OVERFUNDED, PENSION PLANS ARE NO CAUSE FOR CONCERN

Pension Funds

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When institutional investors begin to divest

The route to internationalization via BRD funds

A new model for administrative costs

BRAZILIAN PENSION FUNDS:

diversity in terms of size, risk and complexity

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LETTER FROM THE EDITOR

The Brazilian pension fund industry is very diverse. There are entities of all sizes and risk levels, with public and private sponsorship. Therefore, it would be reasonable to have norms that take these differences into consideration. This is one of the industry's most pressing needs.

The issue of pension fund (or plan) segmentation is discussed in our cover story and other reports throughout the following pages. Pension fund managers and consultants argue that it is paramount to promote further fund - and plan - differentiation when it comes to setting requirements for actuarial valuations, limiting operational and management costs and so on.

A clear view of pension plans' risks and peculiarities could contribute to cost effectiveness and the improvement of supervisory practices, including the full implementation of the Risk Based Supervision approach.

In this second issue of the English version of the magazine you will also read about two relevant aspects related to pension fund investments in Brazil. The first one is the need to review asset allocation strategies as pension plan's maturities inch closer, undoubtedly a challenge for any board member.

We also feature a very interesting piece on BDR funds, instruments used by a number of funds willing to start investing overseas. Foreign investments are definitely gaining momentum among Brazilian entities and are likely to become a stronger trend going forward.

Hope you enjoy the reading!

Flávia Silva
Editor in Chief

Diversity of size, risk and complexity

Having segmented pension funds according to their specificities, it is time to go further and work towards the differentiation of pension plans

In order to grow, the Brazilian pension fund industry must deal with the difficulties associated with its immense diversity. A clear view of pension plans' risks and peculiarities could contribute to cost effectiveness and the improvement of supervisory practices, including the full implementation of the Risk Based Supervision approach.

One of the variables of this equation is the regulatory framework, which must take into account pension funds' distinct characteristics. In the first quarter, the supervisory agency (Previc) issued Normative Instruction n.23, which consolidated the proceedings for actuarial valuations, differentiating two groups of pension funds. The first group is made up of entities that use interest rates included in the specific range set forth by the regulation; the second group comprises funds that choose to make use of alternative actuarial discount rates, which are, for this reason, subject to a more strict set of rules (see box). However, pension specialists favor the implementation of a more coherent, long-term policy mix for the industry.

In a survey, 77% of the 176 respondents cited red tape and governmental hurdles as the most relevant areas for improvement

The Parameter Interest Rate (TJP)

Pension funds' actuarial interest rates are adjustable depending on the economic scenario and the duration of the plan's liabilities.

There are minimum and maximum limits for the Parameter Interest Rate (TJP), which corresponds to the average of three-year daily Interest Rate Term Structure (ETTJ) of federal public bonds linked to the Broad Consumer Price Index at their closest spot in relation to the duration of the plan's liabilities.

The upper band is calculated by adding 40 basis points a year to the TJP, a "risk premium" for pension entities capable of achieving higher returns. The lower band will be equal to 70% of the TJP.

The use of different interest rates within this range shall not require prior authorization from the supervisory agency (Previc). It will only be necessary if the fund manager wishes to use an actuarial rate outside the aforementioned interval. In order to do that, one needs to provide the supervisor with technical studies showing that the desired rate is suitable for the pension plan.

The first steps of segmentation

"Fund segmentation according to size, risk and complexity was an old demand from the industry, which longed to see different pension entities being treated accordingly", say Mauricio Nakata, deputy director of Oversight at the supervisory agency, Previc. "The initiative will be the basis for establishing new supervisory practices and elaborating norms that seek to treat pension funds differently according to their unique profiles." At first, the idea is to have all monitoring, oversight and supervisory activities tailored to the funds' different profiles and, a little further down the road, implement a segmentation model for pension plans as well."

Even though the segmentation initiative is a project of great importance, what ranks high in the supervisory agency's agenda - as well as the industry's - is the full implementation of Risk Based Supervision for more than 1.100 benefit plans.

Cost effectiveness

"One of the industry's most pressing needs is cutting costs", argues Antonio Gazzoni, managing director of Gama Actuarial Consultancy. In a survey conducted by the firm in association with the Social Security Ministry, 77% of the 176 respondents cited red tape and governmental hurdles as the most relevant areas for improvement.

However, cost relief should be pursued cautiously. One needs to assess how, when and at what pace it should be sought, highlights Gazzoni. "Given the problems presently besetting some pension funds, investing in better control mechanisms in the past would have been a much better option than imposing additional contributions to cover deficits now."

Clear principles

The segmentation model brought by Previc Normative Instruction n. 20, which was later operationalized by Normative Instruction n. 21, has met, at least partially, a long standing demand from the industry. According to Gazzoni, the norms were designed with the best of intentions and will certainly generate positive practical effects, even if they refrained from addressing some critical issues. For instance, it is not clear what criteria were used to segment the pension funds. Another shortcoming is that the segmentation applies to pension entities, not plans, while it should ideally be focused on pension schemes' risk levels and maybe even their cohorts.

In Gazzoni's view, the segmentation should be based on a risk matrix and a clear set of criteria widely known by the industry. "Risk Based Supervision is all about trust, so each pension fund has the right to know what type of risk analysis was used in the categorization. This would enable them to adopt measures to eventually change the risk profile attributed by the supervisor." The supervisory agency said it is considering the possibility to make the criteria available to the public in the future.

The lack of transparency in the criteria used to determine pension funds' risk profiles has been subject to much criticism on the part of pension managers and consultants

Technical studies

Published in June 2015, Normative Instruction n. 23 deals with the types of technical studies that pension funds must present to attest its actuarial assumptions. The norm also seeks to differentiate pension funds according to size and complexity. The difference, in this case, is that the instruction was extensively discussed with market participants, making it more transparent and efficient from a regulatory standpoint. In Gazzoni's opinion, the Instruction represents a significant advance in regulation.

Despite the regulator's intention to promote cost effectiveness and pension fund differentiation, the practical effects of the rule are yet to be seen, explains Eder Carvalhaes, senior consultant at Mercer. It might bring additional costs to some plans due to certain requirements such as the need to match future projected returns with each asset class, which tends to be make the studies more complex and time consuming. "Most importantly, however, is to know whether the norm will result in governance improvements that justify the increase in costs."

Even though the instruction includes enhancements in pension fund differentiation when it comes to interest rates structures, most of its contents still treat pension entities in an standardized manner, without considering their distinct characteristics, says Silvio Rangel, superintendent of Fibra (Itaipu pension fund) and coordinator of ABRAPP's

Ad Hoc Technical Commission of Valuation and Solvency. "There was no need to demand the same type of technical studies from funds that opt to use an actuarial interest rate that is within the limits set forth by the regulation. The industry called for such distinction and the regulator listened to us."

In 2001, the enactment of Complementary Laws n. 108 and 109, applicable to public and private funds respectively, was a watershed for plan differentiation

Fastidiousness and survival

Fastidious norms and the lack of fund differentiation in addressing issues of less relevance can give way to bigger problems, with detrimental effects for the full implementation of RBS. "There are many BD plans being closed, sponsors abandoning the company's pension fund in favor of multi-sponsored entities and members turning to banks in search of personal plans due to stringent requirements", claims Evandro de Oliveira, head of Private Pensions at Towers Watson.

Public and private

The enactment of Complementary Laws n. 108 and 109 in 2001 was a watershed for pension plan differentiation. Many pension funds sponsored by public companies - subject to Law n. 108 - manage large amounts of assets, invest directly in the stock market and have stakes in companies with the right to appoint board members. For these reasons - among others - such funds differ significantly from small and medium size pension entities sponsored by private companies, which shall abide by the provisions of Law n. 109, Carvalhaes points out.

But there are striking differences even within the universe of private pension funds. "A pension fund with one billion in assets under management may require internal control mechanisms far more complex than those with fewer assets in the portfolio, which brings us to the present discussion on fund segmentation", say the Mercer consultant.

Flexibility

In dealing with more than 1.100 pension plans, supervisory and regulatory authorities have to face the challenge of creating a robust segmentation model that enables pension funds to receive tailored regulatory treatment in addition to the more generalist legislation", says Cleide Rocha, coordinator of ABRAPP's Technical Commission of Actuarial Affairs. "The supervisory agency is working towards full segmentation, but it is still an ongoing process."

Evandro de Oliveira acknowledges that the supervisory body faces limitations imposed by regulatory landmarks, given that normative instructions or decrees do not always have the power to alter legal provisions. In his opinion, regulating matters that are not explicitly mentioned in the legislation might be the best alternative going forward. ■

When institutional investors begin to divest

For most pension funds, the long time horizon has come to an end and, from now on, the divestment strategy becomes increasingly important

Several drivers have led to important changes in Brazilian pension funds' investment policies: volatility in the global macroeconomic scenario, local uncertainties, high interest rates and diversification needs, as well as the necessity to align pension plans' investment horizons with shorter maturities and match assets and liabilities. Pension funds are at the beginning of an adjustment process in their role as long-term institutional investors; after all, many plans have begun to reach maturity, which has led to shorter cash flows.

Maturity stages, of course, vary widely from plan to plan. Nevertheless, this can be seen as a "systemic" phenomenon: cash flows have been shortened, thus requiring adaptations in asset allocation strategies, says Silvio Rangel, superintendent of Fibra, (Itaipu pension fund). "Some pension funds have shifted from investors to institutional "disinvestors" due to the maturity of their pension plans, which already pay more benefits than collect contributions." In this process, reducing the duration of liabilities might be the main influence on investment policies over the coming years.

The regulatory agency (National Board of Complementary Pensions - CNPC) has already given clear signs over a concerted move towards the alignment of the rules with the shorter duration of liabilities. "Before Resolution CNPC 15 was issued, the supervisory agency (National Superintendence of Pension Funds - Previc) was yet to standardize the calculation method for the duration of liabilities and consolidate a spreadsheet of projected benefit payment flows, which is now being done for the first time", Rangel noted. This process will enable the regulator to have a broader view of future flows so as to make a more accurate diagnosis of the system as a whole.

The present situation demands that investment horizons be more carefully set, with special attention given to liquidity risk mitigation. It is essential to manage the exit from the stock market appropriately, avoiding, for instance, the selling of financial assets in bad market timing. "The most important thing to worry about when it comes to investment policy design is calibrating risk according to the time horizon of each pension plan", the executive said.

Risk and high interest rates

Considering the variables of the economic cycle, high real interest rates have worked against diversification, once they have been the main driver as to whether or not to look for higher returns outside the fixed income segment (public bonds, especially). However, the continuous rises in Brazil's benchmark interest rates (Selic) should not prevent pension funds from diversifying their asset allocation. Diversification remains on the agenda, since it is necessary to achieve sufficient levels of return so as to incorporate the risk premium brought by the new valuation rule.

"After achieving enough returns via fixed income investments, pension funds will seek higher yields in order to be awarded the risk premium", highlights

Investment horizons must be more carefully set, with special attention given to liquidity risk mitigation. It is essential to avoid the selling of financial assets in bad market timing

> "Plans willing to take more risk and consider longer term horizons are forced not to do so in order to comply with the three-year timeframe for dealing with any underfunding"

Maurício Wanderley, Investment director at Valia (Vale do Rio Doce pension fund). He claims that high real interest rates are just a snapshot of the moment. "The market expects benchmark interest rates to fall and risky assets to be repriced." Although circumstances conspire against diversification and risk taking, the greater harmonization of asset/liability valuation models allows pension funds to think in the long term with an increased risk appetite, he argues. "Opportunities have been given to those with a long-term perspective."

Individualized management

Despite the long-awaited changes in valuation models, pension fund solvency rules still lack adjustments according to Silvio Rangel. In his opinion, this contributes to lower average investment periods and increased risk aversion. "Plans willing to take more risk and consider longer term horizons are forced not to do so in order to comply with the three-year timeframe for dealing with any underfunding."

The divestment tendency has already been noticed in more mature plans that have a clearer picture of cash flow projections and benefit payments. The adjustment of solvency rules associated with the new valuation model will be crucial to minimize impacts and treat different pension funds accordingly, making sure that plans are managed in an individualized manner, says Luis Mario Monteiro, head of the investment area at Towers Watson. According to Monteiro, individualized management "allows for the achievement of longer term results that are more compatible with the asset/liability profile of each plan and that could entail less volatile costs for sponsors."

Resilience

The search for investment diversification and sophistication cannot be abandoned every time the benchmark interest rates are increased, given that this could exacerbate the negative impacts of occasional changes in the economic scenario, claims Flavio Bacellar, senior adviser at consultancy firm PPS Portfolio Performance. "Ideally, one should have a portfolio that is focused on plan liabilities and, at the same time, sufficiently diversified so as to avoid the consequences brought by adverse scenarios. Diversification brings resilience, which is paramount for pension funds."

Pension consultants recommend a more in-depth assessment of plan maturity and investment decisions. "There are no guarantees that a presently overfunded mature Defined Benefit plan will remain so due to demographic risk, among others. Therefore, I don't see why one should curb investments", says Everaldo França, director at PPS Portfolio Performance.

In addition, one must note that the cash flow matching is not always accurate because the market does not offer enough public bonds for all maturities. "The plan manager may match the liabilities for thirty years, but if he has to pay benefits on the date the bond matures, what rate would he be able to reinvest at?"

The key is buying bonds when interest rates are high, but also reaching out to credit and other more sophisticated investments. However, in a mature but underfunded plan, where all of the aforementioned problems are more pronounced, it might be necessary to require additional contributions from pension plan members and/or sponsor or make more sophisticated investments and take higher - yet calculated - risks, says França.

The expert believes that pension fund investments in global equity funds are an example of diversification initiative that took too long to get off the ground, although it might be critical going forward. "Discussions began in 2010 but the first allocations were only made in 2014. Brazilian pension funds lost all the rally in the U.S. stock market during that period."

