

BRAZIL-GERMANY FINANCIAL COOPERATION

**THE BRAZILIAN BIODIVERSITY FUND
FUNBIO**

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

**PREQUALIFICATION PHASE
FOR
ASSET MANAGEMENT SERVICES**

RIO DE JANEIRO

June 2017

1. Introduction

The Amazon Region Protected Areas Program (ARPA) was created by the Federal Government in partnership with donors and civil society organizations through Decree N° 4.326, issued on August 8, 2002, with the mission of protecting representative samples of Amazonian biodiversity in order to ensure the integrity of the region's landscapes and genetic resources and secure the strategic participation of stakeholder communities. Very successfully underway since 2003, ARPA is considered the largest tropical-forest conservation project in the world.

ARPA is coordinated by the Ministry of the Environment (MMA) and is implemented in partnership with the Chico Mendes Institute of Biodiversity Conservation (ICMbio), state and municipal levels of government in the Amazon region, and the Brazilian Biodiversity Fund (Funbio). The program is financed with foreign and Brazilian donations.

Through ARPA, the Brazilian Government pursues its goal of extending protection to at least 60 million hectares of Amazon Rainforest by setting up new protected areas and buttressing those already in place with a view to consolidating the National Protected Areas System (known locally as SNUC), passed into law on July 18, 2000 (Law N° 9.985).

ARPA was originally structured into interdependent, continual phases to be executed sequentially across a timetable ending in 2018. Phase I of the program disbursed US\$125.6 million over seven years (2003-2010). At the end of Phase I, the Program covered 33 million hectares under the care of 63 existing PAs and had extended protection to a further 25 million hectares through 46 newly-created PAs. Phase II, underway since 2010, and scheduled for completion in 2016, has had US\$ 56 million in available funding. The Program currently oversees 58 million hectares across 105 Protected Areas and is conducting studies for the conservation of a further 6 million hectares.

The challenge to be faced now is to maintain these areas over the long term, and the ARPA for Life Transition Fund was set up for precisely that purpose. Under the Transition Fund, ARPA PAs are assured funding for another 25 years (2015-2039), the time it will take to phase out international donations in favor of domestic funding, whether public or private.

The Transition Fund (TF) holds resources obtained through foreign and domestic donations and follows a financial model based on the real costs of consolidating and maintaining these Protected Areas over the last 10 years. The TF was structured as a 25-year depletable fund designed to ensure the upkeep and physical integrity of Protected Areas over time.

The Transition Fund is managed by the Transition Fund Committee (TFC) and the Financial Manager (FM) engaged by the TFC to take all necessary steps to ensure that the Fund achieves its Target. The Transition Fund Committee (TFC) is the decision-making organ, while the Financial Manager is the entity appointed to manage the TF's resources in accordance with the principles and guidelines set forth in the Program Operating Manual (POM) and the Investments Policy approved by the TFC.

The TF's donors are NGOs, bilateral and multilateral agencies, Brazilian and foreign organs and companies, and individuals who have chosen ARPA as a way to contribute to the preservation of Amazonian biodiversity. It is up to the TFC to approve or decline new donors and/or donations to

the TF. Donors are not obliged to increase their donations over and above the commitment originally assumed.

By order of the Transition Fund Committee, the operational and financial management of the Transition Fund is the responsibility of the Brazilian Biodiversity Fund—Funbio, and all funds are to be managed through a specific account. All TF assets and investments are managed by a specialized institution hired by Funbio for those ends and supervised by the Transition Fund Committee and by Funbio’s Asset Management Committee, which answers to Funbio’s Deliberative Board.

At present, with the growth of its investments, the Transition Fund Committee has decided to select an asset manager to handle international allocations, so Funbio needs to contract asset-management services for its holdings, which are expected to run to approximately US\$ 113 million within the next three years.

