open for large international managers to firmly establish their name in the region.

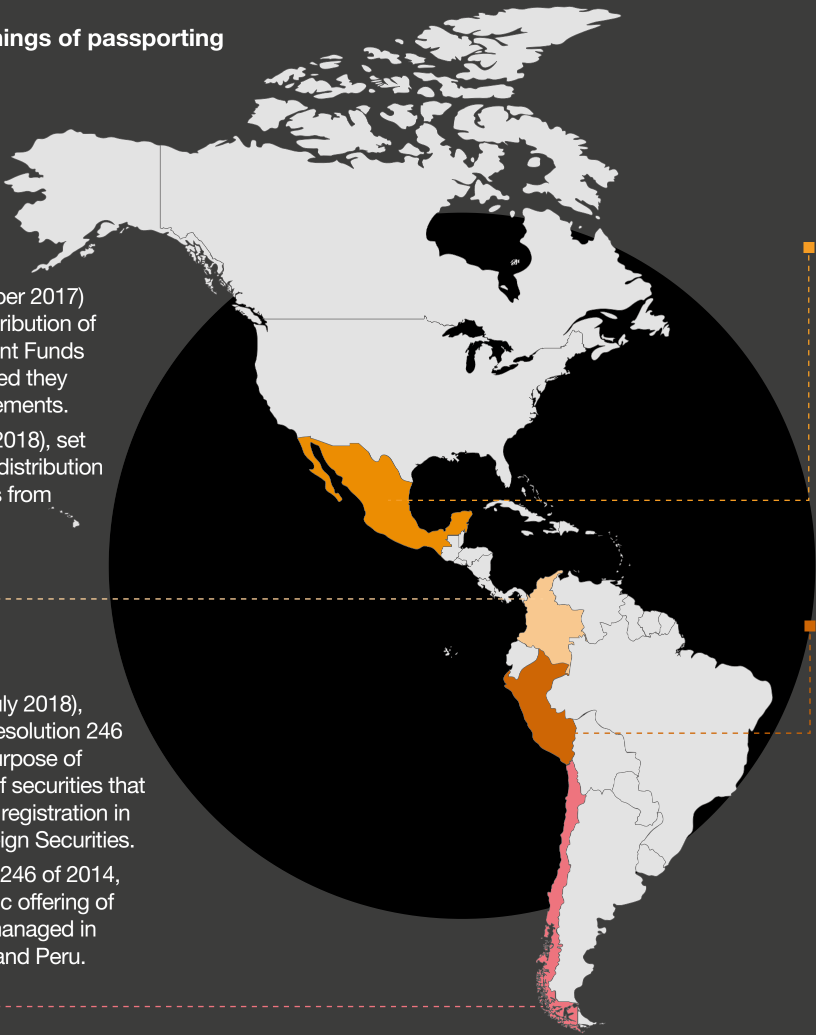
Figure 7: Share of digital natives, converts and traditional consumers in LatAm, 2015-2050



Source: PwC Global AWM Research Centre, United Nations, World Economic Forum

18. PwC Global AWM Research Centre, UBS

Figure 8: The beginnings of passporting



Colombia

- Decree 1756 (October 2017) allows the local distribution of Collective Investment Funds from abroad provided they meet certain requirements.
- Circular 015 (June 2018), set rules regarding the distribution of investment funds from abroad.

Mexico

does not show any progress regarding the Funds passport initiative as of December 2018.

Chile

- Resolution 3092 (July 2018), updated Exempt Resolution 246 of 2014, with the purpose of expanding the list of securities that do not require prior registration in the Registry of Foreign Securities.
- Exempt Resolution 246 of 2014, authorises the public offering of investment funds managed in Colombia, Mexico and Peru.

Peru

The Superintendencia del Mercado de Valores (SMV) recently approved two resolutions: the first one recognises funds from abroad, exempting them from the obligation to register in the Peruvian registry to be offered in that market. The second one establishes the list of countries whose funds may be recognised for distribution in Peru, which includes Pacific Alliance countries.

Source: PwC Global AWM Research Centre, El Economista de Mexico, CMF, SMV

A united LatAm

Financial regulators across the Pacific Alliance countries[19] have realised that to compete on the global investment fund stage, it is necessary for LatAm countries to create a fund passport bloc, similar to UCITS in Europe or the ASEAN passport in Asia-Pacific. In line with this, a memorandum of understanding (MoU) was signed in 2017 regarding the implementation of a fund passport. Colombia, Peru and Chile have so far passed various laws in respect to this passport (see Figure 8). Additionally, the Pacific Alliance plan to integrate Brazil and Argentina in the passport agreement in the coming years.

These developments have the potential to fundamentally change the landscape of the LatAm AWM industry and to address a number of factors currently hindering growth. Cross-border exposure in the region will not only see assets grow rapidly, but diversification will offer investors added protection. Further, the regulatory certainty across countries will cultivate a more attractive environment for investors who previously have looked for this overseas. Even though countries like Chile do have a more straightforward fund legislation and have matured practices over the years, there is still room for improvement. Furthermore, Public Pension Funds in Chile are currently subject to scrutiny by the Chilean Congress and it is very likely that new legislations will be passed in the short term with the purpose of (i) increasing mandatory contribution; and, (ii) include a public entity that will administer the additional contribution.

Tax certainty is undoubtedly the most critical issue that the MoU currently aims to address. Currently funds domiciled in most of the Pacific Alliance countries are not subject to neutral tax treatments. While regulations and treaties exist to prevent double taxation (e.g. Chile currently has one of the largest treaty networks with 33 treaties to prevent double taxation currently in force), the MoU would certainly provide further clarity and encourage significantly more cross-border investment.

There is a number of challenges that remain before a fund passport could become a reality, most notably achieving regulatory standardisation, across countries seeking to participate, regarding investor protection, corporate governance and fiscal rules.

19. Colombia, Mexico, Peru and Chile

2 | Digital technology: do or die

Technology remains at the forefront of the change sweeping through the AWM industry. Investors have begun to demand that managers incorporate an increasing amount of tech into their operations. At the same time, managers must upskill their existing staff to offering clients a full digital experience. As the pace of development accelerates managers will be presented with a myriad of opportunities that range from front to back office.

In the near future, the AWM industry in the region will be driven by the efficient implementation of technology. The most successful managers will be those that successfully implement robo-advisor technology, digital onboarding processes, and self-management technology tools combined with efficient CRM and advisory tools for the client. Some managers in the region have invested heavily into technology intensive start-ups, aiming to understand the ecosystem and emerging technologies to create innovative and disruptive business models within Latin America.

The key to a future operating model

As margins are expected to fall in the coming years, fund managers across the globe will need to invest in shoring up their operations and building a resilient future operating model. To do so requires a number of factors be considered, including having the right talent at the right time, a clear strategic positioning and, of course, introducing technology throughout the AWM value chain.

Back to front office will benefit significantly from the introduction of artificial intelligence (AI) and robotic process automation (RPA). A key point that needs to be determined is whether they should build this expertise internally or via outsourcing. Some of the largest asset managers may decide to or have already built the expertise internally, however many others will turn to asset servicing companies to minimise costs in their back office.

Strategic partnership decisions and the choice of technology will make all the difference in terms of the middle and front office. Fund managers must decide which partnerships will strengthen their existing operations and which technologies will bring the most value in the long term. These technologies must ensure that there is increased integration across teams to reduce the silo effect that is often prominent in legacy operations. This will require managers make the best use of their data and implement cloud-based technologies (see Figure 9).

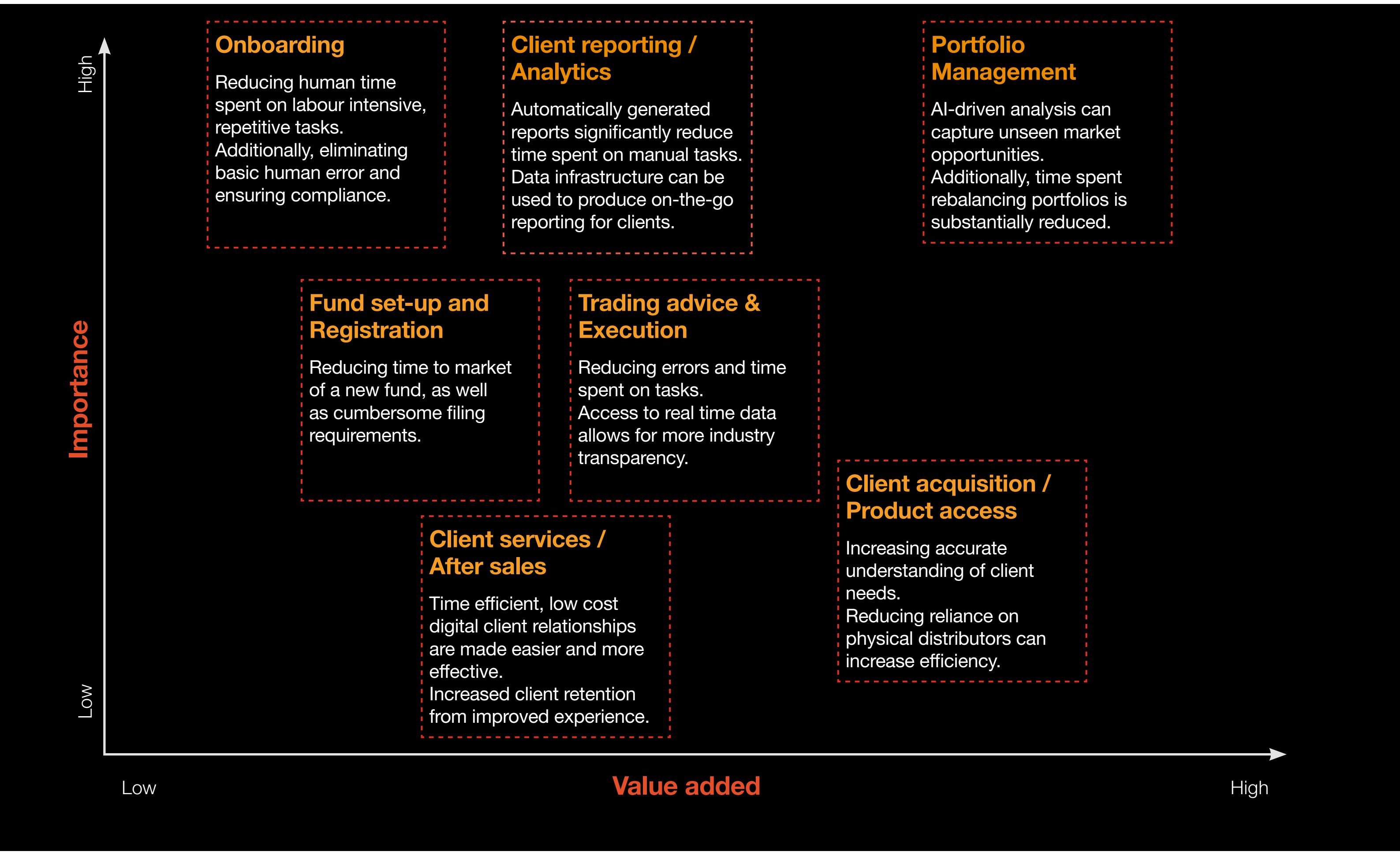
Digitising the value chain, however, does not come cheap. In the short term, costs will rise as managers hire new tech-savvy talent, upskill existing workers, and implement new software. Managers must therefore prepare for the initial outlay. Those with scale will be able to use this to their benefit as they leverage their size to mitigate some effects of the cost.

Many managers globally have already begun this process of replacing their core systems, often making use of large service providers or technology firms who provide a uniform platform. In our publication, *Asset and Wealth Management Revolution: Pressure on Profitability*, we highlight three possible scenarios for the future:

1. Global service providers will provide managers with an integrated platform that spans their entire value chain, different geographies and asset classes;
2. Fund managers will build or buy key technologies and keep them in-house, and
3. Managers outsource their operations to best-of-breed open architecture service providers who supply plug-and-play platforms.

These types of platforms have seen success in recent years as the efficiencies they bring, especially in the front office, have improved efficiency among many managers.

Figure 9: Technology and operations



Source: PwC Global AWM Research Centre

Using data analytics to dig deeper

Data analytics systems have enhanced research capabilities, provided better quality and reduced costs related to data management. As the AWM industry evolves and becomes ever more complex, it is also becoming more data-rich. This means that managers will be able to, as technology becomes more readily available, implement increasingly advanced investment strategies and bolster decision-making.

With proactive fund managers already having implemented big data and machine learning capabilities, many will begin to put a stronger emphasis on their data strategies in order to ensure they are gathering pertinent datasets. Managers using more advanced strategies will be able to deliver better value for money to their investors by making more informed decisions and providing higher returns and thereby ensuring higher fees for themselves.

In order to make effective use of these datasets asset managers will begin to make more extensive use of AI in the front office. The real time optimisation of sales and marketing, client interaction and predictive modelling will push the AWM industry to the next level. In fact, AI's mark has already been made on some parts of the industry and it can no longer be ignored. In LatAm, several asset managers have implemented technology to respond to clients' demands.

These players have implemented technology with a specific purpose – in order to be truly client-centric. They are targeting the retail market with low fees and initial investment amounts and much of the interaction with the client is automated. Firms across the globe who have introduced AI and other new technologies have proven to be nimble, leveraging on data and analytics to improve operational processes and streamline their firms.

Digitising distribution

The changes and evolution of technologies in the AWM industry has forced client relationship models to evolve alongside this. At the same time, changing demographics mean newer, often younger, clients are more willing to have an all-digital relationship with their fund manager – including through a robo-advisor.

Some LatAm governments are working to open the doors for technology in the AWM industry, with various regulations having been passed in recent years. Colombia, for example, passed legislation last year encouraging the use of new technology-based tools, such as robo-advisors, for providing advice and managing portfolios in the securities market. Mexico passed a similar legislation last year permitting the use of automated investment and asset management advice, i.e. the use of robo-advisors. Many other LatAm countries, with the assistance of the Inter-American Development Bank (IADB), have begun the process of introducing FinTech regulations, most often in the areas of crowdfunding and regulatory sandboxes. Argentina and Brazil are the furthest along the path, however others are expected to follow.[20] This push by governments has been a major contributor to the rise of the players mentioned above.

As digital become the norm across the AWM space, we have also seen the rise of a number of investor/financial education initiatives across LatAm. Regulators in Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, and Uruguay have all set up guides and videos to help investors choose appropriate products and understand how Capital Markets work.[21] In reality, many of these programs are unknown to investors and are not used extensively. In the future, we believe that AWMs and distributors will need to play an active role in this space as well, providing programs and promoting them to their clients.

20. IDB
21. Instituto Iberoamericano de Mercados de Valores

The use of digital devices to access financial services is already common in developing nations and while the region has a low penetration up to this point this is likely to change. According to Statista, the AuM of robo-advisors in South America[22], Central America[23] and the Caribbean[24] is expected to see an almost 64% CAGR between 2017 and 2023, eventually surpassing the US$8 billion mark. With investors searching for cheap investment options, we believe that the possibility of growth is strong.

22. Statista includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, and Uruguay in South American countries.
23. Statista includes Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama in Central American countries.
24. Statista includes Cuba, Dominican Republic, Haiti, and Jamaica in Caribbean countries.

