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Special Social Security Scheme of Civil Servants:
An Ally for Local Development

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The opinions expressed in this paper reflect research efforts to understand the issue and do not express the opinions of the Special Social Security Scheme of Porto Alegre.

1 – Introduction

Social Security will always be a current topic anywhere in the world. Whether we are in Europe, Asia, Oceania or the African and American continents, there are extensive discussion, debate and changes about the Social Security. For obvious reasons, what the people know about Social Security is their costs, i.e., the payment of retirement benefits, pension, and health aid, among others.

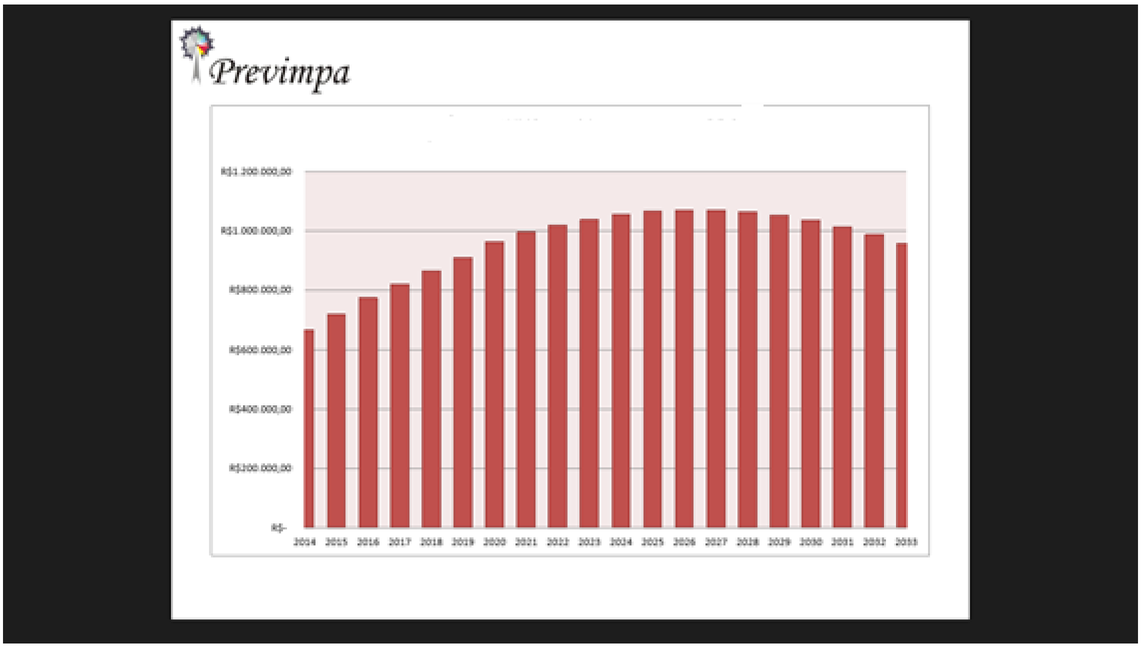
Despite the relevance of this first point, the expense, the focus of this work is at the other extreme: the raising of resources and investments of these funds, focused on Special Social Security Scheme of Civil Servants in Brazil and especially in the city of Porto Alegre / Rio Grande do Sul, compared to the Complementary Pension Schemes. The Portfolio of Investments as of any Pension Fund is as important as its current and future liabilities. The competent management of investments is to ensure the payment of benefits to policyholders of a pension system.

Managing Investment Portfolio of a pension fund is a very arduous and difficult task. Examples of bad management, wrong choices, corruption, among other negative notes, not only in Brazil but worldwide, are numerous. Who suffers from it? A directly insured person, who contributed for months and months of his life, to be guaranteed an income that allows his reasonable gain in his old age. When faced with a Special Social Security Scheme, the wrong management ultimately achieves a whole society, as the guarantor of the payment of benefits is the Treasury. In other words, public money, the taxpayers who pay their taxes and want to see the return on this "compulsory investment" in improvements in the City, State or Country.

We can then verify the importance of a well-run pension, solid and structured management principles have for the public entity and the population as a whole. In the vast majority of Brazilian states and municipalities, we see a number of public resources being used for the payment of social benefits - pensions. This is the result of a past in which there was no concern because the civil servants had no pension fund, but were guaranteed and assured that fulfilling the legal working period (35 years for men and 30 for women) his retirement would be guaranteed in integrality by the public purse. Obviously, over the years, this "bubble" would burst and will continue covering much of the public resources for many years. In Porto Alegre, for example, studies show that this old pension system, will grow by the year 2025, will remain stable between 2025 to 2027 (Figure 1), when it will reach approximately 17% of the city's GDP. From 2028, the curve will decline, when the new scheme, which began in 2001, will mature.

Figure 1 - Probable value of projected cash flow[1]

Negative values expressed in Brazilian Reais:



[1] (Departamento Municipal de Previdência dos Servidores Públicos do Município de Porto Alegre, 2015)

The situation of the old model of pension of civil servants does not allow many alternatives to be able to bring definitive solutions. However, the current system, the capitalization regime, this is in our hands and it is our focus. We need, however, rescue the history of the change process of social security of the servants and that is what we will do next.

2 - Brief history how did the Special Social Security Scheme of Civil Servants in Brazil

2.1 - Comparison between the old and the new concept of social security of civil servants in Brazil after the Constitutional Amendments 20/1988 and 41/2003

So we can better understand how today the Special Social Security Scheme in Brazil, presented in the table below, a comparative and evolutionary framework of the text of the Constitution of 1988, as amended through Constitutionals Amendments 20/1998 and 41/2003:

Table 1

	Constituition of Brazil / 1988	**Constitutional Amendment 20/1998**	**Constitutional Amendment 41/2003**
Text Synthesis	Ensures Retirement	Assured character contributory	Assured Social Security Scheme, in character contributory and solidarity
Compulsory Contribuition to	NO	YES	YES

Retirement			
Criteria for Retirement	Only age	Age and minimum period of contribution	Age and minimum period of contribution

As we can see in the chart above, the Brazilian Constitution of 1988[2] guaranteed in Article 40 the right to retirement for public employees, establishing the sole criterion of age. This system prevailed in Brazil until the Constitutional Amendment number 20, in 1998. From there, other criteria were introduced to the constitutional text, such as an obligation of contribution, a combination of two factors for retirement - age and minimum time contribution. Later we have a new amendment, now by Constitutional Amendment Number 41 of 2003 adds, beyond the contributory, solidarity Special System.