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

Funbio

The Brazilian Biodiversity Fund – FUNBIO is a Public Interest Civil Society Organization created in 1995 with the general goal of complementing governmental actions in the conservation and sustainable use of the nation’s biological diversity, in consonance with the country’s commitments to implementing the Convention on Biological Diversity (CBD). Funbio’s specific aim is to provide financial and material support to initiatives related to conservation and the sustainable use of biodiversity in Brazil by managing and disbursing donations from the Global Environment Facility (GEF), the German Development Bank (KfW), the World Wildlife Fund (WWF) and other partners.

FUNBIO endeavors to catalyze resources to support these initiatives by guaranteeing that the funds raised from its various donors are always sufficient to make a significant contribution to projects that, given their excellence, serve as a reference for its actions.

FUNBIO is a private, independent entity. Its Deliberative Board, formed by representatives from the worlds of business, the environment, academia and government, is the decision-making organ, and its resolutions are executed by Funbio’s Executive Secretary (see www.funbio.org.br).

FUNBIO implements Biodiversity projects, including the Amazon Region Protected Areas Program (ARPA). Funbio’s responsibilities on ARPA are to implement the Protected Areas

Transition Fund, draft policy, procedures and guidelines for the financial investment of resources and to hire, supervise, monitor and appraise the financial asset managers it contracts.

2. Prequalification Notice

FUNBIO invites independent and duly qualified asset management institutions to take part in this Prequalification process for the provision of asset management services solicited by the Amazon Region Protected Areas Program Transition Fund and to submit the necessary documents as stipulated herein.

The selection, negotiation of terms, and hiring of the consultancy will be conducted by FUNBIO as per the “Guidelines for the Procurement of Goods, Works and Associated Services in Financial Cooperation with Partner Countries” (www.kfw-entwicklungsbank.de), in its updated edition of 2013.

3. Executing Agency and Country

The entity contracting the services outlined in this tender is the Fundo Brasileiro para a Biodiversidade (Brazilian Biodiversity Fund) - Funbio, headquartered at Rua Voluntários da Pátria, 286 5º andar Botafogo; Cep: 22.270-014 Rio de Janeiro - RJ — Brazil.

4. Project Description

Very successfully underway since 2003, ARPA is considered the world’s largest tropical-forest conservation project, with the aim of supporting the consolidation of 60 million hectares of the Brazilian Amazon under Protected Area regimes. This goal is expected to be reached in the coming years, with the Program currently supporting almost 60 million hectares of protected forest. The challenge to be faced from now on is to maintain these areas over the long term, hence the Arpa for Life - Transition Fund, which will guarantee continued funding for the program’s protected areas over the next 25 years, the time it will take to phase out international donations in favour of domestic funding, whether public or private.

The Transition Fund (TF) holds resources obtained through foreign and domestic donations as per a financial model based on the real costs of consolidating and maintaining these Protected Areas over the last 10 years. The TF was structured as a 25-year depletable fund designed to ensure the upkeep and physical integrity of ARPA’s Protected Areas over time.

The Transition Fund is managed by the Transition Fund Committee (TFC) and the Financial Manager (FM) engaged by the TFC to take all necessary steps to ensure that the Fund achieves its Target. The Fund's present Financial Manager is FUNBIO.

The Investment Policy is the document that sets forth the principles and rules to be observed in allocating the Transition Fund's assets in pursuit of its investment objectives. The Investment Policy was drawn up in 2014 and approved on February 10, 2015, and is subject to periodical revision by the TFC. The Investment Policy is included in Annex 2 of this invitation to tender.

As the ARPA Transition Fund has the objective of promoting the conservation of biodiversity, the Asset Manager should include sustainable investments in his/her portfolio strategy, and this will be taken into account during the selection process.

