REPUBLIC OF CHILE
Ministry of Finance

PENSION RESERVE FUND

Second Quarter, 2008

CONTENTS

I. INTRODUCTION

As of June 30, 2008, the Pension Reserve Fund (PRF) had a market value of US$2,451.71 million. During the second quarter, the fund showed a net drop of US$31.66 million in capital and interest income, representing an Internal Rate of Return (IRR) in US dollars[1] of -1.53% for the quarter.[2]

The fund's value evolution during the second quarter is explained by the rise of almost 90 bps in sovereign bonds yields –in spite of the 25 bps cut in the Federal funds rate in the US- and by the impact of the exchange rate movements in the currencies held in the portfolio. The PRF's IRR in local currency was -1.11% for the quarter.

The present report is divided into two parts. The first section provides information about the PRF's performance during the second quarter and the composition of its portfolio by currency and type of risk while the second part contains an explanation, prepared by the Fiscal Agent, of the behavior of the markets that affected the PRF's investments during the period.

[1] Henceforth, referred to simply as dollars.

[2] Unless otherwise indicated, the rate given is the non-annualized rate for the period in question.

II. MARKET VALUE AND PERFORMANCE OF THE PRF

The Pension Reserve Fund (PRF) was established on December 28, 2006 and its management was entrusted on March 28, 2007 to the Central Bank of Chile (CBC) which acts as Fiscal Agent. However, formal monitoring of its performance did not begin until April 1, 2007, after the implementation of its investment policy. The starting date for all comparisons with the benchmark is, therefore, March 31, 2007.

II.1. Market Value of the PRF

As of June 30, the PRF held assets worth US$2,451.71 million. The variations in its market value are set out in the table below:

Table 1: Market Value of PRF

Market value (US$ million)	2007	Q1 2008	Q2 2008			Total
			April	May	June	
Starting value	-	1,466.35	1,574.30	1,543.36	2,434.12	
Contributions	1,340.90	-	-	909.07	-	2,249.96
Change in value	125.46	107.95	-30.94	-18.32	17.60	201.75
Final value	1,466.35	1,574.30	1,543.36	2,434.12	2,451.71	

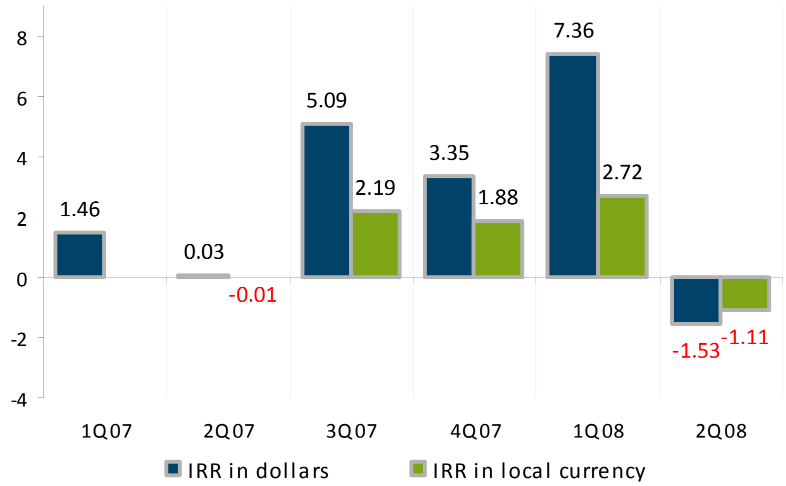
Source: JP Morgan

In the second quarter of 2008, the PRF's market value decreased by US$31.66 million, representing an IRR for the period of -1.53%.

Since its inception, the value of the PRF at market prices has shown a net increase in capital and interest income of US$201.75 million, equivalent to an annualized IRR in dollars of 10.79%.

The figure below shows the fund's quarterly IRR in dollars and in local currency.