2.2 Some key concepts:

- Actuarial Target: in the Brazilian context, is the minimum required return on financial investments of a pension plan, to ensure the fulfillment of future commitments. In the PREVIMPA, the actuarial target is equal to inflation plus 6% (six percent).
- Segregation: the separation of insured linked to RPPS in distinct groups that integrate the Financial Plan and the Pension Plan.[3]
- Simple Allocation Scheme: is based on the flame of solidarity between the participants, i.e., the contributions of members of the scheme, and their "employer" contribution are used for payment of all pensions, pension and other benefits also

[2] (Governo Federal do Brasil, 2015) – Constituição Federal da República Federativa do Brasil, 1988.
[3] (Ministério da Previdência Social, 2015)

participating in this Scheme . The municipality should make the financial support of the values that are missing for the payment of benefits.[4]

- Capitalized Scheme: the contributions of the servants of this regime and their share "employer" form a fund (which must have individual records) guarantor of the payment of benefits by participants, whose values are to be applied in the financial market, according to the standards set by the National Monetary Council and capitalizing.[3]
- Sustainability: according Mattil[5], "Sustainability can be defined in a narrow or in a broad sense. In the narrow sense, sustainability is achieved if a pension system will remain affordable in the future. For an analysis of financial sustainability, total pension expenditure would have to be taken into account, but it is difficult in practice to separate non-public pension income from other investment income in old age."… "Sustainability in the broader sense is closely linked to the perception of distributional equity, since this perception depends on the accepted level of redistribution of incomes within and between generations."

The context is extremely important to understand the source of the social security deficit that hangs today and that will reach cities and states in Brazil, in at least another twelve years: before the changes introduced in 1998, there were no savings, there was no contribution or solidarity and responsibility, was and still is, for the older servants, by Treasury.

Was the route of social security in Brazil corrected? As I mentioned earlier, security is constantly evolving and transforming. But we can say that, in a sense, yes, there have been

[4] (Departamento Municipal de Previdência dos Servidores Municipais de Porto Alegre, 2015)
[5] (Mattil, 2006) – Pension Systems – pages 16 and 17

considerable advances in the Security of Civil Servants in Brazil, as regards to the contribution, solidarity and public resource management. There is much discussion about the ideal model: Special Social Security or Supplementary Scheme. We can say with certainty that there are no magic formulas, nor unique: the study must be done case by case, with technicality and responsibility. What applies to a municipality or state, is not necessarily worth to the other. It must be very careful and safe accordingly.

2.3 - The creation of PREVIMPA – Municipal Department of Special Social Security Scheme of Public Servant of Porto Alegre

The Social Security System of Public Employees of the Municipality of Porto Alegre was created by Complementary Law 466 on September/06/2001. This law defines the rules of transition and modification of the Retirement System of the City, temporarily creating the Municipal Servants Pension Fund of the Government of Porto Alegre, based in the form of Constitutional Amendment 20/1998. From that moment, the city of Porto Alegre, held its segregation, starting Capitalized Regime, with contributory and solidarity character, assuming the payment of retirement, and completeness of pensions, managed until then, the Montepio Employees of the Municipality of Porto Alegre.

In 2002, through the Complementary Law 478, PREVIMPA - Municipal Department of Special Social Security Scheme of Public Servants of Porto Alegre - was finally created, as well as disciplined Special Social Security Scheme of Servants of the Municipality of Porto Alegre, with administrative and financial autonomy and its own legal personality.

The pension management in the municipality of Porto Alegre, therefore, is made by PREVIMPA. Even for those servants that are under the Financial System, whose burden of payment is fully Treasury, the granting of the benefits is the responsibility of this Department. However, analyzing the financial and economic point of view, the main mission of PREVIMPA is in the management of funds for the payment of the new scheme, which we call CAPITALIZED REGIME. With character contributory, solidarity, seeking financial and actuarial balance, it's purpose is to ensure the payment of social benefits, the incoming server in the municipal public service from September 10, 2001 solidarity.

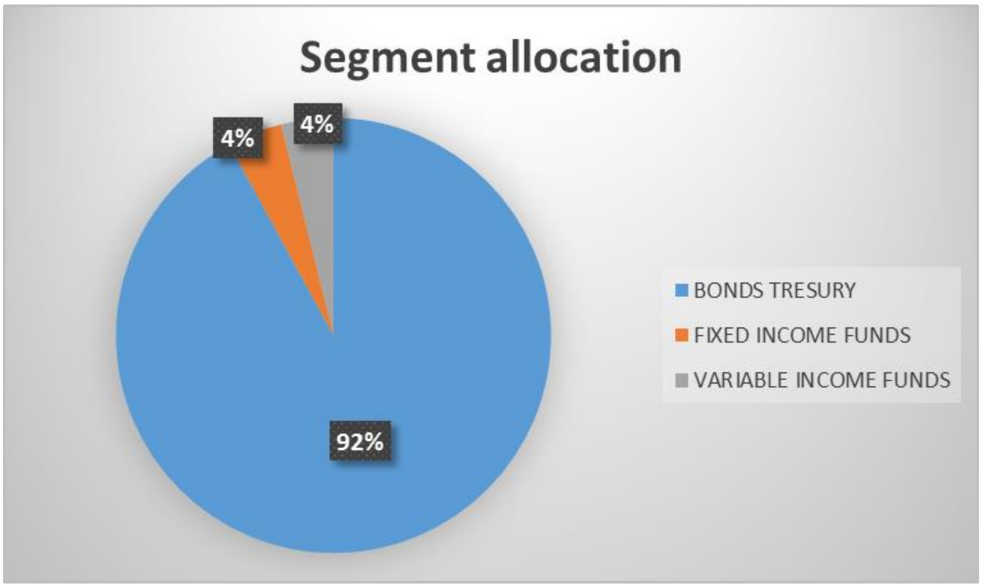
The assets managed by PREVIMPA with updated values until September / 2015 is R $ 892,297,584.93 (eight hundred ninety-two million, two hundred ninety-seven thousand, five hundred and eighty four Reais and ninety-three cents).

