

Mutual and Investment Funds in Paraguay

Key Messages

- As of October 31, 2024, the total assets under management in mutual and investment funds reached USD 1.4 billion, which corresponds to a cumulative nominal growth of almost 360% since December 31, 2020.
- Between investment and mutual funds, mutual funds represent 97.5% of Guaraní denominated funds and 91% of USD denominated funds. Investment funds represent the remaining 2.5% of Guaraní denominated funds and 9% of USD denominated funds.
- Certificates of Deposits are the most widely used financial instruments in both Guaraní and USD denominated mutual funds, accounting for about half of all mutual fund assets. The same financial instruments represent almost two thirds of all mutual fund assets rated 'AAA', 'AA' and 'A'.
- Higher quality ('AAA' and 'AA') assets jointly account for over a third of all assets both in Guaraní and USD mutual funds. However, average asset-weighted credit quality of mutual funds (excluding sovereign credit) is A+.
- The overwhelming majority of mutual fund assets are invested in instruments issued by financial sector and multisector: 71% in Guaraní mutual funds and 85% in USD mutual funds.
- The number of (active) investors invested in at least one mutual fund is about three times larger in Guaraní mutual funds than in USD mutual funds.

Introduction

Investment fund industry in Paraguay has grown exponentially over the last four years. Indeed, since 2020 the investment fund assets have increased fourfold (in dollar terms), adding on average over USD 270 million worth of combined Guaraní and USD assets every year. Nearly 80% of the current USD 1.4 billion in investment fund assets have been invested in just 46 months (January 2021 - October 2024).

This growth is not surprising. Thousands of local investors have understood the benefits of investing in mutual funds, which include - among others:

- *professional management*: the fact that mutual funds are managed by expert professionals
- *diversification*: the fact that mutual funds diversify investments across many securities and/or asset categories; this helps to counter any risk associated with a drop in the value of some of the securities in the portfolio, thus achieving a higher rate of return with a lower level of risk than any asset taken in isolation

- *flexibility and affordability*: the fact that mutual funds offer the flexibility to invest in smaller amounts, thereby allowing one to invest according to her income and cash flow
- *liquidity*: the fact that, in general, one can easily redeem (or liquidate) her holdings anytime she wants, thus offering very flexible and convenient withdrawals
- *lower cost*: the fact that, due to economies of scale, mutual funds schemes have a low expense ratio; in other words, they allow one to save on transaction charges and other expenses as compared to multiple single transactions

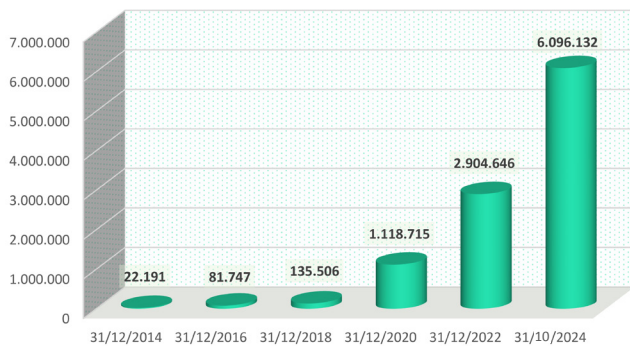
This study provides a detailed analysis of the main characteristics of the mutual fund industry in Paraguay, from the evaluation of the composition of mutual fund assets, to the analysis of their sector and risk profile. The study also reviews net subscriptions and redemptions and funds' (simple) annual returns.

Main Characteristics

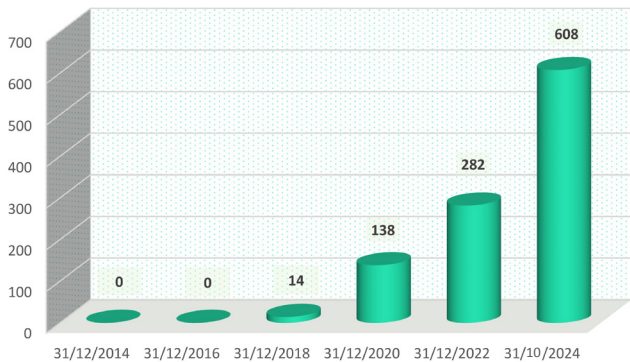
As of October 31, 2024, the total assets under management in mutual and investment funds reached almost USD 1.4 billion, corresponding to a cumulative nominal growth of 356% (in dollar terms) since December 31, 2020. This growth has been faster in Guaraní denominated funds (380%; Graph 1a) compared to USD denominated funds (310%; Graph 1b), considering an exchange rate of 6.800 PYG/USD for 2020 and 7.800 PYG/USD for 2024. Guaraní denominated funds represent nearly 60% of the total fund assets under management.

