GLASS LEWIS

2019

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

BRAZIL

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Guidelines Introduction

CORPORATE GOVERNANCE BACKGROUND

The most influential institutions with respect to corporate governance in Brazil are the São Paulo stock exchange ("B3 S.A. — Brasil, Bolsa, Balcão", formerly "BM&FBOVESPA"), the Brazilian Corporate Governance Institute ("IBGC") and the Brazilian Association of Capital Market Investors ("Amec"). The B3 S.A. — Brasil, Bolsa, Balcão ("B3") allows companies to list on one of its four segments. Companies that list on the Conventional segment are solely subject to compliance with Brazilian Companies Law 6.404/76 and the regulations of the Brazilian Securities Commission ("CVM"). If a company wishes to adhere to either Levels 1 or 2 ("N1" or "N2") or the *Novo Mercado*, they must comply with the regulations of the respective listing segments. The regulations governing the *Novo Mercado* incorporate global best practices such as mandating that companies disclose director independence, requiring the presence of 20% director independence on boards, or two independent board members, whichever is greater,[1] requiring that companies maintain a minimum free float of 25% (or 15% for highly liquid stocks),[2] and, most importantly, that they have a single class of shares with equal voting rights. The regulations governing N1 and N2 are less rigorous; however, they provide companies and investors a clear path toward best practices.

The *Instituto Brasileiro de Governança Corporativa* ("IBGC"), founded in 1995 as a non-profit whose mandate is the promotion of best corporate governance practices, is currently the principal agent for the creation and development of best practices in Brazil. In late 2015, the IBGC published the 5th edition of the Brazilian Code of Best Corporate Governance Practices ("the Code"). The Code serves as a reference for Brazilian companies, many of which have voluntarily adopted the practices promoted by the IBGC. Additionally, the Code includes references to external business factors, positive and negative, whether social, environmental or governmental, and their impact on third parties.

In 2016, the Brazilian Corporate Governance Code for Listed Companies ("the new Code") was released, complementing the Brazilian Code of Best Corporate Governance Practices published by the IBGC in 2015. The drafting of the new Code was coordinated by the IBCG, alongside ten other entities who represent several significant players in the Brazilian capital market (including the B3, investor organisations, and financial institutions). The new Code's provisions apply on a "comply or explain" basis. In 2017, the new Code was incorporated into the country's regulatory framework through CVM's Instruction 586/17 (which amended Instruction 480/09). As a result of said Instruction, listed companies must disclose and report, on an annual basis, and within the first seven months of the end of each fiscal year, their respective compliance (or not) with the new Code's recommendations.

Since being established in 2006, Amec has consolidated its position as one of the main driving forces for change and development within Brazilian capital markets, having spearheaded multiple initiatives in what relates to the protection and increased activism of minority shareholders. Amec launched a Stewardship Code ("the AMEC Code") in October 2016, which aims to promote responsible investment, and comprises a set of principles and guidelines on the most appropriate ways for institutional shareholders to comply with their respective fiduciary duties.

Glass Lewis' policy guidelines take into account Brazil's capital market law, regulations of the listing segments on the B3 and the CVM, recommendations of the IBGC and what we view as universal best corporate governance practices. These guidelines are reviewed annually and on an ad-hoc basis to ensure they remain in accordance with market practice.

1 Article 15 of B3's updated *Novo Mercado* Listing Regulation.

2 Article 10 of B3's updated *Novo Mercado* Listing Regulation.

REGULATORY UPDATES

We note that since being established in 2000, the N2 listing rules have been revised twice, while the Novo Mercado listing rules have been updated three times. Five years after the last revision, B3, looking to update the aforementioned listing rules, welcomed market participants and issuers to participate in a public consultation that took place in 2016, and a closed hearing for issuers.

On March 15, 2017, the new *Novo Mercado* Listing Regulations were approved in a closed hearing, which included the participation of 129 (out of the 131) publicly traded companies listed on the segment. The revised regulations were later approved by the CVM.