Currently, some funds have already reached the upper limit - set by regulation - of 10% of total assets to be invested overseas, an appetite that tends to grow as European markets recover and the euro devalues, making European companies more competitive. This brings in new investment opportunities besides U.S. stock market indexes.

Reducing volatility

The Brazilian poor economic performance in 2012 had already triggered changes in the investment strategy of Funcef (Brazil's third largest pension fund), says Mauricio Marcellini, the entity's Investment director. The previous investment policy, which aimed to bolster allocation in financial assets linked to the economic growth, was changed to favor short-term gains in fixed income while gradually decreasing the variable income portfolio, a shift to be implemented until 2019.

The economic cycle is favorable to increases in the fixed income segment but the fund maintains a diversified portfolio because once the crisis is over, the economy should be back on track, which will benefit investments in assets linked to the economic growth. "More than half of the fund's portfolio was invested in such assets. However, we had to lower the allocation in order to reduce short-term volatility."

Diversification abroad

The investment policy of Funcesp (Brazil's largest privately sponsored pension fund) has not been subject to any significant changes compared to 2014. The only innovation was the increase in allocation in three foreign equity funds, from BRL 70 million to BRL 140 million (USD 1 = 3.80 BRL app.).

In 2014, Funcesp had 14% of its assets invested in variable income. Throughout this year, the fund intends to keep this percentage unchanged, although the allocation will be redistributed as follows: two thirds in the domestic market and one third abroad.

Pension fund investments in global equity funds are an example of diversification initiative that took too long to get off the ground, although it might be critical going forward

Liquidity management

Fibra's investment policy foresees only low-risk investments in the long run. The trend is to shorten investments maturities, since the fund already pays twice as much in benefits than it collects in contributions. Therefore, it needed to manage liquidity by reducing risks through a portfolio composed of Treasury Bonds (long) - known as NTN-Bs -, which are linked to long term inflation or the benchmark interest rate (Selic). The purpose is to make the most of current interest rate returns.

The fund's exposure to variable income, which reached 15% of total assets in 2014, has dropped to 7% this year. "Since 2014, we have invested abroad via two equity funds that have yielded significant returns", says Silvio Rangel. In aggregate, such returns amounted to nearly 40% through April, allowing for the reallocation of some of the gains into Treasury Bonds and Interbank Deposit Certificates, the so-called CDI. As the redemption was only partial, the pension entity maintained the rate of 1% of total assets invested overseas.

A more conservative profile

In April 2015, the Governing Body and the Board of Directors of Petros (Petrobras pension fund, the country's second largest) have approved changes in the fund's investment policy consistent with a more conservative investment profile, claims Licio Raimundo da Costa, Petros' Investment director. Amendments in the fund's investment policies also foresee improved control mechanisms for assets that bear more risk, with due differentiation according to each plan's profile.

Petros' board has also enacted changes to be applied to all pension plans under management, including a change in the return benchmark for real estate investment funds. The previous benchmark - National Extended Consumer Price Index (IPCA) + 5.5% - was replaced by a new one, which consists of the same index plus 6%. Further changes are being scrutinized by the board.

Portfolio Balancing

Plan members, who are able to choose their own investment funds, define Forluz appetite for risky assets. Currently, the 8th largest Brazilian pension fund offers four investment funds with a range of 10% to 50% allocation in variable income, global equity and multimarket funds. Fixed income, real estate and loans are available in all investment funds. Investments abroad are subject to a 2% limit of the assets under management.

Forluz has developed its own asset selection model in order to benefit from geographical, economic, capital market, industry and currency diversification. The long-term strategy does not foresee investments based on market timing that provide very short-term results. ■

Overfunded, pension plans are no cause for concern

The Brazilian pension fund industry is internationally recognized for its high corporate governance, professionalization and regulation standards

The Brazilian pension fund industry is widely recognized as one of the most advanced in the world. It is so much so that international missions are frequently coming to the country to learn from its best practices and experiences. It is clear how pension funds have evolved throughout the years in areas such as corporate governance, level of professionalization, supervision and regulation. As a result, the industry, as a whole, has a positive solvency ratio in spite of specific problems with very little impact on pension funds' financial health that tend to be widely disseminated, thus creating a distorted perception of reality.

"We are often criticized because of one or two occasional problems, but the industry, as a whole, is doing very well. In aggregate, pension funds hold good solvency positions, which means that our assets exceed our liabilities", says José Ribeiro Pena Neto, the president of ABRAPP. Some solvency levels are even higher than those of American, Canadian and British pension funds, three developed countries with praised welfare systems, he notes.

International recognition

In a statement sent to its members, ABRAPP had already emphasized that the Brazilian model is internationally recognized as a success, not only in terms of governance and regulation, but also in respect of actuarial matters, among others.

As far as management, governance and controls are concerned, the Brazilian industry also distinguishes itself. The regulatory mark is certainly one of the highlights. CGPC Resolution n. 13, enacted ten years ago, set forth stringent governance requirements for pension funds, such as business process mapping and strong internal controls.

Some solvency levels are even higher than those of American, Canadian and British pension funds, three developed countries with praised welfare systems

It is also worth noting that plan members have guaranteed seats in the funds' boards, especially those sponsored by public companies, as foreseen in Complementary Law n. 108. The industry's design and regulation are amongst the best in the world, as certified by international specialists - including those from the Organisation for Economic Co-operation and Development (OECD), which is an international center of excellence when it comes to social protection policies.

Particular attention is drawn to the adoption of Risk-Based Supervision (RBS), which allows the supervisory agency to identify, with the help of indicators, specific measures and action points. The RBS methodology also induces the implementation of risk-based management in the pension entities.

All these efforts have led to positive results. In recent years, the industry has easily exceeded its actuarial goals. "Deviations might happen, but they are momentary points outside the curve. The industry - as well as ABRAPP - believes that specific cases should be properly monitored and subjected to punitive measures within the fullest extent of the law", reads the statement.

ABRAPP also mentions Presidential Decree n. 4942/2003, which establishes a set of penalties applicable to pension managers, as individuals, in case of misconduct. The rules are perfectly aligned with securities market's best practices. Finally, the association's statement points out that the certification process devoted to pension professionals has contributed to increased levels of professionalization in the industry.

Long-term investors

Pension funds are long-term investors that rely on extensive periods for reserve accumulation. Given the generally long-term nature of pension obligations, the investment process also has extended time horizons.

For these reasons, pension funds have no need to sell financial assets in bad market timing in order to meet urgent obligations. As long as they do not sell the momentarily undervalued asset, pension entities should consider the alleged "loss" only from an accounting perspective.

One needs to distinguish two kinds of deficit: cyclical and structural. The cyclical deficit is momentary and generally affects all the economic agents of a given country due to the economic cycle. Structural deficits, in turn, require more immediate recovery measures.

Industry figures

Figures do not lie. The Brazilian pension fund industry has a successful track record. In the past 20 years, pension entities have accumulated 2.187% in returns, way beyond what was necessary to cover their liabilities in the period: 1.189%. Therefore, they are in very good financial position to meet their future obligations.

Proof that Brazilian pension funds' are in good financial health is that all plans are up-to-date with the payment of retirement benefits. An impartial look at pension funds leads to the conclusion that the industry is successful, solid and more than capable of generating good results not only for its members, but also for the Brazilian economy, through the financing of long-term investments.

"We see some bad short-term results, the same as all economic agents. In the Brazilian financial market scenario, not any investor has had a good performance in the last few years. The stock market performed badly and the fixed income segment suffered with great volatility. The cyclical setbacks faced by pension funds were the same for any investor in Brazil in the past two or three years", argues Ribeiro.

In the past 20 years, pension funds have accumulated 2.187% in returns, way beyond what was necessary to cover their liabilities in the period: 1.189%

Looking at pension plans specifically, the president of ABRAPP asserts that only very few of them suffer from chronic underfunding, with the remaining of funds being financially healthy. With the expected economic recovery, the outlook for the pension fund industry is also good.

Ribeiro says that one needs to look at the bigger picture. "Our records are very good. For quite a long time, pension funds have been able to achieve much higher returns than needed. If we compare our investment results with our liabilities, we can know for sure that the future is bright. We will have enough assets to meet our obligations in the future, which is essential."

Ribeiro is optimistic when it comes to the Brazilian economy. "Brazil is adopting the first measures of fiscal adjustment. It is a rather slow and painful process. We are hopeful that the necessary steps will be taken and that things will be back on track throughout 2015/2016", he says. When it happens, pension funds will recover their losses and obtain good financial results once again. ■

Lowering the costs of actuarial valuations

In order to have cost effective and high quality actuarial valuations, pension plans need to receive regulatory treatment compatible with their different risk profiles

Actuarial valuations are undoubtedly important for pension plans. When it comes to such studies, pensions managers, consultants and regulators agree that the more transparency, the better. The trouble lies in promoting high levels of transparency without overburdening pension funds, forcing those with limited internal management capacity to resort to external service providers for data collection and analysis. Establishing what requirements should be met by each plan - according to its size and characteristics - is the best solution to leave

> "Risk controls exist for a reason. If the costs associated with such controls are higher than the impact of the risks being assessed, then it makes no sense at all"

out unnecessary or irrelevant items. It is even more important to determine what risks should be covered by the actuarial valuation, thus avoiding unnecessary costs associated with assessments that have little influence on the plan's results.

"It is neither the size nor the level of plan sophistication that determines the need for actuarial valuations. It is all about plan design and what is set forth in the by-laws", argues João Marcelo Carvalho, Operational and Private Pension Director at Gama Actuarial consultancy. For example: even if the legislation dictates that actuarial valuations must be performed once in every three years, it is advisable to have shorter intervals in case the plan has a higher level of actuarial risk. From a technical standpoint, says Carvalho, it is possible to discuss ways to promote cost relief when it comes to actuarial valuations. However, actuarial assumptions must always be carefully defined, no matter what.

To Valéria Bernasconi, superintendent of PRhosper (Rhodia pension fund), actuarial valuations must take into account each plan's risks and their impact in order to become more cost effective. She points out that all plans are presently required to carry out studies for each actuarial hypothesis. In some cases, such as when calculating minimum pension benefits, the impact may be negligible.

The Brazilian regulation requires that pension funds gather data pertaining to periods of three to five years for each one of the actuarial assumptions, filing actuarial valuations updated on a yearly basis. "I believe that the valuations should be carried out in longer intervals", adds Bernasconi.

For pension funds that rely on third party service providers, the additional workload results in higher costs that are not always proportional to the risks being assessed and their impact on the plan's liabilities. In some cases, even if the hypothesis is totally inadequate, the impact may be irrelevant. "Risk controls exist for a reason. If the costs associated with such controls are higher than the impact of the risks being assessed, then it makes no sense at all."

The pension manager suggests the use of a model to determine what assumptions should be included in the actuarial valuation with basis on risk or value percentages associated with the impact of each item in the plan's liabilities. At first, there could be a kind of plan segmentation and later the assessment of risks within each pension plan. Whenever the impact is negligible, no controls should be required or at least imposed at longer intervals.

Effectiveness

The new rules for calculating pension plans' interest rates are seen as a big improvement, since they take into account the needs and specificities of each pension scheme. But when it comes to biometric assumptions, there is still a regulatory mismatch. Plans with few members and thorough actuarial valuations should not be required to carry out detailed studies to attest all actuarial hypotheses, limiting such studies to calculations of the discount rate, says Fernando Sabaté, CEO of PrevUnião pension fund, that manages a DB plan with 600 members and app. USD 90 million in AuM. "If we had a different regulatory framework, PrevUnião, with a 34-year track record of unfailing monitoring of its actuarial assumptions perfectly suited to the profile of plan members, would not be unnecessarily burdened by studies concerning its biometric table."

Alternatively, the regulator could give pension funds more flexibility to define the intervals in which they must carry out actuarial valuations. "We understand the supervisor's concern with the financial health of the plans, but it should also consider other management tools, such as ALM studies, instead of imposing additional requirements that tend to be onerous and sometimes unnecessary."

When pension plans are small and new, with a limited number of members, or in situations where the absence of risk factors would not justify the need for actuarial valuations, pension actuaries could be excused from conducting the studies, says João Marcelo Carvalho. "However, this alternative should only be used as a last resort. After all, there are statistical methods especially designed to validate actuarial assumptions in plans with a limited number of members."

The pension fund segmentation brought by Previc's Normative Instruction n. 20 - issued in March - might be a indicator that the supervisor is willing to give differential treatment to funds with distinct characteristics, argues Sabaté. "This is very important for the industry given the present financial difficulties faced by some sponsoring companies that cannot be overburdened by their pension plans, which are seen as fringe benefits for the employees." However, a segmentation model to promote cost relief in actuarial valuations would have to go way beyond the provisions set forth in the aforementioned Normative Instruction, claims Valéria Bernasconi.

Changes ahead

Moving forward was precisely the supervisor's intention with the issuance of the norm, which breaks up pension funds into categories according to size, risk and complexity.

The Instruction divides pension entities into three different groups - to be updated periodically - that may gain additional subcategories and subdivisions in the future. The idea, however, is to avoid too much complexity or constant changes so as not to create a "hydra-headed monster".

"We understand the supervisor's concern with the financial health of the plans, but it should also consider other management tools, such as ALM studies"

Concerning actuarial valuations, Brazilian pension plans must abide by the provisions of Previc's Normative Instructions n.1 or n.7, depending on the discount rates adopted

The industry still lacks a firm grasp of the scope and application of the Normative Instruction. For the time being, pension funds have misread the rule, with the main focus being on the specific difficulties faced by each pension entity. The segmentation project is still in its early days and complementary rules are yet to be issued, explains Mauricio Nakata, deputy director of Oversight at Previc.

The segmentation project, which is likely to become clearer after new rules are issued, will impose improved governance mechanisms on pension funds in general, as well as the provision of larger amounts of information on entities that fit in the group or profile n.1 (higher risk level).