Graph 1. Mutual and Investment Funds: Asset Growth in 2014-2024

1a. Funds in Guaranies, October 31, 2024



1b. Funds in USD, October 31, 2024



Source: SIV

Investment funds represent only about 2.5% of Guaraní denominated funds, but almost 9% of USD denominated funds. In dollar terms (considering an exchange rate of 7.800 PYG/USD), assets under management in USD denominated investment funds are currently about 2.8 times larger than in Guaraní denominated investment funds (USD 19.2M vs USD 53.4M) (Table 1).

Table 1. Mutual and Investment Fund Assets: 2018-2024

	31/12/2018	31/12/2020	31/12/2022	31/10/2024
Guaraní Funds	135.506M	1.118.715M	2.904.646M	6.096.132M
- Mutual Funds	135.506M	1.118.715M	2.857.913M	5.946.021M
- Investment Funds	-	-	46.733M	150.110M
USD Funds	14,4M	138,4M	282,2M	607,9M
- Mutual Funds	9,2M	133,1M	236,9M	554,5M
- Investment Funds	5,2M	5,3M	45,3M	53,4M

Source: SIV

There are currently ten managers of Guaraní mutual funds and 11 managers of USD mutual funds. The number of fund managers has doubled over the last four years in both Guaraní and USD mutual funds (Table 2).

Table 2. Number of Mutual and Investment Fund Managers

	31/12/2018	31/12/2020	31/12/2022	31/10/2024
Guaraní Funds				
- Mutual Funds	3	5	7	10
- Investment Funds	-	-	2	3
USD Funds				
- Mutual Funds	3	5	7	11
- Investment Funds	1	1	5	5

Source: SIV

Nearly 50% of all mutual fund assets are managed by only two fund managers (49% in case of Guaraní mutual fund assets and 45% in case of USD mutual fund assets). About 74% of all Guaraní mutual fund assets and about 67% of all USD mutual fund assets are managed by only four fund managers (Table 3).

Table 3. Market Share of Mutual Fund Managers

	Number of Fund Managers									
	1	2	3	4	5	6	7	8	9	10
Guaraní Funds										
31/12/2018	85	96	100							
31/12/2020	49	75	86	97	100					
31/12/2022	37	62	79	87	92	96	100			
31/10/2024	26	49	63	74	81	88	93	96	100	100
USD Funds										
31/12/2018	44	76	100							
31/12/2020	29	58	86	97	100					
31/12/2022	23	45	61	78	87	94	100			
31/10/2024	30	45	56	67	76	84	91	94	97	99

Source: SIV

The number of (active) investors invested in at least one mutual fund is about three times larger in Guaraní mutual funds than in USD mutual funds (27.079 vs 9.931 as of October 31) (Table 4). Half of all active investors in Guaraní mutual funds (13.395) are invested in at least one fund from the two Guaraní mutual fund managers with most of the active investors, while 44% of all active investors in USD mutual funds (4.958) are invested in at least one fund from the largest two USD mutual fund managers with most of the active investors.

Table 4. Number of Active Clients Across Mutual Funds

	Number of Fund Managers					
	1	2	3	4	5	6
Guaraní Funds						
31/10/2023	5.215	9.765	13.825	15.394	16.419	17.729
31/10/2024	6.743	13.395	19.490	21.926	23.667	27.079
USD Funds						
31/10/2023	1.873	2.788	3.677	4.436	5.184	5.873
31/10/2024	3.779	4.958	6.122	7.168	8.175	9.931

Source: SIV

Asset Composition and Risk Profile

Certificates of Deposits are the most widely used financial instruments in both Guaraní and USD mutual funds, accounting for about half of all mutual fund assets (Graph 2). In Guaraní mutual funds, Certificates of Deposits account for 48.7% of total mutual fund assets, followed by corporate and financial bonds (jointly 25.3%) and Monetary Regulation Bills (LRM) and treasury bonds (jointly 21.5%). In USD mutual funds, certificates of deposits account for 52.7% of total mutual fund assets, followed by corporate and financial bonds (30.1%).