The most significant changes to the revised listing rules of the *Novo Mercado* segment include:

- Maintaining a minimum free float of 25% (but establishing a 15% free float threshold for highly liquid stocks);
- Implementing a structured process for determining board independence and functioning;
- Establishing a formal process for board and management assessment;
- Requiring a tender offer, approved by at least one-third of free-float shareholders, to delist from the segment;
- Requiring maintenance on the segment following a change in control, unless approved by free-float shareholders;
- Relevant facts, notices to shareholders, market announcements, press releases on company results and proceeds published concurrently in Portuguese and in English (financial information, however, will no longer need to be made available in English); and
- Disclosing highest, lowest and average board, executive and supervisory council remuneration figures in respect of the most recently completed fiscal year.

The following changes to the listing rules were rejected:

- Mandatory public tender offers launched upon the acquisition of 20% to 30% of a company's shares (39.7% against votes);
- Increasing the current one-third quorum to a 50% quorum requirement for the approval of a tender offer to delist from the segment (51.1% against votes); and
- Compulsory reports on social and environmental issues (38.2% against votes).

The updated listing rules came into force, for new entrants to the *Novo Mercado* segment, from January 2, 2018 onwards. Companies already listed on this segment will have until the 2021 annual meetings to fully comply with the revised rules.

PROXY VOTING REGULATIONS

Instruction 561-15, applicable from 2017 general meetings onwards, regulates proxy voting by shareholders. The Instruction lowered the ownership thresholds to include, via proxy card (i) items in a voting agenda (depending on a company's total share capital, the ownership required can be reduced down to 1%), and (ii) candidates to the board of directors and/or the supervisory council (depending on a company's total share capital, the ownership required can be reduced down to 0.5%).

Following a public consultation on the application of Instruction 561/15 in 2018, the CVM published on December 20, 2017, Instruction 594, amending and adjusting the previous Instruction 481 on regulations pertaining to voting options as reflected on proxy cards. Specifically, the amendments included:

- Mandatory disclosure of proxy cards for extraordinary shareholders' meetings held on the same date as annual shareholders' meetings;
- Shareholders may present candidates to the board and/or supervisory council, or present new matters to the meeting's agenda up to 25 days before the shareholders' meeting. Updated proxy cards may be resubmitted up to 20 days before the meeting;[3]
- Where cumulative voting has been requested, shareholders voting by proxy will be able to allocate their votes among the candidates in equal percentages;
- Providing an "abstain" option for distance voting resolutions that did not yet include said option within the proxy card;
- Allowing for the request of a separate election, by non-controlling shareholders voting by proxy, for the board of directors (as analysed in "Election Procedures"); and
- Issuing an analytical voting map (with information on all shareholders taking part in the meeting, whether physically present or not, their respective ownership and votes).

While voting on the election of directors can still be complex for shareholders voting by proxy, the regulations provide some clarity around the potential options, as shown here.

SUMMARY OF CHANGES FOR THE 2019 BRAZIL POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail in the relevant sections of this document:

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

We have codified our approach to reviewing how boards are overseeing environmental and social issues. We have clarified that, in instances where it is clear a company has not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible for oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit committee. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

FORMATION OF A SUPERVISORY COUNCIL

We have updated our guidelines to specify that we do not believe the supervisory council should replace the function of a separate audit committee on the board of directors. Moreover, we will not recommend that shareholders support the formation of a separate supervisory council unless the proposed members have been disclosed and represent a sufficiently diverse perspective to add value for all shareholders.

3 The CVM notes that the difference between the term to include candidates on a proxy card and the term to resubmit an updated proxy card provides companies with additional time to check whether legal requirements are met.

A Board of Directors that Serves Shareholder Interest

ELECTION OF DIRECTORS

Brazilian companies typically have a board of directors (*conselho de administração*), whose members are elected by shareholders, and a management board (*diretoria*) whose members are elected by the board of directors. Although the main purpose of the two-tiered governing system is to separate executives from non-executives, in many cases the board of directors includes members of the management board such as the investor relations officer, CFO and CEO.

In addition, Brazilian law allows for the establishment of a supervisory council (*conselho fiscal*), whose main responsibilities include overseeing the acts of the board and management and reviewing the company's financial statements. It is an oversight body with an advisory role and does not participate in managing business operations. As such, neither executives nor directors (including those of the Company's subsidiaries and affiliates), can serve on the supervisory council.[4]

Together, the members of the board of directors, management board and the supervisory council are referred to as the governing entities (*administradores*).

