

Pension Funds Outlook – February 2023

March 16, 2023

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- **The system's yield declined 53bps during February.** The system's weighted return (rolling 36 months, excluding Additional) moved to 5.20% from 5.73% the previous month. Financial markets closed the month with high volatility again, assimilating more restrictive comments from monetary policy makers in the US and the Eurozone. In this context, the expectations drawn from fixed-income securities showed that terminal rates could be higher than anticipated. The FOMC slowed down the hiking pace in a unanimous decision, hiking the reference rate by 25bps to a 4.50%-4.75% range, in line with consensus. The minutes showed a hawkish tone, standing out a high concern over inflation, which has remained way above the 2.0% target. In economic data for the US, annual inflation in February stood at 6.0% from 6.4%; however, the core component resulted above the estimates. Meanwhile, the employment report showed the addition of 311K jobs, above consensus estimates (225K), while unemployment rate moved to 3.6% from 3.4%. In Mexico, Banxico surprised the market and consensus hiking the reference rate by 50bps to 11.00%. The decision was unanimous and the forward guidance pointed to another hike in March, although leaving the door open to a pace reduction. The meeting's minutes showed the dissident opinion from Deputy Governor Espinosa, against signaling a possible reduction in the pace at the next decision. In economic data, the GDP for 2022 was revised upwards to 3.1% (preliminary: 3.0%) and for 4Q22 was revised to 3.6% (preliminary: 3.5%). In February, annual inflation decelerated to 7.62% from 7.91% and core inflation stood at 8.29% from 8.45%. In January, employers added 409.9K jobs, and unemployment rate increased to 3.00% from 2.76%
- **Assets under management (AUM) fell 2.8% vs January.** Resources managed by Pension Investment Companies stood at MXN 5.29 trillion from a multi-year high of MXN 5.44 trillion (+0.8% y/y). This movement was driven by losses of MXN 151.8 billion from profits of MXN 212.8 billion the previous month and marginal net inflows of MXN 186 million compared to January's abundant flow of MXN 47.9 billion
- **In government debt,** Afores decreased slightly their position to 53.6% of total AUM, equivalent to a 7bps reduction. In this sense, the increased appetite for CPI-linked bonds (Udibonos) and Mbonos was fully diluted by a decline in the holdings of Other Debt (which includes repos) and Cetes
- **As for equity,** in a context of risk aversion, Siefores reduced their stock positions, highlighting the reduction in international assets where it was more pronounced
- **In the corporate debt market** (excluding banks), Afores' stake in these securities decreased by 4bps, standing at 12.0% of the invested amount

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Analysis by Asset Class

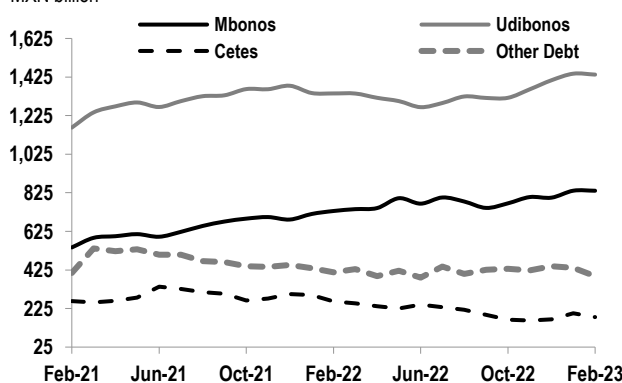
Government Debt

The more hawkish tone by central banks triggered strong pressures in fixed-income securities during February. Locally, the Mbonos' curve recorded losses above 100bps at the short-end. In a similar fashion, Cetes' rates reached all-time highs, assimilating the unexpected 50bps hike by Banxico. With this, tenors of 6, 12, and 24 months traded beyond the 12.00% figure. In real rates, CPI-linked bonds (Udibonos) averaged losses of 40bps. In this context, Afores reduced modestly their stake in government debt to 53.6% of total AUM (-7bps), standing at MXN 2.85 trillion. The portfolio recorded a decrease in the positions of Other Debt (which includes repos) and Cetes' holdings. The first sub-class declined to more than 3-year lows of 7.4% (-63bps), while the second moved to 3.4% (-30bps). This movements fully diluted the increase in Udibonos and Mbonos' holdings of 52bps and 35bps, respectively, to 27.1% and 15.8% in the same order.