Figure 1: Quarterly IRR in Dollars and Local Currency[3]
(percentage points)

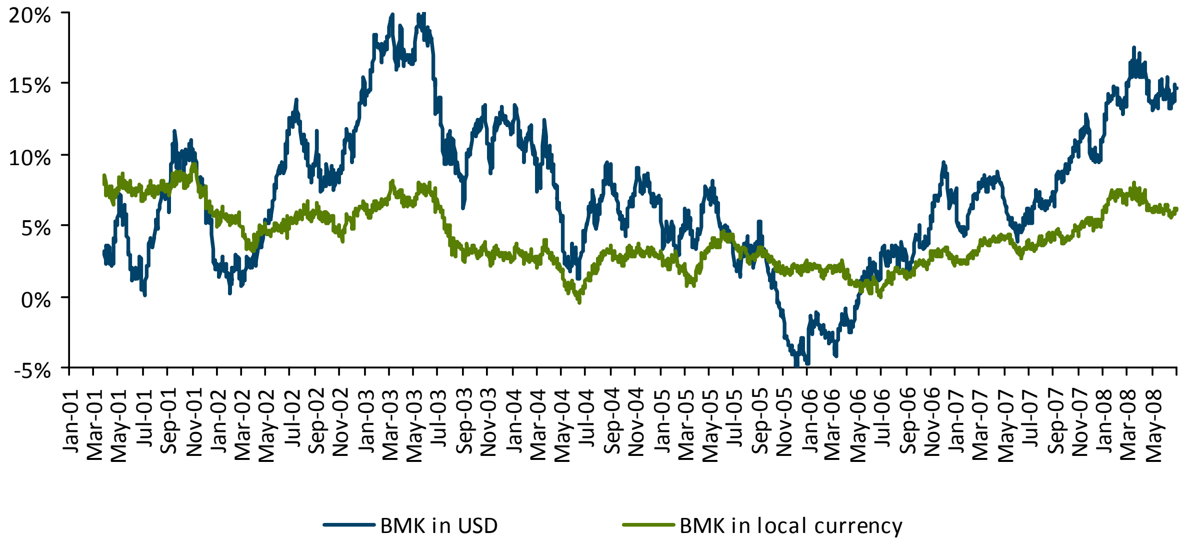


Source: Dipres based on data provided by JP Morgan and Bloomberg

Analysis of the historic performance of the benchmark portfolio shows that the return in dollars during the first quarter of 2008 and subsequent adjustments in the second quarter are similar to those seen between 2001 and mid-2004 during the US Federal Reserve's last expansive monetary-policy cycle. As shown in Figure 2, the benchmark registered higher annual returns - measured in dollars - for almost two years as from mid-2002 before entering a two-year cycle of decreasing returns.

[3] Annualized compound rate. The fund started regular operations on 1 April 2007.

Figure 2: Moving Annual Return on the Benchmark in Dollars and in Local Currency



Source: Dipres based on data provided by JP Morgan and Bloomberg.

In the second quarter of 2008, the composition of the PRF by type of risk and currency, expressed in dollars,[4] was as follows:

Table 2: Composition of the PRF by Asset Class, Currency and Duration

Assets	Original currency	2nd quarter 2008 (US$ million)		
		April	May	June
Sovereign	USD	570.27	822.33	865.67
	EUR	438.74	686.07	694.23
	JPY	103.89	166.49	171.99
Agencies	USD	-	-	-
	EUR	-	-	-
	JPY	-	-	-
Bank	USD	208.31	402.51	350.19
	EUR	176.76	283.70	296.87
	JPY	45.40	73.02	72.77
Total		*1,543.36*	*2,434.12*	*2,451.71*
Duration	*(years)*	*2.48*	*2.36*	*2.33*