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favour of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium and long term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have a record of positive performance, and have members with a breadth and depth of experience.

As more thoroughly discussed in "Election Procedures" below, directors of Brazilian issuers are generally elected as slates. As such, where Glass Lewis would normally recommend voting against a director based on an issue described below but shareholders are unable to elect candidates individually, we will note our concerns with individual directors in the analysis of the board. These concerns will be taken into account when making our voting recommendation for a management slate.

Further, it must be noted that non-controlling common shareholders only have the opportunity to vote on candidates nominated by minority shareholders or on the management/controlling shareholder slate. A vote in favour or against the management's proposed slate, will automatically disqualify them from voting on the election of minority shareholder representatives to the board, as discussed in "Election Procedures".

On the other hand, preferred shareholders only have the opportunity to vote on candidates nominated by other preferred shareholders, and not on the management slate. In fact, this is preferred shareholders' only opportunity to elect nominees for the board of directors.

4 Article 162 of the Brazilian Companies Law 6.404/1976.

INDEPENDENCE

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Likewise, when assessing the independence of directors we will also examine whether a director sits on multiple boards and has a track record that indicates a lack of objective decision making. Ultimately, the determination of whether a director is independent will be based on compliance with the applicable independence criteria, as well as consideration of such director's past actions.

We look at each director nominee to examine relationships with a company, company executives, and other directors. We do this to find personal, familial, or financial relationships (not including director remuneration) that may impact a director's decisions. We believe that such relationships may make it difficult for directors to put shareholders' interests above their own or any related parties' interests.

Thus, we place directors into four categories based on an examination of the type of relationship they have with a company:

1. **Independent Director**[5] — An independent director has no material financial,[6] familial[7] or other current relationships with a company,[8] its executives, or other board members, except for board service and standard fees paid for that service.

2. **Affiliated Director**[9] — An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company. This may include directors whose employers have a material relationship with the company or its subsidiaries. In addition, we will consider directors affiliated if they:

    - Own, control or are party to a shareholders' agreement that represents 10% or more of a company's share capital or voting rights or are employed by or have a material relationship with a significant shareholder;[10]

    - Have been employed by the company or any of the company's subsidiaries within the past five years;[11]

    - Have — or have had within the last three years — a material relationship with the company, directly as a partner, director or senior employee of an entity that has such a relationship with the company.

5 If a company does not disclose whether a non-executive director is independent, absent any indication to the contrary, we may consider the non-executive director to be independent.

6 A material relationship is one in which the value exceeds R$100,000 (or 50% of the total compensation paid to a board member or where no amount is disclosed) for consulting or other professional services provided by the board member or 1% of the company's consolidated gross revenue for other business relationships (e.g., where the director is an executive officer of a company that provides services or products to or receives services or products from the company).

7 Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company.

8 A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

9 If a company classifies a non-executive director as non-independent, Glass Lewis will classify that director as an affiliate, unless there is a more suitable classification (i.e., employee representative).

10 In accordance with generally accepted best practice in Brazil, we treat 10% shareholders as affiliated because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 10% holders may have interests that diverge from those of minority holders, for reasons such as liquidity (or lack thereof) of their holdings, potential for materially increasing or decreasing their holdings in response to company performance, personal tax issues, etc.

11 While previous editions recommended a three year look back, the current version of the Code provides no recommendation in this regard. In our view, a five-year standard is appropriate because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look back period to directors who have previously served as executives of the company on an interim basis for less than one year.

- Have close family ties with any of the company's directors, senior employees, or advisors; and/or

- Maintain cross-directorships or have significant links with other directors through their involvement in other companies or entities.

3. **Inside Director** — An inside director simultaneously serves as a director and as an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company.

4. **Employee Representative**[12] — A director appointed by the company's employees through an election authorised by the company alongside the union that represents the employees.[13] Employee representatives are not taken into account when assessing board independence.

VOTING RECOMMENDATIONS ON THE BASIS OF BOARD INDEPENDENCE

In the case of non-controlled companies, Glass Lewis believes a board will be most effective in protecting shareholders' interests when at least half of the directors are independent.[14] In line with the IBGC, Glass Lewis typically recommends voting against management's proposed slate where more than 50% of the members are affiliated or inside directors.

