

2nd OECD Conference on Private Pensions in Brazil

Pension Funds Governance

(Room Document N°22, Session 4)

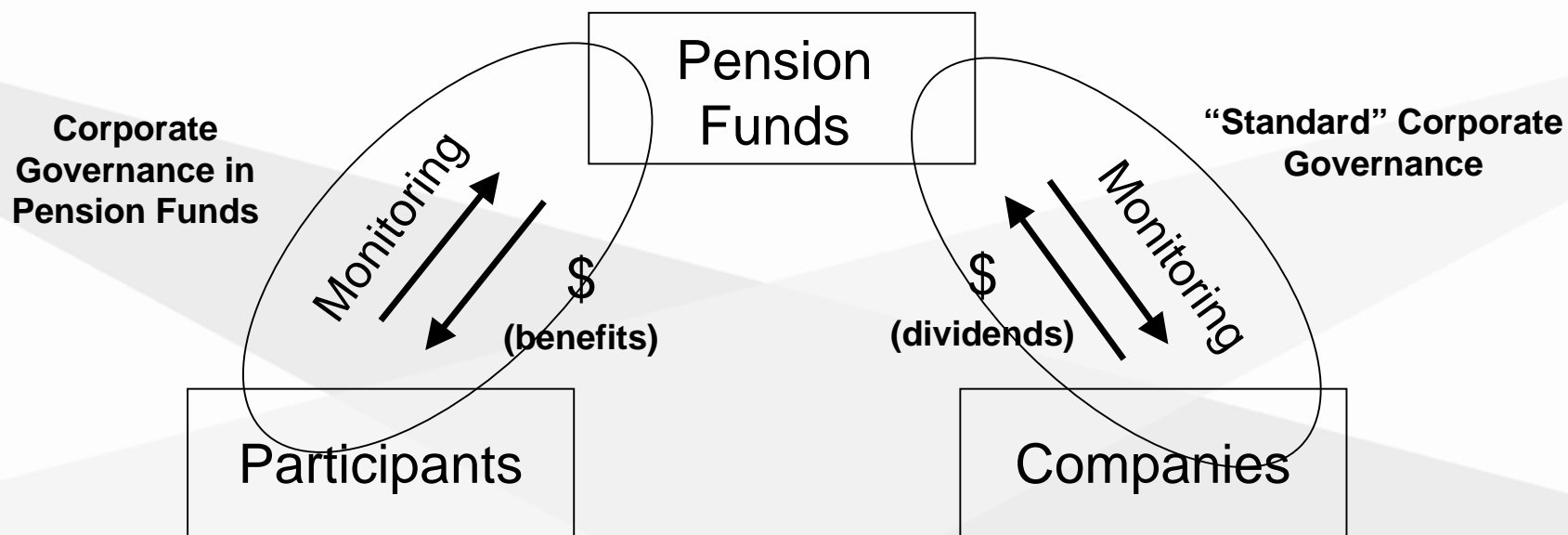


PETROS



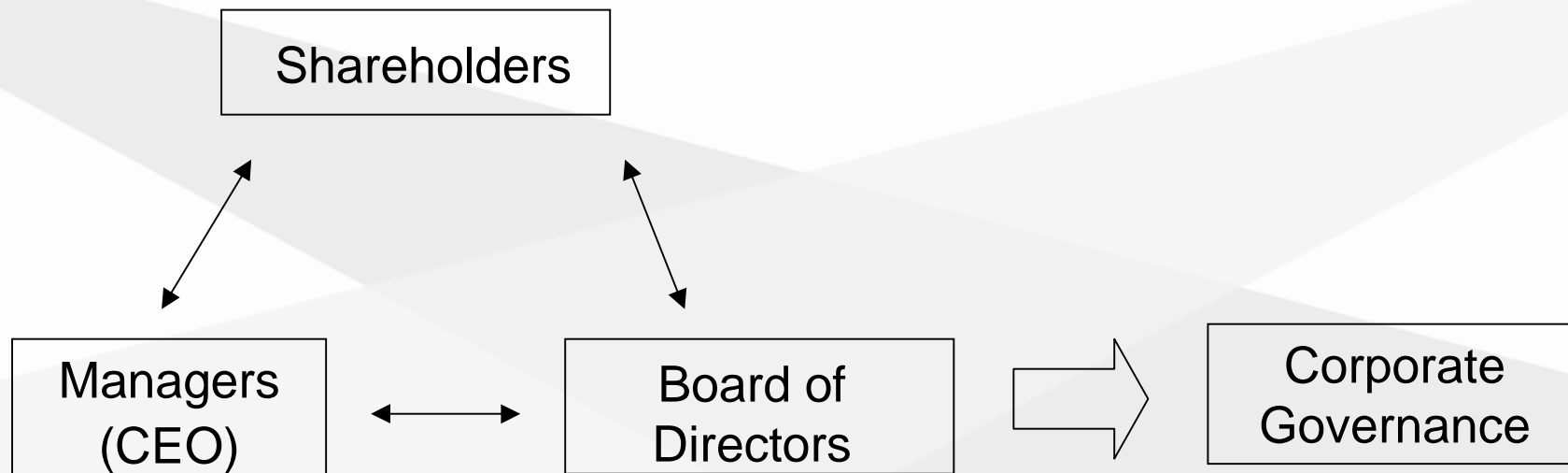
1. Introduction
2. Corporate Governance
3. Pension Funds Governance
4. Self Regulation: Petros's Case
5. Conclusion

