

**APPROVED GUIDELINES BY THE RISK ANALYSIS COMMITTEE ON THE MINIMUM CONTENTS THAT
MUST CONTAIN THE CONTRACTS SIGNED BETWEEN THE AFORE AND THE SPECIALIZED
MANAGERS TO PROVIDE INVESTMENT MANAGEMENT SERVICES¹**

The aim of these guidelines is to set forth the minimum requirements that must be included in the legal contracts signed between the Afore and the Specialized Manager (“Mandatario”) for providing investment management services.

The present guidelines include the definitions established in the following regulation: the Law of Saving Systems for Retirement, the Rules of the Savings Systems for Retirement, the General Provisions Establishing the Investment Regime of the Investment Firms Specialized in Retirement funds (Siefores) (IR Provisions, henceforth), and the General Provisions on Financial Matters of the Savings Systems for Retirement (CUF, henceforth).

1. The Afore must sign a contract with the provider of investment management services.

The outsourcing of Siefore’s investment portfolio must be executed by signing a contract between the Afore, on behalf of the Siefore it operates, and the eligible Specialized Investment Manager (“Mandatario”) in accordance with these guidelines. An individual contract must be signed for each Siefore with each Specialized Manager.

The term of the contract will be defined by mutual agreement, including the possibility to be indefinite (open contract). In case of a definite deadline, the contract must stipulate the reasons for early termination. In case of an open contract, it may be terminated at any time by the will of either party. In any case, the contract must stipulate the number of days and the terms to allow the Specialized Manager to end the remaining tasks.

The contract must specify clearly the rights and responsibilities of each party, as well as the early termination provisions and penalties for violating the contract. Any serious breach of the Siefore’s Investment Regime (IR, henceforth), confidentiality/audit/integrity provisions and inadequate operational control are sufficient reasons to early termination of the contract.

The amendments to the contracts must be informed and submitted to CONSAR via addenda for its no objection.

¹ This English version is intended for information purpose, please refer to the Spanish version, which is the valid version approved by the Risk Analysis Committee (CAR).

2. Attorneys must pass judgment on the contracts.

In order to provide legal certainty to the Afore, attorneys with proven experience and prestige in the field must pass judgment on the contracts to hire a Specialized Manager, even with regard to the choice of law and the jurisdiction in case of disputes. The location of the jurisdiction must be stipulated clearly in the contract and must be part of the Eligible Countries approved by the current CONSAR legislation. The attorney's report must confirm that the contract complies with these guidelines.

The contracts must be approved by the Afore's Investment Committee and the Afore's Independent Counselors.

3. Investment mandates must comply with the current IR.

The contract must stipulate that the Siefores' portfolio managed by the Specialized Manager must comply at any time to the investment mandate, including the current IR of the corresponding Siefore, with the exceptions established in the current regulation of such Siefore. The contract must define clearly in an annex the IR that the Specialized Manager should follow, and the procedure to keep it updated.

The unrealized losses attributed by the Specialized Manager due to violations in the IR are Afore's liability. In turn, the Specialized Manager is responsible to the Afore for any breach of the current IR. The Afore must define in the contract specific penalty provisions due to breaches of the investment policy, of the risk limits or the acquisition of prohibited assets, among others.

4. Outsourcing.

The Specialized Managers, hired by the Afore, are not allowed to outsource to other Specialized Managers or parties in matters of investment management, and are not allowed to acquire permissible investment assets through investment Vehicles.

5. The Specialized Manager must be eligible to manage a percentage of the Afores' investment portfolio.

The prospective Specialized Manager must meet at least the following criteria:

- Do not be part of the same financial group of the contracting Afore.
- Do not have conflicts of interest in managing the Afore's funds in accordance with principle 17 of these guidelines.
- Being an investment management firm with activities directed to the operation of the following vehicles: mutual funds, ETFs, or investment mandates. This firm must be regulated and supervised by a proper authority in an Eligible Country for Investment (a competent authority).

- Experience of at least 10 years as managers in the activities described in the previous bullet and, in the case of managing international assets in international markets they must demonstrate that at least manages a volume of USD \$50 billion or its equivalent in MX pesos.
- In the case of Commodities, the eligible Specialized Manager should demonstrate experience managing Commodities through the vehicles described above for at least 5 years and manage an amount of USD \$2 billion or its equivalent in MX pesos in that asset class.
- Minimum proven experience of 5 years in managing the asset classes, countries, geographical regions and economic sectors specified in the mandate.
- At least 10 years of experience of the key team members responsible of each task in the mandate.
- The Specialized Manager must not have pending judgments, indictments and legal investigations by any regulatory authority of the Eligible Countries for reasons related to infringements of the financial regulation of the countries in which they operate, frauds committed by current or former firm's members or failure to execute its fiduciary responsibility.
- The assets outsourced to any one Specialized Manager should be at most 5% of Total Assets of the Siefore in one authorized asset class, or in a combination of various asset classes.
- Afores are not allow to outsource, with one Specialized Manager, the management of Commodities for more than 3% of Total Assets of the Siefore that the Afore manages.