We expect specific proposals by the applicant on how to construct the portfolio sustainable in respect of ESG-criteria (environmental, social and governance criteria

For more information on Arpa visit the site (<http://www.programaarpa.org.br>)

5. REQUIRED ASSET-MANAGEMENT SERVICES

- a) Build an international portfolio strategy tailored to the Transition Fund's goals and manage it in accordance with the Investment Policy approved by the Transition Fund Committee (Annex 2).
- b) Open and manage bank accounts in FUNBIO's name, making the necessary funds available as and where required as per the agreed financial program, and reporting on a timely basis and in such a way as enables the TF to track results and plan future expenditures.
- c) Systematically conduct market research and analyses for financial applications abroad.
- d) Suggest long-term strategies and short-term tactics to optimize asset allocations.
- e) Provide custody services, including the liquidation of positions, transaction settlements, collection of dividends, monthly declarations of income and capital, and taking all necessary precautions against negligence, fraud, accidental losses, etc.
- f) Maintain constant contact with Funbio through all convenient means of communications, written reports and periodical meetings. Meetings should include evaluations, income and capital statements, and, at longer intervals, performance analyses as per established reference values, market forecasts, evaluations and summaries of the transactions made. Investment performance should be clearly demonstrated at Transition Fund Committee and Asset-management Commission meetings, and the investment strategy discussed accordingly.

The asset-management services will be rendered in rollable 60-month cycles. The services must be provided by a firm with a proven track-record in asset management and a team of senior professionals with ample experience in international investments, specifically in accordance with comparable long-term investment policy (see Annex 2). Fluency in Portuguese and English is a prerequisite, as is representation in Brazil.

The services will be supervised by the Transition Fund Committee and Asset Management Commission, formed by professionals from the financial area/markets and coordinated by Funbio's Deliberative Board. The supervisors will also help assess the proposals and the final decision will be subject to KfW approval.

6. DELIVERY OF BIDS, DEADLINES AND OTHER CONDITIONS

Bids must be received by August 07, 2017.

Documents must be originals and come accompanied with one copy.

Documents sent by fax or e-mail will not be considered, but in parallel, we would like to forward a version for the e-mails ft@funbio.org.br and Carsten.Reinhard@kfw.de, in order to accelerate the analysis

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

Fundo Brasileiro para a Biodiversidade- Funbio

Rua Voluntários da Pátria, 286 5º andar Botafogo;

Cep: 22.270-014 Rio de Janeiro - RJ — Brasil.

Attention of: Comissão de Seleção do FT.

Additionally, on the same date, a copy of the documentation must be sent to KfW at the address below:

KfW Entwicklungsbank

SCN Q.1 Ed. Brasília Trade Center

Sala 1706

70711-902 Brasília, D.F.

Brasil

All costs incurred by the provider in connection with the preparation, delivery and follow up of the tender documents will be covered by the interested bidder.

At any time, FUNBIO, whether of its own accord or in response to a written request from a bidder, may issue further clarifications concerning the invitation to tender, either through written communication by mail, email or fax, or openly via its webpage.

FUNBIO will publish its Prequalification Shortlist of no more than five bidders approximately four

weeks after receipt of the prequalification documentation. A letter of invitation to submit bids for the second round of evaluations will then be sent to the prequalified institutions.

Institutions interested in being considered for prequalification must complete the form below and send it to FUNBIO.

RECEIPT
<p>The Institution _____ obtained a copy of this Invitation to Tender and would like to be informed of any alterations thereto by email at the following address _____ or by fax: _____.</p> <p>_____, _____ / _____ / _____.</p> <p style="text-align: center;">_____</p> <p style="text-align: center;">(Signature)</p>
<p>OBSERVATIONS:</p> <p>1 - THIS RECEIPT MUST BE SENT to FUNBIO, by fax or Telefax: (21) 2123-5354, or by e-mail: ft@funbio.org.br. WITHOUT THIS STATEMENT OF RECEIPT WE CANNOT BE HELD RESPONSIBLE FOR FAILURE TO COMMUNICATE CHANGES THAT MAY AFFECT THIS INVITATION TO TENDER.</p>