Such investments are distributed as follows:

Table 2

Segment	R$	Allocation
BONDS TRESURY	R$ 821.380.945,71	92,05%
FIXED INCOME FUNDS	R$ 36.259.918,01	4,06%
VARIABLE INCOME FUNDS	R$ 34.656.721,21	3,88%
TOTAL	R$ 892.297.584,93	100%

Figure 2 [6]



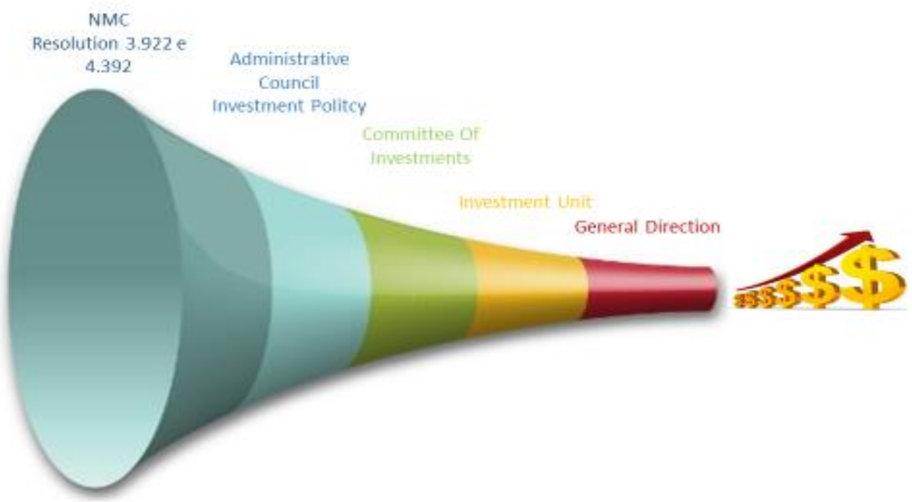
[6] (Departamento Municipal de Previdência dos Servidores Públicos do Município de Porto Alegre, 2015)

The decision making of PREVIMPA investment is suitable for Federal and Municipality legislation on the subject. We split into two major components the process of choosing allocation of resources:

- External Components:
    - Resolutions 3922/2010 and 4392/2014 – National Monetary Council
    - Ministerial Order 519/2011 and changes – Ministry Of Social Security
- Internal Components:
    - Administration Advice of the PREVIMPA through the Investment Policy
    - Investment Committee of PREVIMPA
    - Investment Team and General Direction of PREVIMPA

In the figure 3, we can view a better way of making investment allocation decision PREVIMPA:

Figure 3



3 - The rules for investment of these Funds

3.1 - Which investments permitted by Brazilian Special Social Security Scheme

Brazil's Central Bank, through Resolution 3922 / 2010 as amended, provides for the application of resources of their own social security systems set up by the Federal, State, Federal District and Municipality governments. This rule allows RPPSs your investments are made in three segments: FIXED INCOME SEGMENTS, VARIABLE INCOME SEGMENTS and REAL ESTATE.

Let us see following, the limits imposed by Resolution 3922 / 2010 for each application segment:

"Art. 6 For calculation purposes the limits set out in this Resolution are not considered applications in the rate estate.

Subsection I

Fixed Income Segments

Art. 7 In the fixed income segment, the uses of funds of their special social security scheme are subordinate to the following limits:

*I – up to **100%** (one hundred percent) in:*

a) Treasury National Bonds, registered in the Special System of Clearance and Custody (SELIC);

b) shares in investment funds, constituted as open condominium, whose regulations provide that their respective portfolios are represented exclusively by bonds set in item "a" herein and whose investment policy make a commitment to seek the return of the sub-indices *the ANBIMA Market Index (IMA) or duration Constant Anbima Index (Idka), except for any sub-index linked to the interest rate of one day;*

II - up to 15% (fifteen percent) in repo operations backed exclusively by bonds set out in paragraph "a" of item I;

III – up to 80% (eighty percent) in:

a) investment fund shares classified as fixed income or as referenced in fixed income performance indicators constituted as open condominium and whose investment policy make a commitment to seek the return of the sub-indices of ANBIMA Market Index (IMA) or duration Constant Anbima Index (Idka), except for any sub-index linked to the interest rate of one day;

b) quota fixed income index funds whose portfolios are composed of financial assets that seek to reflect the variations and profitability of the sub-indices of ANBIMA Market Index (IMA) or duration Constant Anbima Index (Idka), except for any sub-index linked to interest rate than a day;

IV – up to 30% (Thirty percent) in:

a) shares in investment funds classified as fixed income or as referenced in fixed income performance indicators constituted as open condominium;

b) index fund shares whose portfolios are composed of financial assets that seek to reflect the changes and profitability of fixed income benchmarks;

V – up to 20% (twenty percent) in:

a) savings deposits in financial institutions considered low credit risk by those responsible for resource management of their special social security scheme, based, among other criteria, on classification made by rating agency operating in Brazil;

b) Guaranteed Mortgage Bonds;

VI - up to 15% (fifteen percent) in the senior class of shares of investment funds in credit rights, constituted as open condominium;

VII - up to 5% (five percent) in:

a) Senior class of shares of investment funds in credit rights, constituted as the closed condominium; or

b) investment fund shares classified as fixed income or as referenced in fixed income performance indicators containing in its name the word "private lending".

...

Variable Income Segment

Art. 8 In the variable income segment, uses of funds of their special social security systems subordinate to the following limits:

I - up to 30% (thirty percent) in investment fund shares constituted as open condominium and classified as referenced to identify in its name and its performance indicator investment policy linked to the Ibovespa, IBrX and IBrX-50;

II - up to 20% (twenty percent) on index fund shares referenced in shares traded on the stock exchange, assuming only the Ibovespa, IBrX and IBrX-50;

III - up to 15% (fifteen percent) in investment fund shares into shares constituted as open condominium, whose funds regulations provide that the shares of index funds referenced in shares composing their portfolios are within the scope of the planned indexes in section II of this article;

IV - up to 5% (five percent) in investment fund shares classified as multimarket, constituted as open condominium, whose regulations state that this is unleveraged funds;

V - up to 5% (five percent) in investment fund shares in participations, established in the form of closed condominium;

VI - up to 5% (five percent) in shares of building investment funds with shares traded on stock exchanges.

Single paragraph. Applications under this Article cumulatively limit will be 30% (thirty percent) of the total investment of the resources of their special social security scheme and the concentration limits per issuer as regulations issued by the Brazilian Securities Commission (CVM).

