

SHCP
SECRETARÍA DE HACIENDA
Y CRÉDITO PÚBLICO



INVESTMENT IN COMMODITIES

CME GROUP
“GLOBAL COMMODITY INVESTMENT ROUNDTABLE”

APRIL, 2013

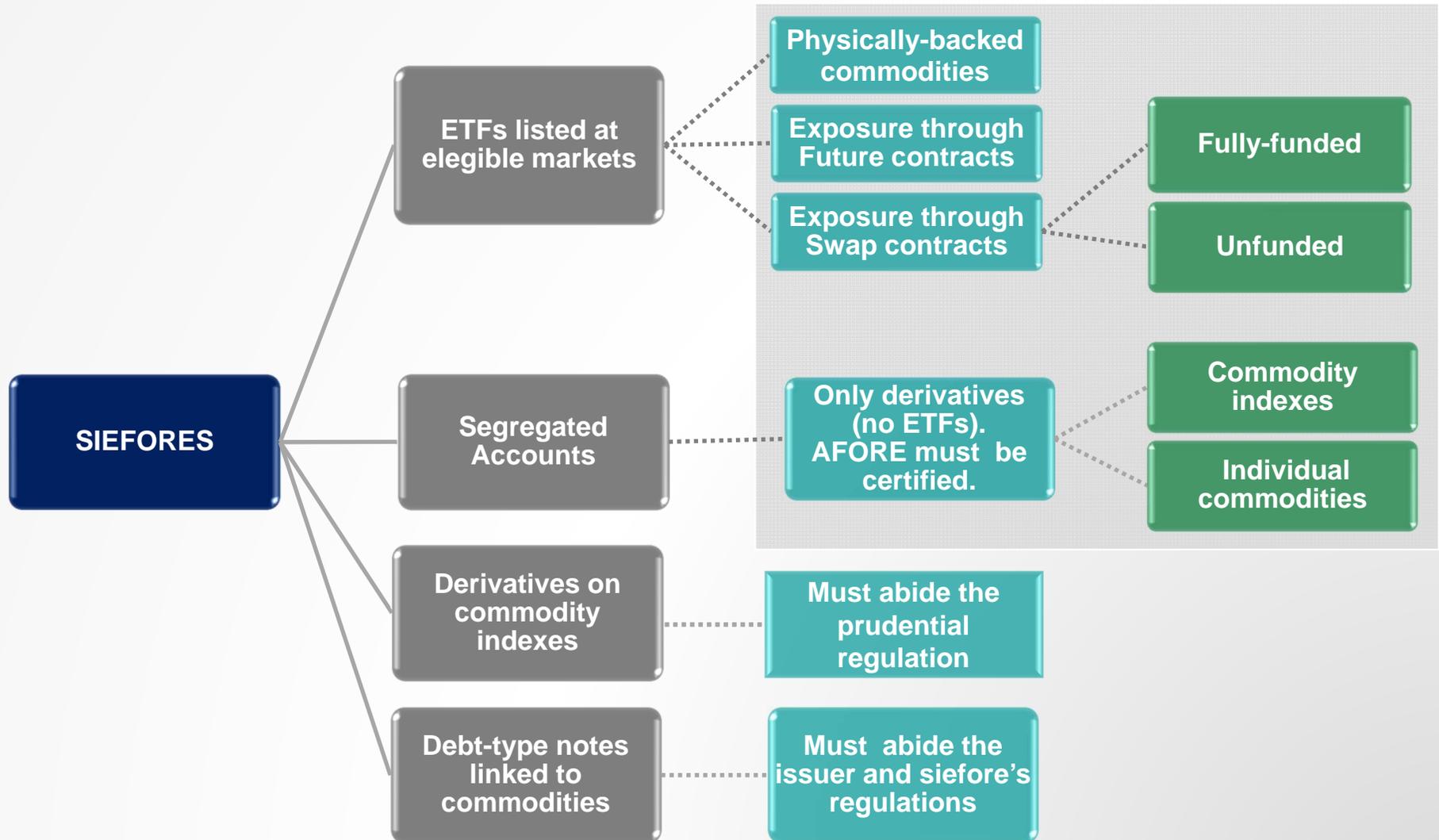
COMMODITY INVESTMENT LIMITS FOR SIEFORES