3 | Funding the future

Mirroring the global market, LatAm faces various financing obstacles in the coming decades as public debt reaches high levels and populations age. Asset managers in the region should look to capitalise on banks retreating from this space by filling the financing gaps in areas such as pension systems and infrastructure. With suitable regulatory and incentive reforms possible, asset managers will have a major role to play in the coming years.

As a number of international investors set their sights on LatAm, local managers will need to shore up their expertise in infrastructure funds to ensure they capture incoming business. Those who already have experience in this asset class are set to benefit. Additionally, as pension funds in the region search for increased yield, managers who are able to navigate the regulatory environment and capture business will do well.

Plugging the infrastructure gap

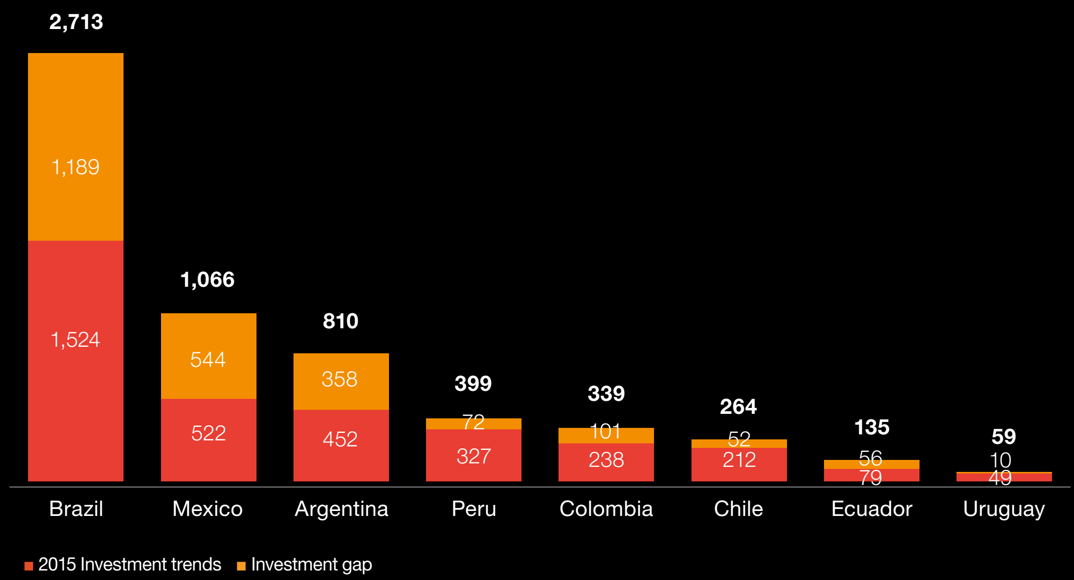
Global institutional investors are becoming increasingly interested in alternative investments, especially due to the low interest rate environment in the US and Europe and as sovereign bonds and equity markets look less attractive due to high equity market valuations. Infrastructure has emerged as a particularly popular asset class in LatAm, especially as it is highly uncorrelated to traditional markets, making it a safer bet during times of volatility. Total infrastructure fund AuM in LatAm has increased dramatically in the last decade, rising from US$2.7 billion in 2008 to US$40.3 billion in 2018, a 31.0% CAGR (see Figure 15).

We don't see any signs of this growth slowing as many countries in the region have, in the past, had considerable infrastructure investment gaps (see Figure 10). This gap likely has widened further since 2015. Looking at the 2015 situation, Mexico, Argentina and Brazil, for example, had a combined spending gap of just over US$2.1 trillion. Mexico would need to more than double its infrastructure spending in order to cover this gap (see "Mexico: struggling to close the infrastructure gap"). Recent reforms have aimed to do so, with Chile and Uruguay reaching out to the capital markets in order to encourage development. In 2019, Chile aims to launch a US$9 billion infrastructure fund, while in Uruguay the Latin American Development Bank (CAF) created the Financial Trust Debt Fund that will be used to finance the country's roads. Across the region, greenfield projects are often the focus of investors, however brownfield can also offer significant opportunities. In Brazil, the current government is planning to conduct one of the largest privatisation programs globally, with the amount expected to reach over US$500 billion in the coming 3 to 4 years. This includes not only infrastructure assets, but government owned companies as well.

Governments in the region are increasingly reaching out to institutional investors to assist in financing infrastructure projects. Public-Private Partnership (PPP) projects have tripled in the last decade, with energy, transportation and communication seeing particularly significant rises. Fund managers in the region seem well positioned to benefit from this, being able to provide strong returns to their clients while simultaneously providing diversification. In fact, in the next 12 months, international LPs' target allocations to infrastructure assets globally is expected to increase by 27%, signalling a healthy appetite for the asset class.[25]

25. Preqin

Figure 10: Infrastructure spending needs in select Latin American countries (US$ billion)



Source: PwC Global AWM Research Centre, based on Oxford Economics, Marsh & McLennan, and FIAP

Note: Investment trends refers to the amount already invested for infrastructure needs.

Mexico – struggling to close the infrastructure gap

Mexico's infrastructure spending has historically been notably weak, totalling just 1.5% of total GDP in 2018. This is one of the lowest spending ratios in the region and the effect has compounded, leading to one of the largest infrastructure investments gaps. In fact, an inadequate supply of infrastructure has been listed as one of the most problematic factors of doing business in the country.

With infrastructure spending needing to more than double in order to cover the current investment gap, there is a clear opportunity for AWMs in Mexico. The new president of Mexico, Andrés Manuel López Obrador, has announced plans to increase spending to 4.1% of GDP, however with budget constraints financing for this will need to come from other sources. The cancellation of Mexico's largest infrastructure project, the new commercial airport for Mexico City, will make it more difficult for the country to close the large investment gap.

Institutional investors can play a vital role in filling the infrastructure gap in Mexico. Domestic pension funds alone could reap significant rewards if they shifted their investment preferences slightly, especially given that their AuM represents 25.5% of total Mexican domestic savings (see Figure 12). The IDB estimates that if Mexican pension funds allocated just 7% of total AuM to infrastructure, Mexico's current infrastructure spending ratio would more than triple from 1.5% of GDP to almost 5%.

Mexican pension funds currently invest the majority of their assets into government securities and bank deposits, largely due to regulatory constraints and a lack of financial instruments. By law they are only allowed to invest in listed instruments. To overcome this barrier special types of listed funds (CKD/CERPI) were created for alternative investments, such as private equity, real estate and infrastructure. While many institutional investors prefer direct investments, these funds have made some progress with AuM amounting to US$3.3 billion as of end 2017.

Should AFOREs[26] be allowed to invest in unlisted vehicles, contributions of pension funds to infrastructure would rise dramatically, given the high returns and number of projects available. LatAm's fund managers could significantly benefit from this and would bear a large amount of responsibility in deploying the additional assets.

26. AFOREs are Administradoras de Fondos para el Retiro or Retirement Fund Administrators

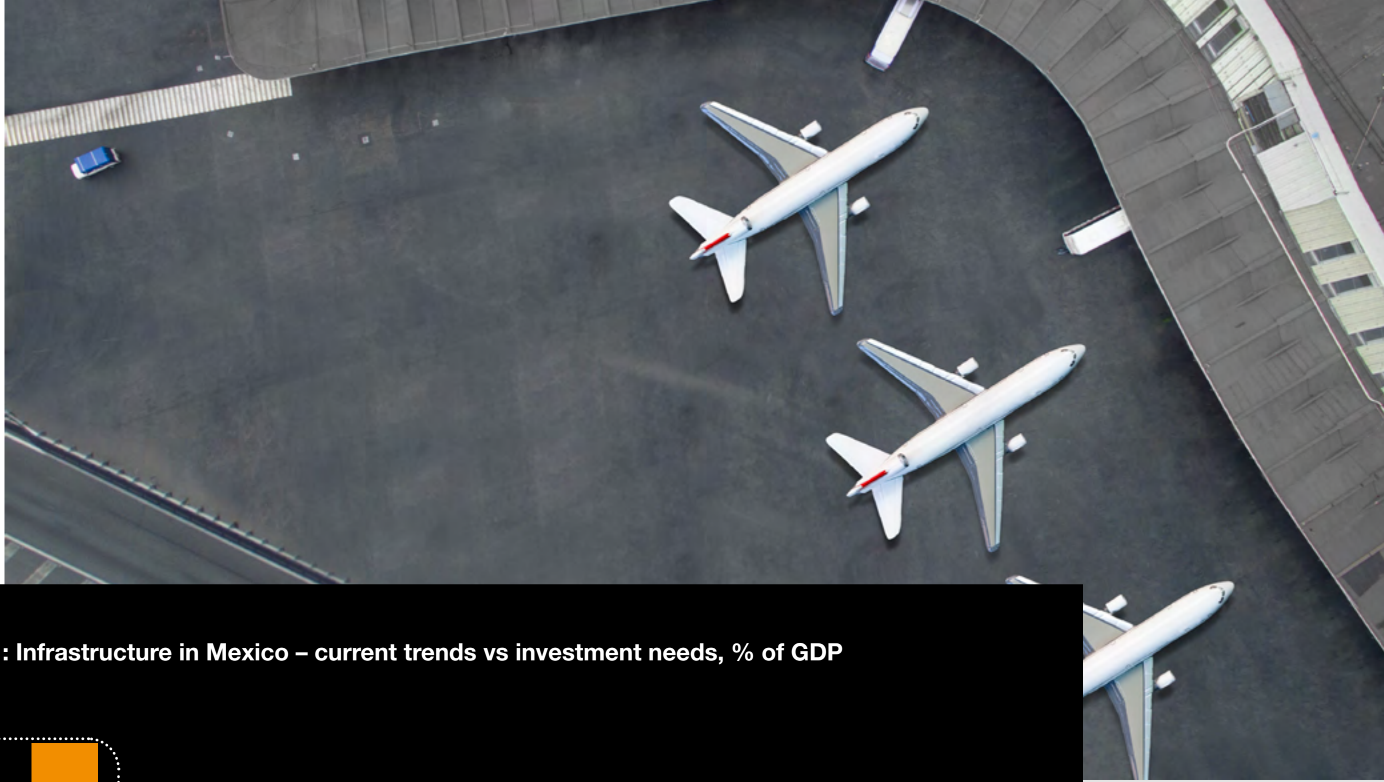
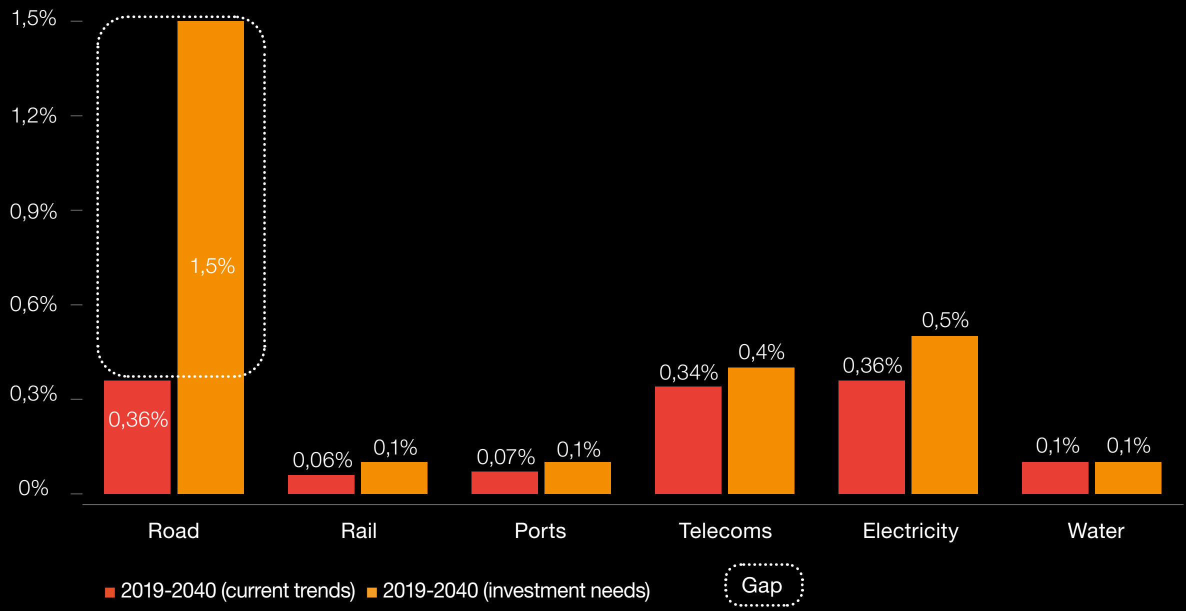
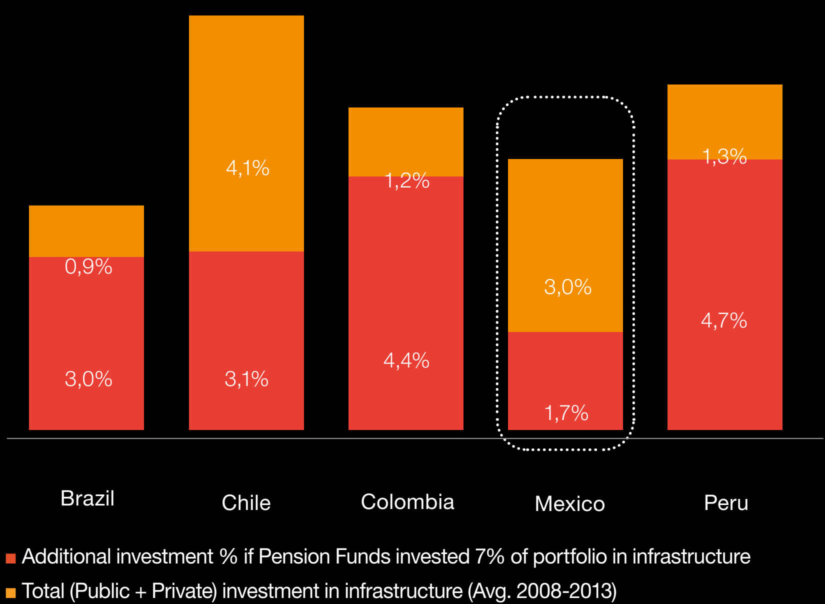


Figure 11: Infrastructure in Mexico – current trends vs investment needs, % of GDP



Source: PwC Global AWM Research Centre, El Economista

Figure 12: Effect of change in pension funds' allocation to infrastructure, % of GDP



Source: PwC Global AWM Research Centre, IDB

The Inter-American Development Bank (IADB), which is partially responsible for finding development financing sources in LatAm, has also approved a significant amount for infrastructure financing. In 2017, over half (51%) of the IADB's funds were allocated to the infrastructure and environment sector, illustrating the growing influence and responsibility of AWM players in LatAm's infrastructure development. Given the risk premia investors are offered for projects in this region, returns, in general, should be higher than compared to more developed regions such as Europe and the US. The World Bank has also issued a number of recommendations to ensure the regulatory landscape promotes growth, including:

- Allowing institutional investors to invest in project bonds;
- Ensuring pension fund investment limits for infrastructure investments are high enough;
- Creating an inflation-linked yield curve; and
- Ensuring the environment facilitates the presence of different types of institutional investors to reduce the risk of investment herding.[27]

Considering the vast infrastructure gap in the region, expert local asset managers have a significant opportunity to act as promoters, investors and managers within this asset class. Significant players have successfully entered this space through both debt and equity products that show the massive potential within this particular segment.

