Socially Responsible Investments of Pension Funds in Brazil

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PROLOGUE

The history of social security in Brazil dates back to 1923, when the concept emerged with the passage of the Elói Chaves Law. Private social security, also known as supplementary social security, dates back to 1904, followed by the evolution of closed institutions of mutual aid and pensions, which were not regulated until 1977, with the passage of Law Number 6.435. It was not until the 1990´s that private social security enjoyed the most significant growth, stimulated in great part by the monetary stability achieved by the Plano Real.

The Brazilian Social Security System consists of three types of regimes: two being mandatory and the third being elective. In the elective regime, there exists a private and supplementary social security system with two principal institutions: 1- Closed Supplementary Social Security, also known as pension funds, in which the plans are created by companies and are applied exclusively for the benefit of their employees, and managed by Closed Entities of Supplementary Social Security (EFPC´s), supervised by the National Bureau of Supplementary Social Security (PREVIC), an authority linked to the Social Security Ministry; and 2- Open Supplementary Social Security, operated by private companies on a profit-making basis, with the plans being commercialized by banks and insurance companies, and defined generally as Open Entities of Supplementary Social Security (EAPC´s). The Bureau of Private Insurance (SUSEP), under the auspices of the Finance Ministry, is responsible for supervising the activities of the EAPC´s. The regulation and standard-setting for the EAPC´s are determined by the National Council of Private Insurance (CNSP).

Since our objective is the investigation of the socially responsible investments (SRI) of Brazilian pension funds, this study is focused exclusively on the system of Closed Supplementary Social Security. Accordingly, this Working Paper analyses the statistical data tracing the population covered by EFPC´s, the value of and the return on EFPC investment, the Social Reports of the Brazilian Association of Closed Supplementary Social Security Entities (ABRAPP), as well as other important sources. The goal of this paper is to provide the reader, in the most complete and up-to-date manner, vital information on the advances and the challenges ahead for the SRI regimes of Brazilian pension funds.

CONTENTS

SOCIALLY RESPONSIBLE INVESTMENTS OF PENSION FUNDS IN BRAZIL

Flavio Marcilio Rabelo[1]

1. Supplementary Social Security in Brazil

The Brazilian supplementary social security[2] model is similar to the one found in the USA, the UK, Canada and Ireland, particularly in the aspect of joining the programme, which is voluntary. There are no collective agreements or legal rules that make the model quasi-mandatory, as it is in Switzerland, the Netherlands and Denmark. The model is composed of two segments: the Closed Supplementary Social Security and the Open Supplementary Social Security systems.

The Closed Supplementary Social Security system is aimed at employees under contracts with private employers who may or may not offer their staff this benefit. The benefit schemes of this segment are managed by the EFPCs - *Entidades Fechadas de Previdência Complementar* (Closed Entities of Supplementary Social Security), which also will be called Pension Funds throughout this study. They are non-profit private entities, and their assets are totally segregated from their funding companies.

Since 2002, the constitution of the EFPCs by associative bodies (e.g. associations, professional councils and unions) has been authorized by the Social Security Ministry, which is in charge of supervising the Closed Pension Funds. More recently, the National Congress has enabled the creation of an EFPC in order to cover civil servants holding permanent positions. The National and São Paulo State Governments have pioneered the creation of these entities.

The Open Supplementary Social Security system, in turn, includes benefit plans offered to the individual consumer or to a group of consumers by insurance companies operating in the field of Life Insurance and Social Security - Entidades *Abertas de Previdência Complementar* (Open Entities of Supplementary Social Security). Open Supplementary Social Security, by means of collective plans, "competes" with the Closed system, as a particular company may decide to hire an open collective insurance plan for its employees offered by an insurance company rather than setting up its own EFPC or joining an already existing EFPC.

This study focuses on Closed Supplementary Social Security, since it seeks to understand socially responsible investments (SRI) of Brazilian Pension Funds. We will initially consider some relevant statistics for this segment.

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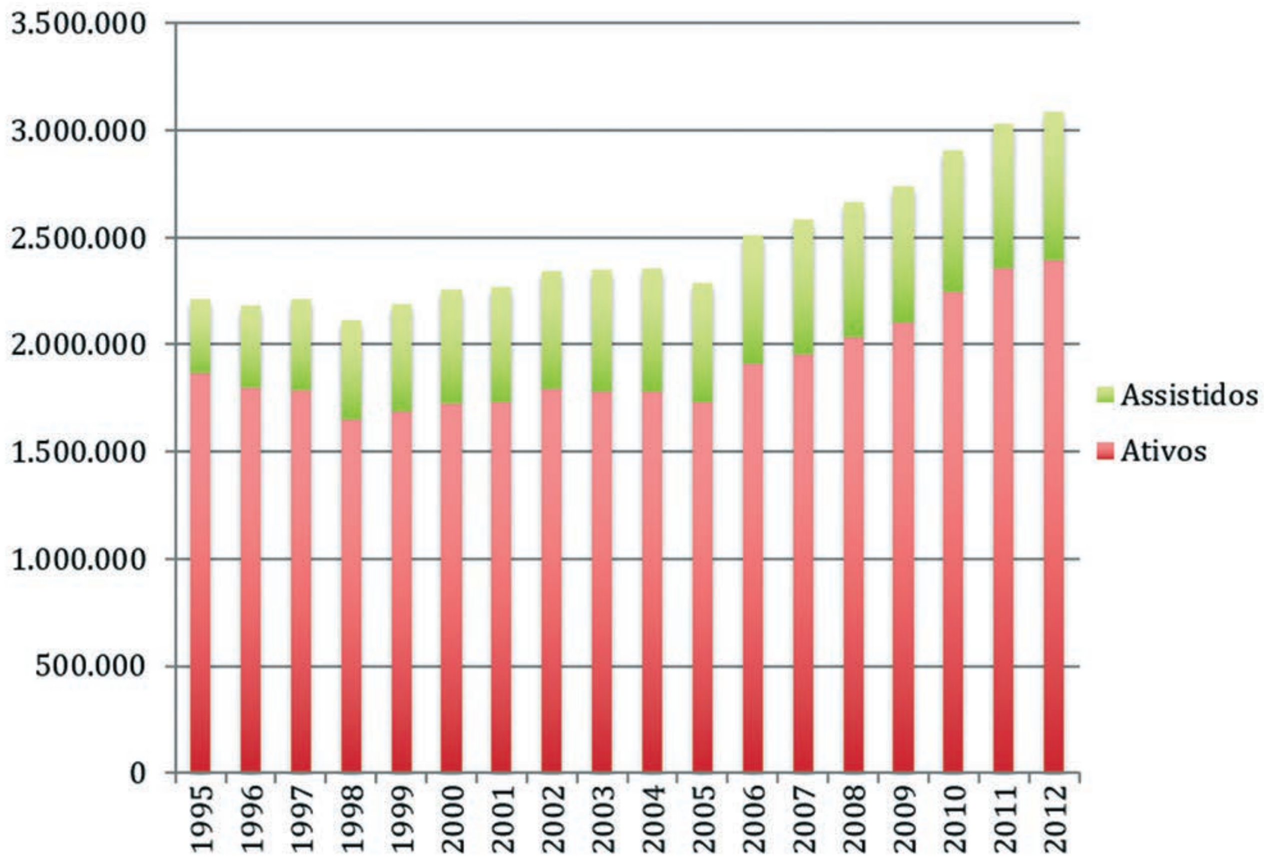
2 The term "supplementary social security" refers to privately funded pension plans. This terminology was adopted in Brazil in the sense that these plans "supplement" the pay as you go operating scheme of public social security.

Graph 1 shows the trend for the population covered by Closed Supplementary Social Security Plans. The “active members” are those who have not yet achieved the required conditions to receive the Fund benefits and continue contributing. The beneficiaries are the members who already have retired from the plan, including those persons who receive a pension from a deceased member.

Graph 1 - Trend in Population Covered by Closed Supplementary Social Security



Source: Statistical Information from the SPC – *Secretaria de Previdência Complementar* (Secretariat for Supplementary Social Security), Ministry of Social Security, and from PREVIC – *Superintendência Nacional de Previdência Complementar* (National Superintendency for Supplementary Social Security)
Assistidos: Beneficiaries
Ativos: Active working and contributing members

It can be noted that between 1995 and 2005, there was little change in growth of the population covered, with an increase of only 3.54%, accompanied by a decline of -7.26% in the number of active members. In 2006, this trend started to change, indicating that between 2005 and 2012, the population covered went up by 34.89%, and the active members by 38.32%.

The percentage of the EFPC active members in 2012 was around 10% of the economically active population (EAP), including 21.4% of the workers under contract in the private sector. This is a low coverage rate in comparison to other countries with a similar private pension fund model.

Given the wage distribution in Brazil, there is a relatively small number of individuals at the end of their career in the private sector receiving an income higher than the ceiling for public pension coverage (the RGPS – *Regime Geral de Previdência Social:* General Social Security). This naturally reduces, so to speak, the interest of a larger segment of the population in the supplementary pension plans. From the standpoint of public policy, there is nothing wrong with this situation; it is fundamental that the public pension coverage be as broad as possible and that the replacement rate it offers, in turn, fully meets the needs of the insured beneficiaries. The real wage increase in Brazil may broaden the potential population for supplementary pension fund coverage, since the RGPS ceiling is adjusted according to inflation.

There was a great expectation for growth of the Closed Supplementary Social Security system, based on the established Pension Plans. The December 2012 publication of ABRAPP's *Consolidado Estatístico* shows that these Plans had a total of 103,198 active members and 950 beneficiaries. In 2010, these numbers were 76,141 and 701, respectively. Another great expectation for growth of the Closed Supplementary Social Security system is the creation of the Supplementary Pension Plan for civil servants who have been selected by public examination. The advantage for the Entity that establishes such a plan is that for the civil servants hired after the plan´s inauguration, there only will be an obligation to pay benefits up to the ceiling of the RPPS – *Regime Próprio de Previdência Social*. Those current civil servants wishing to receive higher returns will need to join the plan voluntarily, with the fund also receiving employer contributions. At the moment, we do not have projections for the population to be covered and the expected evolution of the investments of these funds.

The Closed Supplementary Pension Funds officially started in Brazil in the 1970s (although there were prior plans of a similar nature), and were created primarily by large public sector companies. Plans sponsored by these companies (some of which have been privatized) continue to be the largest, both in terms of population coverage and the value of investments.

The first plans operated in the form of defined benefit (DB), in which the final benefit amount is calculated according to a formula that takes into account the years of contribution, wage trajectory and a given mortality table. Following a worldwide trend, the number of plans operating in this mode has been falling drastically, with the gradual replacement of such plans with Defined Contribution (DC) or Variable Contribution programs.

Pure DC plans operate as an investment fund in which the value of the constituted reserve depends on the contributions made and on the returns achieved. In these plans, the member, upon retirement, can either opt for a program of scheduled withdrawals, or take the reserve to an insurance company and purchase an annuity. (Essentially, this option did not exist before, due to the lack of an annuities market in Brazil).

A variable contribution plan operates the same way as a pure DC plan in the accumulation phase, except at the time of receiving the benefit, when the EFPC itself offers a life annuity option, bearing the actuarial risks (e.g. longevity) and the interest rate risks.

Statistical data for September 2013 released by PREVIC - *Superintendência Nacional de Previdência Complementar* (the National Superintendency of Pension Funds - the body responsible for the supervision of Pension Funds in Brazil) show that Defined Benefit Plans correspond to 30.61% of operating private pension plans. In 1993, this percentage was around 70%. The Defined Contribution plans, in turn, jumped from just over 10% in 1993 to 37.21% in 2013. The Variable Contribution Plans accounted for 32.18% of the plans in 2013. It is worth noting, however, that the value of the investments of Defined Benefit Plans is 73.3% of the Pension Funds' total investments.

Table 1 shows the change in the value of investments of the EFPCs, with Table 2 showing the returns achieved. Two features differentiate the Brazilian pension funds from their counterparts in North America and Europe: high returns and a low percentage of investments in variable income instruments (28.6% of total investments in December 2012).

Table 1 – Trend in Pension Fund Investments

Year	Investment Value (R$ millions)
1996	71,672
1997	86,861
1998	90,757
1999	115,124
2000	130,077
2001	154,578
2002	168,498
2003	216,180
2004	255,788
2005	295,250
2006	352,196
2007	435,770
2008	419,229
2009	492,134
2010	538,417
2011	573,729
2012	641,725

Source: Statistical Information from the SPC – ***Secretaria de Previdência Complementar*** (Secretariat for Supplementary Social Security), Ministry of Social Security, and from the PREVIC – ***Superintendência Nacional de Previdência Complementar*** (National Superintendency for Supplementary Social Security)

Table 2 – Return on Investment of Pension Funds in Brazil

Year	EFPCs	INPC+6%*	CDI**
2003	30.01%	17.01%	23.26%
2004	21.07%	12.50%	16.16%
2005	19.05%	11.35%	19.00%
2006	23.45%	8.98%	15.04%
2007	25.88%	11.47%	11.81%
2008	-1.62%	12.87%	12.38%
2009	21.50%	10.36%	9.87%
2010	13.26%	12.85%	9.77%
2011	9.80%	12.44%	11.58%
2012	15.37%	12.57%	8.40%

Source: ABRAPP's *Consolidados Estatísticos.*

Until recently, interest rates were extremely high in Brazil, with the EFPCs purchasing government bonds with attractive remuneration, enabling them to easily reach their actuarial targets. Accordingly, there was no incentive to increase the share allocated to higher risk investments.

Moreover, the Brazilian legislation that regulates the investments of Pension Funds applies limits to asset classes, which also inhibited, in the past, the amount invested in equities. Currently, this legislation is no longer a hindrance for these investments, since the threshold for the allocation in equities was increased to 70% of total investments.[3]

It is also worth noting that investments in equities are concentrated in larger EFPCs, so that the median percentage applied should be less than the average percentage mentioned. With the fall in interest rates that has occurred in recent years, EFPCs likely will seek riskier assets in order to achieve the desired return, which could raise the percentage invested in equities. In December 2012, the EFPC's total investments in equities represented 7.4% of the total capitalization of the Stock Exchange of São Paulo - BOVESPA[4].

* The National Consumer Price Index - INPC is an inflation index calculated by the Brazilian Institute of Geography and Statistics – IBGE, and is commonly used as an index of benefits paid by the Pension Funds.

** The Interbank Deposit Certificates are securities issued by financial institutions, underwriting operations on the interbank market. The average daily rate of CDI is used as a parameter to evaluate the profitability of various investment funds.

3 Guidelines for investments of the EFPC's supporting funds are set forth in Resolution No. 3,792, of 24 September 2009, the National Monetary Council. The resolution establishes the investments that can be made by pension funds in five areas - fixed income, equities, structured investments, foreign investments, real estate and transactions with members - each with a limit on the allocation of resources of the entity.

4 Stock capitalization data available on the BOVESPA's website related to the end of June 2013 and on ABRAPP's Consolidado Estatístico, June 2013.

Another point worth mentioning is that during the privatizations that took place in the 1990´s, the big pension funds often were invited to become part of the consortia which competed for the businesses by auction. That is why there are several large companies in Brazil in which the EFPC´s participate in the controlling block of shares or are entitled to seats in Deliberative and Audit Committees. This also could lead to the ability of these large pension funds to influence the management of these companies to adopt practices consistent with good corporate governance, sustainability and respect for decent work. This point will be addressed later in this study.

It is worth mentioning the fiduciary duty of the EFPC's managers - Directors and Officers - in Brazil. In countries such as the United States and the United Kingdom, this duty is based on the Law of Trusts. The essential basis of the Law of Trusts is that a group of people (trustees) controls assets that must be used for the benefit of another group of people (the beneficiaries of the plan). As a trustee, an individual must follow the following principles: (1) comply with the trust deed[5] and with the plan rules; (2) act in the best interest of the plan members; (3) act impartially; and (4) act prudently, responsibly and honestly.

Brazilian law does not include exactly the same principles of the Law of Trusts. What is required of the EFPC's Directors and Executive Officers is full compliance with the entire legislation regulating the EFPC´s operations. PREVIC exercises supervisory powers over these persons and can punish them if any legal breach is found. Article 63 of the Supplementary Law No. 109 of 20 May 2009, which is the legislative foundation for the supplementary pension plans in Brazil, says the following:

> *"The management of the entity, the attorneys-in-fact with management power, the members of the statutory boards, the intervenor, and the liquidator, are legally responsible for any damages or harm they cause the pension entities, by act or omission."*

The administrative procedure for determining liability for a breach of legislation under the closed private pension is regulated by Decree No. 4,942, of 30 December 2003. Chapter VIII of this Decree details the offenses and the penalties that can be applied to EFPC's management. What comes closest to a definition of fiduciary duty is Article 3 of Resolution No. 13, dated 1 October 2004, by the CGPC - *Conselho de Gestão da Previdência Complementar* (Board of Management of Pension Funds):

> *"The directors, officers and employees of EFPCs should maintain and promote conduct permanently in accordance with high ethical standards and integrity, guided by the defense of the rights of the members and beneficiaries of the benefit plans they manage, and preventing the use of the closed pension fund entity in favour of conflicting interests in the achievement of its objectives."*

5 Legal document that creates and rules a plan.

Finally, we note that Closed Supplementary Social Security is a highly concentrated sector. The three largest EFPCs - PREVI (Bank of Brazil), Petros (Petrobras) and FUNCEF (Caixa Econômica Federal) – account for 44.5% of total investments[6].

