



2014

ANNUAL REPORT

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# Summary

Presentation	3
Message	4
2014 Highlights	6
Previ	9
Benefit plans and other products	10
Our participants	11
Value generation	12
Mission, Vision and Values	13
Benefits plans	14
Plano 1	14
PREVI Futuro	16
Strategy and investments	19
The market in 2014	20
Investment policies and decisions in 2014	21
Macro-allocation of investments in the benefits plans	22
Investment decisions in 2014	23
Risk management	26
Investee companies and ventures	28
Responsible investments	33
Socio-environmental Responsibility Policy	35
Credits	37



# Presentation

The 2014 Annual Report presents the organization's main achievements for the year, organized according to the topics considered to be priorities for good management at PREVI.

Aligned with best governance and transparency practices, PREVI hereby publishes its *2014 Annual Report*. In it, the company presents its main accomplishments and challenges in the course of the year, its strategic vision for sustainability, and the key goals and projects enabling the organization to fulfill its Mission: to ensure the efficient, secure and sustainable payment of benefits to associates.

This edition translated into English is a summarized version of the complete report, which may be accessed at the organization's website (in Portuguese) [www.previ.com.br](http://www.previ.com.br)

The report is in accordance with the new Global Reporting Initiative (GRI) G4 guidelines, a leading international methodology for the production of sustainability reports. This version is aligned with the priority topics for PREVI stakeholders, based on a consultation held in 2012 and revalidated for the preparation of this document.

Enjoy reading it!



# Message

A summary of 2014 from the representatives of the Executive Board.

## MESSAGE FROM THE EXECUTIVE BOARD

2014 saw great instability in both the Brazilian and international financial markets, provoking a negative impact on the performance of the complementary pension sector as a whole.

A drop in the profitability of stock market operations had a negative effect on PREVI's performance. However, over the long term, an investment strategy that has allocated more funds to fixed income has proved effective. In the last ten years, the accumulated profitability of the Plano 1 portfolio has greatly outperformed Ibovespa, enabling the organization to achieve consecutive surpluses and to provide special benefits for participants.

Even with so many fluctuations, PREVI managed to end the year with a surplus of approximately R\$ 12 billion and total assets of R\$ 168 billion. These funds exceed the amount necessary to fulfill all future commitments. It should be noted that PREVI is the largest payer of complementary pension benefits in the country, having disbursed R\$ 8.40 billion to retirees and pensioners in 2014. These significant figures are proof of PREVI's continued strength during a year of economic retraction.

Growing vigorously, PREVI Futuro currently has 81,820 participants and a participation rate of 94.19%. In addition to the increased number of associates and their respective contributions, the profitability of the investments has ensured growth on an impressive scale. In absolute values, it took ten years for the PREVI Futuro assets to reach the mark of one billion reais and only six years to quintuple this amount. In 2014, the plan's assets totaled R\$ 5.71 billion.

We are a pension fund that seeks investments and investee companies that are responsible, respecting ethical values, human rights and the environment. The PREVI corporate governance model favors companies that adopt best practices, underpinned by the values of transparency, responsibility, fairness and accountability. Furthermore, as an investor PREVI demands explanations, clarifications, measures and results from managers to guarantee the success of its investments.

There is no doubt that we will continue to face challenges during 2015. But we are just as prepared to deal with them as we have been throughout our successful 110 year history. We are dedicated to ensuring PREVI remains solid for many decades to come, focused on achieving excellent results so that its almost 200 thousand participants and pensioners may have the peace of mind to know that their benefits will continue to be paid rigorously on time.



## 2014 Highlights

In 2014, PREVI completed 110 years of existence. See the institution's most important achievements in the year.

### NEW MISSION

In 2014, PREVI updated its Mission, clarifying and underscoring its commitment “to guarantee the efficient, secure and sustainable payment of benefits to associates” (read more in the chapter *PREVI*).

### PREVI'S 110TH ANNIVERSARY

On April 16th, 2014, PREVI – which started life as “Caixa Montepio dos Funcionarios do Banco da Republica do Brazil” – completed 110 years of existence. The historical date was commemorated with the organization of the seminar The Future of Closed Complementary Pensions, with Brazilian and international speakers. The event was attended by professionals from PREVI, other funds and organizations in the industry, who engaged in discussions on the future of the complementary pension area.

On the anniversary, a breakfast was offered to employees at the PREVI head office. A series of four videos was shown in which Plano 1 participants pay homage to their children, also BB employees and participants in the PREVI Futuro plan. The videos had originally been shown in the Banco do Brasil Leaders Encounter (Enlid) and represented an external viewpoint which emphasized the importance of the organization's role in people's lives. The commemoration also included promotional pieces in the main PREVI communication vehicles.

## CHANGES IN THE BOARD AND THE COUNCILS

In June 2014, 27 directors initiated four-year mandates in the PREVI governance bodies. The biennial renewal process for the Executive Board and the Plano 1 and PREVI Futuro Deliberative, Fiscal and Advisory Councils led to the reappointment of the president Dan Conrado for another mandate; the indication of Márcio Hamilton as the new Investment director by the Banco do Brasil; the direct election by members of the directors of Administration and Planning (Cecília Garcez and Décio Bottechia Júnior, respectively); and the election and indication of 23 members. On the occasion, Odali Dias Cardoso was elected to preside the Fiscal Council.

The president of PREVI, Dan Conrado, informed the Deliberative Council that he would be retiring on November 28<sup>th</sup>.

## CORPORATE CITIZEN

For the second year running, PREVI was certified as a Corporate Citizen by the Rio de Janeiro State Regional Accounting Council (CRCRJ) for its dedication to reporting accounting and socio-environmental information. The award is aimed at elevating the quality of accounting and socio-environmental information provided in the annual reports of organizations of all sizes, segments and regions of Brazil.

## FIRST OVERSEAS INVESTMENT

In January 2014, PREVI undertook its first overseas investment. The investments are based on the MSCI (Morgan Stanley Capital International) World Index and are undertaken with other institutional investors, as determined by law. In the Plano 1, the investment totaled R\$ 79.83 million, corresponding to 0.05% of the investment allocation. In PREVI Futuro, the investment was R\$ 8,87 million or 0.16% of the investment allocation. This is an alternative showing significant growth potential going forward.

## NEW PARAMETERS FOR THE EMPRÉSTIMO SIMPLES (SIMPLE LOAN)

In December 2014, the Executive Board approved alterations to the Simple Loan. These came into force on January 21<sup>st</sup> 2015, establishing a new methodology for granting and managing these loans in benefit of both Plano 1 and PREVI Futuro participants. With the changes it is no longer necessary to round the amount of the loan up, neither is the payment term required to be a multiple of 12. The parameters maintained include the ceiling of the loan, which in 2014 was changed to R\$ 145 thousand in the Plano 1 and to R\$ 40 thousand in PREVI Futuro.

## CLIMATE SURVEY

PREVI conducted a climate survey among its employees, with a response rate of 91%. The climate survey is an important instrument for PREVI and its employees because the indicators it generates drive more transparent personnel management and enable everyone to propose improvement measures and to track results (read more in the chapter *PREVI*).

## PREVI PARTICIPATES IN PRO GENDER AND RACE EQUALITY PROGRAM

PREVI took part in the signature signing ceremony for commitment to the fifth edition of Brazil's Pro Gender and Race Equality program in Brasilia. PREVI joined the program in 2009, receiving the Pro Gender Equality seal denoting that it is an organization committed to the cause of equality. Since then, the company has worked on ensuring equality among its employees.

## SERVICES FOR PARTICIPANTS

Forging closer relations with participants is a strategic goal for PREVI, which has sought to improve its service channels and maintain a presence where its members are located. In 2014, PREVI inaugurated yet another number for its Call Center, 0800-031-0505, further facilitating contacts. The Pension Plan Advisory service was expanded, with double the number of employees providing services aimed at participants approaching retirement age.

PREVI also maintained a stand at events for both current and retired employees, such as the Enlid BB, the Cinfabb and the National Banco do Brasil and PREVI Employees' Congresses. In the four events, more than 3 thousand participants received information and advice on diverse subjects. The organization of this service at events is aimed at clarifying people's doubts and disseminating products and services on a personal basis, as well as raising the awareness of active employees about the importance of planning for the future.

