
August 14, 2018

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

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This English version is provided on request and reflects the translation from the original article published only in Spanish by S&P Global Ratings on Aug. 14, 2018. In case of any discrepancy between this English version and the original in Spanish, the Spanish version shall apply.

Rating Action

On Aug. 14, 2018, 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" classification reflects LVAM's strong business profile, good competitive position as one of the main asset managers of investment and mutual funds in Chile, broad client and product diversification, experienced management team, and clear corporate strategy. We also base the classification on the company's robust operations and controls, well-structured investment management process, very strong risk management capabilities, and sound fiduciary principles. During the next 12 months, we expect LVAM to continue expanding its business, focusing on product innovation, and strengthening international alliances, despite the highly competitive environment from both asset managers in financial groups and independent institutions. We also expect it will maintain its good financial profile, within a context of pressure on asset management fees, in accordance with its adequate strategic plan.

LVAM is the asset management business unit of Larrain Vial SpA (not rated), one of the largest financial services companies in Chile that participates in investment banking, brokerage, and asset management. In our opinion, asset management is important for the group's (Larraín Vial SpA) expansion plans. LVAM also benefits from its shareholder Consorcio Financiero S.A.'s, extensive customer base. Despite the strong competition in Chile's fund industry, LVAM has stable market share because it is launching new products; focusing on innovation through strategic alliances in the local and foreign markets in order to address investors' needs; and has an experienced work team. As of May 2018, LVAM managed resources for about

CLP 3.309 trillion (equivalent to \$5.160 billion), including mutual funds, investment funds, and SICAVs. It ranked as the fifth largest asset manager in the country with a market share of 6.4%, versus 6.2% in 2017 and 5.6% in 2016.

We believe that LVAM has a strong business profile because it has an adequate product mix that covers different levels of risk/return and customers. Currently, LVAM has 35 mutual funds, 22 investment funds, and three SICAVs. Within its adequate product mix, the Chilean equity and fixed income funds, the Latin American equity and fixed income funds, and the balanced funds and Chilean money market stand out. Historically, LVAM has focused on retail, high net-worth, and institutional customers, which currently represent approximately 27%, 63%, and 10% of the company's assets under management, respectively. The previous year, these figures were 25%, 65%, and 10%, respectively.

LVAM has a good financial profile thanks to its adequate market position, which results from the consistent alignment of its strategy and its administrative, technological, and commercial resources. As of March 30, 2018, the asset manager posted net earnings of CLP1.909 billion, above the CLP1.295 billion reported during the same period in 2017. This result was mainly driven by higher assets under management, which pushed up fees and commissions income, and mitigated the lower management fees pressured by the strong competition and higher participation of institutional customers. We believe the company's adequate financial profile bolsters its very strong asset management practices, given that it has the resources to support and continue investing in better asset management practices.

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 operations. 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. In addition, we positively assess the company's strategic planning process and the tools for its accurate implementation.

In our opinion, LVAM's operating structure follows very strong practices in terms of segregation of activities. The asset manager has a very strong organizational structure and adequate human resources available to meet its strategic goals. Despite the changes to the company's senior management in the last 18 months, we believe the current team is composed of highly experienced professionals, with proven records in the financial asset management market that will contribute to the company's growth.

LVAM follows clear guidelines for building portfolios. The company's investment process is robust and has a well-defined investment philosophy for each strategy. We believe the company has a standardized investment process based on well-recorded committees that meet regularly to assess business performance, investment strategies, risk management, and product performance. The committee's formalization does not affect agility in decision-making. As of May 2018, and in line with previous years, the asset manager continued posting good performance in most of its funds, compared to its peers in the local market.

In our view, LVAM has a very strong and well-defined control structure, in accordance with the volume of its operations. Its policies and processes are well established and documented. LVAM's risk management process is well structured and uses adequate tools for risk assessment. Risk management continues to play a central role in the investment decision-making process, with an emphasis on credit, market, and liquidity risk controls. In addition, the asset manager has an independent compliance unit responsible for guaranteeing the integrity and transparency of the asset management processes and making sure they adhere to internal and regulatory rules.

In order to maintain its leadership in the market, LVAM regularly invests in new technologies and in

improvements to processes and controls. The approval of new projects follows a well-established process. We also believe LVAM has a clear contingency and continuity business plan.

Notes:

- *The 'AMP-1' classification assigned by S&P Global Ratings reflects our opinion on the 'Very Strong' asset management practices in the AMP scale that ranges from the best category 'AMP-1' (Very Strong) to the lowest 'AMP-5' (Weak).*
- *S&P Global Rating's Asset Management Practices (AMP) classification is an opinion of the overall quality of an asset management company. The main components of the analysis include the company's profile and its financial position, the deepness and quality of human and technological resources aimed to the investment management process, risk management systems utilized and other fiduciary, operative and controlling features.*

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