2. EFPC's and Socially Responsible Investment (SRI)

One of the reasons for the EFPCs to carry out socially responsible investments is that the adoption of socio-environmental and corporate governance criteria in selecting companies in which to invest mitigates the risk of the investor and leverages the financial return. Companies that do not follow the desired behaviour patterns with regard to caring for the environment, labour relations and corporate governance, expose themselves to legal, social and financial risks that can seriously compromise their ability to generate long-term value. This concern is particularly applicable to EFPCs to the extent that they are, by nature, long-term investors.

There are numerous examples of companies that have caused and suffered heavy losses due to damage caused to the environment, the infringement of the rights of minority shareholders, and labour lawsuits. The action of the Prosecution Offices (State and Federal) has been quite keen in relation to environmental crimes. Faster and heavier punishments on offending companies have not occurred more frequently in Brazil due to structural challenges in the judicial system, such as an insufficient number of judges and all of the appeals mechanisms available to companies that are found liable for environmental crimes.

ABRAPP - *Associação Brasileira das Entidades Fechadas de Previdência Complementar* (The Brazilian Association of Closed Supplementary Social Security Entities) is an organization that brings together the vast majority of EFPCs. It has shown great sensitivity to the promotion of socially responsible investment by pension funds. ABRAPP has a National Technical Commission on Sustainability7 whose primary function is to consider and review EFPC´s social responsibility commitments. This Commission has the following functions:

a) Propose to the Integrated System Board actions for the development and refinement of issues related to Social Responsibility and Sustainability;
b) Coordinate existing projects related to Corporate Social Responsibility and Sustainability among which are the CDP - Carbon Disclosure Project, PRI - Principles for Responsible Investment, Social Report and others that may be adopted by the Board or the Commission itself;
c) Implement studies, papers, texts and actions to support ABRAPP and its affiliates in their focus on Social Responsibility and Sustainability;
d) Foster with the associate members the implementation of best CSR (Corporate Social Responsibility) practices through awareness raising and training provided to directors, officers and professionals.

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[6] ABRAPP's Consolidado Estatístico, June 2013.

[7] Data on this Commission and on ABRAPP's sustainability actions can be found on the entity's website (www.abrapp.org.br).

Over the years, the Commission has organized the following projects:

2008

- Publication of EFPCs´ Social Report 2008.

2009

- Panel presentation at the 30th Brazilian Conference of Pension Funds: “The sustainability of pension funds: challenges and opportunities”.

2010

- Publication of EFPCs´ Social Report 2010;
- Panel presentations at the 31st Brazilian Conference of Pension Funds:

  (i) Pro-Gender Equity: equal opportunities, respect for differences; (ii) EFPCs’ Social Report: practices that contribute to sustainability in Brazil; and (iii) Social Report and reflections on the governance process of pension funds;
- Abrapp’s 1st Seminar on “Sustainability and the role of Pension Funds in Brazil”.

2011

- Reform of the “Sustainability” area of the Pension Funds portal;
- Development of IBASE’s3 customized model of Social Reporting for pension funds;
- Abrapp’s 2nd Seminar on “Sustainability and the role of pension funds in Brazil”;
- Panel presentation at the 32nd Brazilian Conference of Pension Funds: “Pension Fund Investments and their commitment to sustainability”, covering:

  (i) Standards and benchmark metrics;

  (ii) Socially responsible principles and conduct;

  (iii) Inclusion of responsible investment practices in investment policies; and

  (iv) Release of CDP 9.

2012

- Abrapp’s 3rd Seminar on “Sustainability and the role of pension funds in Brazil”;
- Panel presentation at the 33rd Brazilian Conference of Pension Funds: “Socio-environmental Responsibility with Returns”, covering:

  i) Sustainable management processes

  ii) Working towards a green economy

  iii) How to invest in this area

  iv) How to obtain appropriate return

  v) What to demand from service providers and how to communicate with them

  vi) The guidelines for socially responsible investments

  vii) Launch of 2012 Brazil CDP Report
- Lecture at the 33rd Brazilian Conference of Pension Funds: “Sustainability in Pension Funds: Launch of the GRI Report model”;
- Production of the booklet “Sustainability Reporting for EFPCs”.

The next section will analyse in greater detail the progress made by the two Social Reports published in 2008 and 2010, the issues related to the Social Report proposal presented in 2011, and, finally, the Sustainability Report proposal prepared in 2012 within the scope of the Technical Commission.

2.1 ABRAPP's Social Reports of 2008 and 2010

The 2008 ABRAPP Social Report begins with a definition of socially responsible investments and their global standards and goals. Subsequently, it lists the Brazilian standards in the field of SRI, and lists the EFPCs, which are signatory to the United Nations Principles for Responsible Investments (PRI). The list of signatories presented in this report consists of 18 EFPC´s:

1. Arus – Fundação Aracruz de Seguridade Social;
2. Banesprev – Fundo Banespa de Seguridade Social;
3. CELPS – Fundação Celpe de Seguridade Social;
4. Centrus MT – Instituto Mato Grosso de Seguridade Social;
5. Ceres – Fundação de Seguridade Social;
6. DESBAN – Fundação BDMG de Seguridade Social;
7. Economus – Instituto de Seguridade Social;
8. FAELBA – Fundação Coelba de Previdência Complementar;
9. FASERN – Fundação Cosern de Previdência Complementar;
10. Forluz – Fundação Forluminas de Seguridade Social;
11. Funcef – Fundação dos Economiários Federais;
12. Fundação 14 de Previdência Privada;
13. Fundação BrTPrev;
14. Infraprev _ Instituto Infraero de Seguridade Social;
15. Petros – Fundação Petrobras de Seguridade Social;
16. PREVI – Caixa de Previdência dos Funcionários do Banco do Brasil;
17. SISTEL – Fundação Sistel de Seguridade Social;
18. Valia – Fundação Vale do Rio Doce de Seguridade Social.

The report continues to show a range of social and economic indicators of the EFPCs' investee companies[8] which answered a questionnaire sent to them. The list of these companies is in Table 9. The data presented are: work and income production, economic contributions (e.g. revenue, added value, tax and paid contributions, employee benefit and profit), investments in research and development, and a profile of investments in socio-environmental projects.

[8] "Investee companies" *(empresas participadas)* are those in which EFPCs hold a significant stock participation. However, there is no minimum percentage formally defined by ABRAPP to classify a company as an "investee company". It is a term that has no reference in legislation, and is used only in the EFPCs' documents.

A relevant part of the 2008 Social Report involves the review of investee companies in relation to the Principles of Socially Responsible Investment / ABRAPP-Ethos[9]. As some of the items are repeated in the 2010 Social Report, we chose to aggregate the responses found in the two reports.

The first principle is Corporate Governance. This principle is first assessed in accordance with the participation of the enterprises at different levels of governance[10] of the São Paulo Stock Exchange – Bovespa[11] (Table 3). Another item addressed is the existence of workers' commissions involved in the company management (Table 4). This item is also found in the 2010 report, along with others that enrich the assessment of this principle. The big difference between the two reports relates to the participation of workers' commissions in corporate management.

Table 3 – Governance levels of the Companies[12]

Governance level	2008 Percentage	2010 Percentage
Nível I	44.4%	23.1%
Nível II	11.1%	7.7%
Novo Mercado	11.1%	42.3%
Non-Participating	33.4%	26.9%

Source: 2008 and 2010 ABRAPP's Social Reports

9 The Ethos Institute for Corporate Social Responsibility is a non-profit organization whose mission is to mobilize, encourage and help companies manage their business in a socially responsible way, making them partners in building a fair and sustainable society (www3.ethos. org.br).

10 The different levels of Bovespa's governance reflect the commitment of companies to principles related to the protection of minority shareholder rights and transparency (degree of information disclosure). The highest level is the Novo Mercado. Adherence to these different levels is voluntary. One must remember that in Brazil, as in most countries, a wide and diverse spread of the controlling stock in companies is virtually non-existent. Hence the concern for protecting the rights of minority shareholders against expropriation attempts on the part of controlling shareholders.

11 Further information on BOVESPA's levels of Governance is available on the institution website (www.bovespa.com.br).

12 Companies listed on the BM&FBovespa are classified into five levels according to criteria related to their corporate governance, respect for minority shareholders and transparency: Novo Mercado, Nível II, Bovespa Mais, Nível I and Traditional. Appendix II details each level. An important point concerns the issue of differentiated classes of shares: ordinary (ON), with rights to voting, and preferred (PN), with no rights to voting. It is interesting that these rating levels affect the allocation limits set for the EFPC´s; while they may allocate up to 70% of their assets in shares of companies listed on the Novo Mercado, this percentage drops to half when it comes to traditional businesses.

Table 4 - Issues Relating to Governance in Enterprises

Issue	2008 Percentage	2010 Percentage
Publish sustainability reports, balance sheets or similar documents	66.0%	64.3%
Have dialogue / relationship with their stakeholders		23.2%
Address the relationship with consumers and clients in their management documents		14.3%
Address the relationship with suppliers from the perspective of sustainability		17.9%
Participate as members of an organization that works with themes of Responsibility or Sustainable Development (such as Ethos Institute, CEBDS, IBGC etc...)		12.5%
Follow ILO principles		10.7%
Follow the guidelines of the Organization for Economic Cooperation and Development (OECD)		7.1%
Joined the Global Pact of the United Nations		7.1%
Develop projects related to the Millennium Goals		12.5%
Take part in ISE		35.7%
Workers' commission involved in the management of the company		28.6%

Source: ABRAPP's Social Reports 2008 and 2010

The second principle is the Social Report. About 80% of the investee companies involved in the 2008 Report indicated that they publish social or sustainability reports. Table 5 lists the most commonly used benchmarks for the preparation of these reports. A significant reduction in the use of the IBASE model has been noticed, as well as greater acceptance based on the Global Reporting Initiative (GRI) model. This allows greater comparability with international practice.

Table 5 - Model of Sustainability, Social or Equivalent Reports Used by the Investee Companies

Model of the Used Report	2008 Percentage	2010 Percentage
GRI	25%	32.1%
IBase	87.5%	28.6%
Instituto Ethos	25.0%	10.7%
Others		28.6%

Source: ABRAPP's Social Reports, 2008 and 2010.

Social Inclusion is the third principle to be analysed in the reports. The 2010 Social Report addresses this issue as “diversity programmes”. The results are shown in Table 6. Again, there was an obvious discrepancy between the results in the two reports: the investee companies that comprised the 2010 Report have a markedly lower performance in relation to this principle than the companies in the 2008 Social Report. Only 35.7% of the companies listed in the 2010 report indicated having diversity appreciation programmes.

Table 6 - Main Programmes for Social Inclusion or Diversity in Companies

Themes	2008 Percentage	2010 Percentage
Ethnicity	66.0%	32.1%
Gender	100%	32.1%
Sexual Orientation	33%	14.3%
Age	66%	28.6%
Regional Origin	66%	17.9%
Religion		7.1%

Source: ABRAPP's Social Reports, 2008 and 2010.

The fifth principle refers to Labour. The 2010 Social Report addresses this principle as “Social Contributions”. Here we have some particularly relevant statistics for the ILO. The 2008 Social Report explains that, despite the fact that child labour and forced labour are illegal in Brazil, it is important that the EFPCs request from the investee companies a statement saying that they do not use this type of labour in their direct operations, as well as statements saying that the same behaviour was demanded from all their suppliers. These statements are not required if the company has the SA 8000[13] certification, nor in the specific case of child labour, if the company has received the “Child Friendly Company” Stamp from the Abrinq[14] Foundation. The observed results are presented in Table 7.

[13] This is the Social Accountability 8000 standard, developed by Social Accountability International. It is a uniform and auditable standard to earn the company's commitment to social responsibility.

[14] www.fundabrinq.org.br.

Table 7 – Labour Use or Social Contribution

Item	2008 Percentage	2010 Percentage
Explicitly stated non-use of child labour and forced labour in their direct operations	90%	67%
Required statement of non-use of child labour or forced labour from their suppliers of products and services	50%	50%
Apart from requiring the statement, have mechanisms for checking or auditing this issue with suppliers	30%	Not Informed
Have programmes in the areas of health, safety and working conditions	100%	67.9%

Source: ABRAPP's Social Reports, 2008 and 2010.

What catches one's attention in these results is that 33% of the companies with significant participation of the EFPCs did not affirm the non-use of child labour and forced labour in their direct operations in the 2010 Social Report. As these are two core principles of decent work and this is a sample that supposedly includes Brazilian companies that have an outstanding record on the issue of sustainability, it was expected that this percentage of non-affirmation would be zero.

The 2008 Social Report presents other interesting data on this topic which are not covered in the 2010 Social Report: the percentage of investee companies that were respondents in labour actions during the period covered in the report (90%) and the percentage that were respondents in actions involving health, safety and working conditions (60%). This is a reflection of the well - known conflictive state of labour relations prevailing in Brazil.

The fifth principle is also linked to management of the labour force: it addresses the issue of Outsourced Labour. This topic was not included in the 2010 Social Report. The main reasons given by companies for hiring outsourced labour were the following:

a) 60% indicated an increase in efficiency and productivity;

b) 50% indicated cost reduction;

c) 60% indicated other reasons;

d) 40% are driven by more than one of the reasons presented.

What is disturbing with this information from the decent work viewpoint is that in only 20% of the companies which took part in the study, do the outsourced employees receive wages and benefits equal to those of the directly employed workers.

No wonder that the issue of hiring outsourced manpower is a source of friction between the companies on the one hand, and the labour unions and the Labour Prosecution Office on the other. Since 26 October 2004, a bill (PL 4330/2004) that regulates the hiring of outsourced labour has been discussed in the House of Representatives. Currently, TST (Superior Labour Court) jurisprudence dictates that core activity (characterized as the main purpose of the business) cannot be outsourced, and the bill does away with this restriction.

In the discussion of this fifth principle, the 2008 Social Report presents new data concerning the treatment of suppliers:

- 70% of companies rely on social responsibility criteria which are discussed, disseminated and accessible in choosing their suppliers;
- 10% of companies assess the social and environmental indicators of their suppliers;
- 20% of companies do not take any action regarding social responsibility for their supply chain.

The policy of controlling suppliers in relation to compliance with the rules of decent work can produce serious image problems for businesses if not well executed. In August 2011, the Ministry of Labour, during an inspection, found labels belonging to six well-known fashion brands in a clothing factory located in the interior of the State of São Paulo, which used labour in conditions analogous to slave labour. In September 2013, auditors from the Ministry of Labour and prosecutors from the Labour Prosecution Office located 111 migrant workers from Northeastern Brazil who were subjected to slave-like conditions at the construction site of Guarulhos International Airport in São Paulo, which was under the responsibility of one of the top construction companies in Brazil. It appears, therefore, that the issue of slave or forced labour remains a problem in Brazil, and is prevailing in sectors with intensive use of low-skilled labour.

The Environment is the sixth principle set out in the 2008 Social Report. In the 2010 Social Report, this same principle is treated under the category of Corporate Environmental Responsibility. The responses in both reports show a high degree of concern and effort expended by companies in this regard.

Nevertheless, the 2008 Social Report states that about 40% of the companies participating in the report were fined for environmental crimes in 2007 and paid R$ 1.12 million. This significant percentage of fined companies somehow casts doubt on their commitment to environmental sustainability as reported in the completed questionnaires. It is important, therefore, that the assessment of the investee companies does not remain restricted to responses from questionnaires, but also adds external objective criteria (e.g. the number of fines paid for violation of labour and environmental standards) combined with selective audits. The problem is the cost of this verification process.

Principles seven and eight – Income Generation and Social Projects – measure the positive impact of businesses on their communities. They include items such as generation of employment and income in the communities where they are operating; development programmes for small suppliers in the area; programmes to stimulate buying products and services from micro and small businesses in the area; investments in social and environmental projects, etc. The reports do not, provide, however, data on the impact of these actions on creating more jobs.

Finally, there is principle nine which is Ethics and Transparency. In Table 8, we can see the tabulation of responses to the questionnaires.

Table 8 - Devices for Ethics and Transparency in Business

Issue	2008 Percentage	2010 Percentage
Have codes of ethics or conduct disseminated in the organization	100%	53.60%
Have a structured system for the management of ethics	55%	85.70%
Have structures in the organization responsible for the management of ethics and conduct	77%	67.90%
Have formal channels for dealing with complaints regarding violation of ethics	100%	60.70%
Have training policies regarding this issue	66%	46.40%

Source: ABRAPP's Social Reports, 2008 and 2010.

