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## BB Gestao de Recursos DTVM S.A.

### Manager Quality Analysis

#### Assessment Rationale

##### Assessment: MQ1 (Excellent)

Moody's assessment of [BB Gestão de Recursos DTVM \(BB DTVM\)](#) investment manager quality is MQ1 (Excellent). BB DTVM is an affiliate of [Banco do Brasil](#) (Ba2 stable, ba2) and the largest asset management company in the country. As of 30 September 2019, assets under management totaled BRL 1,056 billion (approximately US\$254 billion). The MQ1 assessment reflects Moody's view of the asset manager's excellent management characteristics.

The MQ1 assessment is primarily based on: (i) the disciplined and well established investment process, (ii) the strong market position and franchise value supported by its parent Banco do Brasil, (iii) the moderate risk-adjusted performance of its funds and (iv) its established risk management procedures. The challenges ahead for BB DTVM are: (i) maintaining market position in an increasingly competitive landscape and (ii) improving its fixed income funds' risk-adjusted investment performance.

#### Recent Developments

In the first nine months of 2019, BB DTVM experienced BRL 78 billion of net inflows, mainly in the fixed income segment. During the same period, the industry had a BRL19.9 billion outflow in this segment. Flows in the fixed income segment have been weak, given the lower interest rates in the country that prompted a net flows shift from the segment to multimarket and equity funds.

The company has been able to grow its assets under management and to maintain its market position as the leading player in Brazil, supported by the strong franchise of Banco do Brasil. BB DTVM continues to benefit from an extensive distribution and client service reach of the bank, including branches, points of service and offices worldwide. The company continues to present moderate risk-adjusted performance in most categories of funds.

## Assessment Overview

Exhibit 1

Asset Management Entity	
Name	BB Gestão de Recursos DTVM
Commencement of Operations	1986
Moody's Assessment	MQ1
Assets Under Management (September/19)	BRL1,056 Billion (US\$254 Billion)
	The largest Manager in the country with 21% market share
Headcount	292 (114 directly involved in investment management activities)

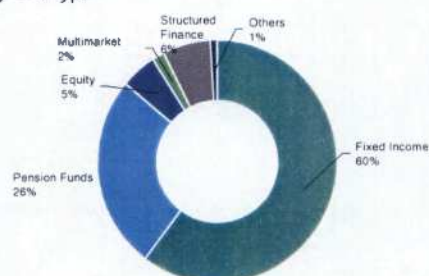
Source: Moody's Investors Service

Headquartered in Rio de Janeiro, Brazil, BB DTVM is the largest asset manager in the country and a fully-owned subsidiary of Banco do Brasil (Ba2 stable) the largest bank in Brazil, with a 20% market share as measured by total savings deposits. Banco do Brasil has one of the largest distribution networks among Brazilian Banks, with over 5,440 branches servicing almost 64.8 million clients.

BB DTVM began operations in 1986 as the asset management arm of Banco do Brasil and has been the market leader since 1994. BB DTVM is a key component in the group, as it improves Banco do Brasil's capital generation capacity as well as provides strong cross-selling capabilities.

Exhibit 2

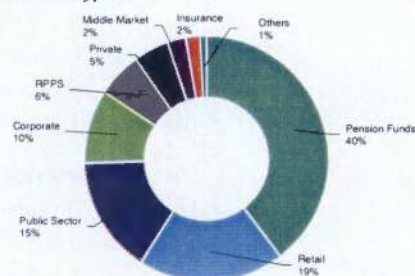
### Assets under management By fund type



Source: Anbima

Exhibit 3

### Assets under management By investor type



Source: Anbima

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## Factor 1 – Investment Management Activities

### Investment Methodologies:

We consider BB DTVM's investment identification process, the quality of its asset allocation processes as well as its capacity to match a fund's objective with an investment strategy as positive factors when evaluating the company's investment decision process. BB DTVM's investment management process follows both a top-down and a bottom-up approach to execute its investment strategy. The investment process is coordinated by a variety of committees and sub-committees that follow a disciplined investment policy, characterized by the use of derivatives mainly for hedging purposes, the constant monitoring of market, credit and operational risks, and targeting long-term performance. Committees allow a free exchange of opinions among traders, portfolio managers, risk managers, analysts, macroeconomic and investment analysts, ensuring that decisions are not made based solely on the judgment of an individual, but reflect the majority opinion. Investment process counts on a variety of models, quantitative tools and integrated systems that support decisions and allow for monitoring risks. Risk management is an integral part of BB DTVM's investment management activities. In addition, the multiple layers of surveillance and the fact that the conglomerate is owned by the federal government increase the pressure on BB DTVM to have very tight risk control and management procedures.

