



**BRAZIL-GERMANY FINANCIAL COOPERATION
THE BRAZILIAN BIODIVERSITY FUND – FUNBIO
KFW ENTWICKLUNGSBANK**

**AMAZON REGION PROTECTED AREAS PROGRAM TRANSITION FUND
TF ARPA**

**TERMS OF REFERENCE AND SELECTION CRITERIA FOR ASSET-
MANAGEMENT SERVICES**

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1. INTRODUCTION

1.1. General aspects

Funbio - The Brazilian Biodiversity Fund (www.funbio.org.br) is a private, nonprofit civil society association created to help implement the Convention on Biological Diversity (CBD). As Financial Manager of the Amazon Region Protected Areas Program (ARPA), Funbio is responsible for selecting Asset Managers.

These terms of reference (TOR) are intended to present the main directives and tasks for the asset-management services to be contracted abroad.

These TOR describe in detail the tasks to be carried out by the international asset manager rendering the required services. Nevertheless, the list cannot be considered exhaustive, as the hired service provider will have to ascertain the degree to which the tasks specified herein are sufficient in scope and expand, reduce or otherwise modify them in accordance with his or her professional experience. However, the performance of a basic suite of technical tasks considered essential to the ARPA Transition Fund's asset-management objectives for **funds deposited abroad** is taken as given.

2. TERMS OF REFERENCE

2.1. Introduction

The ARPA Transition Fund is a planned development of the Brazilian government's decennial "Amazon Region Protected Areas Program, ARPA", designed to **support the expansion and consolidation of Protected Areas throughout the Amazon biome in order to ensure the conservation of a representative sample of the region's biodiversity and contribute to its decentralized and participative sustainable development**. ARPA is the world's largest tropical-forest protection initiative. Its goal is to ensure the conservation and sustainable use of some 60 million hectares—15% of the Brazilian Amazon—by supporting the creation and consolidation of Protected Areas (PAs) in the biome, expanding and strengthening the National Protected Areas System (known locally as SNUC)¹ in a manner that is aligned with the principles and directives of the National Protected Areas Plan. As such, it constitutes an important

¹ http://www.mma.gov.br/images/arquivos/areas_protegidas/snuc/Livro%20SNUC%20PNAP.pdf

policymaking tool for strengthening the National Protected Areas System.

The National Protected Areas Plan aims to secure, by 2015, an extensive system of protected areas that are ecologically representative and effectively managed, covering both land and marine territories. One of the cornerstones of The National Protected Areas Plan is “technical and financial sustainability, guaranteeing the administrative and managerial continuity of the PAs”. It is precisely this principle that poses one of ARPA’s most daunting challenges. More than direct investment in extending protection to 15% of the Amazon biome, one of ARPA’s legacies will be the implementation and consolidation of a mechanism that ensures permanent funding for the ongoing management of the PAs supported by the Program.

Similarly, one of the steepest challenges facing the SNUC is to create mechanisms or broker financial arrangements that can secure permanent funds for the Protected-Area activities that, together, enable the PAs to achieve the goals for which they were established.

The identification of new mechanisms and procedures that guarantee the financial sustainability of PAs is one of the ARPA Program’s guiding strategies.

However, a major challenge presents itself: on the one hand, we have the fundamental contribution the PAs make to various sectors of the national economy, including tourism, energy, pharma and extractivism, and the need to enhance Brazilian society’s perception of the importance of maintaining the provision of these ecosystem services; and, on the other, there’s the government-allotted budget, which has not accompanied the rising running costs and investments these PAs need to function over the long term. Tackling the problem posed by this investment shortfall means exploring and implementing alternatives that represent an important complement to the system.

Service concessions in the areas of tourism and forestry (depending on the type of PA) have good revenue-generating potential, as do carbon crediting, payment for environmental services, bi-prospecting and the constitution of trust funds.

A trust fund is a financial instrument managed by a particular organization, the trustee, to which other individuals or organizations, the grantors, entrust their resources. It is set up in favor of a third stakeholder group, the beneficiary, and the use of its principal and revenues therefrom is, by and large, determined by the depositary.

The Transition Fund is a private depletable long-term financing mechanism (amortization fund) created through contracts with Brazilian and foreign donors, both individuals and companies.