As of February 28th, foreign holdings in Mbonos stood at MXN 1.41 trillion (36.0% of the total issuance), increasing 2.9% m/m and 0.6% year-to-date. Holdings by these investors in Cetes totaled MXN 154.5 billion (11.1% of the total), with a 4.0% monthly increase and 10.0% during 2023. Meanwhile, positions in Mbonos owned by Afores stood at MXN 888.5 billion (22.7% of the total issuance), increasing 2.2% m/m. As for Cetes, holdings from these institutions observed a level of MXN 205.8 billion (14.8% of the total issued), falling 7.4% m/m.

Net assets in Government Debt

MXN billion



Source: CONSAR, Banorte

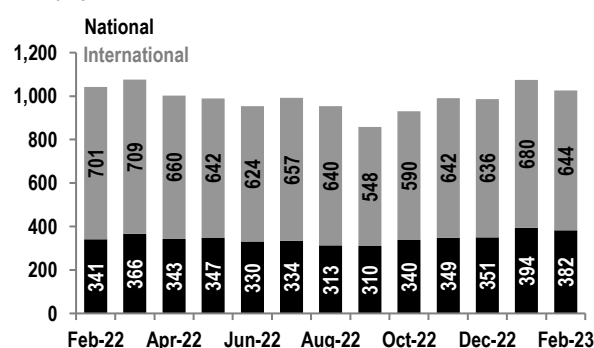
Equity

In February, risk aversion and profit taking dominated stock markets. Caution was driven by the expectation of higher interest rates for longer than expected, given the persistent inflationary pressures and hawkish comments from different Fed and ECB's members, thus fueling recession fears. On the other hand, US corporate earnings season registered a mixed balance, with a 2.6% (vs 3.1%e) reduction in S&P500 companies' earnings, highlighting downward adjustments in several firms' outlooks. In Mexico, results were in line with expectations, highlighting a sequential recovery in profitability. After the season, Mexbol valuation remained practically unchanged (FV/EBITDA of 6.2x), while companies' guidance was divergent. Thus, the sample of 30 indices that we routinely follow registered an average dollar decline of 3.3%, after the 8.7% rise in January. On this occasion, the largest adjustments were observed in Colombian (-11.5%), Brazilian (-9.8%), and Hong Kong (-9.5%) stock exchanges. On the other hand, the ones that achieved positive performances were those of Sweden (+1.6%), Spain (+1.5%), and Italy (+0.8%). In the case of the US, declines were 4.2% for the Dow, 2.6% for the S&P500, and 1.1% for the Nasdaq. Meanwhile, the Mexbol Index showed a slight decline of 0.8% in dollar terms and 3.3% in nominal terms.

Particularly, Siefores' equities positions decreased 4.5% m/m to MXN 1.02 trillion, and thus, equity investments weighting against total assets fell 45bps m/m to 19.4%. Holdings of domestic securities were down to 3.1% m/m while foreign assets loosed by 5.3%.

Afores – Equity Investments

MXN billion

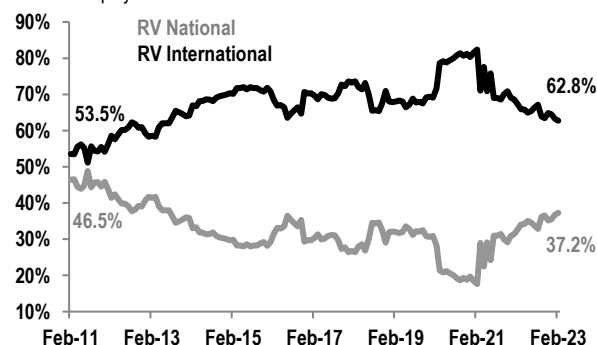


Source: CONSAR, Banorte

Assuming an indexed strategy to the S&P500 and the S&P BMV Mexbol, respectively, we observed that afores' managers decided to increase their domestic securities weightings by 0.2% m/m to stand at MXN 382.0 billion. In turn, they decided to expand their international stocks exposure by 0.1% to MXN 644.1 billion. During the period, the Mexbol declined 3.3% nominally, while the S&P500 in pesos fell 5.0%. Thus, the weighting of domestic assets was up 0.5pp to 37.2% and the corresponding to international equities adjusted by the same extent to 62.8% vs. total equity investments.