The highly marked differences between the companies' responses in the 2008 and 2010 reports warrant a comment. The methodology used to gather information did not change significantly. The differences are due to totally different groups of companies that responded the questionnaire in two reports; there is no single company that has been part of the two reports. This was not the result of a deliberate ABRAPP decision of working with totally different samples. Certainly, there was a lack of concern with the issue of comparability from those in charge of the research, but as the answers were voluntary, the room for maneuver in implementing the study was limited. We also can infer that the companies were not very concerned with presenting to ABRAPP their performance in the area of socio-environmental responsibility.

From the methodological point of view, the size of these discrepancies significantly compromises the results obtained with these reports, since it is not possible to make any comparison between the two, or estimate trends in the behaviour of the sampled companies. It is suggested that ABRAPP refine the methodology for conducting surveys on social responsibility among companies in which Pension Funds have relevant shareholdings.

ABRAPP's 2010 Social Report presents a history of SRI in Brazil, highlighting the role of the EFPC´s:

2000 – São Paulo Stock Exchange – BOVESPA launching of Novo Mercado and Differentiated Levels of Corporate Governance (Nível 1 and Nível 2).

2001 – Structuring of the first Socially Responsible Funds by banks operating in Brazil.

2003 – ABRAPP, in partnership with Ethos, launches the "Basic Principles of Social Responsibility", during the Annual Congress of Pension Funds.

2005 – Bovespa introduces the Corporate Sustainability Index - ISE.

2006 – The "Principles of Responsible Investments (PRI) [15]" is officially launched in Brazil in a ceremony in Rio de Janeiro.

2007 – The ceremony witnessing the first Brazilian signatories to the PRI takes place at Bovespa.

2008 – The First Workshop of PRI signatories takes place in Latin America.

2009 – The number of banks operating in Brazil that offer investment funds based on the role of companies committed to social and environmental goals (including good labour practices) and good corporate governance reaches total of eight. That same year, the IFC publishes a report on "Sustainable Investments in Brazil".

In August 2013, Brazil had 68 PRI signatories, consisting of 19 asset owners, 31 asset managers and 18 professional service partners. Seventeen of the asset owners are EFPCs , as listed below:

1. Banesprev
2. Celpos
3. CENTRUS – Fundação Banco Central de Previdência Privada
4. Economus
5. FAELBA – Fundação COELBA de Previdência Complementar
6. FASERN
7. Forluz
8. Funcef
9. Fundação CESP
10. Fundação Itau Unibanco
11. Infraprev
12. Petros
13. Postalis
14. PREVI
15. Real Grandeza
16. Sistel
17. Valia

It is worth noting that this is the same number shown in the ABRAPP's 2010 Social Report. There were three new signatories during that period – CESP, Itaú Unibanco Foundation and Postalis – and three withdrawals: Ceres, Foundation 14 and the BrTPrev Foundation. These last two were absorbed by Atlantic Foundation, which is not a signatory. Of the current 17 signatories, only 9 have produced their RI Transparency Report[16].

[15] PRI - Principles for Responsible Investment is a project sponsored by the United Nations in partnership with the global financial sector. The website of the project is www.unpri.org.

[16] See http://www.unpri.org/signatories.

Table 9 - List of Companies which took part in ABRAPP's Social Issues Report

Entreprise	Years which integrated the ABRAPP's Social Issue report		
	2007	2008	2010
ALL- América Latina Logística			X
Aracruz Celulose S.A.	X		
Banco Bradesco	X		
Banco do Brasil S.A.			X
BR Malls Participações S.A.			X
Brasil Telecom Participações S.A.		X	
Brasken S.A.	X	X	
BRF – Brasil Foods S.A.*			X
Centrais Elétricas de Santa Catarina - CELESC			X
Companhia Energética do Ceará - COELCE			
Companhia Energética de Minas Gerais - CEMIG	X		
Companhia Siderúrgica Nacional - CSN	X	X	
Companhia Vale do Rio Doce – CVRD	X	X	
CPFL Energia S.A. – CPFL Energia	X		
CTX Participações S.A.			X
DASA – Diagnósticos da América S.A.			X
EDP – Energias do Brasil S.A.	X		
Estacionamentos Cinelândia S.A.	X	X	
Embraer – Empresa Brasileira de Aeronáutica S.A.			X
Fibria Celulose S.A.			X
Fras-le S.A.	X		X
Gerdau S.A.	X		
GP Investments			X
GTD Participações S.A.			X
Hopi Hari S.A.	X		
Indústrias Romi S.A.			X
Investimentos e Participações em Infra-Estrutura S.A. - INVEPAR			X

Entreprise	Years which integrated the ABRAPP's Social Issue report		
	2007	2008	2010
Itaú-Unibanco Holding S.A.			X
Itaúsa – Investimentos Itaú S.A.			X
Kepler Weber S.A.			X
Log-In Logística Intermodal S.A.			X
LUPATECH S.A.			X
Neoenergia S.A.			X
Opportrans Concessão Metroviária S.A.	X		
Pátria Investimentos S.A.	X		
Paranapanema S.A.			X
Perdigão S.A.	X	X	
Produtores Energéticos de Manso S.A. – PROMAN			X
Randon S.A. Implementos e Participações			X
Sadia S.A.	X	X	
SAUIPE S.A.			X
Schroder Investment Management DTVM			X
Tele Norte Leste Participações S.A.			X
Telemar Participações S.A.			X
Terminais Portuários da Ponta do Felix S.A.	X		
Ultrapar Participações S.A.			X
Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS	X		

* Resulting from the merger of Perdigão and Sadia.

2.2 Development Model for Social Reporting by EFPC´s (2011):

In 2011, ABRAPP adopted as a model for the development of the Social Report by the EFPCs a document produced by IBASE[17] in partnership with Petros, the pension fund for Petrobras's employees. Some of the questions suggested by this document are particularly relevant in relation to the promotion of decent work. The "internal social indicators", for example, include the following

[17] The document can be found on ABRAPP's website (www.abrapp.org.br) in the area of the National Technical Commission on Sustainability, 2011 actions.

questions (which should be answered according to total spending during the year and according to the percentage of expenditures in relation to the entity´s total administrative expenses):

a. Food
b. Education
c. Training and professional development
d. Supplementary pension
e. Nursery or childcare benefit
f. Health
g. Safety and health at work
h. Transport
i. Scholarships / internships

Items 8 (staff indicators) and 10 (relevant information on ethics, transparency and social responsibility) also include questions relating to work conditions. Among the questions covered under these two items are the following:

a) Percentage of employees over 45 years of age
b) Number of women working in the institution
c) Percentage of management positions held by women
d) Average age of women in senior positions
e) Average salary for women
f) Average age of men in senior positions
g) Average salary for men
h) Number of Afro-descendants who work in the institution
i) Percentage of management positions held by Afro-descendants
j) Average age of Afro-descendants in senior positions
k) Average Salary of Afro-descendants
l) Number of white employees in the institution
m) Average salary of white employees
n) Number of special needs employees
o) Average Salary for the special needs staff
p) Relationship between the highest and lowest salary
q) Does the entity develop any policy or action of valuing diversity among its staff?
r) Does the entity develop any policy or action of valuing diversity among its participants?
s) Are ethical, environmental and social responsibility criteria considered, suggested or requested while selecting partners and professional service partners?
t) Is there participation of employees in the entity's planning?
u) At what levels is the review by the institution's Commission / Board of Ethics applied?

Another item (no. 6) of the development model of the Social Report adopted by ABRAPP in 2011 deals particularly with socially responsible investments and consists of the following issues:

a. Portfolio of Socially Responsible Investment - balance on 31/12;
b. Participation of the Portfolio of Socially Responsible Investment in total investments (balance 31/12);
c. Does the entity adopt criteria for social and environmental responsibility in their investment decisions?
d. Does the entity adopt criteria for social and environmental responsibility in monitoring the companies, funds and projects in which it invests?
e. Does the entity participate in international and national organizations / initiatives with social and environmental responsibility criteria? Which?

2.3. Proposal for the development of the Sustainability Report for EFPCs (2012)

In 2012, ABRAPP produced the booklet "Development of Sustainability Reports for EFPCs"[18], which adopts the Global Reporting Initiative (GRI)[19] as a model for the preparation of sustainability reports by the Pension Funds. The reasons given in this document for the EFPCs preparing these reports are as follows:

a) Emphasize the relationship between the financial and the non-financial organizational performance;
b) Serve as a benchmark for reference and evaluation of sustainability performance with respect to the law, norms, codes, standards and voluntary initiatives;
c) Demonstrate how the organization influences and is influenced by expectations regarding sustainable development;
d) Compare the internal organizational performance with the other organizations; and
e) Comply with the national regulations or requirements pertaining to the stock exchange.

As the adoption of GRI guidelines is a complex and time-consuming process, ABRAPP's Sustainability Commission recommended in the booklet mentioned earlier that the member start its reports at Level C and over time evolve to more advanced levels. Level C requires only the disclosure of part of the profile indicators, plus ten general indicators, with at least one from each dimension: economic, environmental and social.

The definition of the most relevant topics that should be part of the sustainability reports was elaborated through consultation with a group of stakeholders from ABRAPP: BM&FBovespa, the National Superintendency of Pension Funds (PREVIC) and the National Association of Participants of Pension Funds (ANAPAR).

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[18] The document can be found on ABRAPP's website (www.abrapp.org.br) in the area of the National Technical Commission on Sustainability, in 2012 actions.

[19] www.globalreporting.org.

The topics were classified into four hierarchical categories – highest relevance, high relevance, medium relevance and low relevance – and divided into eight groups: (1) Governance, Commitment and Engagement; (2) Responsibility for Service; (3) Labour Practices and Decent Work; (4) Society; (5) Economic Topics; (6) Topics Related to Performance of Businesses, Real Estate and Investee Companies; (7) Human Rights; and (8) Environment.

Table 10 presents the topics, organized by hierarchical categories and the most relevant groups, for the analysis of socially responsible investments and the promotion of decent work.

Table 10 – The Most Relevant Items for the Analysis of Socially Responsible Investments and the Promotion of Decent Work

Topic	Relevance			
	Highest	High	Medium	Low
Labour Practice and Decent Work	Training and Development	Collective Agreements/Union Relations	Diversity	Specific Training in Sustainability
		Compensation and benefits	Partners' Profile	
		Health and Safety		
Human Rights		Aspects of Human Rights in the Productive Chain		
		Eradication of Child Labour and Forced Labour or Conditions Analogous to Slave Labour		
		Non-discrimination practices		
		Respect for Minorities		
Topics Related to Performance of Businesses, Real Estate and Investee Companies		Managing Ethics, Governance Profile, Employee Profile, Human Rights Protection	Managing Environmental Impact	
		Relation with the Productive Chain	Pacts and Voluntary Commitments	
		Sustainability in Management		

Another point favouring the EFPCs' SRI is the absence of any restriction on these investments by agencies responsible for formulating policies for the sector (the Secretariat of Policies for Pension Funds – SPPC) and its supervision (National Superintendency of Pension Plans – PREVIC). Although there is no official document published by these bodies which deals with SRI, in presentations made by their specialists from the SPPC and PREVIC, there is a clear understanding of there being no conflict between the EFPCs' fiduciary duty and the use of social responsibility criteria (including good labour practices) in investment decisions. The SPPC and PREVIC have an unspoken view that there is harmonious relationship between the SRI principles and the EFPCs' long-term investment function[20].

3. The Corporate Sustainability Index – ISE

An important step for the consolidation of a socially responsible investment market in Brazil was the development of the Corporate Sustainability Index – ISE, a pioneering initiative led by the São Paulo Stock Exchange – BOVESPA and involving a set of institutions representing the market and society. The idea was to create a tool to facilitate the adoption of a policy of SRI by individual and institutional investors[21]. Before the creation of this index, the country had only two funds investing in shares based on the portfolio selection concept of using corporate social responsibility criteria: the Ethical Shares Fund issued by Banco Real (now part of Santander Bank) and the *Fundo Itaú Excelência Social* (Social Excellence Shares Fund of Banco Itaú).

The following institutions have become part of the first Deliberation Council of the ISE (CISE):

1) BOVESPA (Chairman of CISE);

2) ABRAPP;

3) ANBID – National Association of Investment Banks;

4) APIMEC – The Association of Investment Analysts and Professionals of the Capital Market;

5) Ethos – Ethos Institute for Business and Social Responsibility;

6) IBASE – Brazilian Institute of Social and Economic Analysis;

7) IBGC – Brazilian Institute of Corporate Governance;

8) IFC – International Finance Corporation; and

9) Ministry of Environment.

In 2013, CISE had the following composition:

1) BOVESPA (Chairman of CISE);

2) ABRAPP;

3) ANBIMA – Brazilian Association of Financial and Capital Markets (merger of ANBID and ANDIMA);

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20 Interviews conducted with specialists from SPPC and PREVIC.

21 Further information can be found on www.bmfbovespa.com.br. Log in "Markets", choose the "Actions" option, select the "Indices" and see "Sustainability Indexes."

4) APIMEC – The Association of Investment Analysts and Professionals of the Capital Market;

5) Ethos – Ethos Institute for Business and Social Responsibility;

6) Ibracon – Institute of Independent Auditors of Brazil;

7) IBGC – Brazilian Institute of Corporate Governance;

8) GIFE – Group of Institutes, Foundations and Enterprises;

9) IFC – International Finance Corporation;

10) Ministry of Environment; and

11) UNEP – United Nations Environment Programme.

ABRAPP was present in all of the CISEs, demonstrating its commitment with SRI.

The project began in 2005, and counted on initial funding from the International Finance Corporation – IFC, the financial arm of the World Bank. The development of the methodology for selecting the companies that would make up the index was done by the Centre for Sustainability Studies (CES) of the Fundação Getúlio Vargas (FGV).

It was decided that the composition of the index would be limited to 40 companies and that these companies should cumulatively meet the following criteria:

a) have their shares among the 200 with the highest marketability measured in the twelve months preceding the beginning of the review process;
b) have their shares traded on at least 50% of the auctions in the twelve months preceding the beginning of the review process; and
c) meet the sustainability criteria endorsed by CISE.

Item “c” is measured by a questionnaire developed by CES-FGV. The questionnaire uses the concept of the triple bottom line – TBL, which involves the assessment of environmental, social and economic-financial elements seamlessly. Four dimensions were added to these three principles that include the following groups of indicators: (a) general criteria (e.g. the position of the company in global agreements and if the company publishes social audits); (b) criteria for the type of products (e.g. if the product of the company entails damage and risks to consumer health); (c) corporate governance criteria; and (d) criteria related to climate change.

The results obtained from the questionnaires are analysed using the “cluster analysis” statistical method, and thus the groups of companies with similar performance are placed together, and the group with the best overall performance is identified. Companies in this latter group will form the ISE portfolio for that year. Another factor influencing the composition of the portfolio is the limitation to 15% of the contribution of a given economic sector in the index.

The measurement of the return of a theoretical portfolio used in a given year will be weighed by the respective market value of the shares available for trading (free-float), thus excluding shares owned by the controlling shareholder.

The questionnaire in 2012 evaluated the criteria listed below:

Criterion I - Policy

Indicator 1 - Commitment to fundamental principles and rights in labour relations.

Indicator 2 - Participation in public policy.

Indicator 3 - Respect for privacy, use of information and marketing.

Criterion II - Management

Indicator 4 - Implementation of commitment to fundamental principles and rights in labour relations.

Indicator 5 - Relationship with the community.

Indicator 6 - Relationship with suppliers.

Indicator 7 - Relationship with clients and consumers.

Criterion III - Performance

Indicator 8 - Diversity and equity.

Indicator 9 - Hiring outsourced workers.

Indicator 10 - Management of suppliers.

Indicator 11 - Solving demands of clients and consumers.

Criterion IV - Legal Compliance

Indicator 12 - Internal public.

Indicator 13 - Clients and consumers.

Indicator 14 - Society.

It has been observed that four of these indicators (1, 4, 8 and 9) are directly linked to relevant topics for the promotion of decent work. Question 16.1 of Indicator 6 checks whether the company demands and monitors from its suppliers compliance with rules relating to decent work conditions.

Question 42 of Indicator 10 asks for the volume of business of the company with suppliers monitored, based on criteria regarding employment relations (e.g. commitment to eradicate child labour, forced labour; valuing diversity, anti-discrimination practices, timely payment of employees' liabilities[22]).

Finally, indicator 12 also includes important items for the ILO agenda (hiring people with disabilities; hiring apprentices; monitoring compliance with the work of apprentices in the value chain). We can therefore conclude that the ISE includes key points relating to decent work in the selection criteria of the companies.

Table 11 shows the companies that have joined the ISE since the beginning of the index[23].

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22 This includes Social Security contributions.

23 The composition of the ISE is revised annually, depending on the number of companies responding to the questionnaire, the variations in the liquidity of the shares on the Stock Exchange, and the weights given to each sector, among other variables.