Asset managers to take responsibility for retirement

LatAm's population is set to start to grey in the coming years, not as soon as Europe and the APAC region, but the change is occurring. For LatAm's pension systems, some that have notably employed Defined Benefit (DB) schemes, this could create a number of issues. Specifically, as old-age dependency ratios start to rise (see Figure 13), governments will need to spend more in order to prop up the system – an unsustainable method in the long term.

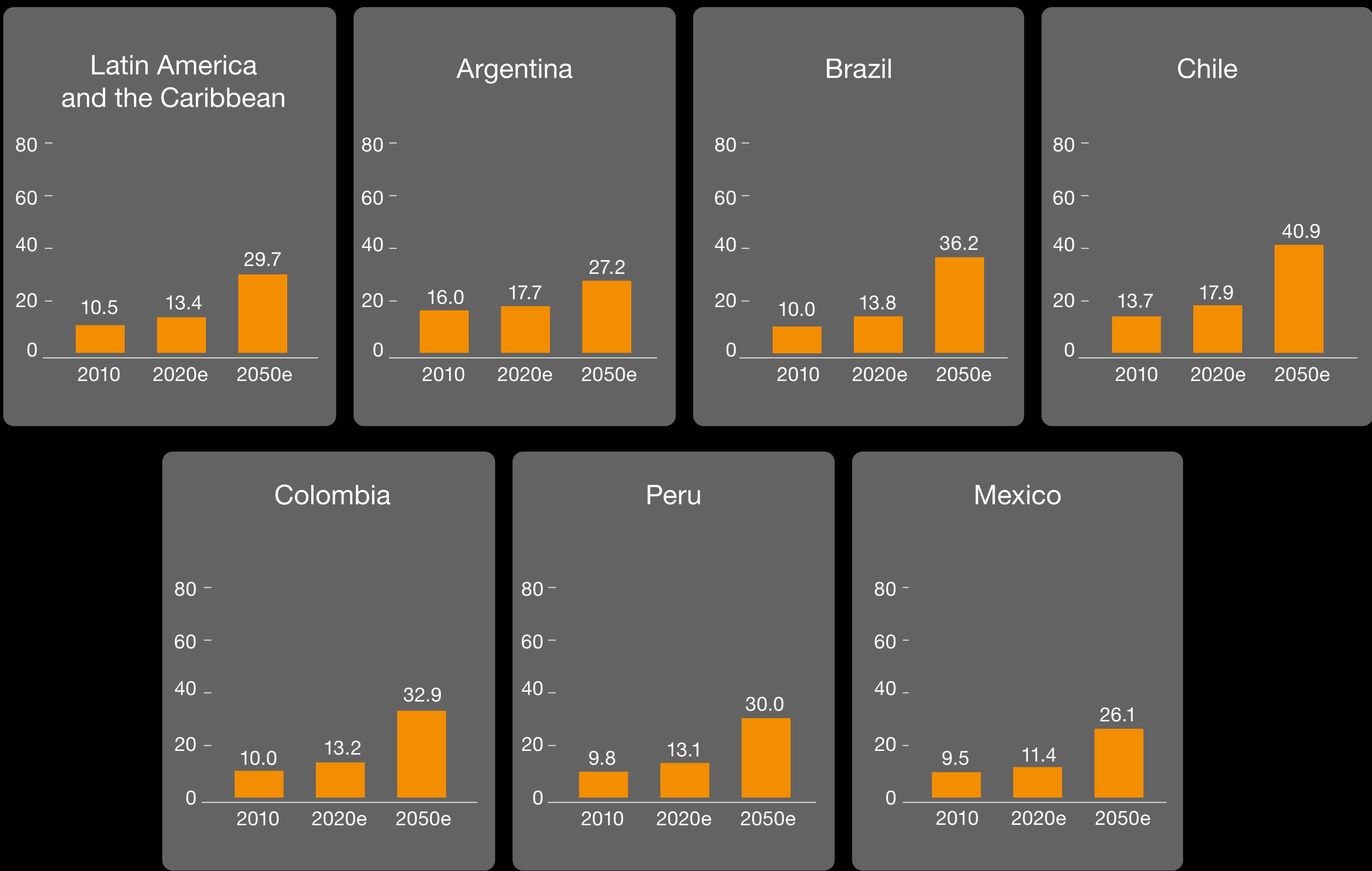
This shift is driving regulators across LatAm towards systems similar to Defined Contribution (DC) schemes. Brazil is currently contemplating raising the retirement age and increasing the number of years individuals must contribute to the system before being entitled to a pension. In Chile, Congress is discussing the possibility of increasing the contribution from 10% to 14% of covered salary (subject to certain limitations and time frames). This additional contribution would be borne by the employers and will be administrated by a public entity separately from the original 10% contribution that is administered by the Chilean Private Pension Funds Administrator ("AFP"). While in Mexico pension fund managers will be offered more flexibility regarding investment options. These factors combine to significant opportunities for fund managers in the region who could take on more responsibility for investing this growing pie of assets.

Alongside the growing pie of pension assets, insurance assets are likely to see a strong rise in the coming years. Life insurance penetration in the region is one of the poorest worldwide, sitting at 2.9%. This is significantly below the rates seen in developed regions such as the UK (12.8%), US (11.2%) and France (10.6%). The rising middle class, and possible better financial literacy in the region, will see personal income grow and, as a result, we expect insurance assets to grow as well. Further boosting the share of assets that LatAm fund managers will be responsible for in the coming years. In fact, with LatAm insurance premiums expected to grow at a 7.1% CAGR between 2017 and 2025, managers should see significant increases in their AuM.

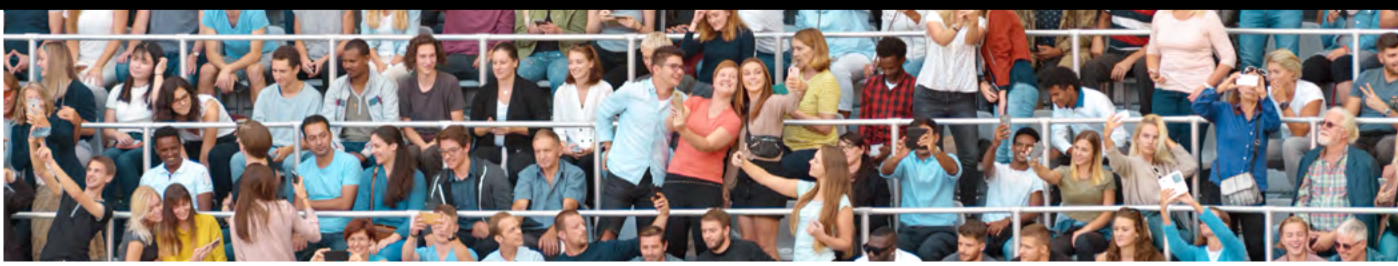
Opportunities exist for managers already established in the region if they're willing to seize them. Changing needs will require new products, especially for individuals above 65 years old. Additionally, fund managers will need to ensure that their fees are transparent and that their advice is fair – especially if they wish to maintain their client base in the long run.

27. World Bank

Figure 13: Old-age dependency ratios



Note: Old-age dependency ratio is defined as the number of individuals aged 65+ for every 100 individuals aged 15-64.
Source: PwC Global AWM Research Centre, UN estimates, World Population Prospects: The 2019 Edition



Pension funds look beyond their borders

Regulatory developments in the region have also propelled pension funds to look beyond their borders and increase their international exposure. Regulators in the region have softened their stance over time and slowly but surely permitted these increases, with Peru allowing 42% of assets to be allocated abroad, Costa Rica 25% (up to 50% if certain conditions are met), Colombia 70% and Chilean pension funds can invest up to 100% of their assets abroad. Despite the progress, limits vary widely from country-to-country (see Figure 14), with Brazil, for example, only allowing 10% of assets to have international exposure. In Mexico, pension funds are able to invest up to 20% of their assets in 42 international mutual funds, operated by 11 asset managers, however many AFOREs have yet to take full advantage of this.

Many pension funds in the region are not near their upper limit for foreign investments, including Brazil that currently only allocates 0.3% of pension fund assets or Costa Rica, where only 7.8% is currently allocated. This is largely as interest rates are currently high in the region, meaning government securities will provide a strong rate of return. However, as we see interest rates fall in the region, we believe many pension funds will increase their allocation in search of yield.

As investors demand increased international exposure, institutional investors across LatAm have begun to increase their ETF allocation, especially US, Irish and European-domiciled ETFs. In Colombia, for example, Moderate and Great Risk Pension Fund types have foreign investment limits of 60% and 70% respectively, while Conservative and Programmed Retirement Funds' limits both reach only 40%.

In line with the expected growth of ETFs in the coming years, as well as pension funds looking to hedge against volatility, diversify their holdings, minimise the impact of local currency fluctuations and increase their returns, we see total potential additional foreign investment assets reaching just under US$400 billion by 2025. Should global asset managers harness this shift correctly, and provide sufficient opportunities for pension funds to invest abroad, they will benefit significantly from these changes.

Figure 14: Pension funds' foreign asset exposure*

	Pension assets/GDP	Old-age dependency ratio	% Foreign investments in 2018	Regulatory limit foreign investments	Potential additional foreign investment by 2025 (US$ bn)**
ARGENTINA	N/A	18.1%	N/A	N/A	N/A
BRAZIL	12.2%	13.7%	0.3%	10%	134.3
CHILE	72.0%	17.9%	42.9%	35%-100%	90.3
COLOMBIA	25.3%	12.6%	34.5%	40%-70%	83.8
COSTA RICA	18.8%	15.2%	7.8%	50%	7.8
ECUADOR	N/A	12.1%	N/A	N/A	N/A
MEXICO	15.8%	11.3%	13.2%	20%	46.5
PANAMA	0.9%	13.2%	6.08%	N/A	N/A
PERU	22.7%	11.7%	42.6%	42%	20.8
URUGUAY	27.4%	23.3%	7.26%	15%-20%	9.8
TOTAL POTENTIAL FOREIGN INVESTMENT IN 2025 (US$ BILLION)					393.3

Note: *N/A refers to data not available
Note: **Estimated data based on the current upper regulatory limit, considering 50% foreign investments in Chile by 2025.
Source: PwC Global AWM Research Centre, OECD, AIOS, United Nations

4 | Outcomes matter

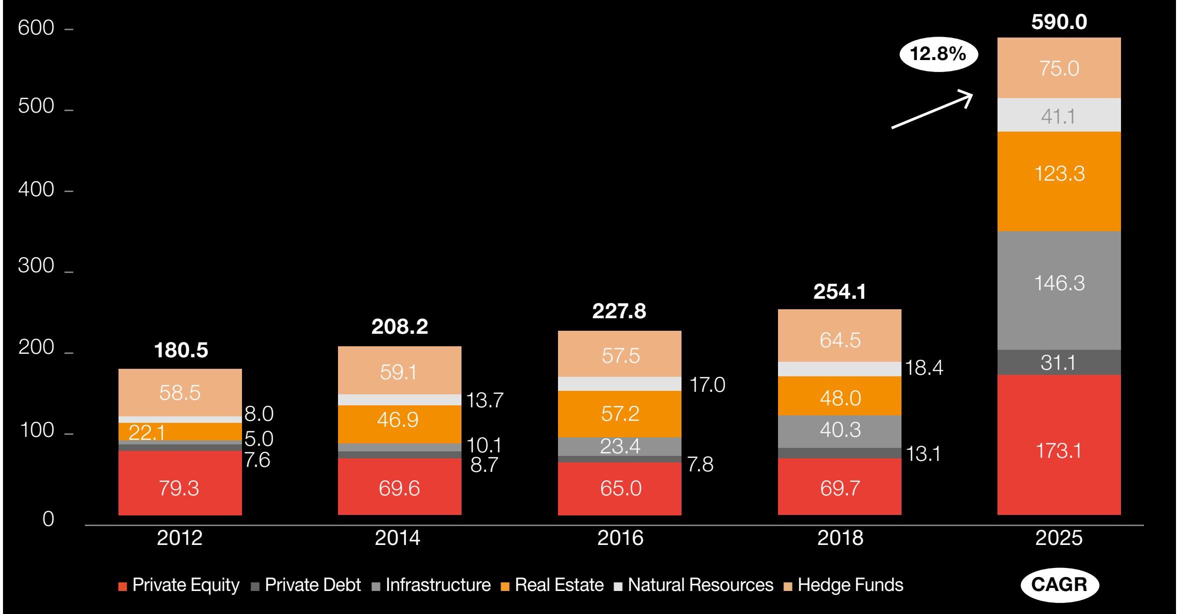
Investors demands are changing, but their desire for strong returns remains the same. Asset managers must adopt new strategies and innovative ideas if they are to succeed in an increasingly competitive market. We expect alternative assets to boom in the coming years, alongside increased demand from investors regarding ESG considerations. LatAm's fund managers will need to integrate these trends into their strategic operating plans while simultaneously keeping growth and performance as top priorities.

In LatAm, alternatives assets are in strong demand as pension funds, struggling for yield, look to increase their returns. Additionally, the expanding family office sphere in the region is also driving demand for these assets. Institutional investors are also calling on managers in the region to increasingly adopt ESG, not only in terms of products, but also in their internal operations.

Alternatives set to soar

Our projections foresee total alternative AuM to more than double between 2018 and 2025, rising from US$254.1 billion to US$590 billion – the fastest growth of any region worldwide. Private equity will remain the most popular asset class, however infrastructure is expected to see the strongest growth, rising from 16% of total AuM in 2018 to 25% in 2025 (see Figure 15). This is as governments in the region seek to close the investment gap and institutional investors increasingly allocate to alternatives.

Figure 15: LatAm Alternatives AuM, US$ billion



Source: PwC Global AWM Research Centre. Past data based on Preqin and National Sources.

The majority of LatAm LPs are planning to increase their exposure to alternative asset classes in the coming years, with Private Equity, Private Debt and Infrastructure being the most popular.[28] Many are restricted due to their mandates, however as regulatory changes come into effect we believe their allocations will increase even further. Chile's 2017 reforms, for example, have allowed pension funds to invest in alternatives, requiring 5% to 15% of their portfolio be allocated to these illiquid asset classes. As interest rates fall in the coming years pension funds across the region will increasingly turn to alternatives as a way to fulfil their mandates and meet heightened demand (see "Searching for alternatives – Colombian Pension Funds").

Private Equity has seen strong growth in recent years and remains a favourite for many investors in the region. Brazil's pro-business administration, Mexico's anti-corruption measures and regulation across the region opening up investment limits we expect the market to continue its growth trend. Notably, according to the LAVCA survey, 67% of LatAm LPs indicated they intended to increase their PE allocation in 2019, compared to just 1% who will decrease. In Brazil, Venture Capital has seen strong growth in recent years as tech-based start-ups become more established in the country. These companies have both local and international appeal and seven have reached the unicorn valuation stage.

