

Research Update:

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

Sept. 25, 2020

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 Sept. 25, 2020. In case of any discrepancy between this English version and the original in Spanish, the Spanish version shall apply.

Rating Action

On Sept. 28, 2020, S&P Global Ratings affirmed its 'AMP-1' (Very Strong) classification on Larraín Vial 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. LVAM has good client and product diversification and operates in an economy that has had historically low volatility, which has allowed it to focus on higher-profitability products for its clients. However, in the last year, social protests and then the impact of the global pandemic have led to a greater aversion to risk, which in turn has generated changes in the composition of the fund industry (with a higher proportion of money market funds) and a slight decrease in the asset manager's market share. The classification continues to reflect its highly experienced management team and a clear corporate strategy, with increased focus on products that offer greater profitability to its clients, along with its very strong controls and operations practices, well-structured investment management process, and very strong risk management capabilities, which continue to be consolidated with new committees and ways of monitoring risk in addition to its good fiduciary principles.

For the next few months, we will monitor whether or not the asset manager is able to maintain its position in the fund industry, as well as its financial position with solid profitability levels once the pending government discussions (including changes to the constitution and other reforms) are concluded. We'll also monitor the effects of the pandemic, which could generate levels of risk aversion similar to the current ones and affect LVAM's business. Still, from mid-March to date, LVAM has rebuilt its base of assets under management to pre-pandemic levels. In this sense, as of June 30, 2020, LVAM managed resources for about CLP3,918 billion (equivalent to about US\$4.9 billion), and was the fifth largest asset manager in the country, with a market share of 5.4% (including mutual funds, investment funds, mutual funds, and SICAVs) from a share of 5.9% in 2019. This decrease in LVAM's market share is due to the greater participation of money market funds in the industry, coupled with the greater risk aversion by Latin American assets. We expect that in the medium term, LVAM will increase its market participation by attracting investors of

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non-monetary products and launching new products that respond to the needs of investors, while using its highly experienced team.

LVAM is the fund management business unit of Larraín Vial SpA. (not rated), one of the most comprehensive financial services companies in Chile that participates in investment banking and in stock brokerage and asset management businesses. In our opinion, asset management is still an important activity for the group's expansion plans. Additionally, 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 36 mutual funds, 22 investment funds, and three SICAVs. Its adequate product mix includes Latin American discretionary funds and portfolios of local equities, local fixed income, balanced, equities, fixed income from the same region, local money market, and alternative investment funds. Alternative and balanced funds have maintained relatively stable participation in LVAM's product portfolio of 5% and 27% (compared to 5% and 25% at the end of 2019). However, this year, the participation of money funds increased (22% from 17% at the end of 2019) to the detriment of fixed income funds, due to the aforementioned context in the local industry (which has been affected by the social protests at the end of 2019 and the impact of the pandemic this year). LVAM's client portfolio is made up mainly of retail and high-net-worth investors, representing approximately 43% and 24% of the assets under its management, while institutional clients represent 33%.

In our view, LVAM has a good financial profile thanks to its adequate market position because of 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 the improvement of its systems, processes, and internal controls.

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.

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 assets 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.

We believe 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. 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 order to maintain its leadership in the market, LVAM regularly invests in new technologies and in improving its processes and controls. We view the technology area as well prepared. The approval of new projects follows a well-established process. We also believe that the company has a clear contingency and business continuity plan.

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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