...

Real Estate Segment

Art. 9 Applications in the real estate segment will be made exclusively with properties bound by law to special social security scheme.

Single paragraph. The properties of the caput may be used to acquire shares of real estate investment funds, whose shares are traded on the stock exchange environment."

3.2 – Summary of Investment Rules for Closed Entities of Complementary Pension in Brazil - EFPC

So we can draw a comparative table of the main differences and investment opportunities for RPPSs and EFPCs, let's see what the National Monetary Council resolves, through Resolution 3792/2009:

"Art. 17. The investment of the resources of the plans managed by the EFPC should be classified into the following application segments: I - fixed income; II – variable income; III - structured investments; IV - foreign investments; V – real estate; and VI - transactions with members."

We also highlight:

"Art. 24. The EFPC can borrow securities and values of their portfolio in compliance with the rules on securities lending by cameras and clearing and settlement service providers established by the National Monetary Council (CMN) and the regulatory measures adopted by CVM.

Single paragraph. The securities borrowed and securities must, even in this condition, qualify for verification of the limits set out in this Resolution."

In the table below, we try to highlight the main differences between the possibilities for investments of Special Social Security Scheme (RPPS) and Closed Entities of Complementary Pension (EFPC) in Brazil:

Table 3

Application Segment	**EFPCs**	**RPPSs**
Stock Market	Yes	Only through Investment Funds
Real Estate	Yes	Only through real estate funds

Foreigner Investment	Yes	No
Transation with Members	Yes	No
Partnership with Special Purpose (SPE)	Yes	Only through investment funds in participations

The differences shown in the table above represent a very large gap in investment options from one to another type of scheme.

For a RPPS as PREVIMPA, whose actuarial goal is tax inflation plus 6% (six percent) interest per year, it is more and more difficult to achieve it with the restrictions. However, despite the difficulties, we draw a comparison between the results obtained in PREVIMPA compared with the average EFPCs (Figures 3 and 4).

Important also stand out, the real estate valuation in Brazil in recent years. If we analyze this market between 2006 and 2014, the real estate values reached 121%, as published in the site of the *Estadão*[7]. A considerable portion of investments in EFPC is in the real estate portfolio, which itself represents considerable gains.

Figure 4 – Annual Return: EFPCs x PREVIMPA

[7] (Estadão, 2014)

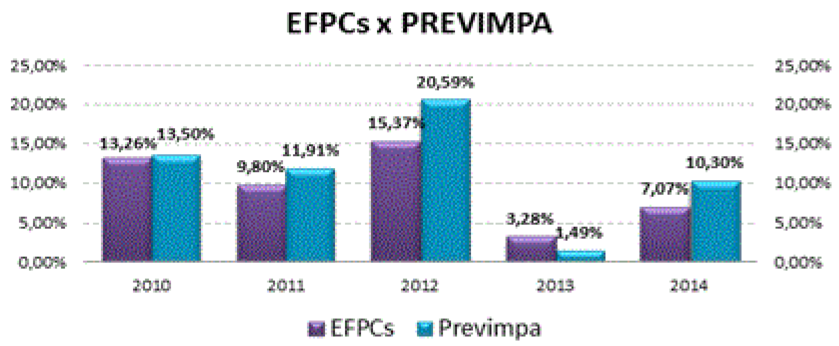
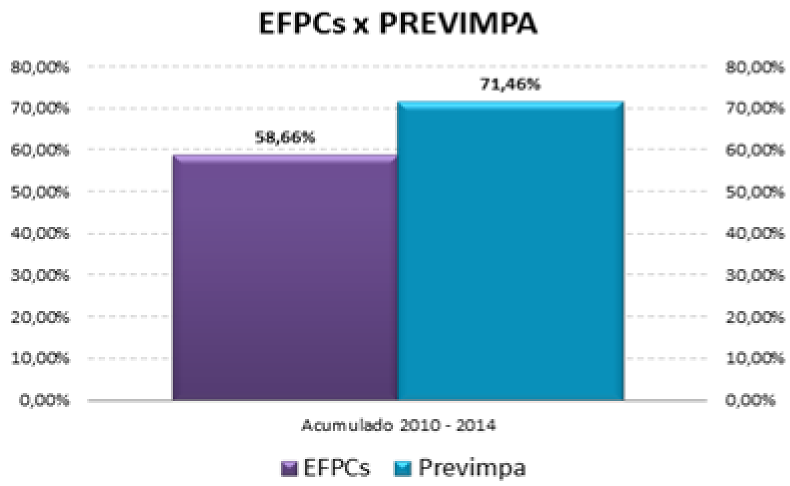


Figure 5 – Cumulative Return – EFPCs x PREVIMPA



4. How to invest the major foreign pension funds:

In research conducted in investment allocations of the some pension funds in the United States and Canada, we try to highlight some interesting allocations and that can serve as a model for RPPSs in Brazil.

4.1. **CalPERS - California Public Employees Retirement System[8]**:

CalPERS is committed to investing in California, seeking competitive risk-adjusted returns, contributing, as can be seen in the investment policy of the Fund, to the well-being of State, their localities and residents. Second data CalPERS in June / 2014, U $ 25.7 billion was invested in California in asset classes into government bonds, fixed income, private equity, real estate and infrastructure. These investments supported 1.4 million jobs in California.

California Infrastructure Program: In 2011, the CalPERS Board of Directors approved the allocation of up to $ 800 million over three years for investment in infrastructure in California, obviously focused on investment opportunities able to meet profitability targets, adjusted for risk. Noteworthy is the fact that such businesses should have the potential to benefit local economies and essential services to the California community. To achieve this goal, CalPERS has developed a dissemination plan to involve state and local governments to facilitate investment in infrastructure in California. Also participated in the creation of the new West Coast Infrastructure Exchange (WCX), an organization that brings together key stakeholders in California, Oregon, Washington, and British Columbia focused on meeting the needs of infrastructure in the region.