It is feasible to have a segmented view on actuarial valuations as well, says Nakata, although it would require a review of the criteria pertaining to the three different groups (profiles), since the rules governing valuations are applicable to pension plans, whereas the segmentation, as presently structured, focus on pension funds. "This is a much more complex step because it involves dealing adequately with cohorts and types of plan sponsorship, among other aspects. However, the issue is under consideration."

Level of Complexity

As far as actuarial valuations are concerned, Brazilian pension plans must abide by the provisions of Previc's Normative Instructions n.1 or n.7. The former sets out more detailed criteria since it applies to pension funds that need the supervisor's authorization to adopt actuarial interest rates above the pre-established range foreseen in the regulation. Funds willing to use discount rates within the statutory interval are required to conduct less complex valuations as defined by Instruction n.7. These studies do not have to be submitted to the supervisory authority, even though they should be readily available upon request.

In Joao Carvalho's point of view, the alternative as to whether or not a pension fund should submit its actuarial valuations to the supervisor depending on the actuarial rates adopted is the right approach. However, he claims that pension funds must test their assumptions very carefully regardless of what is the norm governing the issue. Previc is even working towards the merger of both instructions with the aim to create a standardized model with equal requirements for all pension funds. The only remaining difference will be to submit (or not) the studies to the supervisor.

If the change in regulation tips towards more stringent requirements - as set forth by Instruction n. 1 - costs are likely to increase. Conversely, if Normative Instruction n. 7 is used as reference for the renewed norm, costs might be reduced. "Ideally, neither of the previous instructions should be taken as sole reference. The supervisor should work towards the unification of the norms in order to come up with requirements that are neither too simple nor too complex." ■

Beneficial for members and pension funds

No operational fees and special tax treatment are some of the advantages brought by pensioner contributions

According to the Brazilian Institute of Geography and Statistics (IBGE), the total life expectancy in Brazil has increased sharply in the past few years. In 1940, the average life expectancy at birth was 43 years; in 1970, it had increased to 53 years, reaching 70 years in 2000 and 74.6 in 2014. In 2030, the average Brazilian is expected to live 78 years, reaching 81 years of age, in general, by 2050. As a result, the number of people aged 65 and older should exceed 65 million, from 11% of the population today to 23% in 2050.

This trend goes hand in hand with the dissemination of Defined Contribution plans, in which the benefits are directly linked to the contributions made to the plan, the length of affiliation and investment returns, says Miguel Leôncio Pereira, actuary and director of specialized firm Consult Mais. In DC schemes, financial and actuarial risks are entirely borne by plan members.

The Brazilian Constitution and Complementary Law n.109 establish that pension funds' operations are of civil and private nature. The legislation also dictates that there must be a clear segregation of pension funds' and sponsoring companies' assets. Pension assets are accumulated via the capitalization of reserves, which shall guarantee the payment of the benefits accrued. Thus, if the legislation itself foresees that pension plan beneficiaries (pensioners) may be required to make contributions in the case of plan underfunding, apparently there is no reason why they should not be allowed to contribute voluntarily on a regular basis.

Experts agree that these contributions would need to be further discussed by the industry as well as properly regulated in order to become operational and provided for in the schemes' by-laws and costing plans. A taxation regime would also need to be defined. In operational terms, adjustments are needed so as to establish controls for such funds in the pension contracts, benefit and investment statements, investment profiles and so on.

In case of death, the assets accumulated after retirement would be handed to family members

Basic modalities

According to legal expert Roberto Messina, Complementary Law n.109 only refers to pensioner contributions in the case of deficits. To some specialists, the legislation might even imply that regular pensioner contributions would not be allowed. However, Messina points out that such impression is far from true, given that pension plans managed by pension funds are ruled by Private, Contract Law, which is based on (i) licit purpose, capable agents, form provided or not prohibited by law; (ii) objective good faith and social role of the contract, and (iii) balance of rights and obligations.

It means that pensioners who have other sources of income besides the pension plan could opt to make additional contributions to the scheme (whether it is DB or DC) due to its good asset management practices, which could help achieve higher replacement rates in old age. In the case of death, the accumulated assets would be handed to the beneficiary's family.

Since such contributions would have to be provided for in pension plan by-laws, the supervisory agency (Previc) has to give explicit authorization to individual schemes. However, it should not be a problem given that the supervisor has reacted positively to previous requests for authorization in face of non-existing regulatory constraints.

In Messina's view, allowing regular pensioner contributions is a good idea. Pensioners should be free to choose how much and how often they wish to contribute, as long as the following requirements are met: (i) there needs to be transparency in relation to the source of funds so as to avoid money laundering, and (ii) one separate account must be set up in the name of the pensioner, in the case of DB plans, in order to facilitate the transfer of assets in the event of death.

Special attention should also be given to tax matters. If the pool of assets to be invested has already been taxed, only the investment returns should be subject to new taxation. This is a much more complex matter, once it would possibly require adjustments in the rules issued by Brazilian tax authorities.

Paulo Stockler, from Mongeral Aegon Investments, believes that allowing pensioners to contribute regularly to their pension plans is a great step forward for the pension industry. In his view, it would consist of a voluntary action aimed at obtaining tax advantages. Other aspect that might influence one's decision to contribute is the level of confidence in the pension fund management.

> In face of non-existing regulatory constraints, the supervisory agency has reacted positively to changes in plan by-laws

The successful case of EMBRAER PREV

On a meeting with retirees, the superintendent of Embraer Prev, Eléu Magno Baccon, was asked why pensioners were not allowed to make ordinary contributions to the pension plan. In that occasion, he became familiar with the situation of a retired member, who made frequent contributions to a personal plan managed by a banking institution in order to reduce the withholding tax in his annual income tax statement. "That is when we started to consider the possibility", says Baccon.

A proposal to change the plan by-law was then subjected to the supervisory agency's approval. At first, Previc had a few questions regarding the alteration, which was later authorized. The agency understood that it would be a new way to increment and/or preserve the amount of assets under management in the fund via tax incentives that were already foreseen in the legislation. "We were later congratulated by the agency's board of directors for presenting the proposal."

Contributions may be made to the plan at any given time via deposits in the fund's current account. In order to do so, the pensioner must use a special form made available on the entity's homepage. However, the pension fund must give prior authorization to the bank deposit due to the applicable legislation on money laundering. Once the contribution is made, the pensioner's account balance and monthly benefits are automatically recalculated. At the end of each fiscal year, EMBRAER PREV provides a statement of contributions for the reference period (easily accessible on the website), so that the pensioner may state the total amounts in his/her income tax annual returns.

According to Baccon, the most meaningful advantage is the increase of the pensioner's total assets, even after he/she has started receiving benefits. Besides the tax advantages, no operational fees apply to these contributions. Although the initiative is relatively new at EMBRAER PREV, around 5% of retirees are already making regular deposits in the pension fund's current account.

The plan is being gradually publicized through marketing campaigns and the fund's financial education program "Educating for a Better Future". The search for information increases every month. "We believe that we will have a large number of people contributing in the near future", says the superintendent.

Advantages

Magno Camelo, actuary and consultant at Luz Soluções Financeiras, argues that ordinary pensioner contributions are beneficial because they make it possible for the retiree to improve his/her income upon relying on a qualified investment team with access to a wider range of financial assets at relatively low costs. Moreover, these contributions help increase the total assets under management in the funds, allowing some of them - especially the small sized ones - to access a broader range of investment funds. Finally, as the pensioner contributes to the plan, he tends to become more involved in the pension fund's decision-making processes either through retirees' associations or by taking up a seat in the governing board.

So far, the supervisory agency has not conducted any specific studies with the purpose of encouraging regular contributions

> At EMBRAER PREV, around 5% of all pensioners are already making regular contributions to the pension plan

from pensioners. Complementary Law n. 109 demands that pension funds' costing plans - to be elaborated at least once a year - set adequate contribution levels so that the guaranteeing resources are enough to meet the fund's obligations in full, except in special cases determined by the supervisor. The law dictates that mathematical reserves shall be fully accumulated the moment the pensions starts to be paid, even though there are some mature plans whose documents - kept untouched over the years, foresee regular pensioner contributions.

In the industry's regulatory framework, the subject had been dealt with in CGPC Resolution n. 18, from March 2006, which reiterated the need for mathematical reserves to be fully accumulated at the retirement date. More recently, however, CNPC Resolution n. 15, from November 2014, allowed for some flexibility, stating that mathematical reserves should be fully accumulated taking into consideration the average projected period for the payment of benefits. This, in theory, would give plans the green light to allow pensioner contributions. Nevertheless, for now contributions from plan beneficiaries remain limited to situations of underfunding. ■

The need for disclosure in the Brazilian capital market

About a third of the 100 largest Brazilian listed companies still resist disclosing compensation policies in place for directors and board members

Transparency and total disclosure of information related to corporate governance, including very clear executive pay policies, is the only way to attract more investments to the Brazilian stock exchange (BM&FBovespa). Widely discussed in the United States, executive compensation is still a taboo among Brazilian enterprises, which are dependent on controversial agreements that may influence investment outcomes.

“The correlation between good governance and executive compensation is very important. Brazilian companies need to move in this direction and bring these data to light”

Recent data show two concerning aspects: (1) executives’ growing compensation is not always aligned with the companies’ performance or inflation rates; and (2) the largest Brazilian companies listed in BM&FBovespa – 33 of the top hundred – still resist to disclose directors’ and board members’ remuneration. So as not to comply with the regulation set forth by the Securities and Exchange Commission of Brazil (CVM), many of these companies have been using an injunction obtained by Rio de Janeiro-based Brazilian Institute of Financial Executives (IBEF), which sets as optional the disclosure of relevant data pertaining to the issue.

This situation exposes the fragility of some corporate governance mechanisms of companies that are, in theory, perfectly capable of disclosing more information, thus providing higher safety levels to shareholders and investment analysts. A recent study released by the Brazilian Institute of Corporate Governance (IBGC) shows an increase of 12.3% in the average annual compensation of statutory directors in 2013 against the previous year. Considering the inflation rate of the period (5.5%), real gains amounted to 123%.

Alignment of interests

Institutional investors have taken a leading role in guiding corporate governance practices worldwide. Pension funds, in particular, have played a key role in monitoring executives’ compensation policies in the invested companies. “The correlation between good governance and executive compensation is very important. Brazilian companies need to move in this direction and bring these data to light”, says William Sherwood-McGrew, Deputy Director and Portfolio Manager at the California Public Employees’ Retirement System (CalPERS).

During an international debate on the Brazilian capital market promoted by the Capital Markets Investors Association (AMEC), McGrew noted that the subject could not follow a pre-established standard because “one size does not fit all”.

According to him, it is necessary to balance shareholders’ interests and companies’ compensation policies in order to avoid the so called “agency conflict”. The alignment of executive pay programs and company performance is also important because it has long-term implications for shareholders, although it involves the need for full information disclosure.

McGrew also pointed out that CalPERS considers information disclosure on executive compensation as one of the most important requirements for invested companies. Similarly, it is also crucial to reveal the correlation between the company's return on equity and the remuneration of its executives. "In some cases, the amounts paid to executives increased despite market downturns that negatively affected the shares' performance".

Shared vision

"Furthermore, we like to know if the CEO and the senior staff have the same point of view as CalPERS - as a long term investor - on the company's future because its reputation will remain with us forever", added McGrew. The Californian pension fund has discussed compensation policies with invested companies in Brazil, as well as governance requirements related to responsible practices, environmental policies and human resource management, among others.

"The Brazilian market is relevant to us. We have established a good dialogue with the companies and we are moving forward", the manager said. He cites as main challenges obtaining transparent information relevant to investment decisions, as well as having enough disclosure on boards' dynamics and composition.

From the manager's point of view, getting to know the remuneration figures is not as important as knowing if the values have changed throughout the years. "We need to know if they have increased or decreased and what factors have triggered such changes because they show us how the subject is handled by the board."

Resistance

The disclosure of information on compensation is sort of a taboo among Brazilian companies. At the same time, the country's institutional investors, normally the ones that influence governance practices in other parts of the world, have not given much important to the subject.

The use of IBEF's injunction as a protection against CVM's disclosure requirements is corroborating evidence. Having decided that it was about time to interfere, AMEC sent a letter to a group of companies in May recommending that they would abdicate the use of the injunction and start disclosing the data in order to comply with regulatory requirements.

In the letter, the association argues that publicly traded companies must adopt transparent executive compensation policies for two main

According to CalPERS, getting to know the remuneration figures is not as important as knowing if such figures have changed over the years

A study showed that although Brazilian companies registered losses between 2010 and 2013, executives' bonuses increased 4% during the period

reasons: the first one is the opportunity to show how the shareholders' capital has been used; the second one is to influence the financial incentive structure, which may impact, positively or negatively, the occurrence of agency conflicts.

The letter also pointed out that having more transparency towards executive compensation helps shareholders understand the company's decision making process and decide whether or not they want to invest in its shares. The letter was sent to boards of directors and CEOs of all the companies listed in the Brazilian stock exchange's Ibovespa index that have relied on IBEF's injunction.The companies are: Gol, Iguatemi, Gerdau, IMC, Fibria, Itaú Unibanco, Itausa, Eztec, Even, Kroton, Embraer, Duratex, Lojas Americanas, CSN, CPFL Energia, Minerva, Cosan, Multiplus, Oi, Cielo, CCR, Pão de Açúcar, Brookfield, Braskem, Santander, Suzano, Bradespar, B2W Digital, Telefônica Brasil, Tim, ALL, Bradesco and Vale.

Responsibility

"We expect the letter to generate critical thinking and make managers realize how important it is to disclosure this type of information", says Mauro Cunha, president of AMEC. From now on, the interaction between AMEC and ABRAPP (Brazilian Association of Pension Funds) should be strengthened so as to facilitate discussions on governance issues. "The Brazilian market is still in a learning stage. On the other hand, pension funds have a more developed point of view about their fiduciary duties, thus being able to induce changes and require a higher level of commitment from the invested companies."

