

Pension Funds Outlook – April 2023

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- **The system's yield decreased 128bps in April.** The system's weighted return (rolling 36 months, excluding Additional) moved to 6.09% from 7.38% the previous month. Throughout April, investors navigated between optimism and caution as they digested economic data with signs of a deceleration, high inflation, and a plethora of earnings reports in the US with a positive balance, standing out the numbers of big tech. Therefore, the market started to consolidate its expectations that the Federal Reserve and Banxico were very close to finish their tightening cycles. The FOMC's minutes of the March meeting (+25bps to 4.75%-5.00% range) showed caution with the banking crisis and a less hawkish tone. Moreover, the IMF released its *World Economic Outlook* document, where it slightly revised downwards its global growth estimate for 2023 to 2.8% (previous 2.9%) and for 2024 to 3.0% (previous 3.1%). In economic data for the US, GDP grew 1.1 t/t annualized on 1Q23, less than expected. April's annual inflation decreased to 4.9% from 5.0%. In addition, the employment report showed 253K new jobs, above consensus, after the revised number of 165K the previous month, and unemployment rate dropped to 3.4% from 3.5%. In Mexico, Banxico released the minutes of its March decision (+25bps to 11.25%), where it reaffirmed the less hawkish tone of the press release, highlighting an improvement on the general inflation. In economic data, GDP for 1Q23 grew 3.9% y/y, above market expectation. April's annual inflation dropped to 6.25% from 6.85% and core inflation to 7.67% from 8.09%. In March, 668.9K jobs were added after the decrease of 10K the previous month, while unemployment rate stood at 2.39% from 2.72%
- **Assets under management (AUM) are at all-time highs, although the monthly increase was marginal (+0.1% m/m).** Resources managed by Pension Investment Companies stood at MXN 5.468 trillion from MXN 5.465 trillion (+9.3% y/y). This movement was the result of muted profits of MXN 5.8 billion and net outflows of MXN 2.7 billion, contrasting with profits of MXN 135.8 billion and net inflows of MXN 38.4 billion during March
- **In government debt,** Afores cut their position to 53.9% (-23bps) of total AUM. The increased appetite for Mbonos, CPI-linked bonds (Udibonos) and Cetes failed to offset the fall in Other Debt holdings (which includes repos)
- **As for equity,** in a context of risk appetite, which was reflected in main benchmarks advance, Siefores increased their international stock positions
- **In the corporate debt market** (excluding banks), Afores' stake in these securities decreased by 5bps, representing 11.9% of the invested amount

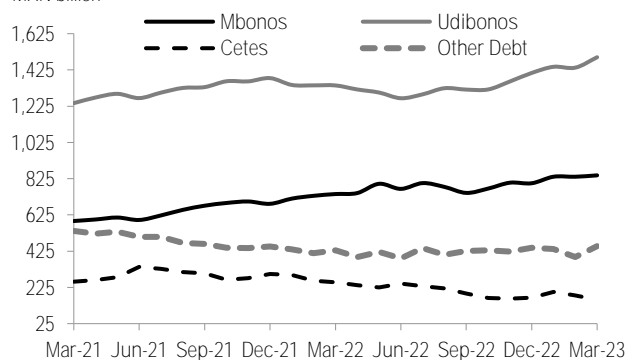
Analysis by Asset Class

Government Debt

In April, the nominal yield curves extended its inversion. In this sense, the 2s/10s spread in Mbonos widened to unprecedented levels of -192bps from -156bps the previous month because of a 20bps sell-off at the short-end and modest gains at the long-end. Meanwhile, the long-end of the TIIIE-IRS curve advanced 20bps and the short-end recorded few changes. In addition, Cetes registered a slightly positive balance, except 2-year Cetes that lost 25bps. Finally, the yields of CPI-linked bonds (Udibonos) increased 27bps, on average. In this context, Afores reduced their stake in government debt to 53.9% of total AUM (-23bps), standing at MXN 2.94 trillion. The portfolio recorded an increase in the holdings of Mbonos, Udibonos and Cetes. The first sub-class reached 6-year highs of 15.8% (+34bps). Meanwhile, the second moved to 27.6% (+15bps), and the third to 3.0% (+12bps). However, these adjustments were completely diluted by a drop in Other Debt (which includes repos) holding to 7.46% (-85bps).

As of April 28th, foreign holdings in Mbonos stood at MXN 1.38 trillion (35.0% of the total issuance), decreasing 1.4% m/m and 1.6% year-to-date. Holdings by these investors in Cetes totaled MXN 188.1 billion (12.5% of the total), with a 5.4% monthly increase and 34.0% during 2023. Meanwhile, positions in Mbonos owned by Afores stood at MXN 899.9 billion (22.9% of the total issuance), increasing 1.8% m/m. As for Cetes, holdings from these institutions observed a level of MXN 186.0 billion (12.4% of the total issued), falling 0.9% m/m.

