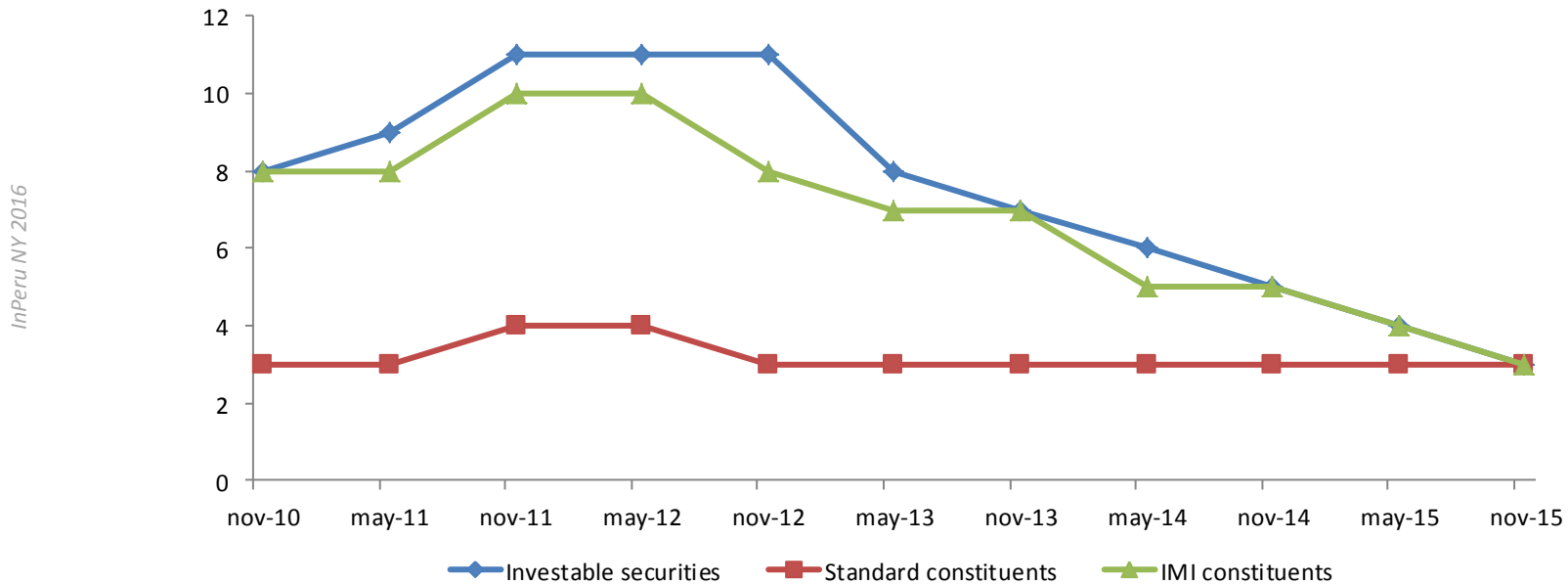


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Expanding Equity Market Liquidity in Peru

Investable securities for MSCI has decreased significantly in recent years.

