

Research Update:

'AMP-1' (Very Strong) Classification On LarrainVial Asset Management Administradora General de Fondos S.A. Affirmed

Oct. 29, 2021

This English version is provided on request and reflects the translation from the original one published only in Spanish by S&P Global Ratings on Oct. 29, 2021. In case of any discrepancy between this English version and the original in Spanish, the Spanish version shall apply.

Rating Action

On Oct. 29, 2021, S&P Global Ratings affirmed its 'AMP-1' (Very Strong) classification on LarrainVial Asset Management Administradora General de Fondos S.A. (LVAM).

The 'AMP-1' (Very Strong) classification on LVAM is based on its strong business profile as one of the largest independent mutual and investment fund managers in Chile with good client and product diversification. We also consider that it operates in an economy that has had historically low volatility, which has allowed the company to focus on higher profitability products for its clients. However, in the last two years, social protests at the end of 2019, and subsequently the impact of the global pandemic in 2020 and local political uncertainty during 2021, have led to a greater aversion to risk, which has generated changes in the composition of the fund industry. We now see a higher proportion of monetary funds, a reduction in fixed income funds (affected by the increase in yields in the local market), and a greater preference of dollarized or foreign assets. Given this scenario, LVAM has managed to maintain its market share at 5.5%-6.0%, reinforcing its offer of international funds and offshore platforms.

Additionally, the classification continues to reflect the fact that LVAM has a highly experienced management team and a clear corporate strategy, with greater focus on products that offer more profitability to its clients and diversification alternatives in foreign currency and/or international assets, along with very strong practices in relation to controls and operations. Likewise, its investment management process is well structured, its risk management capabilities are very strong, and it continues to consolidate a new centralized risk control structure for all the asset management units of LarrainVial group, in addition to its trustees' good principles.

Finally, the classification also considers the challenges faced by the industry and LVAM going forward, among which are the uncertainty about the direction of local policy, the evolution of the industry for pension fund managers and the local market, and the need to deepen its digital offerings for customers.

Strong business position in the local industry, with adequate product offerings and a solid financial position with good income generation. LVAM is part of the fund management business

PRIMARY CREDIT ANALYST

Maria Canguero
Buenos Aires
(54) 11 4891-2149
maria.canguero
@spglobal.com

SECONDARY CONTACT

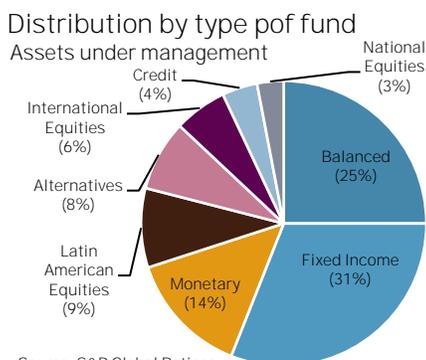
Ivana Recalde
Buenos Aires
(54) 11 4891-2127
ivana.recalde
@spglobal.com

unit of Larraín Vial SpA. (not rated), one of the most comprehensive financial services companies in Chile that participates in investment banking, stock brokerage, and asset management. In our opinion, asset management is still key for the group's (Larraín Vial SpA) expansion plans. In addition, LVAM benefits from its shareholder Consorcio Financiero S.A.'s extensive customer base.

We base our view of LVAM's strong business profile on its appropriate mix of products for a broad customer base, covering different levels of risk/return that help diversify the revenue stream. Currently, LVAM has 34 mutual funds and 31 public investment funds, including three funds domiciled in SICAV Luxembourg and two funds domiciled in Cayman, as part of the stronger offering of international products.

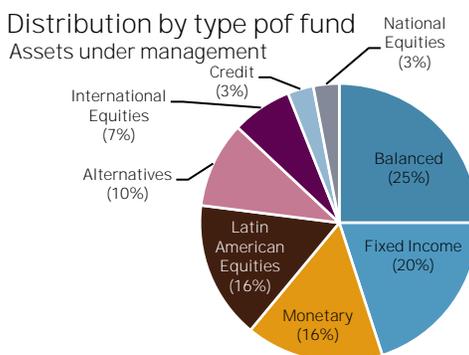
During 2021, the SICAV - Luxembourg funds have registered significant growth due to their good performance that has attracted clients from the institutional world and abroad. For this reason, Latin American Equity funds increased their share of total assets under management to 16% (compared to 9% a year ago). Additionally, in line with the industry, Chilean Fixed Income funds have dropped the most, representing only 20% of total assets under management (compared to 31% a year ago).