In July 2011, CONSAR's Governing Board approved the investment in commodities at eligible markets through authorized negotiation mechanisms. The Board determined the investment limits for this asset class:

	SIEFORE Funds			
	SB1 ≥ 60 years-old	SB2 Between 46 and 59 years- old	SB3 Between 37 and 45 years-old	SB4 ≤36 years-old
Commodity Investment Limits	0%	5%	10%	10%



WAYS TO GET EXPOSURE TO COMMODITIES (1)



WAYS TO GET EXPOSURE TO COMMODITIES (2)

1. Exchange Traded funds (ETFs) with commodity exposure, listed at organized markets. ETFs must replicate passively commodities indices approved by CAR.
2. Specialized Managers of Commodities must acquire individual commodities and diversified indexes, approved by CAR, through authorized derivatives (futures, forwards, options and swaps).
3. Investment through Derivatives on commodity indexes approved by CAR, whenever the Afore meets CONSAR prudential regulation.
4. Notes with Commodity Exposure, which usually are debt type instruments, with principal protection or a debt-type component, plus a promise on non-negative coupon payments linked to eligible commodities, among other criteria.

ALLOWED COMMODITIES FOR DERIVATIVES OPERATIONS

☐ There are 33 allowed commodities by Mexico's Central Bank:

Eligible Commodities			
1. Gold	9. Cotton	17. Soybean oil	25. Gasoline
2. Silver	10. Oats	18. Soybean paste	26. Crude oil
3. Corn	11. Coffee	19. Pork	27. Aluminum
4. Wheat	12. Orange juice	20. Pigs	28. Copper
5. Soybean	13. Cocoa	21. Cattle	29. Nickel
6. Sugar	14. Barley	22. Natural gas	30. Platinum
7. Rice	15. Milk	23. Heating oil	31. Lead
8. Sorghum	16. Canola	24. Diesel	32. Zinc
33.	Commodity indexes approved by CAR. The indexes could be comprised by the commodities previously listed (they are not restricted to only these underlying commodities).		

Source: Banco de México, "Reglas a las que deberán sujetarse las Sociedades de Inversión Especializadas de Fondos para el Retiro en la celebración de operaciones financieras conocidas como derivadas".

REGULATORY COMPARISON BETWEEN ETFs AND SEGREGATED ACCOUNTS (1)

	ETFs	Segregated Accounts
Underlying:	Gold, silver and platinum (physical) and authorized indexes (derivatives)	Individual commodities authorized by Banxico and indexes
Strategy:	Passive (may have enhanced rolling)	Semi-active
Ways to gain exposure:	<ul style="list-style-type: none"> i) Acquire gold, silver or platinum ii) Replicate commodities indices through futures or swaps contracts 	Investment through authorized Derivatives operations
Corporate Governance:	The Fund must have Committees in charge of the Fund' structure decisions and its investment policy/strategies	Separation of activities like valuation and custody, segregation of resources, strong compliance unit, policies on conflicts of interest and ethical codes

REGULATORY COMPARISON BETWEEN ETFs AND SEGREGATED ACCOUNTS (2)

	ETFs	Segregated Accounts
Experience:	Administrator, sponsor and investment advisor should have at least 3 years of experience in managing commodities	The Manager (firm level) should have at least 5 years managing Commodities. The key team members responsible of each task in the mandate should have at least 10 years of experience
Minimum AUM:	2 billion USD	2 billion USD
Reports:	Daily report on NAV and full breakdown of the portfolio's investments	Daily report on NAV and weekly report with the full breakdown of the portfolio's investments
Valuation:	Daily by a third party	Daily by a third party
Concentration Limits:	Applies the regulatory limit for the type of Siefore	3% of the Siefore's AUM per Manager. The aggregate exposure through all managers must respect the limits per SIEFORE