Check and Balances System



- More important in Defined Contribution Type Plans context;
- Return of investments depends directly on Pension Funds ´ management (officers).

Corporate Governance is the relationship between economic agents that are able to influence/guide decisions and performance of corporations



USA

Scattered control: the controlling shareholders own less than 20%.

+

Boards of Directors are active, with independent members.

+

Boards of Directors supervise the management performance.



The relationship between shareholders and the company is easier due to high transparency standards

BRAZIL

Control is held by company founders and their families.

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Boards of Directors are not very active.

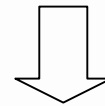
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Many board members come from the controlling family.

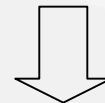


The board is still perceived as an appendix to management; lack of transparency reduces the ability of minorities to understand targets

Best practices, such as: independent directors, transparency,
accountability



Ensure that management objectives are aligned with those of the
shareholders



Additional incentive for management to take decisions in the best
interest of the company



Reduction in the company's cost of capital increases the rate of return for
shareholders

Government Entities' attitude (BNDES, BC, CVM, SPC)

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Novo Mercado, created by Bovespa

+

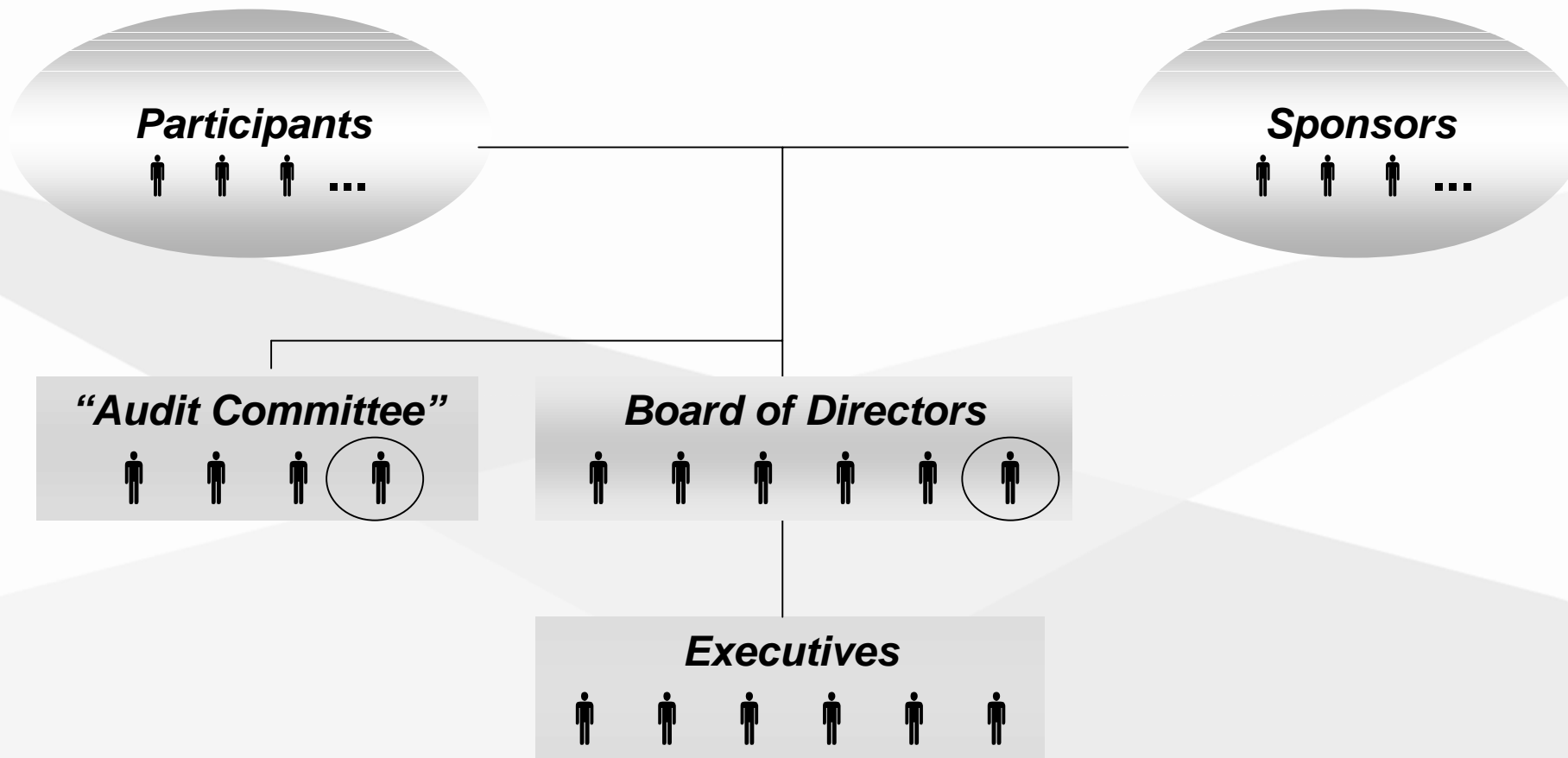
Legislation (New Corporate Law, Res. 2.829/01,
Res. MPAS/CGPC 01/01)