The Transition Fund currently holds USD 126 million (**USD 83 million abroad** and 43 million in Brazil) and has an acting asset manager. The Transition Fund Committee decided that a second

asset manager be instituted to handle the Fund resources allocated abroad, and ordered an international selection process to identify a suitable candidate. It was agreed that the selection process would follow KfW norms.

According to the contracts celebrated with Funbio’s donors, the sum to be amassed over the next three years is USD 113 million.

YEAR	2017	2018	2019	2020
US\$ MM	83	93	103	113

These sums may be incremented with future donations.

2.2. Description of the Transition Fund

The goal of the Transition Fund is to ensure the conservation of biodiversity and the provision of ecosystem services across at least 60 (sixty) million hectares of the Brazilian Amazon through the effective management of ARPA-supported PAs. Specifically, the Transition Fund aims to provide resources and incentives to help the Federal and Amazonian state governments to (1) create 06 (six) million hectares of new Protected Areas; (2) complete the consolidation of 60 (sixty) million hectares of PAs and keep them running as per the milestones and timeframes established for the ARPA Program, and (3) gradually increase the government budget for the ARPA Program so it can become 100% (one hundred per cent) government-funded within a period of 25 (twenty-five) years, with no further financial support from the Transition Fund or any other donors.

Toward this end, the Transition Fund aims to finance the acquisition of goods and services to be donated to the Managing Body for exclusive use in the creation, consolidation and maintenance of ARPA-supported PAs, so long as certain conditions are met by the Federal and Amazon-State governments. With these conditions fulfilled, **the idea is that the Transition Fund will be depleted and extinguished by 2039.**

The Transition Fund operates as per the rules set forth in Module 2 of the *Amazon Region Protected Areas Program Operating Manual - MOP* (annex II).

The Transition Fund’s donors are NGOs, bilateral and multilateral agencies, national and international organs and companies and individuals willing to contribute to the preservation of

Amazonian biodiversity by supporting the ARPA Program. The Transition Fund Committee approves or declines new donors and/or donations to the Transition Fund. Donors are under no obligation to increase the sums donated to the Transition Fund over and above their initial commitment. The Transition Fund Committee's remit is outlined in Module 2 of the MOP.

The Transition Fund incorporated the assets held by the Protected Areas Fund (FAP), set up during Phase I of the Program, and is raising further funds through international cooperation agreements and private donations in order to reach its target of 215 million USD.

This sum will be used to finance ARPA-supported PAs during a gradual phasing-in of total governmental funding for those PAs as of 2039.

The Transition Fund's Financial Manager is an entity chosen by the Transition Fund Committee to manage the resources available to the Fund in compliance with the terms established in Module 2 of the MOP and ***Investment Policy (annex II)***.

Acknowledging the importance of the Financial Manager's attributions and responsibilities, and in recognition of the high level of experience, expertise, renown and competence that Funbio has achieved in relation to the ARPA Program, Funbio was appointed Financial Manager of the Transition Fund upon its creation. As Financial Manager, Funbio is responsible for conducting the international process to select an Asset Manager for the Fund's resources. As such, further to a Transition Fund Committee decision, **Funbio is contemplating hiring an additional Asset Manager, and will consider applications from companies equipped to manage a portion of the assets under its charge, namely an initial sum of USD 83 million in funds allocated abroad, expected to reach approximately USD 113 million over the next three years (based on present contracts) though this principal may accrue further donations from future agreements.**

The financial applications of Transition Fund resources will be handled by the Asset Manager acting on behalf of the Financial Manager, and must follow the Investment Policy approved by the Transition Fund's Financial Subcommittee.

The resources located in Brazil, to be applied over the short-term (four-year period), will remain under the responsibility of the domestic Asset Manager.