Source: JP Morgan

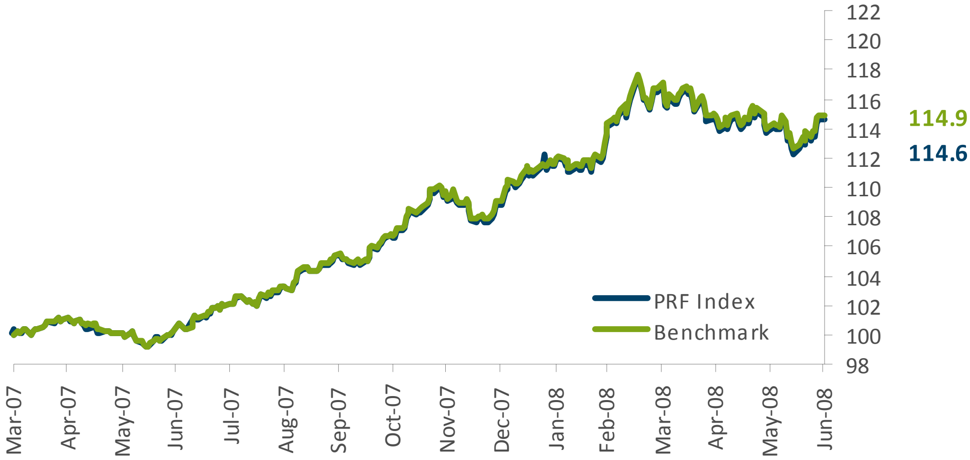
[4] According to JP Morgan, the exchange rates used at the close of the month were:
April 30 : 1.5569 USD/EUR and 104.510 JPY/USD
May 29 : 1.5540 USD/EUR and 105.565 JPY/USD
June 30 : 1.5755 USD/EUR and 106.005 JPY/USD

II.2. Performance of the PRF

II.2.1 Performance of Financial Investments

Figure 3 sets out the performance of the PRF measured using an index[5] that shows daily variations in the market value of its portfolio expressed in dollars. The base value is 100 as of March 31, 2007.

Figure 3: PRF Index vs. Benchmark
(31 March 2007 = 100)



Source: Dipres based on data provided by JP Morgan, CBC and Bloomberg

In the second quarter of 2008, the index showed a return of -1.96% in comparison to -1.88% for the benchmark. As from March 31, 2007, the index registered an annualized return of 11.65% while the equivalent figure for the benchmark was 11.89%.

[5] Unlike the IRR, this indicator excludes the effect of net cash flows (contributions minus withdrawals) on the fund's return.

The table below provides a summary of the return of both the index and the benchmark in dollars and the basket of currencies:

Table 3: Returns on the PRF
(In dollars and local currency)

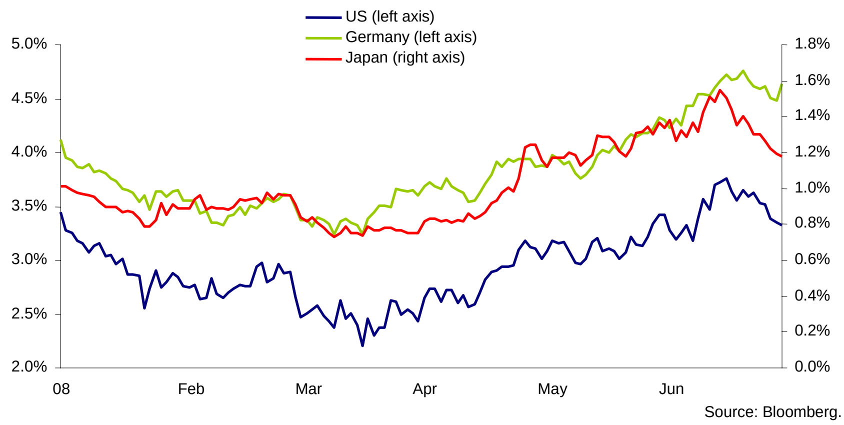
	Return	Q2	Accumulated since March 31, 2007 (annualized)
Dollars	PRF Index	-1.96%	11.65%
	Benchmark	-1.88%	11.89%
	Return differential	-0.08%	-0.24%
Local Currency	PRF Index	-1.15%	4.64%
	Benchmark	-1.08%	4.87%
	Return differential	-0.08%	-0.22%

Source: Dipres

III. BEHAVIOR OF RELEVANT MARKETS IN THE SECOND QUARTER

In the second quarter of 2008, the yield on sovereign bonds rose as a result of an increase in the risk of inflation which was, in turn, explained by the behavior of oil prices.