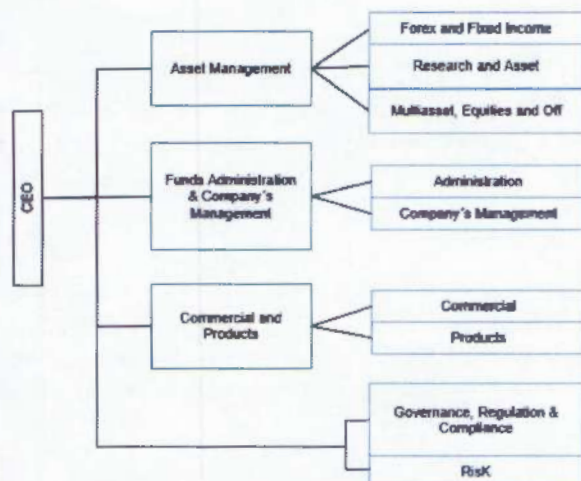
### Investment Infrastructure:

BB DTVM has an excellent investment infrastructure, with real time portfolio management, risk controls and compliance systems. The company has continuously invested in upgrading the technological infrastructure to expand its operations and serve its clientele. We consider that BB DTVM has a very low exposure to business interruption risk.

### Organizational Structure:

BB DTVM's asset management area is comprised by 292 employees, 114 of which are directly involved in investment management activities. The organizational structure allows for a well-defined separation of functions and proper definition of supervisory responsibilities and report lines.

### Organization Structure



Source: BB DTVM

## Factor 2 – Investment Results

### Investment Skill and Risk (\*):

BB DTVM's Investment Skill and Risk scores are moderate and funds have shown good risk-adjusted performance relative to local benchmarks. In the fixed Income segment, the company increased its position to 3rd quintile. In the Equity segment, the company's risk-adjusted results marginally deteriorated during the first half of 2018, dropping to the 5th quintile. However, as of June 2019 it returned to the 4th quintile. In the multimarket segment, the company's risk-adjusted results maintained its position in the 4th quintile. In the previdência<sup>3</sup> segment, the company's risk-adjusted results were stable last semester and BB DTVM achieved the 4th quintile. Overall, Moody's views the company's investment performance to be moderate and funds have generally outperformed their respective benchmarks, although they have not consistently outperformed local peers. Moody's expects BB DTVM's investment performance relative to local peers to improve going forward, given its excellent investment management capabilities.

Exhibit 4



Based on the following metrics and weights: Information Ratio (55%), Merton Skill (17%), Alpha (13%), Sharpe Ratio (7%), beta (5%) and Maximum Drawdown (3%). Moody's notes that the evaluation takes into consideration funds that may charge different fees and that may target distinct investor types. As a result, Moody's acknowledges that a fund that was narrowed down to a segment may not direct compete with another within the same segment. Further details on Appendix 1

Source: Moody's Investors Service

## Factor 3 – Financial Profile

### Revenue and Profitability Levels and Stability:

BB DTVM has consistently reported solid financial metrics, and its operating and profit margins continue to be very strong. BB DTVM has reported a relatively low level of income volatility, which results in stable revenues and profit. In addition, the solid performance of the funds, allowing for performance fees being retained by the asset manager, also supports the company's financial strength.

### Corporate Organization:

BB DTVM benefits from the full financial support provided by the parent company, Banco do Brasil. The parent has continuously supported BB DTVM, investing in technological infrastructure and properly providing human resources replacement to expand the asset management business. BB DTVM brand is supported by the strong franchise of Banco do Brasil, which provides it with a competitive advantage with respect to product distribution through the bank's captive distribution channels and from other group sales channels. BB DTVM has strategic importance to Banco do Brasil due to its capacity to consistently generate net income and positive cash flows.