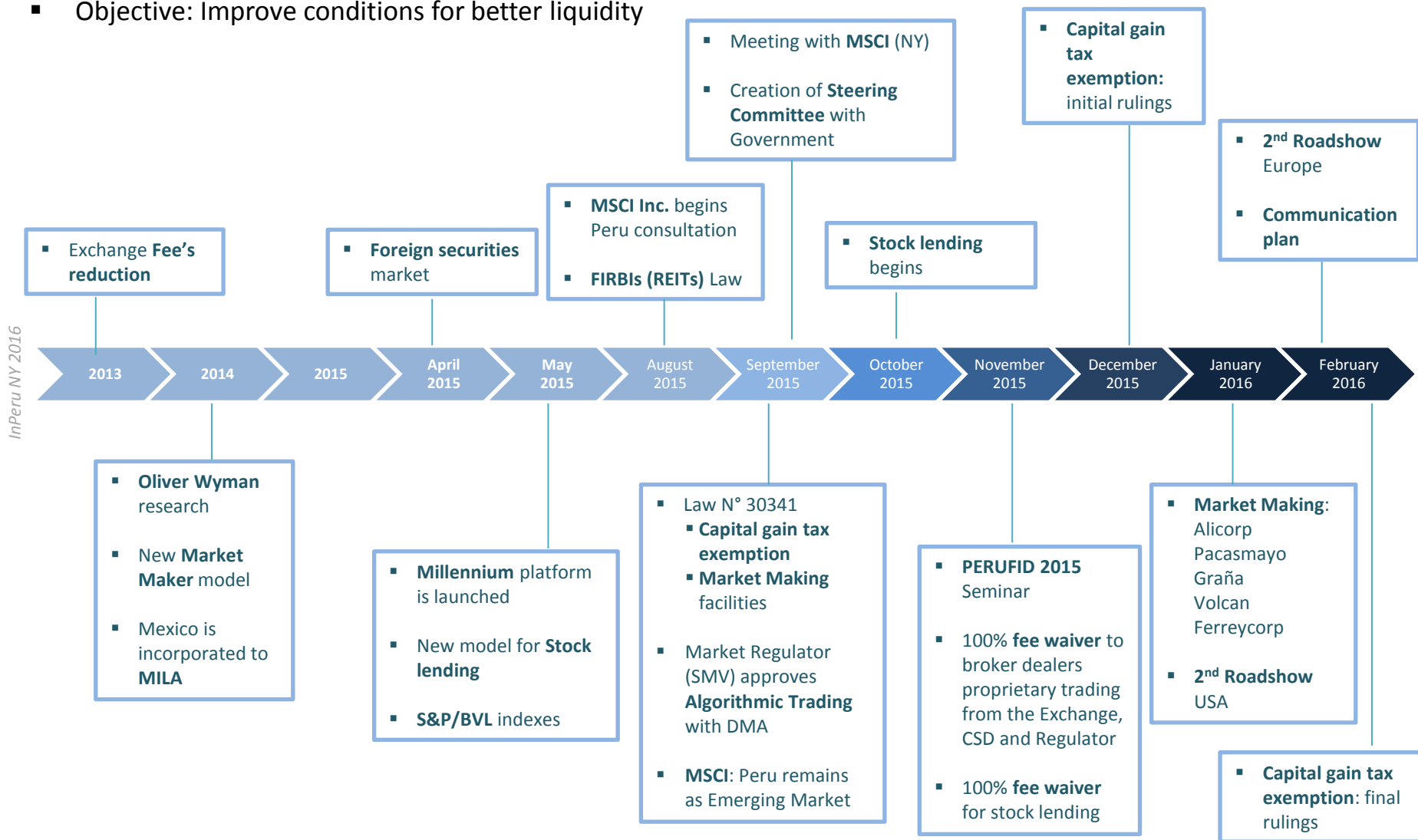
MSCI Peru - number of constituents evolution