Table 11 – List of ISE companies

	01/12/05	01/12/06	03/12/07	01/12/08	01/12/09	03/01/11	02/01/12	07/01/13
1	ALL Amer Lat	Acesita	AES Tietê	AES Tietê	AES Tietê	AES Tietê	AES Tietê	AES Tietê
2	Aracruz	ALL Amer Lat	Am Inox BR	Bradesco	Bradesco	Anhanguera	Anhanguera	Bicbanco
3	Belgo Mineira	Aracruz	Aracruz	Brasil	Brasil	Bicbanco	Bicbanco	Bradesco
4	Bradesco	Arcelor BR	Bradesco	Braskem	Braskem	Bradesco	Bradesco	Brasil
5	Brasil	Bradesco	Brasil	Celesc	BR Foods	Brasil	Brasil	Braskem
6	Braskem	Brasil	Braskem	Cemig	Cemig	Braskem	Braskem	BRF Foods
7	CCR Rodovias	Braskem	CCR Rodovias	Cesp	Cesp	BRF Foods	BRF Foods	CCR S/A
8	Celesc	CCR Rodovias	Cemig	Coelce	Coelce	Cemig	CCR S/A	Cemig
9	Cemig	Celesc	Cesp	CPFL Energia	Copel	Cesp	Cemig	Cesp
10	Cesp	Cemig	Coelce	Dasa	CPFL Energia	Coelce	Cesp	Coelce
11	Copel	Coelce	Copel	Duratex	Dasa	Copasa	Coelce	Copasa
12	Copesul	Copel	CPFL Energia	Eletrobras	Duratex	Copel	Copasa	Copel
13	CPFL Energia	CPFL Energia	Dasa	Eletropaulo	Eletrobras	CPFL Energia	Copel	CPFL Energia
14	Dasa	Dasa	Eletrobras	Embraer	Eletropaulo	Duratex	CPFL Energia	Duratex
15	Eletrobras	Eletropaulo	Eletropaulo	Energias Br	Embraer	Eletrobras	Duratex	Ecorodovias
16	Eletropaulo	Embraer	Embraer	Gerdau	Energias Br	Eletropaulo	Ecorodovias	Eletrobras
17	Embraer	Energias Br	Energias Br	Gerdau Met	Even	Embraer	Eletrobras	Eletropaulo
18	Gol	Gerdau	Gerdau	Itaubanco	Fibria	Energias Br	Eletropaulo	Energias Br
19	Lochpe-Maxion	Gerdau Met	Gerdau Met	Light S/A	Gerdau	Even	Embraer	Even
20	Itaubanco	Gol	Lochpe-Maxion	Natura	Gerdau Met	Fibria	Energias Br	Fibria
21	Itau SA	Lochpe-Maxion	Itaubanco	Odontoprev	Inds Romi	Gerdau	Even	Gerdau
22	Natura	Itaubanco	Light S/A	Perdigão S/A	Itau S/A	Gerdau Met	Fibria	Gerdau Met
23	Perdigão S/A	Itau SA	Natura	Sabesp	Itau Unibanco	Inds Romi	Gerdau	Itau S/A
24	Suzano Papel	Localiza	Perdigão S/A	Sadia	Light S/A	Itau S/A	Gerdau Met	Itau Unibanco
25	Tractebel	Natura	Petrobras	Suzano Papel	Natura	Itau Unibanco	Itau S/A	Light S/A
26	Unibanco	Perdigão S/A	Sabesp	Telemar	Redecard	Light S/A	Itau Unibanco	Natura
27	VCP	Petrobras	Sadia	Tim Part S/A	Sabesp	Natura	Light S/A	Sabesp
28	Web	Suzano Papel	Suzano Papel	Tractebel	Sul América	Redecard	Natura	Santander BR
29		Suzano Petro	Suzano Petro	Unibanco	Suzano Papel	Sabesp	Redecard	Sul América
30		Tam S/A	Tractebel	VCP	Telemar	Santander	Sabesp	Suzano Papel
31		Tractebel	VCP		Tim Part S/A	Sul América	Santander BR	Telefonica Brasil
32		Ultrapar	Weg		Tractebel	Suzano Papel	Sul América	Telemar
33		Unibanco			Usiminas	Telemar	Suzano Papel	Tim Part S/A
34		VCP			Vivo	Tim Part S/A	Telemar	Tractebel
35						Tractebel	Tim Part S/A	Ultrapar
36						Ultrapar	Tractebel	Vale
37						Vale	Ultrapar	Weg
38						Vivo	Vale	

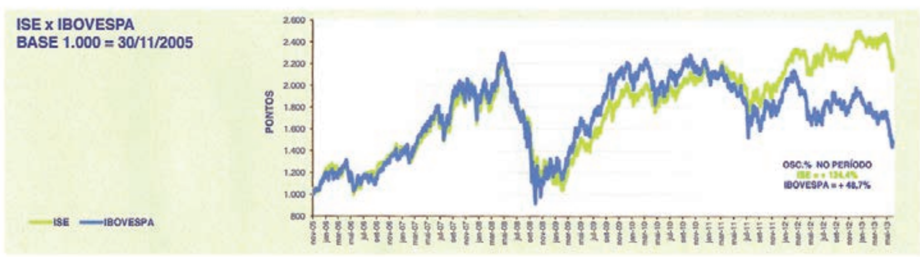
Source: Bovespa

The colours show the number of years the company took part in the index, according to the colour reference box below:

	All lists	11 companies
	7 Lists	8 companies
	6 Lists	4 companies
	5 Lists	5 companies
	4 Lists	4 companies
Total		32 companies

The data show a relative stability in the composition of the ISE. Since its inception, the average number of businesses in the portfolio has been 34, and there are 32 companies that appeared in at least half of the portfolios. Companies that have appeared in all portfolios account for 32% of the average number of members of the ISE each year. The weight of these companies in terms of percentage of total capitalization of BOVESPA, ranged from 26.4% to 48.5% between 2005 and 2010.

Figure 1 shows ISE's performance as compared with IBOVESPA's.



Source: BOVESPA (2013).

It has been observed that from its inception until May 2013, the ISE showed a gain of 124.4% versus a gain of 48.7% of IBOVESPA (Figure 1). It is interesting to note that the ISE's value line only begins to move away and upwards from IBOVESPA's from the beginning of 2012. If we take, for example, the period between the beginning of the ISE until October 2010, the value of this index is 90.13% against 110.49% of IBOVESPA. These data do not allow us to assert superiority of the ISE over IBOVESPA, but it is also clear that the occasional adoption of this index did not cause losses to the investor.

The report released by BM&FBovespa disclosing the 2013 ISE portfolio brings important data concerning the interest of companies invited to take part in the portfolio. 183 companies that held the 200 most liquid stocks in Bovespa in December 2011 were invited to participate in this new portfolio, but only 45 signed up to participate in the process responding to the questionnaire. This may have two meanings: (a) most companies estimate that they would not be able to obtain a sufficient score on the questionnaire in order to be part of the portfolio; or (b) companies do not see major advantages in being part of the ISE. It is very likely that it is not clear to most companies that official recognition of their social responsibility practices influences their market value.

This observation leads us to the need for more effective action from the Brazilian financial market actors committed to the issue of sustainability in order to spread these concepts among other investors and investee companies. Among the recommended actions, there should certainly be staff training both of investors and of those responsible for the area of relations with the companies' investors.

4. Segment of Funds Investing in Stocks with Focus on Sustainability

As previously mentioned, the pioneering institution in this segment was Banco Real, with the launching of the *Fundo Ethical* in 2001. It was followed in 2004 by Banco Itaú with its *Fundo Excelência Social Ações*. These are the only SRI funds that preceded the creation of the ISE by BOVESPA.

A study prepared for the IFC (2009) listed 10 SRI funds operating in the country, excluding 'investment funds in quota funds' (*fundos de investimento em cotas de fundo de investimento - FICFI*) with total assets of R$730 million (as of 30 December 2008). The same study indicated that the maximum amount allocated in these funds reached R$1.6 billion in December 2007, and that the decline observed in their value is primarily due to the sharp devaluation of the stock market in 2008.

Table 12 presents the funds classified as "sustainability actions" by ANBIMA and their respective shareholders' equity (SE) in June 2013, excluding the FICFI for purposes of comparison with the IFC study.

Table 12 – Funds with Sustainability Actions - June 2013

	Funds	Manager	SE (R$ 1.000 in June 2013)
1	BB AÇÕES ISE JOVEM FIA*	BB DTVM S.A.	17,999.65
2	BB TOP AÇÕES INDICE SUSTENTAB EMPRES FIA	BB DTVM S.A.	18,016.90
3	BRADESCO FIA INDICE DE SUST EMPRESARIAL	BRADESCO	81,950.69
4	CAIXA FIE AÇÕES ISE	CAIXA	7,766.32
5	CAIXA FIA CERRADO SUSTENTABILIDADE*	CAIXA	48,350.47
6	FI EM AÇÕES BOTANICA SUSTENTABILIDADE*	CAIXA	48,927.39
7	FI SAVANA SUSTENTABILIDADE*	CAIXA	187,033.66
8	FIA VOT SUSTENTABILIDADE	VOTORANTIM ASSET	54,142.70
9	HSBC FI DE AÇÕES SRI	HSBC	27,666.57
10	ITAU EXCELÊNCIA SOCIALAÇÕES FI	ITAU UNIBANCO	226,756.45
11	LM MASTER SUSTENT EMPRESARIAL FIA	LEGG MASON	64,979.40
12	SAFRA SUSTENTABILIDADE FI AÇÕES	BANCO J SAFRA	870.74
13	SANTANDER FI ETHICAL II AÇÕES	BANCO SANTANDER	302,278.38
	TOTAL		1,086,739.32

* Funds which did not appear in the list of IFC's study (2009).

Note that in IFC's list (2009), Unibanco's "*Sustentabilidade Fundo de Investimentos em Ações*" is the only one that does not exist anymore, since this bank was merged with Itaú.

Growth in this segment of funds between December 2008 and June 2013 was negligible. No new manager joined the market in the period. Even if we add the FICFI funds classified in this segment by ANBIMA (Table 13) we find no significant values.

Table 13 - FIC Investment Fund of Sustainability Actions – June 2013

	Funds	Manager	SE (R$ 1.000 in June 2013)
1	BRAD PRIME FIC FIA IND SUST EMPRESARIAL	BRADESCO	17,319.32
2	BRADESCO FIC FIA PLANETA SUSTENTAVEL	BRADESCO	2,428.70
3	HSBC FICFI DE AÇÕES SUSTENTABILIDADE	HSBC	27,945.06
4	ITAU AÇÕES EXCELÊNCIA SOCIAL FICFI	ITAU UNIBANCO	55,629.65
5	ITAU PERS AÇÕES EXCELENCIA SOCIAL FICFI	ITAU UNIBANCO	148,412.82
6	ITAU PRIV EXCELÊNCIA SOCIAL AÇÕES FICFI	ITAU UNIBANCO	20,676.94
7	LM WA AÇÕES SUSTENT EMPRESARIAL FICFI	LEGG MASON	65,429.85
8	SAFRA SUSTENTABILIDADE FC FI AÇÕES	BANCO J SAFRA	878.82
9	SANTANDER FIC FI ETHICAL AÇÕES	BANCO SANTANDER	100,674.04
	TOTAL		**439,395.20**

Adding up the values in tables 12 and 13, the total value comes to R$1,526,134.52, which represents 0.75% of the total shareholders' equities of all equity funds listed by ANBIMA on the same date.

Most of these funds emulate the ISE portfolio, although some – such as Santander's Fundo Ethical and Itaú/Unibanco's *Fundo Excelência Social Ações* – have their own methodologies. Yet, the impression is that, overall, the portfolios of these funds do not have big differences. It is interesting to notice the similarity of ISE's portfolios with the list of companies found in ABRAPP's Social Reports. This may be explained by two hypotheses, which are not exclusive: (1) there is a limited number of listed companies in Brazil in a position to meet the sustainability criteria, and (2) few companies take an interest in responding to sustainability questionnaires sent by ABRAPP, BOVESPA and SRI fund managers. As the amounts invested in sustainability action funds are not very significant, it tends to diminish the interest of companies in joining this segment.

When analysing the return of two of the largest SRI funds (Table 14), it seems there is nothing to indicate that the introduction of social sustainability criteria has adversely affected their profitability compared with the performance of the major stock market indexes in Brazil.

Table 14 - Return of the Two Largest SRI Stock Funds (July 2013).

Funds	2013	12 months	24 months	36 months
SANTANDER ETHICAL AÇÕES	-11.33	-5.53	5.62	-1.18
ITAU EXCELÊNCIA SOCIAL	-5.92	-2.15	11.65	6.30
IBOVESPA	-18.17	-14.02	-18.00	-28.56
IBR X	-7.33	-2.58	0.99	-5.91
FGV-100	-12.70	-3.98	1.58	-0.04

Sources: Funds' spreadsheets displayed on the managers websites.

A case worth mentioning is the Investment Fund in Savannah Sustainability Actions. As we can see in Table 11, this is one of the largest SRI funds with shareholders' equity. Article 2 of its Rules says that the fund "is intended to accommodate the investments of *Fundação dos Economiários Federais* – FUNCEF and 'FI quota funds' in which FUNCEF is the sole shareholder...". The fund is managed and distributed by *Caixa Econômica Federal* and has its portfolio managed by Santander Brasil Asset Management DTVM S.A. It is, therefore, a unique SRI fund of a Closed Pension Fund Entity. The fund's reference portfolio is exactly the Corporate Sustainability Index – ISE.

5. Top Pension Funds' Shareholdings

As mentioned in the first section of this document, some Brazilian pension funds played an important role in the privatizations of the 1990s, which resulted in significant shareholdings, often involving participation in the controlling group of the privatized companies. Moreover, the relative lack of sources of long-run investment in Brazil leads many entrepreneurs to seek the big pension funds to participate in projects that require greater capital investment and a longer payback period.

The vast majority of these cases involve three major EFPCs in terms of value of investments: PREVI – *Caixa de Previdência dos Funcionários do Banco do Brasil* (Pension Fund of Banco do Brasil's Employees); PETROS – *Fundação Petrobras de Seguridade Social* (Petrobras Social Security Foundation); and FUNCEF – *Fundação dos Economiários Federais* (Foundation of Federal Savings Banks' Employees). Table 15 shows the percentage of stake held by PREVI on total capital of the investee companies. Table 16, in turn, lists the companies in which these three EFPCs are entitled to nominate representatives on the Board of Directors and on the Audit Committee.

Table 15 – PREVI's Significant Shareholdings (As of May/2013)

Companies	% PREVI	Companies	% PREVI
521 PARTICIPAÇÕES	100	ITAUSA	2.77
AFLUENTE GERAÇÃO	2.29	JEREISSATI PARTICIPAÇÕES	18.42
AFLUENTE TRANSMISSÃO	2.29	JEREISSATI TELECOM	19.78
AMBEV	2.88	KEPLER WEBER	17.56
AMERICA LATINA LOGÍSTICA	3.94	KLABIN	0.07
BANCO DO BRASIL	10.38	MAGAZINE LUIZA	2.41
BRADESCO	1.75	METALÚRGICA GERDAU S.A.	1.6
BRF - BRASIL FOODS S.A.	12.21	NEOENERGIA S.A.	49.01
CELESC	14.46	NEWTEL PART.	14.36
CEMIG	0.46	OI S.A.	3.27
COELBA	2.29	PARANAPANEMA	23.96
COSERN	1.54	PETROBRAS	2.83
CPFL ENERGIA	30.03	RANDON	6.78
EMBRAER	7.83	SAUÍPE	100
FIAGO	51.89	SETE BRASIL	*
FIBRIA CELULOSE S.A.	1.44	SUL 116 PARTICIPAÇÕES	11.17
FORJAS TAURUS S.A.	24.39	SUZANO PAPEL E CELULOSE S.A.	0.94
FRAS-LE	21.98	TELEMAR PARTICIPAÇÕES	9.69
GERDAU S.A.	0.68	TUPY	35.61
GTD PART.	21.63	ULTRAPAR PART.	5.97
INVEPAR	25.56	USIMINAS	5.89
INVITEL LEGACY	19.99	VALE	14.98**
ITAÚ UNIBANCO HOLDING S.A.	1.9	WEG	2.1

* Shareholding via Fundo de Investimentos em Participações Sondas – FIP Sondas
**Reflects direct (Previ Future) and indirect (Plan 1) shareholding, considering the redeemable shares.
Source: PREVI.

Table 16 - Companies with Directors appointed by the Three Largest EFPCs (June/2013).