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Pension Funds Activism

⇓

Perfect timing to implement Corporate
Governance best practices



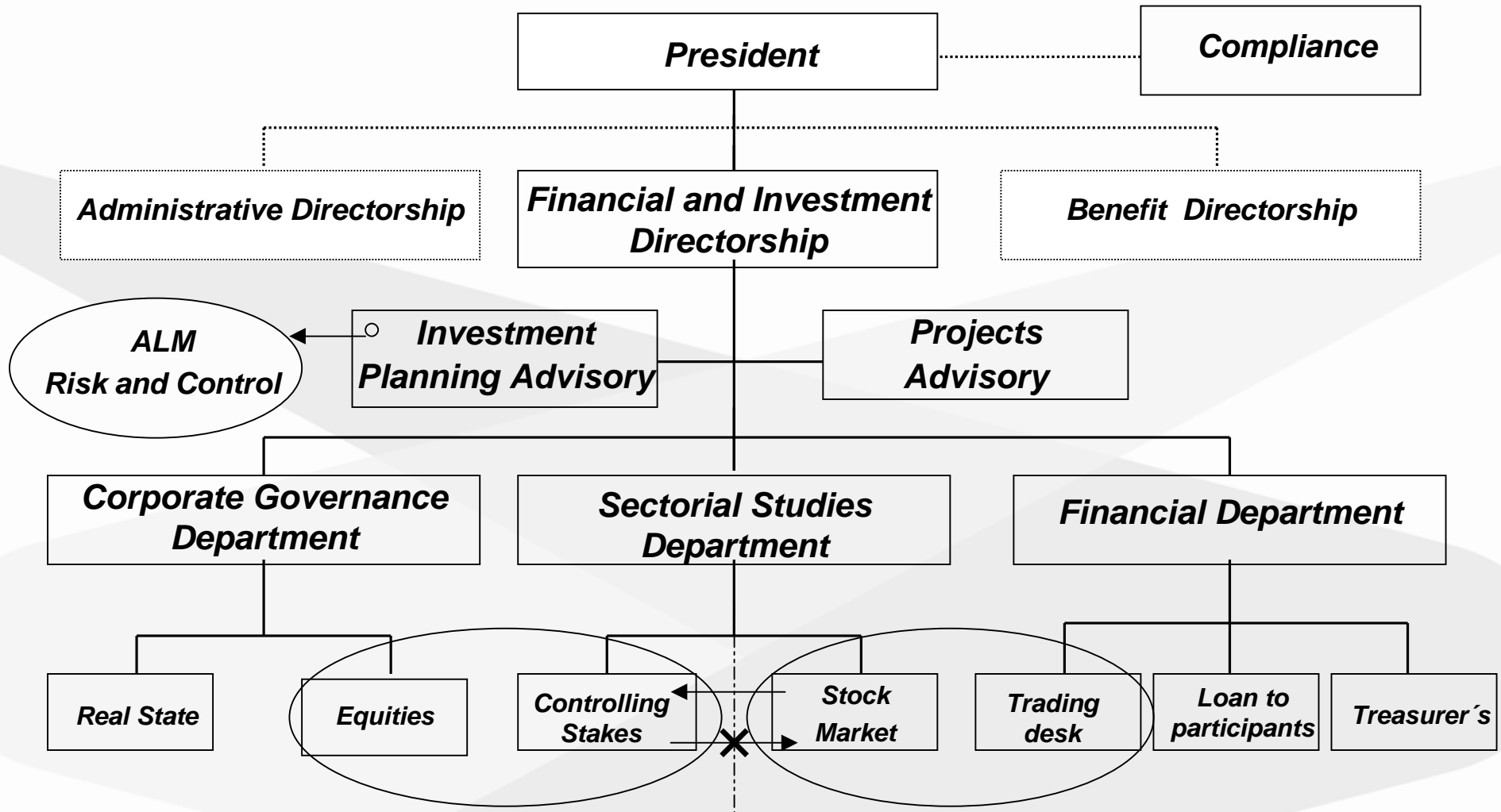
(1) Complementary Law nº 108 - 23/05/2001, art.11.