Source: MSCI













1. Market reforms: Progress to date

- Objective: Improve conditions for better liquidity



1. Market reforms: Progress to date

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Improvement proposed			Responsible party	Objective	Deliverable	Date	Status
Initiative	Details						
1	Eliminate Capital Gains Tax	Applies to transactions with volumes that represent less than 10% of the company's total value and with a minimum traded volume of 4 UITs (approximately US\$.4,700).	Government	New Tax Law issuance	Law 30341	Sep-15	
				Tax Law Rulings and execution by BVL and CAVALI	Rulings and execution	Dec-16	
2	Incentivize market makers	Market makers to generate minimum liquidity and to exempt securities from CGT. Issuers take a more active role	Government, BVL and SMV	New tax treatment	Law 30341	Sep-15	
				Tax Law Rulings and execution by BVL and CAVALI	Rulings and execution	Dec-15 / Feb-16	
				Companies with little Liquidity to hire Market Makers	Stocks with Market Makers	Feb-16	
3	Stock Lending	Stock lending for arbitration and new strategies.	BVL and SMV	Availability of inventory	Asset Managers ready	Mar-16	
				Operational capabilities by Broker Dealers	Broker dealers ready	Mar-16	
				Transactions	Increasing number of transactions	Jun-16	
4	Short Selling	Investment opportunity when prices fall		Transactions	Increasing number of transactions	Jun-16	
5	Algorithmic Trading	New system that facilitates trading via DMA, which reduces transaction times and costs.	BVL and SMV	New rules approving Market Making	Entrance of Algorithmic Trading	Mar-16	
6	Millennium	New trading platform that allows algorithmic trading via DMA, market making, stock lending and short selling	BVL	Transactions	Platform go live	May-15	
7	FIRBIs (REITs)	Promote the use of real estate investment funds that: (1) provide tax benefits (income tax deferral); y (2) instrument diversification. Includes positive aspects of the Mexican FIBRAs Model).	Government, BVL and SMV	Create first REIT by 2016 Year End	Begin working structure with potential issuers	Mar-17	

1\ SMV: Market Regulator
 BVL: Lima Stock Exchange
 CAVALI: Local CSD



-> Progress



-> Pending

1. Market reforms: Progress to date

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Improvement proposed			Responsible party	Objective	Deliverable	Date	Status
Initiative	Details						
8	Transaction costs	Keep transactions costs low and develop a strategy to cut them efficiently.	BVL, CAVALI, and SMV	Special Cost for Market Making activities	0bps	Dec-15	
				Special Cost for Facilitation	0bps	Dec-15	
				Special Cost for Stock Lending	0bps	Dec-15	
9	Pension Funds	Pension Funds will act as "stock lenders"	SBS	Implement Stock Lending	Operational readiness	Mar-16	
				Promote Market Making	Formal endorsement	Jun-16	
10	Alternative Securities Market	Gives medium-sized companies access to the capital markets (incubator)	BVL, SMV	Improve existing system	Higher issuance	Dec-16	
11	Corporate Governance	Encourage companies to adhere to the principles of Good Corporate Governance.	SMV, BVL, EY	Improve overall market results	Better market results	May-16	
		Corporate Social Responsibility	SMV, BVL	Allow investors to perform a more complete risk management and identify investment opportunities with long-term horizon	SMV Resolution 033-2015	Dec-15	
12	Investor Relations	Reinforcing investor relations and improving information of key companies.	BVL, EY	Improve overall market results	Market guidance	Apr-16	
13	Peru FID	Annual event to promote the Peruvian capital markets for foreign and local investors	BVL	Positioning BVL as an opinion leader and promote knowledge of capital markets	Positive market feedback	Nov-15	
14	International Promotion	Generate visibility of Peru with promoting activities		Communicate new measures and solutions to major global investors.	Visits to international investors	May-16	
			Improve website and communication	Jun-16			
15	MILA	Local limit for Pension Funds	AFPs, SBS	Ensure that pension funds have the same local limit for securities of MILA markets	Portfolio diversification for pension funds	Dec-16	

