

Pension Funds Outlook – May 2023

June 22, 2023

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- **The system's yield decreased for the second month in a row.** The system's weighted return (rolling 36 months, excluding Additional) moved to 5.19% from 6.09% the previous month. May featured a negative bias in the financial markets, in face of the uncertainty over the negotiations to increase the debt ceiling in the US; however, at the end of the month, Biden and McCarthy reached an agreement to avoid a default. Later, the Congress approved the bipartisan agreement through which the debt ceiling was suspended until January 1st, 2025, in exchange to spending restrictions. With the uncertainty over the agreement to increase the debt ceiling, Fitch Ratings placed the US sovereign rating of 'AAA' in "rating watch negative". The Fed hiked the reference rate by 25bps in a unanimous decision to a 5.00%-5.25% range. The minutes showed a marginally more hawkish tone, standing out the different stances over the need of additional rate hikes. In economic data for the US, May's annual inflation decreased to 4.0% from 4.9%, while the labour report showed the addition of 339K jobs vs the revised number of 294K the previous month, and unemployment rate increased to 3.7% from 3.4%. In Mexico, Banxico's Board unanimously kept the reference rate unchanged at 11.25% for the first time since the start of the hiking cycle in June 2021 after a total adjustment of +725bps. Also, Banxico released its 1Q23 Quarterly Report where it reiterated the less hawkish tone of earlier publications. In economic data, final GDP for 1Q23 showed that the economy expanded 3.7% y/y (-14bps vs. preliminary), annual inflation dropped to 5.84% from 6.25% and the core component to 7.39% from 7.67%. In April 112.2 K jobs were lost and unemployment rate stood at 2.82% from the previous figure of 2.39%
- **Assets under management (AUM) reached new all-time highs, increasing 4.9% year-to-date.** Resources managed by Pension Investment Companies stood at MXN 5.487 trillion from MXN 5.468 trillion (+8.0% y/y). This movement was the result of net inflows of MXN 42 billion that offset losses of MXN 22.3 billion. This increase in AUM was higher than the previous month of MXN 3 billion, but significantly lower than the adjustment seen in March of MXN 174 billion
- **In government debt,** Afores rose their position to 55% (+114bps) of total AUM because of more appetite for Other Debt (which includes repos), Mbonos and CPI-linked bonds (Udibonos), despite a reduction in Cetes holdings
- **As for equity,** in a context of risk aversion, Siefores reduced their stock positions, especially in international assets, where falls were more pronounced
- **In the corporate debt market** (excluding banks), Afores' stake in these securities decreased by 27bps, representing 11.7% of the invested amount

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Winners of the 2023 award for best Mexico economic forecasters, granted by Focus Economics

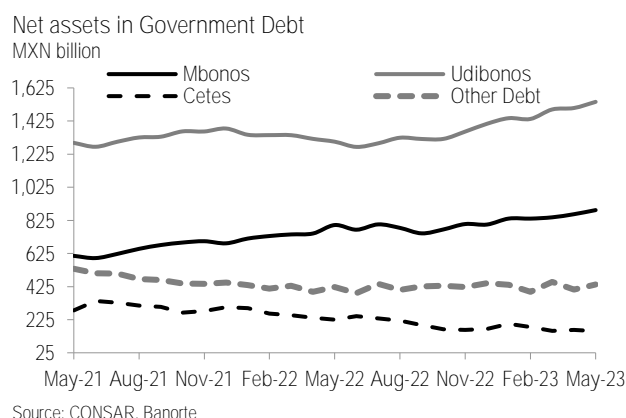
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Analysis by Asset Class