Simple questionnaire

Renato Chaves, corporative governance expert and board member of a number of companies, finds it worrisome that shareholders are not able to identify remuneration anomalies within large publicly traded corporations.

Researches indicate that despite the absence of any increase in earnings, the executive compensation is many Brazilian companies continues to grow. A study released by IBGC showed that although enterprises registered losses between 2010 and 2013, executives' bonuses were 4% higher during that period.

"Regardless of each pension fund's analytical capacity, pension entities may require that invested companies answer a small questionnaire composed of simple questions such as why compensation levels have grown above

This year, BB DTVM decided to deal with remuneration issues, putting together a detailed evaluation for its invested companies – a total of 100 enterprises and 50 equity funds

inflation, for example", suggest Chaves. Pension funds have influence on the market and although it may seem that an opposing vote from a shareholder - even with a small stake - will not make difference, it may "set off an alarm", he says.

Opposing vote

This year BB DTVM (Banco do Brasil's asset management arm) decided to deal with remuneration issues, putting together a detailed evaluation devoted to its invested companies – a total of 100 enterprises and 50 equity funds - before casting a vote in shareholders' meetings. "We have segregated boards' and directors' global compensations and used *per capita* remuneration criteria to compare the values of 2014 and the ones proposed for 2015", explains Jorge Marino Ricca, BB DTVM's executive manager of Equity Funds.

The goal was to verify if the executives' fixed remuneration was aligned with projected inflation rates. "Many companies didn't even answer our question. We considered it disrespectful to the shareholders and voted against it." Regarding variable remuneration, the comparison was made with basis on expected earnings variation. "If the information was not made available or if we considered it insufficient, we voted against any related proposals." At the end of the consultation and voting processes, the approval rate was 64%.

Controversial subject

The companies' point of view, represented by ABRASCA (Brazilian Association of Publicly Traded Companies), highlights how this is a controversial subject within the market. "We have been discussing and sharing opinions on the issue. Companies must comply with CVM's rules, but we worry about their viability", says Henry Sztutman, president of ABRASCA's Legal Affairs Committee.

CVM has reinforced disclosure obligations and annual shareholders' meetings need to include not only fixed but also variable remuneration levels. Reference forms should contain specific information. "Managing a publicly traded company is a complex activity that requires a lot of responsibility. Therefore, we need to move forward in the discussion surrounding conflicts of interests and the levels of disclosure in these situations", adds Sztutman. Some people might think that too much information can interfere with the analysis but, despite the difficulties, "information is never enough", he admits. ■

A new model for administrative costs

Establishing qualitative criteria and promoting standards to facilitate pension fund comparison is paramount to improvements in the area

Having a better knowledge of administrative costs and revenues, with updated costing plans and result optimization, is a challenge that has caused Brazilian pension funds to revisit several concepts and criteria. The topic is of growing importance as one seeks to increase the competitiveness of private pension plans and ease the burden on pension fund members and sponsors.

Pension consultants have noticed an ever-increasing interest on the subject based on the number of requests for actuarial valuations of pension plans' administrative funds. Such interest can be perceived as a sign of concern regarding projected costs and revenues, since this kind of valuation provides optimum combinations of operational and asset management fees, thus keeping the costing plan well balanced.

According to Fernando Gazzoni, partner and CEO of Gama Actuarial Consultancy, besides knowing what fees to charge in order to maintain its financial balance, the pension entity must monitor administrative costs levels through the use of certain indicators. He points out that the supervisory agency - Previc - has done "a fine job" in maintaining, since 2010, an updated series of comparative studies on the funds' administrative costs. The most recent of such studies refers to 2013 and reveals that the administrative cost *per capita* in Brazilian pension funds is BRL 806/year (USD 1 = 3.80) on average.

In large pension entities - with more than BRL 15 billion in AuM, the average administrative cost *per capita* is BRL 1.180/year, while in smaller funds (less than BRL 100 million in AuM), it averages at BRL 655/year. The most cost effective funds are mid-sized ones (with AuM ranging from BRL 100 million to BRL 200 million), in which the average cost *per capita* is BRL 398/year. "Figures show that, in general, pension funds have not been able to take advantage of economies of scale", says Gazzoni.

Revisiting concepts

How can governance, control mechanisms and communication be improved without the risk of placing an excessive burden on plan members and sponsors? How can a suitable costing model be found, one that is based on qualitative indicators and standardized criteria for establishing adequate fee levels? These are some of the questions to be answered by the pension fund industry.

The quest for answers is part of the work being developed by a National *Ad Hoc* Technical Commission (CTN) established by ABRAPP. "Elaborating proposals for the review of Resolution CGPC 29 (issued in August 2009), that sets forth criteria and limits for the costing of such expenses is what this work is all about", explains Evenilson Balzer, CTN coordinator and vice president of the National Association of Pension Accountants (Ancep).

The idea is to elaborate guidelines to orient the implementation of qualitative criteria, thus helping the supervisory agency create a norm that can treat different pension funds accordingly. The discussion involves setting up a time framework for pension funds to

The most cost effective pension funds have BRL 100 million to BRL 200 million in AuM, with an average administrative cost *per capita* of BRL 398/year

The alternatives for setting up administrative costs limits do not take into account pension fund differences in terms of size and other characteristics

comply with maximum fee levels, as well as designing proper criteria to segregate investment management from operational costs. “Both ceilings available today - that is, 1% of the fund’s guaranteeing resources for investment management costs or 9% for operational costs - are in line with the provisions of Complementary Law 108, applicable to pension funds sponsored by public companies. However, such limits do not take into account pension funds’ distinct characteristics”, says Balzer.

The discussions also involve setting up new limits for public pension funds and supervisory models suitable to the entities ruled by Complementary Law 109, which are sponsored by private companies.

The CTN is currently analyzing data collected through a survey of 118 public and private pension funds (44% of ABRAPP membership) on the criteria used for calculating administrative fees. The work, explains Balzer, is being conducted with the assistance of Previc and its indicators.

Leeway

So far, the research has revealed two important points according to Geraldo de Assis, Professor at the University of Viçosa and CTN member: there is some difficulty, on the funds’ part, to properly identify investment related costs and define what concepts should be used as reference for establishing quantitative and qualitative criteria. As far as qualitative criteria are concerned, issues such as external providers’ selection, compensation and quality of service rank high in the agenda.

“We do not expect the legislation to set forth detailed criteria, since it might not allow for any leeway. Ideally, it should provide us with a set of concepts to be internalized”, says Assis. Presently, the law recommends that pension funds make use of qualitative and quantitative criteria; however, since the norms are not very explicit, each pension entity interprets them as they please. The lack of standardization makes it difficult to compare the practices of different pension funds.

One of the proposed alternatives is to come up with a type of ranking system that would help set different administrative costs limits, something that the supervisory agency has already done - through Normative Instruction n. 20 - by categorizing pension funds according to three different risk levels.

“Instead of having the pre-established limits of 1% or 9%, we could have a set of profile-based categories that takes into account the characteristics of different groups of entities”, argues Assis. Before it is done, however, the specialist points out the need to have a

"Having an effective toolkit to assist the plan management team is no longer superfluous. This adds value to pension benefits and prevents future litigation"

better understanding of pension funds' costing plans.

Competitiveness

In order to compete on a level playing field with other pension plan providers (banks and insurance companies), pension funds need to invest in technology, human resources and qualified service providers, thus achieving optimal use of resources. To do so, it is necessary to have professional management practices in place, such as periodic actuarial analysis of pension funds' administrative costs with the support of the studies made available by Previc. "Only by doing so will we be able to reduce the cost burden on members and beneficiaries as well as on pension benefits", claims Gazzoni.

Up until six years ago, says Mauro Machado, consultant at Mercer, the sponsoring companies covered all of the administrative costs of their pension funds. At that time, the management fees charged by banking institutions did not have much of an impact. Since then, due to cost increases brought on by improvements in fund governance and internal controls, sponsors began to transfer part of these costs to the employees. In many cases, such costs are transferred to the investment management.

Needless to say, these costs have an impact on investment returns, something that is not well regarded by plan members. On the other hand, this burden could not be placed solely on plan sponsors, since this could jeopardize the very survival of the retirement plan, says Machado. He points out that the growth of the industry is below expectations and, in order to reverse this trend, it is necessary to deal with the issue of administrative costs. "Private pension plans cannot lose competitiveness in relation to banks and other personal plans providers."

Among the measures to maximize service quality and minimize expenses, Machado suggests, first and foremost, an analysis of the costs that could be covered by the plan sponsor. Secondly, it would be interesting to demand higher quality services from pension fund managers and third-party service providers, as well as make investments in IT platforms.

Promoting financial education initiatives for plan members and having a service package that effectively works is paramount. In fact, some sponsoring companies do have agreements so that the outsourced service providers can offer some kind of financial education program to plan members. "Having an effective toolkit to assist the plan management team is no longer superfluous. This adds value to pension benefits and prevents future litigation", argues the Mercer consultant. ■

The route to internationalization

Increasingly popular, BDR funds are a good alternative for investing abroad, with good returns and easy access to international markets

In the past few years, Brazilian pension funds' variable income strategies have become increasingly diversified. Given the still hazy outlook for the domestic stock market and the recovery of US and European economies, pension funds have begun to invest abroad, albeit on a relatively small and careful scale. The dollar appreciation has certainly helped increase this appetite, generating good returns for those who turned to the international equity market in 2014.

Asset managers have monitored and encouraged this trend by providing a growing supply of investment options. Among them are the Unsponsored Level I BDR funds. According to the Brazilian stock exchange - BM&FBovespa, these are "Brazilian Depositary Receipts issued by a institution in Brazil that represent stocks issued by publicly traded companies with headquarters overseas".

BDR funds' portfolios are built from 68 unsponsored BDRs presently available at BM&FBovespa, but this number is expected to reach 110 by early 2016, when the funds shall include, for the first time, stocks from European companies. Exchange rates, which helped increase returns in 2014, also led investors to take on greater risk, making BDR funds a perfect fit for those in search of riskier investments with good return potential. Small and medium Brazilian pension funds with more aggressive risk profiles are already taking the opportunity and obtaining attractive returns.

New Strategies

A survey conducted by Towers Watson at the end of March showed that the number of foreign investment options available to Brazilian institutional investors was up to 42 funds from 23 in the first quarter of 2014. Out of this total, six were BDR funds. What draws the most attention, explains pension consultant Luiz Mario Farias, is that besides the greater offer, the strategies have become more diversified compared to what could be seen at the end of 2014, when most of them consisted of investments in major global indexes such as MSCI World and S&P.

Around 42% of the funds are referenced in actively managed indexes, while 15% are total return funds, 12% are growth funds, 2% are dividend funds, 2% are value funds and 2% are smart beta funds. Other 15% of funds are equally divided in thematic funds, credit funds and capital guarantee funds.

There has also been a significant increase in the offer of feeder funds and multi-manager structures that invest in several foreign funds, as well as a 2% share of global ETF funds, among other options. "Asset management firms are clearly putting considerable effort into expanding the range of investment strategies available to Brazilian institutional investors. Every three months new alternatives come about; concomitantly, pension funds are increasingly looking for professional advice with the intention to invest abroad", says Farias.

BDRs funds enabled some pension entities to invest in foreign companies for the first time and in a safer manner, given that all transactions are carried out locally, in Brazilian reais (BRL). The increase in the total number of Unsponsored BDRs available at BM&FBovespa aims at boosting liquidity, which is still low, besides offering new diversification opportunities to investors.

Since 2010, when unsponsored BDRs debuted in the Brazilian stock market, the traded volume has skyrocketed, largely due to foreign exchange gains. In 2013, the average daily trading volume was BRL 3.9

Asset management firms are putting considerable effort into expanding the range of investment strategies available to Brazilian pension funds willing to diversify geographically

Since unsponsored BDRs debuted in the Brazilian market, the average daily trading volume has skyrocketed, from BRL 3.9 million in 2013 to BRL 10 million in the first quarter of 2015

million (1 USD = 3.8 BRL), reaching BRL 5.8 million in 2014 and BRL 10 million in the first quarter of 2015.

In 2014, the total traded volume was BRL 1.44 billion against BRL 0.953 billion in 2013. The number of BDR funds also went up to 51 in 2014 from 23 in 2013 and the stock of unsponsored BDRs, which was BRL 630 million in January 2014, had reached BRL 1 billion as of February 2015.

According to Claudio Jacob, director of Commercial and Market Development at BM&FBovespa, the idea is to increase product portfolio, taking advantage of its own structure. From the pension funds' perspective, the 68 BDR funds presently available still offer low liquidity and diversification levels due to the very limited number of market players.

BM&FBovespa is working to bring more funds to the market; however, the issuers must undergo a rather slow and detailed process of registration with the Securities and Exchange Commission of Brazil (CVM). In December 2014, Tiffany arrived in the Brazilian stock exchange, helping generate new businesses along with major US technology companies such as Apple, Google, HP and Amazon. Financial sector companies such as American Express have also attracted investor's attention.

There is, however, a widespread perception that investing solely in US companies is not enough. The time has come to increase geographical diversification and consider European and well as Latin American corporations. The stock exchange has already filed for the registration of BDR funds outside the United States. Upon the regulator's approval, the first European funds may be launched, probably in the next few months or so.

Asset Base

Although market makers have helped provide liquidity support, insuring a liquid market for BDR funds inevitably entails the growth of the asset base. This would also help BM&FBovespa strengthen its range of foreign investment options (ETFs, spot, future and stock option markets), something that the stock exchange has been working on extensively in the past two years.

But there is still a long way to go before BM&FBovespa is able to reach a total of 800 BDR funds, such is the case of Mexico. For pension funds, a larger supply is paramount, highlights Don Linford, director of the Deutsche Bank in Brazil. "For now, the number of BDR funds available in Brazil is very low. We want to take this business to the next level."