Figure 3: Interest Rates on 5-Year Bonds



III.1. Main Economic Trends

In the **United States,** the Federal Open Market Committee (FOMC) decided to reduce the monetary-policy interest rate by 25 basis points to 2%. This decision, which was anticipated by the market, was a response to a deterioration in the outlook for the US economy and occurred in a context in which the consumer price index closed the quarter with an annual increase of 4.2%. Unemployment reached 5.5%, up from 5.1% at the close of the previous quarter. Consumer and business confidence continued to weaken over the quarter.

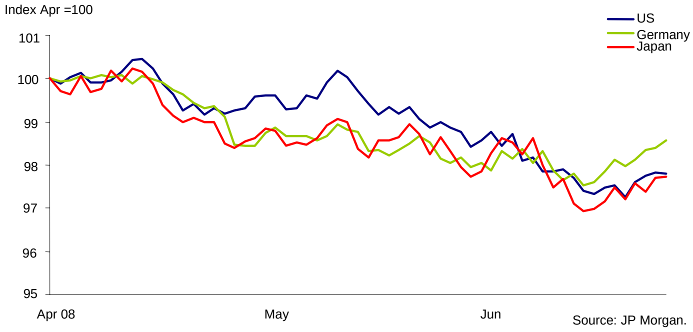
In the **Euro Zone,** inflation remained high, closing the quarter at an annual rate of 3.7%, while core inflation closed at 1.7%. Nonetheless, the European Central Bank held its monetary-policy interest rate at 4.0%. The labor market remained dynamic, with the unemployment rate reaching 7.3%. The main indicators of activity as well as consumer and business expectations weakened during the quarter.

In **Japan,** the monetary authority held the policy rate at 0.5%. In June, the consumer price index showed an annual increase of 1.3% while core inflation, at -0.1%, remained negative. Unemployment rose marginally from 3.8% to 4.0% at the close of the quarter.

III.2. Fixed-Income Market

In the second quarter, the increase in interest rates meant that fixed-income sovereign instruments performed negatively as regards total returns (**Figure 4**).

Figure 4: Index of Total Returns, 1-10 Year Sovereign Bonds[6]



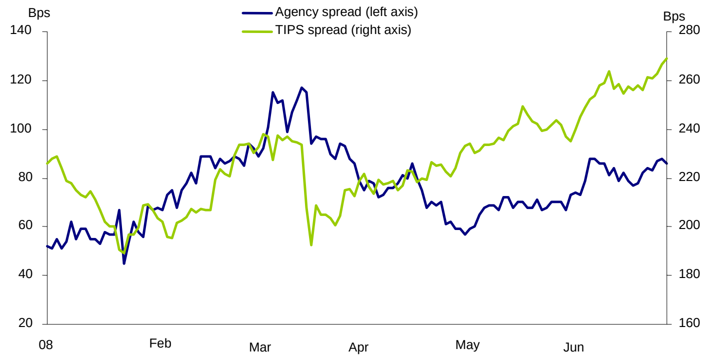
III.3. Main Spreads on Portfolio Securities

The agencies spread[7] closed the quarter at the same level as at the beginning of the quarter (**Figure 5**). However, as regards total returns, 5-year agency bonds performed slightly better than the equivalent Treasury bills.

An increase in adjustment for inflation meant that the yield on US Inflation-Linked Bonds (TIPS)[8] was higher than on nominal US Treasury bills. This resulted in an increase in the TIPS spread[9] during the quarter.

[6] Total return expressed in the original currency.
[7] Agency Spread: Yield on an agency bond minus the yield on a US Treasury bill of an equivalent maturity.
[8] TIPS: Treasury Inflation-Protected Securities.
[9] TIPS Spread: Yield on a US Treasury bill minus the yield on TIPS of an equivalent maturity.