Government Debt

In May, Mbonos outperformed Treasuries amid heightened uncertainty of a default in the US and concerns about higher interest rates. It is worth noting that the US 1-year CDS reached all-time highs of 178bps, well above their emerging peers. In this context, Treasuries lost 30bps, while short- and long-term Mbonos advanced 6bps and mid-term ones adjusted +9bps. In addition, Cetes registered gains of 20bps and the Udibono's curve steepened due to a 45bps rally at the short-end. In this context, Afores increased their stake in government debt to 55% of total AUM (+114bps), standing at MXN 3.02 trillion. With this, the holdings of Other Debt (which includes repos), Mbonos, and Udibonos rose to 7.9% (+50bps), 16.2% (+33bps), and 28.1% (+47bps) in the same order. In more detail, Udibonos position reached highs since 2010, equivalent to MXN 1.54 trillion. On the contrary, a drop in Cetes holding of 16bps to 2.9% was recorded.

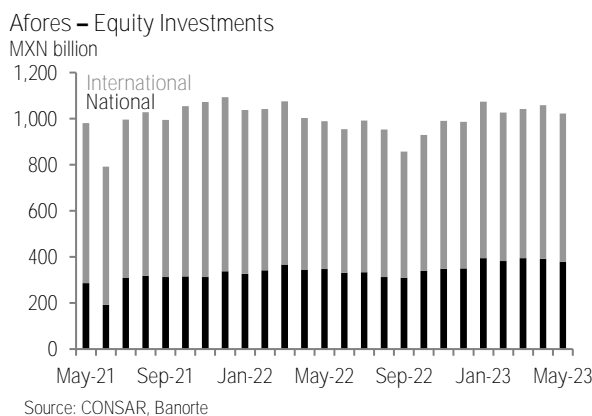
As of May 31st, foreign holdings in Mbonos stood at MXN 1.34 trillion (33.3% of the total issuance), decreasing 2.9% m/m and 4.5% year-to-date. Holdings by these investors in Cetes totaled MXN 184.4 billion (12.4% of the total), with a 2.0% monthly decrease but it remains with an increase of 31.3% during 2023. Meanwhile, positions in Mbonos owned by Afores stood at MXN 925.0 billion (23.1% of the total issuance), increasing 2.8% m/m. As for Cetes, holdings from these institutions observed a level of MXN 175.1 billion (11.7% of the total issued), falling 5.9% m/m.



Equity

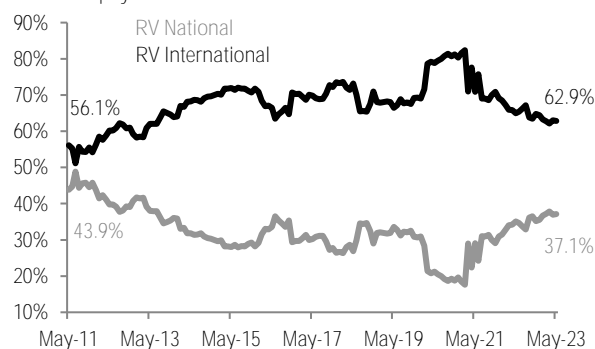
Risk aversion was May's main feature, reflecting almost generalized declines in equities. For the sample of 30 indices that we regularly follow, an average dollar declines of 2.9% was recorded (vs +2.1% in April). Investor confidence was impacted by the expectation of higher interest rates for longer than anticipated and the implications for economic growth. Meanwhile, nervousness was accentuated by the US debt ceiling negotiations, although an agreement was finally reached at the beginning of June. Against this backdrop, the most significant falls were observed in stock markets of Portugal (-11.1%), France (-8.6%), and Hong Kong (-8.1%). On the other hand, the highest gains were seen in Argentina (+6.8%), the Nasdaq (+5.8%) and Japan (+4.2%). It is worth noting that, during the month, both the Nasdaq and the S&P500 (+0.2%) rose to highs not seen since August 2022, driven by shares of companies related to artificial intelligence in view of a more favorable outlook. The Mexbol Index registered a nominal monthly decline of 4.3%, considering the following idiosyncratic risks: 1) price adjustments in the financial sector, following the negative FDIC report in the US; 2) proposal of a new Mexbol methodology with potential impact on the weights of the 5 main stocks and 3) MSCI rebalancing that added volatility and increased trading volume.