Deutsche Bank acts as a custodian for BDR programs in Brazil and other Latin American countries such as Chile, Mexico, Argentina and Colombia. BDR funds are part of the Bank's regional strategy in Latin America. The financial institution currently holds Latin American and European shares, which it intends to use - as soon as the licensing procedures are finalized - to test the appetite

In 2014, BDR funds were one of the most profitable assets in institutional investors' variable income portfolios. The BDR fund managed by Caixa generated a 21.24% return

of the Brazilian investor. "The depreciation of the local currency [Real] has brought good foreign investment opportunities for Brazilian pension funds, but their strategies are sometimes undermined by problems associated with market timing because their decision-making process can be quite slow."

Linford believes that pension funds' interest in BDR funds tend to increase in line with the number of funds offered: a total of 110 to 115 in the short term. Despite the greater attractiveness of European companies, he also believes that US corporations will continue to 'lead the way' since the dollar remains strong internationally and the country has the world's largest number of listed companies.

Good Performance

In 2014, BDR funds were one of the most profitable assets in institutional investors' variable income portfolios. The BDR fund managed by Caixa Economica Federal, for instance, generated a 21.24% return during this period. "Such good performance can be attributed to the exchange rate and the exposure to sectors that were not accessible through the Brazilian stock market, such as IT and healthcare", explains Marcelo de Jesus Perossi, national superintendent of Third Party Asset Management at Caixa.

Caixa's actively managed BDR fund invests in depositary receipts issued by IT and financial companies. Looking ahead, the recovery of the US consumer market should favor banks and credit card companies. In spite of the greater accessibility and diversification of global equity funds, Perossi believes that BDR funds tend to maintain its attractiveness to Brazilian institutional investors in the future.

Easy to Explain

The positive outlook for the US economy and its positive impact on the country's companies, associated with greater sector diversification, have helped curb investors' hesitation towards BDR funds. This "learning curve" has made this type of investment more palatable not only to pension managers, but also to plan members and pension investment committees. "The first pension fund investment in BDR funds happened in 2013. Since then, more that twenty entities have gone down that road", says Luis Guedes, manager of Variable Income at Bradesco Asset Management (Bram).

From December 2011 to March 2014, Bram's BDR fund performance was 160% (in Brazilian currency) while Ibovespa yielded -9.5%. The main focus are IT, finance, pharmaceutical and entertainment companies. Established in Brazil and denominated in Brazilian Real, BDR funds tend to be more accessible and easily understood. "Investments in local currency and well-known companies such as Google and McDonald's are easier to explain and report to pension plan members", Guedes points out. ■

ABRAPP

Statistical Data

HIGHLIGHTS - JUNE/15

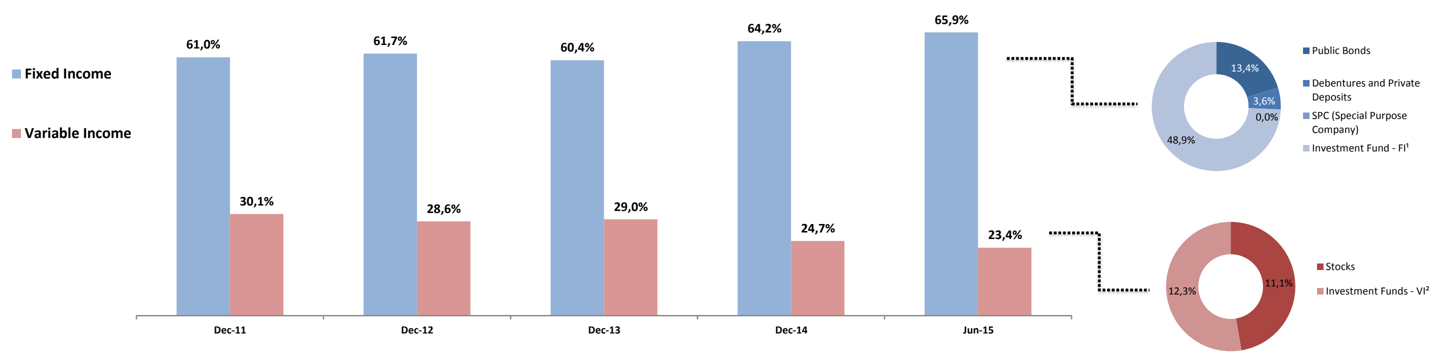
In aggregate, pension funds achieved a 6,49% return until june 2015, which is below the TJP (Parameter of Interest Rate) of 9,78% for the period. The Fixed Income segment, in which 65,9% of pension assets are invested, has generated 7,84% in returns, whereas the Variable Income segment, in which 23,4% of assets are allocated, provided returns of 4,37% in the period of reference.

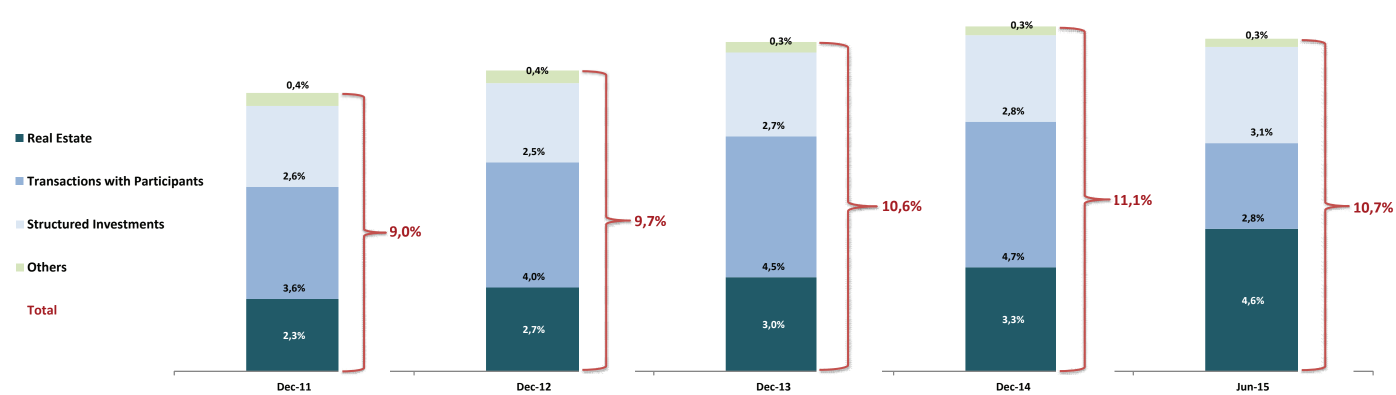
I. AGGREGATED PORTFOLIO BY TYPE OF INVESTMENT (in BRL million)

Asset classes	Dec/08	%	Dec/09	%	Dec/10	%	Dec/11	%	Dec/12	%	Dec/13	%	Dec/14	%	Jun/15	%
Fixed Income	271.542	64,8%	291.627	59,3%	321.954	59,8%	349.957	61,0%	396.046	61,7%	386.773	60,4%	431.140	64,2%	463.069	65,9%
Public bonds	79.988	19,1%	86.749	17,6%	91.922	17,1%	90.442	15,8%	98.639	15,4%	67.446	10,5%	83.351	12,4%	93.939	13,4%
Debentures and Private Deposits	14.079	3,4%	14.862	3,0%	24.211	4,5%	27.508	4,8%	32.619	5,1%	26.672	4,2%	27.099	4,0%	25.283	3,6%
SPC (Special Purpose Company)					119	0,0%	193	0,0%	213	0,0%	186	0,0%	160	0,0%	157	0,0%
Investment Funds - FI[1]	177.475	42,3%	190.016	38,6%	205.703	38,2%	231.814	40,4%	264.575	41,2%	292.469	45,7%	320.530	47,7%	343.691	48,9%
Variable Income	117.306	28,0%	163.753	33,3%	174.902	32,5%	172.420	30,1%	183.621	28,6%	185.755	29,0%	166.267	24,7%	164.543	23,4%
Stocks	54.381	13,0%	82.800	16,8%	88.251	16,4%	80.407	14,0%	89.404	13,9%	84.213	13,2%	77.026	11,5%	77.912	11,1%
Investment Funds - VI[2]	62.925	15,0%	80.952	16,4%	86.651	16,1%	92.013	16,0%	94.217	14,7%	101.542	15,9%	89.241	13,3%	86.631	12,3%
Structured Investments	NA		NA		10.634	2,0%	13.347	2,3%	17.282	2,7%	19.355	3,0%	22.467	3,3%	21.738	3,1%
Emerging Companies					241	0,0%	360	0,1%	359	0,1%	346	0,1%	304	0,0%	280	0,0%
Private Equity					9.466	1,8%	11.875	2,1%	15.016	2,3%	16.819	2,6%	19.546	2,9%	19.216	2,7%
Real Estate Fund[3]					927	0,2%	1.112	0,2%	1.908	0,3%	2.191	0,3%	2.617	0,4%	2.242	0,3%
Real Estate	12.915	3,1%	14.652	3,0%	16.197	3,0%	20.685	3,6%	25.811	4,0%	28.988	4,5%	31.450	4,7%	32.174	4,6%
Transactions with Participants	10.692	2,6%	11.909	2,4%	13.412	2,5%	14.909	2,6%	16.352	2,5%	17.291	2,7%	18.705	2,8%	19.372	2,8%
Loans to participants	8.510	2,0%	9.872	2,0%	11.468	2,1%	12.995	2,3%	14.593	2,3%	15.685	2,4%	17.217	2,6%	17.884	2,5%
Mortgage Loans	2.182	0,5%	2.037	0,4%	1.944	0,4%	1.914	0,3%	1.760	0,3%	1.606	0,3%	1.488	0,2%	1.489	0,2%
Other[4]	6.774	1,6%	10.192	2,1%	1.317	0,2%	2.411	0,4%	2.613	0,4%	2.165	0,3%	1.901	0,3%	1.868	0,3%
Total	419.229	100%	492.134	100%	538.417	100,0%	573.729	100,0%	641.725	100,0%	640.328	100,0%	672.054	100,0%	702.764	100,0%

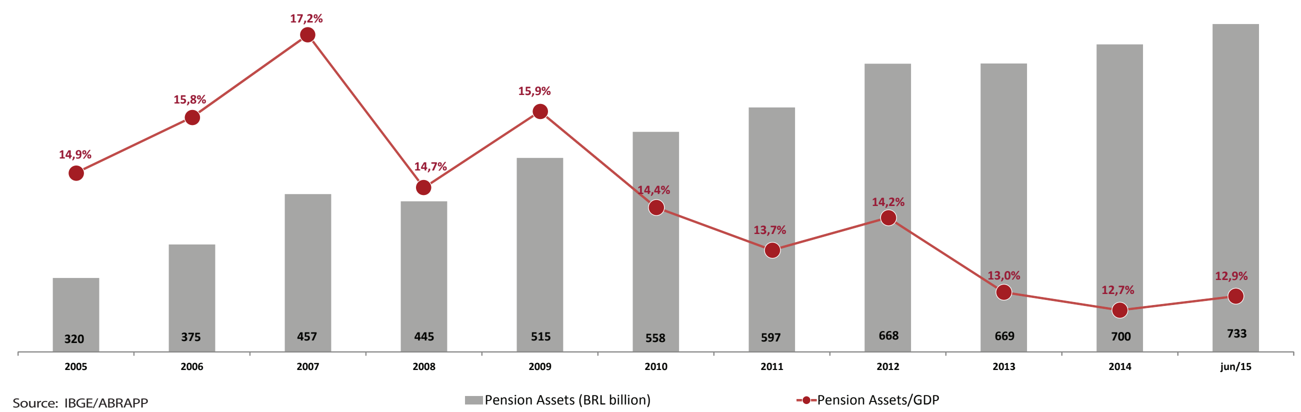
Notes: [1] Includes Short Term, Denominated, Fixed Income, Multimarket, Exchange Rate and Receivables Investment Funds ; [2] Includes Stocks and Market Indexes; [3] Until 2009 refer to Real Estate segment; [4] Includes External Debt, Stocks - Foreign Listed Companies, Other Receivables, Derivatives, Others.

II. PENSION FUND ASSET EVOLUTION BY TYPE OF INVESTMENT





III. PENSION FUND ASSET EVOLUTION *VERSUS* GDP

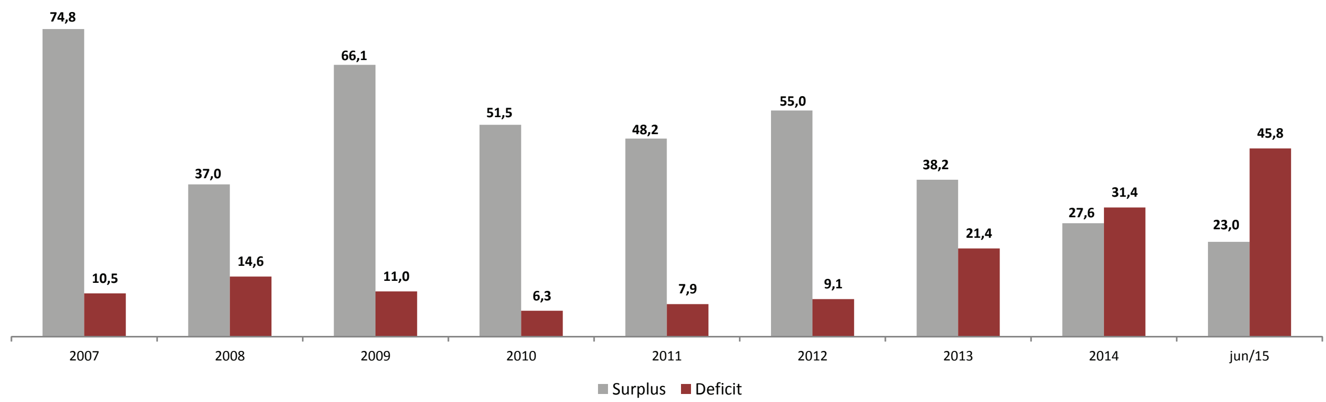


Source: IBGE/ABRAPP
Includes available assets, receivables and permanent assets
GDP refers to the third and fourth quarters of 2014 and first and second quarter of 2015
* Estimated value

Note : GDP data from 2010 to 2014 have been revised according to new figures released by IBGE.