7. REQUIRED DOCUMENTS

The prequalification documents should be written in Portuguese or English and include all of the items listed below, including short-form résumés (maximum of two pages), and additional records (financial statements, balance sheets). The document should be structured as follows:

- (1) **Title page**, containing the institution's name, address, name of contact, telephone number(s), fax number and e-mail address;
- (2) **Presentation** covering the institution's sector(s) of activity, a copy of its company registration in Brazil, as required under Brazilian law, and a copy of its company charter;
- (3) **Presentation of the Brazilian office**, with address, operations, and names of those in charge.
- (4) **Non-conflict of Interest Statement:** 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;

- (5) **Legally-binding, signed Declaration of Undertaking** as per the model provided in Annex II; bidders must be aware that any fraudulent or corrupt practices will result in automatic exclusion from the bidding process and all appropriate legal measures being taken.
- (6) **Declaration of the bidder's financial credentials:** proof that the bidder is an institution with a global reputation in investment management;
- (7) **Proof of at least 10 years' experience** operating on the international Equities and Fixed-income markets.
- (8) **List of reference portfolios** managed during the last five years that bear clear relevance to the required services (maximum of 10 references), relating positive and/or negative experiences. The references should provide clear evidence of the institution's capacity to implement investment policies and capacity to provide the selected services, including international experience. References should be provided as per the model in Annex 1.
- (9) **Résumés** (no more than two pages long) of the professionals who will be supervising the managers. (see Annex 2)
- (10) **List of professionals available** for the required services, with summaries of their academic backgrounds, professional experience, years of association with the institution, experience related to comparable portfolios with long-term investment policies and experience in managing similar funds (see Annex 2).

This list will allow us to assess in-depth the bidder's capacity to provide experienced professionals, if awarded the contract.

All prequalification documentation should be brief and to the point and follow the suggested structure. A lack of concision or specificity will cost the bidder points.

10. Appraisal of the Documents

The evaluation process follows the latest version of the "Guidelines for the Procurement of Goods, Works and Associated Services in Financial Cooperation with Partner Countries" (see www.kfw-entwicklungsbank.de).

Only bidders who meet the prerequisites below will be eligible for consideration under the pre qualification process:

- Bidders must have a registered Brazilian office with the necessary structure to attend a client of Funbio's size;
- The capacity to allocate resources abroad;
- At least 10 years of experience operating in international Equities and Fixed-income markets;
- Valid registration with the Brazilian Securities and Exchange Commission (CVM);
- No less than one billion dollars in total allocations as of May 2017

A breakdown of the assessment criteria is given below:

CRITERIA		Points
1.	Experience over the last 10 years	
1.1	Number of years in providing asset management services	
1.2	Asset management experience (clientele, types of funds managed, reputation, Assets under Management, client retention, management of green/sustainability funds and assets)	
2.	Project-specific qualifications	
2.1	Assessment of technical knowledge specific to the management of comparable investments like Risk Management Systems, Accounting Systems or database/provider	
2.2	Evaluation of the institution's ability to provide managers and supervisors equipped to handle the required tasks (CVs of Senior Managers and Directors use of external knowledge, governance practises related to investment processes etc.)	
2.3	Risk of conflicts of interest and segregation of corporate risks	
2.4	Performance handling comparable portfolios over the last 10 years	
2.5	Form and content of the documents submitted and their relevance to the required services	
Total		

Once the prequalification documentation has been assessed, a shortlist will be compiled of up to five bidders (the highest-scoring bidders among those obtaining 70 points or more). Prequalified institutions will be invited to present technical and financial proposals, while those who fail to make the shortlist will be informed of their disqualification.

The preparation and delivery of prequalification documents are the sole responsibility of the bidder and failures or omissions will not be excused.

Between the opening of the prequalification envelopes and the compilation of the shortlist of prequalified bidders, no communication whatsoever should be undertaken on the part of the entrants, unless requested to do so by the contracting agency.