COMMODITY INDEXES AND VEHICLES APPROVED BY THE RISK ANALYSIS COMMITTEE (CAR)

Index Provider	Name of the Index
Standard & Poor's	S&P GSCI Total Return Index
	S&P GSCI Dynamic Roll Capped Commodity 35/20 Index
	S&P GSCI Dynamic Roll Index (and its variations)
Dow Jones Opco	Dow Jones-UBS Commodity Index (and its variations)
J.P. Morgan	JP Morgan Alternative Benchmark Enhanced Beta Select Index
Barclays Bank México	Barclays Multi-Strategy BCI Excess Return
	Barclays Multi-Strategy DJ-UBSCI Excess Return
	Barclays Backwardation Excess Return

Type of ETF	Name of the Vehicle
Physically-backed	iShares Gold Trust (IAU)
Physically-backed	iShares Silver Trust (SLV)
Physically-backed	SPDR Gold Trust (GLD)
Physically-backed	ETFS Gold Trust (SGOL)
Physically-backed	ETFS Silver Trust (SIVR)
Replication through Futures contracts	iShares S&P GSCI Commodity-Indexed Trust (GSG)

ADVANTAGES OF INVESTING IN COMMODITIES (1)

COMMODITIES REPRESENT A VIABLE OPTION TO DIVERSIFY SIEFORE'S INVESTMENT PORTFOLIO BY PROVIDING MORE INVESTMENT ALTERNATIVES FOR THE EMPLOYEES' FUNDS:

✓ **Reduce the portfolio risk:** commodities may provide a low correlation (or even negative) for certain asset classes invested in SIEFORE, reducing the total risk exposure of the portfolio.



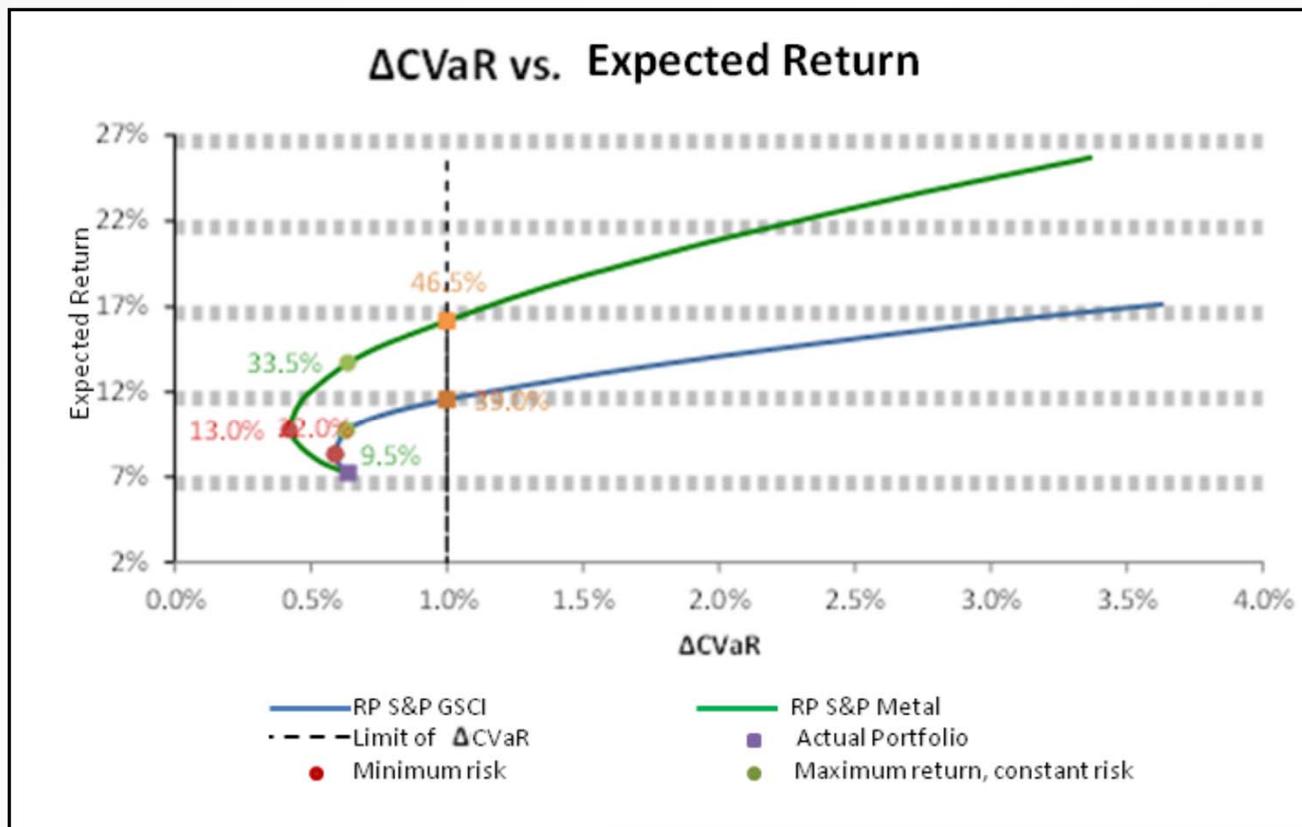
✓ **Performance:** long-term investment in diversified basket of commodities may increase the risk-adjusted returns of the portfolio.