## PREVI CORPORATE GOVERNANCE ENCOUNTER

The 15<sup>th</sup> PREVI Corporate Governance Encounter, attended by some 500 people, including board members, investors and members of the business community, sought to build closer relations between PREVI and market agents relevant in managing its portfolio. This year's theme was "Thriving in times of uncertainty". Discussions covered the challenges of ensuring the success and longevity of companies in an unstable environment and how executives, board members and investors can help to overcome this challenge. Every year, the encounter discusses questions that are relevant for business strategy, helping to ensure PREVI's success in achieving its mission.

## PREVI PARTICIPATES IN PRI EVENTS WITH THE UN SECRETARY GENERAL

The United Nations coordinated a meeting to discuss opportunities for advancing responsible business and sustainable development. The meeting took place in the institution's headquarters in New York in September. As Latin American representative on the PRI (Principles for Responsible Investment) Council, PREVI's Security director Marcel Barros was one of the participants in the meeting. Other attendees were a group of ambassadors and diplomats, including Brazil's representative in the United Nations, Antônio Patriota. The event was coordinated by the UN Secretary General Ban Ki-moon.

### IN CONTEXT

#### Meeting at the CCBB

In August, the Brazilian signatories to the PRI took part in a workshop which was attended by Fiona Reynolds, managing director of the initiative. Participants had the opportunity to discuss PRI strategies for the coming years, as well as to present criticisms, suggestions and demands. Organized by PREVI, the event took place in the Centro Cultural Banco do Brasil in Rio de Janeiro (CCBB RJ).





## Previ

Founded in 1904, the Caixa de Previdência dos Funcionários do Banco do Brasil is the largest pension fund in Latin America, with almost 200,000 participants.

Founded 110 years ago, PREVI or the Caixa de Previdência dos Funcionários do Banco do Brasil, which translates as Banco do Brasil Employees' Social Security Fund, is a closed, not-for-profit complementary pension fund whose purpose is to offer complementary benefits to those provided by the public system for employees and ex-employees of the Banco do Brasil, for PREVI's own employees and for its beneficiaries.

Founded in 1904, before the creation of public pensions in Brazil, PREVI is the largest pension fund in Latin America. Its headquarters is located in Rio de Janeiro, where 624 employees and 206 third parties are engaged in the mission of paying benefits to its almost 200 thousand participants and pensioners – around 7% of all the participants in the complementary pension system in the country. PREVI manages assets of some R\$ 168 billion, equivalent to 25% of the country's complementary pension sector.

Around 90% of the institution's employees come from the Banco do Brasil, its sponsor. Today, they manage funds which will generate their own pensions in the future – and for this reason, they exercise complete responsibility, respect and transparency in the management of these assets. These factors help drive the long-term thinking and care which characterize the way in which PREVI undertakes investments. Best management practices are guaranteed by the organiza-

tion's governance model which provides for parity among all the governance bodies. Moreover, PREVI is overseen by Previc (Superintendência Nacional de Previdência Complementar), the agency responsible for the complementary pension sector.

Since 2006, PREVI has been a signatory to the Principles of Responsible Investment (PRI), a voluntary global initiative coordinated by the United Nations Organization (UNO) involving institutional investors seeking to promote best practices in social responsibility, sustainability and corporate governance. PREVI is on the PRI board and represents Latin America in the Executive Group, seeking to divulge the initiative and encourage other institutions on the continent to participate in it.

In 2013, PREVI also joined the board of the International Integrated Report Council – IIRC, becoming one of the institution's four representatives in Brazil.

## BENEFIT PLANS AND OTHER PRODUCTS

Today PREVI administers three plans: two providing continuous benefit payments (Plano 1 and PREVI Futuro) and the Capec plan which provides a benefit payable upon death or invalidity. The assets under management by PREVI total R\$ 168.53 billion.

### Plano 1

Plano 1 is the complementary pension plan for Banco do Brasil employees admitted up until December 23<sup>rd</sup>, 1997. It has been closed to new participants since then. The objective is to guarantee a complementary pension for its participants and their respective dependents. Currently, Plano 1 has 116,863 participants, with assets totaling R\$ 162 billion. In 2014, PREVI paid out R\$ 8.39 billion in benefits.

### PREVI Futuro

PREVI Futuro is the complementary pension plan for employees who entered Banco do Brasil and PREVI from December 24<sup>th</sup>, 1997 on. Currently, more than 94% of the active Banco do Brasil employees admitted from December 1997, or more than 74 thousand people, participate in PREVI Futuro. 93% of the 3,374 employees hired in 2014 opted to join the plan upon admission. The PREVI Futuro funds are currently under accumulation, totaling R\$ 5.71 billion. In 2014, benefits payments totaled R\$ 6.16 million.

### Capec Plan

This is a plan that covers death and invalidity. Currently it has almost 124,000 participants, with funds totaling R\$ 203 million. In 2014, the amount raised was R\$ 240.45 million while payouts to 3,480 beneficiaries totaled R\$ 226 million.

PREVI also provides participants and pensioners with solutions aimed at making life easier, such as the Simple Loan, Real Estate Financing and the Benefits Club.

### Simple Loan

A credit line for Plano 1 and PREVI Futuro participants and pensioners, offering competitive rates, excellent payment terms and a higher ceiling than the market. In 2014, loans to participants in both plans totaled R\$ 1.07 billion.

### Real estate loans

Carim is the PREVI real estate financing portfolio for the acquisition of both new and used residential properties. Real estate loans totaled R\$ 94 million in 2014.

# 39<sup>th</sup>

largest pension fund in the world and the largest in Latin America in assets, according a survey conducted by the North American publication *Pensions & Investments* (position as of September 2014)

#### IN CONTEXT

### Towards integrated reporting

The IIRC is dedicated to persuading companies worldwide to adopt reporting standards that reflect sustainable business, and PREVI has shown great efficiency in this area. In October, the IIRC promoted the event *Investors' View of Integrated Reporting*, with the participation of the coordinator of the initiative in the Americas, Lisa French. The aim was to encourage investee companies to adopt this reporting methodology.

### Benefits Club

This is a club in which partnering companies offer participants and pensioners discounts on diverse kinds of products and services, such as electrical and electronic goods, automobiles, clothes and hotels.

→ More information about the plans administered by PREVI and about operations with participants in the chapter *Benefit Plans*.



In 2014, we paid out more than R\$ 8.40 billion in benefits to more than 92 thousand retirees and pensioners in the Plano 1 and PREVI Futuro plans

### OUR PARTICIPANTS

PREVI has around 200 thousand associates and pensioners. That is, practically one in every thousand Brazilians is a part of PREVI.

Situation	Plano 1	PREVI Futuro	Overall total
Active	23,981	74,342	98,323
Retired	68,395	244	68,639
Active outsiders	760	7,217	7,977
Retired outsiders	3,573	17	3,590
Pensioners	20,154	535	20,689
<b>Total</b>	<b>116,863</b>	<b>82,355</b>	<b>199,218</b>

## Plano 1

assets reached R\$ 162 billion in 2014, while PREVI Futuro assets grew more than R\$ 1.15 billion, reaching R\$ 5.71 billion

## VALUE GENERATION

PREVI has as its objective the payment of pension benefits to complement participants' income upon retirement or in the event of disability or the payment of a pension to dependents in the event of death. Therefore, asset management adopts a future-focused long-term perspective. See how PREVI builds and distributes value.

### Financial capital

PREVI funds are generated by the monthly contributions made by the participants and their sponsors (Banco do Brasil and PREVI itself). These funds are invested in a diversified manner, in accordance with each plan's investment policy.

Fund management is aligned with the PREVI Vision of being the best benefits plan administrator in Brazil and an international reference in the segment, with excellence proven by indicators in asset and liability management practices, participant satisfaction, administrative costs (cost x benefit ratio), socio-environmental responsibility, social security products and services and personnel policy, as well as being a source of pride for participants, sponsors and employees.