Appendix1**Declaration**

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. We also declare that no conflict of interest exists in the meaning of the kind described in the corresponding Guidelines¹.

We also underscore the importance of adhering to environmental and social standards in the implementation of the project. We undertake to comply with applicable labour laws in Brazil.

We will inform our staff about their respective obligations and about their obligation to fulfil this declaration of undertaking and to obey the laws of Brazil.

We also declare that our company/all members of the consortium has/have not been included in the list of sanctions of the United Nations, nor of the EU, nor of the German Government, nor in any other list of sanctions and affirm that our company/all members of the consortium will immediately inform the client and KfW if this situation should occur at a later stage.

We acknowledge that, in the event that our company (or a member of the consortium) is added to a list of sanctions that is legally binding on the client and/or KfW, the client is entitled to exclude our company/the consortium from the procurement procedure and, if the contract is awarded to our company/the consortium, to terminate the contract immediately if the statements made in the Declaration of Undertaking were objectively false or the reason for exclusion occurs after the Declaration of Undertaking has been issued.

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(Place)	(Date)	(Name of Company)
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.....

(Signature(s))

¹See “Guidelines for the Assignment of Consultants in Financial Cooperation with Partner Countries” and “Guidelines for Procurement of Goods, Works and Associated Services in Financial Cooperation with Partner Countries”

Appendix2

Investment Policy of the ARPA Transition Fund

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Investment Policy of the ARPA Transition Fund

As amended on February 10, 2015 and on June 1st, 2017
Subject to Change by Action of the Transition Fund Committee

I SCOPE OF THIS INVESTMENT POLICY

This statement of Investment Policy sets forth the policy, objectives, and restrictions that apply to the investment of the fund assets of the ARPA Transition Fund ("Transition Fund").

II PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of Investment Policy is adopted by the Transition Fund Committee in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the goals and objectives of investing the Transition Fund's assets.
3. Establish limitations to the Investment Manager(s) regarding the investment of the Transition Fund's assets.
4. Establish a basis for evaluating investment results.
5. Manage the Transition Fund's assets according to prudent standards.
6. Establish the relevant investment horizon for which the Transition Fund's assets will be managed.

This Investment Policy is intended to be specific enough to be meaningful, yet flexible enough to be practical.

III DELEGATION OF AUTHORITY

The Transition Fund Committee is responsible for directing and monitoring the investment management of the Transition Fund's assets. Under the ARPA Operating Manual, the Transition Fund Committee is responsible for the overall investment of the Transition Fund's assets, but it may delegate certain of its responsibilities to committees, the Fund Manager, professional service providers and other support. The adoption of or revision to this investment policy are non-delegable decisions of the Board subject to a qualified majority vote.

Finance Subcommittee: The Transition Fund Committee will establish a finance subcommittee (the "Finance Subcommittee"). This subcommittee will be responsible for reviewing monthly investment results, discussing these as needed with the investment manager(s) and the Fund Manager, and making any recommendations to the Transition Fund Committee regarding the evaluation, selection and replacement of investment manager(s), as well as potential changes to this Investment Policy.

The Transition Fund Committee delegates to the Fund Manager the responsibility of engaging one or more investment managers ("Investment Managers"). Additionally, the Transition Fund Committee may employ additional specialists such as tax attorneys, auditors, actuaries, and others to assist in meeting its responsibilities and obligations to administer the Transition Fund's assets prudently. All expenses for such experts must be customary and reasonable, and will be borne by the Transition Fund as deemed appropriate and necessary.

The Investment Manager(s) will be held responsible and accountable to make every effort to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications that they deem appropriate.

IV ASSIGNMENT OF RESPONSIBILITY

A. Responsibility of Transition Fund Committee

1. Development and periodic review of this investment policy.

2. Assigning the Fund Manager to conduct Investment Manager review meetings at least monthly to discuss investment performance, and to make recommendations regarding any changes to the Investment Managers.
3. Assigning the Finance Subcommittee to review all reports of the Investment Manager(s), participate with the Fund Manager in Investment Manager review meetings, and to make recommendations regarding any changes to the investment policy.