Another segment of the investment fund is through the California Initiative. California Initiative is a private equity investment vehicle of U $ 1 billion, which invests in private companies in the poor markets, located primarily in California. The goal is to generate attractive financial returns. As an accessory benefit, the California Initiative is designed to create jobs and promote economic opportunities in California. To determine the extent of ancillary benefits, measures the impact of CalPERS California Initiative examining portfolio companies:

[8] (CalPERS, 2015)

- Employ workers living in economically disadvantaged areas
- Provide employment opportunities for women
- Entrepreneurs belonging to minorities and managers who traditionally have limited access to institutional capital

4.2. **New York State Common Retirement Fund[9]:**

Third largest pension fund in USA, with $ 184.5 billion of net assets (March 31, 2015). It has a strong historical investment performance. As a long-term investor, the Fund has a diversified investment approach that capitalizes on market opportunities and withstand ups and downs of the market. In the long-run, the assumed rate of return Fund to meet current and future retirement benefits is 7.5%.

Just as CalPERS, the fund seeks to help the growth of New York companies. The very controlling the fund guides to invest in business ventures in New York, and businesses and other programs that stimulate economic growth, capable of creating and maintaining jobs.

The Fund invests in:

- Invests in private equity funds that target technology-based startups and established businesses looking for capital to expand through the In-State Private Equity Investment Program;
- Finances small, private business loans through the New York Business Development Corporation (NYBDC) Program;
- Provides capital to the Community Preservation Corporation for affordable housing construction;
- Invests in commercial real estate properties;

[9] (New York State Office of the State Comptroller, 2015)

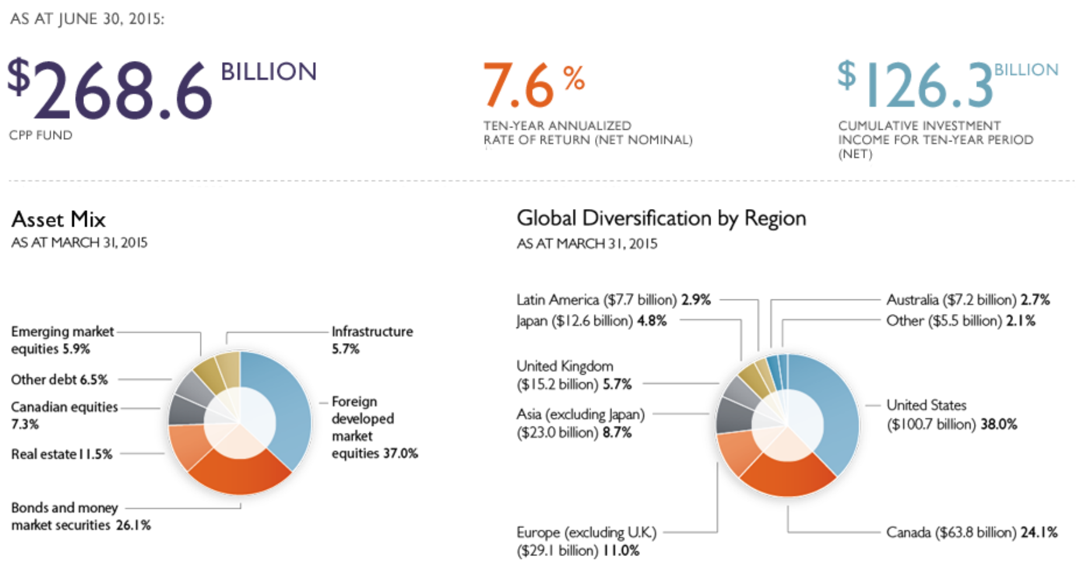
- Seeks smaller and niche investment managers to invest with, for instance, minority- and women-owned firms—through the Emerging Manager Program. Source: http://www.osc.state.ny.us/pension/index.htm

4.3. **CPP Investment Board[10]**:

The CPPIB emerged out of the realization in the 1990s that the CPP fund was unsustainable primarily because Canada Pension Plan benefit payments were exceeding contributions and changing demographics were leading to fewer workers supporting a growing number of retirees. Federal and provincial finance ministers, who act as stewards of the CPP, took bold action, including creating the CPP Investment Board and making other changes to the CPP. This new organization, operating at arm's length from governments, would invest the funds of the CPP to help ensure its long-term sustainability.

It has highly diversified investment portfolio and investments in the global economy. As we see in Figure 6 seeks investments in emerging markets, infrastructure and real estate.

Figure 6:

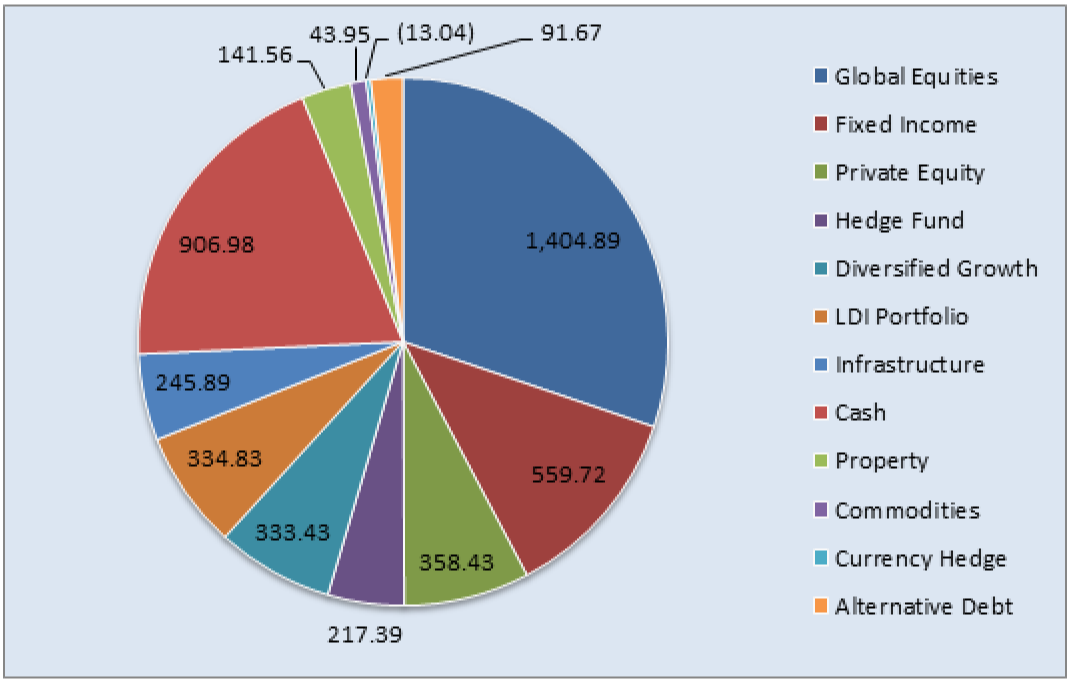


[10] (CPP Investment Board, 2015)

4.4. London Pensions Fund Authority[11]:

The London Authority Pension Fund has assets under management as of March 31 2015 of £ 4.6 billion. Also has broadly diversified portfolio of investments (Figure 7). Good positioning in infrastructure, diversified growth and properties.