### Human capital

The PREVI employee body consists of the fund's own employees, employees contracted on loan from the Banco do Brasil, third parties, interns and apprentices. PREVI and BB employees are subject to a selection process that includes analysis of their résumés, behavioral assessment and an interview. These are professionals who are highly qualified in diverse areas and who undergo constant training and development. Furthermore, it should be noted that both PREVI employees and those ceded by the Banco do Brasil are PREVI participants and thus have every interest in ensuring the future well-being and prosperity of the organization and its benefits.



### Social capital

PREVI has a robust stakeholder relationship network, particularly worthy of note being its participants and pensioners. A number of tools are applied to uphold and ensure transparency in relations with these groups, with a view to boosting dialogue. To undertake investments and honor its commitments, PREVI also maintains relations with the financial market, government and diverse economic segments, striving permanently to propagate good management and governance practices.



### Intellectual capital

The expertise and vast experience of employees in the capital markets, finance and economics, as well as in the insurance and actuarial areas, drives increasingly shrewd investments and the installation of processes that guarantee the concession and maintenance of benefits based on accurate risk assessments and the commitment to safeguard PREVI's assets and uphold its Mission.

## MISSION, VISION AND VALUES

In parallel with the drafting of the organization's strategic planning, the Executive Board also opted to update PREVI's mission, which was originally elaborated in 2003. The objective was to make the new text more concise and more focused, clarifying that PREVI's reason for being is to guarantee the payment of benefits to participants over the long term.



### Mission

To guarantee the efficient, secure and sustainable payment of benefits to participants.

### Vision

To be the best benefits plan administrator in Brazil and an international reference with excellence proven by indicators in:

- Asset and liability management practices;
- Participant satisfaction;
- Administrative costs (cost x benefit ratio);
- Socio-environmental responsibility;
- Private pension and insurance products and services;
- Personnel policy.

To be a source of pride for participants, sponsors and employees.

### Values

PREVI management is underpinned by the ethical principles set forth in the following values:

- Responsibility, commitment and socio-environmental commitment;
- Solidarity;
- Quality, competence, excellence, creativity and professionalism;
- Ethics, honesty and integrity;
- Transparency;
- Civic awareness, democracy.



## Benefits plans

The PREVI plans are administered to guarantee the payment of benefits to all participants - a universe of almost 200,000 people.

### PLANO 1

The Plano 1 is the pension plan for Banco do Brasil employees admitted up until December 1997. Mature and closed to new participants, there has been a gradual increase in the total benefits paid out to Plano 1 participants and pensioners, for which reason PREVI seeks to maintain the liquidity of the plan's assets. At the end of 2014, the equity in the plan was R\$ 162 billion. Payouts during the year totaled R\$ 8.39 billion for 92,122 retirees and pensioners. The benefits are related both to programmed (by length of contribution, early retirement or by age) and non-programmed (disability) retirement. The plan also provides a complementary death benefit for participants.

During 2014, talks were maintained with the sponsor and the PREVI and Banco do Brasil supervisory bodies to address the issue of a ceiling for contributions to the pension plan. The consensus necessary to finalize this issue has not yet been reached.

Both active and retired Plano 1 participants contribute a percentage of their salary or the complements; the sponsor matches this amount as provided for in the bylaws. In function of surplus funds in previous years, the collection of contributions was suspended from 2007. In 2014, the collection of contributions from participants and the sponsor was resumed, as stipulated in regulations.

During the same period, the Special Temporary Benefit, or BET in the Portuguese acronym, was terminated. In compliance with legislation, the BET was a temporary measure, payment of which was dependent on the existence of resources in a special fund constituted especially for this purpose. Aware of the impact on participants of the resumption in charging contributions and the end to the payment of the BET, PREVI started to disseminate this information from mid-2013 on, so that those affected would be able to adjust their finances and get by without the additional monthly allowance.

The Board also authorized a temporary six-month suspension of the collection of Simple Loan installments for participants who requested this option. The objective was to provide participants with a longer period of time in which to adjust their personal budgets without throwing the plan out of balance.

The mathematical reserves (the amount calculated to cover the plan's liabilities down to the last participant) were R\$ 122 billion on December 31<sup>st</sup>, 2014.

**IN CONTEXT****Mathematical reserves: security**

Considering that Plano 1's net assets total R\$ 134.62 billion, the plan ended the year with around 10% more than necessary to pay all its current and future obligations. This additional amount is the contingency reserve, which offers participants and pensioners additional security. The funds will be consumed over the coming years to ensure the punctual payment of the participants' normal retirement benefits and pensions on a monthly basis. Within ten years, all active employees in Plano 1 will be in a position to request their retirement, which will lead to higher disbursements in the coming decades.

**PARTICIPANTS**

	2010	2011	2012	2013	2014
Active	32,449	30,659	28,826	25,849	23,981
Retired	64,361	65,036	65,784	67,630	68,395
External active <sup>1</sup>	916	840	829	800	760
External retired <sup>2</sup>	3,478	3,509	3,522	3,557	3,573
Pensioners	18,964	19,285	19,555	19,932	20,154
<b>Total</b>	<b>120,168</b>	<b>119,329</b>	<b>118,516</b>	<b>117,768</b>	<b>116,863</b>

1 Includes self-sponsored, Deferred Proportional Benefit, minimum pension and participants still without option.

2 Includes self-sponsored, Deferred Proportional Benefit, minimum pension.

**BENEFITS PAID (R\$)**

	2010	2011	2012	2013	2014
PREVI*	6,194,828,011.66	9,045,819,173.89	8,423,228,164.55	9,246,889,979.12	8,394,631,290.07
INSS**	1,722,281,424.59	1,866,996,751.72	2,006,964,312.63	2,151,202,709.43	2,271,701,394.22
Banco do Brasil***	296,251,313.45	297,856,989.95	297,583,241.65	192,374,556.94	185,430,808.85
<b>Total</b>	<b>8,213,360,749.70</b>	<b>11,210,672,915.56</b>	<b>10,727,775,718.83</b>	<b>11,590,467,245.49</b>	<b>10,851,763,490.14</b>

\* PREVI benefits include regular benefits and benefits paid as a result of court or judicial decisions. The 2011, 2012 and 2013 figures include BET payments. \*\* Considers the amounts paid out by PREVI via payroll regarding Prisma agreement. \*\*\* Banco do Brasil is responsible for paying benefits of founding participants of PREVI, as well as obligations arising from labor lawsuits, among others.



**ACCUMULATED RESULT (R\$ BILLION)**

	2007	2008	2009	2010	2011	2012	2013	2014
Contingency Reserve	15.52	16.56	18.25	22.66	24.36	26.29	24.76	12.54
Special Reserve	37.42	9.76	25.96	4.23	0.31	1.01	-	-

**PREVI FUTURO**

PREVI Futuro is the pension plan for employees who joined Banco do Brasil and PREVI from December 24<sup>th</sup>, 1997. A young plan which is accumulating reserves and growing in participant numbers, participation in PREVI Futuro is voluntary. For this reason, it is important for PREVI to publicize its plan in events for the induction of new employees so that they are aware of the benefits on offer.

Worthy of note is the exponential growth of the plan's assets, driven by the increase in the number of participants and their respective contributions, in addition to efficient management of the funds: PREVI Futuro ended 2013 with total assets of R\$ 4.56 billion; in June 2014, the figure was R\$ 5.19 billion; and by December 31<sup>st</sup>, assets totaled R\$ 5.71 billion.

The number of employees joining the plan has also increased steadily. The percentage of affiliations upon hiring increased from 71% in 2004 to more than 89% in 2010 and 93% in 2014. At the end of 2014, there were more than 82 thousand participants.

In 2014, PREVI stepped up the measures in its Mais PREVI educational program, providing participants with greater information on how they may increase their reserves in order to enjoy a more valuable retirement benefit in the future. The educational measures include 12 videos available on the PREVI site, presenting themes of interest to participants.

The benefits are monthly income from programmed retirement (in function of balance in the participant's account) and non-programmed retirement (complement due to disability and pension upon death).