Particularly, Siefores' equities positions decreased 3.5% m/m to MXN 1.0 trillion, and thus, equity investments weighting against total assets dropped 82 bps m/m to 18.6%. Holdings of domestic securities slid by 3.1% m/m while foreign assets were down to 3.7%.



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 1.3% m/m to stand at MXN 379.6 billion. In turn, they decided to reduce their international stocks exposure by 2.2% to MXN 642.8 billion. During the period, the Mexbol fell 4.3% nominally, while the S&P500 in pesos declined 1.2%. Thus, the weighting of domestic assets was up 0.2pp to 37.1% and the corresponding to international equities slipped by the same extent to 62.9% vs. total equity investments.

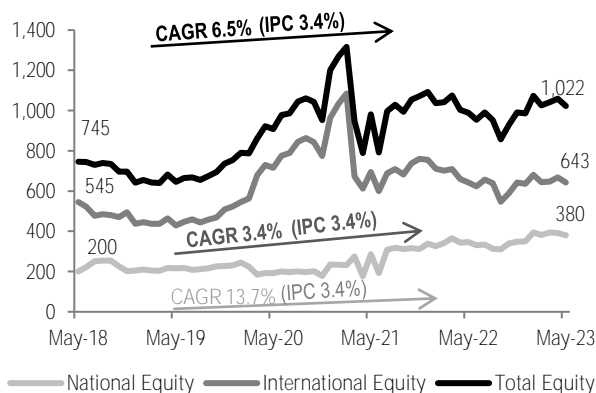
Weighing of National and International Equity Investments
% of total equity investments



Source: CONSAR, Banorte

Regarding holding breakdown, domestic securities have grown in the last 5 years at a CAGR rate of 13.7%, which compares favorably with the Mexbol performance (3.4%). Meanwhile, international, and total equity positions have increased over the same period at a rate of 3.4% and 6.5%, respectively.

Evolution – National, International and Total Equity Investments
MXN billion

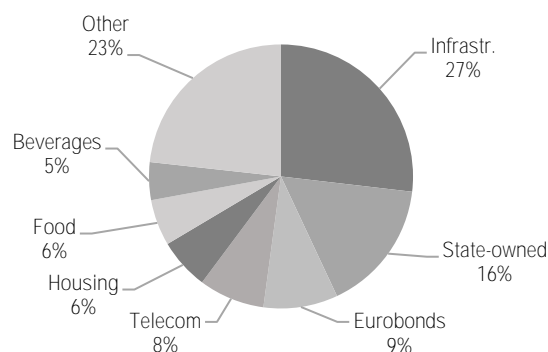


Source: CONSAR, Banorte

Corporate Debt

In May 2023, Afores stake in corporate debt notes decreased by 27bps, accounting for 11.7% of the total invested assets. The former is explained by the lower-than-expected placements on the month, that was 76.4% below the observed in the same month of 2022. Ahead, we expect higher auction activity in the next months, so we could observe small upwards movements in Afore's participation in debt securities in the following months. Top participant sectors are Infrastructure (26.8%), State-owned Companies (16.2%), Eurobonds (9.1%), Telecom (8.1%) 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 May 2023.