B Responsibility of the Fund Manager

The Fund Manager has fiduciary responsibility for the Transition Fund, and has the additional responsibilities listed in Module 2, Sections 2.2, 2.3 and 2.4 of the ARPA Operating Manual. The Fund Manager is responsible for the following:

1. Engagement of Investment Managers, including organizing competitive tenders where appropriate, and documenting decisions to engage Investment Managers.
2. Monitoring and reporting the performance of the Investment Manager(s) and any unmanaged investments in order to determine the progress toward the investment objectives (see VI).
3. Sharing with the Finance Subcommittee the Investment Managers' monthly performance reports, any other reports of the Investment Manager(s), and any written instructions to the Investment Manager(s) regarding investments.
4. Inviting the Finance Subcommittee to join the Fund Manager in Investment Manager review meetings.
5. Including this investment policy statement as an annex to any written agreement between the Fund Manager and the Investment Manager(s).
6. Development, with the Investment Manager(s), of a responsible investment approach (see VIII below).

C Responsibility of the Investment Manager(s)

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its direct management, while observing and operating within all policies, limitations, and philosophies as outlined in this investment policy and any limitations specifying permissible categories of investments. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter tactical asset allocation within the limitations established in this statement.
2. Reporting to the Fund Manager, on a timely basis, monthly investment performance results.
3. Communicating to the Fund Manager any major changes to economic outlook, investment strategy, or any other factors that may affect achievement of such Investment Manager's investment objectives for the Transition Fund.
4. Development, with the Fund Manager, of a responsible investment approach (see VIII below).
5. Informing the Fund Manager of any significant qualitative changes to the investment management organization: examples include changes in portfolio management personnel, ownership structure, or investment philosophy.

V INVESTMENT MANAGEMENT POLICY

1. Real Capital Preservation - The Fund Manager may employ one or more Investment Managers of varying styles and philosophies to attain the Transition Fund's objectives. Consistent with their respective investment styles and philosophies, Investment Managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities and that accounts in more volatile asset classes will fluctuate in value.
2. Risk Tolerance - Understanding that risk is present in all types of securities and investment styles, the Transition Fund Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Transition Fund's objectives. In particular, given the Investment Objective (section VI) of achieving 3% real net returns over rolling five-year cycles, it is expected that the level of risk assumed may result in loss of capital over periods of one or more years. However, the investment managers are to make reasonable efforts to control risk, and will report regularly to the Fund Manager to ensure that the risk assumed is commensurate with the given investment style and objectives. Investment of the Transition Fund shall be so diversified as to reduce the risk of large losses to a level deemed

acceptable by the Transition Fund Committee, unless under the circumstances it is clearly prudent not to diversify.

3. Time Horizon – The Transition Fund was launched in 2014 with the expectation that it would be fully depleted over approximately 25 years. It is expected that disbursements from the fund will be greater in the earlier years and will decline to zero over the 25-year period.
4. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Investment Managers will also report regularly to the Fund Manager as to adherence to investment discipline.
5. Productive Employment of Cash - Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.
6. Professional Standards – The Investment Manager(s) will comply with all legal and ethical standards of their profession.

VI INVESTMENT OBJECTIVE

The Transition Fund's investment objective is to achieve 3% annual returns, after inflation, costs and taxes, averaged over rolling five-year periods.

VII CURRENCY RISK AND LIQUIDITY

In order to (1) minimize currency risk and (2) ensure sufficient liquidity for near-term cash needs, the Investment Manager(s) will set aside a portion of the portfolio, representing the next four years' estimated outflows, for investment only in securities denominated in Brazilian currency, and will further ensure that of this amount at least 6 months' expected outflows will be held in cash or cash equivalents. See IX – Asset Allocation for details.