Figure 5: Agency and TIPS Spread on 5-Year Bonds

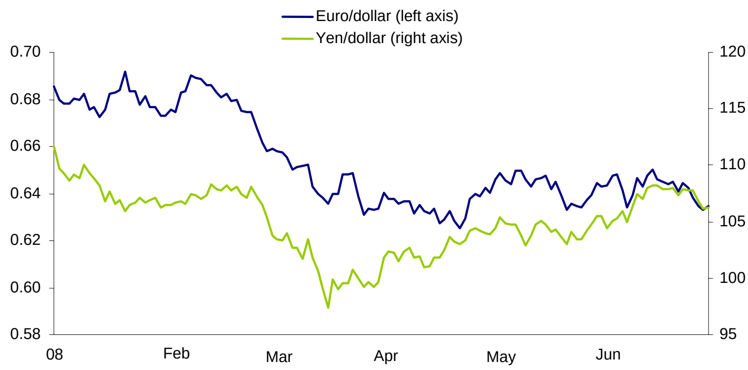


Source: Bloomberg.

III.4. Exchange Rates

Despite an increase in the yield differential in favor of Europe, the euro/dollar exchange rate appreciated by 0.57% in the second quarter while the yen/dollar rate increased by 6.50% (Figure 6). As a result, the appreciation of the euro against the yen reached 5.9%.

Figure 6: Euro/Dollar and Yen/Dollar Exchange Rates



Source: Bloomberg.

IV. APPENDIX 1: POSITIONS WITH SOVEREIGN ISSUERS AND FINANCIAL INSTITUTIONS

The fund has investments in **Sovereign Bonds** of the United States, Germany, France and Japan.

ESSF and PRF
Banks with Deposits, June 30, 2008

1	ABN AMRO BANK NV, AMSTERDAM
2	ALLIANCE AND LEICESTER PLC, LEICESTER
3	ALLIED IRISH BANKS, DUBLIN
4	BANCO BILBAO VIZCAYA ARG, SA, MADRID
5	BANCO BILBAO VIZCAYA ARG, SA, N. YORK
6	BANCO ESPIRITO SANTO SA, LONDON
7	BANCO SANTANDER CENTRAL HISPANO SA, N. YORK
8	BANK AUSTRIA CREDITANSTALT AG, VIENNA
9	BANK OF MONTREAL, LONDON
10	BARCLAYS BANK PLC, LONDON
11	BAYERISCHE HYPO-UND VEREINSBANK AG, MUNICH
12	CAIXA GERAL DE DEPOSITOS SA, N. YORK
13	CAJA DE AHORROS Y PENSIONES DE BARCELONA, BARCELONA
14	CALYON CORPORATE AND INVESTMENT BANK, LONDON
15	CREDIT INDUSTRIEL ET COMMERCIAL (CIC), LONDON
16	DEKABANK DEUTSCHE GIROZENTRALE, FRANKFURT
17	DEPFA BANK PLC, DUBLIN
18	DEXIA BANK BELGIUM SA, BRUSSELS
19	DEXIA CREDIT LOCAL SA, PARIS
20	DZ BANK AG DEUTSCHE ZENTRAL-GENOSS., FRANKFURT
21	FORTIS BANK SA/NV, BRUSSELS
22	HSBC FRANCE, PARIS
23	HSH NORDBANK AG, KIEL
24	ING BANK NV, AMSTERDAM
25	INTESA SANPAOLO SPA, N. YORK
26	LANDESBANK BADEN-WÜRTTEMBERG, STUTTGART
27	MIZUHO CORPORATE BANK LTD., LONDON
28	NATIXIS, PARIS
29	NORDDEUTSCHE LANDESBANK GIROZENTRALE, LONDON
30	NORDEA BANK FINLAND PLC, HELSINKI
31	SVENSKA HANDELSBANKEN AB (PUBL), STOCKHOLM
32	THE ROYAL BANK OF SCOTLAND PLC TCM, LONDON
33	UBS AG, ZURICH
34	UNICREDITO ITALIANO SPA, LONDON