Graph 2. Mutual Funds: Asset Composition by Financial Instrument

Mutual Funds in Guaranies, October 31, 2024



Mutual Funds in Dolars, October 31, 2024

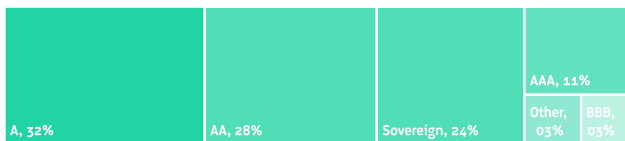


Source: SIV

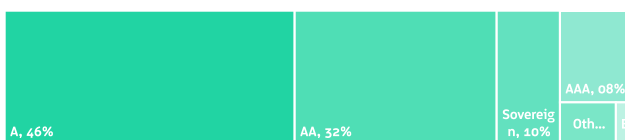
In terms of the risk profile of mutual fund assets, 'A' rated assets constitute nearly a third of all assets in Guaraní mutual funds (32.0%) and nearly a half of all assets in USD mutual funds (46.1%) (Graph 3). Higher quality assets (rated 'AA' and 'AAA') jointly account for over a third of all assets both in Guaraní and USD mutual funds (38.7% in Guaraní and 40.1% in USD mutual funds). Average asset-weighted credit quality of mutual funds (excluding sovereign credit) is A+.

Graph 3. Mutual Funds: Asset Composition by Risk Rating

Mutual Funds in Guaranies, October 31, 2024



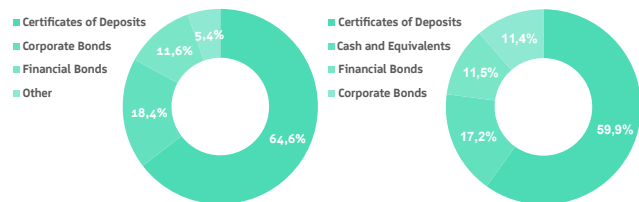
Mutual Funds in Dolars, October 31, 2024



Source: SIV

About two thirds of all mutual fund 'A', 'AA', and 'AAA' rated assets are Certificates of Deposits: 64.6% in Guaraní mutual funds and 59.9% in USD mutual funds (Graph 4). About a quarter of all assets are in corporate and financial bonds (30.0% in Guaraní mutual funds and 22.9% in USD mutual funds).

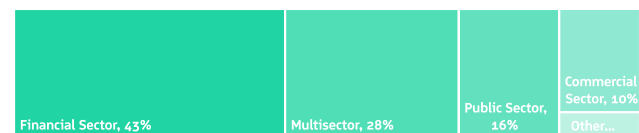
Graph 4. Mutual Funds: Asset Composition of A, AA and AAA rated instruments, October 31, 2024



The overwhelming majority of mutual fund assets are invested in instruments issued by financial sector and multisector: 71.1% in Guaraní mutual funds and 85.1% in USD mutual funds (Graph 5). Public sector instruments constitute 16.1% in assets in Guaraní mutual funds, but only 8.2% in USD mutual funds.

Graph 5. Mutual Fund Asset Composition by Economic Sector

Mutual Funds in Guaranies, October 31, 2024



Mutual Funds in Dolars, October 31, 2024

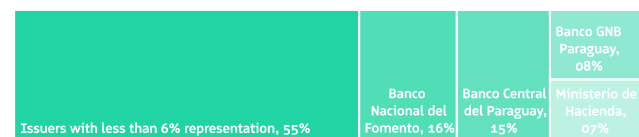


Source: SIV

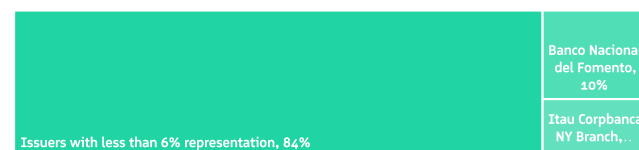
Nearly half (45.2%) of all assets in Guaraní mutual funds come from only three issuers: Banco Nacional del Fomento (BNF) (15.5%), Central Bank of Paraguay (BCP) (14.8%) and Banco GNB Paraguay (7.8%) and Ministry of Finance (7.0%) (Graph 6). The USD mutual funds are less issuer-concentrated, with an overwhelming majority of all assets (85%) coming from issuers with less than 6% of asset representation.