**PARTICIPANTS**

	2010	2011	2012	2013	2014
Active	60,169	67,567	70,662	72,640	74,342
Retirees	103	128	157	186	244
External active <sup>1</sup>	5,748	6,346	6,773	7,142	7,217
External retirees <sup>2</sup>	6	10	6	11	17
Pensioners	268	316	389	476	535
<b>Total</b>	<b>66,294</b>	<b>74,367</b>	<b>77,987</b>	<b>80,455</b>	<b>82,355</b>

1 Includes self-sponsored, Deferred Proportional Benefit, and participants still without option.

2 Includes self-sponsored and Deferred Proportional Benefit.



**BENEFITS PAID (R\$)**

	2010	2011	2012	2013	2014
PREVI*	1,959,528.19	2,438,450.76	3,310,153.59	4,412,794.57	6,161,631.63
INSS	5,926,029.67	7,307,739.67	9,144,367.60	11,633,177.11	14,243,282.67
Banco do Brasil**	5,410.07	5,848.44	6,339.23	6,827.43	6,971.92
<b>Total</b>	<b>7,890,967.93</b>	<b>9,752,038.87</b>	<b>12,460,860.42</b>	<b>16,052,799.11</b>	<b>20,411,886.22</b>

\* PREVI benefits come from programmed retirement, Risk Benefits and Deferred Proportional Benefit.

\*\* Banco do Brasil is responsible for paying benefits arising from labor lawsuits.

**ACCUMULATED ASSETS (R\$ BI)**

2007	2008	2009	2010	2011	2012	2013	2014
0.91	1.10	1.69	2.24	2.82	3.77	4.56	5.71

**Career development contribution — 2B**

The minimum contribution to PREVI Futuro is 7% of the participant's salary. This contribution is matched by an equivalent one from the sponsor. Career growth, associated with the length of time in the plan, permits the participant to increase the contribution percentage. This contribution, known as 2B, varies from 1% to 10% of the participant's salary, in accordance with their score, and is matched with an equivalent amount from the sponsor.

Although it is optional, the 2B contribution is fundamental to improve the amount of the benefit receivable upon retirement. In 2014, PREVI undertook a series of actions to provide information about the 2B contribution, including direct mailing and reports on the website and in the *PREVI* magazine. These were aimed at making participants aware of the importance of choosing the maximum 2B contribution in accordance with their score. Around 50% of the participants who opted not to make a 2B contribution or to contribute a lower percentage later reviewed this option and increased their contribution. Whereas participants who started scoring maintained the maximum percentage of contribution.



Of the approximately 33 thousand participants who reached the score necessary to make the 2B contribution, 11% still contribute at a percentage below the maximum permitted. Communications and educational actions encourage the participants to increase their contributions for their own benefit in the future.

**Exclusive participant contribution – 2C**

The 2C contribution is one that is made exclusively by the participant to increase the amount of the benefit to be received or to reduce the contribution time. The contribution may be made on a monthly basis (in which case the amount should be at least 2% of the participant's salary) or sporadically (with the amount equivalent to at least 20% of the participant's salary).

In October 2014, the PREVI portal started offering participants the opportunity to register the 2C contribution as a self-service option. The user may simulate the amount of the contribution, program the date for debiting the contribution from their checking account and monitor the status of the request. This new functionality led to a 49.33% increase in the number of participants, who took advantage of their 13<sup>th</sup> salary and/or the bonus from the profit share scheme (PLR) to make 2C contributions.

## Investment profiles

In a variable contribution plan like PREVI Futuro, the amount of the monthly retirement income depends on the participants' and sponsor's contributions, the length of contribution and the profitability of the investments made by the fund. Consequently, the greater the yield or profitability, the higher the balance in the account and the higher the benefit.

Available for PREVI Futuro participants since 2009, the Investment Profiles program offers four different profiles in accordance with the percentage to be invested in fixed income, which will impact the participant's account balance upon retirement: Conservative (0% to 10% in variable income); Moderate (20% to 30%); Aggressive (40% to 50%); and the PREVI Profile (defined annually in accordance with the Plan Investment Policy, with the current allocation ranging from 30% to 50%).

### IN CONTEXT

## Long-term accompaniment

The profiles permit the participants to choose an allocation in variable income which they consider most appropriate in relation to their expectations. The option for one of the investment profiles is not definitive and may be altered every 12 months. It is important to keep track of the yield offered by each of the profiles, projections for the economy, and to bear in mind that this is a long-term investment.

To provide PREVI Futuro participants with even greater security, a study was begun on the possibility of including a life cycle profile which would enable investment allocations in accordance with the participants' age and the most appropriate risk profile for this age group.

## TOTAL PARTICIPANTS BY INVESTMENT PROFILE

	Aggressive	PREVI	Moderate	Conservative	Total
2012	1,707	71,170	592	3,966	77,435
2013	1,529	71,988	667	5,598	79,782
2014	1,324	72,430	725	7,080	81,559

## INVESTMENT PROFILE X RATES: ACCUMULATED YIELD 2009 TO 2014

	TMS	Actuarial	Ibovespa	PREVI Profile	Conservative	Moderate	Aggressive
2009*	3.04%	3.13%	20.69%	8.02%	4.17%	7.33%	10.11%
2010	9.78%	12.32%	1.04%	8.37%	11.93%	9.51%	7.08%
2011	11.62%	11.91%	-18.11%	3.93%	12.07%	6.49%	1.06%
2012	8.49%	12.04%	7.40%	12.99%	14.02%	13.71%	13.32%
2013	8.22%	10.84%	-15.50%	2.74%	6.02%	4.35%	2.61%
2014	10.90%	11.54%	-2.91%	6.52%	11.83%	9.03%	6.08%
Accumulated	64.41%	79.56%	-12.01%	50.43%	76.66%	61.92%	46.98%

\*Yield from August 20th to December 31st 2009, when the Investment Profiles were initiated. Observation: past results are no guarantee of future yield. The choice of an investment profile should be based on a long-term perspective and on the participant's investment allocation profile.



## Strategy and investments

In a difficult economic conjuncture, PREVI decisions were based on a long-term perspective aimed at guaranteeing the liquidity required to fulfill its Mission.

As a closed complementary pension body, PREVI distributes the contributions coming from participants and sponsors among diverse investments. These funds are invested in accordance with each benefit plan's investment policies as prepared by the Planning area on an annual basis and approved by the Executive Board and the Deliberative Council. The guidelines set forth in the policies are aimed at ensuring a balance and the sustainability of the plans over the long-term, optimizing the relationship between risk and return while respecting PREVI's obligations to its participants.

The economic situation in Brazil was very difficult in 2014. The tensions caused by the presidential election, rising inflation and interest rates, extreme volatility in the capital market and low gross domestic product (GDP) growth resulted in a conjuncture which demanded great caution in the investments made. All PREVI decisions were undertaken from a long-term perspective involving great care in risk assessment to ensure the liquidity necessary to pay the benefits due to thousands of participants.

## THE MARKET IN 2014

In 2014, the complementary pension sector in Brazil was affected mainly by the behavior of the stock market and the increase in the economy's basic interest rate (Selic), indicators which directly impact pension fund assets. These factors helped determine the manner in which PREVI strategies were shaped during the year. All the market movements were taken into consideration in the elaboration of long-term scenarios with an emphasis on stability.

The Ibovespa index, the main indicator for the shares negotiated on the BM&FBovespa exchange, fluctuated considerably during a fair part of the year. There was a downward trend in the first quarter, reaching its lowest point in mid-March 2014. This was followed by a considerable upturn until May, followed by further oscillations until the beginning of September (when the index peaked for the year at 61,895 points). Volatility intensified even more in the last few months of the year, with accentuated peaks and troughs and - from mid-November - another strong downward trend, driven mainly by the devaluation of Petrobras shares. The uncertainty about the main macroeconomic indicators (GDP, industrial investment and inflation, among others), exacerbated by expectations related to the results of the presidential election, depressed the share prices of state companies. To offset this drop, it was important to maintain positions in the shares of private companies, less susceptible to the political scenario. The lower level of economic activity also had a stronger impact on determined segments, such as the steel and energy generation industries. A long-term approach to the share market was necessary in order to prevent loss of value in the portfolio.