VIII RESPONSIBLE INVESTMENT

As the ARPA Transition Fund has the objective of promoting the conservation of biodiversity, it fits its mission to take responsible investment strategies into account. Sustainable investment can be implemented in a portfolio strategy in many different ways depending on the asset class, risk and return expectations, time horizon and many other aspects. Therefore, from ARPA's view, it does not make sense to pre-select a specific responsible investment approach for the fund but to develop a sustainable investment strategy for ARPA's fund assets in cooperation between the Investment Manager(s) and the Fund Manager.

Notwithstanding the above, to the extent that the Transition Fund holds individual securities (as opposed to pooled investments such as mutual funds), those individual securities may not be issued by companies engaged in any of the following sectors: production of tobacco products, weapons, pornography, oil, gas, coal, trade in CITES-prohibited flora and fauna, production of nuclear power, animal testing for non-medical purposes, and animal testing on endangered species.

IX ASSET ALLOCATION

The following asset allocation policy reflects the fund's need to (1) ensure liquidity and minimize currency and investment risk for funds it will need in the near term, and (2) ensure adequate investment returns and diversification for funds it will need in the longer term. The "near term," for this purpose, is the next four years at any given time. Therefore this policy contains different requirements for funds that are expected to be spent in the next four years than for those that are expected to be spent later, i.e. more than four years from the present. The amount of funds expected to be spent in the next four years must be determined every two years by the Transition Fund Committee, at the time it makes its biennial spending decision, and this amount will determine the asset allocation for the following two years. If, between these biennial decision points, the Transition Fund experiences inflows from donors, the Transition Fund

Committee will allocate these inflows to the “more than four years from the present” allocation (item b. below).

- a. Funds expected to be spent in the next four years:
 - At least 95% of funds expected to be spent in the next four years must be invested in Brazilian currency-denominated investments
 - Up to 5% of funds expected to be spent in the next four years can be spent in other than Brazilian currency-denominated investments
 - Equities: 0-20%
 - Fixed income or cash and cash equivalents: 80-100%, but at least 6 months of future spending must be invested in cash or cash equivalents
- b. Funds expected to be spent more than four years from the present:
 - 80-100% in non-Brazilian investments. Of this, 50-80% may be in equities and 20-50% may be in fixed income.
 - 0-20% in Brazilian investments (no restrictions on equities vs. fixed income)
- c. Other restrictions:
 - The Transition Fund may own individual securities and/or pooled investments such as mutual funds. In both cases, however, the underlying securities must be publicly traded (no private investments, e.g. private equity or direct investments in real assets)
 - Direct investments in commodities may not exceed 5% of the Transition Fund portfolio in aggregate
 - No derivatives except to cover a position or as part of long-short funds. All mutual funds must be net long, and long-short funds may not exceed 10% of the portfolio
 - Non-Brazilian fixed-income securities: at least two-thirds must be rated investment-grade
 - “Any direct investment in non-governmental issuers may not exceed 5% of the portfolio. Cash equivalent investments in high quality financial institutions (rated AAA or equivalent in local currency by the major risk agencies) may exceed 5% of the portfolio due to a maturity of less than 180 days. At any time a highest possible diversification is to be ensured”.)
 - Brazilian “Multimercado” funds may not exceed 10% of the Brazilian portion of the portfolio
- d. Definitions:
 - Equities: Common stock and convertible bonds. Brazilian stocks include both “ordinary” (voting) and “preferred” (non-voting).
 - Fixed income: government, corporate and asset-backed fixed-income instruments of more than 180 days maturity
 - “Cash and cash equivalents: Mainly bank deposits and fixed-income instruments of no more than 180 days maturity. Exceptionally floating-rate government bonds and floating-rate certificates from high quality banks with daily liquidity are considered cash or cash equivalents, even if they have more than 180 days maturity, but no more than 360 days maturity. At any time a highest possible diversification for cash equivalents is to be ensured.