6. Screening process to select the Specialized Manager.

- In order to select the appropriate Specialized Manager, Afores must invite prospective managers to compete for assignment of an investment mandate.
- The Afores, through their committees, will determine the criteria for inviting and selecting the potential candidates. The Afores may use the Request for Proposal (RFP) as a tool for the screening process.
- The Afore must define clearly in the solicitation process the objective of the mandate, deliverables, action plan, and the permissible means to achieve it.
- The RFP must contain, as a minimum, questions to reveal the following:
 - General information about the prospective Specialized Manager, such as firm's mission, membership with commercial and/or financial group(s) as a subsidiary or parent company, assets under management, proven experience managing financial investments and investment mandates, major clients and major competitors, prospective professionals essential to operate the mandate, governing bodies, among others.
 - An extensive questionnaire regarding the personality of the prospective Specialized Manager. Among other elements, the effectiveness to

adhere to the investment criteria and risks measures defined and approved by the respective committees, as well as the ability to execute the mandate and its management fees.

- Standardized legal elements, transparency criteria and auditability, integrity and confidentiality requirements applied by the Specialized Manager.
- Other means by which the Afore can deepen its knowledge of the prospective Specialized Manager.

7. The outsourced assets must be kept in segregated accounts from the equity of the Specialized Investment Manager.

The contract must ensure that the outsourced assets are safeguarded every day by a Custodian. The hiring of the Custodian will be up to the Afore.

The Custodian hired can be an independent entity of the Specialized Manager or belong to the same financial group or control group of the Specialized Manager or the Afore. The Custodian must comply with the current regulation of the Savings System for Retirement and the regulation issued by the Risk Analysis Committee (CAR, Spanish acronym). The Afore must hire a unique Custodian for the safekeeping of the assets managed by all international Specialized Managers hired by the Afore.

The Specialized Manager shall transmit instructions of the Afore to the Custodian for the such that registered operations that have been carried out on behalf of the Afore. Settlement of transactions may be conducted in accordance with market practices aimed at reducing operating costs if resources negotiated in such operations are individualized for each Siefore according to transparent rules.

8. Governing bodies of the Specialized Manager.

The contract must formally explain the structure, members, duties and powers of the Specialized Manager's governing bodies. The Specialized Manager must notify the Afore of any change in top-ranked staff (even the second level ranked staff), as well as any substantial amendments in the functioning of its governing bodies.

The Specialized Manager shall provide the Afore the code of professional ethics which governs the behavior of personnel involved in the administration of assets. This manual should be available to the CONSAR.

9. Operational risk of the Specialized Manager.

The contract must specify that the Specialized Manager has to provide to the contracting Afore a manual of operational risk management related to the inherent activities in the investment processes employed by the Afore. The manual must provide

procedures for identifying, monitoring, controlling and mitigating operational risks that include, inter alia, contingency plans and processes to ensure business continuity in the agreed terms.

The contracting Afore must ensure that the Specialized Manager relies on robust systems that allow the processing of transactions, valuation and risk control. Also, the data processing systems that the Specialized Manager uses must have adequate backup and control, which includes data recovery.

The Specialized Manager should have clear procedures to verify systematically that during the term of operations, these are properly recorded, accounted, confirmed and included in the reports.

The Specialized Manager shall inform the Afore of any known deviation from the limits established in the IR.

10. The Specialized Manager and the Custodian must not exercise control over companies on behalf of the Afores.

If the Specialized Manager or the Custodian, for and on behalf of the Afore, can take control of a firm listed on a recognized exchange through the investment of the Siefore's resources, then the Specialized Manager or the Custodian must be subject to the decisions of the majority of the remaining shareholders.

11. Structure of management fees and services to be provided to the contracting Afore.

The contract must contain the total annual costs to be covered by the outsourcing services, which must include the management fees of the mandate with the exception of the brokerage costs, as well as the services to which the Afore has the prerogatives. For instance, these services include meetings with officials of the fund and periodic reports of investment. The latter includes, among others, arranged measures of performance and agreed risk and financial training.

Management fees charged by the Specialized Manager must abide by the approved policies related to costs, as well as the principles on which such fees are being based on.

12. Valuation of the outsourced portfolio.

The valuation of the segregated portfolio is on a daily basis and shall be conducted by independent valuation companies, hired by the Custodian, which must adhere to valuation practices based on international standards as well as to implement and to demonstrate the adoption of GIPS standards (Global Investment Performance Standards).

13. Regular detailed information on investment and assessment of the Specialized Manager.

The Afore must establish in the contract the minimum frequency that it will receive detailed information about the outsourced investments for the purposes of determining compliance with the mandate.

Periodic reports shall clearly identify and quantify the exposure of the outsourced portfolio in market, liquidity and credit risks. These reports must also contain evidence of portfolios under stress scenarios, taking into consideration events of illiquid markets.

CONSAR must be informed with respect to risk management measures set forth in the regulations issued by the CONSAR, as well as in the present guidelines, which must be reported by Specialized Managers to the Afore.