In an attempt to contain inflation and the appreciation of the dollar, the Central Bank promoted successive increases in the basic interest rate (Selic): from January to November 2014, there were four hikes in the rate, which rose from 10.50% to 11.75% per year. On the one hand, this movement increased instability related to fixed income investments, including CDBs (bank deposit certificates), treasury bills and bonds, especially for long-term contracts; on the other, the high basic interest rate enabled significant gains for the PREVI portfolio.

In the real estate market which had been profitable and had appreciated in value in recent years, 2014 was a year for caution. In PREVI's opinion, there was a gap between the prices fixed for the property available in the market and the estimated return expected by potential investors. The perception is that the moment of higher earnings in the segment has passed. This is leading to an adjustment in prices with a reduction in the liquidity of the properties available on the market, which have not been absorbed at the same rate as before (especially for commercial and corporate properties).

In function of the macroeconomic instability experienced in 2014, it is expected that the country will undergo a series of adjustments in the coming years in order to resume growth and combat inflation. Based on these expectations, the most recent review of investment policies, valid for the next seven years and aligned with the organization's strategic planning for 2015-2018, worked with a scenario in which we will have two years (2015 and 2016) of low economic growth followed by an improved outlook from 2017 to 2021. .

## INVESTMENT POLICIES AND DECISIONS IN 2014

The PREVI investment policy guidelines are executed by the Investment area. Every year, the policies are reviewed based on technical criteria that take into account not only the market context and the organization's legal obligations, but also the need to honor its mission of ensuring the payments due. The explicit separation between the area responsible for drafting policy and the one which executes it is determined in the PREVI bylaws and provides the guarantee that all decisions are subject to double scrutiny before they are executed.

In 2014, policy definition methodology was enhanced through the use of a tool to calculate the efficiency frontier, which cross references the risk level with the estimated yield. Bearing in mind the three fundamental priorities every pension plan must obey – yield, risk level and liquidity –, PREVI takes the specificities of each plan into account when it is formulating its policies. Thus, for Plano 1, which is mature, closed and in which most of the participants are already in receipt of the benefits, guidelines aimed at liquidity to guarantee commitments and payments were favored. Whereas for PREVI Futuro, the focus is on maximizing returns to accelerate the accumulation of assets. The determinations then become references for the policies and targets for each plan for 2015.

Moreover, new scenario building formulas were applied to determine policies, with the participation of external consultancies to validate the models used. With this, a beginning was made to integrating the work done by the Planning area with the parameters of Risk-Based Management and the Asset and Liabilities Management model. The decision integrates the strategic objective of investment management with the appetite for risk and the liquidity of the plans, executed jointly by the Planning and the Investment areas.

In order to increase the guarantee of punctual payment for the retirees in Plano 1, the minimum amount necessary was reviewed. It was decided that this should correspond to six months of benefit payments, which were then allocated in highly liquid assets. This ensures even greater security for participants in the event of contingencies.

## MACRO-ALLOCATION OF INVESTMENTS IN THE BENEFITS PLANS

### Plano 1

The overriding objective of Plano 1 investment policy is to ensure security, return and fulfillment of commitments to plan participants. The need for assets that provide steadily increasing liquidity in a volume sufficient to punctually meet benefit payment obligations drives the plan's investment guidelines.

### PLANO 1 MACRO-ALLOCATIONS (IN %)

Segments	2013		2014		2015	
	Minimum allocation	Maximum allocation	Minimum allocation	Maximum allocation	Minimum allocation	Maximum allocation
Variable income	56.6	64.6	53.52	61.52	53.45	61.45
Fixed income	25.3	33.3	27.62	35.62	27.75	35.75
Real estate	3.8	7.3	5	7.5	5	7.5
Operations with participants	1.1	5.1	1.27	5.27	1.2	5.2
Structured investments	0	2	0	1.5	0	1.6
Overseas investments	0	0.3	0	0.4	0	0.5

### PREVI Futuro

The Planning area induced a change in thinking among the teams involved in formulating policy for PREVI Futuro, seeking a higher return for the plan's investments. A more ambitious target necessarily means a higher level of risk – but this is always maintained within the parameters determined by the organization's risk management area (read more in *Risk management*, in this chapter).

### PREVI FUTURO MACRO-ALLOCATIONS (%)

Segments	2013		2014		2015	
	Minimum allocation	Maximum allocation	Minimum allocation	Maximum allocation	Minimum allocation	Maximum allocation
Variable income	0	50	0	50	0	60
Fixed income	21	95	21	95	21	95
Real estate	0	8	0	8	0	8
Operations with participants	5	15	5	15	5	15
Structured investments	0	5	0	5	0	5
Overseas investments	0	1	0	1	0	1

## Capec

The Capec plans stands alone in relation to the other benefits plans, consisting exclusively of the participants' contributions. The fund investment strategy is designed to provide a return and enough liquidity to guarantee the commitments assumed during the year in course, without generating reserves.

### CAPEC MACRO-ALLOCATION (%)

Segment	2013		2014		2015	
	Index	Maximum allocation	Index	Maximum allocation	Index	Maximum allocation
Fixed income	Selic	100	Selic	100	Selic	100

## INVESTMENT DECISIONS IN 2014

Given the volatility and uncertainties surrounding the economic scene during the year, PREVI was particularly cautious and protective of its assets in its main investment decisions. The 2014 strategy was aimed at preparing for possibly unfavorable macroeconomic conditions and at maintaining a long-term perspective. For this reason, the Investment area tightened its partnership with the Planning and Shareholding areas to reinforce ALM (Asset and Liability Management) analyses and ensure accurate projections of the dividends from investee companies. This helps guarantee greater security about the institution's real cash needs so that no investment or divestment decisions need be taken on an emergency basis to generate liquidity at the cost of a loss in return.

### Fixed income

The increase in interest rates in 2014 made investments in government securities very attractive. PREVI was successful in a number of operations involving the extension of the terms for fixed income securities, which should remain in the investment portfolio for some time. One segment that deserved special attention was the secondary bond market (in which security purchase and sale operations take place directly between investors and not between the issuing body and potential investors), in which the organization stepped up its presence in 2014. This market proved to be a new source of profitability offering low risk.

### 2014 YIELD(%) – FIXED INCOME

Plano 1	13.08%
PREVI Futuro	14.13%
Reference index* (INPC + 5.5%)	12.07%
Market indicators	
TMS	10.90%
IMA-B	14.54%
IMA general	12.36%

\*Segment reference index defined in the Plano 1 and PREVI Futuro investment policies.

## Variable income

PREVI holds considerable positions in companies whose share prices on BM&FBovespa fluctuated greatly. These variations were offset by the maintenance of positions in companies less exposed to volatility. Some highlights were the appreciation of the share value of companies such as BRF and Banco Itaú. The divestment of Usiminas shares at a favorable price was seen as very positive. A study was initiated, with the involvement of an external consultancy, to ensure that the proportion of PREVI's investment in the variable income segment is in alignment with the market reality and compatible with international practice in the sector.

## 2014 YIELD (%) – VARIABLE INCOME

Plano 1	-4.43%
PREVI Futuro	-2.63%
Reference index * (IBrX)	-2.78%
<b>Market indicators</b>	
Ibovespa	-2.91%
IBrX-50	-2.65%

\* Segment reference index defined in the Plano 1 and PREVI Futuro investment policies.

## Real estate

The main highlight in the real estate segment was the investment in building up assets already belonging to the portfolio, in particular shopping malls. This strategy was due to the retraction in the offer of new properties in 2014 and was a trend that was followed by the main players in the Brazilian market, who were more selective in their new investments. In the Plano 1 portfolio, the expansion of the BarraShopping (Rio de Janeiro), begun in 2013, was the most significant. Among the PREVI Futuro properties, the most notable was the increased share in São Paulo's Shopping Metrô Tatuapé. Investment in new markets, concentrated in shopping malls and logistics condominiums was studied carefully in 2014 as a means of diversifying the portfolio. The percentage allocation of the assets of each plan in the real estate segment was not altered in comparison with 2013.