Figure 7



5. The distribution of taxes in Brazil – Short Brief

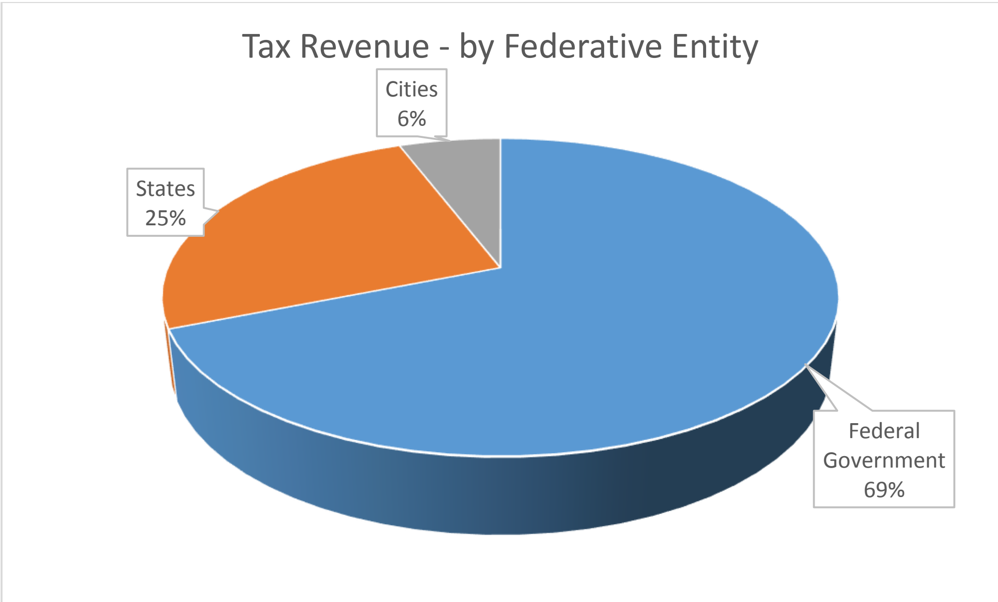
Taking not as a model but as a positive experience, the portfolio of investment, mainly the pension funds of major economies of the world, especially those presented in the previous chapter, as in California, we have a very significant scenario: REGIONAL INVESTMENTS.

[11] (Polemark, 2015)

Investments with capacity of return, but that has as objective the local development of cities, states and, therefore, of the society in which they live the Pension Funds. This theme is important in the development of this work.

According to the Internal Revenue Service of Brazil, in 2013, Brazil occupied the 13th position among the countries of the Organization for Economic Cooperation and Development - OECD, with the highest total tax burden. In Latin America, according to the same source, in 2012 we were second only to Argentina. The same report, the total taxes collected in Brazil, the contribution of each Federative Entity is distributed as follows:

Figure 8:



It is easy to observe that the lower share tax revenue in Brazil is the responsibility of cities. In Porto Alegre, for the year 2015, the Annual Budget Law, predicted that municipal own revenue, correspond to 49.34%[12] of total.

[12] http://www2.portoalegre.rs.gov.br/smpeo/default.php?p_secao=20 – Lei orçamentária anual - Apresentação (Prefeitura Municipal de Porto Alegre, 2015)

For municipalities to survive, they are guaranteed the transfers of the Union and States through the Funds for participation of the states and municipalities, in addition to transfers to various funds, especially education and health. Noting that Article 212 of the Federal Constitution of Brazil, requires municipalities and States invest 25%, at least, of its revenue in Education, and combined with Complementary Law 141/2012[13], determines the investment of 15% of municipal revenues in services related to the Health Unic System - SUS.

This briefing already makes clear the immense difficulty that municipalities in Brazil have to invest in economic development and infrastructure. As a large share of taxes rests with the federal government and the states. Especially if we deduct the entire collection, funds with mandatory allocation and payroll of public employees, as a rule, close to 50% of the total collected.

Thus, there is no alternative to cities other than the search for financing, either through the resources of the Union's programs, especially the Ministry of Cities, and of Investment Banks: National Development Bank - BNDES, Inter-American Development Bank - IDB, among others.

In the following chapter, we will introduce one that can be a new way of development for our cities.

6 – The Special Social Security Scheme as actor of the Economic Development

What we observe in RPPS today is that the vast majority of them, including the PREVIMPA, keep your investments in Bonds Treasury. This is for two main reasons:

1 - The security that Bonds Treasuries have;

[13] Complementary Law 141, January / 13/2012, Article 7

2 - The products offered by financial institutions.

In the first aspect, in addition to security, there is a lack of structure in many RPPSs. Be in human resources, skills or physical structure. Many governments understand the Social Security Scheme simply as a holder of public resources, not seeing its importance in the long run.

In another aspect, the Financial Institutions, we can report our experience in PREVIMPA: a number of Investment Funds - Real Estate, Infrastructure, Credit Rights, Forestry, etc. - Administered or managed by entities with great credibility, which after analysis and in-depth studies, are discarded because it does not feature viability to deliver the assumed income, or because they often do not fit the law, preventing any possibility of receiving RPPS investments.

How to change this game? You can find better investment opportunities? The answer is YES.

6.1 – Working Group of the Special Social Security:

It is not today that the PREVIMPA has the idea of uniting the strength of the Special Schemes from Rio Grande do Sul, and seek ideas by investment that are able to bring local benefits. The first movement emerged about three or four years ago through the construction of administrative centers in some cities. But there was no prosperity in the project. At the end of 2014 and in 2015, resumed the proposal to establish a working group focused on seeking alternative investments looking at the state of Rio Grande do Sul as a whole.

The ultimate goal of this group is to reverse the logic which we are accustomed, i.e., unlike stay waiting for a Financial Institution to present the business opportunity, we will pursue these opportunities and partnerships, including banks, to build investment funds with profitability of capacity, aimed at local development.