As demand increases, institutional investors across the region will critically analyse alpha and beta. They will look to managers who can provide this alpha and discard those who cannot. This means one thing for fund managers in the region – they must up their alternatives game otherwise institutional investors will form specialised alternative investment teams and bring management in-house.

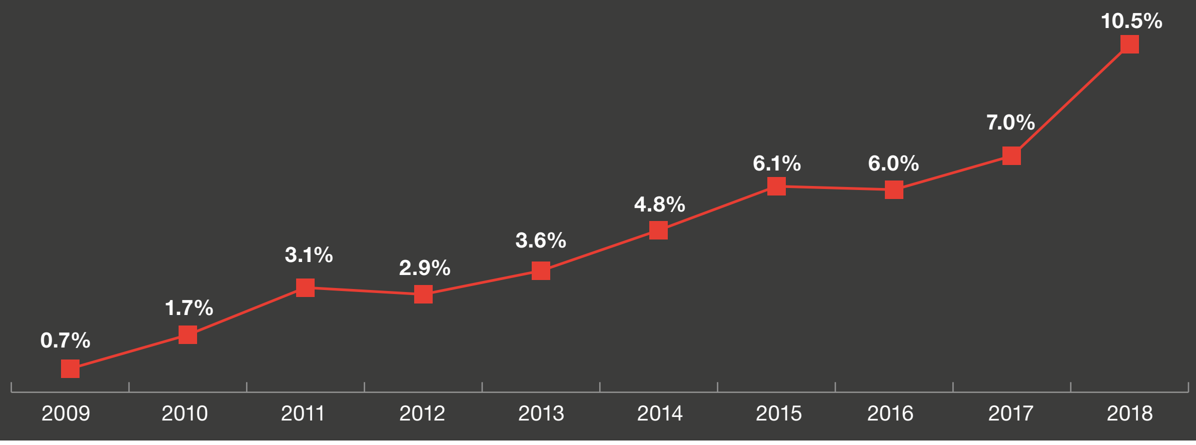
Searching for alternatives – Colombian Pension Funds

Across the globe, we've seen an increasing number of institutional investors double down on alternative funds as many search for yield and diversification. In order to achieve their mandates, many pension funds have begun to invest an increasing amount in less liquid investments, with the share of alternatives rising from 12% in 2003 to 24% in 2016.[29]

Recent regulation in Colombia, Decree 765/2016, saw Colombian Pension Funds maximum allocation to alternative vehicles increase. This has been especially clear in Private Equity, which has seen average allocation rise from 6% in 2016 to 10.5% in 2018 (see Figure 16). In fact, of the four types of pension funds in Colombia, only one is restricted from investing in alternatives, namely Conservative.

As we expect alternatives to be a growth driver of global AuM up to 2025, an increased allocation is, by many pension funds, seen as a crucial element of their long-term growth plans. At the same time, many of these funds are now targeting significantly more international assets as they look to diversify out of their national economy.

Figure 16: Evolution of Colombian Pension Funds' average allocation to PE, % of total portfolio



Source: PwC Global AWM Research Centre, OECD, UNION Capital AFAP, Superintendencia Financiera

28. LAVCA
29. PwC, *The rising attractiveness of alternative asset classes for Sovereign Wealth Funds*, 2018.

ESG shows tremendous potential in LatAm

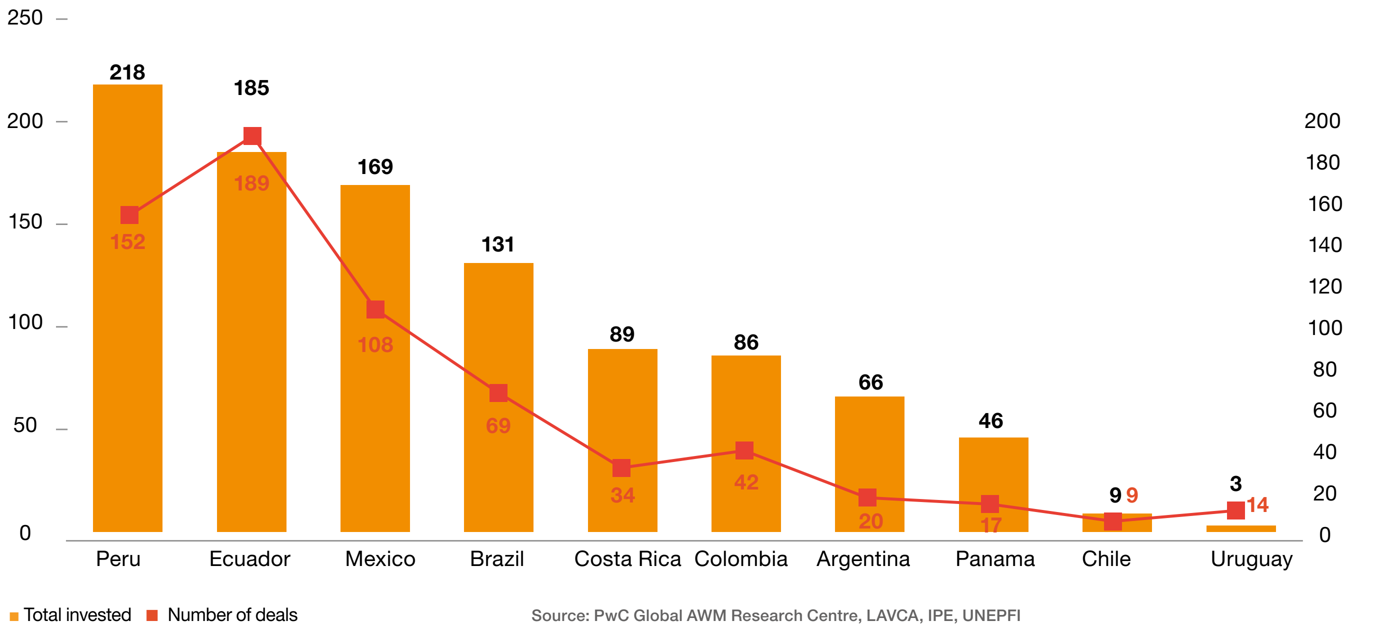
Globally, it is clear that environmental, social and corporate governance (ESG) investing has moved from niche to mainstream. The past years have shown that, when applied effectively, ESG analysis can be a driver of strong investment performance. An increasing number of investors are now demanding a better understanding of how their portfolios are contributing to ESG matters and are looking to increase their allocations in this area. Nowhere is the importance of sustainability more acknowledged by institutional investors than in Latin America, where 75% believe the issue will become more important in the next five years, beating out Europe (74%), North America (63%) and Asia (59%).[30]

As demand has skyrocketed, asset managers have responded by offering a number of ESG-related products and services. In October 2018, global AuM held in ESG funds surpassed the US$1 trillion mark and has continued to rise.[31] However, there are concerns over greenwashing and doubt will likely linger until regulation is implemented on a broader scale. In LatAm, Colombia's supervisory authority is already working to address this by developing a due diligence process guideline for pension funds that will include the analysis of ESG factors.[32] Regulatory frameworks such as this will be important tools to combat greenwashing, a shift that would likely see confidence in ESG assets rise significantly.

In LatAm, the largest investors are also set to have the most considerable impact on ESG adoption, however it is important to note that the majority of the capital deployed for impact investments in LatAm stems from international investors. Nonetheless, LatAm-based investors have also been active in this area, doubling their 2015-2016 invested amount in the following year, reaching a total of just over US$1 billion (see Figure 17). Pension funds throughout the region are implementing ESG standards to different extents. As an example, one of Latam's main pension fund managers joined the Portfolio Decarbonisation Coalition of the UN in 2017. This program encourages Asset Managers to implement investment strategies that are carbon emission sensitive, and promotes the development of investment processes that are aligned with the Objectives of Sustainable Development such as climate change. To date, they are the only LatAm manager to join the program.

This growing attraction for these products is largely borne out of the rising demand stemming from the new generation of investors who are more environmentally and socially conscious. As millennial investors take centre stage in LatAm this demand will only continue to grow. Though growth could be hindered by the lack of a uniform regulation across the region, similar to that recently implemented in Europe. While some countries have begun the regulation process, such as Brazil, which now requires pension funds' asset managers to consider ESG risks as part of their investment decision-making process,[33] others have yet to embark on this journey. Further regulation across the region would certainly ensure an uptick in ESG investments across the region and align LatAm's AWM industry with global trends.

Figure 17: Number of PE ESG deals and total investment in US$ mn, LatAm (2016-2017)



Source: PwC Global AWM Research Centre, LAVCA, IPE, UNEPFI

30. Schroders
31. Morningstar
32. International Organisation of Pension Supervisors
33. International Organisation of Pension Supervisors

Conclusion

Change is undoubtedly occurring in LatAm's AWM industry. It has, much like Gabriel García Márquez said, found its will. It is now critical that asset managers in the region consider the possible implications and scenarios of this change, whether they be driven by the market, regulations, technology or geography.

Linking back to the four interconnected trends that are driving change, asset managers should be critical of themselves and ask hard hitting questions:

1. As regulators in the region work together to create a fund passport bloc that can compete on a global stage, are asset managers ready to leverage this to capture a growing pool of assets?
2. New regulations introduced allow managers to implement technologies such as RPA and robo-advisors into their operations, however do they have a game-plan on where to introduce the technology to reduce inefficiencies and have they planned for this investment?
3. How are managers able to partner with governments/regulators to help finance the infrastructure financing gap, as well as help pension funds meet their mandates to relieve stress on retirement systems?
4. As investors turn to managers who are able to provide outcome-based solutions, are LatAm managers able to provide this or are they content to be the building blocks in strategies that encompass a whole host of asset classes and factors, including ESG and alternatives?

Appendix

Countries included in analysis

The scope of analysis includes the following countries (unless otherwise stated): Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, and Uruguay.

Forecasting methodology

In terms of our projections we use econometric modelling to obtain our baseline estimates. The AuM is used as the target variable (based on data from 2004 to 2017) and various macroeconomic indicators from the International Monetary Fund (IMF) are used as explanatory vehicles. We use proprietary statistical software to search among different possible models. We have tested multiple models in levels, differences and logs, with and without lags and have shortlisted those statistically significant models for each country. These models are further examined per country and the most economically plausible model is selected.

Both the AuM and explanatory vehicles form the IMF entering our models are denominated in US$. When we conduct our analysis for the AWM industry, we include an overlay related to exchange rate fluctuations in particular markets.

We have also taken into account qualitative information and consulted a number of subject matter experts to see what possible factors could affect the performance of our models.

Data, sources and definitions

We gathered data from well-established, industry standard sources, including Lipper, ICI, Preqin, SWF Institute, Hedge Fund Research, OECD, Credit Suisse Wealth Report and the World Bank.

1. **Mutual Funds:** ICI definition
2. **Mandates:** Mandates are separately managed and discretionary accounts
3. **Alternatives:** We define alternatives as Private Equity, Private Debt, Real Estate, Infrastructure, Hedge Funds and Commodities
4. **Pension Funds:** Pension fund assets are defined as assets bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits
5. **Insurance Companies:** Total financial assets of life and non-life insurance companies, and include investment portfolios
6. **HNWI:** High net worth individuals are defined as having at least US$ one million in financial assets
7. **Mass affluent wealth:** Mass affluent wealth is defined as the wealth of the population holding between US$100,000 and US$ one million. For mass affluent wealth we also looked at local regulators to obtain the latest data for 2017
8. **SWFs:** We use the SWF Institute's definition of sovereign wealth funds (SWFs), including both commodity and non-commodity SWFs.

Country factsheet
Argentina

Macroeconomic overview

- Argentina endured severe fluctuations in recent years as a result of its exposure to external headwinds and an uncertain political and economic landscape. For the IMF, its GDP dropped 2.5% in 2018 with further deterioration expected in the short term as soaring inflation and the collapse of the peso negatively impact the economy. The government has just announced its intention to extend the maturity of its debt with the IMF and certain bondholders in an effort to curb the crisis of confidence unsettling the country's financial markets.
- The infrastructure investment gap is estimated at USD 358bn. Weak investment conditions are slowing progress in the PPP programs that are meant to close it.

Indicators as of 2018

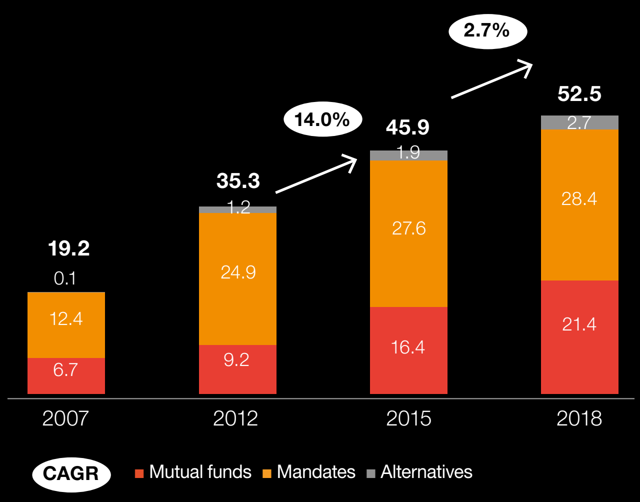
Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
-1.3%	20,550	10.0	-5.3%	44.6	34.3%	9.2%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank; Global Infrastructure Outlook

Asset and Wealth Management overview

- At year end 2018, bonds explained 53% of the mutual funds AuM in Argentina while infrastructure funds only 1%. However, alternative investments have been growing in recent years reaching USD 2.7 bn in 2018. Overall, the local industry managed assets for USD 52.5 bn last year.

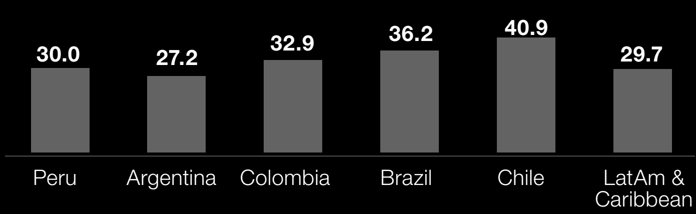
Total assets managed by the AM industry (USD bn)



Clients' assets - pension funds overview

- Private pension funds in Argentina were nationalised in 2008. Since then, the sole administrator of social security resources is the National Social Security Administration (ANSES) through its Pension Reserve Fund (FGS).
- At the end of 2018, 61% of the FGS's portfolio was composed of bonds, followed by equities (12%), alternative investments (7%), fixed-term deposits (5%) and loans to the provincial governments.
- Currently, the national pension system is a pay-as-you-go system, for the contingencies of old age, disability and death. It covers 90% of the population aged 65 and over. Payroll taxes (around 60%) and specific tax revenues finance the system.
- The old-age dependency ratio of Argentina is estimated to be 27.2 by 2050 While this is lower than the regional average (29.7) and that of its neighbours (Brazil, 36.2; Chile, 40.9), pressures over the sustainability of the system in the long-run are pronounced. The current administration tried to pass some reforms but only a few became law in 2017, prompting social unrest.