✓ **Protection to unexpected inflation:** commodities offer protection for unexpected variations in consumer prices.

✓ **Better connection** between the real sector of the economy, the financial markets and the institutional investors.

ADVANTAGES OF INVESTING IN COMMODITIES (2)

- ✓ Increase the efficient frontier of SIEFORE's portfolio: with a given risk metric, commodities can increase the expected return.



FOR INVESTING IN COMMODITIES THE REGULATION SPECIFY THAT SIEFORES MUST COMPLY WITH THE FOLLOWING:

- The Investment Committees must approve and monitor the investment in commodities:

- Strategy
- Investment Horizon
- Performance Attribution (1,3,5 years)
- Valuation
- Fees Analysis
- Benchmarks
- Stress tests

- The Compliance Officer must have a monitoring processes for the investment process in commodities

- The Investment Manuals must contain procedures to invest in commodities and must have the authorization by CONSAR.



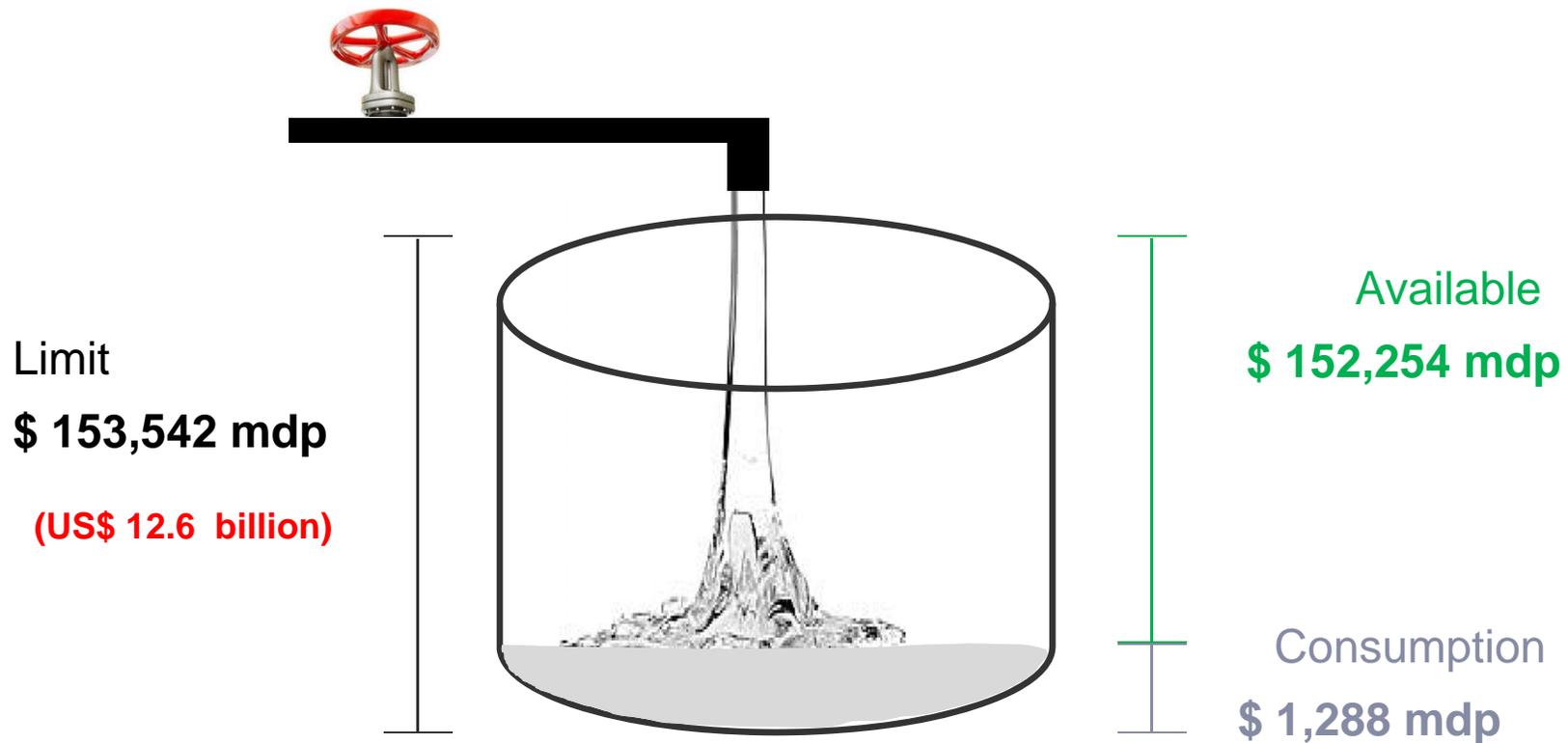