In the case of controlled companies, which represent the vast majority of Brazilian companies, we believe that the number of insiders and/or affiliates on the board should be proportional to controlling shareholders' economic interests in companies and not merely their voting interests. As such, and even though the regulations for companies listed on the *Novo Mercado* and N2 segments provide for lower board independence threshold requirements,[15] we believe that a minimum of one-third of directors on the board should be independent. While companies listed on the N1 and Conventional segments of the B3 are not subject to board independence thresholds, we believe that a 20% minimum independence threshold should be applicable to these companies. In most cases, companies listed on the N1 and Conventional segments have a dual-class share structure whereby the majority of voting interests are held by controlling shareholders and the majority of economic interests are held by minority shareholders. As such, we believe a minimum threshold of 20% board independence serves as an appropriate counterweight to controlling shareholders' influence over the board of directors.

Glass Lewis supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to its composition based on relevant skill sets and experience, as well as on results of director evaluations (as opposed to relying solely on tenure or age limits).

In light of the above, we note that the Brazilian Corporate Governance Code for Listed Companies ("the new Code"), published on November 16, 2016, sets out guidelines on board diversity and evaluation, recognising its importance and significance within boardrooms.[16]

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12 Law 12.353/2010 obligates companies controlled by the federal government and having more than 200 employees to designate at least one board seat to a member appointed directly by employees.

13 Sole Sub-section of Section IV of Article 140 of the Brazilian Companies Law 6.404/1976.

14 Article 2.4a of the Brazilian Code of Best Corporate Governance Practices.

15 Article 15 of B3's updated *Novo Mercado* Listing Regulation provides that a minimum of either (i) 20% of directors on the board should be independent or (ii) two members on the board should be independent, whichever is greater (as opposed to article 4.3 of B3's current *Novo Mercado* Listing Regulation, in force until December 28, 2017, which, alongside article 5.3 of B3's Corporate Governance Level 2 Listing Regulation, establishes a standalone 20% board independence threshold).

16 Articles 2.2.1 practice (ii), 2.2.2 practice (ii) and 2.4.1 of the Brazilian Corporate Governance Code for Listed Companies.

We believe that a director's experience can be a valuable asset to shareholders because of the complex issues that boards face. However, we recognise that in certain instances, a lack of refreshment can contribute to a lack of board responsiveness and poor company performance. Accordingly, and while we will refrain from recommending voting against any directors on the basis of lengthy tenure alone, we may recommend voting against a director in cases where tenure may have contributed to poor financial performance, lax risk oversight, misaligned remuneration practices, lack of shareholder responsiveness, diminution of shareholder rights or other concerns. In conducting such analysis, we will consider lengthy average board tenure (generally over 9 years), evidence of planned or recent board refreshment, and other concerns with the board's independence or structure.

OTHER CONSIDERATIONS FOR INDIVIDUAL DIRECTORS

The most crucial test of a board's commitment to companies and their shareholders lay in the actions of boards and their members. We look at the performance and experience of these individuals as directors and executives of the company and of other companies where they have served. We also look at how directors voted while on boards.

PERFORMANCE

We disfavour directors who have records of not fulfilling their responsibilities to shareholders at companies where they have held a board or executive position. We typically recommend voting against:

- Directors who fail to attend, without an acceptable explanation, a minimum of 75% of the board meetings or 75% of the total of applicable board and committee meetings held during the year. However, we do not apply the 75% attendance threshold for first-year directors.[17]

- Some or all directors if a company's performance has been consistently lower than its peers and the board has not taken reasonable steps to address the poor performance.

EXPERIENCE

We find that directors' past conduct is often indicative of future conduct and performance. We often find that directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred serve on boards of companies that follow these same patterns. Glass Lewis has a proprietary database that tracks the performance of directors across companies worldwide.

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, over-compensation, audit or accounting-related issues, and/or other indicators of mismanagement or actions against the interests of shareholders.[18]

Likewise, we examine the backgrounds of those who serve on the board and on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the subject matter for which they are responsible.