Weighing of National and International Equity Investments

% of total equity investments

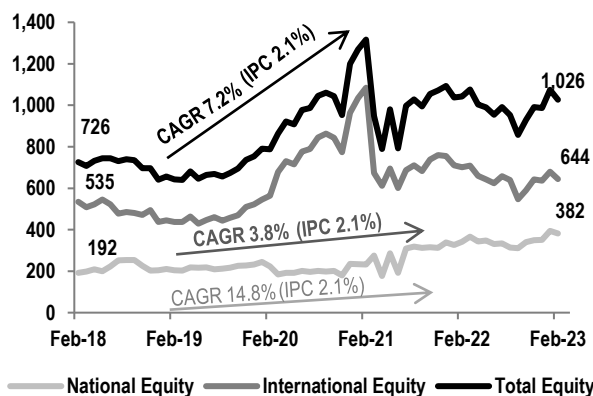


Source: CONSAR, Banorte

Regarding holding breakdown, domestic securities have grown in the last 5 years at a CAGR rate of 14.8%, which compares favorably with the Mexbol performance (2.1%). Meanwhile, international, and total equity positions have increased over the same period at a rate of 3.8% and 7.2%, respectively.

Evolution – National, International and Total Equity Investments

MXN billion



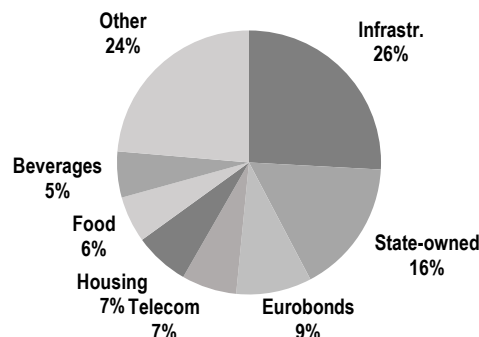
Source: CONSAR, Banorte

Corporate Debt

In February of 2023, Afores stake in corporate debt notes marginally decreased by 4bps, staying at 12.0% of the total invested assets. We attribute the fall to the slow placement activity in January. However, we expect that, starting on March, the trend will reverse. Therefore, we could observe small upwards movements in Afore's participation in debt securities in the following months. Top participant sectors are Infrastructure (25.9%), State-owned (16.4%), Eurobonds (9.3%), Telecom (6.7%) and Housing (6.7%).

Afores – Private Debt Distribution by Sector

%



Source: CONSAR, Banorte

Corporate Debt Structure

*For classification by structure, a different source of information is considered, so the total differs from our figures. *Information available as of February 2023.*

In 2022, preference in placements stayed with unsecured bonds, with 88.0% of the issued amount. In the following months, we expect the preference to remain with unsecured notes. Risk distribution presented by Afores reflects this preference for unsecured bonds with 69.5% of the total invested therein. As for the Afores' participation in structured bonds (30.5%), investment in infrastructure Future Flows stands out with 14.5%, followed by Mortgage-Backed Securities with 7.4%, segment under which MBS from Infonavit, Fovissste, FHIPO, among others, are classified.

Siefores investment composition by asset class

% (data as of February 2023)

