

Transaction fees reduction under the S&P/BVL Good Corporate Governance Index

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1. Context

- Promoting better corporate governance among listed companies is an strategic priority for the Lima Stock Exchange
- Trading fees in Peru are high
- Positive feedback: Companies with strong corporate governance obtain better financing needs, have more free float and their shares are usually more liquid than not
- Other things to consider:
 - Who pays for what
 - Economies of scale (or lack of)
 - Structure of trading fees at local level (bps)
 - Transaction fee from the exchange (BVL)
 - Transaction fee from the CSD (Cavali)
 - Regulator fee (SMV)
 - Guarantee fund fee (Fondo de Garantia)
 - Local broker dealer fee (SAB)
 - Value Added Tax (VAT)
 - (Very) Local rules for trading fees and invoicing (“polizas”)

2. Transaction fees reduction

i. Action

In order to promote better corporate governance and encourage more liquidity; the exchange (BVL), the CSD (Cavali) and the regulator (SMV) announced a 90% reduction in transaction fees for S&P/BVL Good Corporate Governance index constituents, from 7.55 bps to 0.755 bps starting August 1, 2018 through December 31, 2019 (renewable).

ii. Benefits/Rationale

- S&P/BVL Good Corporate Governance index constituents attract investment
 - 20% of the trading in 2017
 - 30%+ of the trading from international investors.
 - 50%+ of the free float (S&P/BVL Peru General)
- BVL, Cavali, and SMV (an applicable VAT) transaction fees represent a substantial part of the overall trading fees faced by investors. Local broker dealer fees are more flexible.
- High trading fees affect negatively the activity in the market:
 - Less alpha for investors
 - Lower opportunities for traders
 - More drag for passive funds
 - Ultimately hit companies, as less interest mean a smaller financing opportunity set
- Good Corporate Governance is positive itself for the companies, but Peru is coming from behind. Needs faster progress