In the first five months of 2023, preference in placements was clear for unsecured bonds, with 97.9% 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 May 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%	2.5%	4.2%	5.5%	6.6%	7.4%	8.2%	9.0%	9.6%	9.8%	3.1%	6.9%
	International	1.7%	5.0%	9.4%	11.4%	11.9%	12.3%	12.5%	13.1%	13.4%	14.1%	8.8%	11.7%
Commodities		0.0%	0.0%	0.2%	0.2%	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%	1.1%	0.3%
Corporate Debt	Banks	1.5%	2.9%	3.0%	3.3%	3.1%	3.0%	2.8%	2.8%	2.8%	2.7%	2.7%	2.9%
	State-owned	0.3%	2.2%	2.1%	1.8%	1.9%	1.9%	1.9%	2.1%	2.1%	2.3%	0.5%	1.9%
	Corporate	2.9%	11.1%	10.7%	10.0%	10.2%	9.6%	9.6%	10.0%	10.5%	10.6%	5.8%	9.8%
Structured		0.0%	1.2%	7.1%	7.1%	8.9%	9.2%	9.1%	8.3%	6.8%	4.3%	0.0%	7.6%
REITs		1.2%	3.1%	3.0%	2.8%	3.0%	2.9%	2.9%	3.1%	3.0%	2.8%	1.4%	2.9%
International Debt		1.5%	2.2%	1.6%	1.4%	1.2%	1.0%	0.7%	0.7%	0.6%	0.5%	0.4%	1.0%
Gov. Debt	Mbonos	17.9%	14.3%	14.4%	13.5%	15.4%	15.7%	16.9%	17.8%	17.4%	16.9%	25.6%	16.1%
	Cetes	2.5%	1.8%	1.4%	4.0%	2.4%	2.9%	2.2%	2.2%	2.8%	3.9%	7.9%	2.8%
	Udibono	59.8%	43.6%	36.0%	31.5%	27.8%	25.9%	24.5%	22.6%	22.1%	22.1%	35.5%	28.1%
	UMS	0.6%	0.5%	0.6%	0.7%	1.0%	1.2%	1.3%	1.3%	1.3%	1.0%	0.2%	1.0%
	Repos	4.4%	4.3%	2.8%	3.1%	2.8%	2.8%	3.3%	3.4%	3.9%	6.0%	5.6%	3.3%
	Other Gov.	5.0%	5.4%	3.5%	3.8%	3.5%	3.8%	3.8%	3.6%	3.6%	2.8%	1.3%	3.6%

Source: CONSAR, Banorte

Siefores investment composition by asset class
Millions of pesos (data as of May 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	523	3,248	18,527	42,354	61,965	67,501	69,042	56,112	36,759	17,753	5,801	379,586
	International	1,280	6,603	41,561	88,371	111,757	113,247	104,730	81,926	51,330	25,573	16,395	642,773
Commodities		18	54	675	1,858	2,526	2,901	2,045	1,159	409	121	2,101	13,869
Corporate Debt	Banks	1,095	3,758	13,141	25,477	29,499	27,286	23,298	17,567	10,763	4,963	5,004	161,851
	State-owned	202	2,912	9,198	13,608	17,984	17,612	16,200	12,829	8,091	4,127	949	103,713
	Corporate	2,164	14,652	47,144	77,006	95,675	87,922	80,313	62,258	40,220	19,211	10,805	537,370
Structured		-	1,580	31,300	54,622	84,105	84,501	76,047	51,752	26,155	7,767	50	417,878
REITs		924	4,138	13,107	21,420	28,229	26,980	24,503	19,137	11,475	5,152	2,685	157,749
International Debt		1,157	2,848	6,979	10,725	11,577	9,022	6,253	4,117	2,368	964	655	56,665
Gov. Debt	Mbonos	13,394	18,801	63,590	104,103	144,494	144,316	141,956	111,534	66,565	30,619	47,582	886,953
	Cetes	1,852	2,389	6,376	31,282	22,098	26,603	18,829	13,911	10,679	7,083	14,636	155,737
	Udibono	44,672	57,410	158,877	243,654	260,809	237,278	205,667	141,559	84,953	39,953	66,040	1,540,871
	UMS	427	643	2,566	5,342	9,697	11,157	10,869	8,294	5,096	1,873	413	56,377
	Repos	3,261	5,620	12,455	24,122	26,206	26,122	27,278	21,013	15,050	10,865	10,426	182,420
	Other Gov.	3,731	7,089	15,426	29,394	33,124	34,771	31,666	22,328	13,667	5,008	2,505	198,708
TOTAL		74,700	131,746	440,922	773,336	939,747	917,221	838,696	625,496	383,580	181,030	186,047	5,492,522
% Siefore		1.36%	2.40%	8.03%	14.08%	17.11%	16.70%	15.27%	11.39%	6.98%	3.30%	3.39%	