In 2014, two ventures in the real estate portfolio received LEED (Leadership in Energy and Environmental Design) certification, which assesses sustainable systems, practices and performance in buildings. This is the most important environmental certification in the global real estate market. Tower A of the Parque Cidade venture in Brasília obtained LEED certification in Operation and Maintenance. Three warehouses in the Jordanésia Park Logistics Complex in the São Paulo metropolitan region were LEED Certified, while two in the Cajamar Industrial Park received LEED Silver certification for the excellence of their design and for the rigorous control exercised throughout the construction process.

Profitability in 2014 was impacted by investments in assets that are still under construction and do not yet generate income. This question is more sensitive in PREVI Futuro, because its portfolio is under formation and has a significant share in these properties.



**2014 YIELD (%) – REAL ESTATE INVESTMENTS**

Segment	Plano 1	PREVI Futuro	Reference index* (INPC + 9,5% a.a.)
Real estate investments	13,75%	8,60%	16,32%

\*Segment reference index defined in the Plano 1 and PREVI Futuro Investment Policies.

**Overseas investments**

In January 2014, the institution, in partnership with other institutional investors, started investing in funds holding positions in the international market. This was the first time PREVI has undertaken investments abroad. The investments are based on the MSCI World (share markets in developed countries). These are still small investments in relation to total PREVI assets, but represent an alternative with significant growth potential.

The yield obtained in the year was 19.67%. This refers to the period between February and December 2014, since the investments were initiated on January 31<sup>st</sup>. In Plano 1, the investment was R\$ 79.83 million, corresponding to 0.05% of the investment allocation. In PREVI Futuro, the investment totaled R\$ 8.87 million or 0.16% of the allocation.

**Structured investments**

Private equity investments represent 98% of the structured investment portfolio. In 2014, the company made new subscriptions (the amount the investor commits to inject into the business over a certain period) totaling around R\$ 200 million in private equity funds, which invest in companies having the potential to grow and increase in value. At present, subscribed investments total approximately R\$ 2.3 billion, of which R\$ 1.2 billion has been effectively paid in.

**2014 YIELD (%) – STRUCTURED INVESTMENTS**

Segment	Plano 1	PREVI Futuro	Reference index * (IPCA + 8.0% p.a.)
Structured investments	-4.45%	-5.78%	14.92%

\* Segment reference index defined in the Plano 1 and PREVI Futuro investment policies.

**IN CONTEXT****Future outlook**

The private equity segment is still small as a proportion of PREVI's total investments, but it offers good return potential. Yield in this segment tends to be negative in the initial phase until the companies receiving the funds start to generate a profit. It is desirable to assemble a portfolio of companies placed at diverse points along the yield curve. Plano 1 investments in this segment were initiated first, and a number are already beginning to produce positive results.

## RISK MANAGEMENT

One of PREVI's new strategic objectives, determined at the same time that the 2015-2018 strategic plan and the new mission were introduced, established that the institution should "manage investments linked with the appetite for risk and the liquidity of the plans". To ensure this happens, the Risk Based Management (RBM) methodology adopted by the organization in 2012 is fundamental. RBM employs methodologies to assess every kind of risk that may impede PREVI from accomplishing its mission. Undergoing constant improvement, the process includes diagnosing the entire management structure, assessing the maturity of the tools, methods and policies in place and comparing them with the best risk analysis references available worldwide.

In 2014, three strategic initiatives that would help focus efforts were identified: policies and processes, corporate governance and measurement of capital. The risk assessment culture was incorporated into employees' daily routine. With support from an external consultancy, the organization's corporate risk matrix was defined with the identification, analysis, monitoring and reporting of the main risk factors, together with their impact and probability of occurrence. All the processes of areas that deal directly with risks were reviewed and the pertinent risks for each one of the benefits plans were measured.

The course Introduction to Risk-Based Management was incorporated into employees' basic training (consisting of educational measures for all PREVI staff). A number of workshops were organized to underscore the importance of risk management in complementary pensions and to disseminate a risk culture throughout the organization as a means of aligning understanding about the phases of the Risk Based Management project. At company events, advanced credit risk and market risk methodologies adapted for the reality of pension funds were presented alongside the practical challenges involved in implementing them. For 2015, Risk-Based Management will incorporate assessments of PREVI's overseas investments, its real estate investments, in addition to a study on extending the course Introduction to Risk-Based Management to the Universidade Banco do Brasil (UniBB).

### RBM risk map

Risk management at PREVI takes into account concepts and parameters such as the impact of variations in prices negotiated in the financial and capital markets (market risk), the risk stemming from the non-payment of obligations assumed by counterparts (credit risk), the risks arising from the non-availability of funds (liquidity risks) and the risks generated by the non constitution of guarantee funds compatible with actuarial commitments (solvency risk).

There follows a description of the main risks that PREVI monitors.

**Market risks:** measured using diverse metrics determined by the goals, targets and types of financial instrument involved in the portfolio. Worthy of note among the metrics employed are Value-at-Risk (VaR), unplanned divergence, tracking error (TE) and stress test.

**Credit risks:** these are grouped in three major sets – credit in financial institutions, in non-financial institutions and in operations with participants (Simple Loans and Real Estate Financing).

**Liquidity risk:** tracked and mitigated via the formation of a minimum cash reserve consisting of a volume of highly liquid assets sufficient to cover all expenses projected for the next six months.

**Solvency risk:** measured by the impact of projections of results on the organization's balance sheet. The company projects future cash needs and the results of each plan, enabling more efficient fund allocation.

**Operational risk:** The Risk and Control Matrix identifies risks and controls existent in the processes of each PREVI area. The risk potential or the probability of the occurrence of a loss is assessed, as is the impact in terms of financial or regulatory exposure, as well as harm to the organization's image.

**Legal risk:** this refers to the possibility of financial losses stemming from non-compliance with laws or regulations converted into sanctions imposed by oversight and control bodies, into indemnities for damages to third parties or into the creation of taxes or new interpretations relative to their application.

**Risk of actuarial liability:** risk of non-formation of an adequate reserve in function of the occurrence of biometric risks, such as an increase in longevity or an increase in the disability rate. The calculation of the actuarial liability is complemented by the calculation of the stochastic liability: diverse random paths are simulated for each participant, giving each participant a distribution of possible mathematical provisions. The total of this set of mathematical provisions forms the stochastic mathematical reserve which is used in the ALM process to measure solvency risk.

## INVESTEES COMPANIES AND VENTURES

PREVI's relations with the companies in which it invests and has holdings were intense 2014. Influenced by the market and macroeconomic factors, the Shareholding area frequently promotes best governance, management and socio-environmental practices among these companies.

In a year of economic and institutional uncertainties, PREVI acted in defense of its assets ensuring that investee companies maintained fiscal and budgetary discipline, prioritizing safe investments and updating their management and control mechanisms. Such measures are coherent in a situation in which the generalized expectation is for lower earnings and, consequently, lower dividends, as a result of the slowdown in economic activity.

In 2014, the companies in which PREVI has a controlling interest or in which it participates in the controlling group, were consulted and requested to evaluate their performance in the field of sustainability and the adoption of anti-corruption measures. The results of the research were shared with the responding companies in order to seek joint solutions for any management gaps and to measure the transparency of each company.

In the real estate sector, an important initiative was the launch of the publication *Guia de Orientação ao Síndico (Property Managers' Guide)*. The publication presents a guide for the day-to-day management of real estate ventures and seeks to disseminate the best governance practices which underpin PREVI's conduct. The publication is aimed at property managers, representatives, condominium service providers, engineering companies and consultants.

### BRF

This food industry company deserves special mention with respect to yield during the year. The appreciation of its shares traded on the BM&FBovespa was 30.93% in Plano 1 and 31.35% in PREVI Futuro.

The operational characteristics of each plan dictate different trading volumes for each: there were more transactions for PREVI Futuro, which is in a phase of accumulation, than for the already mature Plano 1. The difference in profitability is due to the efficiency of the transactions undertaken (purchase and sale).

The positive result was in great part due to the company's restructuring of its corporate governance and strategy, initiated in 2013, a process which has been closely monitored by PREVI.