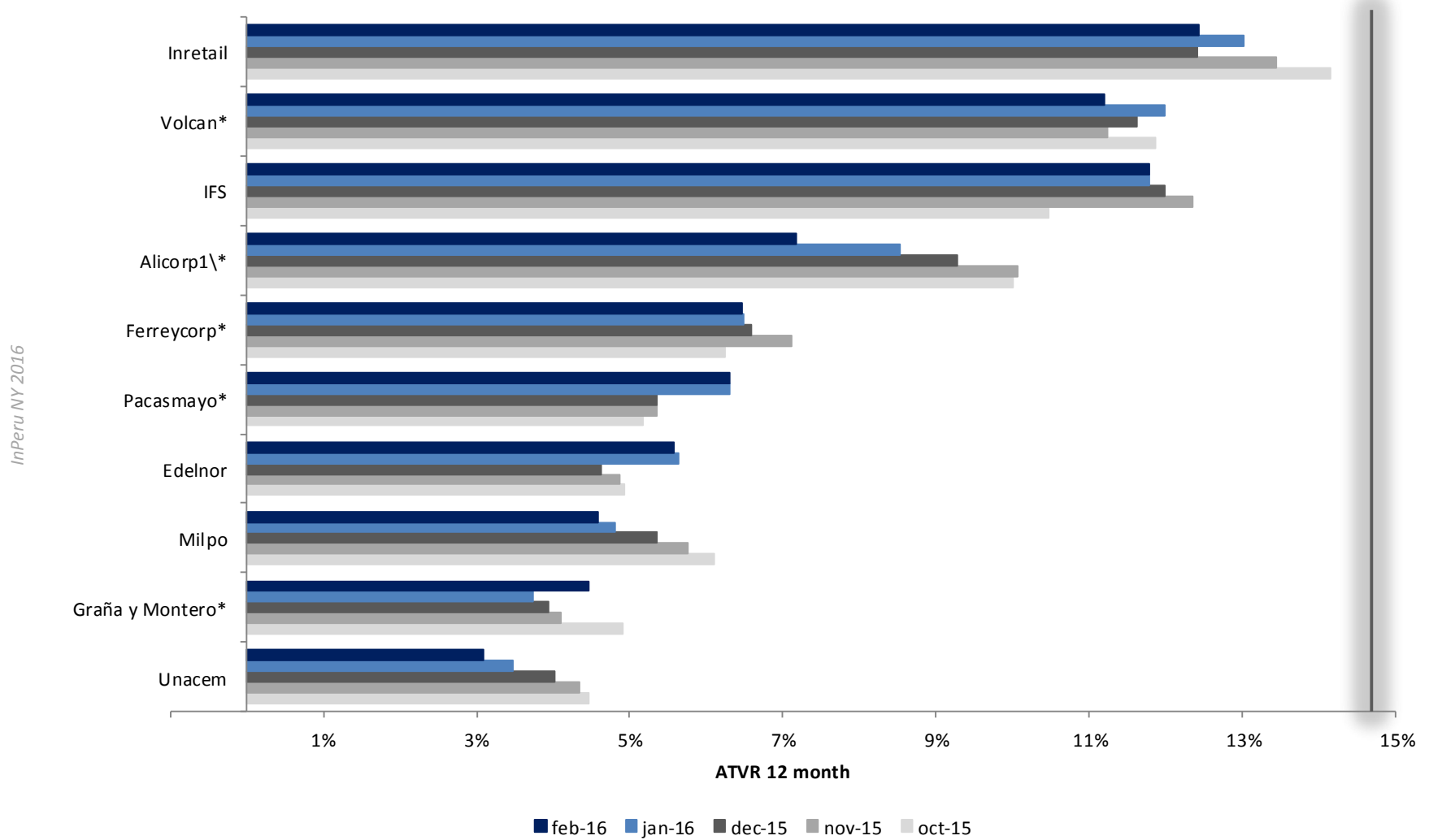
1\ SBS: Banking and insurance Regulator
AFPs: Pension funds

-> Progress

-> Pending

2. Changing the liquidity trend

12 - month ATVR gap (%)