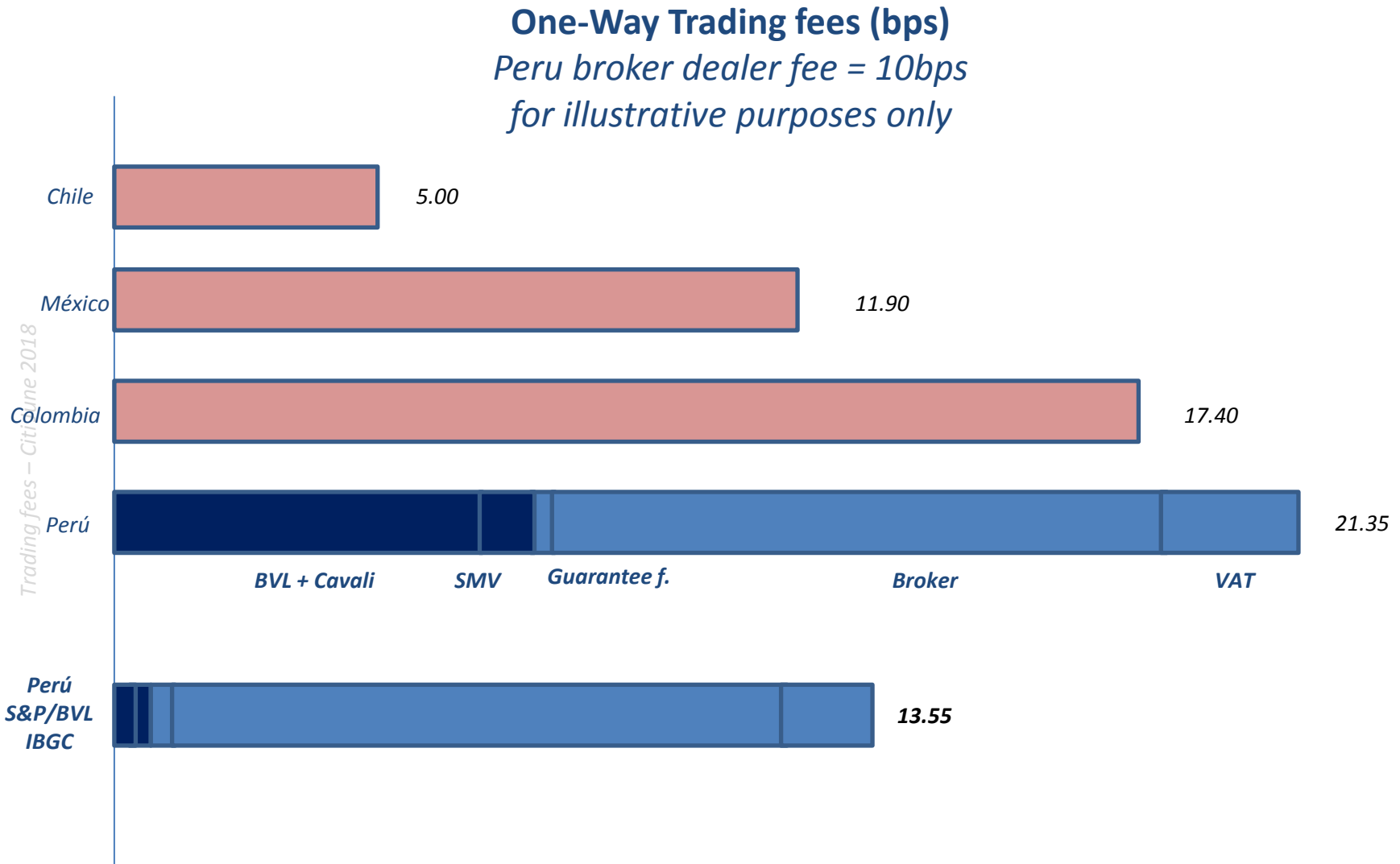
2. Transaction fees reduction

BVL, CAVALI and SMV transaction fees (bps)

Transaction fees	Before	After
BVL	2.1	0.21
Cavali	4.095	0.41
SMV	1.35	0.135
Fees before guarantee fund, broker dealer and VAT	7.545	0.7545
Guarantee fund	0.75	0.750
Fees before broker dealer fees and VAT	8.295	1.505

Trading fees – Citi June 2018

2. Transaction fees reduction



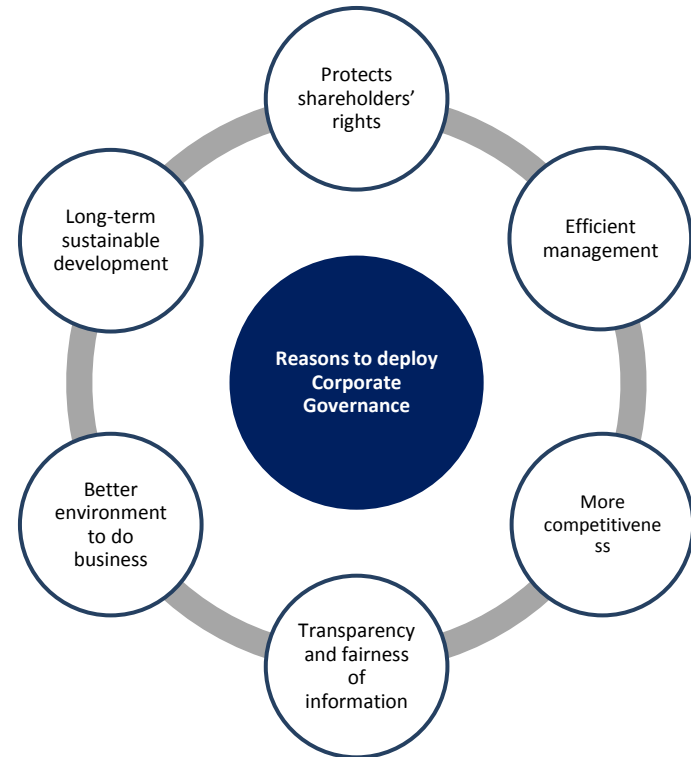
3. S&P/BVL Good Corporate Governance Index / IBGC

Corporate Governance

- **Rules, principles and procedures** that control structure and operation of a company.
- Establish the relations between **board of directors, managers, shareholders,** and other stakeholders.
- Encourages the development of more competitive and economically sustainable companies.