V. APPENDIX 2: FINANCIAL INTERMEDIARIES USED BY THE FISCAL AGENT

ESSF and PRF
Intermediaries used between January and June 2008

1. BANK OF AMERICA SEC. LLC, USA
2. BARCLAYS CAPITAL INC., USA
3. BAYERISCHE HYPO-UND VEREINSBANK AG, MUNICH
4. BNP PARIBAS SECURITIES CORP., USA
5. CALYON CORPORATE AND INVESTMENT BANK, NY.
6. COMMERZBANK AG, FRANKFURT
7. DEUTSCHE BANK AG, FRANKFURT
8. DRESDNER BANK AG, FRANKFURT
9. DZ BANK AG DEUTSCHE ZENTRAL-GENOSS., FRANKFURT
10. GOLDMAN, SACHS & CO., USA
11. GREENWICH CAPITAL MARKETS, INC., USA
12. HSBC SECURITIES (USA) INC., USA
13. J.P. MORGAN SEC. LTD., U.KINGDOM
14. J.P. MORGAN SECURITIES, INC., USA
15. LANDESBANK BADEN-WÜRTTEMBERG, STUTTGART
16. LEHMAN BROTHERS INC., USA
17. MERRILL LYNCH GOV. SEC. INC., USA
18. MERRILL LYNCH INTL., U.KINGDOM
19. MIZUHO SECURITIES USA INC., USA
20. MORGAN STANLEY & CO. INC., USA
21. NATIXIS, FRANCE
22. SOCIÉTÉ GÉNÉRALE, FRANCE
23. THE ROYAL BANK OF SCOTLAND PLC TCM, LONDON
24. THE ROYAL BANK OF SCOTLAND PLC, LONDON
25. UBS LIMITED, U. KINGDOM
26. UBS SECURITIES LLC, USA

VI. INVESTMENT LIMITS

A. Credit Risk

The PRF's investments must fulfill the following credit-risk conditions and requirements:

The eligible issuers are:

Asset Class (Risk)	Upper Limit
Sovereigns	100%
Multilaterals	60%
Banks	50%
Agencies	30%

A.1 Sovereign Risk

The eligible countries are those, other than Chile, that over the previous 24 months have held a long-term risk classification equivalent to **A-** or higher issued at least by two of the following international credit rating agencies: Fitch, Moody's and Standard & Poor's.

Investment limits for eligible sovereign risk (between **AAA** and **A-**) are:

Risk Classification	Upper Limit
AAA	100%
AA+ AA AA-	90%
A+ A A-	30%

A.2 Supranational or Multilateral Risk

The eligible international organizations are those with a long-term risk classification equivalent to **AA-** or higher issued at least by two of the following international credit rating agencies: Fitch, Moody's and Standard & Poor's.

Investment limits for eligible multilateral risk (between **AAA** and **AA-**) are:

Risk Classification	Upper Limit (US$ million)
AAA Aaa	800
AA+ Aa1 AA Aa2 AA- Aa3	600

A.3 Bank Risk

The methodology for selecting banking institutions and assigning limits is based on international risk classifications and the size of the institutions.

Eligible institutions are those that have a long-term risk classification of **A-** or higher issued at least by two of the following international credit rating agencies: Fitch, Moody's and Standard & Poor's, and a minimum shareholders' equity equivalent to **US$1,000 million**.

Investment limits by institution are expressed in discrete intervals according to the table below:

Risk Classification	Upper Limit (US$ million)
AAA Aaa	600
AA+ Aa1 AA Aa2 AA- Aa3	400
A+ A1 A A2 A- A3	300

A.4 Agency Risk

The eligible agencies are those in the United States with a long-term risk classification equivalent to **AAA** issued at least by two of the following international credit rating agencies: Fitch, Moody's and Standard & Poor's, and a minimum shareholders' equity equivalent to **US$1,000 million**. Investment in any one agency may not exceed **US$800 million**.