Companies	Board of Directors		Audit Committee	
	Director	Deputy	Director	Deputy
ALL-AMÉRICA LATINA LOG. S/A	Funcef (1) Previ (1)	Funcef (1) Previ (1)		
AMBEV			Previ (1)	Previ (1)
BAHEMA S.A.	Funcef (1)			
BANCO DO BRASIL S/A	Previ (2)		Previ (2)	Previ (2)
BRF S.A.	Petros (2) Previ (2)	Petros (2), Previ (2)	Petros (1)	Petros (1)
CBTD GRADIENTE			Funcef (1)	Funcef (1)
CELESC	Previ (3)		Previ (1)	Previ (1)
CEMIG			Previ (1)	Previ (1)
COELCE			Petros (1)	Petros (1)
CPFL ENERGIA	Previ (2)	Previ (2)	Previ (2)	Previ (2)
DALETH PARTICIPAÇÕES S.A.	Funcef (1)	Funcef (1)		
DASA	Petros (1)			
DESENVIX ENERGIAS RENOVÁVEIS	Funcef (2)	Funcef (2)	Funcef (1)	Funcef (1)
ELDORADO CELULOSE	Funcef (1)	Funcef (1)	Funcef (1)	Funcef (1)
EMBRAER S.A.	Previ (1)		Previ (1)	Previ (1)
FIAGO PARTICIPAÇÕES S.A.	Previ (2)			
FIBRIA CELULOSE S/A (EX-VCPA)			Previ (1)	Previ (1)
FORJAS TAURUS	Previ (2)		Previ (1)	Previ (1)
FRASLE	Petros (1) Previ (1)		Previ (1)	Previ (1)
GAFISA	Funcef (1)			
GERDAU METALÚRGICA			Previ (1)	Previ (1)
GERDAU S/A			Previ (1)	Previ (1)
GTD PART.	Petros (1) Previ (1)	Previ (1)		
IGUATEMI EMPRESA DE SHOP CENTERS	Petros (1)		Petros (1)	Petros (1)
INDÚSTRIA ROMI	Petros (1)		Petros (1)	Petros (1)

Companies	Board of Directors		Audit Committee	
	Director	Deputy	Director	Deputy
INVEPAR	Funcef (2) Petros (2) Previ (2)	Funcef (2) Petros (2) Previ (2)	Funcef (1) Petros (1) Previ (1)	Funcef (1) Petros (1) Previ (1)
INVEPAR-METRO RIO	Previ (2)	Previ (2)		
INVITEL LEGACY	Previ (1)	Previ (1)		
ITAU UNIBANCO HOLDING S/A			Previ (1)	Previ (1)
ITAUSA	Petros (1)		Previ (1)	Previ (1)
JBS FRIBOI	Funcef (1)	Funcef (1)		
JEREISSATI PARTICIPAÇÕES S.A	Previ (1)		Previ (1)	Previ (1)
JEREISSATI TELECOM S.A.	Previ (1)		Previ (2)	Previ (2)
KEPLER WEBER	Previ (2)		Previ (1)	Previ (1)
KLABIN S/A				Previ (1)
LITEL PARTICIPAÇÕES	Funcef (1)			
LOG-IN LOGÍSTICA	Petros (1)	Petros (1)	Petros (1)	Petros (1)
LUPATECH	Petros (3)	Petros (3)	Petros (1)	Petros (1)
MAGAZINE LUIZA S.A.			Previ (1)	Previ (1)
MULTINER			Funcef (1)	Funcef (1)
NEOENERGIA - AFLUENTE GERAÇÃO	Previ (1)	Previ (1)		
NEOENERGIA - AFLUENTE TRANSMIS	Previ (1)	Previ (1)		
NEOENERGIA - ALTO RIO GRANDE	Previ (1)	Previ (1)		
NEOENERGIA - BAGUARI I	Previ (1)	Previ (1)		
NEOENERGIA - BAHIA PCH I	Previ (1)	Previ (1)		
NEOENERGIA - BAHIA PCH II	Previ (1)	Previ (1)		
NEOENERGIA - BAHIA PCH III	Previ (1)	Previ (1)		
NEOENERGIA - BELO MONTE	Previ (1)	Previ (1)		
NEOENERGIA - CELPE		Previ (1)		Previ (1)
NEOENERGIA - COELBA	Previ (1)	Previ (1)	Previ (1)	Previ (1)
NEOENERGIA - COSERN	Previ (2)	Previ (2)	Previ (1)	Previ (1)
NEOENERGIA - GERAÇAO CEU AZUL	Previ (1)	Previ (1)		
NEOENERGIA - GERAÇÃO CIII	Previ (1)	Previ (1)		

Companies	Board of Directors		Audit Committee	
	Director	Deputy	Director	Deputy
NEOENERGIA - GOIÁS SUL	Previ (1)	Previ (1)		
NEOENERGIA - ITAPEBI	Previ (1)	Previ (1)		
NEOENERGIA - NC ENERGIA	Previ (1)	Previ (1)		
NEOENERGIA - SE NARANDIBA	Previ (1)	Previ (1)		
NEOENERGIA - TERMOPERNAMBUCO	Previ (1)	Previ (1)		
NEOENERGIA INVESTIMENTO	Previ (1)	Previ (1)		
NEOENERGIA S/A	Previ (4)	Previ (4)	Previ (1)	Previ (1)
NEWTEL PART. S.A	Previ (1)		Funcef (1)	Funcef (1)
NORTE ENERGIA	Funcef (1) Petros (1)	Petros (1)	Petros (1)	Petros (1)
OI S/A	Funcef (1) Petros (1) Previ (1)	Funcef (1) Petros (1) Previ (1)		
PARANAPANEMA	Petros (1) Previ (4)	Petros (1) Previ (4)	Petros (1) Previ (1)	Petros (1) Previ (1)
RANDON	Previ (1)		Previ (1)	Previ (1)
RG ESTALEIROS			Funcef (1)	Funcef (1)
SANEPAR		Funcef (1)		Funcef (1)
SAUIPE S.A.	Previ (4)	Previ (4)	Previ (3)	Previ (3)
SERRA AZUL WATER PARK	Funcef (3)	Funcef (3)		
SETE BRASIL	Funcef (2) Previ (1)	Funcef (2) Previ (1)	Funcef (1)	Funcef (1)
SUL 116 PARTICIPAÇÕES S/A	Previ (1)			
SUZANO PAPEL E CELULOSE S/A			Previ (1)	Previ (1)
TELEMAR PARTICIPAÇÕES	Funcef (1) Petros (1) Previ (1)	Funcef (1) Petros (1) Previ (1)	Previ (1)	Funcef (1)
TG PARTICIPAÇÕES	Funcef (1)	Funcef (1)		
TIM PARTICIPAÇÕES			Funcef (1)	Funcef (1)
TOTUS	Petros (1)			
TUPY	Previ (2)	Previ (2)	Previ (1)	Previ (1)
USINAS SID.MG S/A - USIMINAS	Previ (1)	Previ (1)	Previ (1)	Previ (1)

Companies	Board of Directors		Audit Committee	
	Director	Deputy	Director	Deputy
VALE	Previ (4)	Previ (4)	Previ (1)	Previ (1)
VALE-LITEL	Previ (3)			
VALE-LITELA	Previ (3)			
VALE-LITELB	Previ (3)			
VALE-VALEPAR	Funcef (1) Previ (5)	Funcef (1) Previ (5)		
WEG			Previ (1)	Previ (1)
521 PARTICIPAÇÕES S/A	Previ (3)	Previ (3)		

Sources: Funcef, Petros e Previ.

Some of the listed companies are vehicles for investments in other companies:

a) 521 Participações: PREVI's shareholding company in the field of Energy: it was shareholder of Neoenergia and CPFL;

b) Litel Participações (including Vale Litel, Litela and Litelb): shareholding company of FUNCEF, PETROS, PREVI and CESP Foundation in Valepar, which is the parent company of Companhia Vale do Rio Doce – CVRD (it holds 53.3% of CVRD's voting capital);

c) Invitel Legacy: a part of the shareholding chain of Brazil Telecom and was Invitel's spinoff;

d) INVEPAR: holding formed by FUNCEF, PREVI and PETROS, controlling road and underground concession companies (CRA, CLN, CBN, LAMSA, Metro-Rio, Via Rio, CRT and VLT);

e) Fiago Participações S.A.: holding company owned by PREVI, SISTEL FUNCEF and TELOS, with shareholding in Telemar Participações S.A.;

f) GDT Participações: company whose shareholders are EFPCs Escelsos, Valia, Real Grandeza, PREVI, PETROS, AERUS, SISTEL, TELOS and Fundação Copel;

g) Daleth Participações S.A.;

h) Newtel Participações S.A.: shareholdings in telecommunication companies;

i) Sete Brasil;

j) Sul 116 Participações S.A. ;

k) TG Participações S.A.

The question that naturally arises, then, is whether the significant shareholding and the appointment of directors by pension funds influence companies to follow practices of social sustainability and respect for decent work. Excluding those companies with externally (publicly) held shares,, there are 58 enterprises in total which are subject to shareholding by the EFPCs and have their directors appointed accordingly. Of these, 21 have already appeared in some of the ISE portfolios, i.e., 36.2%. Some companies would be excluded from the ISE portfolio after failing the requirements of the trading of their shares on the stock exchange. There is also the fact of reaching the limit in the composition of the ISE per sector. This may prevent the inclusion of certain pension funds' investee companies that are operating in the energy sector.

We have no academic work evaluating the effect of the significant presence of pension funds in the shareholding composition of the companies and their performance in relation to social responsibility. We only have a very interesting study that seeks to assess this effect on the corporate governance of companies (Silveira, 2011).

Using a sample of 388 observations of 2010 and 2011 (per year and per company), Silveira (2011) attempts to measure the effect on the corporate governance of three groups of institutional investors: pension funds; independent mutual funds and private equity funds; as well as the BNDESPar[24]. The selected companies represent 95% of the trading volume at BM&FBovespa. To be classified as having significant shareholding from one of the institutional investing groups analysed, it is necessary that the group holds at least 5% of the Company's available shares or have appointed one of its directors. The list of the EFPCs' investee companies is basically the one shown in tables 15 and 16.

The author's conclusions do not support the finding of a significant effect of the EFPCs on the corporate structure of the companies, and, thereby, on the quality of corporate governance:

a) Pension funds, with the exception of the three largest, are practically irrelevant for Corporate Governance in Brazil;
b) The EFPCs are basically followers of indexes and invest a small portion of their portfolios in stocks or corporate debt instruments;
c) The majority of pension funds are not engaged in the debate on corporate governance.

It is worth noting, however, that the study does not provide sufficient evidence to substantiate these claims, which, moreover, are based on overly generalized information.

The study shows the performance of the group of companies with significant holdings of each group of institutional investors, compared with the rest of the sample, regarding various questions that measure the quality of corporate governance (Table 17).

[24] Wholly-owned subsidiary of the Public Enterprise NATIONAL BANK FOR SOCIAL AND ECONOMIC DEVELOPMENT – BNDES, that can have direct shareholding in companies.

Table 17 - Significant Presence of EFPCs and Corporate Governance

Item	Without EFPC	With EFPC
Score Index IPGC1	6.3*	5.8
Capital Aberto Magazine's Corporate Governance Index	7.0	6.9
Percentage listed on Novo Mercado	52.1%***	33.3%
Percentage of Independent Directors on the Board of Directors	23.8%**	18.5%
Percentage of companies that voted for the increase of the minimum percentage of Independent Directors to 30% in the reform of the Novo Mercado rules in 2010	39.7%	47.1%
Percentage of companies with the composition of the Board of Directors in conformity with the recommendations of best practices2	16.9%	12.5%
Percentage of companies with a Compensation Committee	20.1%	16.1%
Percentage of companies that voted for a compulsory Audit Committee in the reform of the Novo Mercado rules in 2010	34.8%*	23.5%
Percentage of companies that regularly assess the Board of Directors' performance or that of their individual members	29.8%*	19.0%
Percentage of companies with boards of directors closely aligned with codes of best practices 3	48.6%*	37.5%
Percentage of companies with Risk Management Committees formally implemented in the organizational structure	52.4%	65.0%*
Percentage of companies that disclose the remuneration of Directors in accordance with Instruction no. 480/2009 of the Brazilian Securities Commission - CVM (maximum, average and minimum compensation)	74.3%*	63.0%

1. Index developed by Professor Ricardo Leal COPPEAD-UFRJ.
2. Over 20% of Independent Directors; At least one woman director; Less than 13 members.
3. Presence of Audit and Compensation Committees; between 5 and 15 annual meetings; conducting regular assessment of the Board's performance as a whole and / or of some members.
***, ** and * indicate statistical significance to levels of 1, 5 and 10%, respectively.
Source: Silveira (2011).

Based on these observations, Silveira (2011) concludes that the largest pension funds do not adhere to corporate governance practices suggested by the main "Codes of Best Practice". He states that these funds prefer to appoint names of people from their own staff to the Boards of Directors, showing little enthusiasm for the importance of Independent Directors. The author also claims that there are often private meetings of Directors representing the shareholders in the controlling group of these companies, in order to agree on the vote of those Directors in the meetings of the Boards.

The only group of institutional investors whose shareholding Silveira (2011) believes to be a significant influence on the corporate governance of companies is the independent mutual funds and private equity funds.

Another study that addresses the same topic is Oliveira, Leal and Almeida (2010). The work of these authors attempts to assess the effects of the significant participation of three major EFPCs (PREVI, PETROS and FUNCEF) on the various dimensions of corporate governance of companies. To measure the quality of the companies' corporate governance, they used an index developed by Leal and Carvalhal da Silva (2007), which was built from a questionnaire based on the codes of best practices published by the IBGC – *Instituto Brasileiro de Governança Corporativa* (Brazilian Institute of Corporate Governance) and by CVM – *Comissão de Valores Mobiliários* (Securities Commission). The index is divided into four sub-indices: Transparency; Composition and Functioning of the Board of Directors; Ethics and Conflict of Interest; and Shareholders' Rights. It is important to point out that the questionnaire is not answered by the companies; it is filled out according to information available to the public. The companies studied are practically the same as those reviewed by Silveira (2011), and they are listed in Tables 14 and 15.

The correlation analysis performed by Oliveira, Leal and Almeida (2010) points to the fact that corporate governance practices are better in larger companies, which also tend to have a higher ROA (return on assets). It is precisely in these companies that the largest EFPCs' shareholdings are found. The authors' conclusion is that they may be experiencing problems of self-selection. This means that pension funds have preferences in investing in larger and more profitable companies, which are precisely those that have greater willingness to implement best practices in the field of corporate governance. This does not prove, however, that the action of the three pension funds effectively contributed to the adoption of these practices.

At the conclusion of the study, the authors mention that the results are consistent with previous work (Punsuvo et alli, 2007 and Silveira et alli, 2008), but recognize the limitations of this type of analysis. Among the identified limitations are the following: the index of corporate governance adopted cannot be sufficiently refined to capture the influence of pension funds; and the influence of these investors on corporate governance of companies takes place on a longer time horizon.

The fact is that there are no studies available in Brazil to sustain the point that the overall presence of pension funds in the corporate structure of companies has a significant influence over the quality of their corporate governance. Moreover, none of the studies available on the subject categorically rules out the possibility of such influence appearing in specific cases. Therefore, we only can recommend that further studies are carried out to either prove or disprove the current ones, and that training of the EFPCs' managers is enhanced, particularly the investment professionals, on topics related to sustainability, responsible investment and decent work. This training effort will certainly contribute to increase the capacity of EFPCs to influence the investee companies to adopt criteria for social and environmental responsibility in their strategic decisions.

Although corporate governance – the theme of the two studies mentioned earlier – is only one dimension of social responsibility, the results of these studies can be extrapolated to address the issue as a whole. In the first place,, we need to consider that as social responsibility is an attribute with more dimensions than corporate governance, the design of an empirical work to detect the influence of a certain group of investors about its quality is far more complicated. This study is also hampered by the small number of companies in Brazil that provide information about their social responsibility practices. It also the experts' responsibility to discuss the issue and spread good practices in relation to CSR issues found in Brazilian companies, in order to consolidate and expand the stakeholder's access to this information.

The strategy that has been adopted in this text, since it is impossible to perform a rigorous empirical study, will be to collect cases with a set of four EFPCs in which the actions of these investors, individually or together, changed practices in the field of social responsibility and decent work among its investee companies.

6. Pension Fund Activism in Promoting Socially Responsible Investment and Decent Work – Case Studies

6.1. **Responses to the UNPRI 2010 Questionnaire**

A first approach to Pension Fund activism in relation to socially responsible investments is the analysis of these Funds' responses to the PRI 2010 questionnaire. On the PRI site there were responses from 7 EFPC´s. Some issues that have greater power as indicators regarding the degree of activism of these funds were selected, and the results are shown in Table 18.

Among the participants are two of Brazil's largest EFPCs: PETROS and FUNCEF[25]. Interestingly, the percentage of the portfolio invested in variable income decreases with the total assets of the Funds. Only the largest of these funds has indicated owning shares in companies that give it some power to influence changes. This data is a strong indicator of the still limited power of the vast majority of EFPCs in promoting SRI in companies.