### Invepar

The completion of terminal 3 in Guarulhos International Airport was a major highlight, as was the victory in the concession for the operation of the BR-040 highway. The advance in works in the mobility sector in Rio de Janeiro provided the Grupo Invepar with revenue growth driven by the Rio de Janeiro subway system (which started receiving more passengers). The group is also preparing to take over the operation of the future line 4 in the Metrô Rio operation. The public share offering scheduled for 2014 did not go ahead since the market situation was not considered favorable.

### Usiminas

The Plano 1 divestment in this asset was driven by the pursuit of liquidity and took advantage of an excellent business opportunity. The amount of the transaction (R\$ 616.7 million for a 5.07% share in the total capital) generated an 82% gain over the company's stock market prices. This type of movement should become increasingly common in the Plano 1 shareholding portfolio during the coming decade. This is because the plan is mature and requires greater liquidity to pay out benefits.

### Neoenergia and CPFL

The companies in the electricity sector faced a challenging year due to the prolonged drought, causing lower water levels in hydroelectric dams. This obliged the Brazilian electricity grid to activate more expensive energy sources, in particular thermal energy, impacting distribution costs. CPFL felt the effects less, because it already had all its energy generation sources in operation in 2014. Compared with other operators in the sector, both showed favorable performances. The market recognized that the boards of the two companies reacted well to the crisis, seeking joint solutions to mitigate the problems.

### ALL

The logistics operator initiated its integration with Rumo, belonging to the Cosan group. The process is under analysis by the antitrust agency Cade (Conselho Administrativo de Defesa Econômica). PREVI believes this merger is positive, since it will strengthen the asset and make it more liquid.

### Kepler Weber and Tupy

Kepler Weber – leader in the grain storage segment – had a good year with an impressive increase in income and greater control over expenses. PREVI played an important role in this process by maintaining its investments in the company and keeping a close eye on its efforts to improve finances and preserve investment value. The case of Tupy is similar. Accompanied by PREVI, the company increased the percentage of free floating shares and organized a successful overseas bond issue.

### Oi

Considering market conditions, the telecommunications operator undertook a successful public offering in the first half of the year, raising R\$ 13.96 billion. The complex merger process with Portugal Telecom, made even more complicated after the discovery that Rioforte (the holding company of the Portugal's Espírito Santo Group) had not honored certain financial obligations, attracted market attention to Oi's governance processes. PT Portugal assets, which contributed to Oi's capital increase, are being negotiated with European investors. The investment in Oi represents a small portion of PREVI's assets. The organization reduced its shareholding in the company in 2014, but even so it has been active in demanding a solution to Oi's governance issues in defense of the interests of plan participants.



The Neoenergia generation park will come into full operation in 2015, helping to reestablish a balance in the company's accounts.



Both companies were presented at the 2014 Corporate Governance Encounter as successful cases of restructuring.

### Vale

With iron ore prices reaching their lowest level since 2009, the company had a challenging year. Even so it remained among the ten companies with the highest market value on BM&FBovespa. The company maintains its commitment to delivering the S11D project on time and on budget. The project, which is located in Carajás (Pará), should significantly increase the company's iron ore production, ensuring brighter prospects in the coming years.

### Petrobras

In a year marked by administrative turmoil and accusations of corruption, the company's shares dropped considerably, aggravated by the decrease in international oil prices and by speculative attacks. PREVI decided to evaluate the real pressure of external conditions on the company's performance, awaiting the moment the securities recover their real value. Based on a long-term perspective, the organization is perfectly prepared to wait for this to happen, rather than destroying value in an adverse context.

### Sete Brasil

PREVI is paying close attention to the company's management and processes. The company is maintaining a cautious, critical and firm position in relation to the varied materials submitted to the FIP Sondas Investment Committee. Since Sete Brasil's name was linked with Operação Lava Jato (Operation Car Wash), among other actions, PREVI requested an independent audit. In December 2014, initial findings in diverse contracts did not indicate signs of material deviations and showed that the legal terms and conditions of the documents were compliant with norms and compatible with market practices. Considering the accusations revealed in February 2015, PREVI repeated its request for the FIP Sondas administrator to accelerate the investigation of the situation in order to enable the adoption of legal measures to protect the company's assets and the funds invested by its partners. Currently, PREVI has 2.3% of the quotas in the FIP Sondas equity fund, which holds 95% of the company's shares (the remaining 5% belong to Petrobras). The amount invested in Sete Brasil is equivalent to around 0.1% (R\$ 144 million) of Plano 1 reserves and 0.6% (R\$ 36 million) of PREVI Futuro assets.

### Sauípe

In 2013, the company Sauípe S.A. migrated from the real estate portfolio to the private equity portfolio, in other words it became a company in which PREVI is a shareholder. Once this stage of the company's planned recovery has been completed, the objective will be to generate profit and distribute dividends to shareholders.



After consecutive negative results, the company reached operational equilibrium with an occupancy rate above average for the hotel market.

## LIST OF INVESTEEES

Company	Segment	PREVI sharehold- ing (%)	On ISE/IGC
521 Participações	Electrical energy	100.00	-
Afluente Geração	Electrical energy	2.29	-
Afluente Transmissão	Electrical energy	2.29	-
ALL (América Latina Logística)	Infrastructure	3.99	IGC-NM
Ambev S.A.	Foods and beverages	2.71	-
Banco Bradesco S.A.	Banks	1.58	IGCX and ISE
Banco do Brasil S.A.	Banks	10.38	IGCX and ISE
BB Seguridade S.A.	Banks	0.68	IGCX
BRF	Foods and beverages	11.49	ISE and IGC-NM
Cemig	Electrical energy	0.17	IGCX and ISE
Coelba	Electrical energy	2.29	-
Cosern	Electrical energy	1.54	-
CPFL Energia	Electrical energy	30.04	ISE and IGC-NM
Daleth	Telecom and IT	3.80	-
Embraer	Aeronautics	6.71	IGCX and ISE
Fiago	Telecom and IT	51.89	-
Fibria Celulose S.A.	Pulp	1.45	IGCX and ISE
Forjas Taurus	Steel making	19.28	-
Frasle	Industrial goods	22.50	IGCX
Gerdau S.A.	Steel making	0.68	IGCX and ISE
GTD Participações	Electrical energy	21.63*	-
Invepar	Infrastructure	25.56	-
Invitel Legacy	Telecom and IT	19.99	-
Itaú Unibanco	Banks	1.76	IGCX and ISE
Itaúsa	Banks	2.48	IGCX and ISE
Jereissati Participações	Telecom and IT	18.42	-
Jereissati Telecom	Telecom and IT	19.78	-
Kepler Weber	Industrial goods	17.48	-

Klabin S.A.	Pulp	0.07 **	IGCX and ISE
Magazine Luiza	Retail	2.37	IGCX
Metalúrgica Gerdau S.A.	Steel making	1.63	IGCX and ISE
Neoenergia	Electrical energy	49.01***	-
Newtel Participações	Telecom and IT	22.54	-
Oi	Telecom and IT	0.88	IGCT and IGCX
Paranapanema	Mining	23.96	IGCX
Petrobras S.A.	Oil, gas and petrochemicals	2.81	-
Randon S.A.	Industrial goods	6.80	IGCX
Sauípe	Hotels	100.00	-
Sete Brasil	Oil, gas and petrochemicals	2.31****	-
Sul 116 Participações	Telecom and IT	11.17	-
Suzano Papéis e Celulose	Pulp	1.07	IGCX and ISE
Telemar Participações	Telecom and IT	2.53	-
Tupy	Industrial goods	27.79	IGC-NM
Ultrapar Participações	Petrochemicals	5.75	IGCX
Usiminas	Steel making	0.67	IGCX
Vale	Mining	15.55%*****	ISE and IGCX
WEG	Industrial goods	0.06	IGCX and ISE

Obs.: position on December 31st, 2014.

\*: Reflects direct holding (1.99%) and indirect holding via BNY Mellon Gtd Fundo de Investimento em Participações (19.64%).

\*\*: Holding is through 705,600 KLB N11 units.

\*\*\*: Reflects direct holding (22.24%) and indirect holding via BB Carteira Livre I (26.77%)

\*\*\*\*: Holding via Fundo de Investimentos em Participações Sondas (FIP Sondas).