Trading fees – Citi June 2018

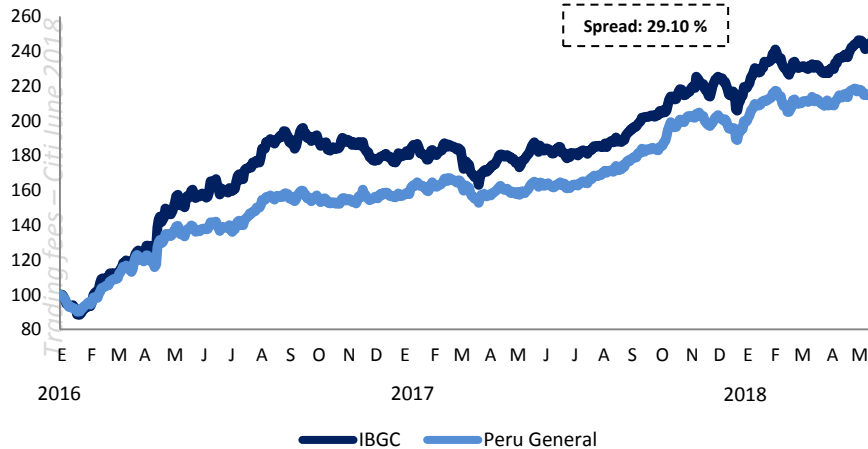
Reasons to deploy Corporate Governance



3. S&P/BVL Good Corporate Governance Index / IBGC

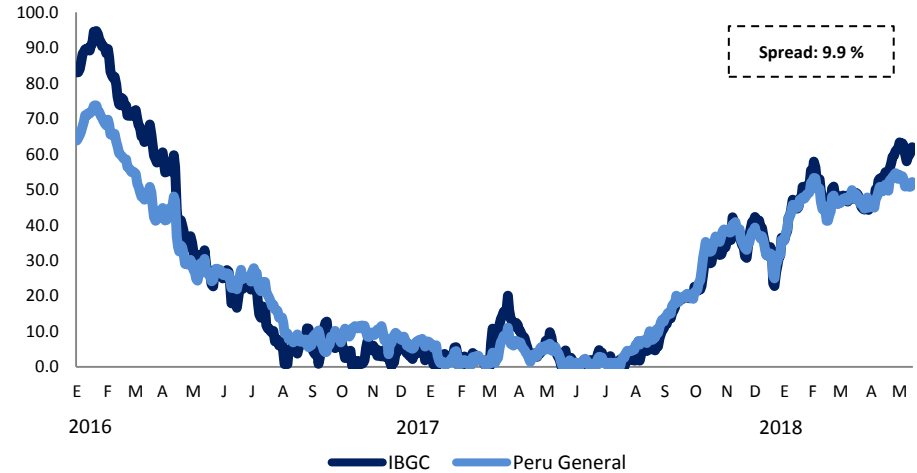
- The Good Corporate Governance index recognizes the securities with the best standards of Corporate Governance in Peru.
- These companies stand out in performance (19.4% spread), maintaining low levels of volatility (0.62% spread).

IBGC Vs. S&P/ BVL Peru General performance (index: jan 2016=100)



As of May 10th 2018

Standard deviation: IBGC Vs. S&P/ BVL Peru General (index: jan 2016=100)



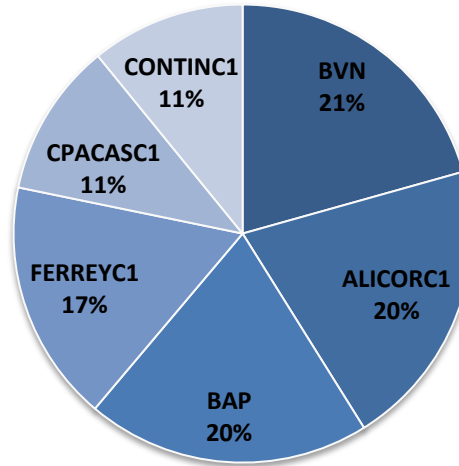
As of May 10th 2018

	Annual Return				Annualized Standard Deviation				Sharpe Ratio				Bloomberg
	YTD	2Y	3Y	5Y	YTD	2Y	3Y	5Y	YTD	2Y	3Y	5Y	Trailing 12 m Dividend Yield
S&P/BVL IBGC Index TR (PEN)	11.16%	25.34%	21.50%	7.93%	10.84%	38.51%	57.09%	70.09%	0.61	0.54	0.30	0.05	N.A.
S&P/BVL Peru General Index TR (PEN)	7.28%	25.05%	17.04%	4.31%	10.14%	34.36%	53.16%	68.70%	0.27	0.60	0.23	0.00	2.48
S&P/BVL Peru Select Index TR (PEN)	11.10%	26.55%	19.34%	8.57%	10.05%	36.91%	54.84%	68.86%	0.65	0.60	0.27	0.06	2.18