Asset Class	SIEFORE Birth year	Pension SB	SB 55-59	SB 60-64	SB 64-69	SB 70-74	SB 75-79	SB 80-84	SB 85-89	SB 90-94	Initial SB	Additional SB	TOTAL
Equity	National	0.7%	3.0%	4.5%	5.7%	6.8%	7.6%	8.6%	9.5%	10.2%	10.6%	3.3%	7.2%
	International	1.8%	5.3%	10.1%	12.0%	12.4%	12.9%	12.9%	13.5%	13.8%	15.0%	8.8%	12.1%
Commodities		0.0%	0.0%	0.2%	0.6%	0.6%	0.4%	0.2%	0.2%	0.1%	0.1%	1.1%	0.4%
Corporate Debt	Banks	1.5%	3.3%	3.0%	3.2%	3.1%	3.0%	2.7%	2.7%	2.7%	2.7%	2.5%	2.9%
	State-owned	0.3%	2.2%	2.1%	1.8%	2.0%	2.0%	2.0%	2.2%	2.3%	2.5%	0.5%	2.0%
	Corporate	2.7%	11.8%	10.9%	10.1%	10.4%	9.9%	9.8%	10.2%	10.9%	11.3%	5.4%	10.0%
Structured		0.0%	1.4%	7.1%	7.2%	9.1%	9.4%	9.2%	8.4%	7.0%	4.5%	0.0%	7.7%
REITs		1.2%	3.0%	2.9%	2.8%	3.1%	3.0%	3.0%	3.2%	3.1%	2.4%	1.6%	2.9%
International Debt		1.6%	2.1%	1.5%	1.3%	1.2%	1.0%	0.9%	0.8%	0.7%	0.5%	0.4%	1.1%
Gov. Debt	Mbonos	16.5%	13.4%	14.2%	13.0%	14.9%	15.3%	16.5%	17.2%	16.9%	17.3%	28.1%	15.8%
	Cetes	2.1%	1.1%	1.3%	4.3%	3.3%	3.7%	3.4%	3.3%	3.2%	4.0%	6.1%	3.4%
	Udibono	59.1%	43.0%	36.2%	30.2%	26.2%	24.5%	23.3%	21.7%	21.0%	21.1%	36.2%	27.1%
	UMS	0.6%	0.4%	0.5%	0.7%	1.1%	1.3%	1.3%	1.3%	1.3%	1.1%	0.2%	1.0%
	Repos	4.2%	4.1%	2.0%	2.4%	2.1%	2.2%	2.3%	2.3%	2.9%	3.7%	3.8%	2.4%
	Other Gov.	7.8%	5.9%	3.4%	4.6%	3.9%	3.9%	3.8%	3.6%	3.7%	3.3%	2.0%	3.9%

Source: CONSAR, Banorte

Siefores investment composition by asset class

Millions of pesos (data as of February 2023)

Asset Class	SIEFORE Birth year	Pension SB	SB 55-59	SB 60-64	SB 64-69	SB 70-74	SB 75-79	SB 80-84	SB 85-89	SB 90-94	Initial SB	Additional SB	TOTAL
Equity	National	515	3,965	19,943	42,929	62,004	67,204	69,203	56,398	36,810	17,270	5,788	382,030
	International	1,326	7,080	45,143	90,483	112,586	113,891	103,760	80,175	49,782	24,386	15,457	644,069
Commodities		19	59	1,038	4,301	5,419	3,980	1,986	1,119	393	119	1,870	20,304
Corporate Debt	Banks	1,115	4,362	13,532	24,412	28,298	26,305	21,769	16,173	9,850	4,422	4,397	154,634
	State-owned	202	2,942	9,241	13,677	18,191	17,791	16,418	12,975	8,145	4,034	951	104,569
	Corporate	2,006	15,777	48,656	76,212	94,563	87,203	78,733	60,824	39,241	18,410	9,490	531,115
Structured		-	1,823	31,887	53,735	82,372	82,768	74,205	50,242	25,285	7,369	49	409,736
REITs		931	4,075	13,127	21,195	27,792	26,582	24,244	18,769	11,043	3,875	2,807	154,440
International Debt		1,189	2,867	6,903	9,855	10,760	9,103	6,925	4,561	2,542	853	650	56,208
Gov. Debt	Mbonos	12,442	17,962	63,346	97,786	135,186	135,055	132,849	102,515	60,914	28,110	49,382	835,547
	Cetes	1,561	1,477	5,712	32,014	29,829	33,093	27,586	19,577	11,677	6,585	10,709	179,819
	Udibono	44,660	57,713	162,004	227,297	238,005	217,081	187,933	129,362	75,372	34,446	63,677	1,437,548
	UMS	439	602	2,249	5,365	9,837	11,148	10,666	7,788	4,764	1,736	425	55,019
	Repos	3,199	5,480	9,068	17,742	19,299	19,615	18,374	13,490	10,345	5,953	6,684	129,248
	Other Gov.	5,918	7,971	15,382	34,458	35,762	34,343	30,695	21,521	13,285	5,359	3,589	208,284
TOTAL		75,521	134,155	447,229	751,460	909,903	885,162	805,347	595,489	359,449	162,928	175,925	5,302,569
% Siefore		1.42%	2.53%	8.43%	14.17%	17.16%	16.69%	15.19%	11.23%	6.78%	3.07%	3.32%	