2.3. Asset Manager's Functions

According to Module 2 of the MOP, the Asset Manager's responsibilities are to:

- a. Build a specific investment portfolio to meet the Transition Fund's goals and manage it in accordance with its Investment Policy (annex II);
- b. Open and monitor bank accounts and financial assets in the Financial Manager's name, make funds available to the Financial Manager as and where required as per the financial plan and prepare asset-management reports on investments that enable the Financial Manager to plan future expenditure;
- c. Systematically conduct market research and analyses for financial applications abroad;
- d. Suggest long-term strategies and short-term tactics to optimize the Transition Fund's asset allocations;
- e. Suggest ESG²-strategies and conduct ESG-research;
- f. Provide custodian services, including the liquidation of positions, transaction settlements, collection of dividends, and issue monthly statements of income and capital;
- g. Maintain contact with the Financial Manager through all convenient means of communication, written reports and periodical meetings. Reports should include evaluations, income and capital statements and, at longer intervals, performance analyses as per established indicators, market forecasts, evaluations and summaries of all transactions made. The Asset Manager will report on investment performance and discuss investment strategy when called to do so by the Financial Manager; and
- h. Any other tasks the Financial Manager may require pursuant to the present instrument.

The Transition Fund's financial assets are deposited in a special account under the Financial Manager's name. The Asset Manager's activities will be regulated by contract signed with the Financial Manager, under terms previously agreed by the Transition Fund Committee.

2.4. Observations on the required tasks

Though binding, the above-listed tasks do not purport to be exhaustive, and proponents are welcome to present their own ideas and the methodological focus they consider best suited to the Transition Fund's objectives. Proponents are invited to detail their own strategies in their proposals, along with the procedures for their implementation and attainment of the expected results. Whenever possible or reasonable, they should describe the clear, quantifiable indicators they intend to use to track their results.

Funbio will mediate contact between the new Asset Manager and the local Asset Manager.

Funbio, its Asset-Management Committee, the Transition Fund Committee, the Transition

² ESG (environmental, social and governance criteria)

Fund's Financial Subcommittee, and KfW are looking to procure offshore Asset Management services that present the most advantageous cost/benefit relationship possible. Proponents are invited to actively pursue the best cost economy so long as there is no inadmissible loss in service quality. In this context, we would draw the proponent's attention to the fact that, in accordance with KfW's Adjudication Norms, price will be considered a key factor, **and no post-bid negotiation will be allowed on the quoted price.**

3. PROPONENT INSTRUCTIONS

3.1. General Aspects

Funbio is the contracting agency.

Proponents will present their technical proposal and financial proposal **in separate envelopes, duly identified**. The envelope containing the technical proposal must contain **a digital copy**. The financial proposal must be presented in a sealed envelope. The technical proposal should contain no economic-financial information. The technical proposals will be opened first. The financial proposals shall remain sealed until all the technical proposals are assessed, and then only with KfW authorization. Financial proposals will only be opened for bidders who received no less than a 75% score on the technical assessment. The financial proposals will be opened in accordance with Brazilian law and the "Guidelines for the Procurement of Goods, Works and Associated Services in Financial Cooperation with Partner Countries" (annex II).

Specific instructions for the preparation of technical and financial proposals are given in items 3.3 and 3.4 below.

Proponents are obliged to present a signed and authenticated declaration of commitment containing the following:

"We underscore the importance of a free, fair and competitive procurement process that precludes abusive practices. In this respect we have neither offered nor granted directly or indirectly any inadmissible advantages to any public servant or other person nor accepted such advantages in connection with our bid, nor will we offer or grant or accept any such incentives or conditions in the present procurement process or, in the event that we are awarded the contract, in the subsequent execution of the contract."

The technical and financial offers should be written in Portuguese and English.

Pre-qualified bidders can address queries to Funbio in writing at ft@funbio.org.br up to three weeks before the submission deadline **(06/04/2018)**. The questions and the responses thereto will be sent to all bidders and posted on the Funbio website³.

Pre-qualified bidders can only enter into partnerships with prior approval from Funbio, the Transition Fund Committee and KfW. Any alterations to the Statutes and Bylaws of the pre-qualified associations will have to be justified to and approved by Funbio under risk of disqualification from the bidding process.

The shortlisted companies are:

- a) Bank Julius Baer & Co. Ltd.
- b) Deutsche Bank S.A. – Banco Alemão
- c) PIMCO Latim América Administradora de Carteiras Ltda.
- d) Pragma Gestão de Patrimônio Ltda.
- e) VERDE Asset Management S.A.