Source: CONSAR, Banorte

Annex

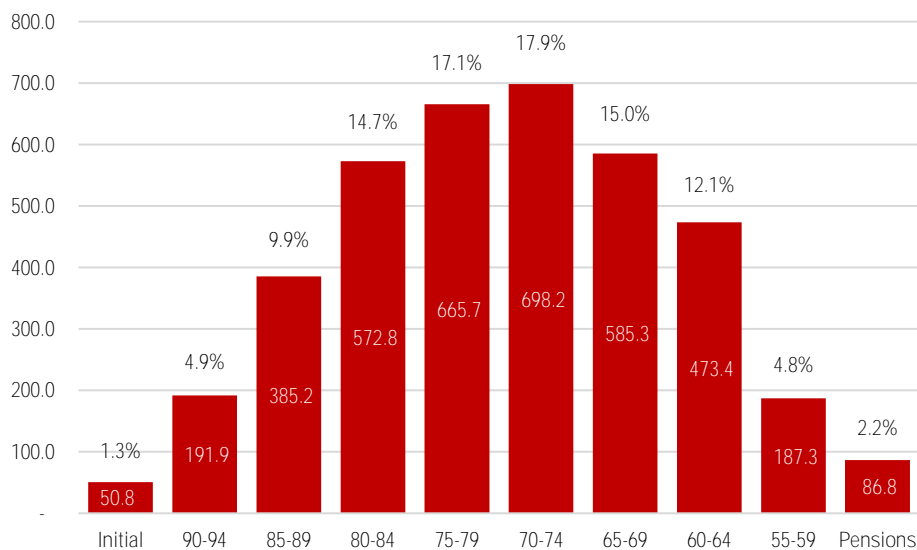
December 2019

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.

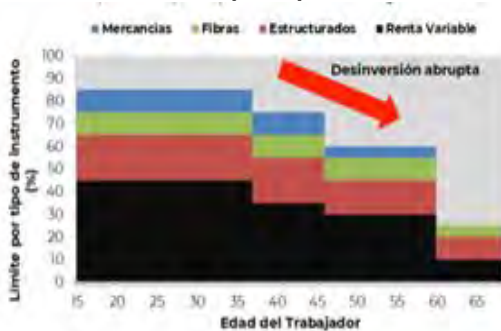
The new Target Date SIEFORES scheme was designed specifically to produce results in terms of revenue upon reaching retirement age. With this new scheme, the worker no longer changes SIEFORE as he/she advances to the next age group, which would allow them to make the most of long-term investment benefits, 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 / %

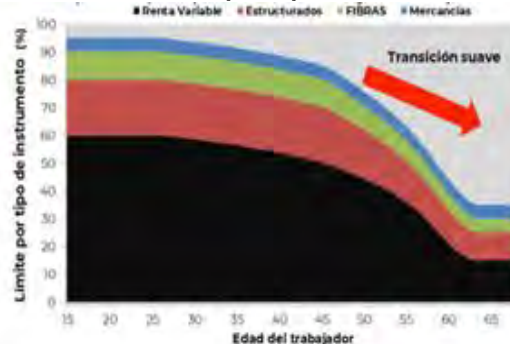


Source: CONSAR. As of December 2019, date of migration to Target Date Fund scheme

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 ^{1/2}									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%				
	State-owned debt ⁶				10% (mxBBB to mxAAA) (Foreign exchange BB to AAA)						
	Local. ⁶ 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, Juan Carlos Mercado Garduño, 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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