Net assets in Government Debt
MXN billion



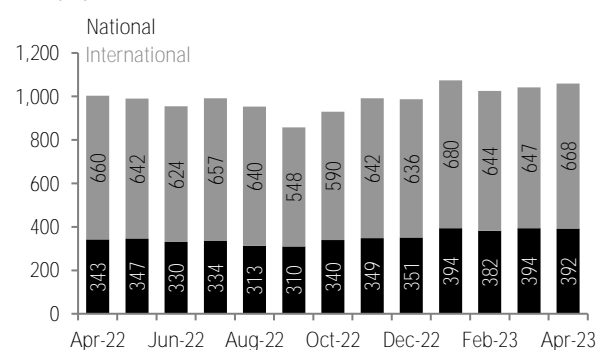
Source: CONSAR, Banorte

Equity

Continuing with the positive performance of the previous month, in April the preference for risky assets continued. The sample of 30 indices that we regularly follow posted an average dollar gain of 2.1% (vs +3.3% in March). The prospect of a relatively close end to central banks' tightening cycle has boosted investor confidence, which has been further supported by some economic data showing signs of a slowdown. In addition, earnings reports so far have registered a positive balance, which were mainly supported by a more conservative stance of analysts prior to the start of the season, despite the banking crisis. In this context, the biggest advances were seen in the stock markets of Argentina (+13.9%), Switzerland (+5.5%) and the United Kingdom (+5.0%). While the Dow Jones rose by 2.5%, the S&P500 increased by 1.5% and the Nasdaq remained unchanged, recalling the 6.7% rise registered in the previous month. On the other hand, some of the few that dropped were Hong Kong (-2.5%), the MSCI Emerging Markets (-1.8%) and Korea (-1.6%). Meanwhile, the nominal advance of the Mexbol Index for the month was 2.3% (+13.7% cumulative return for the year). In this regard, we believe that performance is supported by improved GDP growth prospects, [nearshoring](#) benefits, attractive valuation relative to comparables, the expected corporate profitability recovery, and the end of Banxico's tightening cycle.

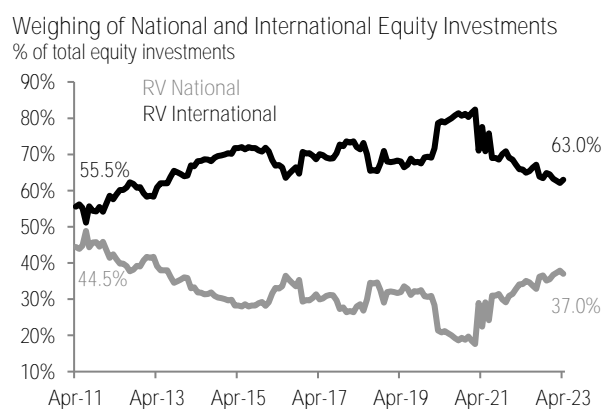
Particularly, Siefores' equities positions increased 1.7% m/m to MXN 1.1 trillion, and thus, equity investments weighting against total assets rose 32bps m/m to 19.4%. Holdings of domestic securities slid by 0.7% m/m while foreign assets were up to 3.1%.

Afores – Equity Investments
MXN billion



Source: CONSAR, Banorte

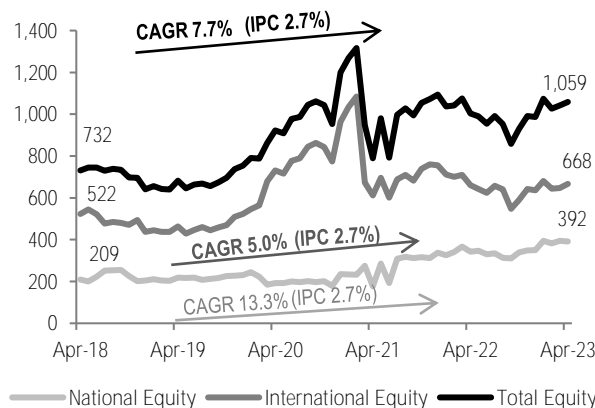
Assuming an indexed strategy to the S&P500 and the S&P BMV Mexbol, respectively, we observed that afores' managers decided to reduce their domestic securities weightings by 3.0% m/m to stand at MXN 391.6 billion. In turn, they decided to increase their international stocks exposure by 1.9% to MXN 667.5 billion. During the period, the Mexbol rose 2.3% nominally, while the S&P500 in pesos jumped 1.2%. Thus, the weighting of domestic assets was down 0.9pp to 37.0% and the corresponding to international equities climbed by the same extent to 63.0% vs total equity investments.