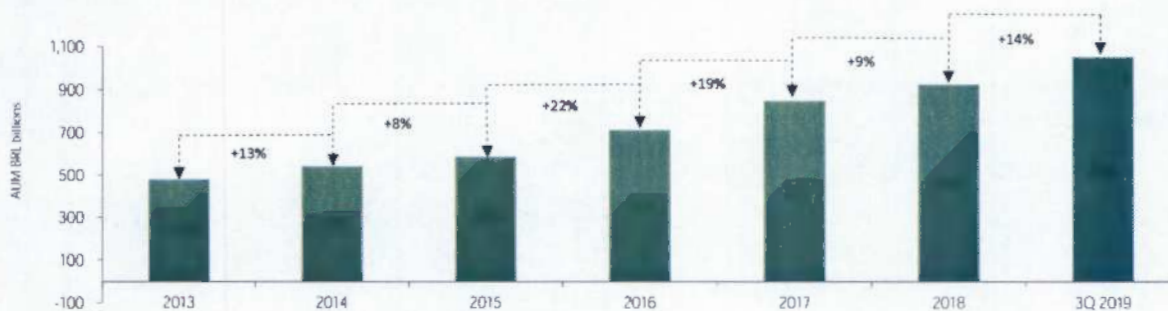
### Assets Under Management:

BB DTVM has a well-diversified product offering, with fixed income, previdência and money market funds being the main products. BB DTVM's client base is also well-diversified, with the main investors being retail, closed pension funds, government and previdência. BB DTVM is the largest asset manager in the country and has experienced a solid AUM growth over the years.



Exhibit 5

### Assets Under Management – BB DTVM BRL Billion



Source: Anbima (September/2019)

## Factor 4 – Client Servicing

### Retention and Replacement of Clientele:

BB DTVM has relatively strong client retention, with Banco do Brasil distribution's support and very low rates of client turnover. The company's replacement rate, measured by the percentage of assets lost that are being replaced by new subscriptions from investors, is also strong.

### Other Considerations

#### What Could Change the Assessment – Down

- » The company's funds risk-adjusted investment performance deteriorates significantly – both relative to peers and local benchmarks
- » The funds experience a substantial decrease in assets under management
- » There are significant deviations in the firm's investment processes, which increase exposure to operational risks

## Appendix: Investment Performance Measurement

### 1. Fund Sampling

The SI-ANBID database includes a large number of active mutual funds (about 14,400), and we selected a sample funds that met some predetermined criteria for use in our historical performance analysis:

1. Fund Segments: narrowing the sample down to the most popular mutual fund segments among investors, we selected the following segments: Equity, Fixed Income, Multimarket ("Multimercado") and Previdência.
2. Length of Existence: we only considered mutual funds that have traded for at least three years.
3. Fund Size: only funds with a minimum of BRL25 million in total assets as of June 30, 2018 were included in the sample.

After filtering, we came up with a sample of 5,343 funds.

### 2. Performance Measurement

We analyze the historical risk-adjusted return performance achieved by individual products or representative portfolios of like funds across assets, offered by the firm. The analysis, covers a three-year period. Results are aggregated, compared to a universe of similarly managed products, and scored on the basis of quintile ranks. The firm's ranking in each segment is the average score of all performance metrics weighted by AUM.

In the case of risk-adjusted performance results, we compute the median three-year Sharpe Ratio using monthly total rates of return for a representative sample of portfolios. The median Sharpe Ratio is then compared to a distribution of Sharpe Ratios stratified into quintiles for local peers.

In a similar fashion, we extend this form of analysis to the other key risk measures including Maximum Drawdown, Beta and R2. To this, we add measures of manager skill, including such key measures as Alpha, the Information Ratio and the Merton Skill Measure.

#### Basic Measures Used to Evaluate Investment Results, Risk, and Manager Skill:

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk (as measured by beta). It can be used to calculate the "skill" of a fund manager.

Beta is a measure of a fund's volatility relative to the market, which for stocks in the US, for example, may be represented by the S&P 500 Index.

The Sharpe Ratio measures the fund's risk-adjusted return. It is the portfolio's average return in excess of the risk-free rate divided by the portfolio's standard deviation.

R2, or the R-squared value, is the fraction of variance in the dependent variable that is explained by variance in the independent variable.

The Information Ratio is the ratio of a manager's excess return (Alpha) divided by the standard deviation of that excess return. It is a measure of the value added by an active manager.

The Maximum Drawdown is the worst period of "peak-to-valley" performance for a fund or other investment vehicle, regardless of whether or not the drawdown consists of consecutive months of negative performance.

The Merton Skill Measure is a returns-based measure of market timing skills that includes a ratio of unsuccessful to successful "down market" calls.

### Endnotes

- 1 Previdência is represented by open plans (PGBL and VGBL). The plans may be operated by insurance companies, bank's subsidiaries and non-profitable organizations and can be contracted out by enterprises as fringe benefit to their employees or, more commonly, contracted directly by individuals. This pension scheme is somewhat inspired by the North American 401k experience.



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