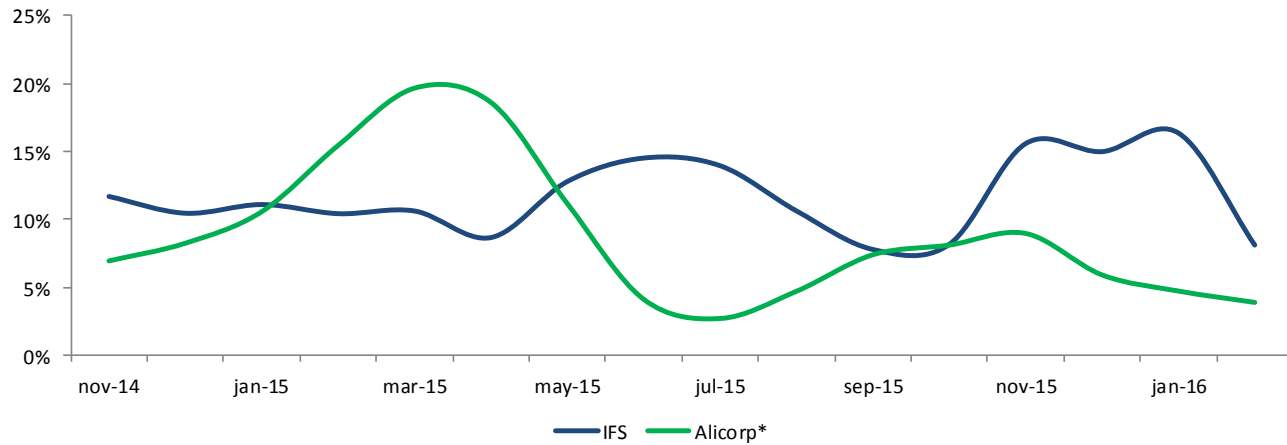
1\ Considers a FIF of 0.55.

* Stocks with Market Maker

BVL estimates based on MSCI methodology

2. Changing the liquidity trend

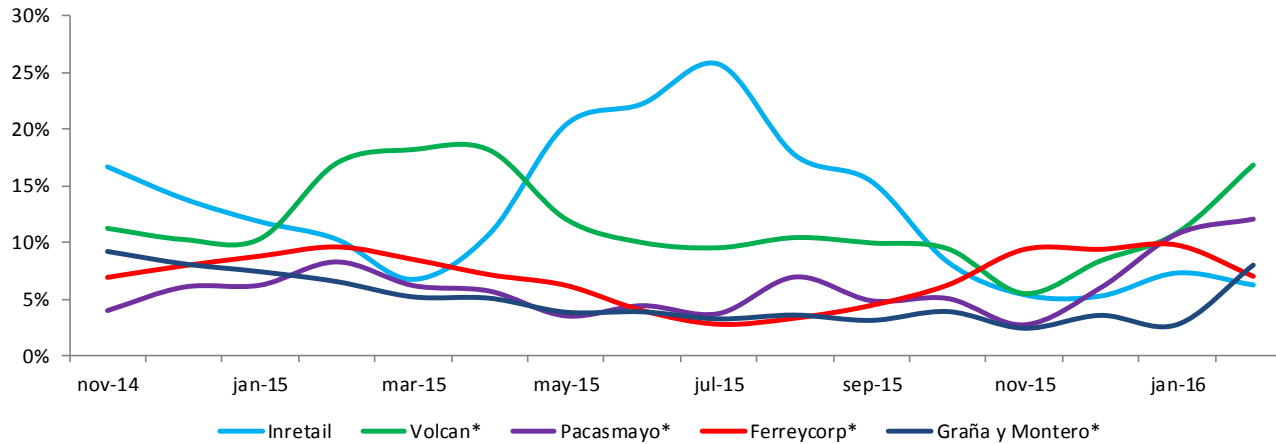
3 - month ATVR



BVL estimates based on MSCI methodology

* Stocks with Market Maker

3 - month ATVR



BVL estimates based on MSCI methodology

* Stocks with Market Maker

3. Metrics and indicators

Capital Gains Tax Metrics

N°	Metric	Month	OCT-15	NOV-15	DEC-15	JAN-16	FEB-16
1	Law 30341		✓	✓	✓	✓	✓
2	Rulings and execution				✓	✓	✓

Broker Dealer Metrics

N°	Metric	Month	OCT-15	NOV-15	DEC-15	JAN-16	FEB-16
1	Number of companies with Market Makers		1	1	1	3	6
2	Number of operations with Stock Lending (per month)		2	2	0	0	0
3	Number of operations with Short-Selling (per month)		2	2	0	0	0
4	Transaction Costs - Stock Lending (bps)		8	0	0	0	0
5	Cost facility to Broker-Dealers with proprietary trading (bps)		9.6	6.5	0	0	0
6	Transaction Costs - MMK SAB with proprietary trading (bps)		0	0	0	0	0
7	Alternative Securities Market (MAV) cumulative issuance		US\$ 30m	US\$ 30m	US\$ 34m	US\$ 36m	US\$ 38m
8	Number of securities with Algorithmic Trading		0	0	0	0	0

