

## Pension Reserve and Social and Economic Stabilization Fund



**Country:** Chile

**Coverage:** Raphael Gladstone

**Established:** 1985

**US\$ Billion:** 21.8

**Origin:** Copper

**Entity Structure:** Fund

**Transparency Rating:** 10

### Summary:

The Copper Stabilization Fund was created in 1985 and in 2006 Chile passed the Fiscal Responsibility Law which involved the creation of two new sovereign wealth funds. The first of these is the Pension Reserve Fund (PRF) which is essentially a Savings Fund (no withdrawals are allowed to be made from the fund for a minimum of ten years). This fund receives between 0.2% and 0.5% of GDP depending on the size of Chile's overall budget surplus each year, and initially received a one-off sum of \$600 million in 2006 to kick-start the fund.

In 2007, the Chilean Government created the second fund, the Economic and Social Stabilization Fund (ESSF). This fund replaced the original Copper Stabilization Fund. It receives fiscal surpluses which are above 1% of GDP and came into existence with a one-off payment of approximately \$5 billion (as a result of the closure of the original Copper Stabilization Fund). Through the ministry of finance of Chile, the financial committee proposed investment policy on the social and economic stabilization fund to the minister of finance during March of 2007. The investment strategy intends to diversify assets in the fund, putting 15% of the portfolio into variable income assets, 20% in corporate fixed income papers, gradually adjusting assets currently held, and especially liquid assets.

### Corporate Governance:

The central bank (which is independent), appoints members of a Financial Committee. This committee is responsible for making investment decisions and for the day-to-day running of the sovereign wealth fund. The Financial Committee reports to the Finance Minister who in turn reports to the President. While the SWF does not report directly to the legislative, the fund nevertheless receives its revenues from the overall budget that is discussed and decided by the legislative. This ensures an acceptable level of good governance.

### Strategies and Objectives:

The aim of the Pension Reserve Fund is to address an expected future government pension liability shortfall. As a Savings Fund, it takes a longer-term view and has the responsibility of enabling a transfer of wealth from one generation to the next for the purpose of future sustainability. This means it has a higher risk profile and can invest in a broader range of asset classes. The Economic and Social Stabilization Fund, on the other hand, has macroeconomic stabilization objectives. It has the aim of accumulating excess copper revenues when the price of copper is high in order to channel revenues into the budget when the price of copper is low, thereby smoothing out government expenditure. As a Stabilization Fund, it has a lower risk profile in terms of its investments because it must take a short-term view due to liquidity concerns. The strategy is to be gradually implemented and external managers will be responsible for part of the fund. The fund primarily invests in currencies and foreign government agency bonds & financial institution bonds.

The Funds are exclusively invested in low-risk asset classes, similar to those used in international reserves. The strategic asset allocation for both funds is made up of 66.5% in sovereign bonds, 30% in money market instruments, and 3.5% in inflation-indexed sovereign bonds. The currency composition of the funds is broken down as follows: 50% USD, 40% Euro, and 10% Japanese Yen.

### News and Updates

### Website

1. All figures quoted are from official sources, or, where the institutions concerned do not issue statistics of their holdings, from other publicly available sources.

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