Old-age dependency ratio (2050e)

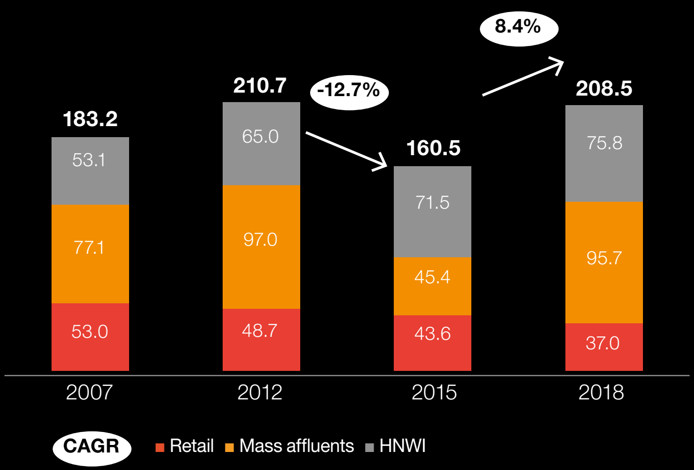


Sources: PwC Global AWM Research Centre; ANSES

Clients' assets - Retail, mass affluent & HNWIs overview

- At year end 2018, the 50 wealthiest families in Argentina held assets for USD 70bn and the richest decile of the population had incomes 20 times higher than those who were poorest. Should the economy stabilise and the financial markets volatility wane, the HNWIs' assets could grow during the period 2020-2025 at a CAGR of 20%, partly explained by this concentration.

Evolution of individual assets (USD bn)

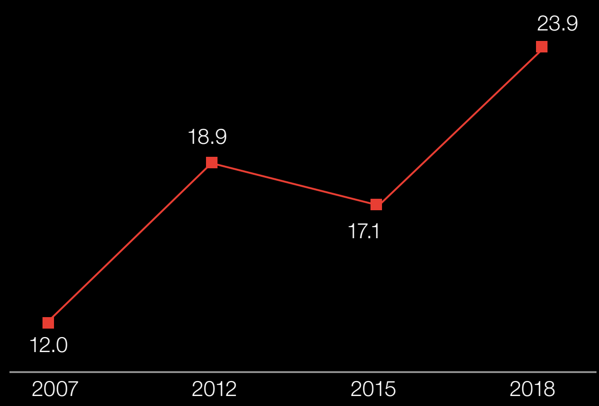


Sources: PwC Global AWM Research Centre; Forbes; INDEC

Clients' assets - Insurance overview

- The insurance market in Argentina is quite fragmented. Out of 173 operating companies, the combined market share of the top 50 insurers was close to 90% at the end of 2018.
- As of December 2018, insurers' portfolios were mainly composed of bonds (35%) and mutual funds (26%) while equity explained just 6%. Their international exposure was really low, sitting at 0.5%.

Evolution of insurance assets (USD bn)



Country factsheet
Brazil

Macroeconomic overview

- Following a severe recession in 2015-2016, Brazil started to grow again in 2017 even though the economic recovery has disappointed (1.1% GDP growth in 2017 and 2018). For the IMF, assuming a robust pension reform will be approved, Brazil's GDP growth will stay low at 0.8% in 2019, and then accelerate to 2.4% in 2020. Given that the pension reform was approved by the Brazilian Congress in November, the IMF's forecasts are in line with market expectations.
- Brazil needs structural reforms (such as tax reforms, privatisation, trade liberalisation, and measures on financial intermediation) to increase its growth
- Brazil's infrastructure investment gap is estimated to amount USD 1,200 bn. The reduction of this gap will be driven by private investments.

Indicators as of 2018

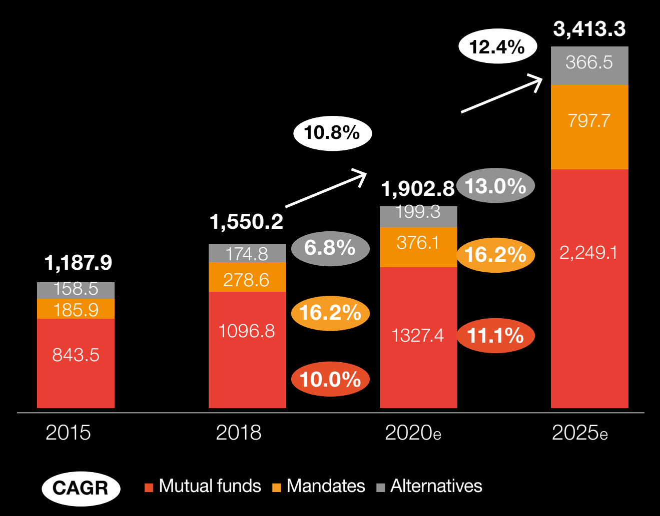
Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
2.0%	16,150	74.3	-0.8%	208.5	3.7%	12.3%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank; Global Infrastructure Outlook

Asset and Wealth Management overview

- The rise of the middle class along with a growing HNWI population are within the factors that explain the asset management industry growth in Brazil.
- The Brazilian AM sector is driving the growth of total assets managed in LatAm. Total assets managed by the AM industry in Brazil should account for 65% in 2025 (the same as today) to reach USD 3.4 trillion.

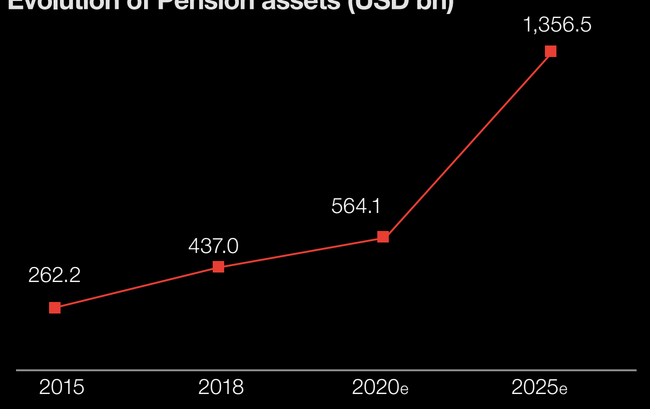
Total assets managed by the AM industry (USD bn)



Clients' assets - pension funds overview

- The pension funds (EFPCs) market in Brazil is concentrated, with the top 10 EFPCs having a combined market share of 57% and the top 3 EFPCs accounting for 40%.
- Portfolios are still dominated by fixed income products (74%), followed by equity (17%). Alternative assets (8%) remain lower than legal limits and thus are expected to grow.
- Foreign investment by pension funds is limited to 10% of their assets. The actual percentage of foreign investment is close to zero. We estimate a potential additional exposure to foreign assets of USD 135 bn by 2025.

Evolution of Pension assets (USD bn)



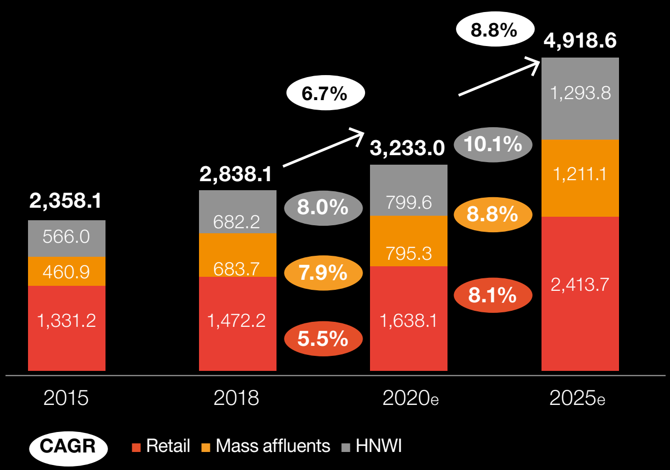
Clients' assets - Retail, mass affluent & HNWIs overview

- A growing and more sophisticated HNWI population is a favourable scenario for the expansion of family offices, which can become the selected vehicle for managing their money. This situation is accompanied by high income inequality and wealth concentration.

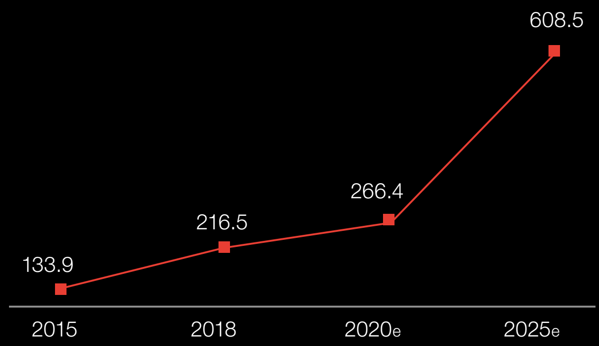
Clients' assets - Insurance overview

- The penetration rate of insurance in Brazil ranks fairly positively (323% of GPD as of 2017), even though still distant from the highest rate (46%, Chile).
- Vida gerador de benefício livre (VGBL) is the life insurance product which is driving the growth. It accounted for 10% of the premiums in 2002, reaching 51% in 2017 thanks to the exemption on income tax offered by VGBL.

Evolution of individual assets (USD bn)



Evolution of insurance assets (USD bn)



Sources: PwC Global AWM Research Centre

Country factsheet
Chile

Macroeconomic overview

- Following a slowdown after declining copper prices in 2011, the Chilean economy has recently recovered. For the IMF, its growth rate will converge to 3% over the medium term thanks to stable inflation, strong domestic demand, rising export prices, public infrastructure projects and declining poverty levels.
- Compared to other emerging countries, Chile has the best economic and policy environments from a monetary, fiscal, institutional and accountability perspective.
- Chile's infrastructure gap is estimated at USD 52bn. Chile launched a new infrastructure fund in 2019 to help counteract this using toll road concessions.

Indicators as of 2018

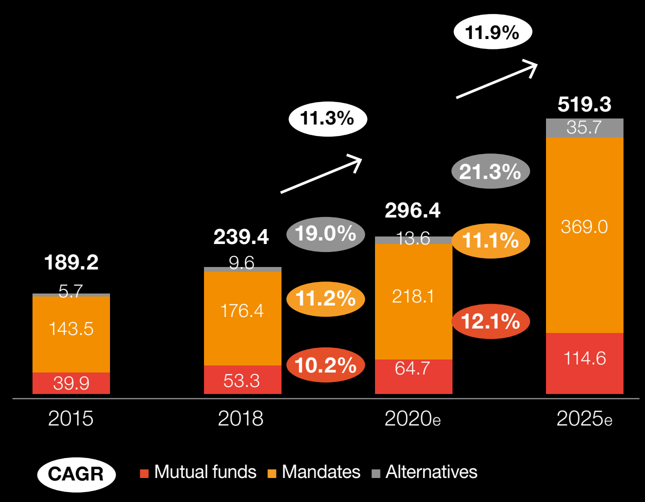
Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
3.0%	25,700	4.6	-3.1%	18.8	2.3%	7.0%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank, Global Infrastructure Outlook

Asset and Wealth Management overview

- Chile's AuM will see consistent growth in the coming years due to the rise of the middle class, and a growing HNWI population.
- The top three Asset managers account for almost 50% of the total AuM in 2018. Overall, consistent growth is expected across mutual funds, mandates and alternatives, with a main focus on mandates (as they are dominating the market).

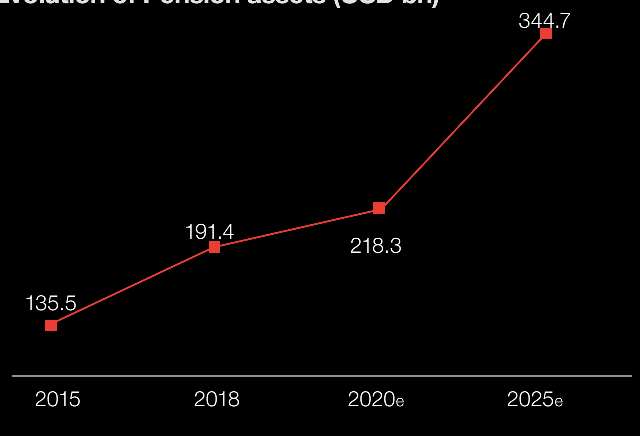
Total assets managed by the AM industry (USD bn)



Clients' assets - pension funds overview

- Portfolio composition is dominated by Equity and Fixed Income investments.
- Under Chile's Pension Fund Law, pension funds are required to allocate between 5% and 15% of their AuM to alternative assets and real estate account for 55% of their domestic alternative investments.
- Foreign investments in 2018 reached 43% out of the potential 80% regulatory limit. Increasing their investments could potentially generate an additional USD 90 bn by 2025.
- In 2019, Chile's AFP Habitat, has entered into the Colombian market after acquiring Colombia's USD 11.5bn Colfondos pension fund.

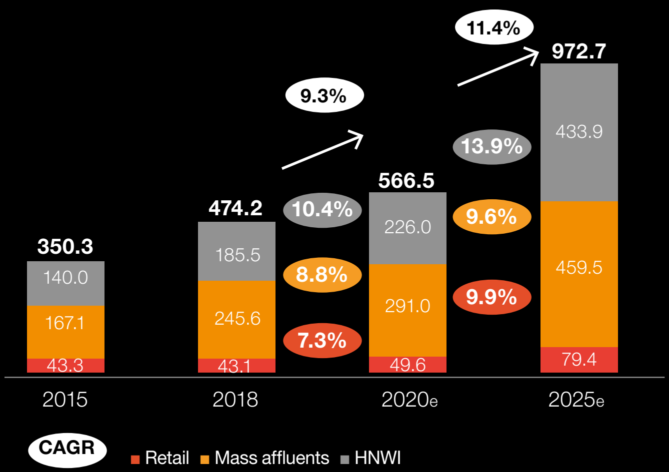
Evolution of Pension assets (USD bn)



Clients' assets - Retail, mass affluent & HNWIs overview

- In 2018, there were 206 family offices in Chile with the number expected to rise to 230 by 2020. This market is also the most sophisticated of the region despite its relative infancy, as most offices were set up within the last 10 years.
- In 2019, Chilean family offices mainly focused on Brazilian companies for their equity investments as a result of the market momentum generated by Bolsonaro's election.

Evolution of individual assets (USD bn)

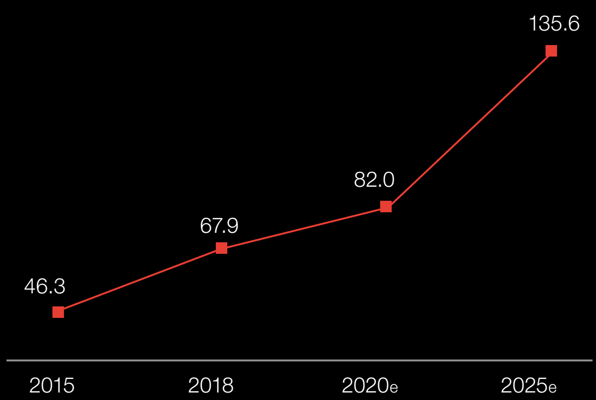


Sources: PwC Global AWM Research Centre; El Mercurio & ESE Business School

Clients' assets - Insurance overview

- In Latin America, Chile has the highest insurance penetration rate, reaching 4.6% in 2018. There is a lot of growth potential in the life insurance sector as overall penetration in Latin America is quite low compared to more developed regions (UK 12.8%, US 11.2%, France 10.6%). This is also helped by a growing ageing population.
- As of December 2018, Chilean insurance companies' portfolios were predominantly invested in bonds (58%) while their international exposure reached 16%. In addition, equity accounted for 8.5%, whereas investments in real estate amounted to 15%.