Graph 6. Mutual Funds: Asset Composition by Issuer

Mutual Funds in Guaranies, October 31, 2024



Mutual Funds in Dolars, October 31, 2024



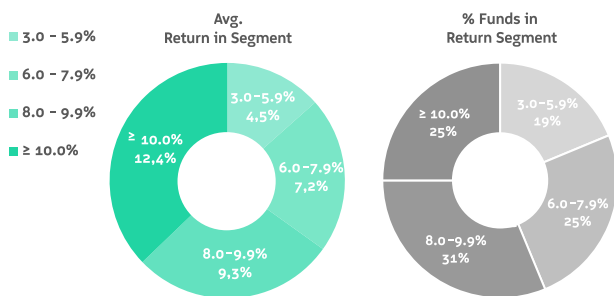
Source: SIV

Returns

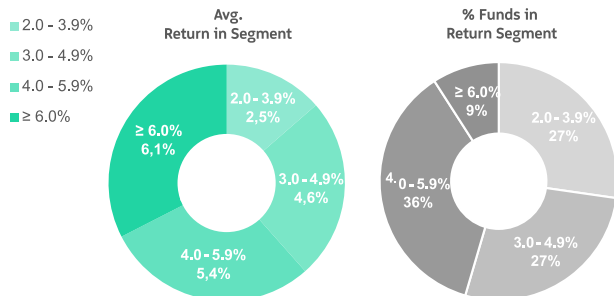
Simple average annual return across all Guaraní (USD) mutual funds was 8.3% (4.5%) as of the end of October, 2024. Among Guaraní mutual funds, about 1 in every 3 funds (31%) show returns between 8.0% and 9.9% (average return of 9.3%); among USD mutual funds, about 1 in every 3 funds (36%) shows returns between 5% and 6% % (average return of 5.4%) (Graph 7).

Graph 7. Mutual Funds: Average Returns

Mutual Funds in Guaranies, October 31, 2024



Mutual Funds in USD, October 31, 2024



Source: SIV

Subscriptions/Redemptions

The difference between mutual fund subscriptions and redemptions (as a percentage of funds' total assets) have remained relatively small and stable since June of this year. As of October 31, the difference stands at -4.6% for Guaraní and +1.8% for USD mutual funds (Graph 8).

Graph 8. Mutual Funds: Subscriptions/Redemptions

Mutual Funds in Guaranies, October 31, 2024



Mutual Funds in USD, October 31, 2024



Note: Net = Total fund subscriptions - Total fund redemptions
Source: SIV

Published on 12/04/2024, information as of 10/31/2024

No risk management technique or process can guarantee profitability or eliminate risk in any market environment. Certain information contained herein constitutes “forward-looking statements” which can be identified by the use of forward-looking terminology such as “may”, “will”, “should”, “expect”, “anticipate”, “target”, “intend”, “continue”. “or “believe”, or their negative aspects or other variations of these or comparable terminology. Due to various risks and uncertainties, actual events may differ materially from those reflected or contemplated in such forward-looking statements.

This document reflects the opinions of ueno Casa de Bolsa S.A. or its affiliates (“ueno”) based on information believed to be reliable as of the date of publication. There is no guarantee that any forecast or opinion will be realized. This document is provided by ueno Casa de Bolsa S.A. or its affiliates (“ueno”) for informational purposes only.

Nothing here constitutes an investment in or a recommendation relating to any security advice, investment management service or investment product. Investments in securities involve risk, possible fluctuations in price that could result in losses. Past performance does not guarantee future results.

The opinions expressed herein are subject to change and may differ from the opinions of other investment professionals. This document is intended only for persons residing in jurisdictions where its distribution or availability is consistent with local laws and local regulatory authorizations.