Only two funds (Petros and Real Grandeza) reported owning a percentage of assets in variable income managed internally that take SRI/ESG[26] matters into consideration in their investment decisions. Another Fund (FUNCEF) stated that the SRI/ESG considerations are only part of investment decisions in private equity. The percentage of externally managed assets that are in the hands of managers who are PRI signatories varies from 5% to 85%. Based on these responses, we cannot say that considerations of PRI/ESG significantly influence the investment policies of EFPCs. Note that we are dealing with a sample composed of the most active funds in this area. Only Petros demonstrates a greater degree of activism.

None of the Funds presented decisions related to issues of SRI/ESG in the investee companies in 2010, and only Petros claimed to have a written policy with the investee companies that includes

[25] Although the PRI website has a link to access the questionnaire answered by PREVI, the document has not been found there.

[26] Environmental, social and governance analysis.

SRI/ESG topics. Again, only Petros mentioned having successfully conducted interactions with the investee companies on issues related to socially responsible investments. It also claimed that 70% of its interactions were successful.[27]

The action of EFPCs and their external asset managers to put pressure on the investee companies to publish social responsibility reports ranges from "no action" to "moderate action". In the case of investments in private equity, this action was reported as more intense. This is certainly due to the higher percentage of EFPCs' shareholding in these companies' capital, unlisted in the stock exchange.

The search for information regarding topics related to SRI/ESG in the investee companies, either by the EFPC's technical staff or its external managers, is not intensively carried out by these Funds; responses ranged from "slightly" to "moderately".

Interestingly, all respondents claimed to take SRI/ESG into consideration in dealing with external investment managers; five of the respondents said that this happens with all external managers. The responses also indicate a certain degree of alignment of EFPCs with other investors in promoting socially responsible investments. Three EFPCs stated that they promote their SRI policy intensively; four of them reported that this policy is available on the website, in reports and papers.

On the approaches adopted to deal with SRI/ESG, the predominant ones included: (1) exclusion based on ethical criteria; (2) screening based on the belief that exclusion or inclusion of certain investments may affect the performance of the portfolio; and (3) screening as a way to avoid negative publicity associated with some companies and sectors.

For more in-depth case studies we chose four EFPCs: Previ, Petros, Funcef and Infraprev. The first three are the largest Brazilian Pension Funds in value of investments and the fourth was chosen because of its explicit policy of promoting socially responsible investments. Except for Previ, these EFPCs had their PRI questionnaire responses presented in Table 18.

[27] The EFPC classifies as "successful" the interactions that resulted in behaviour change in the investee company in relation to items of social responsibility. In the questionnaire, however, as we will see further, there is no clear evidence of these successful interactions.

Table 18 – Summary of Responses from PRI Signatory EFPCs to Some Questions

QUESTIONS	EFPC						
	PETROS	FUNCEF	INFRAPREV	SISTEL	REAL GRANDEZA	BANESPREV	FASERN
General Information							
Q.7. Asset Value (31/12/2010) in R$ (million)	55,648.00	43,800.00	1,777.00	11,000.00	8,599.20	5,851.08	190.67
Q.8. Variable Income Percentage	37%	32%	23%	20%	17%	10%	15%
Q.9. Percentage of investments in shares of companies listed on exchanges in companies in which the EFPCs or their external asset managers have relevant shareholding (i.e. in which they can influence change)	74%	0%	0%	0%	0%	0%	0%
Q.10. Percentage of externally managed assets in the hands of the PRI signatory managers	30%	0%	5%	10%		85%	5%
Principle 1 – We will incorporate ESG issues into the investment analysis and decision-making processes							
Q.20A. Percentage of variable income assets managed internally that take SRI/ESG into consideration in investment decisions	70%	70%	70%	70%	70%	70%	70%
Q.20B. Percentage of private equity assets managed internally that take SRI/ESG into consideration in investment decisions	0%	0%	0%	0%	0%	0%	0%
Q.22A Percentage of variable income assets managed externally that take SRI/ESG into consideration in investment decisions	85%	0%		70%			
Q.22B. Percentage of private equity assets managed externally that take SRI/ESG into consideration in investment decisions		50%				100%	
Principle 2 – We will be active owners (shareholders) and will incorporate ESG issues into our ownership policies and practices							
Q.31. Does the EFPC proactively inform companies in which it invests on the reasons why it abstains or votes against recommendations from the company management?	Yes, in some cases	Yes, in some cases		Yes, in some cases	Yes, in some cases		No
Q.36. How many resolutions related to ESG issues did the EFPCs present in 2010?	0%						
Q.37. Does the EFPC have a written policy on engaging its investee companies in environmental, social and governance topics?	Yes			No			
Q. 41. To what extent does the EFPC assess and monitor its external managers' competence and training on their engagement with ESG issues?	Moderately			Any			
Q.46A. What percentage of engaging interactions with the investee companies made by the EFPC's internal team was successful in 2010?	70%						
Q.46B. What percentage of engaging interactions with the investee companies made by the EFPC's external managers was successful in 2010?							
Principle 3 – We will seek appropriate disclosure on ESG issues by the entities in which we invest							

QUESTIONS	EFPC						
	PETROS	FUNCEF	INFRAPREV	SISTEL	REAL GRANDEZA	BANESPREV	FASERN
Q.54A. To what extent does the EFPC or its asset managers require from their investee companies the publication of information or the production of standard reports about ESG issues in 2010?	Moderately	Any	Any	Any	Moderately	Little	Little
Q.54B. To what extent does the EFPC or its asset managers require from their private equity investee companies the publication of information or the production of standard reports about ESG issues in 2010?	Moderately	Moderately	Quite		Moderately	Quite	
Q.56. To what extent does the EFPC or its external asset managers seek information from their investee companies on ESG issues in 2010?	Moderately	Not much	Moderately	Moderately	Moderately	Moderately	Not Much
Principle 4 – We will promote acceptance and implementation of the Principles in the investment industry							
Q.59. Did the EFPC take SRI/ESG into consideration when dealing with its investment external managers in 2010?*	Yes, with some	Yes, with all	Yes, with all	Yes, with all	Yes, with some	Yes, with all	Yes, with all
Principle 5 – We will work together to enhance our effectiveness in implementing the Principles							
Q.66A. To what extent did the EFPC cooperate with other investors regarding the PRI principles in 2010?	Quite	Little	Moderately	Moderately	Little	Moderately	Little
Q.66B. Which principle was central to the cooperation process in 2010?	Principle 2	Principle 1	Principle 1	Principle 3	Principle 4	Principle 4	Principle 1
Principle 6 – We will each report on our activities and progress towards implementing the Principles							
Q.71A. To what extent did the EFPC report its policy or approach to incorporating ESG issues in investment analysis and decisions in 2010?	Quite	Moderately	Quite	Little	Moderately	Quite	
Q.71B. Has the EFPC produced reports, articles or a website where its policy can be obtained?	Yes	Yes	Yes	Only to shareholders	Only to shareholders	Yes	
SRI/ESG Adopted Approach (Q. 15)							
Exclusion based on ethical criteria	Yes	Yes	Yes	Yes	Yes		
Screening in order to avoid negative publicity associated with some companies/sectors	Yes	Yes			Yes		
Screening based on the belief that exclusion or inclusion of certain investments may affect the performance of the portfolio	Yes	Yes		Yes	Yes	Yes	
Use of ESG analysis in investment decisions, possibly including this factor in valuation and investment performance models	Yes						
Thematic investing	Yes						

* In this question, all the Entity's external managers are included as opposed to Question 10, which is restricted only to those of the PRI signatories.

6.2. **Analysis of Investment Policies and other documents available on the selected EFPCs' internet websites**

The first step for the case studies will be to analyse the material available on the EFPCs' websites concerning their policies on socially responsible investment.

PREVI

Previ's website is the one that contains more documents in this regard[28], and we have found three texts: (1) Previ's Socio-environmental Responsibility Policy; (2) Sustainability in Previ's Corporate Strategy; and (3) Previ's Investee Companies and Enterprises.

We will begin with an analysis of the Socio-environmental Responsibility Policy (RSA). Right on item 1.2, it is stated that this policy endeavors to care "for the social, natural and economic environments in which it (Previ) acts so they can improve and develop in order to support the prospects of longevity and improvement of the business itself." Another reason given for adopting this policy is the high degree of risk exposure for organizations that do not care about social and environmental issues.

Items 1.4. and 1.5. touch the key point which is the relationship between socially responsible investments and investment policies: "Previ envisages that not only is it possible, but also necessary to combine the pursuit of financial returns with principles for Socio-environmental Responsibility (RSA)" and "Previ accepts the idea that the adoption of socio-environmental responsibility practices may involve refusing seemingly profitable opportunities".

Previ's RSA policy is guided by the following principles:

a) implementation and promotion of good corporate governance principles;
b) fighting discriminatory practices, harassment, corruption, extortion and bribery;
c) ethical conduct;
d) eradication of forced and child labour;
e) responsible generation and disposal of waste;
f) improvement of working conditions;
g) selective participation in RSA programmes and projects;
h) promoting equity;
i) protection of human rights;
j) respect for diversity;
k) respect for the representation of workers;
l) sustainable use of natural resources.

28 Available material on www.previ.com.br.

With regard to the management principles of this policy, the document states that "RSA measures will be consolidated on a map, allowing for quantitative and qualitative evaluation of the actions involved". Particularly in relation to investment management, we find the following in the Fund's RSA policy:

a) to include socio-environmental aspects in investment analysis and selection;
b) to promote the development and improvement of environmental investment analysis tools;
c) to promote development and research for the improvement of technical staff in charge of sustainable investments;
d) to implement and promote good corporate governance principles.

It is worth noting the recognition by Previ of the need to train its technical staff and develop appropriate analysis tools in order to effectively implement a RSA policy. There is a clear perception that this is a long process and requires a strong commitment from top management.

Even within the investment policy, the document highlights the kind of engagement that Previ should adopt with the companies in which it has shareholdings or maintains other types of investments. The basic aspects of this engagement are:

a) encouraging the inclusion of sustainability issues in the companies' business;
b) establishment of dialogue and other opportunities to share experiences related to the development of sustainability in the companies' corporate management;
c) encouraging the publication of sustainability reports;
d) encouraging higher standards of corporate governance;
e) in the relationships with securities management companies, encouraging the adoption of socio-environmental criteria in the selection of investments and in portfolio monitoring.

The document entitled "Sustainability in Previ's Corporate Strategy" begins with the affirmation that the entity is a great promoter of SRI: It was the first in Latin America to adopt PRI, and represents the continent on the board of this organization. It highlights the "map of socio-environmental initiatives," which had been mentioned in the previous document. It states that the RSA policy was launched in 2009. The "map" is the tool containing the descriptions of what is developed in Previ. The entity has prepared monitoring indicators to track the performance of its social and environmental initiatives, given that many of these actions are of a permanent nature. The goal is to transform Previ's "map" into a comprehensive strategic management instrument for SRI practice. Appendix I presents the actions contained in this map for 2013.

This document mentions the entity's group of RSA multipliers. The purpose is "to keep employees informed about sustainability initiatives developed at Previ and engage them not only in incorporating these activities into their daily life, but also in presenting proposals for new actions on the subject."

Let us now consider the third document: "Previ's Investee Companies and Enterprises". Previ's engagement with investees is through permanent contact of the Pension Fund's analysts with companies´ elected directors and with their managers. The document states that all these contacts are recorded on an electronic system especially developed for this purpose. Moreover, companies have to respond to questionnaires that include questions on sustainability practices.

The dissemination of RSA issues would have occurred in 2012 through online chats with company directors. The document states that in 2012, Previ interacted with 65 of 110 investees on socio-environmental issues. An analysis of the responses to the "Sustainability Practice Assessment Questionnaire" was planned for 2013.

There is also an interesting remark in the document that Previ does not have a formal voting policy on socio-environmental issues in the companies in which it has the right to nominate directors. The votes are made on a case by case basis. .

Another fact worth noting is that among the investee companies, 30 are part of the Share Index with Differentiated Corporate Governance and 15 comprise the ISE BM&FBovespa.

Finally, we have information that Previ "developed procedures and criteria for identifying and assessing environmental and social risks in its activities and processes". These procedures involve: inclusion of RSA issues in the qualitative analysis process of financial organizations; inclusion of sustainability issues in the analysis of brokers; and identification, assessment and monitoring of the main social and environmental risk factors in the economic sectors monitored by the entity.

PETROS

On Petros's site, there are two documents that deal with the issue: "Social Responsibility Policy" (approved in 2004) and the "2013/2017 Investment Policy"[29]. The first document lists some general principles that Petros's social responsibility must comply with:

a) equity, justice and respect for present legislation on labour relations;
b) rejection of forms of slave and child labour;
c) rejection of discrimination and social exclusion;
d) environmental sustainability.

On the specific issue of the Entity's investments and equity shareholding, we highlight the following points:

a) analysis of corporate behaviour and clauses on corporate undertakings in light of socially responsible practices in the calculation of the estimated fair value of all types of assets;
b) request for the inclusion of clauses guaranteeing respect for the principles of social responsibility in all investment fund regulations;
c) Shareholders Agreements signed by Petros should include clauses guaranteeing respect for the principles of social responsibility;
d) use of its ability to influence the market, especially in companies which have public shareholders, so that the adoption of the principles of social responsibility become a market practice.

29 PETROS website: www.petros.com.br.

"2013/2017 Investment Policy", section 4.1. (page 37) deals particularly with the topic of "Responsible Investment". The section begins with a justification for the adoption of the principles of social responsibility in investment decisions and states that the practices adopted by the Entity in this area are universally accepted as desirable. It broadly repeats the same guidelines as in the previous document. However, it adds some considerations that were not detailed previously: use of best practices in human resources, job creation and complaints related to labour practices..

We also have a list of items that PETROS checks, "whenever possible", on the companies in which it invests:

- Verification of the values and business disclosure of: Social Reports, Codes of Ethics and relationship with competitors;
- Issues related to the staff such as participative management, professional development, working conditions, outsourcing, layoffs and pension plans;
- Issues related to the environment, such as: environmental permits, environmental responsibility programmes, management in fighting adverse environmental impacts, and waste of natural resources;
- Criteria for selection of suppliers, such as quality, price and use of social responsibility criteria;
- Use of measures for good relationship with clients, such as: business communication and customer service, and knowledge of potential harm of products and services; and
- Use of social practices, such as encouraging volunteer action, anticorruption practices, social activities and non- discrimination practices.

FUNCEF

We did not find any document on FUNCEF's website[30] detailing the entity's SRI policies or actions. One piece of news released on 06/05/2010 reports that the EFPC's Executive Board approved on 30/04/2010 the creation of a Corporate Social Responsibility Policy (CSR). It also reports the names of those comprising the CSR Group. In the entity's code of conduct, there is also a reference to the following policy among the duties of FUNCEF's staff: "guide the administrative and business practices according to the principles established in the Corporate Social Responsibility Policy...".

We could not find, however, the content of this CSR policy on the entity's website. The only other mention of SRI issues is in FUNCEF's Manual of Corporate Governance: among the items listed for corporate governance rating of investee companies is the "disclosure of the Social Report".

When directly contacted, however, FUNCEF kindly sent us a copy of its CSR policy. The most relevant items are as follows:

"3.10 Prioritize investments that ensure a balance between economic, social development and environmental preservation, focusing on the present and future generations, including the principles, parameters and guidelines of CSR in the formulation of policies and management strategies.

30 www.funcef.com.br.

3.11 Observe, in your relationships with investments and hiring, the Federal Government's Register of Employers, which prohibits the contracting of or the partnering with companies which practice slave labour or its analogous forms, and child labour.

3:12 Incorporate environmental, social and corporate governance issues in investment analysis and decision-making processes.

(.....)

3:22 Establish criteria for hiring suppliers of products and services, outsourced managers and project managers, that meet the principles, parameters and guidelines for CSR."

This document also addresses the establishment of a Committee for Corporate Social Responsibility, linked directly to the President, and which has the following duties:

"a) consolidate the CSR principles;

b) set up an action plan to be developed with the participation of representatives appointed by all boards;

c) establish the implementation plan, monitoring, dissemination, analysis and evaluation of the results of the actions set out in the action plan;

d) submit to the Board regular reports containing information on the action plan monitoring;

e) propose any changes in the plan of action; and

f) establish indicators to assess the practice of CSR in FUNCEF. "

INFRAPREV

On Infraprev's website there is a mention of the SRI issue in the introduction of "Values", and on very specific topics: "Sustainable Actions", "Climate Change" and "Responsible Investing". In addition, there are two documents available: "Sustainability Policy" and "2010 Actions - Sustainability".

Under the topic entitled "Values", the entity expresses its commitment to promote an internal culture aligned with the issue to generate a multiplier effect on the market. It states that the entity has created a Sustainability Committee in order to spread this culture among staff and participants. It also states that Infraprev's shares are based on four pillars:

1) spread the sustainability issue among its staff;
2) strengthen the relationship and the responsibility with its participants;
3) spot the main risks and opportunities in resource management;
4) influence sustainable business in different companies and industries.