EXTERNAL COMMITMENTS

We generally recommend that shareholders vote against directors who serve on an excessive number of boards. We define excessive as: (i) any director who serves as an executive officer of any public company while serving on more than one other public company board; (ii) a chair who serves on more than two other public company boards; and (iii) any director who serves on five or more other public company boards. However, we will refrain from recommending voting against the director at the company where he or she serves as executive CEO, executive chair or combined chair/CEO given the importance of these roles in a company.

17 We will apply this threshold when attendance information is clearly disclosed. Other than the details provided in board meeting minutes, attendance information is rarely disclosed.

18 We typically apply a three-year look-back to such issues and research to see whether the responsible directors have been up for election since the time of the failure.

CONFLICTS OF INTEREST

In addition to the three key characteristics — independence, performance, and experience — that we use to evaluate individual board members, we consider conflict-of-interest issues in making voting recommendations.

We believe that boards should be wholly free of people who have identifiable and substantial conflicts of interest or excessive time commitments. Accordingly, we generally recommend that shareholders vote against the following types of directors:

- Directors who provide, or whose immediate family members provide consulting or other material professional services to companies such as legal or other financial services. We question the need for companies to have business relationships with their directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, companies' decisions regarding where to turn for the best professional services may be compromised when doing business with a professional services firm of or represented by company directors. We will also hold the relevant senior director with oversight of related party transactions (whether a board committee, ad hoc committee, or the board as a whole, depending on the board's internal procedures) accountable for particularly egregious transactions concluded between the company and an executive director, which may pose a potential risk to shareholders' interest.

- Directors who have interlocking directorships. We believe that CEOs or other top executives who serve on each other's boards create interlocks that pose conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[19]

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Glass Lewis understands the importance of ensuring the sustainability of companies' operations and believes that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks for companies that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

Glass Lewis believes that companies should ensure appropriate, board-level oversight of material risks to their operations, including those that are environmental and social in nature. Accordingly, for the largest companies in Brazil and in instances where we identify material oversight issues, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues.

Where it is clear that companies have not properly managed or mitigated environmental or social risks to the detriment of shareholder value or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible with oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit committee. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

19 Articles 2.2.2 and 2.15 of the Brazilian Code of Best Corporate Governance Practices. There is no look-back period for this situation and we only footnote it for the non-executive.

BOARD STRUCTURE AND COMPOSITION

In addition to the independence of directors, other aspects of the structure and composition of a board may affect the board's ability to protect and enhance shareholder value. The following issues often play a central role in forming corporate governance best practices.

SEPARATION OF THE ROLES OF BOARD CHAIR AND CEO[20]

Glass Lewis believes that separating the roles of corporate officer and board chair creates a better governance structure than a combined executive/chair position. The executives manage the business according to a course set by the board, to which they also report regarding their performance. This is needlessly complicated when a CEO also serves as board chair, as such a person would wield significant power over the board's decision making process. Such a situation may lead to longer-than-optimal terms, fewer checks on management, less scrutiny of business operations, and limitations on independent, shareholder-focused goal setting.

We believe an independent chair can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders.

The regulations of the N1, N2 and *Novo Mercado* listing segments require that all constituent companies separate these roles within three years of listing on any of the aforementioned segments. Since the Conventional segment does not require companies to separate these roles, we do not recommend that shareholders vote against the combined board chair/CEO.

In addition, we do not recommend that shareholders vote against chief executives who serve on or chair the board. While we generally support the existence of a senior independent director with the authority to set the agenda for meetings and to lead sessions outside the presence of the executive chair, the role of senior or lead independent director is not common in Brazil. Therefore, in the event that the roles of board chair and CEO are combined and the board lacks a senior independent director, we may recommend voting against the nominating committee chair, senior member of the committee, or board chair when the board is not sufficiently independent.

SIZE OF THE BOARD OF DIRECTORS

While we do not believe there is a universally applicable optimum board size, we do believe boards should have at least five directors to ensure sufficient diversity in decision-making and to enable the formation of key board committees with independent directors. Conversely, in line with the recommendation of the IBGC, we believe that boards with more than 11 members will typically suffer under the weight of "too many cooks in the kitchen" and may have difficulty reaching a consensus and making timely decisions.[21] Sometimes the presence of too many voices can make it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard. To that end, we typically recommend voting against the nominating committee chair if a board has more than 11 directors. Further, where a board has fewer than five directors we will recommend abstaining from voting on the election of the nominating committee chair. However, we may not apply this policy to small cap companies with smaller boards where a larger board would not be justified by the scope of the company's operations.[22]

RATIFICATION OF THE CO-OPTION OF BOARD MEMBERS

In certain instances, board members are appointed directly by boards to serve as directors. Shareholders are then asked to ratify co-opted board members and formally appoint them for a new term. We apply the same standards for such proposals as we do when analysing a standard election of directors' proposal.