- Board Members' stability:
 - four years mandate;
 - dismissal only in special cases, such as resignation or judicial conviction.

- Effective members (and respective substitutes), must have proven experience (financial area, administrative, accounting, legal or auditing).

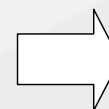
(2) Complementary Law nº 108 - 23/05/2001, art.12 e 24.

- Change in Petros's statutes (august/99): appointment of independent officers
- Organizational structure redesigned by external consulting
- Strategic Planning
- A new work philosophy:
 - Efficiency
 - Competence
 - Transparency
- Adoption of new criteria aiming at:
 - Benchmarks
 - Risk / return analysis
 - Performance indicators

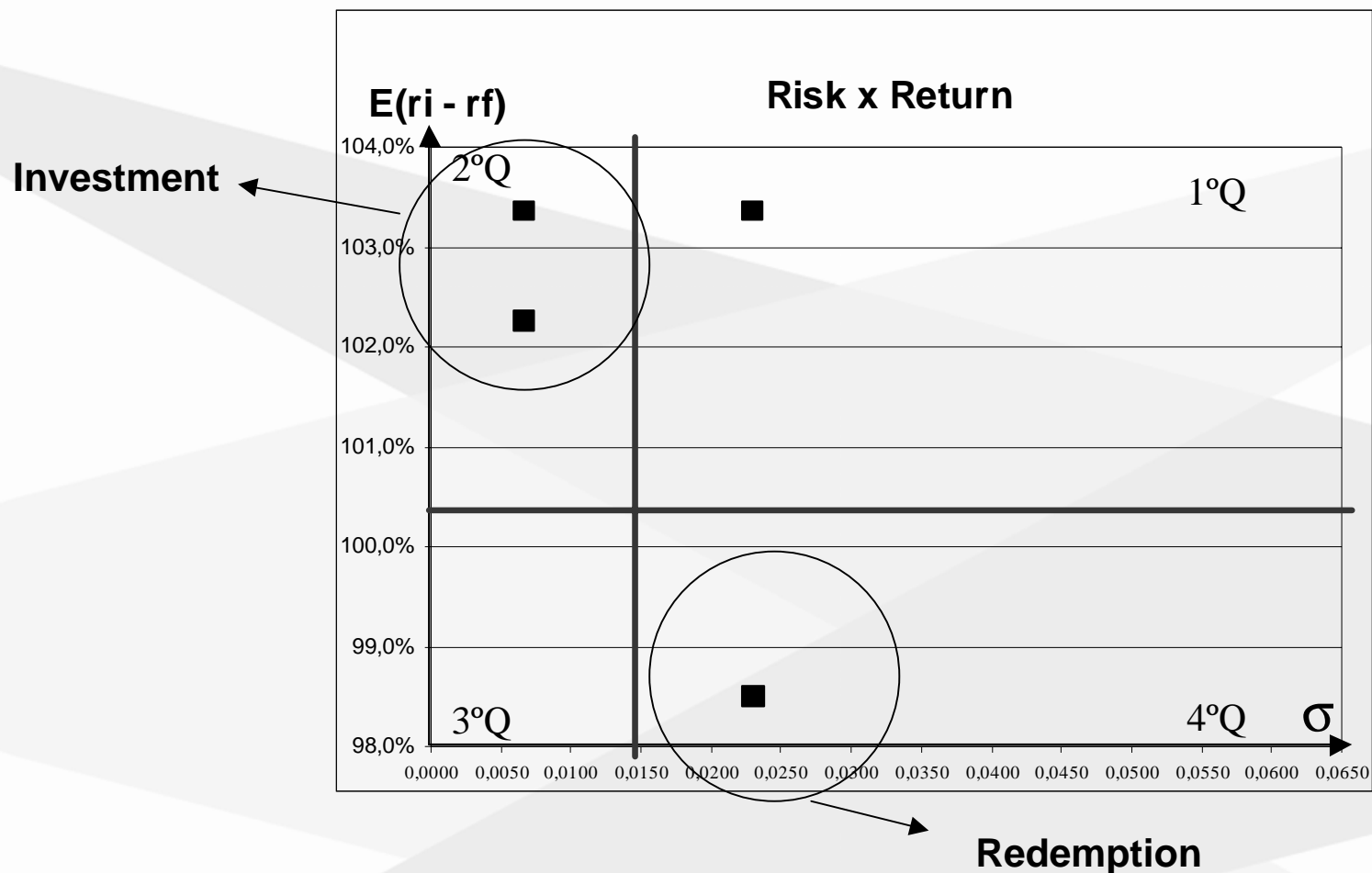


Money market managers

	Risk Return Record	Risk Control	Research	Assets under Management	Total	RANKING	