There are two ways of investing without hurting CVM Resolution 3922: the Real Estate Funds (5% of the equity of RPPS) and Investment Funds in Participations (also limited to 5% of the equity of RPPS). To note that in the case of PREVIMPA, considering the assets of the fund in September / 2015 (Table XXX), would be the investment capacity in the order of approximately R$ 89,000,000.00 (eighty nine million Reais).

Focus on local development, investing in cities and states, does not mean abandoning the capital incomes. According Mattil[14] "capital incomes reflect the return on investments, which is crucial for every type of pension provision that is based on the accumulation of capital."

According to Jakell[15], "the central function of the pension system is managing the risk that some random events could leave old people impoverished". In addition, more "management of risks does not make the underlying risks disappear, the risks must still be borne by someone. The benefit of insurance and risk management is that individual agents can escape risks that are concentrated in their hands and spread these risks over many agents so that negative effects on the individual are marginalized. Therefore, risk management implies always risk sharing." It is very clear that the higher the risk of an investment, the greater your chance of return.

6.2 A few steps to the working group:

As we mentioned earlier, in Brazil the RPPS, in general, has a very conservative behavior. The proposal that the PREVIMPA is bringing, is growing more within the limits of what is possible grow, i.e., 10% of the equity of each fund.

[14] (Mattil, 2006) – Pension Systems – page 31
[15] (Jakel, 2006) – Pensionomics – page 246

Decision making in the formation of investment funds mentioned in item 6.1, requires much more than the analysis of Liquidity, Market and Credit. Out targets are the formation of the fund, business of the opportunities (will be discussed in the next chapter), the analysis of the markets, finally, construction of the investment, step by step, in order to mitigate other risks.

Investments – Principles of Portfolio and Equity Analysis[16], the authors present some steps to be followed:

- “The Planning Step
  - Understanding the client’s needs
  - Preparation of an investment policy statement (IPS)
- The Execution Step
  - Asset Allocation
  - Security Analysis
  - Portfolio Construction
- The Feedback Step
  - Portfolio monitoring and rebalancing
  - Performance measurement and reporting”

In the first step, we have a huge gain, since the client himself is within the process, aware of their needs and meeting their legal possibilities for the construction of investment policy. In the second step, according to the authors, “is for the portfolio manager to construct a suitable portfolio based on the IPS of the client. The portfolio execution step consists of first deciding on a target asset allocation, which determines the weighting of asset classes to

[16] (McMillan, Pinto, Pirie, & Venter, 2011) – pages 156 - 159

be included in the portfolio. This step is followed by the analysis, selection, and purchase of individual investment securities."

The third step, "finally, the step assists the portfolio manager in rebalancing the portfolio due to a change in, for example, market conditions or the circumstances of the client".

Note that the proximity to clients is extremely important in this building, fully justifying the initiative we are proposing, as the client, will be one of the key players in the construction of the investment.

7 – Conclusions:

In the scenario studied and researched, we are left with the conviction that the RPPSs can and should tread a new path for their investments. The initiative of PREVIMPA is quite grounded in the modern economy, in innovation and seeks social development.

Regarding innovation, the authors in the Work Innovations in Financing Public Services[17], claim: "innovation refers to implementation of a new idea or to novelty in the action and application of a new product, service or method fostering economic growth". And still "according to classic criteria, a change or reform is innovative if it is both new and successful, perhaps leading to 'creative destruction' in the Schumpeterian sense. Taking this perspective, innovation, in public finance should destroy old methods and solutions, or, at least, supplement them in a value-adding way"

It is foolhardy and impossible in a pension fund for the disruption or destruction of old methods or solutions. But to complement and aggregate experiences is fundamental. That is our challenge.

[17] (Bailey, Valkama, & Anttiroiko, 2010) – pages 2-3

Therefore, it is to present some proposals: a new look at opportunities that are very close to us. We operate in society in which we work as public servants. What's more, RPPSs are investors, and have a great chance to transform and innovate in public finance: the payment of benefits of the servers alone, it is to ensure that tax resources are invested in improving the conditions of life. Going beyond, investing in social development, seeking profitability, generating income, employment and economic growth, adding value to your investment portfolio, is the connection we need for the sustainability of RPPSs and state and local government finances.

Then, our approach will demonstrate which may be investment opportunities in the local economy.

7.1 - Investments in Infrastructure:

There is no economic and social development without infrastructure investment. Even the Institute of Applied Economic Research – IPEA, of Federal Government of Brazil, in the publication "Impact of the economic infrastructure of the development"[18], it says, "have long recognized the importance of adequate economic infrastructure for generating an enabling environment. However, many developing countries still invest little in this area. The infrastructure - both promoted by the State or the private sector - has the potential to make productive investment more profitable, as it raises the systemic competitiveness of the economy, improving transport conditions, communication and power supply, as well as promoting effects multipliers and enablers of the economy." Still follows the article: "Today, in Brazil, some major investments in the economic infrastructure area are being carried out by private companies that have acquired concessions, permits or even who bought strategic companies in privatization plans. This applies, for example, the telecommunications companies, electric power distribution and railway concessionaires. Some sectors are more

[18] (IPEA - Instituto de Pesquisas Econômicas Aplicadas, 2015)

likely to receive private capital, their services generally occur by charging tariffs, or obtain revenues. This is the case of telecommunications, electricity, port terminals etc. These sectors require economic regulation, which should ensure a balance between the appropriate return on invested capital and reasonable tariffs, in order to protect the user and generating social welfare gains. Tariffs must reflect the functioning of a competitive market, considering costs, security of supply and productivity, so that the efficiency gains are allocated between operators and users. For investments characterized by high volume of capital required, low rate of return, demand risks or insufficient demand, it is not possible to attract private capital. In such cases, the state should be responsible for carrying out the relevant works, so that the economy does not suffer from lack of accessibility or essential inputs supply. Moreover, investments where the return rate is less than the cost of capital opportunity, an alternative is to get the government complementing its financial viability through fiscal resources. These are called Public-Private Partnerships (PPP). "

There are several examples of PPP successfully carried out both in Brazil and worldwide. The book Innovations in Financing Public Services, addresses the PPP in infrastructure such as the Private Participation in Infrastructure - PPI. Bringing the following vision: “PPI provides a stable and long-term investment opportunity for the private sector. the PPI system can mobilise more capital than the government can do alone by eliciting extra capital do invest in PPI projects from pension funds as well as the private sector. PPI will not only help the circular flow of money in the economy by inviting private capital which is looking for investment opportunities intro public projects, but will also enhance economic growth and competitiveness”[19]

Also the Study Center of the Brazilian Institute of the Capital Markets -IBMEC- in your note CEMEC 07/2015, provides that "Infrastructure investments do not face insufficient

[19] (Bailey, Valkama, & Anttioroiko, 2010) – page 40

demand problems and could attract private investment including foreign ones, and can be increased since the conditions for predominant participation of private savings to be created...”