Source: BVL / Bloomberg

3. S&P/BVL Good Corporate Governance Index / IBGC

S&P BVL/IBGC weights



Source: S&P by 20/03/2018

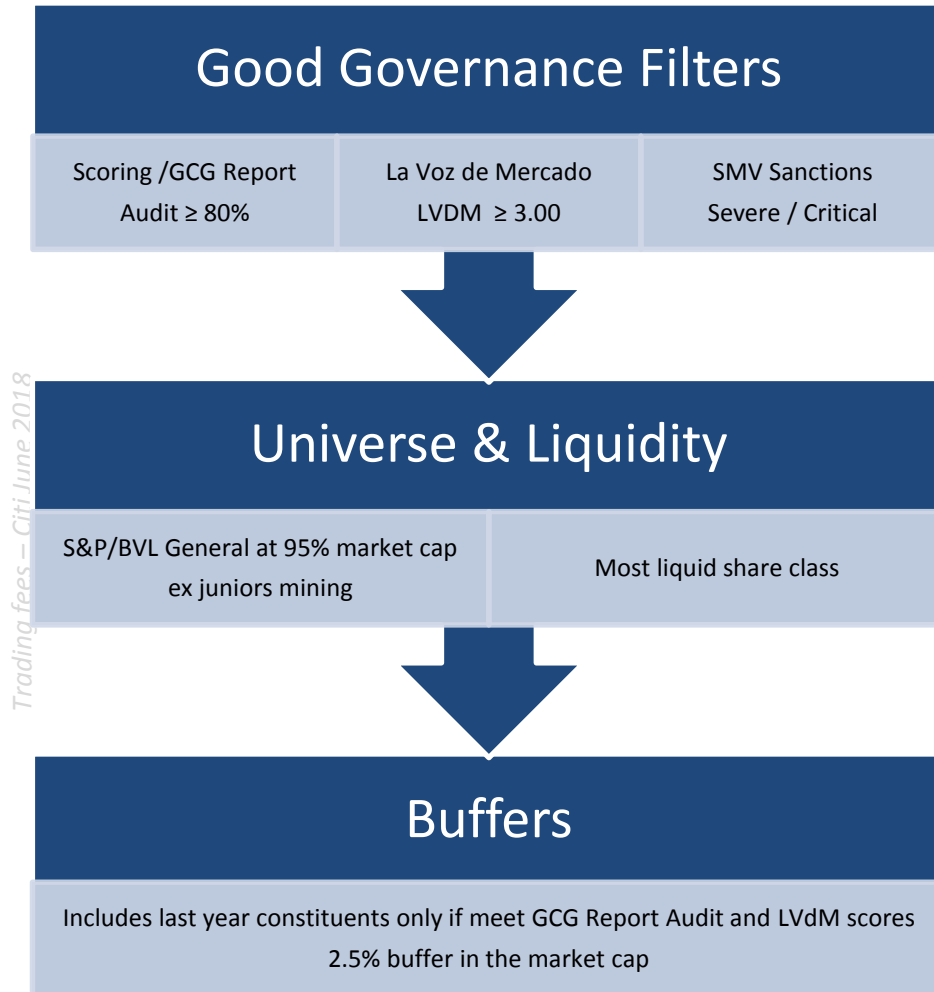
Company	Ticker	Weight %	Sector	Market Cap	Free Float	ATVR **
Compañía de Minas Buenaventura S.A.A.*	BVN	20.65%	Materials	12,979,578,991	73%	151%
Alicorp S.A.A.	ALICORC1	20.46%	Consumer staples	9,700,348,400	55%	11%
Credicorp Limited*	BAP	20.04%	Financials	66,723,579,529	75%	85.1%
Ferreycorp S.A.A.	FERREYC1	17.08%	Industrial	2,576,388,040	95%	17.1%
Cementos Pacasmayo	CPACASC1	10.89%	Materials	3,284,977,000	50%	11.1%
Banco Continental	CONTINC1	10.88%	Financials	20,509,099,800	8%	3.6%

Source: S&P by 20/03/2018

* ATVR with NYSE liquidity

** ATVR A 12 months

3. S&P/BVL Good Corporate Governance Index / IBGC



What is La Voz de Mercado?

It is a survey managed by GfK (specialized polling firm), with EY's methodology in alliance with the BVL

What does it measure?

It measures the stakeholder's perception about corporate governance quality

To whom does it apply?

It is applied to institutional investors, financial experts, risk rating agencies, academics, consultants, regulators and business journalists, among others; both foreign and local



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