MERCER

welcome to brighter

Asset allocation insights 2020

Latin America

Pension allocation insights from government, corporate and mandatory pension plans in Latin America*

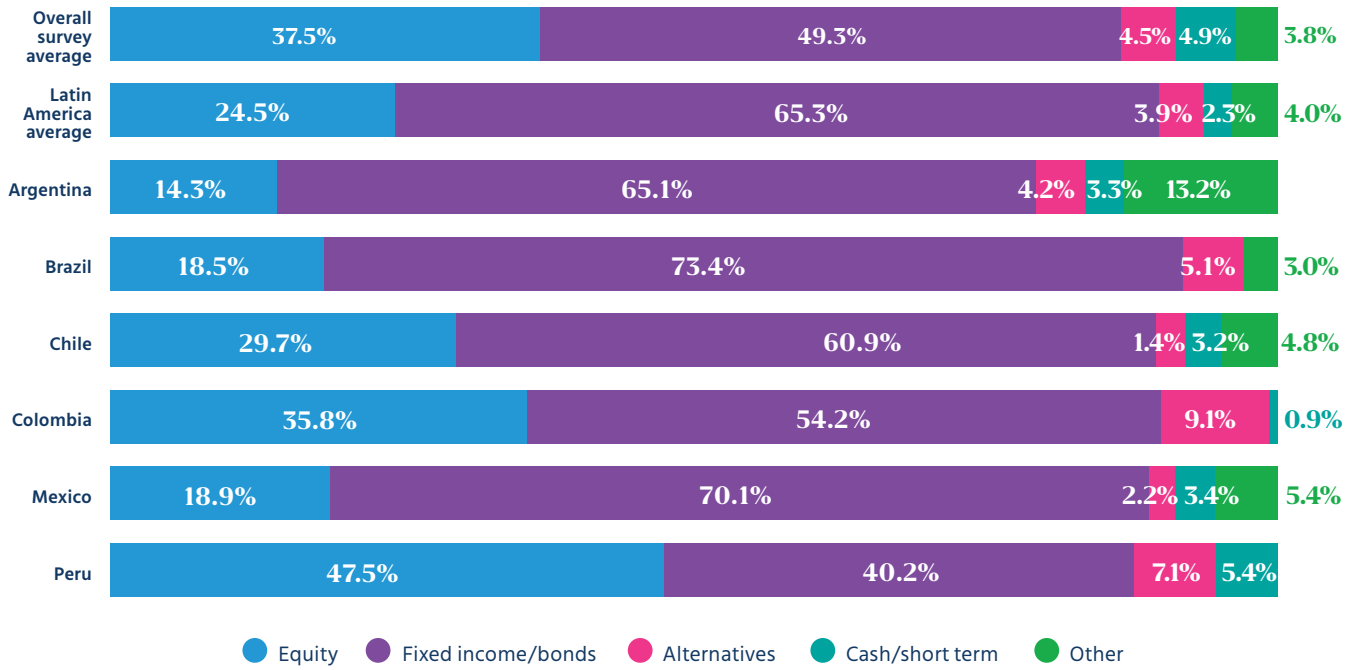
Mercer's Asset Allocation Insights 2020 report analyzes US$5.2 trillion in retirement plan assets across Latin America, the Middle East, Africa and Asia to help investors benchmark their portfolios in search of better outcomes.

For Latin America specifically, we cover plans with US$863 billion in assets. The asset allocation is positioned conservatively compared to the survey average, with a fixed income allocation of 65%. Fixed income investments remain largely invested in domestic markets owing to high domestic interest rates.

Chile, Colombia and Peru have some of the largest foreign equity exposures (as a percentage of overall equity portfolio) across the survey. Brazil and Mexico have noted increasing interest in incorporating environmental, social and governance (ESG) and sustainability considerations in their investment processes.

https://www.mercer.com/our-thinking/asset-allocation-insights-2020.html

Latin America: Current allocation by country (%)



* This document summarizes our findings at the region and country level. Check out the full report to learn more about aggregated trends in Latin America, the Middle East, Africa and Asia.

Argentina

- Argentina is one of the largest holders of fixed income within the region, as interest rates have been relatively high and have offered good returns.
- Argentina invests virtually nothing outside its borders.
- The Fondo de Garantía de Sustentabilidad (FGS) comprises the vast majority of Argentina's assets (more than 97% as of 2019 data). FGS only invests in projects and financial instruments that promote growth in the country, so its investments are limited to domestic securities.

Brazil

- Brazil is one of the largest holders of fixed income within the region, as interest rates have been relatively high and have offered good returns.
- We have seen interest rates come down recently, so we expect to see greater diversification both domestically and internationally. This is also supported by recent regulation allowing greater investment in foreign assets.
- Brazil expects to increase its allocations to alternatives, with a preference for diversifying portfolios amid low interest rates.

Chile

- In 2017, Chile reformed its investment regime to allow administradoras de fondos de pensiones (AFPs) to invest in alternatives, generally up to 10%.
- Fixed income allocation rose from 55% to 60% over the year.
- The level of foreign exposure remained relatively stable. Foreign equity represented 68% of total equity exposure, and the foreign exposure to fixed income instruments was 22% of the total fixed income portfolio.

Colombia

- Increasing investment in equities reflects participants selecting more aggressive asset allocation mixes within the AFP lineups and more relaxed restrictions permitting greater investment in foreign securities.
- Colombia has one of the largest exposures to alternatives at close to 9% of total assets.
- The country is planning new regulations that make fee disclosures clearer and more comprehensive to help investors make informed choices.
- AFPs have traditionally looked for more passively managed options in order to lower fees, although this trend is changing as alpha-seeking strategies become more prevalent.

Mexico

- Mexico is one of the largest holders of fixed income within the region, as interest rates have been relatively high and have offered good returns.
- The country is seeing a rise in DC plans.
- Average fees in DC plans fell from close to 0.75% six years ago to 0.50% in the current period.
- The limit for foreign equity remains at 20%, though regulatory change to increase the foreign maximum to 30% is under consideration.

Peru

- Peru has invested more in equities. This reflects participants selecting more aggressive asset allocation mixes within the AFP lineups and more relaxed restrictions permitting greater investment in foreign securities.
- Peru devotes a significant portion of its allocation to equities — almost half of AUM — of which nearly 73% is invested internationally.
- The lack of competition and the need to reduce the fees AFPs charge their participants are some of the issues motivating potential pension reform.

Contact us

Fiona Dunsire, Investments and Retirement Leader, Growth Markets

fiona.dunsire@mercer.com

Tracy Teel, Strategy Leader, Growth Markets, Investments and Retirement
tracy.teel@mercer.com

Simon Coxeter, Growth Markets, Investments Strategic Research Director
simon.coxeter@mercer.com

6010555G-WE

MARSH & McLENNAN COMPANIES