IV. EVOLUTION OF PRIVATE PENSION DEFICITS AND SURPLUSES

(In BRL billion)



V. REGIONAL COMPARATIVE DATA

Regional*	Number of Pension Funds**	%	Investments (BRL millions)	%	Active Members	%	Dependents	%	Beneficiaries	%
Center-North	38	12,1%	113.409	16,1%	465.758	18,3%	883.247	22,6%	118.705	16,1%
East	18	5,8%	28.472	4,1%	93.432	3,7%	131.473	3,4%	47.481	6,5%
Northeast	26	8,3%	18.910	2,7%	33.257	1,3%	91.903	2,4%	34.353	4,7%
Southeast	58	18,5%	339.928	48,4%	538.790	21,2%	1.332.939	34,1%	305.350	41,5%
Southwest	119	38,0%	156.425	22,3%	1.133.793	44,6%	1.081.775	27,7%	170.895	23,2%
South	54	17,3%	45.622	6,5%	277.025	10,9%	386.712	9,9%	58.785	8,0%
Total	313	100,0%	702.764	100,0%	2.542.055	100,0%	3.908.049	100,0%	735.569	100,0%

* Regional Composition: Center-North - states RO, AM, RR, AP, GO, DF, AC, MA, MT, MS, PA, PI and TO. East - MG. Northeast - AL, BA, CE, PB, PE, RN e SE. Southeast - RJ e ES. Southwest - SP. South - PR, SC e RS.
** Source: PREVIC Quarterly Statistics - mar/15

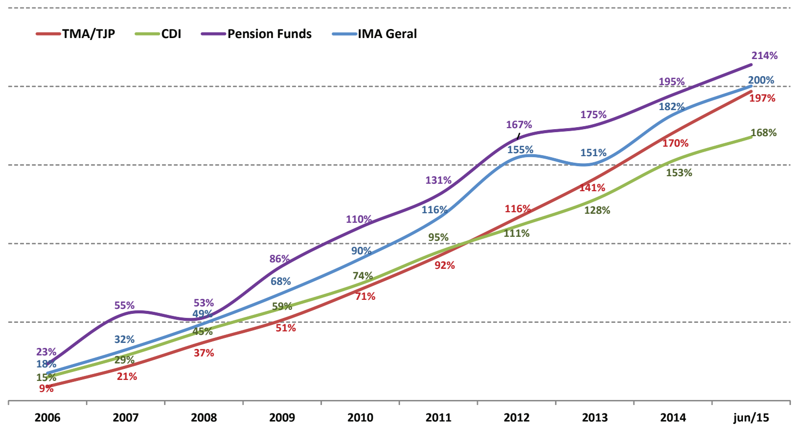
VI. COMPARATIVE DATA BY TYPE OF SPONSOR

Sponsorship	Number of Pension Funds*	%	Investments (BRL millions)	%	Active Members	%	Dependents	%	Beneficiaries	%
Industry/Professional Funds**	20	6,4%	3.835	0,5%	190.774	7,5%	296.517	7,6%	1.221	0,2%
Private	206	65,8%	257.449	36,6%	1.554.856	61,2%	1.893.354	48,4%	315.424	42,9%
Public	87	27,8%	441.481	62,8%	796.425	31,3%	1.718.178	44,0%	418.924	57,0%
Total	313	100,0%	702.764	100,0%	2.542.055	100,0%	3.908.049	100,0%	735.569	100,0%

* Source: PREVIC Quarterly Statistics- mar/15
** Investment and population data also refer to other industry/professional pension plans managed by multi-sponsored funds

VII. RETURNS

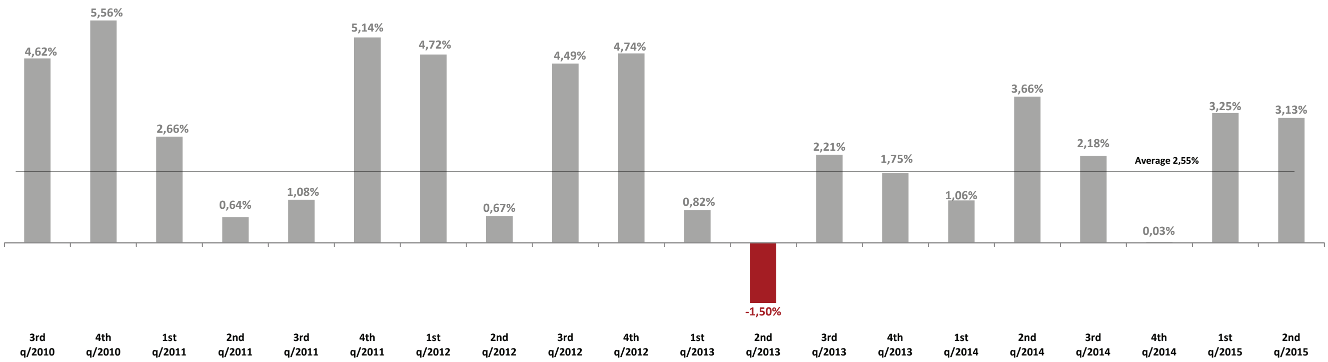
Period	TMA/ TJP(1)	CDI(2)	IMA Geral(3)	Ibovespa(4)	Pension Funds*
2006	8,98%	15,03%	17,53%	32,93%	23,45%
2007	11,47%	11,87%	12,63%	43,65%	25,88%
2008	12,87%	12,38%	12,69%	-41,22%	-1,62%
2009	10,36%	9,88%	12,90%	82,66%	21,50%
2010	12,85%	9,77%	12,98%	1,04%	13,26%
2011	12,44%	11,58%	13,65%	-18,11%	9,80%
2012	12,57%	8,40%	17,73%	7,40%	15,37%
2013	11,63%	8,06%	-1,42%	-15,50%	3,28%
2014	12,07%	10,82%	12,36%	-2,91%	7,07%
jun/15	1,23%	1,12%	0,27%	0,61%	0,84%
2015	9,78%	5,98%	6,49%	6,14%	6,49%
Accumulated	**196,87%**	**167,75%**	**200,28%**	**58,65%**	**213,85%**
Acumulated per year	**12,14%**	**10,92%**	**12,27%**	**4,98%**	**12,79%**



(1) TMA -> Maximum Actuarial Rate (until dec/14) according to CNPC Resolution n.9 from 11/29/2012. TJP -> Standard Interest Rate (INPC + upper limit of 5.65 % pa considering a duration of 10 years - according to the IN No. 19/2014 and Decree No. 197 from 04.14.2015 PREVIC)
(2) CDI -> Interbank Deposit Rate
(3) IMA Geral -> Anbima Market Index - General (It measures the profitability of a theoretical portfolio of government securities)
(4) Ibovespa -> Stock Index
*Estimated

Source: ABRAPP / BACEN / IPEADATA

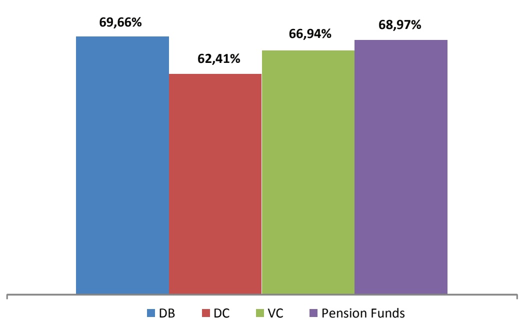
VIII. PENSION FUNDS QUARTERLY RESULTS - AGGREGATE



IX. AGGREGATE PORTFOLIO ALLOCATION BY PLAN TYPE

	Defined Benefit			Defined Contribution			Variable Contriibution		
	BRL millions	% Modality	% Segment	BRL millions	% Modality	% Segment	BRL millions	% Modality	% Segment
Fixed Income	280.931	57,8%	61,8%	62.293	89,8%	13,7%	111.023	80,3%	24,4%
Variable Income	144.373	29,7%	88,0%	5.082	7,3%	3,1%	14.525	10,5%	8,9%
Structured Investments	16.924	3,5%	78,1%	565	0,8%	2,6%	4.194	3,0%	19,3%
Real Estate	28.743	5,9%	89,6%	420	0,6%	1,3%	2.916	2,1%	9,1%
Transactions with Participants	13.474	2,8%	69,6%	800	1,2%	4,1%	5.098	3,7%	26,3%
Others	1.177	0,2%	62,2%	214	0,3%	11,3%	502	0,4%	26,5%
Total	485.622	100,0%	70,0%	69.375	100,0%	10,0%	138.257	100,0%	19,9%

X. ESTIMATED RETURN BY PLAN TYPE

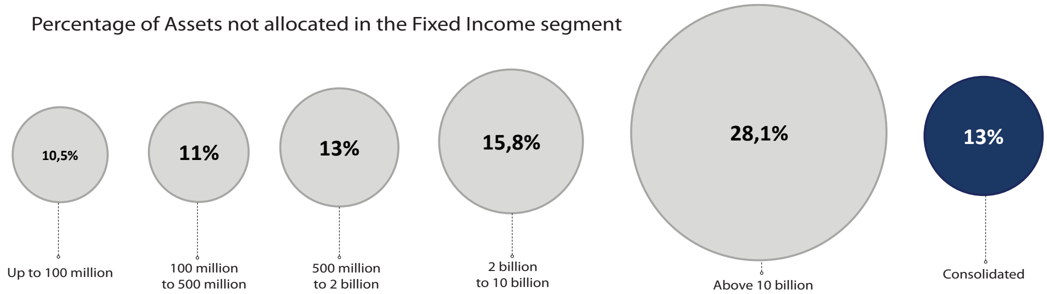


Period	Defined Benefit	Defined Contribution	Variable Contribution	Pension Funds
2010	13,79%	9,76%	11,67%	13,26%
2011	10,04%	8,62%	9,96%	9,80%
2012	15,38%	14,90%	15,56%	15,37%
2013	3,96%	0,66%	1,52%	3,28%
2014	6,15%	10,22%	8,78%	7,07%
jun/15	0,87%	0,80%	0,74%	0,84%
2015	6,42%	6,85%	6,53%	6,49%
Accumulated	69,66%	62,41%	66,94%	68,97%

XI. AVERAGE ALLOCATION (ARITHMETIC) BY TOTAL ASSETS UNDER MANAGEMENT

TOTAL ASSETS (in BRL)	Number of Pension Funds	Fixed Income	Variable Income	Structured Investments	Real Estate	Transaction with Participants	Other
Up to 100 million	39	89,5%	5,4%	0,2%	1,4%	0,5%	2,9%
100 million to 500 million	90	89,0%	7,0%	0,5%	2,0%	1,1%	0,4%
500 million to 2 billion	76	87,0%	6,8%	1,5%	2,4%	1,7%	0,7%
2 billion to 10 billion	44	84,2%	8,2%	2,6%	2,8%	1,7%	0,5%
Above 10 billion	10	71,9%	16,6%	3,4%	5,1%	3,0%	0,2%
Consolidated	259	87,0%	7,3%	1,2%	2,3%	1,4%	0,9%

Percentage of Assets not allocated in the Fixed Income segment



XII. TOP 15 LARGEST PENSION PLANS*

DEFINED BENEFIT

	Plan	Pension Fund	Investments (BRL thousand)	Active Members	Beneficiaries
1	PB1	PREVI	165.006.785	23.981	92.122
2	PLANO PETROS DO SIST. PETROBRÁS	PETROS	54.858.764	23.329	54.613
3	REG/REPLAN	FUNCEF	47.587.284	28.823	34.887
4	PBS-A	SISTEL	12.624.091	0	23.730
5	PLANO BD	REAL GRANDEZA	11.898.431	1.709	8.297
6	PLANO BD	VALIA	10.927.261	12	17.012
7	PBB	FAPES	8.843.361	3.103	2.088
8	PSAP/ELETROPAULO	FUNCESP	7.732.013	4.548	12.469
9	PLANO DE APOS. COMPLEMENTAR	ITAUBANCO	6.479.472	4.126	4.262
10	PBB	CENTRUS	6.037.480	0	1.450
11	PLANO A - PLANO SALD. BENEF.	FORLUZ	5.951.133	615	11.045
12	PLANO V	BANESPREV	5.396.198	4	12.751
13	PBD	POSTALIS	5.219.341	610	23.010
14	PLANOS I E II	FUND. COPEL	4.901.209	46	4.581
15	PLANO BANESPREV II	BANESPREV	4.853.881	1.738	9.304

DEFINED CONTRIBUTION

	Plan	Pension Fund	Investments (BRL thousand)	Active Members	Beneficiaries
1	PLANO ITAUBANCO CD	ITAUBANCO	8.348.763	17.870	3.367
2	IBM - CD	FUNDAÇÃO IBM	3.123.166	12.486	851
3	VISÃO TELEFÔNICA	VISÃO PREV	2.944.452	6.055	4.259
4	PLANO CD GERDAU	GERDAU	2.637.221	19.698	1.498
5	PLANO DE APOS. SANTANDERPREVI	SANTANDERPREVI	2.444.248	41.550	826
6	CEEEPREV	ELETROCEEE	2.364.759	3.793	2.711
7	PLANO	ODEPREV	2.129.413	18.499	151
8	PAI-CD	FUNDAÇÃO ITAÚSA	1.964.995	9.138	387
9	1-B	PREVINORTE	1.872.930	3.110	611
10	PLANO DE APOSENTADORIA	UNILEVERPREV	1.757.675	14.068	614
11	EMBRAER PREV	EMBRAER PREV	1.658.812	17.074	430
12	CD ELETROBRÁS	ELETROS	1.328.893	1.302	408
13	VOTORANTIM PREV	FUNSEJEM	1.208.388	29.365	777
14	PRECAVER	QUANTA - PREVIDÊNCIA	1.169.859	39.557	48
15	PMBP Nº 1	FAELBA	1.010.636	2.865	1.223