Source: CONSAR, Banorte

Regarding holding breakdown, domestic securities have grown in the last 5 years at a CAGR rate of 13.3%, which compares favorably with the Mexbol performance (2.7%). Meanwhile, international, and total equity positions have increased over the same period at a rate of 5.0% and 7.7%, respectively.

Evolution – National, International and Total Equity Investments
MXN billion

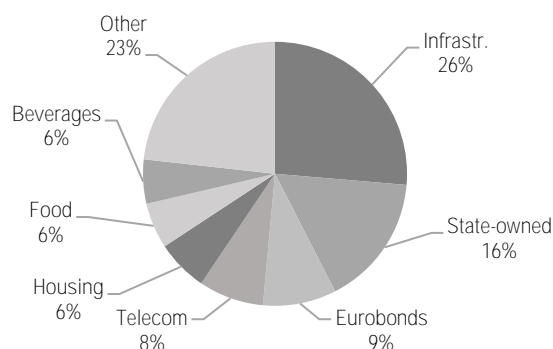


Source: CONSAR, Banorte

Corporate Debt

In April 2023, Afores stake in corporate debt notes decreased by 5bps, accounting for 11.9% of the total invested assets. Stands out that, despite the dynamism observed in placements of the last two months, mainly formed by issuers with high credit ratings and from low-risk sectors, Afores stake remains on the downside. We attribute it to the also large amount of long-term bonds' maturities, with new issuances being used to refinance the outstanding notes. Ahead, with a robust pipeline for the rest of the quarter, we could observe small upwards movements in Afore's participation in debt securities in the following months. Top participant sectors are Infrastructure (26.3%), State-owned (16.1%), Eurobonds (9.0%), Telecom (8.0%) and Housing (6.3%).

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 April 2023.

In the first four months of 2023, preference in placements was clear for unsecured bonds, with 97.7% of the issued amount. In the following months, we expect this preference to continue, although with a small presence of structured notes. Among these instruments, we mainly expect securitizations of collection rights of leasing and credit portfolios, which have been a viable financing alternative for non-bank financial institutions, given the sector's funding difficulties.

Siefores investment composition by asset class
% (data as of April 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%	2.9%	4.4%	5.7%	6.8%	7.6%	8.5%	9.3%	10.0%	10.3%	3.2%	7.2%
	International	1.9%	5.3%	9.9%	12.0%	12.5%	13.0%	13.1%	13.6%	13.9%	14.9%	8.9%	12.2%
Commodities		0.0%	0.0%	0.2%	0.3%	0.3%	0.3%	0.3%	0.2%	0.1%	0.1%	1.2%	0.3%
Corporate Debt	Banks	1.5%	2.8%	2.9%	3.2%	3.1%	2.9%	2.7%	2.7%	2.7%	2.7%	2.6%	2.9%
	State-owned	0.3%	2.2%	2.1%	1.8%	1.9%	2.0%	2.0%	2.1%	2.2%	2.4%	0.5%	1.9%
	Corporate	3.0%	11.6%	10.9%	10.2%	10.4%	9.8%	9.8%	10.2%	10.8%	11.1%	5.9%	10.0%
Structured		0.0%	1.2%	7.1%	7.1%	9.0%	9.3%	9.1%	8.3%	6.9%	4.4%	0.0%	7.6%
REITs		1.2%	3.1%	2.9%	2.8%	3.0%	3.0%	2.9%	3.1%	3.1%	3.0%	1.5%	2.9%
International Debt		1.6%	2.2%	1.5%	1.4%	1.2%	1.1%	0.8%	0.7%	0.6%	0.5%	0.4%	1.1%
Gov. Debt	Mbonos	17.1%	13.6%	14.3%	13.2%	15.0%	15.4%	16.5%	17.4%	17.1%	17.2%	25.6%	15.8%
	Cetes	2.5%	1.9%	1.4%	4.1%	2.5%	3.1%	2.5%	2.6%	2.9%	4.1%	8.1%	3.0%
	Udibono	59.6%	43.5%	36.2%	30.8%	27.0%	25.2%	23.9%	22.2%	21.7%	21.6%	36.2%	27.6%
	UMS	0.6%	0.5%	0.6%	0.7%	1.1%	1.3%	1.3%	1.4%	1.4%	1.1%	0.2%	1.1%
	Repos	4.4%	3.8%	2.1%	2.9%	2.5%	2.4%	2.7%	2.6%	2.9%	3.9%	4.1%	2.7%
	Other Gov.	5.7%	5.3%	3.5%	3.9%	3.6%	3.8%	3.8%	3.6%	3.6%	2.9%	1.5%	3.7%