3.2. Deadline and Address for Proposal Delivery

The deadline⁴ for the delivery of all proposals is forty-five (45) days after the delivery of the Terms of Reference **(27/04/2018)**. Offers must be delivered by this date and meet the following requirements: **one (1) original copy in Portuguese and another (1) in English, both signed, one (1) hard copy and one (1) digital copy of the technical proposal in Portuguese and in English for Funbio and another full, identical set for KfW.**

The complete offer must be marked “Original” and be signed by the proponent’s authorized signatories. Should any differences be noted between the original and the copies of the presented documents, the one marked “Original” will be considered valid.

Printed and digital documents can be sent by normal post, SEDEX or swift post (Kurierdienst) or delivered in person at the addresses below:

Fundo Brasileiro para a Biodiversidade

A/C Marina Machado

³ https://www.funbio.org.br/compras_contratacoes/1a-fase-selecao-der-gestor-de-ativos-internacional-para-o-fundo-de-transicao/

⁴ **Attention: the deadline is the date by which proposals are to be received by Funbio, not posted by the bidder.**

Rua Voluntários da Pátria 286 5º andar – Botafogo CEP 22270-014 – Rio de Janeiro – RJ
Telephone: (21) 2123-5300

KfWEntwicklungsbank

A/C Christian Lauerhass
SCN Q.1 Ed. Brasília Trade Center Sala 1706
70711-902 Brasília, D.F. Brasil

The proposal is considered delivered within the deadline only upon receipt at Funbio's address above.

Technical and financial proposals will be considered valid for a period of six (6) months after the delivery deadline.

3.3. Scope and Content of the Technical Proposal

The technical proposal must include the following:

3.3.1 An asset-management strategy proposed for the investment mandate, based on the offshore resources investment policy (annex II) and containing:

- Description of the mandate;
- Approach based on investment policy;
- Expected net returns⁵;
- Risks;
- Asset class(es), with duration;
- Benchmarks to be used for each asset class;
- Allocation per asset class (application margins);
- Geographic allocations (the country/city where the positions will be held);
- Justification of the proposed mandate;
- ESG-approach and application for the Transition Fund;
- Sample reporting.

⁵ After inflation (CPI) and taxes payable.

Funds must be listed in U.S. Dollars. The return on the investment target must always be in dollar sums.

3.3.2. Investments in tax havens or in the following sectors will not be accepted: the arms industry, tobacco, pornography, gambling.

3.3.3. Organizational aspects of the provision of services, including an organizational chart and plan for Managerial and Directorial staff allocations.

3.3.4. Proof of aptitude and capacity to assume the asset management of the Transition Fund's resources, including a detailed portfolio of the company (volume and professionals in charge).

3.3.5. Asset-management team (operators):

- Lead Officer, based at the asset management firm's offices/representatives in Rio de Janeiro or São Paulo, fluent in Portuguese and English: responsible for routine contact with Funbio, monthly reporting, participation at four-monthly meetings of Funbio's asset-management commission, presenting results and forecasts.
- One professional responsible for moving Transition Fund assets. Must be a seasoned professional with proven experience in the area. Include résumés of each team member, listing all experience relevant to the activities proposed for the Transition Fund.

3.3.6. Present the custodian, including portfolio. Asset custodian assessment will also consider its ratings with the agencies S&P, Moody's and Fitch, and Credit Default Swap rating. Depending on the investments presented, counterparty risk analysis may be required.

3.3.7. Declaration to the effect that the bidder is unencumbered by any ties or association with other institutions that might represent a conflict of interest in the provision of the required services.

3.3.8. Present the portfolio allocation for the proponent and/or custodian's own financial products.

3.3.9. No withdrawals will be made from the Fund during the first year of investment.

3.4 Scope and Content of the Financial Proposal

The price of the asset-management services should be all-encompassing, involving no additional costs to Funbio.

The price must include all the associated services:

- Asset-management services;
- Custodian services, administration costs and all bank rates;
- Participation in regular quarterly and extraordinary meetings in São Paulo or Rio de Janeiro;
- Participation in monthly conference calls;
- Drafting and presentation of monthly performance reports and investment statements;
- Contact between Funbio and the lead officer;
- Analyses of the conjuncture and proposals for future applications;
- Proposals for mandate alteration (voluntary or at the behest of the asset-management commission);
- All taxes and charges incurred by the manager;
- Fees for external funds, index-investments as well as service providers (e.g. ESG-rating-agencies)

3.5 Payment Conditions

Service fees must be charged on a semestral basis, along with cost statements, based on average daily assets for the period. The semestral fee report must be sent for analysis prior to invoicing.