Additionally, for purposes of comparing retrospectively the performance of the hired Specialized Managers, they must provide to the Afore the information on their performance in a pre-established time horizons, prepared by an independent entity that has made its calculations based on GIPS. The Specialized Managers must complete and submit to the Afore a retrospective analysis showing the contribution to the obtained yield (for time horizons of 1, 2 and 3 years when this applies) of each asset class that makes up the outsourced portfolio.

14. Investment strategy, use of derivative instruments and alternative investments.

The Specialized Manager shall report on a regular basis to the Afore the characteristics of the target/benchmark investment in the medium term (asset allocation), indicating for information purposes the expected returns and risks. The Afore must clearly specify in the contract whether the Specialized Manager requires approval for implementing its target investment in the medium term (asset allocation), as well as any adjustments made to them.

The contract must specify the intended investment objectives in seeking to use derivatives and alternative investments allowed in the IR. The Specialized Manager is only allowed to use those derivatives authorized in the IR, which clearly establishes the counterparties, types of derivative operations, the authorized markets and the underlying contracts.

In case of derivatives traded on behalf of the Siefore, they will be valid only when it is verified that the Specialized Manager has negotiated as a broker representing the Siefore and under the guidelines of the investment mandate. The Specialized Manager will be able to trade derivatives only when they are listed on any derivative exchanges recognized in the IR or on *Over Counter* exchanges (denominated OTC) belonging to Eligible Countries for Investments in accordance with the current regulations. Also, the

Specialized Manager must indicate the leverage used, if any, for achieving the stated objectives.

The Specialized Manager is not allowed to acquire liabilities on behalf of the contracting Afore, other than those related to derivatives transactions, securities lending and repurchase agreements as permitted under the current regulation that applies to investment mandate. Such restrictions shall be specified in the contract.

15. Market risk measures applicable to the Specialized Manager.

The contracting Afore must indicate to the Specialized Manager any of the following measures of risk that must be adhered to in the portfolio management of the outsourced investment:

- The Historic Value at Risk (VaR), on a daily basis with the characteristics specified in the IR Provisions.
- The regulatory VaR applied to a stress date.
- Other measures of risk, which are subject to approval by the CAR.

In addition, the Afore shall stipulate that the Specialized Managers calculate and periodically report to the Afore the following measures of risk:

- The sensitivity of the portfolio to movements of 1 percent in main financial variables and risk factors.
- The loss of portfolio outsourced up to a change of 6 standard deviations in key financial variables and risk factors.

16. Audits of the Specialized Manager.

The contract must provide the right to the Afore to know the reports of external and internal auditors about the management of the outsourced investment portfolio on behalf of Siefores operated by the contracting Afore.

Also, the contract must provide the following:

- The Specialized Manager must be subject to audits per Afore's request. Any audit must be confined to matters related to the performance of the investment mandate, including but not limited to the administrative costs of the mandate.
- The frequency with which audits are conducted on the Specialized Manager, which will be held during the term of the contract or on a date after the end of the contract, shall be agreed upon between the parties.
- The auditor will be determined by the Afore and the Specialized Manager in agreement. The Auditor's Reports should be available to the CONSAR and be given to the Afore's Committees of Financial Risk and Investment. If there was

disagreement on the advice of the auditor, the Afore may request a new audit by an auditor selected by the Afore.

- The Specialized Manager shall cooperate with the auditor hired by the Afore.

17. Conflicts of interest.

The Specialized Manager:

- Is not allowed to have the status of related company with the contracting Afore.
- Is not allowed to take its own position, neither for related companies to the Specialized Manager, with the Siefore's investment assets, nor for purchasing securities owned by the Specialized Manager or by companies or entities with proprietary ties with the contracting Afore.
- Is not allowed to acquire financial instruments when the underwriter is an entity that is part of the same financial group to which the Specialized Manager belongs or an entity with proprietary ties to the contracting Afore.
- Is not allowed to trade with derivative instruments with a related counterparty to the Specialized Manager or a counterparty that has proprietary ties with the contracting Afore.
- Is not allowed to act as a counterparty of the contracting Siefore in derivatives transactions, securities lending or repurchase agreements.
- Is not allowed to acquire assets on behalf of the contracting Siefore that are issued, accepted, endorsed or part of the portfolio, by itself (Specialized Manager) or by entities with which the Specialized Manager or the Siefore has proprietary ties.

18. Regular detailed information about the investments for monitoring purposes.

The contract must provide that, for purposes of supervising, CONSAR has to receive detailed information about the investments of the outsourced portfolios with the frequency that CONSAR has notified the Afores.

19. Scope of the investment management.

- Until the Risk Analysis Committee determines a different criterion, the Specialized Managers will manage only with foreign securities that are traded in eligible international markets and Commodities.
- These guidelines do not apply to mandates for structured instruments ("Mandatos de Instrumentos Estructurados"), except for Real Estate Investment Trusts (REITs) listed on any stock exchange in Eligible Countries, different from Mexico, defined by the IR Provisions.