Chart 1.A - Mix Of Funds 2020



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Chart 1.B - Mix Of Funds 2021

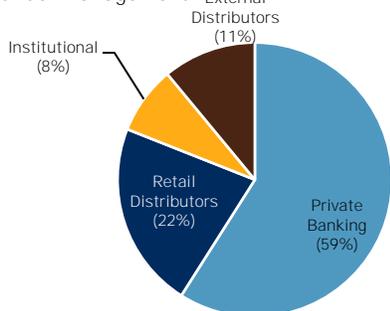


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LVAM's client portfolio is made up mainly of retail and high-net-worth investors, representing approximately 22% and 45% of the assets under its management, respectively. However, during 2021, LVAM has seen an increase in institutional client participation, which now represents 21% compared to 8% a year ago. The increase in institutional clients is due to the fact that LVAM fully resumed operations with local pension fund managers.

Chart 2.A – Mix Of Clients 2020

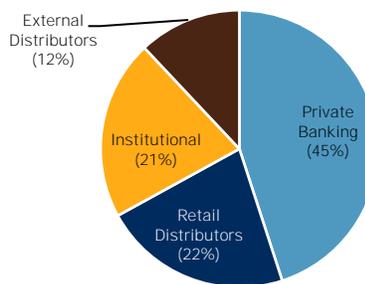
Distribution per type of client
Assets under management



Source: S&P Global Ratings.
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Chart 2.B – Mix Of Clients 2021

Distribution per type of client
Assets under management



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Likewise, during 2021, LVAM has maintained its position as the fifth largest manager in the local market, with assets under management of CLP4,178 billion (equivalent to about US\$5,150 million), with a market share of 5.4% including mutual funds, investment funds, and SICAVs compared to shares of 5.3% and 5.9% as of year-end 2020 and 2019, respectively.

LVAM has a good financial profile thanks to its adequate market position that is due to a consistent alignment of its strategy and its administrative, technological, and commercial resources. This supports its strong third-party asset management practices, allowing it to have resources to maintain and continue investing in improving its systems, processes, and internal controls. During 2020, its results fell 11% due to the impact of lower volumes and commissions. However, we expect that in 2021, the company's results will recover and reach CLP8.0 billion.

LVAM's strategy is to become a benchmark player in Latin America's asset management industry, while maintaining transparency and ethics in all aspects of its operation. We believe LVAM's general strategy and specific goals are consistent with its resources amid a favorable operating framework for mutual and investment funds in Chile. We also favorably assess the entity's strategic planning process and the tools designed for its adequate implementation.

Very strong risk governance and clear investment processes. LVAM's operational structure is in line with very strong practices in terms of segregation of activities. The asset manager has a very strong organizational structure and adequate human resources available to fulfill its strategic objectives. We believe the asset manager's senior team includes professionals with broad experience, with proven records in the financial asset management market, which will contribute to the company's growth and development.

The asset manager follows clear guidelines for portfolio construction. The investment process is robust and has a well-defined investment philosophy for each of its strategies. We believe the company has a neat and standardized investment process, which is based on committees formalized in minutes. These committees meet regularly to evaluate business performance, investment strategies, risk management, and product performance, and despite their formalization, they do not reduce speed in decision-making for portfolio management. Additionally, LVAM has a responsible investment policy that it applies to both its equity and credit portfolio.

Very strong and well-defined control structure, appropriate for the size of its operations.

Additionally, we think LVAM has a very strong and well-defined control structure, appropriate for the size of its operations. The policies and procedures of the administrator are well established and documented. LVAM's risk management process is well structured: it uses adequate tools for risk assessment. Risk management continues to play a central role in the investment decision making process, together with emphasis on credit, market, and liquidity risk controls. As of year-end 2019 to date, considering the different impacts on the industry such as social unrest, the pandemic, and subsequent withdrawals of pension funds, we consider that LVAM has prudently managed liquidity for its funds.

Additionally, the asset manager has an independent compliance unit responsible for guaranteeing the integrity and transparency of the asset management processes in adhering to internal and regulatory rules. In the coming months, this area will begin to work centrally and in conjunction with the respective control areas of the group's additional asset management units, which will allow it to achieve greater efficiency and specialization, with centralized management of operational risk and risks of alternatives assets, together with the centralization of technology developments.

In order to maintain its leadership in the market, LVAM regularly invests in new technologies and in improving its processes and controls. With the centralization of the control area at group level, LVAM will refocus its technology area on deepening the developments in data science and digital transformation. We also consider that the company has a clear contingency and business continuity plan that was tested first with the social unrest at the end of 2019, and later with the impact of the pandemic in the second quarter of 2020, and the plan worked without major issues.

Notes:

- *The 'AMP-1' classification assigned by S&P Global Ratings represents 'Very Strong' third-party asset management practices within the AMP scale, which ranges from the best category 'AMP-1' (Very Strong) to the lowest 'AMP-5' (Weak).*
- *A Third-Party Asset Management Practice ("AMP") Classification is an opinion by S&P Global Ratings of the overall quality of an asset management company. The main components of the analysis include the profile of the company and its financial situation, the depth and quality of the human and technological resources dedicated to the investment management process, the risk management systems used and other fiduciary, operational and control aspects.*

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