The organization makes it clear that the issue of social responsibility is part of its investment policy, favouring investments in industries applying criteria aiming to improve social and environmental sustainability. In the item "Sustainable Actions", Infraprev reports that it joined in 2011 the Pro-Gender and Race Equity Programme of the Presidential Secretariat of Policies for Women, which has the support of the ILO and the UN. In the item on "Responsible Investing" it expresses its view on the compatibility of SRI with the EFPC fiduciary duty: "the reason for Infraprev's adoption of these principles is to have an investment policy that complies with the requirements of sustainable development, while maintaining the required return on financial resources ... ".

Infraprev's "Sustainability Policy" also highlights the need for a long-term view that considers the risks and opportunities of future business. It states that the entity uses two screening criteria for its investments in variable income: a positive one, which seeks to direct resources to sectors and companies most committed to social responsibility; and a negative one, which excludes those that are harmful to the environment or do not meet the requirements of decent work.

The document reinforces the commitment of the organization to spread the concept of social responsibility and its main applications for all employees. It stresses that Infraprev performs constant monitoring on the adherence of its investments with its sustainability policy. This is a way to avoid risks that could jeopardize its reputation. When it comes to the "Influence on Investee Companies", the document says it is the EFPC's commitment to "consider issues related to sustainability in its investment decisions, supporting and strengthening businesses and sectors most closely aligned with the issue". It further states that this commitment extends to small and medium-sized unlisted companies.

"2010 Actions – Sustainability" begins by stating that the EFPC published a social report based on indicators of the financial sector of the Global Reporting Initiative (GRI). It lists the companies which are excluded from investments according to SRI criteria: tobacco, alcoholic beverages and weapons companies, or those exploiting slave labour.

It highlights the commitment made in 2010 to invest 15.73% of its funds in assets of companies that integrate ISE, and in Investment Funds (FIP)which operate in the socio-environmental investments segment. Of the four EFPCs treated here, Infraprev was the one which provided detailed information regarding its SRI policy.

6.3. Responses to the Questionnaire on the EFPCs´ Actions in the field of Socially Responsible Investments

A questionnaire with ten questions was sent to these four EFPCs so as to obtain more detailed information on the actual actions they have taken to promote socially responsible investments and disseminate socio-environmental practices in investee companies. We present below a summary of the responses received.

Question 1 – Has the EFPC liquidated any investment in a company, in equity, in an investment fund, or with an investment manager, due to issues related to social/sustainability responsibility? Give examples or the number of cases and the amounts involved.

None of the EFPCs replied positively to this question. This is not a trivial finding. Based on the quite reasonable hypothesis that not all Pension Funds' investees are models of social responsibility, the response points either to a certain leniency of the EFPCs with these companies or to their inability to exert pressure on them more effectively.

Question 2 - Is there any industry or type of company in which the EFPC does not invest in any way due to issues of social responsibility/sustainability, even if it has good prospects for profitability?

Table 19 summarizes the EFPC's responses to this question.

Table 19 - Exclusion Criteria in EFPC's Investment Policies

Exclusion Criteria	FUNCEF	INFRAPREV	PETROS	PREVI
Tobacco industry	X			X
Arms industry	X	X		X
Pornography	X	X		
Lack of transparency in corporate governance	X			
Polluting activity and lack of an environmental management system		X		
Use of animals to test their products		X		
Headquarters or production process set in countries with repressive regimes		X		
Use of child, forced, slave or analogous forms of labour		X	X	
Invasion of environmental and agro-ecological zoning		X		
Violation of indigenous rights		X		
Use or production of offensive or misleading publications		X		

Question 3 – Does the EFPC invest in any fund with a focus on sustainability? If yes, what is the value of these investments?

The purpose of this question was to determine to what extent investment funds, particularly equity funds, are used by EFPCs as a way of achieving socially responsible investments, compared with other instruments (direct investments in companies, private equity funds, etc...).

FUNCEF reported that it allocates R$ 311,1 million in three funds with initiatives focused on governance and sustainability. It suggests, however, that most of these investments are made by private equity funds.

Infraprev replied positively, but neither listed the funds nor the amounts invested in each of them. It presented a graph distributing the percentages of responsible investment in 2012, by industry, as shown in table 20.

Table 20 - Percentage of INFRAPREV's Portfolio allocated in Investment Funds Focusing on Sustainability, displayed by sector

Sector	Percentage Invested
ISE Stock Portfolio	4.44%
Forestry	0.95%
Environmental Sanitation	0.27%
Education	1.10%
Renewable Energy	8.43%
Total	**15.19%**

PETROS confirmed that it invests in some funds with a direct focus on sustainability and in others which include companies with sustainability characteristics (e.g, cleantech investments). It also reported that it invests in infrastructure companies concerned with the use of natural resources and environmental impact reduction. Among the company segments in which the EFPC invests are: generation of renewable energy (wind, solar and small hydroelectric plants); technology to improve energy efficiency; sustainable forest management; waste and water treatment technology; biomass; biotechnology; recycling; products and services dedicated to the management and prevention of environmental accidents; biotechnology solutions for agribusiness; sanitation; biochemistry; biofuels; polyester fibres recycled from PET bottles; and native fish species farming and processing.

PREVI, in turn, mentioned an investment of R$ 80 million in the Brazil Sustainability

FIP fund, which aims to invest predominantly in Brazilian companies whose activities involve projects generating CERs (Certified Emission Reductions).

It is possible to conclude that for large EFPCs, funds with initiatives focused on sustainability are a marginal instrument in their policies on socially responsible investments. However, the simple fact that some of them invest in such funds, shows that they can be an interesting channel for smaller EFPCs, which are unable to maintain their own internal team to manage their portfolios and to monitor the behaviour of their investees with regard to social and environmental responsibility. The fact that traditional fixed income instruments, widely preferred by smaller EFPCs, no longer have the results they had before, and which allowed these EFPCs meet their actuarial targets, may drive them to invest a higher percentage of their funds in variable income.

Question 4 – How does the EFPC ensure that its policy towards socially responsible investments does not jeopardize the returns on their total portfolios?

FUNCEF stated that it avoids this risk by: (a) searching for the best market managers to manage their portfolios focusing on sustainability; and (b) having skilled and competent staff to evaluate the best companies with a focus on transparency and corporate governance.

It also mentioned that socially responsible investments mitigate investment risks (reducing the risk of fines or of damages to the image of the institution) and can generate new businesses, such as investments in renewable energy.

INFRAPEV made clear in its response that responsible investment does not mean accepting lower returns for the promotion of social objectives. The difference in relation to other investments lies in the fact that investment decisions are guided not only by financial returns, but also by seeking to minimize or eliminate the risks posed to society and the environment. By acting in this way, they can also avoid risks to the business itself.

PETROS said its focus is not only on investing in companies fully connected to social responsibility and sustainability, but also on engaging all its current investee companies in improving their practices related to ESG issues, otherwise, in the short or medium term, they will be disinvested.

PREVI's response was vaguer, merely arguing that this policy adds value to businesses and positively impacts the outcome of long-term investments.

QUESTION 5 - Give examples of cases in which the EFPC caused a change in the investee companies on issues of social responsibility/sustainability?

FUNCEF did not respond to this question.

INFRAPREV reported that the only action on the investees refers to efforts made to ensure that some of these companies answered the questionnaire on risk management and climate change in the Carbon Disclosure Project (CDP). This action meant that companies that had previously declined to respond to this questionnaire could do so now.

PETROS did not mention any specific case. It only listed examples of opportunities in which the investee companies understood the need and initiated action after engaging with the EFPC on: (i) transparency regarding governance instruments, such as internal rules of governance bodies, corporate policies, such as transactions with related parties, compensation, investments, total risk management (not only financial or operational), among others; (ii) transparency in internal controls, risk management, anti-corruption systems and compliance frameworks, incorporating socio-environmental aspects, and monitored by the Board of Directors and audited by the audit committee board; (iii) efficiency of the applicability of the ethics code, such as code coverage and the existence of independent channels for complaints; and (iv) public adherence to voluntary commitments to targets for improvement and accountability, as well as publication of the Sustainability Report (GRI).

PREVI replied that it has been consistently bringing up the sustainability issue to investees for a long time. It has stimulated, through correspondence sent to the companies' top management, adherence to the CDP, the Global Compact and the Pact for the Eradication of Slave Labour. However, as regards concrete results, it only mentions the case of two portfolio companies that have recently joined the pilot programme – Integrated Reporting on the GRI standard.

QUESTION 6 – Does the EFPC make any effort to train its internal staff from the investment area in introducing considerations of ISR/ESG in investment decisions?

FUNCEF stated that it does not have a formal training process of its investment team on this topic, but analysts are instructed to observe sustainability and governance issues in the analysis, selection and monitoring of investees.

At INFRAPREV, this training is done in two ways. Some members of its investment team participate in the PRI working groups and in the Natural Capital Declaration, and then disseminate the knowledge gained among the other team members. Another form of training is the CDP and GRI workshops.

PETROS responded that its Shareholding Management Department, the area responsible for managing its long-term focused company investments, developed its own methodology for analysing, monitoring and engaging the investee companies on ESG issues (environmental, social and corporate governance). It is applied to all companies in the managed portfolio.

The Corporate Sustainability Index – ISE, and created by BMF & Bovespa, inspired the development of this methodology, which, in general terms, consists of the development of a questionnaire applicable to investee companies considering aspects related to the following dimensions: i) Corporate Governance; ii) Economic and Financial; and iii) General Sustainability. It reported that it has been investing strongly, and especially for the last two years, in training and qualification of its investment analysts on ESG issues through workshops, lectures, courses, and especially in the practical application of this methodology. Additionally, the training and engagement of these analysts in ESG issues are checked through the EFPC's meritocracy system.

In 2012, PREVI carried out a 180-hour programme for training investment analysts (FAI), in which only some topics related to social and environmental responsibility were included. As for the new programme (FAI II), it will include a specific module on ethics and socio-environmental responsibility.

PREVI has a group of RSA (Socio-Environmental Responsibility) multipliers, consisting of one representative from each management unit, meeting bimonthly, whose purpose is to keep employees informed about the sustainability initiatives undertaken by the EFPC and engage them in incorporating those activities into their daily work and the presentation of new RSA actions.

QUESTION 7 – Does the EFPC make any effort to train its elected Directors in the investee companies on issues related to SRI/ESG?

FUNCEF has a training program for the Administrative Director and the Audit Director. One of the modules of this course deals with ethics and sustainability issues. This module includes discussions on Social Reports, GRI, and the One Report[31]. The intention is to provide these members of the Board with tools to induce transparency in their portfolio companies and to measure the environmental impact of production activities.

INFRAPREV does not have Directors in its investee companies.

PETROS replied that it holds annual meetings with these Directors, aiming to address ESG issues into their business operations, but gave no further details on specific training programs.

PREVI initially mentioned that *chats* are held fortnightly, through the Directors' Chat Room, and also mentioned the Annual Meeting of Corporate Governance. In 2013, two of the *chats* addressed specific sustainability issues: "CDP, a disclosure global system to reduce impact on the environment and natural resources" and "Integrated Reporting".

In the 2013 Meeting on Corporate Governance, there was a panel dedicated to the dissemination of the Integrated Reporting initiative.

QUESTION 8 – Does the EFPC use any formal instrument to monitor investee companies on SRI/ESG issues (e.g. number of grievances, fines from the Labour Prosecution Office, fines from the environmental control agencies, and complaints from consumer protection agencies)?

FUNCEF said it does not have a formal instrument for this purpose, but, in 2014, specific indicators will be developed to perform this monitoring.

INFRAPREV did not describe a formal monitoring instrument of the investee companies either, but it said that there is monitoring based on: a blacklist published by the Ministry of Labour; public socio-environmental information; the companies' responses to the CDP questionnaire; and on their GRI reports. In 2012, the EFPC also initiated an ESG risk mapping, with expert advice, which, among other things, should assist the information gathering and storage.

As for PETROS, this monitoring is done using the methodology developed by its Shareholding Management Department, already mentioned in question 6. This methodology has indicators to monitor the engagement of the investee companies on SRI/ESG issues.

PREVI replied that it closely monitors the companies in which its shareholding is 0.25% or less of its assets or the ones in which it has appointed at least one member of the Board of Directors or of the Audit Committee. Monitoring involves direct interaction with companies, participation in all meetings and liaison with other relevant investors to discuss proposals of interest to the Fund. During these interactions, specific issues are discussed to improve corporate governance and promote sustainability actions. However, there is no formal instrument to register specific monitoring of ISR/EG issues, as described in the question.

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31 This is the idea of integrating into a single report, financial and non-financial company information (social responsibility, social balance, sustainability actions) (see Eccles and Krzus, 2010).

QUESTION 9 - Provide an example of a mandate given to an external manager that explicitly includes SRI/ESG considerations?

The rationale behind this question is that these external managers often have, as well as in other countries, a reasonable amount of decision-making power in the composition of the investment funds' portfolios, in which the EFPCs' funds will be allocated. The provision of clear mandates for these managers, with very specific clauses covering socio-environmental responsibility issues, is an effective way for the EFPCs to spread the practice of socially responsible investments.

FUNCEF reported that it conferred with its external fund managers on a mandate with these characteristics, focusing on governance and sustainability, which, if not fulfilled, may cause them the loss of their management position. However, it did not present any example of this mandate.

INFRAPREV has not presented such a mandate either, but said that being signatory to the PRI and the CDP is already a relevant criterion in its selection of external managers. In addition, external managers are required by regulation to observe the same ESG criteria of the EFPC's investment policy.

PETROS's response was also generic and no examples of such mandates were presented.

PREVI said that its policy is to include in the fund investment rules those items related to compliance with SRI/ESG issues, according to the characteristics of each fund.

It also reported that, in February 2012, it contributed resources to variable income funds, with a focus on Small Caps companies. In the selection process for choosing managers, there was an evaluation questionnaire to be completed that scored points for managers who were PRI signatories and considered the Principles of Responsible Investment in the acquisition of shares.

Furthermore, the regulation of PREVI's outsourced funds establishes in Article 8 that:

"Paragraph Three – The MANAGING COMPANY, independently of formal adherence to the Principles for Responsible Investment of the United Nations – (PRI), shall consider issues related to the environment, corporate governance and socio-environmental responsibility in its investment analysis and decision-making processes of shares acquisition."

QUESTION 10 - How does the EFPC act in relation to the investee companies that do not publish social reports? Quantify the percentage that do not publish.

FUNCEF's action in this area boils down to raising the Directors' awareness towards the problem, to be "dealt with later on a case by case basis ".

INFRAPREV replied that it does not usually invest directly in companies that do not publish this information. In addition, it sends letters directly to the CEO and to the companies' sustainability managers in order to encourage them to publish these reports.

PETROS said that, at the moment, its concern has been to build a database with all information on ESG issues to engage these companies in their respective actions regarding the identified risks and opportunities. In the near future, based on this history and on the behaviour of the indicators, it may make an informed decision of disinvestment.

PREVI reported that, in line with its Socio-environmental Responsibility Policy, it seeks to encourage the engagement of its investee companies in adopting RSA actions, especially with regard to the disclosure of RSA or Sustainability Policy, which includes the publication of social reports.

Despite this effort, 50% of its investees (those in which Previ's shares are above 0.25% of the Fund's assets or in which they have an elected director) do not publish social reports.

Conclusion

There is no doubt that there is concern over socially responsible investments in the Brazilian pension funds' strategies, particularly with the larger entities. This concern finds support in the main organization that joins these entities – ABRAPP – and is acknowledged as legitimate by the government bodies responsible for public policy and for overseeing Closed Supplementary Social Security.

Brazilian Pension Funds have adopted practices similar to those of their counterparts in North America and Europe: they are PRI signatories, they publish social reports, and they seek to influence companies and entrepreneurs in which they hold significant shareholding to adopt policies and social and environmental responsibility.

We have found that there are initiatives in the country for the evaluation of companies with respect to sustainability and commitment to decent work (ISE, BM&FBovespa), and a market, albeit small, of investment funds in shares, which have their portfolios guided by considerations of socio-environmental responsibility. This certainly facilitates the actions of Pension Funds that wish to pursue a policy of socially responsible investments.

The study points to another relevant fact: due to the privatizations that took place in the nineties and the scarcity of long-term investors in Brazil, the largest pension funds ended up with significant ownership positions in key industries of the Brazilian economy (telecommunications, energy, food, public services concessions, etc.). We have found a significant number of large companies that have members of their Boards of Directors and Audit Committees appointed by the Pension Funds.

Our challenge is to assess whether the significant shareholdings of Pension Funds are able to influence the behaviour of the investee companies in relation to sustainability policies and respect for decent work. This is crucial to render the Memorandum of Understanding between the Ministry of Social Security and the ILO on Brazilian Pension Fund Investment and Decent Work effective.