Source: CONSAR, Banorte

Siefores investment composition by asset class
Millions of pesos (data as of April 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	553	3,902	19,480	44,108	63,911	69,499	71,075	57,663	37,587	17,864	5,915	391,556
	International	1,389	6,974	44,136	92,396	116,651	118,220	108,940	84,224	52,397	25,905	16,314	667,546
Commodities		19	58	708	1,954	2,674	3,088	2,156	1,215	426	129	2,217	14,644
Corporate Debt	Banks	1,092	3,715	13,074	24,887	28,815	26,639	22,567	16,916	10,317	4,700	4,748	157,471
	State-owned	204	2,929	9,291	13,759	18,189	17,828	16,405	12,993	8,228	4,165	960	104,951
	Corporate	2,263	15,328	48,255	78,424	97,345	89,465	81,364	62,876	40,510	19,248	10,851	545,929
Structured		-	1,633	31,395	54,320	84,017	84,314	75,897	51,578	25,992	7,639	50	416,834
REITs		881	4,056	13,079	21,485	28,322	27,063	24,499	19,121	11,531	5,177	2,703	157,919
International Debt		1,168	2,886	6,838	10,423	11,465	9,642	7,067	4,397	2,405	841	663	57,798
Gov. Debt	Mbonos	12,770	18,013	63,491	101,468	140,658	140,045	137,045	107,326	64,375	29,889	47,097	862,177
	Cetes	1,871	2,537	6,238	31,162	23,691	28,179	20,695	15,895	11,013	7,195	14,952	163,429
	Udibono	44,657	57,745	160,899	236,579	252,446	229,602	199,019	137,004	81,486	37,648	66,485	1,503,570
	UMS	442	665	2,654	5,521	10,020	11,512	11,210	8,542	5,248	1,925	429	58,168
	Repos	3,283	5,105	9,462	22,520	23,033	21,853	22,405	15,835	10,744	6,800	7,498	148,539
	Other Gov.	4,274	7,053	15,443	30,323	33,695	34,504	31,428	22,153	13,556	4,992	2,758	200,179
TOTAL		74,868	132,599	444,442	769,328	934,933	911,455	831,772	617,740	375,816	174,116	183,642	5,450,711
% Siefore		1.37%	2.43%	8.15%	14.11%	17.15%	16.72%	15.26%	11.33%	6.89%	3.19%	3.37%	

Source: CONSAR, Banorte

Annex

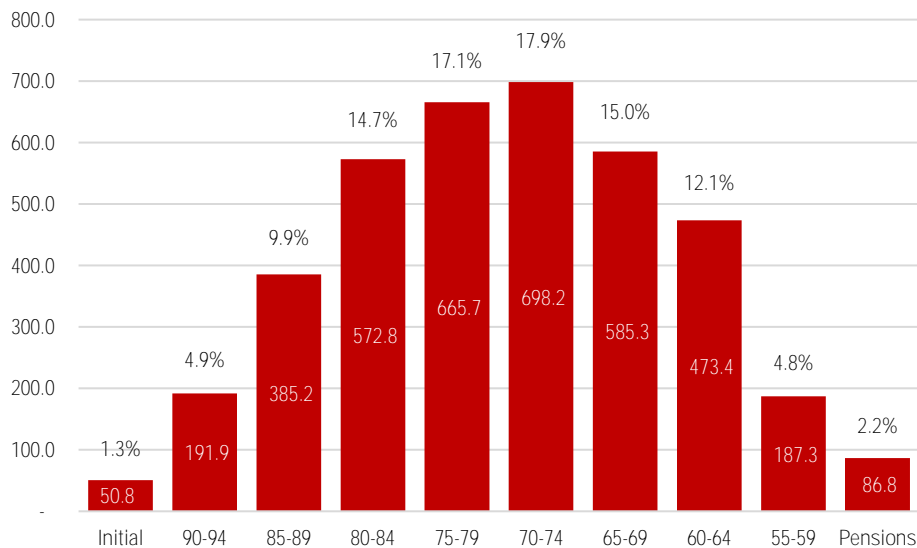
December 2019

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.

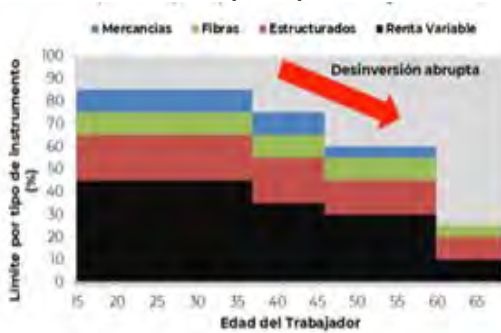
The new Target Date SIEFORES scheme was designed specifically to produce results in terms of revenue upon reaching retirement age. With this new scheme, the worker no longer changes SIEFORE as he/she advances to the next age group, which would allow them to make the most of long-term investment benefits, 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 ¹²									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%				
	State-owned debt ⁶				10% (mxBBB to mxAAA) (Foreign exchange BB to AAA)						
	Local. ¹⁶ 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 Mexico.
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 Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, 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.

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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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