VARIABLE CONTRIBUTION

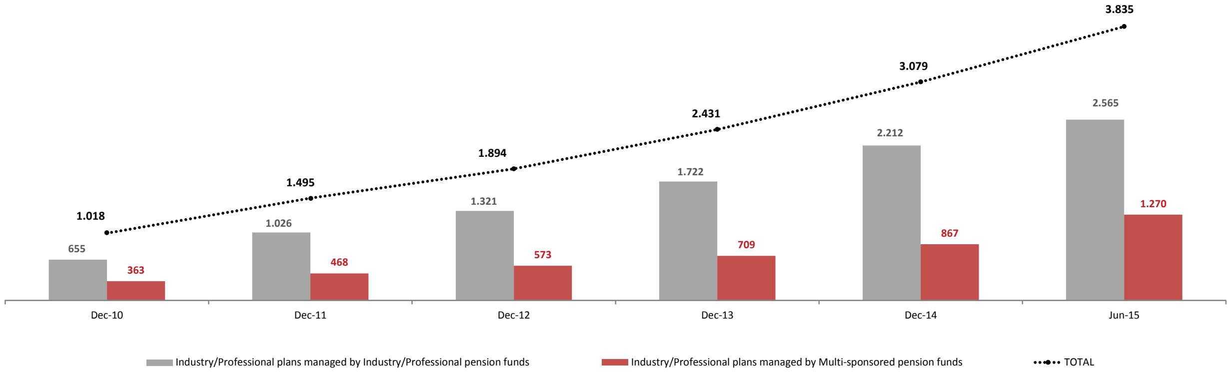
	Plan	Pension Fund	Investments (BRL thousand)	Active Members	Beneficiaries
1	PLANO PETROS 2	PETROS	10.183.691	48.383	3.290
2	NOVO PLANO	FUNCEF	8.568.636	89.127	3.900
3	B	FORLUZ	7.294.240	8.338	4.612
4	PB2	PREVI	6.393.531	74.342	796
5	PLANO VALE MAIS	VALIA	5.763.640	65.190	4.427
6	TELEMARPREV	FATLÂNTICO	4.198.431	12.068	7.260
7	PPCPFL	FUNCESP	4.087.726	3.235	6.359
8	PCV I	TELOS	3.619.379	6.690	3.313
9	PLANO DE APOS. PREVI-GM	PREVI-GM	3.342.029	23.275	3.029
10	POSTALPREV	POSTALIS	3.158.676	116.447	3.129
11	PS-II	SERPROS	2.838.419	8.056	461
12	PLANO III	FUND. COPEL	2.825.182	10.032	3.378
13	PACV	INFRAPREV	2.689.685	11.432	2.742
14	TCSPREV	FATLÂNTICO	2.277.489	1.314	1.757
15	MISTO	CELOS	2.256.303	3.730	2.520

INDUSTRY/PROFESSIONAL FUNDS

	Plan	Pension Fund	Investments (BRL thousand)	Active Members	Beneficiaries
1	PRECAVER	QUANTA - PREVIDÊNCIA	1.169.859	39.557	48
2	UNIMED-BH	UNI+PREV MULTIP.	460.347	5.120	9
3	OABPREV-SP	OABPREV-SP	373.960	35.224	94
4	ANAPARPREV	PETROS	360.541	2.971	392
5	SICOOB MULTI INSTITUÍDO	SICOOB PREVI	179.894	38.403	12
6	PBPA	OABPREV-PR	167.604	12.032	51
7	PLANO ACRICEL DE APOSENT.	HSBC INSTITUIDOR	128.639	61	148
8	RJPREV	OABPREV-RJ	126.548	4.926	136
9	PBPA	OABPREV-MG	101.075	7.775	28
10	PLANJUS	JUSPREV	95.480	2.354	3
11	PBPA	OABPREV-SC	94.889	6.621	53
12	PLANO II	MÚTUOPREV	66.171	nd	nd
13	ADV-PREV	OABPREV-GO	57.443	4.913	23
14	COOPERADO	UNI+PREV MULTIP.	50.580	1.167	1
15	TECNOPREV	BB PREVIDÊNCIA	46.661	3.614	3

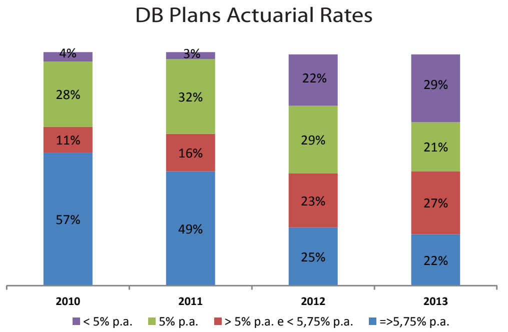
* Investments as of Jun/15 and Population as of Dec/14.

XIII. INDUSTRY/PROFESSIONAL PENSION FUNDS ASSET EVOLUTION*



Includes available assets, receivables and permanent assets
* In BRL millions

XIV. ACTUARIAL PARAMETERS



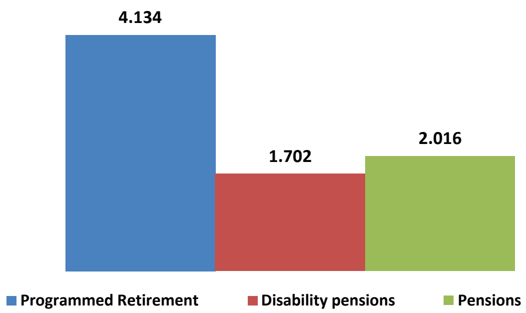
Source: PREVIC - Quarterly Results - Dec/13

Mortality Tables DB Plans	2010	2011	2012	2013
AT2000	45%	48%	61%	71%
AT83	46%	43%	30%	23%
IBGE	4%	4%	3%	3%
RP 2000	1%	2%	2%	1%
Other	5%	4%	3%	3%

XV. BENEFIT STATEMENT

Type of Benefit	Total amount[1] (in BRL thousand)	Average Monthly Benefit Values[2] (in BRL)
Programmed Retirement	26.536.611	4.134
Disability pensions	1.192.263	1.702
Pensions	3.954.310	2.016

Note: The amount of benefits paid , while also considering the Continuous Cash aid , annuities and other benefits of Continuous Cash was in BRL 33.5 billion.

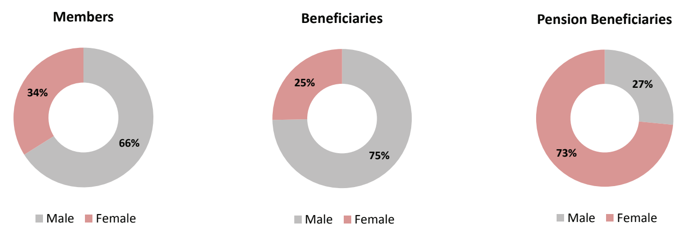


[1] Accumulated as of Dec 2014.
[2] Accumulated average until Dec 2014 (in BRL).

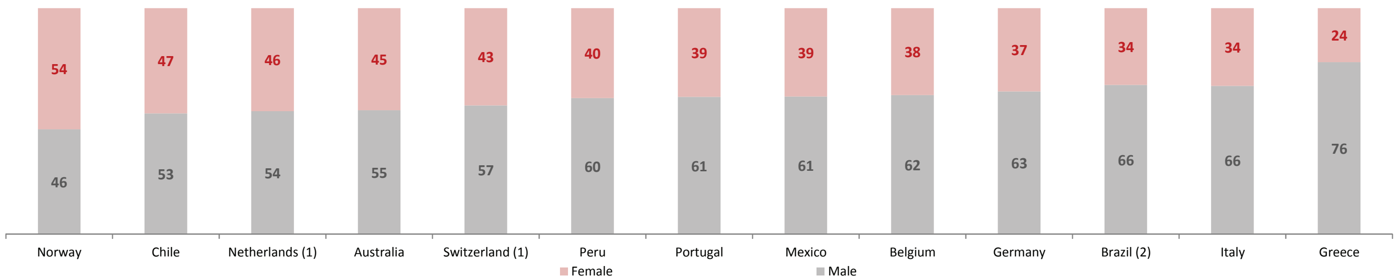
XVI. POPULATION STATISTICS*

AGE	Members		Beneficiaries		Pension Beneficiaries	
	Male	Female	Male	Female	Male	Female
Up to 24	5,9%	3,7%	0,1%	0,1%	3,2%	3,3%
25 to 34	20,4%	11,8%	0,1%	0,1%	1,1%	1,8%
35 to 54	31,9%	14,4%	10,0%	3,8%	5,0%	13,0%
55 to 64	5,8%	2,6%	30,2%	13,7%	5,0%	18,0%
65 to 74	1,3%	0,9%	23,5%	5,5%	5,5%	19,2%
75 to 84	0,5%	0,4%	8,9%	1,6%	4,7%	13,1%
Over 85	0,2%	0,1%	1,8%	0,4%	2,0%	5,1%
Total	66,1%	33,9%	74,7%	25,3%	26,5%	73,5%

*Data from 2014 / Sample of 246 pension funds and more than 3,2 million people



Active Members, Beneficiaries and Pension Beneficiaries by Genre - Enrollment (%)



1 - Data from 2011; 2 - Data from 2014 / other data from 2012
Data refer to active members, beneficiaries and pension beneficiaries
Source: Abrapp and OECD