Source: CONSAR, Banorte

Annex

December 2019

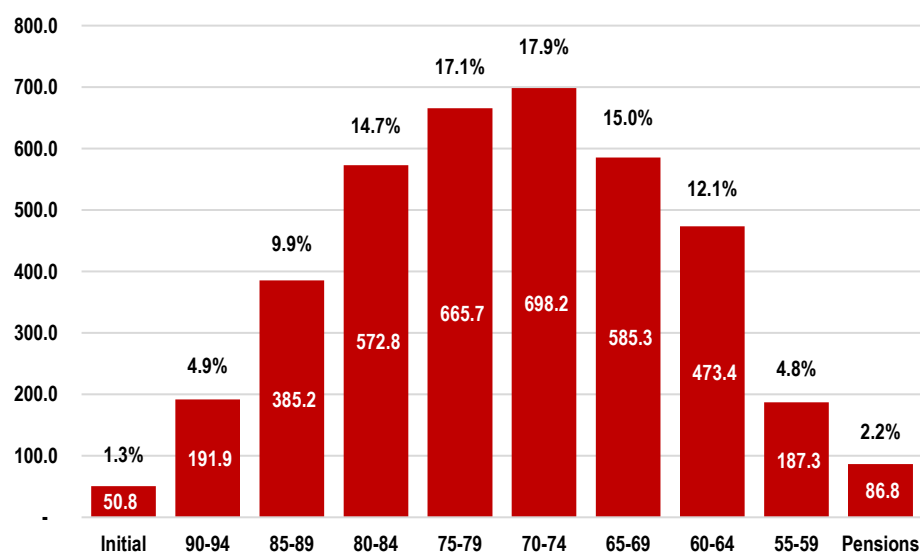
On December 13th, 2109, the migration to the new investment regime based on Target Date SIEFORES was concluded. Announced on May 31st, the main modification was the **transition to a Target Date Fund Scheme**.

Such transition transformed SIEFORE (multi pension funds) into Target Date Funds. Under this scheme, each worker's resources are assigned to the SIEFORE that is linked to his/her date of birth and are held there throughout his/her entire working life. By doing so, workers' resources do not have to be transferred from one SIEFORE to another when they turn a certain age, but rather, it is the fund's Investment Regime that which changes through time.

The new Target Date SIEFORES scheme was designed specifically to produce results in terms of revenue upon reaching retirement age. With this new scheme, the worker no longer changes SIEFORE as he/she advances to the next age group, which would allow them to make the most of long-term investment benefits, under a smoother and thereby more efficient transition in which the worker's resources are invested.

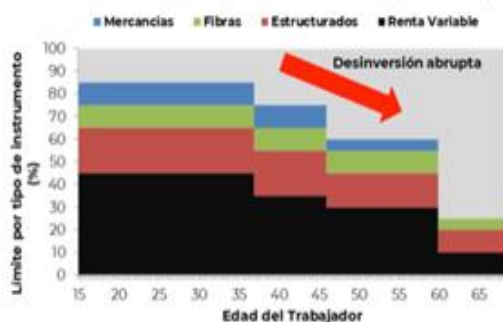
Assets managed by SIEFORE & percentage of total assets

MXN billions / %

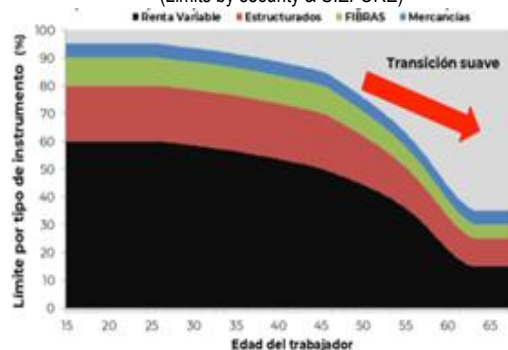


Source: CONSAR. As of December 2019, date of migration to Target Date Fund scheme

Current SIEFORES (Limits by security & SIEFORE)



Target Date SIEFORES (Limits by security & SIEFORE)



Source: CONSAR

Through this new regime, resources will be managed in 10 Target Date SIEFORES: i) 1 Initial SB; ii) 8 Target Date SIEFORES with five-year age groups; and iii) 1 Pension SB.