\*\*\*\*\*: Reflects direct holding (PREVI Futuro) and indirect holding (Plano 1), considering redeemable shares.





## Responsible investments

The PREVI Investment Policies take social, environmental and economic impacts into account and help identify future-oriented socially responsible transactions and businesses.

Pursuing responsible investments – that fulfill not only economic and financial criteria, but also seek to minimize environmental impacts - is yet another component of PREVI's efforts to achieve its mission. By incorporating social and environmental responsibility into its investments, the organization is acting sustainably. Socially responsible business adopts a long-term perspective which yields dividends over time– indispensable not only to pay our participants' benefits, but also for the economic development of the country.

The investment policies include the identification of the social, environmental and economic impacts generated by the companies in which PREVI holds interests. The organization tracks the evolution of these impacts closely, applying surveys and questionnaires related to management, risk and sustainability; analyzing the companies' sustainability and management reports; and maintaining regular contact with the boards of directors and the executive directors of the investee companies. PREVI constantly encourages its investees to adhere to the principles of best corporate governance and pacts promoting these, as well as incentivizing the adoption of international standards for monitoring environmental risks and for transparent communication with the public.

In addition to its investment policies, which are reviewed annually, PREVI has a socio-environmental policy and corporate governance best practice codes (for companies and real estate). All of these documents may be viewed on the PREVI website. Regarding the companies in which PREVI holds interests, 2014 was a year of constant observation of management and exchange of information. For these holdings, PREVI underscored the importance of maintaining fiscal discipline and controlling expenses and budgets, as well as the need for measures to promote ethical conduct and to fight corruption

PREVI is a member of the Instituto Ethos de Empresas e Responsabilidade Social, it collaborates with the Carbon Disclosure Project (CDP) report and participates in the national sustainability commission of the complementary pension sector association Abrapp (Associação Brasileira das Entidades Fechadas de Previdência Privada). Through its support for the United Nations Organization's Global Compact, PREVI is also part of the international effort to promote and adopt fundamental, internationally acceptable values in the areas of human rights, labor relations, the environment and combating corruption.

### Discussion forums

In Brazil and Latin America PREVI is the main proponent of the Principles for Responsible Investment (PRI). It was the only Latin American institution in the group representing the largest institutional investors in the world which developed the PRI. The organization is currently on the board of the PRI and represents Latin America in the initiative's executive group. In 2014, PREVI (in the person of its director of Security, Marcel Barros, representative of Latin America on the PRI Board) took part in a multidisciplinary meeting promoted by the United Nations Organization (UNO) at its headquarters in New York (USA). Specialists from diverse segments (governments, investors, civil society, the financial sector, companies and academia) discussed an agenda aimed at promoting responsible conduct in the business universe with a view to promoting sustainable economic and community development.

In August, PREVI organized a meeting for the Brazilian signatories to the PRI in Rio de Janeiro. At the event, initiatives for the coming years were discussed. Also on the agenda was a discussion of the review of the PRI governance process, coordinated by a committee of which PREVI was a member, in conjunction with representatives of pension funds such as CalPERS, as well as the United Nations Organization (UNO). The event was attended by Fiona Reynolds, director of the initiative. PREVI was also present at the Annual Meeting for Signatories of the PRI – PRI in Person –, held in Montreal, Canada, where it presented the practices of Brazilian institutional investors.



The conference brings together representatives from the signatory institutions to discuss questions related to responsible investment. During the event, there was a series of round table and panel discussions, as well as talks, in which specialists debated new ways of engaging investors, integrated reporting as a means of promoting transparency and academic innovations.

In 2014, PREVI also collaborated with the Organization for Economic Cooperation and Development (OECD) in three events. In January, we participated in the workshop OECD Guidelines for Multinational Companies – Implementation in the Finance Sector, as a member of a panel on social, environmental and governance guidelines in managing assets and investments. In June, PREVI attended the OECD's second Global Forum, dedicated specifically to responsible corporate conduct. The discussions explored practical approaches to due diligence in different situations, respect for decent working conditions in the production chain and foment for sustainable development. In November, the organization's Shareholdings director attended the event OECD Roundtable on Long-Term Investment, participating in a panel on corporate governance.

In September, other important debates on governance, responsibility and business management were undertaken in the 15<sup>th</sup> PREVI Corporate Governance Encounter. The agenda included strategies to ensure the success and longevity of companies in an uncertain economic environment. The encounter was attended by approximately 500 people, including executives, investors, fund managers and advisors.

## **SOCIO-ENVIRONMENTAL RESPONSIBILITY POLICY**

To ensure accomplishment of its Mission, PREVI adopts a long-term vision and a proactive mindset aimed at creating a sustainable environment. The Socio-Environmental Responsibility policy sets forth guidelines for developing the organization's strategies and businesses in a way that enables the improvement of the social, natural and economic environments in which it operates, enhancing the business itself and furthering its future prospects.

PREVI's socio-environmental policy, approved in 2009, incorporates the concept of sustainability into all the organization's activities: investments, corporate governance, personnel management, relations with suppliers and with participants, and communication, among others. It also promotes ethics, respect for diversity, equality, care with environmental and social impacts and other aspects of socio-environmental responsibility.

Specifically in relation to investment decisions, socio-environmental questions are taken into account in the elaboration, implementation and reinforcement of the organization's management practices. The incorporation of socio-environmental considerations in selecting investments included the use of socio-environmental analytical tools, the training and qualification of technical staff in sustainability and the promotion of the principles of good corporate governance.

The organization's socio-environmental policy also determines that PREVI should pursue the creation and dissemination of practices that encourage the economic, environmental, social and cultural development of the country. This involves encouraging sustainability in the businesses of investee companies, with the creation of forums to exchange experiences in transparency and in managing sustainability. This includes encouraging membership of associations that promote sustainability, publishing sustainability reports and adopting higher levels of governance.

The policy also provides for actions in specific areas to drive sustainability throughout the PREVI structure. The policy may be viewed on the company website.

### **Variable income**

PREVI variable income investments should prioritize companies listed by level of governance on BM&FBovespa (or which are in the process of being listed at such levels). Companies that adopt the practices in the PREVI code of Best Corporate Governance Practices regarding transparency, shareholders' rights, fair and ethical treatment, among others, are also favored. Other companies that receive priority treatment are those engaged in promoting the basic principles of social, environmental and ethical responsibility in accordance with the Principles of Responsible Investment (PRI). New investments in companies whose core activities are the production of tobacco and arms are prohibited.

In the portfolio of investee companies, the recommendation is to seek companies that participate in pacts or external organizations focused on sustainability and which have their own socio-environmental responsibility policy (including sustainable development, environmental management, value chain responsibility initiatives, as well as reporting both financial and non-financial information). Other companies that are prioritized include those with ISO 14000 certification and which incorporate socio-environmental criteria in their strategic planning.

### **Fixed income**

Social and environmental responsibility and ethical criteria should be taken into account in assessing investments in private fixed income securities and bonds.

### **Structured investments**

Managers of structured investment funds are expected to privilege transparency and good governance practices. This includes the acquisition of quotas by the fund manager; the communication to quota holders of significant alterations in the shares held by fund managers; accountability; and the provision of regulations with clear rules. Fund managers which incorporate social, environmental and ethical responsibility practices should be prioritized.

### **Real estate**

Real estate ventures should adopt the standards set forth in the PREVI Code of Best Practices and Corporate Governance in Real Estate. In accordance with the socio-environmental responsibility policy and PRI recommendations, it is recommendable that the properties have programs to promote eco-efficiency (economizing resources such as water and electricity), recycling, social and urban development actions. Other priorities include good working conditions, the implantation of accessibility solutions, the inclusion of socio-environmental criteria in the assessment of tenants and the application of real estate certification programs.



Managers should be encouraged to join the PRI or adhere to other principles aimed at promoting socio-environmental responsibility and to adopt socio-environmental criteria in assessing and selecting the investments to be undertaken by the funds.

# Credits

## Publishing

PREVI – Department of Communications and Marketing

## GRI consulting, text, editing and design

Report Sustentabilidade

## Reviewing

Assertiva Produções Editoriais

## Translation

Raymond Maddock

## Pictures

PREVI Image Bank