Weight	60%	15%	20%	5%			
Funds:							
FUND A	0,00	2,0	2,0	5,0	0,95	1 FUND F	4,23 1
FUND B	3,75	4,0	5,0	5,0	4,10	2 FUND B	4,10 2
FUND C	0,63	2,0	5,0	5,0	1,93	3 FUND I	3,23 3
FUND D	2,71	1,0	2,0	5,0	2,43	4 FUND H	2,98 4
FUND E	0,63	5,0	4,0	5,0	2,18	5 FUND G	2,55 5
FUND F	4,79	2,0	4,0	5,0	4,23	6 FUND D	2,43 6
FUND G	2,50	3,0	2,0	4,0	2,55	7 FUND E	2,18 7
FUND H	2,29	5,0	3,0	5,0	2,98	8 FUND J	2,08 8
FUND I	2,71	4,0	4,0	4,0	3,23	9 FUND C	1,93 9
FUND J	1,46	3,0	3,0	3,0	2,08	10 FUND A	0,95 10



Money market (Investment and redemption)



Mid / Small Caps Managers

- Funds Track record;
- Decision process on equity investments;
- Research quality (risk and quantitative analysis);
- Team expertise;
- Management and performance fees.

Discount and Research Brokers selection:

Mandatory:

- Recording system;
- 40% largest brokerage houses in volume;
- Trading fees.