X SELECTION OF INVESTMENT MANAGERS

The Fund Manager may choose to engage one Investment Manager or more than one. If more than one, it may choose separate manager(s) for Brazilian and non-Brazilian investments.

Qualifications:

Active in relevant markets (Brazilian and/or international), both equity and fixed-income

The investment team must have substantial experience and proven competence in investment management in the relevant markets (Brazilian and/or international)

Capable of implementing responsible investment criteria in investment strategy (see VIII above)

XI INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

The Investment Manager(s) shall provide the Fund Manager with monthly performance reports. The Fund Manager will evaluate the investment performance of the fund, as well as asset class components, over one-, three-, and five-year periods against the performance benchmarks specified below:

Non-Brazilian equities: MSCI WORLD Index Unhedged

Brazilian equities: IBrX 100

Non-Brazilian fixed income: Barclays Multiverse Index

Brazilian fixed income: Indice de Mercado Anbima

In order to facilitate the Fund Manager's evaluation, the Investment Managers' monthly reports will compare the portfolio's performance over the trailing one-, three-, and five-year periods with the relevant benchmarks. The Fund Manager will share this analysis with the Finance Subcommittee.

In addition, the Fund Manager will evaluate Investment Managers against the 3% rolling five-year Investment Objective, as follows. Brazilian investments will be evaluated against a rolling five-year objective of 3%, net of costs, taxes and inflation measured in Brazilian currency (IPCA, calculated by IBGE). Non-Brazilian investments will be evaluated against a rolling five-year objective of 3%, net of costs, taxes and inflation measured in U.S. dollars (US CPI, calculated by Bureau of Labor Statistics). In order to facilitate the Fund Manager's evaluation, the Investment Managers' monthly reports will report the annualized net returns of the Brazilian and non-Brazilian portions of the portfolio over the trailing five-year period. (During the first five years of the fund, this report will show the annualized net returns of the fund to date.) The Fund Manager will share this analysis with the Finance Subcommittee.

The Fund Manager will give consideration to the extent to which the investment results are consistent with the investment objectives, goals, and limitations as set forth in this statement. Although the Fund Manager will evaluate the portfolio over one-year, three-year and five-year periods as described above, it reserves the right to terminate any Investment Manager at any time, for any reason including the following:

1. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.
4. Changes in fees.

The Fund Manager shall review Investment Managers regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

The process for selecting and replacing Investment Manager(s) is to be determined by the Fund Manager. The process must take donors' requirements into account. In addition, the Transition Fund Committee, with the advice of the Finance Subcommittee, reserves the right to give the Fund Manager the names of Investment Managers to include or exclude from the selection process, and, once Investment Managers have been selected, to recommend that the Fund Manager

replace an Investment Manager. The Fund Manager must take such recommendations into consideration.

XII INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this investment policy, the Transition Fund Committee would review this investment policy at least annually and more frequently if the need arises.

To assure ample disclosure of Transition Funds development and policy, the Fund Manager must publish on its site (or otherwise) at least once a year a report of the performance of any of those funds.

This investment policy was adopted by the Transition Fund Committee at its meeting on October 29, 2014 was reviewed on February 10, 2015 and on June 1st, 2017

Annex 1: Institution's experience - Portfolio (as per item 9.6 above)

Please fill in the table below using the required format. List only the projects most relevant to the services in question carried out over the last 10 years. Please include no more than 10 references.

Clients	Type of Portfolio	Client since...	Country	Observations

Types of portfolio managed	Volumes	Asset Class (fixed-income, hedge, equities, stock market, commodities, etc)	Annual performance over the last 10 years	Portfolio risk	Country
TOTAL					

Annex 2: List of Professionals (Directors; Managers)

Name	Professional experience in asset management (years)	Experience with similar portfolios (years)	Employment or association with the institution (years)	Position/Function (years)	Specialization	Languages

Annexe 3 FT Operational Manual