SIEFORE Date of Birth	Initial SB	SB 90-94	SB 85-89	SB 80-84	SB 75-79	SB 70-74	SB 65-69	SB 60-64	SB 55-59	Pension SB
Age of Worker	<25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	≥65
SIEFORE	New	New	SB 4	New	SB 3	New	New	SB 2	SB 1	SB 0

Source: CONSAR

In addition, new 5-year Basic Pension Investment Companies will be created for the following generations of workers and pension beneficiaries, according to the following chart:

Basic Pension Investment Company	Date of Birth	Opening Date
Basic Pension Investment Company 95-99	Workers born between 1995 and 1999	January 1 st 2025
Basic Pension Investment Company 00-04	Workers born between 2000 and 2004	January 1 st 2030
Basic Pension Investment Company 05-09	Workers born between 2005 and 2009	January 1 st 2035
Basic Pension Investment Company 10-14	Workers born between 2010 and 2014	January 1 st 2040
Basic Pension Investment Company 15-19	Workers born between 2015 and 2019	January 1 st 2045

As for the **Investment Regime**, as of this change, investment limits are now classified into five instruments and will change on a quarterly basis in relation to the quarter of the life of the SB. So far from the date of the transition (December 16, 2019), the investment companies have been registered as follows:

Basic Investment Company	Initial Investment Regime (Quarter)
Basic Pension Investment Company	161
Basic Investment Company 55-59	141
Basic Investment Company 60-64	121
Basic Investment Company 65-69	101
Basic Investment Company 70-74	81
Basic Investment Company 75-79	61
Basic Investment Company 80-84	41
Basic Investment Company 85-89	21
Basic Investment Company 90-94	1
Initial Basic Investment Company	1

SBs will be able to invest: i) Up to 100% of the Pension Investment Company's Total Asset in Debt Instruments issued or guaranteed by the Federal Government, or in Debt Instruments issued by Banco de México, or in Debt Instruments that have Investment Grade; ii) in money deposits on demand in Banks; iii) in authorized trading transactions to guarantee Derivatives which are referred to in Provisions set by Banco de Mexico; iv) up to 20% of the Pension Investment Company's Total Asset, in Foreign Securities and Senior Bond Trusts of Investment Projects that are intended for the investment in or the refinancing of activities or projects outside the national territory.

Furthermore, Investment Companies may invest in Structured Securities, Merchandise, REITS and Real Estate Investment Vehicles, Equity and securitized Debt Instruments.

Limits by Asset Class for Siefores

%		Initial SB	SB 90-94	SB 85-89	SB 80-84	SB 75-79	SB 70-74	SB 65-69	SB 60-64	SB 55-59	Pension SB
Quarter		1	1	21	41	61	81	101	121	141	161
Market and Liquidity Risks	Value-at-Risk ^{/2}									0.89%	0.70%
	Difference of the Conditional Value-at- Risk ²	1.00%	1.00%	0.98%	0.96%	0.90%	0.79%	0.60%	0.40%	0.29%	0.25%
	Liquidity coverage Ratio ³						80%				
	Tracking Error ⁴						5%				
Risk by issuer and/or counterparty ⁵	Debt issued or endorsed by the Federal Gov.						100%				
	Local. ^{/6} State-owned debt ⁶						10% (mxBBB to mxAAA) (Foreign exchange BB to AAA)				
	Debt						5% (mxBBB to mxAAA) (Foreign exchange BB to AAA)				5% (mxA- to mxAAA) (Foreign exchange BBB+ to AAA)
	Subordinated Debt						1% (mxBB+ to mxBBB-) (Foreign exchange BB to AAA)				-
	Hybrid Debt						2% (mxBB to mxBBB+) (Foreign exchange BB to BB+)				-
	Inter. Instrument Foreign from one issuer or counterparty ⁷						5% (BBB- a AAA)				5% (BBB+ a AAA)
	Holdings of a single issuance ⁸						Maximum {35%, MXN500 million}				
	Mexican REITs (FIBRAS) ¹³ and REITs						2%				
	Structured securities ¹²						3%				
	Foreign Securities ⁵						20%				
Asset Class Limits	Equity ^{5/10}	50%	50%	50%	50%	40%	35%	30%	30%	10%	0%
	Foreign Currency ⁵						30%				
	Securitizations ^{5/11}	40%	40%	38%	36%	33%	30%	27%	23%	21%	20%
	Structured Securities ^{5/12}	20%	20%	20%	20%	20%	20%	17%	14%	11%	10%
	Mexican REITs (FIBRAS) ¹³ and REITs	10%	10%	10%	10%	10%	10%	9%	7%	6%	5%
	Inflation protected securities ¹⁴					-					Min 51%
	Commodities ⁵						5%				
Vehicles and Derivatives	Investment Mandates						Yes				
	Derivatives						Yes				
Conflicts of interest ⁵	Securities by related entities						15%				
	Securities by entities with patrimonial affiliation with the AFORE ¹⁵						5%				