- The investment policy statements that is followed (**ETFs, Derivatives, Structured notes**) or contracts (**Investment Mandates**) must be part of the Siefore Prospectus

- The Risk Committee must define, compute, analyze and authorize:

- Internal Risk limits approved by risk committee for market, credit and liquidity.
- Risk Attribution
- Valuation
- Benchmarks
- Stress tests including the simulation of some crisis and extreme events

SUBTRACTING CURRENT INVESTMENTS, THE SIEFORES HAVE A CAPACITY TO INVEST US \$12.5 BILLION

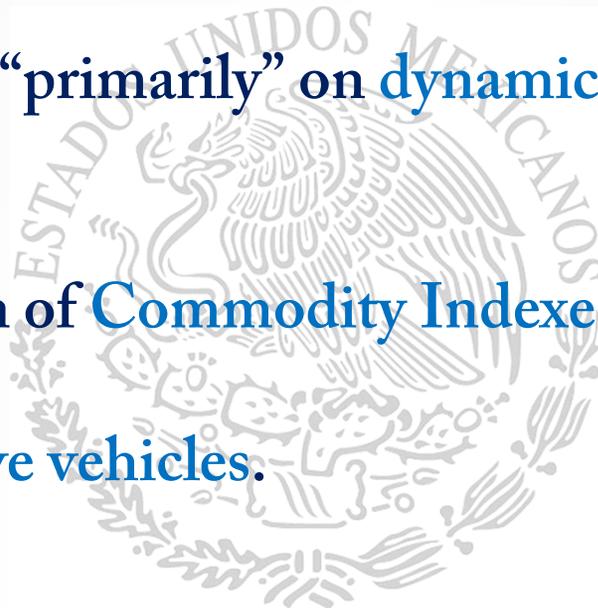
Commodities



The sophistication in risk management and investment processes will trigger the second generation changes for commodities, which will allow SIEFORES...

Commodities

- ❑ Long-short approach, to take advantage not only of bullish trends but also of bearish trends in commodities.
- ❑ Strategies based “primarily” on dynamic and discretionary roll overs.
- ❑ Next Generation of Commodity Indexes seeking Alpha.
- ❑ Additional Active vehicles.



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