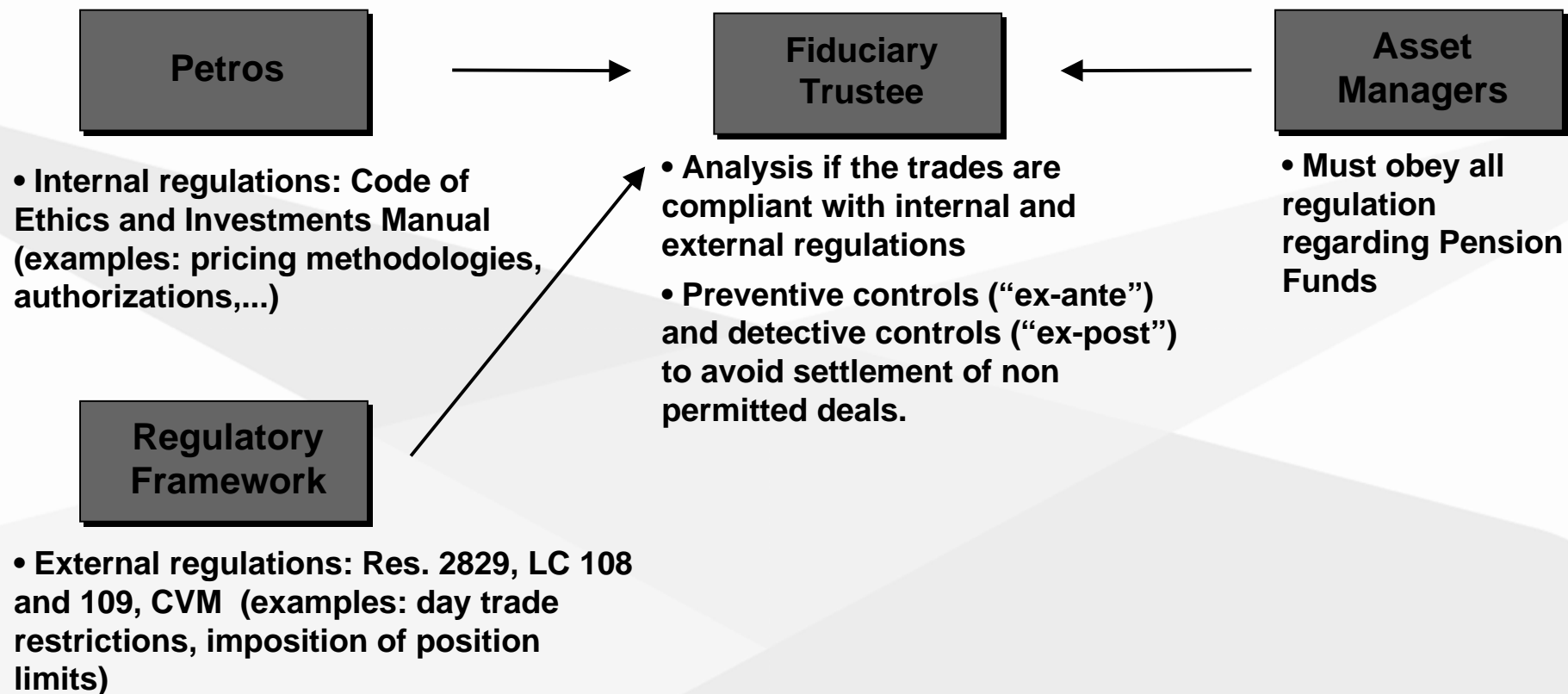
Others:

- service quality;
- trading efficiency;
- expertise;
- quality certificate
- research quality

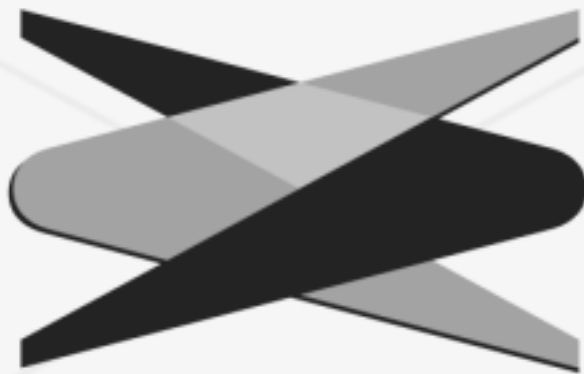
- Objectives: transparency and standardization in asset pricing
- Assessment criteria:
 - Rating and due diligence;
 - Total assets in custody;
 - Additional services offered;
 - IT infrastructure;
 - Fees.

- Definition of Petros's ethics principles and guidelines;
- Basic rules regarding conflicts of interests;
- Duties and disciplinary sanctions clearly defined.

- Objective: mitigate risks (legal, operational,...)
- Several initiatives were adopted in order to monitor and control risks:
 - Revision and mapping of all Petros' business processes
 - Risk mapping
 - Definition and enhancement of managerial controls
 - Daily monitoring of risk indicators
 - Analysis of current and new regulations and their impact on Petros's business activities
 - Periodic report to the President



- Pension Funds' main goal: pay pensions and annuities to beneficiaries;
- Fiduciary duty: investments must have the best risk/return ratio;
- Fiscal impact: any deficit related to a State owned Pension Fund, will eventually be a burden to tax payers;
- Corporate Governance Best Practices → higher dividends from companies on fund's portfolio;
- Better informed participants → greater ability to monitor funds performance → higher benefits to the participants.



PETROS