The fee charged must be presented as a percentage over assets under management.

3.6 Organization of Service Provision

The proponent will be in direct contact with Funbio through the Planning and Management Superintendency and the Asset-Management Commission.

The members of Funbio's Asset-Management Commission can request clarification directly to the asset manager.

The provision of asset-management services is expected to begin in June 2018.

The asset manager's office/representative firm must be located in either São Paulo or Rio de Janeiro. Four-monthly meetings with the asset-management commission will take place in São Paulo and/or Rio de Janeiro. The proponent's lead officer can also be called upon to present results and forecasts to Funbio's Deliberative Board and the Transition Fund Committee. .

Monthly reports must be sent, via email, in Portuguese and English, no later than ten (10) days after the close of the previous month.

Bank statements and all other documentation needed for accounting purposes must be sent to Funbio by no later than the fifth working day of each month.

Funbio will have access to bank statements through its authorized officers and the asset manager will be encumbered to ensure this access.

3.7 FUNBIO's contribution

Funbio will provide all necessary documentation concerning the Transition Fund (modifications to the MOP, decisions of the Asset-Management Commission, the Transition Fund Committee or Subcommittee).

There will always be a formally appointed lead officer at Funbio authorized to maintain direct contact with the proponent.

Funbio will allocate space for meetings and inform the asset manager of the date and location of meetings in a timely manner.

3.8 Proposal Assessment

The asset manager will be selected as per KfW's norms ("**Guidelines for the Procurement of Goods, Works and Associated Services in Financial Cooperation with Partner Countries**").

Technical proposals will be evaluated as per the criteria and scorecard below:

Criteria		Score
1.	Conception and methodology - Investment Management Proposal	55
1.1	Clarity and congruency of the proposal	(10)
1.2	Conception and methodology	(45)
2.	Company's and Team qualifications/aptitude	45
2.1	Company's qualifications	(20)
2.2	Qualifications of the Lead Officer, coordinator and team of operators to be working with Funbio	(25)
Total		100

The first phase of evaluation will consider the technical proposals, that is, the quality of the services to be rendered and the qualifications of the proposed staff. Asset-management personnel will be interviewed. Interview outcomes can add or detract from the proponent firm's score by a margin of 20% either way. These potential modifications will follow the same criteria listed above, and the interview will help fine-tune the documental analysis.

Only those proposals obtaining a 75% minimum score will pass to Phase Two, which concerns the financial proposals and price quotation. Overall, the financial proposal will carry a 30% weight.

The technical and financial proposals of the winning bidder will be included in the asset-management contract celebrated with the proponent firm. However, Funbio reserves the right to adapt parts of said offer that do not fulfill the conditions under which the services are to be rendered.

3.9 Reports

Monthly reports must be in Portuguese and English and contain the following:

- a) Asset classes and volumes invested;
- b) Gross and net returns (with and without inflation);
- c) Benchmarks;

- d) Market overview;
- e) Volume of resources and revenues accumulated since portfolio operations began;
- f) Deposits and withdrawals;
- g) Rating distribution;
- h) Duration and amortization profile (if applicable)
- i) Regional distribution;
- j) Economic sector distribution;
- k) List of biggest portfolio-positions;
- l) List of new investments and disposals;
- m) Other information the asset manager considers relevant.

The asset-management firm will present its results, overview and forecasts at the four-monthly meetings of the Asset-Management Commission (in Rio or São Paulo) and via monthly conference calls, along with proposals for new allocations and analyses of the risks involved.

Monthly reports must be presented in digital format (PDF), in Portuguese and English. Presentations to the Asset-Management Commission and General Assembly of donors must be sent in PDF, in a timely manner, and print copies must be made available for each participant attending.

Bank statements and accounting data must be sent in digital format (PDF).

Annexes are available at the following link

https://www.funbio.org.br/compras_contratacoes/1a-fase-selecao-der-gestor-de-ativos-internacional-para-o-fundo-de-transicao/

Model résumé (3 pages max.)

Program Operating Manual

Investment Policy

Guidelines for the Procurement of Goods, Works and Associated Services in Financial Cooperation with