Market Metrics

N°	Metric	Month	OCT-15	NOV-15	DEC-15	JAN-16	FEB-16
1	Daily total BVL transactions (US\$ million)		13.8	12.1	9.5	11.8	13.2
2	Daily equity traded volume (US\$ million)		7.1	5.2	4.2	5.4	4.6
3	Equity median traded volume (US\$ million)		3.9	4.6	3.5	4.5	4.7
4	Monthly number of orders		16,884	15,893	15,002	15,260	23,247
5	Monthly total transactions		6,174	5,196	4,923	5,550	9,721
6	Number of Investors		1,945	1,911	1,723	1,901	n.a.
7	Total Market Cap (US\$ million)		94,976	93,414	90,657	86,214	92,219

Top Companies Metrics

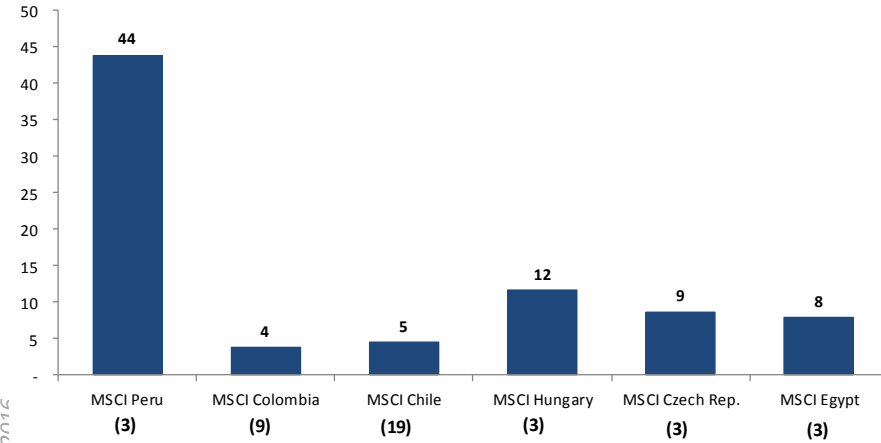
N°	Metric	Month	AUG-15	SEP-15	OCT-15	NOV-15	DEC-15	JAN-16	FEB-16
1	ATVR - 12 months*		8.9%	8.6%	8.4%	8.8%	8.2%	8.3%	8.0%
2	ATVR - 3 months*		7.4%	7.0%	6.7%	7.5%	7.1%	8.0%	7.2%
3	Frequency of trading - 12 months*		93%	92%	92%	91%	90%	89%	89%
4	Traded Volume Average (US\$ thousand)*		393	268	388	478	256	376	342
5	Traded Volume Median (US\$ thousand)*		172	128	117	317	103	148	158

* Average weighted by free float



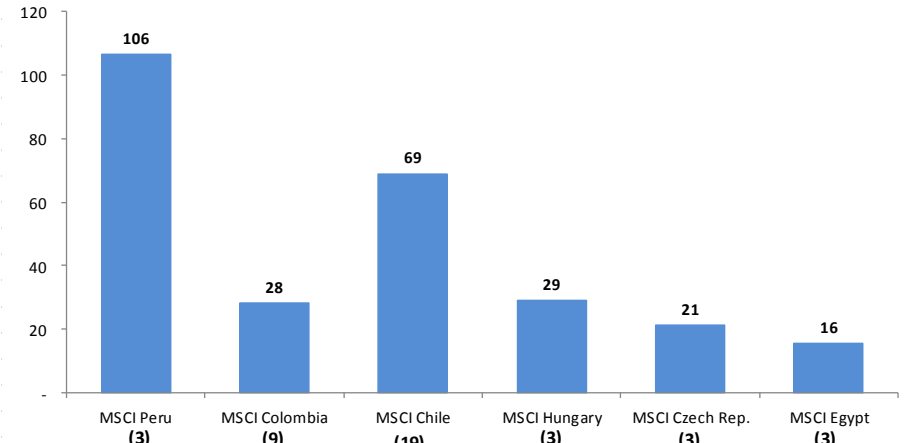
4. Index member liquidity

Nominal Index Liquidity - weighted average*
Average daily volume - 12 months (US\$ million)