We have seen that the only academic studies available on the ability of pension funds to influence the behaviour of their investee companies are limited to the issue of corporate governance. All of these studies concluded that Pension Fund shareholding does not have a statistically significant correlation with the quality of the companies' corporate governance. One of the papers mentions the likely existence of a self-selection bias: Pension Funds prefer to invest in larger and more profitable companies that are precisely those with the highest propensity and resources to adopt best governance practices. The same argument could, be extended, in theory, to the case of socio-environmental practices of companies. Hence, it leads to the need of conducting further research and with a longer time horizon to measure the influence of Pension Funds on the behaviour of their investees.

Another important point to evaluate is the actual weight of the considerations of social responsibility in setting the pension fund investment policies. This applies both to investments managed internally and to those made by external managers (this issue will be clarified with the completion of field research with the four selected EFPCs).

The case studies showed that despite a sincere commitment of the analysed EFPCs with the promotion of socially responsible investments, the lobbying power they have over the investee companies remains underutilized. We could not verify any case in which an action of Pension Funds has caused a change in the policy of the investee companies in relation to ESG issues. On the positive side, we have observed that these EFPCs are acquiring more sophisticated tools to monitor the socio-environmental performance of the investees. This conclusion of the study emphasizes the importance of more exchange between the Directors and Officers of Brazilian Pension Funds and their peers from other countries, especially those in Europe and North America, to discuss the promotion of socially responsible investment.

Current investment analyst and elected director training programmes in ESG issues, with the exception of PREVI, are still insufficient. All four of the EFPCs stated, however, that they will make more efforts in this area. Training of these actors is a key variable to the success of Pension Funds in the dissemination of socially responsible investment policies in Brazil.

There are some structural elements that hinder greater activism in the area of SRI by most pension funds. One factor that limits the performance of most Brazilian Funds compared with North America and Europe is the relatively low percentage invested in variable income. Perhaps the fall in interest rates in recent years will lead some of these EFPCs to allocate a higher percentage of their portfolios in variable income in order to achieve their actuarial target or simply improve the overall investment return.

Certainly another factor that inhibits a larger number of EFPCs to adopt a SRI policy more explicitly are the costs involved with staff training and monitoring of investee companies. A large number of EFPCs fully outsource their investment management, limiting themselves to track the performance of their managers. One measure that could be considered to deal with this limitation would be the inclusion of SRI issues in the programmes for the ANBID and APIMEC certification exams. This would expand the number of people who, in seeking these certifications, would have access to information about the SRI concepts.

Additionally, EFPCs could be encouraged to put a certain percentage of their assets in sustainability funds or introduce SRI clauses in the mandates of their external managers. The terms might involve, for example, a negative screening practice, excluding certain sectors or companies. The challenge, therefore, is to expand the SRI concern from the limited number of EFPCs currently committed with the issue to a larger universe of Closed Supplementary Social Security Funds.

The availability of well-grounded empirical studies proving that a SRI policy does not compromise results would certainly be a stimulating factor for these Funds. The more there is an increase in this investment demand, the more the managers will be encouraged to seek more choices with the desired characteristics, and a greater number of companies would tend to release social reports and show their commitment to socio-environmental responsibility.

It is not clear the degree of interest on the part of Brazilian companies in obtaining external acknowledgement of their commitment to issues of sustainability and socio - environmental responsibility. Perhaps there is lack of evidence showing that this acknowledgement leads to a better return in the market for the shares and debt securities of those companies with such a commitment.

Finally, it is worth mentioning the problem of slave or forced labour in Brazil and how the action of Pension Funds could contribute to the promotion of decent work – the object of the Memorandum of Understanding signed between the Ministry of Social Security and the ILO. It is very unlikely that cases of slave or forced labour and exploitation of child labour are found in companies in which the EFPCs invest directly. These are usually large listed companies or, in the case of private equity, are fairly well investigated by investors. However, the more one goes down the supply chain of these companies, especially suppliers of agriculturally originated products located in the Midwest, Northeast and Northern parts of the country, the greater the probability of finding these anomalies. Hence, the need for EFPCs to put pressure on the companies in which they have significant shares to require their suppliers to comply with the rules of decent work. It is essential that EFPCs contribute to raising corporate participation in and compliance and monitoring with the National Pact for the Eradication of Slave Labour.

This subject is so important, that it deserves convening a seminar involving ABRAPP, the ILO, the Ministry of Social Security, the Ministry of Labour, and companies concerned with socio-environmental issues. The proposed seminar could try to discuss best practices for monitoring respect for decent work in the supply chain, and the outcome of these discussions would be consolidated in the development of a manual for the carrying out of such activity[32]. This manual would then serve as a basis for the achievement of specific training programmes for managers, both in the EFPCs and with the investees.

[32] Investments abroad could be an interesting means for the Brazilian Pension Funds to learn about their practices in promoting socially responsible investments. Exchanging information with pension funds and investment managers in other countries with a more established tradition in the field of SRI, the EFPCs could envisage some strategies and mechanisms that could be applied in Brazil. Thus, here is the suggestion that these investments give total priority to criteria of socio-environmental responsibility in their investment decisions.

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APPENDIX I
PREVI'S SOCIO-ENVIRONMENTAL RESPONSIBILITY MAP

Actions in the RSA Map (the status of the action can be: closed, ongoing or permanent)

- Adherence to the Pro-Gender Equity Programme
- Adoption of the ISE-Bovespa criteria for selection of assets – positive screening
- Add RSA criteria to the Investment Policy and Guideline Document
- Support for the engagement initiative in the Pact to Fight Forced Labour
- Interaction with the Member – Advisory Councils
- Assistance to managers of shopping centres and commercial buildings in socio-environmental improvement actions
- Ergonomic evaluation at workplaces
- Certification of Commercial Buildings
- Revision of the Code of Ethics and the Code of Conduct Standards – Occurrences and Sanctions
- Communication with the member – use of the *Espaço no Espelho PREVI* (PREVI Mirror Space)
- PREVI Choir
- Corporate Education Program
- Disclosure to members of aspects of corporate sustainability and responsible investment
- Disclosure of the fundraising campaign for FIA
- Continuous Disclosure of PRI in Latin America
- Preparation of PREVI Code of Best Corporate Governance Practices
- Preparation of a Model for Previ Manual for Participation in Meetings
- Exclusion of tobacco and arms industries – Negative Screening
- Development and implementation of the Social Security Education Programme
- Providing food supplements for the call centre
- Youth Apprentice Programme
- Incentives to investee companies to disclose their RSA practices
- Incentives to investee companies to participate in collaborative engagement initiatives like the Global Compact companies and CDP
- Inclusion of environmental aspects in the appraisal reports of real estate assets
- Consider criteria for socio-environmental responsibility in the Sector Attractiveness Matrix
- Inclusion of Social Responsibility value point in the matrix of risks and controls
- Inclusion of ethical positioning among the fundamental skills
- incorporate the values of the concept of Social Responsibility in Organizational Vision in Strategic Planning
- Improvement of accessibility
- Improved member service – Management of the service channels to facilitate access to Previ
- Registration and Quantification of RSA actions in Real Estate Investment (e.g. EIA-RIMA)
- Exercises at work
- Shiatsu
- Offer members the option of receiving or not the printed issues of the Annual Report

- Resource allocation for training of employees of its own staff who are dismissed
- Organization and participation in the First Workshop for Environmental Responsibility of Pension Funds (Petros, Previ, Real Grandeza and Valia)
- Participation in the construction of the Principles for Responsible Investment
- Participation in the creation and coordination of the PRI Brazil Group
- Participation in ABRAPP's national technical committees
- Participation in the development process of the Bank of Brazil's Agenda 21
- Participation in four technical working groups among Brazilian PRI signatories
- Prioritization of funds that take into account the principles of social and environmental responsibility, and corporate governance in the Structured Investment Portfolio.
- Adult literacy programme in Previ (*BB Educar*)
- Internship Program
- Disease prevention Programmes
- Rationalisation of use and saving of water
- Rationalisation of use and saving of electrical energy
- Conducting Annual Meeting of Directors
- Conducting educational lectures addressing health issues
- Organizational Climate Survey
- Reduction of use of plastic cups
- Reduction and recycling of used paper
- Relationship with representatives of the Union of Employees of Private Social Security Entities and Enterprises
- Representation of Latin America in the Executive Group (Board) of the PRI Initiative
- The theme of the 11th Meeting of Directors was Sustainability
- Campaign for conscious consumption
- Chat sustainability issues
- Set the implementation of the RSA policy as an objective in the Strategic Plan 2010-2013
- Dissemination of the BB Volunteers project
- Implementation of the RSA Map in the Data Warehouse System
- Encouraging the adoption of electronic voting
- Inserting the RSA theme in the First Meeting of Building Managers
- Integration with the CEM condominium management
- Launch of *Mais PREVI*
- Mobilization to support flood victims in the northeast
- Mobilization to support flood victims in Rio de Janeiro
- Neutralizing of GHG - the 11th meeting of directors
- Offer members the option of receiving or not the printed Payslip
- Offer members the option of receiving or not the printed issue of Previ Magazine
- Organization of the international PRI board meeting
- Organization of the RSA multiplier group
- Previ's participation in the national edition of the Carbon Disclosure Project report – 2009 (CDP)

- Previ's participation in the national edition of the Carbon Disclosure Project report – 2010 (CDP)
- Participation in the Corporate Sustainability Index (ISE) activities
- Participation in the BB Social Educators Workshop
- Participation in the organization of the ABRAPP's first seminar on Sustainability
- Participation in the organization of the III Brazilian PRI Workshop
- Conducting Research on absorption of RSA Policy
- Conducting bike ride
- Publication of standard GRI Sustainability Report
- Go by Bike Campaign
- Participation in the debate about the relationship of stock exchanges with RSA issues
- Participation in the organization of the EMDP workshop
- Participation in the organization of the IV Brazilian PRI Workshop
- Conducting visits to companies to get to know sustainability and volunteering programmes
- Support to the campaign on 16 Days of Activism to End Violence Against Women
- Support to the Global Investor Statement on Climate Change
- Inclusion of the RSA theme in procurement
- Inclusion of Qualitative Principles of sustainability in investment appraisal
- Project – Solidarity PREVI 2010
- PREVI's interactions with BB's employees' citizenship committees
- Schedule / Calendar 2009 – APABB Selection Process
- Gifts made of recycled material for Board use
- Gifts of *Berimbau* Programme
- Father's Day Campaign – appreciation of volunteering
- Acquisition of APABB's Christmas Cards, *Travessia* Project and UNICEF
- Setting of waste bins for batteries
- 2010 calendar and notebook KIT with reusable packaging and financial tips
- Christmas With no Hunger Campaign
- Capec's Memory Stick campaign
- Participation in the exhibition of the concept Store of the ASTA Network
- Recycling of promotional material
- 25% Reduction of paper consumption by GECOT in 2010
- Support for the implementation of the Internal Week of Labour Accident Prevention – SIPAT 2011
- Monthly Campaign of Milk Powder collection for the benefit of the Bank of Brazil, ELOS and CARJ Committees
- Incentive to not receive printed Income Tax receipts by mail
- Incentive for mobilization in support of flood victims in the mountainous region of Rio de Janeiro
- Conducting Induction programmes and Supplementary Security basic training for the new recruits

- Conducting workshop on Governance, Risk and Sustainability
- Provision of Videoconferencing System
- Reduction by 76% of the consumption of office supplies by GEROP
- National Meeting PREVI / GEPES
- Expansion of the *Espaço PREVInir*
- Support to the 2011 Earth Hour
- Mapping of all RSA initiatives adopted in all shopping centre portfolios
- LEED Certification asset of Real Estate Portfolio – Ed Birmann 21
- Lectures in the induction programmes for the BB new employees
- Consideration of RSA in the analysis of credit risk for financial institutions
- E-mail alert for option to tax - Previ Future Plan
- Study for checking the degree of adherence to the requirements for LEED certification – USGBC, of three properties from Previ's portfolio.
- Investment for LEED certification in the asset portfolio – Ed Marques dos Reis
- Feasibility Study for LEED certification in the asset portfolio – Metro Tatuapé Shopping
- Electronic payment of Judicial deposits –IRRF Action
- Request for preservation of level of contribution by the internet
- Constant pursuit of expansion of real estate financing
- Development of the short-term Simple Loan for the *Previ Futuro* Plan
- Development of the Simple Loan reinstatement to the *Previ Futuro* Plan
- Inclusion of RSA in the GESOP team agreement
- Proactive, early and ongoing guidance for borrowers
- Extension of the discount for early settlement of mortgages by 2014
- Renewal of an agreement with CAIXA to settle mortgages with FGTS
- PREVI is awarded with the IBEF Sustainability Standard
- Campaign to reduce consumption of plastic cups
- Ballroom Dancing
- Pilates for employees
- Nutritional Programme
- Update and evaluation of the degree of adherence of the investee companies to the PREVI code of corporate governance best practices
- Corporate training target
- Paper reduction target
- Publication of the 2011 PREVI Report – Integrated: Financial and Sustainability (GRI Standard)
- Conducting chats in the Directors chat room on sustainability themes
- Conduct 100% correct disposal of waste produced
- Recycling of promotional material - Institutional Gifts 2011
- RSA – Reduction in paper consumption in the tasks relating to Entities´ Agreements and Judicial Deposits (CP 15)
- Increase in the value of the ES FINIMOB to settle Mortgages
- Automation of the request for contribution to 2C part (including isolated requests) by ATM

- Previ contributes to social responsibility campaign (Charity Day)
- Scanning of Payment Capacity Analysis and Economic and Financial Appraisal Reports
- National Meeting and Previ GEPES 2012
- Request for the inclusion of RSA practices developed in investees in the Annual Report of the Fund Managers of structured investment portfolios
- PREVInir collects samples for blood tests at PREVI
- Satisfaction Survey with Cleaning
- Development and career advancement model – In House Resources and Talent
- Print Islands
- Disclosure of Training Programme Schedule
- Published texts in *Expresso* on “Risk”
- PREVInir offers discount for employees at the OX Gym
- Organized visiting to the exhibition on Impressionism: Paris and Modernity at CCBB

APPENDIX I
LEVELS OF COMPANIES LISTED ON BM&FBovespa

<table>
<tr><th></th><th>NEW MARKET</th><th>LEVEL 2</th><th>LEVEL 1</th><th>BOVESPA MORE</th><th>TRADITIONAL</th></tr>
<tr><td>Characteristic of the issued stocks</td><td>Allows common shares only</td><td>Allows both common shares and nominative shares (with additional rights)</td><td>Allows both common shares and nominative shares (according legislation)</td><td>Only common shares can be negotiated and issued, but nominative shares are allowed</td><td>Allows both common shares and nominative shares (according to legislation)</td></tr>
<tr><td>Minimum Percentage of free float</td><td colspan="3">25% minimum free float</td><td>25% free float for 7 years listed, or low liquidity conditions</td><td>There is no rule</td></tr>
<tr><td>Public offerings</td><td colspan="3">Efforts of widely held shares</td><td colspan="2">There is no rule</td></tr>
<tr><td>Prohibition of statutory provisions (from 10/05/2011)</td><td colspan="2">Voting limitation less than 5% of the capital, qualified quorum and "indelible clause"</td><td colspan="3">There is no rule</td></tr>
<tr><td>Composition of the Board of Directors</td><td colspan="2">Minimum of five members, of whom at least 20% must be independent with a unified mandate of up to two years</td><td colspan="3">Minimum of three members (according to legislation)</td></tr>
<tr><td>Prohibition to holding of several positions (from 10/05/2011)</td><td colspan="3">Chairman and chief executive oofficer or chief executive by the same person (grace period of three years from the accession)</td><td colspan="2">There is no rule</td></tr>
<tr><td>Board of Directors' duties (from 10/05/2011)</td><td colspan="2">Response to any public offering of purchasing company shares</td><td colspan="3">There is no rule</td></tr>
<tr><td>Financial statements</td><td colspan="2">Translated into English</td><td colspan="3">According to legislation</td></tr>
<tr><td>Annual Public meeting and corporate events schedule</td><td colspan="3">Mandatory</td><td colspan="2">Optional</td></tr>
<tr><td>Additional Information Disclosure (from 10/05/2011)</td><td colspan="3">Securities trading policy and code of conduct</td><td colspan="2">There is no rule</td></tr>
<tr><td rowspan="2">Tag Along concession</td><td rowspan="2">100% for common shares</td><td>100% for both common shares and nominative shares</td><td rowspan="2">80% for common shares (according to legislation)</td><td rowspan="2">100% for common shares</td><td rowspan="2">80% for common shares (according to legislation)</td></tr>
<tr><td>100% for both common shares and 80% for nominative shares (until 09/05/2011)</td></tr>
<tr><td>Public offering of shares at least at economic value</td><td colspan="2">Mandatory in case of going private or exiting the market</td><td>According to legislation</td><td>Mandatory in case of going private or exiting the market</td><td>According to legislation</td></tr>
<tr><td>Joining the chamber of market arbitrage</td><td colspan="2">Mandatory</td><td>Optional</td><td>Mandatory</td><td>Optional</td></tr>
</table>

Source: internet website *"Bússola do Investidor"*