As can be observed, investment in infrastructure is critical to the development of any country, state or city. Even more in the Brazilian context. Creating a FIP - Investment in Participations Fund - such as we are proposing, will be possible the entry of RPPSs in the infrastructure business. In this case, we must have great care in FIP manager, since he must have outstanding knowledge for this operation.

7.2 – Real Estate Funds:

Another form of investment for RPPS is through the Real Estate Fund. The moment of contraction of the Brazilian economy, leading to cooling of the real estate, is a good opportunity for doing business.

The RPPSs, as well as EFPCs, if there is good planning of its frill payments (cash flow), have the ability to invest long-term. In some cases, even a lot of liquidity can be detrimental.

Great alternatives to this type of investment are very close to us. One possibility is the 4th district of Porto Alegre. Since the city government has already sent "to the City Council, Law Project of tax incentives granting reduction Tax on Services of Any Kind (ISSQN) for research and development in technology and health services in all regions of the city. The proposal also provides for the free-tax of property and ITBI, for a time, the buildings used for technology-based companies or innovative companies that will be installed in neighborhoods Floresta, São Geraldo, Navegantes, Humaita and Farrapos on the 4th Capital Region "[20].

[20] (Prefeitura Municipal de Porto Alegre, 2015)

Another alternative is the resumption of construction of the Municipal Administrative Centers in major cities such as Porto Alegre, Canoas, Novo Hamburgo and Caxias do Sul, as well as others that may join the business. Only Porto Algre spends approximately R$ 5,000,000.00 (five million reais) / year on property rentals. Also, even in big cities, the demand for parking garages is ever growing, yet the economy is in a recession.

Finally, alternative investment in the form of a tourist operation has in Washington DC, specifically with the Potomac River. In this location, there are many recreational areas and projects that bring people together by a beautiful natural resource, but also enables the profitability of enterprises nearby. The revitalization of Lake Guaiba in the Historic Center is present on the political agenda of Porto Alegre. But we can still expand the revitalization, as there is possibility of revival in the south zone of the city, or in the islands or even the opposite orla to Porto Alegre, creating spaces for coexistence, and businesses such as restaurants, shops, sports, recreation and leisure, following the model of Washington DC.

7.3 - Investments in new technologies and entrepreneurship:

Another line of investment that is very close to us, but that is still not properly observed by RPPSs and EFPCs are companies focused on technological innovation, entrepreneurship and start-ups. This type of investment can be made possible by FIP.

Brazil has had a wide range of discoveries and technological development of new entrepreneurs in many different branches such as: smartphone applications, construction, and drug production. Many of these innovations will eventually leave the country because of a lack of investors and appropriate incentives, making them an easy target for foreign investment.

What happens in these cases? After some time, these small businesses become extremely profitable, entering the international market, and becoming true giants. Investors have monetized their capital on a geometric scale.

Of course, investing in new and innovative companies has risks. But the logic of the market shows that, the greater the risk, the greater the likelihood of recurrence. According to Angel Investing[21], “investors with an appetite for getting involved in growing entrepreneurial firms - either to complement their existing stock portfolio or to satisfy their entrepreneurial ambitions - should also understand how to invest their money most effectively and learn how the professionals do it. For many others businesses, Angel Investing is a suitable, and potentially very profitable, investment option that they should consider.”

Another important aspect in the investment of these companies is the growth of the local economy, including job creation. Even the authors say[22], “most new jobs are created by a small percentage of firms growing at a rate of at least 20 percent per year, the so-called entrepreneurial firms. Since 1979, more than 75 percent of net new jobs have been created by around 8 percent of small businesses. These firms are started and driven by true entrepreneurs, not small businessmen or businesswomen.”

The move of the government of Porto Alegre to encourage, through tax-free, the installation of technology companies, especially in the 4th District, by itself is an excellent indicator of the pursuit of maintaining these companies on local soil. The PREVIMPA has sought serious approach with the Regional Bank of the South Region Development - BRDE - and Project Management Agency - AGE - the Pontifical Catholic University of Rio Grande do Sul - PUC RS.

[21] (Osnabrugge & Robinson, 2000) – page 6
[22] (Osnabrugge & Robinson, 2000) – page 9

The AGE, which integrates INOVAPUCRS network, aims to structure and develop projects generated at PUCRS, as well as facilitate the structuring of investment funds for these projects. The other "arm" of the network is the RAIAR - Business Incubator of the PUCRS, which aims to encourage and make operational the entrepreneurial vision of PUCRS community. Through the Incubation Program and Startup Garage, the RAIAR supports business projects, giving support advice and in infrastructure, turning them into competitive enterprises that are ready to act in the market[23].

As we can see, there is a great investment opportunity and profitability which we can join through the FIP. Many of these projects require few financial resources with great possibilities of profitability. The great advantage in establishing partnerships with universities is that these incubators work together through the whole process of creating of the company, from production line to management. When a project is proposed for investment, it is stressed to exhaustion, making it the target of investors as it represents more security to invest.

The RPPS of Rio Grande do Sul, we believe, has a chance of profitability combined with social development. These small companies, whose enormous growth has potential to ensure the recovery of our economy, attract jobs, create new enterprises, businesses, and sources of funds and income, and improve living conditions, such as education and health.

7.4 - Final Considerations:

To conclude, we understand that there are many challenges we face as Special Social Security Scheme, especially in a time of scarce public resources. We have to seek new opportunities and take on new, calculated risks.

[23] (PUC RS, 2015)

The PREVIMPA, as quoted at the outset, has been a reference for many RPPSs. We trust that joining forces with them to do something new will result in sustainability and return on investments.

Of course other actions are necessary for the RPPS to lower the deficit in coming years. The National Council of RPPSs - CONAPREV - is fundamental part of it. Searching the qualifications of managers and investors, proposing legislation, equating the RPPSs to EFPCs, providing social security compensation between schemes and a number of other actions are also essential for the future of the Special Social Security Scheme.

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