Evolution of insurance assets (USD bn)



Country factsheet
Colombia

Macroeconomic overview

- Colombia's growth is expected to strengthen as private consumption, investment spending and low corporate taxes contribute to its solid macroeconomic framework. The government is also committed to fiscal disciplines related to the migration spending coming from Venezuela.
- Colombia is faced with boosting its productivity and reducing inequalities through improving education, trade, informalities (cash-in-hand jobs) and energy.
- Colombia's infrastructure investment gap is estimated to amount to USD 101bn. The increased use of Public-Private Partnerships are being used to bridge the gap.

Indicators as of 2018

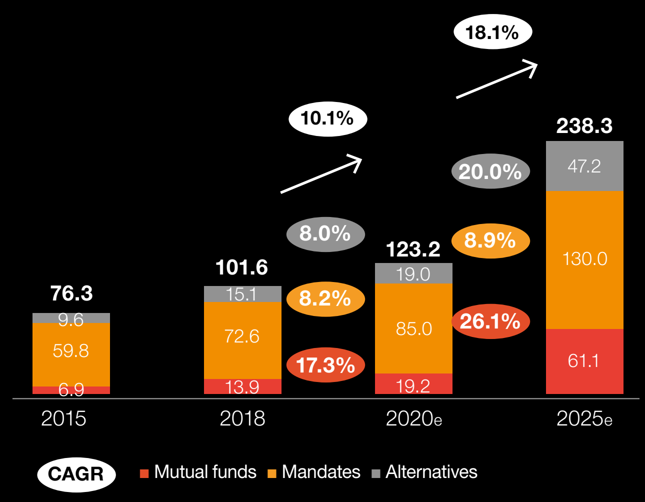
Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
3.6%	14,940	5.9	-4.0%	49.8	3.2%	9.7%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank, Global Infrastructure Outlook

Asset and Wealth Management overview

- With an estimated CAGR of 18.1% between 2020 and 2025, Colombia is expected to record the highest growth rate (18.1%) between 2020 and 2025 (compared to 12.3% of LatAm).
- This dynamic can be explained by the more pro-market approach to investments of the new president that should boost the economic growth.

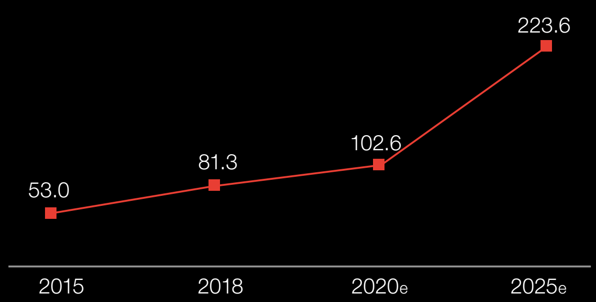
Total assets managed by the AM industry (USD bn)



Clients' assets - pension funds overview

- The Colombian General Pension System is a mandatory system with two competing schemes: the public pension scheme (DB pay-as-you-go) and private pension scheme (DC). AFPs are required to offer three funds with differing risk-return characteristics (conservative, moderate and high risk). The main differences in the quantitative investment restrictions for each of the three funds concern their exposure to higher risk asset classes and vehicles, in particular equities and indirect investment through open-ended investment schemes and private equity funds.
- As of 2018, portfolio allocations were primarily in bonds and equities, while overall alternative investments reached 8%. The limits of asset allocations in alternative vehicles were updated in 2016 by the government. Out of the four fund types only the Conservative funds could not invest in alternatives.
- When it comes to foreign Investments, Colombia can invest up to 70% of its assets on an international basis (the second highest allocation after Chile). However, the share of foreign investments currently stands at 15%.
- Colombia's USD 11.5bn AFP Colfondos was recently acquired by Chile's AFP Habitat.

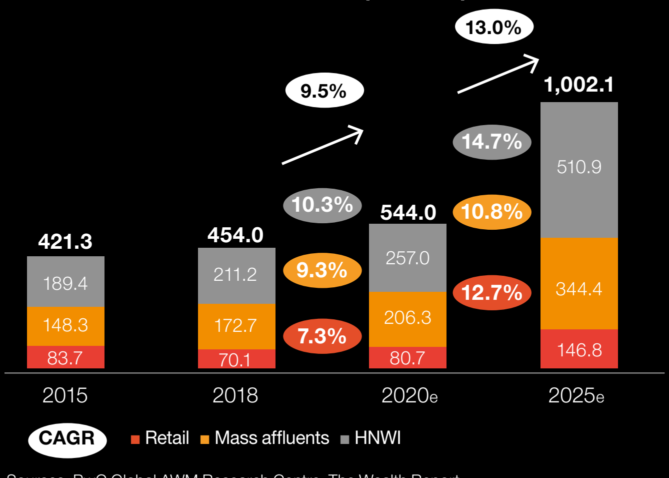
Evolution of Pension assets (USD bn)



Clients' assets - Retail, mass affluent & HNWIs overview

- As the economic environment benefits from the low inflation and interest rates and the new tax reform (reducing corporate tax rates from 34% to 30% up to 2020,), wealth accumulation in the country will improve. In fact, we foresee a 13% CAGR in individual assets for the period 2020-2025, surpassing the USD 1tn threshold in the latter year.
- In 2018, Colombia had 478 people worth over USD 30mn. Colombia's top three richest families have a combined wealth of USD 31bn, which they could invest to boost economic growth.

Evolution of individual assets (USD bn)

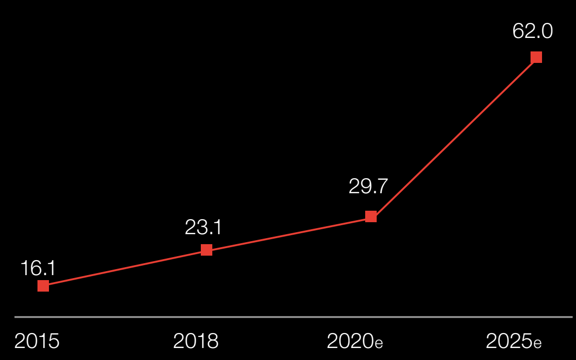


Sources: PwC Global AWM Research Centre; The Wealth Report

Clients' assets - Insurance overview

- Insurance penetration in Colombia has been growing since 2007 reaching 2.8% in 2017. Although it is lower than the higher ranked country in the region (Chile), the rate is expected to further grow in the coming year as the country's economy continues to expand.
- International insurers will continue to participate in the market, expanding their presence and activities in the region.

Evolution of insurance assets (USD bn)



Country factsheet
Costa Rica

Macroeconomic overview

- GDP per capita has increased in recent years, tripling the GDP as of 1960. At the same time, huge steps towards OECD living standards have been made. The government is now struggling to address the weak fiscal situation and the persistent inequality.
- Costa Rica still has significant vulnerabilities, such as the weak fiscal position and sizable forex lending to unhedged borrowers.
- Costa Rica's transport infrastructure is weak. There is a need for new administrative framework for PPPs, as well as coordination among public bodies.

Indicators as of 2018

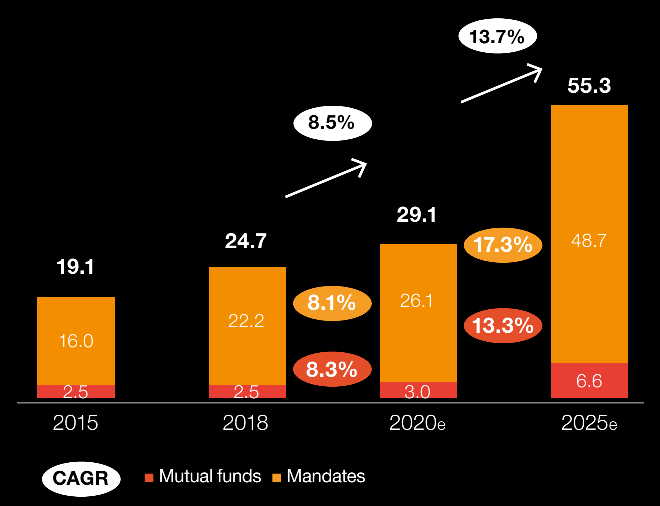
Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
2.5%	17,570	2.1	-3.1%	5.0	2.2%	12.0%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank; Global Infrastructure Outlook

Asset and Wealth Management overview

- Government spending, as well as trade and investment freedoms are strong drivers of the asset and wealth management industry's growth.
- Most of assets are held via mandates, mutual funds are marginal and alternatives are quite inexistent.
- The expected growth rate of the Asset Management industry is above the average for LatAm (13.7% vs 12.3%).

Total assets managed by the AM industry (USD bn)

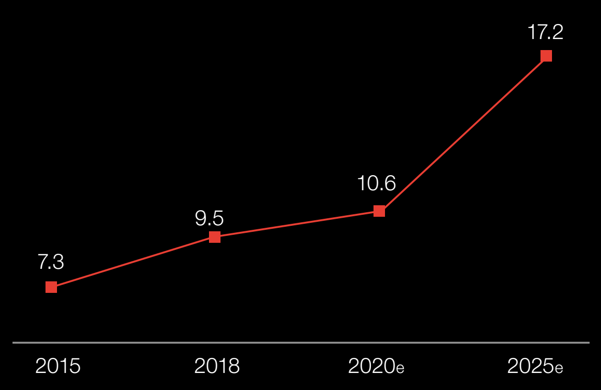


Sources: PwC Global AWM Research Centre

Clients' assets - pension funds overview

- In October 2018, in order to reduce pension fund vulnerability and increase their diversification, the overall exposure limit to sovereign debt was reduced from 90% to 80% of their AuM.
- Portfolios are dominated by fixed income products (83%), while equity and cash and deposits remain low (respectively, 6.5% and 3.5%).
- Foreign investment by pension funds is limited to 50% of their assets. Given that in 2018 foreign investments amounted to just 8 % of AuM, we estimate potential additional foreign assets of USD 8 bn by 2025.

Evolution of Pension assets (USD bn)

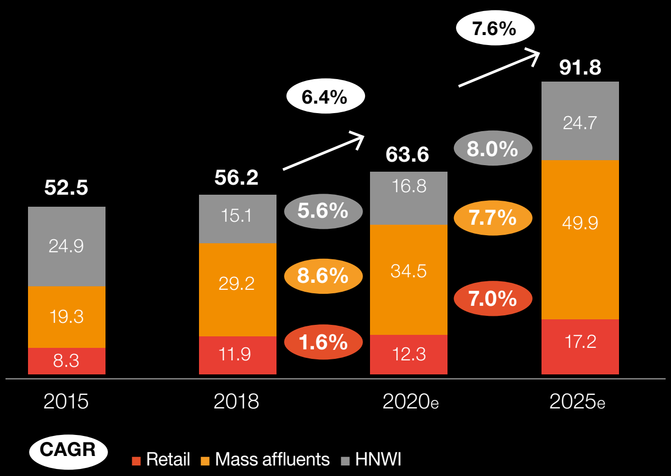


Sources: PwC Global AWM Research Centre; OECD

Clients' assets - Retail, mass affluent & HNWIs overview

- HNWI population has decreased from 2015 to 2018, but it will possibly return to 2015 levels by 2025. Moreover, the real estate market has been thriving over the past 5 years. This may be why there is an increase of family offices in the country.

Evolution of individual assets (USD bn)

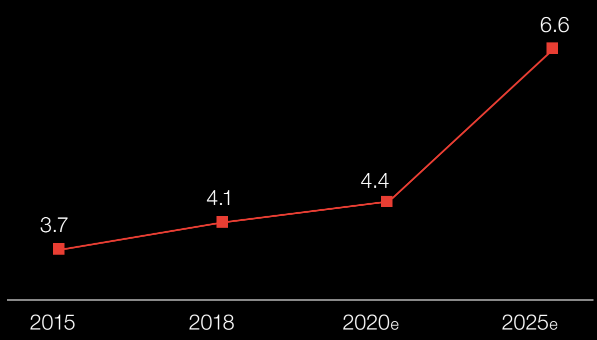


Sources: PwC Global AWM Research Centre

Clients' assets - Insurance overview

- The insurance penetration in Costa Rica is low compared to other LatAm countries (highest rate in Chile, 4.6% of GDP in 2017), sitting at 2.3% of GPD as of 2017.
- Insurance portfolio's are still predominantly composed by fixed income securities.
- The insurance market is really concentrated - the largest insurance company has a market share of about 90%.

Evolution of insurance assets (USD bn)



Country factsheet
Ecuador

Macroeconomic overview

- In Ecuador, the increase in wages outpaced the productivity growth over the past decade, resulting in a deterioration of competitiveness. This issue, however, is counterbalanced by a strong US dollar (given that Ecuador's economy is almost fully dollarised), causing an overvalued exchange rate.
- Authorities seek to implement policies to boost competitiveness and job creation, and improve transparency, good governance and fiscal position.
- Ecuador's infrastructure investment gap is estimated to amount to USD 55bn. This gap will be handled through, among others, PPPs, tax incentives legislation, in order to attract private capital.

Indicators as of 2018

Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
0.5%	11,760	0.3	-1.4%	17.0	-0.2%	3.7%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank, Global Infrastructure Outlook

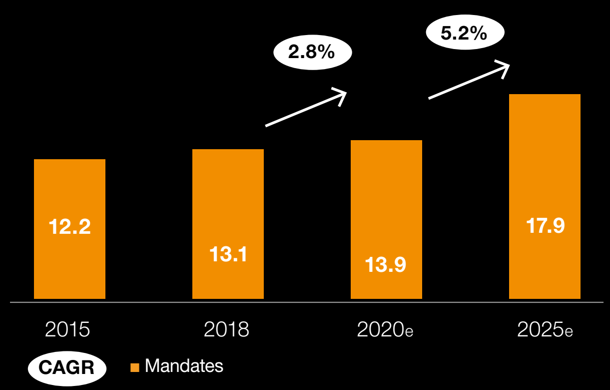
Asset and Wealth Management overview

- The country is committed to enhance entrepreneurship and innovation as a way to increase job creation and growth.
- Ecuador is in the process of creating trade agreements. Should this result in wealth accumulation, the AWM industry could benefit from it.
- The most common legal structure for holding real state in Ecuador is the trust, other private assets by private equity funds and holding companies.

Clients' assets - pension funds overview

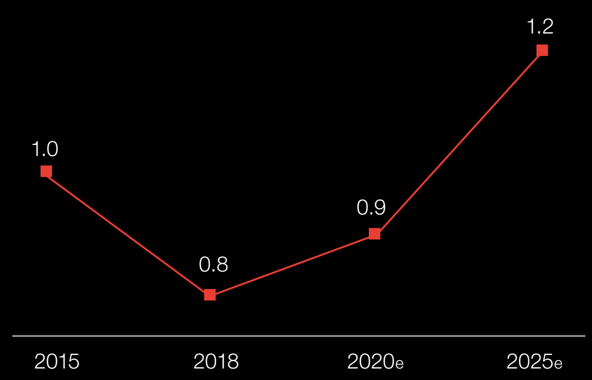
- Public pension fund's AuM is larger than private pension funds' AuM (Fondos Complementarios Previsionales). There are 64 Fondos Complementarios Previsionales Cerrados active in Ecuador as of August 2018.