Fuente: CONSAR

1. All limits represent maximum percentages, with the exception of the inflation protection limit.
2. As a percentage of SIEFORE assets under management (AUM), the limits for the Difference of the Conditional VaR may be adjusted by the Risk Analysis Committee when appropriate, which might be more rigorous than the limits established in the Investment Regimen guidelines.
3. As a percentage of the High Liquid Assets of the SIEFORE. It is defined as the ratio between the Value of the SIEFORE's reserves for derivatives exposure and the Value of High Liquid Assets.
4. Calculated in accordance with the methodology provided in the "Disposiciones de Carácter General en Materia Financiera de los Sistemas de Ahorro para el Retiro". The Tracking Error may have a range of modification determined by the Risk Analysis Committee. Being effective 180 calendar days after the creation date of the Target Date Funds.
5. As a percentage of SIEFORE AUM's, including the assets managed by Investment Mandates.
6. Rating of the medium- and long-term issuances, as well as the issuer and/or endorser, in the corresponding proportion. Repos and derivatives are computed in these limits, as well. SPE stands for State Productive Enterprises.
7. With the exception of the Basic Pension SIEFORE, investment in foreign instruments with a rating no less than BBB- are allowed, however the AFORE must comply with the "Disposiciones del Régimen de Inversión y en las Disposiciones en materia financiera".
8. 35% Applies to the asset holdings of all SIEFORE's managed by the same AFORE in Debt, Foreign Debt Securities, Securitized Instruments, ABS's and FIBRAS. In the case of Debt Instruments, Foreign Debt Securities and Securitized Instruments, Investment Companies may acquire the value that is greater between five hundred million Mexican pesos and 35% of the same issue. The investment in CKDs and CERPIs may exceed this limit, under certain conditions. The maximum amount will be updated in accordance with the "Disposiciones de Carácter General en Materia Financiera de los Sistemas de Ahorro para el Retiro".
9. With the exception of the Initial SIEFORE and the Basic Pension SIEFORE, the limits represent the Average Value of the maximum limit taken at the 10th quarter (2.5 years) of the glidepath. In case of the Initial and Basic Pension SIEFORE, this limit represents the maximum value that each asset will take throughout the glidepath.
10. Includes individual stocks, IPOs (with the exception of the Basic Pension SIEFORE), domestic and international equity indexes, and warrants.
11. Securitizations fulfilling criteria established in the Appendix R of the "Disposiciones de Carácter General en Materia Financiera de los Sistemas de Ahorro para el Retiro" are computed in these limits and are considered as being issued by an independent issuer.
12. Includes CKDs and CERPIs.
13. Includes Mexican REITs (FIBRAS) and FIBRA-E. The latter is an issuer trust whose resources will be allocated for direct or indirect investment in companies, projects or energy assets or infrastructure.
14. Minimum investment limit in securities that ensures a return equal or greater than the inflation rate in México.
15. The limits are written down in the Pension System Law, Art 48 / 10. In exceptional cases it could be increased up to 10%. In the case of financial entities with equity links, the limit is 0%.

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

Relevant statements.

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Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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