XVII. PENSION FUND RANKING

	PENSION FUNDS	INVESTMENTS (in BRL thousand)	RANKING according to the number of members and beneficiaries	ACTIVE MEMBERS*	DEPENDENTS*	BENEFICIARIES*
1	PREVI	172.403.822	1	100.485	248.993	92.918
2	PETROS	70.120.895	2	96.747	338.766	64.744
3	FUNCEF	57.746.654	4	100.381	183.043	39.445
4	FUNCESP	23.439.111	14	15.534	52.641	30.964
5	FUND. ITAÚ UNIBANCO	20.998.785	11	39.397	2.698	13.587
6	VALIA	18.906.955	5	80.200	312.251	21.882
7	SISTEL	15.239.987	31	1.962	44.875	24.264
8	FORLUZ	13.270.872	37	8.702	32.780	13.191
9	REAL GRANDEZA	12.615.413	62	4.249	20.061	8.396
10	BANESPREV	12.363.806	29	2.751	22.022	23.762
11	FUNDAÇÃO ATLÂNTICO	9.320.566	27	13.905	50.757	14.812
12	FAPES	9.006.817	114	3.103	6.848	2.088
13	POSTALIS	8.429.509	3	117.057	270.902	26.139
14	FUNDAÇÃO COPEL	7.791.364	45	10.078	6.859	7.959
15	PREVIDÊNCIA USIMINAS	7.534.988	19	20.489	58.470	20.177
16	CENTRUS	6.801.364	176	411	1.536	1.639
17	TELOS	6.312.888	57	6.695	24.739	6.737
18	HSBC FUNDO DE PENSÃO	5.990.978	6	70.683	2	7.136
19	FACHESF	5.405.867	52	4.973	14.919	9.541
20	ELETROCEEE	5.280.173	50	6.851	14.410	8.803
21	VISÃO PREV	5.064.922	43	13.160	14.881	5.633
22	ECONOMUS	4.956.415	41	12.126	19.561	6.892
23	SERPROS	4.783.179	51	10.914	25.868	3.782
24	CERES	4.672.347	42	12.638	33.905	6.229
25	CBS PREVIDÊNCIA	4.457.940	23	20.013	36.894	14.310
26	FUNDAÇÃO IBM	3.889.148	56	12.509	15.362	974
27	FUNBEP	3.802.222	98	1.192	7.520	5.285
28	FUNDAÇÃO BANRISUL	3.705.138	40	12.521	0	6.561
29	MULTIPREV	3.598.674	17	40.447	61.022	1.369
30	ELETROS	3.576.380	106	3.292	7.357	2.257
31	CAPEF	3.547.474	66	6.742	20.278	4.730
32	GERDAU PREVIDÊNCIA	3.469.469	34	20.494	26.639	2.267
33	PREVI-GM	3.345.357	30	23.248	8.228	3.027
34	BRASLIGHT	2.946.691	75	4.374	12.783	5.702
35	BRF PREVIDÊNCIA	2.911.816	21	30.623	13.791	5.678
36	FIBRA	2.895.777	151	1.429	3.901	1.586
37	BB PREVIDÊNCIA	2.870.434	7	70.801	64.631	1.933
38	INFRAPREV	2.858.520	54	11.536	16.826	2.912
39	PREVINORTE	2.731.867	91	5.611	7.158	1.528
40	PSS	2.679.761	95	2.641	4.388	3.977
41	CELOS	2.596.817	79	4.187	8.474	4.769
42	FUNDAÇÃO LIBERTAS	2.515.885	36	18.792	2.915	3.386
43	ELOS	2.451.416	129	1.501	5.372	3.003
44	UNILEVERPREV	2.449.314	49	14.365	1.207	1.335
45	SANTANDERPREVI	2.448.238	16	41.550	893	826
46	VWPP	2.334.295	13	46.503	58.998	1.963
47	CITIPREVI	2.305.966	67	10.426	0	916
48	FUNSSEST	2.304.677	82	6.098	0	2.456
49	GEAPPREVIDÊNCIA	2.228.623	9	60.103	145.553	0
50	FUNDAÇÃO ITAÚSA	2.212.788	74	9.244	14.787	918
51	MULTIPENSIONS	2.171.692	10	56.521	85.100	1.341
52	FUNDAÇÃO REFER	2.165.354	24	4.550	42.540	28.544
53	ODEBRECHT PREVIDÊNCIA	2.133.127	44	18.499	0	151
54	NUCLEOS	2.047.457	126	3.634	6.172	1.130
55	FUSESC	1.984.243	87	2.501	9.696	5.125
56	SABESPREV	1.915.837	38	13.876	39.321	7.134
57	ICATUFMP	1.860.079	15	43.268	37.124	1.825
58	PREVIRB	1.847.944	173	491	1.845	1.597
59	FUNEPP	1.817.402	28	27.387	19.194	5
60	MÚLTIPLA	1.753.762	33	23.123	18.221	666
61	METRUS	1.743.591	63	9.674	19.358	2.572
62	REGIUS	1.742.541	128	3.715	7.271	954
63	PRECE	1.710.842	64	4.455	12.391	7.630
64	ITAÚ FUNDO MULTI	1.709.106	na	na	na	na
65	EMBRAER PREV	1.660.453	46	17.074	9.607	430
66	INSTITUTO AMBEV	1.656.205	93	4.984	942	1.850
67	BANDEPREV	1.593.360	174	290	1.922	1.796
68	FAELBA	1.542.915	116	2.871	10.070	2.200
69	PREVDOW	1.461.706	131	3.749	5.621	558
70	JOHNSON & JOHNSON	1.429.928	88	6.602	6.899	848
71	PREVIBAYER	1.369.573	96	5.003	17.488	1.609
72	ENERPREV	1.356.694	na	na	na	na
73	FUNDAÇÃO PROMON	1.342.487	160	2.011	5.500	681
74	PREVI-SIEMENS	1.332.855	71	9.572	15.093	1.293
75	FUNSEJEM	1.282.612	25	29.616	9.456	894
76	FASC	1.221.294	83	7.560	1.090	681
77	BANESES	1.210.621	136	2.141	5.966	1.993
78	QUANTA - PREVIDÊNCIA	1.209.682	18	40.862	69.172	57
79	SANPREV	1.179.937	133	3.746	5.525	518
80	PRHOSPER	1.165.056	125	3.244	2.467	1.560
81	FACEB	1.163.603	163	1.041	3.683	1.371
82	FUSAN	1.123.604	77	7.303	14.206	2.427
83	FUNDAÇÃO CORSAN	1.098.736	81	5.463	10.917	3.270
84	FAELCE	1.068.779	145	1.207	4.100	2.340
85	HP PREV	1.052.933	121	4.737	11.546	240
86	FIPECQ	1.039.467	164	2.031	4.859	348
87	FORD	1.021.923	58	12.625	20	698
88	PREVIG	1.003.991	159	2.124	2.119	620
89	BASF	989.944	141	3.283	10.647	461
90	ACEPREV	976.224	139	2.538	5.218	1.314
91	SÃO BERNARDO	965.464	53	13.061	8.293	1.430
92	BRASILETROS	962.410	140	1.192	3.350	2.597
93	SÃO RAFAEL	928.145	166	1.665	2.929	684
94	CIBRIUS	925.752	153	1.637	4.310	1.322
95	PREVUNIÃO	890.007	104	4.901	8.356	759
96	PREVISC	886.450	60	11.997	16.841	1.134
97	BASES	884.993	170	814	1.827	1.390
98	PREVI NOVARTIS	865.598	142	3.219	86	500
99	GEBSA-PREV	853.367	86	7.554	11.345	227
100	PREVDATA	852.228	127	3.191	7.492	1.502
101	ECOS	835.428	225	117	975	738
102	PREVIBOSCH	811.528	69	10.134	0	910
103	DESBAN	792.403	220	374	1.099	547
104	ISBRE	780.900	223	494	1.131	388
105	FUNDAMBRAS	766.354	55	13.184	223	714
106	CARGILLPREV	762.207	80	8.717	13.086	169
107	ABRILPREV	760.591	90	6.828	8.458	388
108	SYNGENTA PREVI	724.009	156	2.642	4.623	232
109	AGROS	720.603	101	5.106	7.642	780
110	FUNDIÁGUA	712.150	110	3.881	8.898	1.450
111	CELPOS	710.389	118	1.665	4.585	3.391
112	WEG	682.189	35	21.920	14.440	371
113	DUPREV	672.932	150	2.784	431	255
114	MBPREV	644.086	61	11.886	2.299	781
115	PREVSAN	641.510	134	2.575	10.608	1.633
116	CYAMPREV	640.003	32	23.864	31.654	107
117	REDEPREV	637.854	92	6.032	14.730	1.094
118	IAJA	636.901	99	5.268	9.383	970
119	PLANEJAR	634.136	132	3.929	5.895	370
120	PREVHAB	630.040	209	456	601	617
121	ELETRA	595.985	154	1.702	3.800	1.251
122	COMSHELL	594.373	167	1.806	3.009	461
123	SERGUS	587.365	195	1.019	1.620	373
124	COMPESAPREV	585.600	120	2.733	5.358	2.254
125	UNI+PREV MULTIPAT.	549.694	na	na	na	na
126	FUND. SÃO FRANCISCO	543.706	180	1.089	1.901	881
127	PREVICAT	531.254	na	na	na	na
128	SEBRAE PREVIDÊNCIA	517.477	89	7.150	6.640	127

	PENSION FUNDS	INVESTMENTS (in BRL thousand)	RANKING according to the number of members and beneficiaries	ACTIVE MEMBERS*	DEPENDENTS*	BENEFICIARIES*
129	ULTRAPREV	511.056	78	9.458	2.763	170
130	PREVEME	508.902	148	2.865	3.584	512
131	FACEAL	494.406	187	998	0	698
132	PREVIPLAN	494.321	158	2.322	5.464	448
133	FABASA	446.644	112	4.729	15.735	550
134	PREVICOKE	443.570	213	851	39	167
135	FASCEMAR	441.288	183	1.192	4.350	754
136	VIKINGPREV	424.892	111	5.114	78	196
137	CAPAF	424.702	130	2.310	3.762	2.074
138	MAIS VIDA PREVIDÊNCIA	418.373	192	1.386	2.078	76
139	PREVIM-MICHELIN	410.281	122	4.875	56	91
140	HSBC INSTITUIDOR	406.263	147	3.170	13	258
141	INDUSPREVI	403.154	137	3.500	4.272	534
142	GASIUS	394.759	205	65	841	1.084
143	MENDESPREV	394.755	221	526	1.224	392
144	DERMINAS	393.198	70	6.853	0	4.015
145	OABPREV-SP	386.720	22	35.224	57.965	94
146	GOODYEAR	386.632	107	5.116	7.673	431
147	BUNGEPREV	384.689	68	10.847	15.757	277
148	UNISYS PREVI	382.455	215	948	2	44
149	FGV-PREVI	374.371	168	2.138	2.343	126
150	SUPREV	372.547	103	4.487	4.185	1.216
151	PORTOPREV	366.288	105	5.466	721	106
152	FUTURA	363.880	234	160	201	366
153	FAPERS	361.581	162	1.702	3.692	741
154	PREVMON	359.326	155	2.847	4.982	59
155	FUNDAÇÃO ENERSUL	355.078	219	552	1.098	374
156	CAPESESP	354.819	12	49.274	28.599	684
157	SEGURIDADE	342.802	177	1.710	511	336
158	FAPA	331.298	205	847	2.382	302
159	CABEC	322.025	204	150	1.669	1.059
160	CARREFOURPREV	316.814	8	66.515	45.499	142
161	ALPAPREV	314.972	26	28.749	35.502	205
162	PREVINDUS	307.684	76	8.930	5.950	1.105
163	FUNDAÇÃO BEMGEPREV	298.484	210	0	0	1.035
164	PREVISCÂNIA	298.200	na	na	na	na
165	PREVCUMMINS	296.895	181	1.807	2.567	146
166	P&G PREV	292.677	102	5.677	8.433	162
167	FUNTERRA	288.437	241	152	846	157
168	PFIZER PREV	288.228	178	1.892	474	147
169	CIFRÃO	280.437	188	845	1.845	810
170	SP-PREVCOM	279.590	48	15.954	6.877	0
171	MSD PREV	276.319	212	945	1.416	76
172	DANAPREV	275.235	100	6.039	9.058	112
173	RANDONPREV	273.252	72	10.621	16.364	163
174	FACEPI	272.823	182	972	2.237	976
175	FIOPREV	263.436	135	3.888	5.060	284
176	PREV PEPSICO	261.420	47	16.887	15.615	105
177	CASFAM	259.801	113	4.300	1.364	915
178	FASERN	258.708	202	783	148	453
179	FAECES	255.269	184	1.078	2.271	849
180	VOITH PREV	250.441	172	2.047	3.058	118
181	PREVIP	250.292	152	2.832	5.456	145
182	PORTUS	247.390	73	1.777	14.641	8.940
183	RBS PREV	244.565	109	5.372	3.100	122
184	EATONPREV	233.980	124	4.763	6.517	170
185	LILLY PREV	231.396	214	823	1.230	192
186	PREVIDEXXONMOBIL	221.090	190	1.461	2.230	80
187	SICOOB PREVI	220.498	20	37.770	28.356	12
188	SOMUPP	213.669	247	0	0	145
189	POUPREV	207.238	201	1.211	1.681	36
190	TETRA PAK PREV	206.501	171	2.130	3.193	40
191	CASANPREV	203.058	186	1.603	4.430	220
192	CAPOF	201.458	232	157	613	414
193	SUPRE	200.312	224	481	1.434	386
194	KPMG PREV	191.972	119	4.981	7.448	52

	PENSION FUNDS	INVESTMENTS (in BRL thousand)	RANKING according to the number of members and beneficiaries	ACTIVE MEMBERS*	DEPENDENTS*	BENEFICIARIES*
195	FUCAP	189.372	185	1.578	1.634	255
196	AVONPREV	188.043	97	6.413	635	133
197	CARBOPREV	182.052	211	837	1.256	187
198	PREVICEL	181.897	218	809	1.098	121
199	TEXPREV	179.018	226	623	881	150
200	RAIZPREV	175.571	39	19.283	12.865	5
201	OABPREV-PR	168.670	65	12.032	19.700	51
202	MAUÁ PREV	163.488	157	2.702	4.052	109
203	MERCAPREV	163.452	193	1.387	2.071	73
204	ROCHEPREV	155.273	197	1.237	1.600	58
205	FUNPRESP-EXE	153.704	84	7.926	0	3
206	PREVEME II	153.102	138	3.874	6.791	37
207	PREVIHONDA	150.391	59	13.109	19.664	63
208	FAÇOPAC	136.608	179	1.902	2.237	121
209	PREVIMA	132.319	208	1.072	939	27
210	ALPHA	129.640	203	1.032	2.190	192
211	BOTICÁRIO PREV	128.923	108	5.475	7.632	26
212	OABPREV-RJ	127.825	117	4.926	8.306	136
213	CAGEPREV	117.647	198	1.248	1.670	42
214	FUNDAÇÃO GAROTO	115.671	143	3.484	8.540	201
215	PREVBEP	112.299	243	52	148	136
216	FAPECE	107.912	237	290	0	155
217	FUMPRESC	105.107	216	631	1.634	345
218	MERCERPREV	102.438	230	716	1.072	11
219	OABPREV-MG	101.151	85	7.775	14.574	28
220	FUNASA	100.534	200	528	1.432	741
221	OABPREV-SC	96.241	94	6.621	10.349	53
222	CAFBEP	95.842	196	973	868	354
223	JUSPREV	95.592	165	2.354	3.480	3
224	RECKITTPREV	94.964	229	688	1.032	56
225	INSTITUTO GEIPREV	91.956	239	82	289	311
226	PREVYASUDA	79.461	235	413	266	87
227	INERGUS	79.071	207	542	2.295	570
228	MÚTUOPREV	67.657	na	na	na	na
229	CARFEPE	63.354	189	1.595	3.110	38
230	OABPREV-GO	59.224	123	4.913	10.207	23
231	PREVCHEVRON	57.875	245	141	213	43
232	FUNDO PARANÁ	53.854	149	3.252	3.147	6
233	ALBAPREV	49.372	242	159	335	30
234	DATUSPREV	49.119	na	na	na	na
235	PREVUNISUL	46.836	199	1.186	1.763	103
236	OABPREV-RS	46.700	115	5.134	7.704	30
237	MM PREV	46.699	161	2.420	26	30
238	MONGERAL	42.628	169	2.219	3.585	12
239	FUNCASAL	41.631	191	874	1.787	611
240	FUNPRESP-JUD	34.867	194	1.405	1.405	0
241	SILIUS	34.525	240	25	295	326
242	FUTURA II	29.348	233	551	321	1
243	UNIPREVI	25.825	249	5	34	23
244	OABPREV-NORDESTE	25.505	236	348	588	148
245	PREVES	25.375	226	773	0	0
246	ALEPEPREV	23.254	244	175	208	10
247	FUCAE	17.246	na	na	na	na
248	CNBPREV	16.983	222	913	1.572	2
249	CAVA	14.699	175	1.483	2.309	590
250	ANABBPREV	11.847	217	932	1.814	4
251	RJPREV	11.076	228	757	0	0
252	FUNDAÇÃO FECOMÉRCIO	5.360	238	444	827	0
253	MAPPIN	4.155	146	3.463	2.895	35
254	SUL PREVIDÊNCIA	2.044	246	149	224	0
255	CIASPREV	1.932	144	3.657	0	0
256	ORIUS	1.692	248	0	25	47
257	ACIPREV	536	231	575	965	0
258	EDS PREV	263	250	6	0	0
259	PREVCOM-MG	257	na	na	na	na

TOTAL ESTIMADO

Investments (in BRL thousand)	702.764.432	Active Members*	2.542.055	Dependents*	3.908.049	Beneficiaries*	735.569

*Dec/14

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