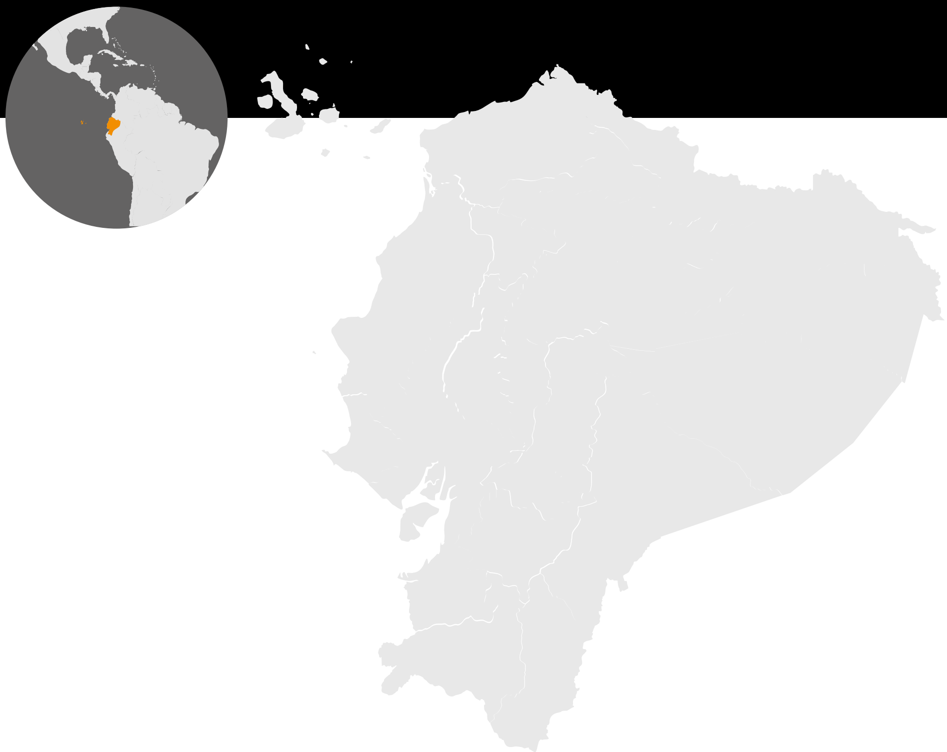
Total assets managed by the AM industry (USD bn)



Sources: PwC Global AWM Research Centre

Evolution of Pension assets (USD bn)





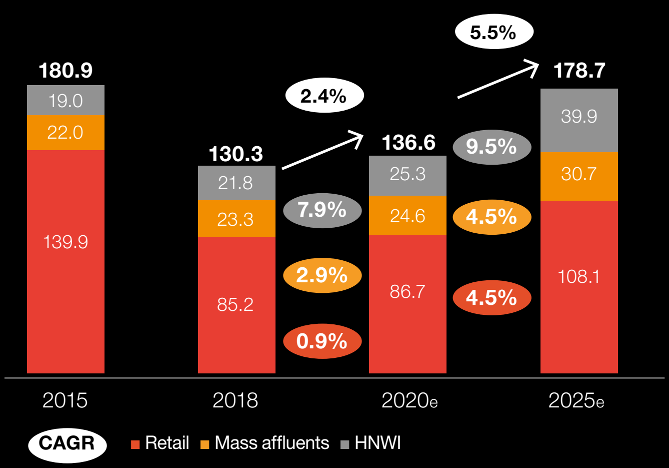
Clients' assets - Retail, mass affluent & HNWIs overview

- According to data from the Superintendence of Companies and a study by a university, 90% of Ecuadorian companies are family businesses. This factor, together with a growth in sales, represents an opportunity for the expansion of family offices in the country. Currently, 43% of family businesses are seeking family advice in terms of business management for succession.

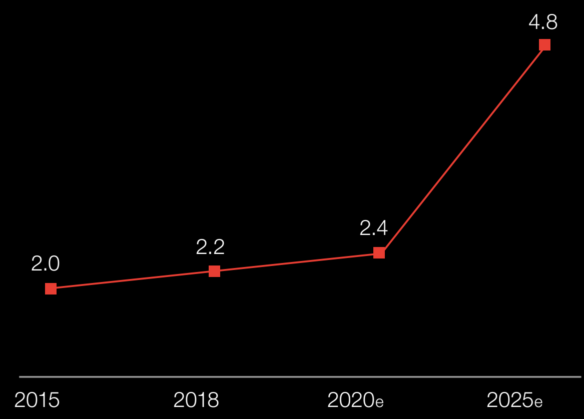
Clients' assets - Insurance overview

- Compared to other LatAm countries, insurance penetration is fairly low, sitting at 1.6% of GPD (as of 2018), far away from the first LatAm country (Chile, 4.6%),
- The first 3 players accounting for more than one third of the market in terms of direct premiums.

Evolution of individual assets (USD bn)



Evolution of insurance assets (USD bn)



Sources: PwC Global AWM Research Centre, PwC Family Business Survey 2018

Country factsheet
Mexico

Macroeconomic overview

- Mexico's growth in recent years was weaker compared to the Andean economies (Peru, Chile & Colombia). For the IMF, its growth rate will converge to just under 2% by 2020. The economy will then reap the benefits of implemented reforms as uncertainties subside, particularly related to the trade environment.
- Mexico still confronts significant challenges such as strengthening its economic growth while reducing poverty and inequality.
- Mexico's infrastructure investment gap is estimated to amount to USD 544bn. The new president plans to increase infrastructure spending from 1.5% of GDP to 4.1%.

Indicators as of 2018

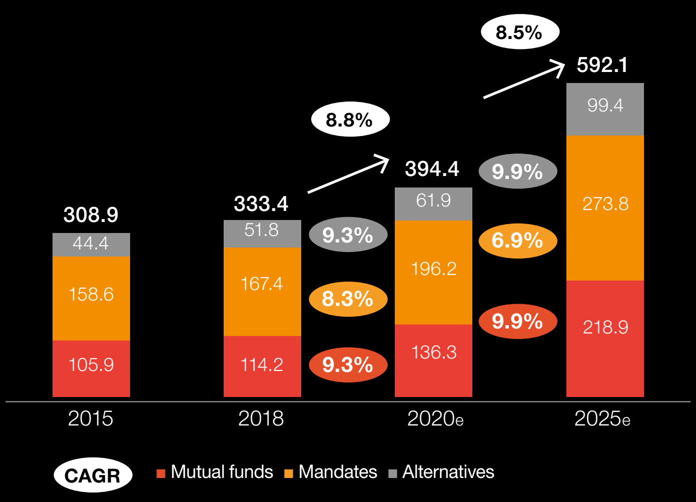
Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
1.3%	20,620	26.4	-1.8%	124.7	4.9%	3.3%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank; Global Infrastructure Outlook

Asset and Wealth Management overview

- Pension funds (AFOREs) together with the rise of the middle class, and a growing HNWI population are the main drivers of growth.
- A weaker GDP growth combined with a low savings rate are among the factors that may hinder a faster expansion of the funds industry in Mexico (8.5% CAGR of AuM growth between 2020 and 2025 in Mexico vs 12.3% for Latin America).

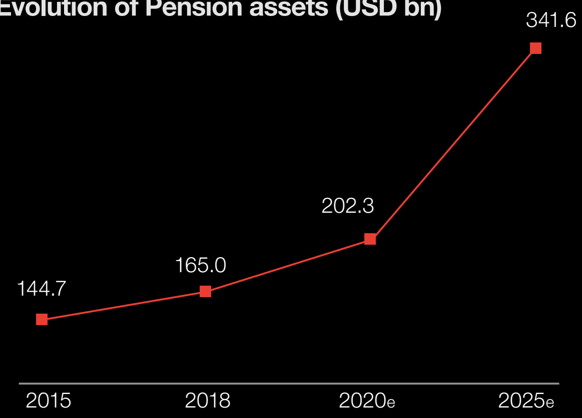
Total assets managed by the AM industry (USD bn)



Clients' assets - pension funds overview

- The pension funds (AFOREs) market in Mexico is significantly concentrated - the top 3 AFOREs have a combined market share of 55%.
- Portfolios are still dominated by fixed income products. However, alternative assets are set to grow, as current allocations are lower than legal limits.
- Foreign investments by AFOREs are limited to 20% of their assets. However, since 2019, AFOREs can shift part of their assets into foreign mutual funds from 51 countries under certain conditions. An additional exposure to foreign assets of USD 50bn can be expected by 2025.

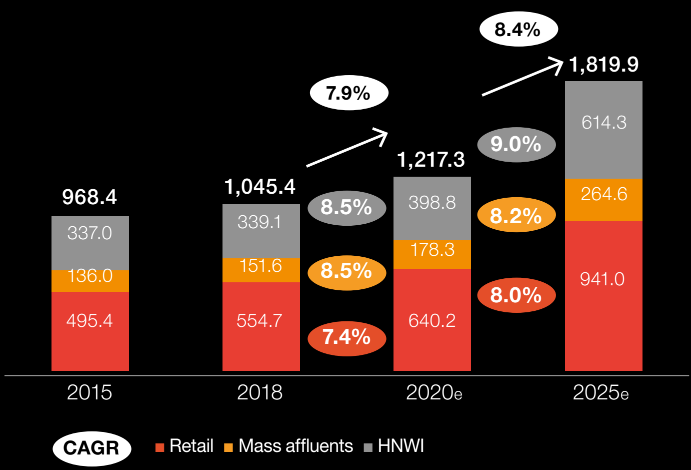
Evolution of Pension assets (USD bn)



Clients' assets - Retail, mass affluent & HNWIs overview

- Economic growth and tamed inflation prompted personal wealth accumulation. As assets grow and wealth families' needs become more complex, Family Offices may emerge as their vehicle of choice for managing their money. Mexico shows promise in this space, with family businesses accounting for 70% of the country's total GDP.

Evolution of individual assets (USD bn)

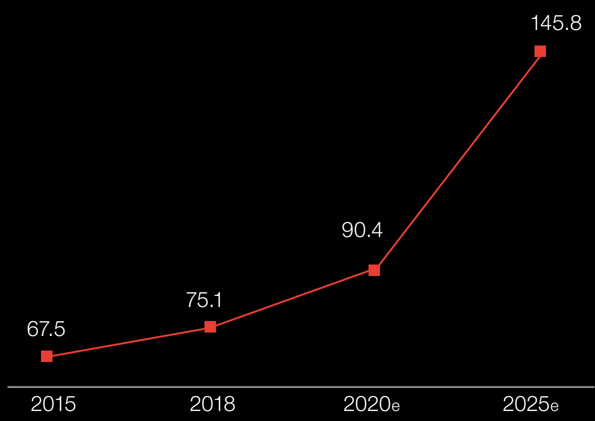


Sources: PwC Global AWM Research Centre; UBS/Campden

Clients' assets - Insurance overview

- The insurance penetration in Mexico is low compared to other LatAm countries, sitting at 2.25% of GPD as of 2017, while Chile – the country with the highest rate – reached 4.6% this year.
- As of December 2018, 65% of insurance portfolios were concentrated in bonds while 30% were in equity. Their international exposure was low, accounting for only 3.5%.

Evolution of insurance assets (USD bn)



Country factsheet
Panama

Macroeconomic overview

- Panama ranks second within the fastest growing economies in LatAm over the last five years. According to the IMF, growth rates are estimated to stabilise around 4% in 2018 and increase further in 2019, to reach 5.5% in 2020.
- Growth could be hindered in the event of a global economic downturn and international trade disputes due to an overreliance of their use of the Canal.
- Economic growth contributed to reduce poverty in the country.

Indicators as of 2018

Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
5.5%	25,630	5.4	-7.8%	4.2	0.8%	6.0%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank, Global Infrastructure Outlook

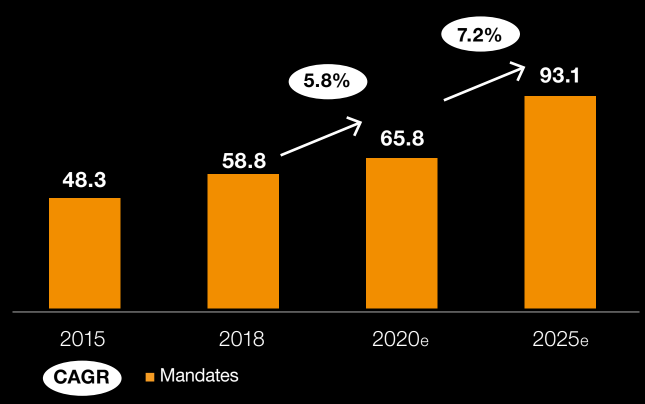
Asset and Wealth Management overview

- According to the IMF, GDP is set to grow in the coming years which will prompt a decrease in poverty, a more formal working environment and the move from a middle income society to a high income society. Should this materialise, the local AWM industry can grow as well.
- The largest growth can be seen in mandates as the assets managed in mutual funds and investments in alternatives are not significant at industry level.

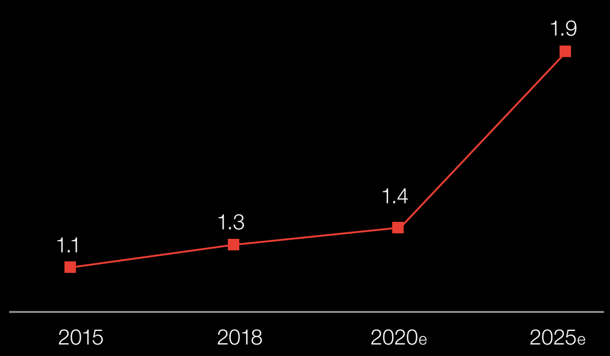
Clients' assets - pension funds overview

- More than 60% of pension fund assets are allocated to investments in financial institutions as of 2018, while bonds account for more than 20%. Other investments remains low (less than 5%).
- Foreign investments are among the lowest (6.1%) compared to other LatAm countries. Considering the regulatory limit at 15%, there is a potential for additional foreign investments by 2025.

Total assets managed by the AM industry (USD bn)



Evolution of Pension assets (USD bn)



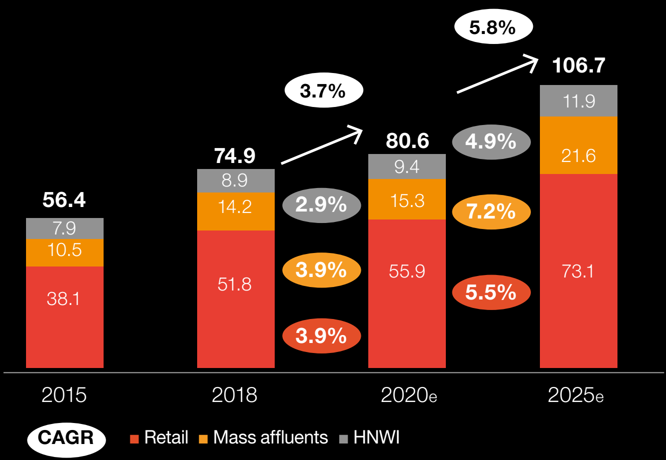
Clients' assets - Retail, mass affluent & HNWIs overview

- Even though the family office sector is still in a "start-up" phase, Panama's reputation as a financially stable country has led family offices to relocate to the country. Moreover, the country has grown as an international financial center, a scenario that has led family offices to reconsider Panama as an alternative location.