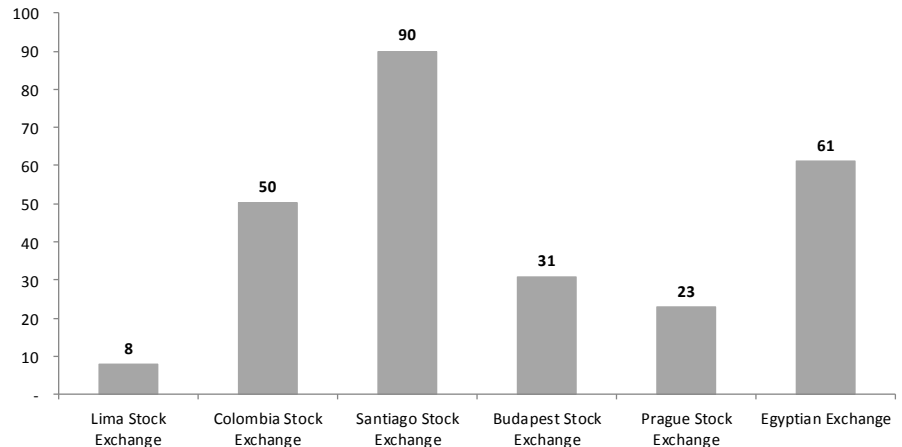
Source: Bloomberg, MSCI, BVL

Nominal Index Liquidity - total*
Average daily volume - 12 months (US\$ million)



Source: Bloomberg, MSCI, BVL

Total Local Liquidity
Average daily volume - 12 months (US\$ million)



Source: Bloomberg, MSCI, BVL

* BVL estimates with Nov. 2015 index weights.

5. About SCCO classification

- Southern Copper Corporation (SCCO) is a traditional Peruvian name according to MSCI.
- 43% of SCCO's revenue is originated in Peru, and the rest in Mexico.
- SCCO represents 5% of Peru exports and 1% of Peru GDP (IM Trust, 2015).
- SCCO expansion projects in Peru (Toquepala, Tia Maria, Los Chancas, etc.), will continue to increase Peru share of SCCO revenue mid – long term.
- High 3-Year correlation with MSCI Peru and MSCI All Peru Capped Index (~ 0.79), while its correlation with MSCI USA is 0.16. ^{1/}
- SCCO may be negatively impacted by the reclassification to USA:
 - Including SCCO in USA exposes investors to an equity risk factor entirely outside USA.
 - MSCI USA has more than 600 companies, large and mid cap with most of its operations in USA.
 - Materials in USA are a small proportion of the MSCI USA index (2.7%), with large names in materials associated to chemical companies. Copper mining is a small proportion of this sector (less than 3%).
- There may be other special cases.

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^{1/} Source: ETF correlations – 3 years, 1 month yields by 7/31/2015.

Bottom line 1: Peru complies with market requirements to remain within the EM indices right now, but needs higher liquidity in additional stocks.

Bottom line 2: SCCO should remain within Peru in EM indices, not Developed / USA indices.

Bottom line 3: Volumes are stabilizing and are starting to improve.

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Action calls: Improve access and setup conditions for better liquidity

- (i) Communicate and disseminate the favorable arguments among investors: Companies, broker dealers and managers can play an active function.
 - (ii) Execute and deliver initiatives: Peruvian Government and Private Sector.
 - (iii) Change the declining trend in terms of volumes.
-
- **About the consultation process:** May 2016, David Garza, david.garza@msci.com

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