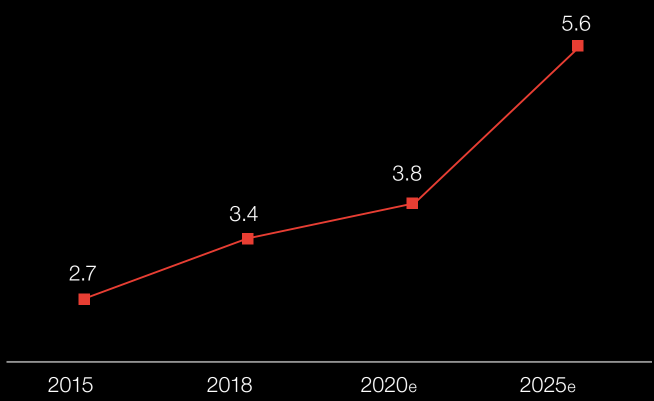
Clients' assets - Insurance overview

- Insurance penetration in Panama reached 2.5% in 2018, ranking 50th out of OECD countries, and 8th out of the LAC region countries. The majority of the premiums consisted of non-life products. Overall, it generated just under USD 1.6bn

Evolution of individual assets (USD bn)



Evolution of insurance assets (USD bn)



Sources: PwC Global AWM Research Centre; Heritage Foundation

Country factsheet
Peru

Macroeconomic overview

- Peru's growth in recent years was one of the strongest compared to the other LatAm countries. The IMF has forecasted a growth above 4% for the 2019-2020 period, supported by a counter-cyclical fiscal stimulus and private sector domestic demand. This growth is expected to stabilise at 4% in the medium term.
- Challenges for Peru still remain, such as an increasing poverty ratio and capacity constraints, which could further delay investment projects and PPPs.
- Peru's infrastructure investment gap is about USD 71bn. Authorities aim to improve the public investment framework to help decrease the infrastructure gap.

Indicators as of 2018

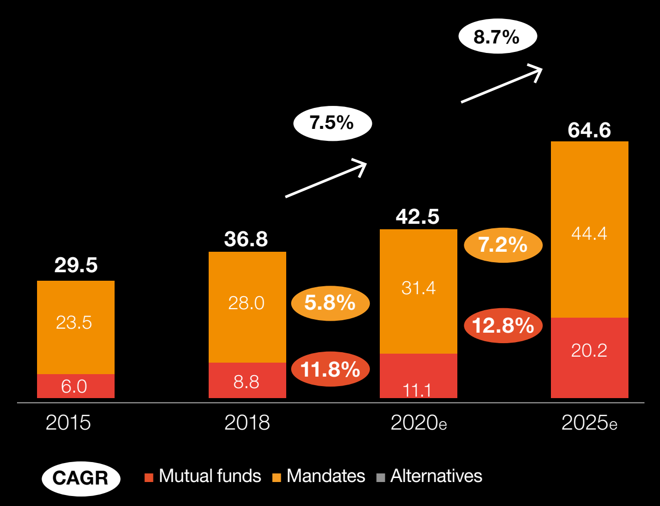
Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
3.6%	14,240	3.2	-1.6%	32.2	1.3%	6.7%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank, Global Infrastructure Outlook

Asset and Wealth Management overview

- The GDP growth rate of 4.0% and poverty reduction allowed the middle class to grow by 4.5% from 2017 to 2018. This became a growth driver for the AWM industry.
- The AM market is still not mature when it comes to Alternatives. The allocation to this asset class is not significant. On the other hand, mandates account for a large part of the total AuM.

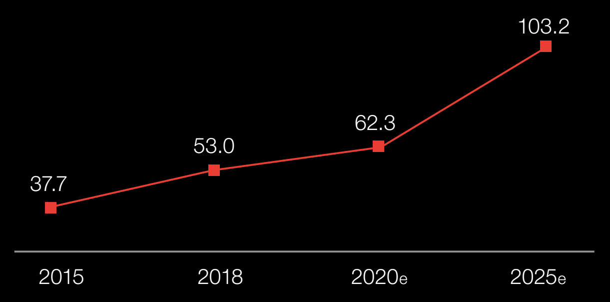
Total assets managed by the AM industry (USD bn)



Clients' assets - pension funds overview

- There are only 4 private pension funds (AFPs) in Peru, AFP Habitat, AFP Integra, AFP Prima and AFP ProFuturo.
- AFPs' portfolios are predominantly composed of equity (42%) and fixed income products (47%). At the same time, alternative assets amount to 8% of total assets.
- Foreign investment by AFPs is limited to 42% of their assets. Peru is one of the most aggressive countries in terms of foreign investments (42.6% of their assets), even going beyond the maximum threshold. However, we estimate a potential additional exposure to foreign assets of USD 20.8bn by 2025 driven by the asset growth.

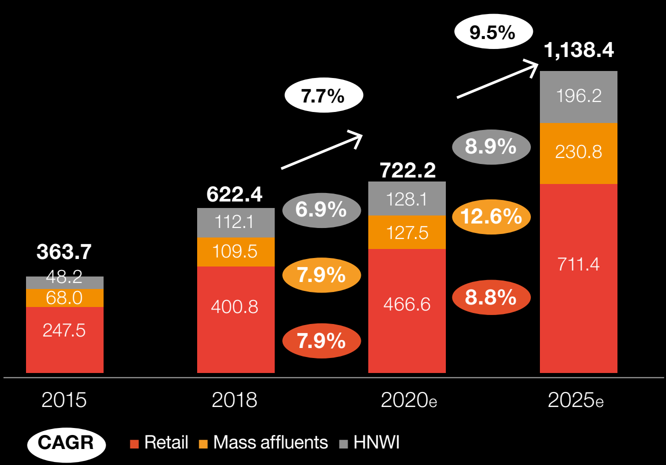
Evolution of Pension assets (USD bn)



Clients’ assets - Retail, mass affluent & HNWIs overview

- Economic growth has increased wealth accumulation for HNWIs. With the growth of assets and the tendency of HNW families to invest in real estate and non-liquid assets, family offices could emerge as the preferred vehicle. Tax efficiency and safety of assets in the long term are the main concerns of mass affluent and HNWIs.

Evolution of individual assets (USD bn)

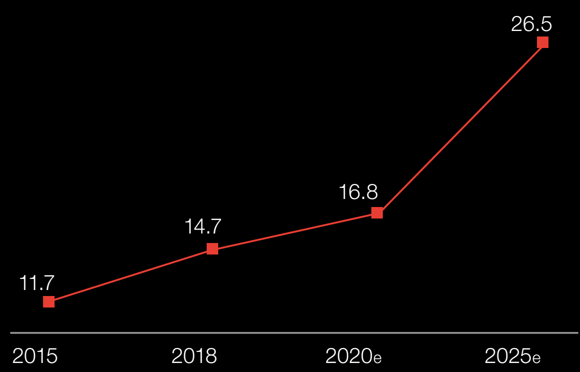


Sources: Sources: PwC Global AWM Research Centre

Clients’ assets - Insurance overview

- As of 2017 the insurance penetration in Peru stood at 1.63% of GDP, sitting far away from Chile – the country with the highest rate – which in the same year reached 4.6% of GDP.
- At the end of 2018, insurers portfolios consisted mostly of investment-grade securities.

Evolution of insurance assets (USD bn)



Country factsheet
Uruguay

Macroeconomic overview

- Uruguay has experienced positive economic growth over the last decade, despite recessions occurring in other LatAm countries. However, even with this strong growth, challenges remain, including poor infrastructure investment.
- Uruguay's infrastructure investment gap is expected to amount to USD 10bn. The Financial Trust Debt fund is being used to counteract this, financing State roadways. At 16.9%, Uruguay has the lowest gap in the region. Notably, Uruguay has a very low level of corruption, among the top 25 least corrupt countries in the world, which should help bolster investment into the country's infrastructure projects by international investors.

Indicators as of 2018

Projected real GDP growth by 2020	GDP per capita (USD current PPP)	Net FDI flows (USD billion)	Current account balance (% of GDP)	Population (Million of people)	Inflation (Annual % change)	Unemployment (%)
2.3%	23,160	0.9	-0.6%	3.5	7.6%	8.4%

Sources: IMF World Economic Outlook (October 2019); OECD Data; World Bank, Global Infrastructure Outlook

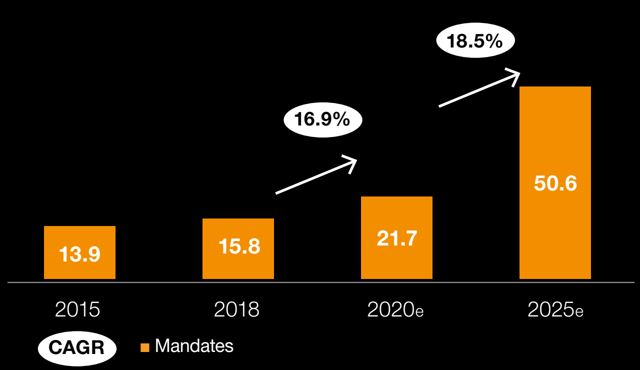
Asset and Wealth Management overview

- GDP reached a 16 year growth streak in 2018 at 2%. This was helped by its middle class population, which is one of the largest across the Americas. Uruguay also has one of the highest GDP levels per capita across South America. These factors can bring growth to the AMW industry, although it is concentrated in mandates. The weight of mutual funds and alternatives is imperceptible.

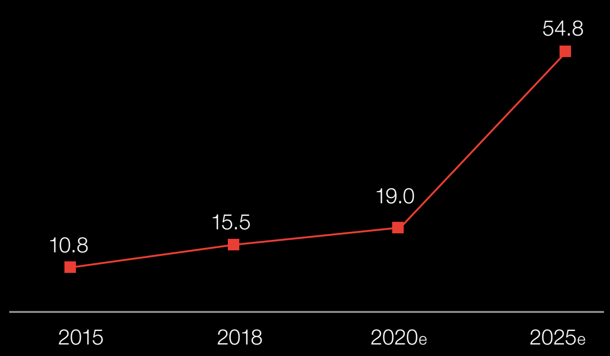
Clients' assets - pension funds overview

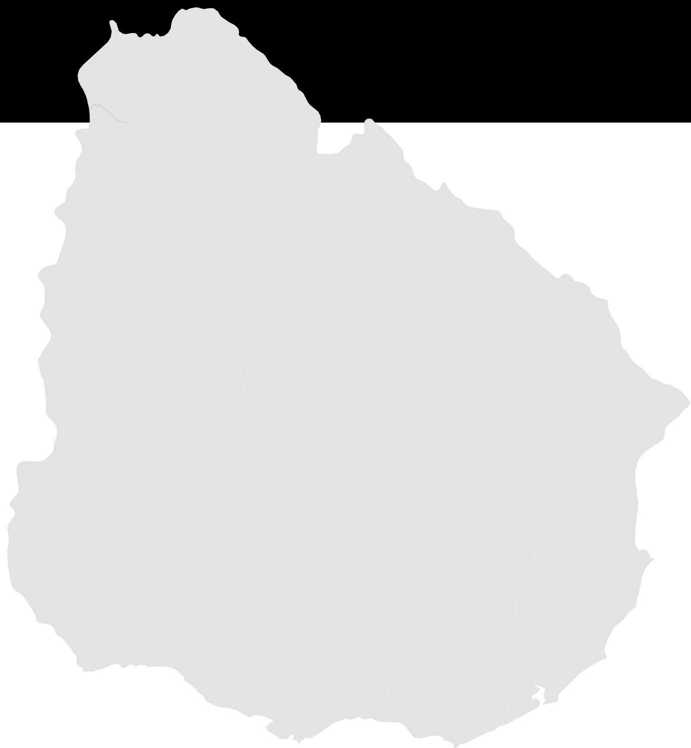
- The Uruguayan pension funds market (AFAP) is dominated by "bonds" when it comes to its asset allocation, with nearly 80% allocated to it. "Cash and deposits" and "other" make up the remaining percentage.
- Foreign investment by Uruguayan pension funds are limited to 15% to 20% of their assets. If they increase their current rate of 7.26% by 2025 to the full limit, then the potential additional foreign investment could be USD 9.8bn.

Total assets managed by the AM industry (USD bn)



Evolution of Pension assets (USD bn)





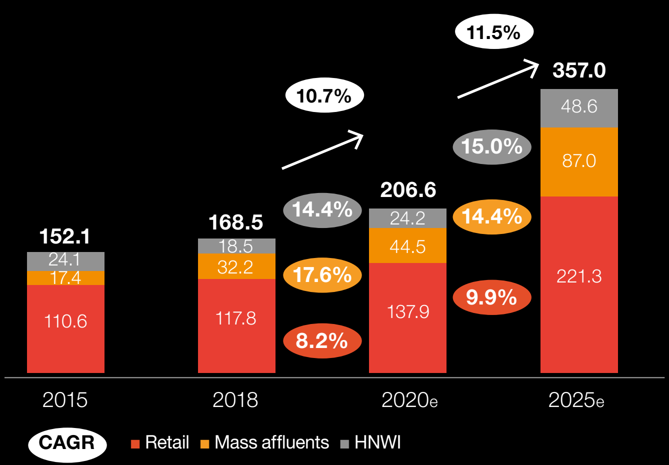
Clients' assets - Retail, mass affluent & HNWIs overview

- Between 1990 and 2017, Uruguay doubled its GDP, becoming one of the wealthiest economies in LatAm. Moreover, Uruguay ranks relatively high (40th over 180 countries), mostly for investment, trade and business freedoms. This economic environment will further enhance wealth creation in the country resulting in a similar growth of both, mass affluents and HNWIs by 2025.

Clients' assets - Insurance overview

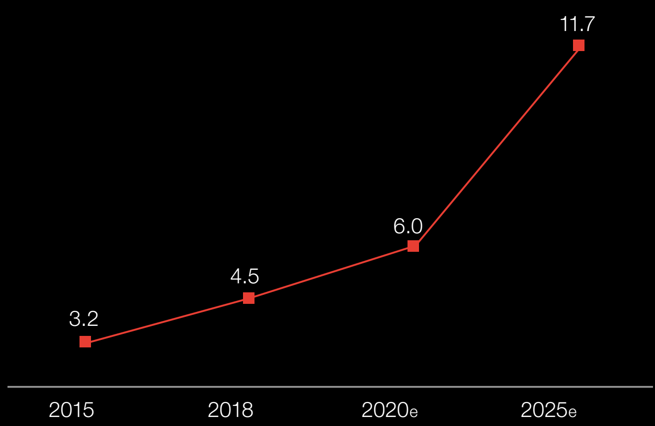
- In Uruguay, insurance companies are composite, dealing in both life and non-life insurance. Insurance penetration has been steadily increasing each year reaching 2.6% in 2017. However, it declined slightly to 2.5% in 2018. The majority of premiums accounted for non-life products. Premiums generated USD 1.5bn for 2018.

Evolution of individual assets (USD bn)



Sources: PwC Global AWM Research Centre; Heritage Foundation

Evolution of insurance assets (USD bn)



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