20 Articles 2.8.2 of the Brazilian Code of Best Corporate Governance Practices and 2.3.1 of the Brazilian Corporate Governance Code for Listed Companies.

21 Article 2.2.3 of the Brazilian Code of Best Corporate Governance Practices.

22 In the absence of the nominating committee, we will recommend voting against, or abstaining from, the board chair.

SUPERVISORY COUNCIL

The supervisory council must be composed of three to five members, none of whom can be: (i) an executive, director or employee of the company, a subsidiary or an affiliate; or (ii) a spouse or relative of any of the aforementioned, up to the third degree.[23] In most cases, controlling shareholders typically elect a majority of supervisory council members. Minority common and preferred shareholders who jointly represent at least 10% of the voting share capital are each entitled to elect one member and their alternates to the supervisory council.[24]

Glass Lewis believes the supervisory council should consist of at least one undoubtedly independent director. In the case of non-controlled companies, we maintain that at least 50% of the council's members should be independent. Further, we prefer that the board maintain a separate committee accountable for audit oversight.

While we believe that the supervisory council can be a useful oversight mechanism, we also recognise that its primary benefit is providing additional clarity and independent information to shareholders upon request. As such, we do not believe this council can reasonably replace the important control function of an audit committee on the board of directors, nor do we believe it is always an essential feature of good governance. Although we generally support the function of a supervisory council, we will recommend that shareholders support a proposal to establish a supervisory council only when: (i) the proposed members of the council have been disclosed; and (ii) the proposed members represent a sufficiently diverse and independent perspective to add value for all shareholders.

BOARD COMMITTEES

Most Brazilian companies are not required to establish board committees and therefore companies rarely form such committees. However, the IBGC recommends the establishment of an audit committee.[25] Further, companies may choose to establish audit committees pursuant to CVM Instruction 509 in order to, among other things, allow them to hire independent auditors for a term of up to 10 consecutive years.[26] In addition, publicly listed financial institutions and other entities authorised to operate by the Central Bank of Brazil must establish remuneration committees.[27]

COMMITTEE INDEPENDENCE

Given that there is no requirement under Brazilian law obligating issuers to establish an audit or remuneration and nominating committee, often when they are established, they are comprised of individuals who are not board members. These outsiders are usually employees of the company or consultants and their appointment is not subject to shareholder approval.

Companies with established audit committees pursuant to CVM Instruction 509 may appoint members who are not directors of the board to serve on the audit committee. We prefer all audit committee members to be directors of the board, which we feel provides for increased accountability to shareholders who may voice their concerns with committee members through the election of directors process. We will note instances of non-board members serving on the audit committee as an issue of concern and will recommend that shareholders vote against any affiliates or insiders serving on the audit committee. Similarly, we believe that each of the key committees established by a company should consist solely of independent directors.[28] However,

23 Articles 161 and 162 of the Brazilian Companies Law 6.404/1976.

24 Article 161 of the Brazilian Companies Law 6.404/1976.

25 Articles 2.20 and 2.21 of the Brazilian Code of Best Corporate Governance Practices.

26 Pursuant to the Instruction, publicly-listed companies in Brazil that establish audit committees may contract independent auditors to provide audit services for up to 10 consecutive years, as long as the lead audit partner/any element of the audit team in a managerial position, rotates off the audit at least every five years, with no return for a further three years.

27 Article 11 of Resolution 3.921/2010 of the Central Bank of Brazil.

28 Previous editions of the Code recommended that committees be exclusively independent; however, the current edition of the Code recommends that no executive members serve on key board committees (Article 2.20.1, practice e). Nevertheless, we believe these committees will be most effective in protecting shareholders' interests when both of these thresholds are met.

we may make exceptions to this standard in instances of companies with significant beneficial ownership by a person or group of entities. In this case, we prefer that such owner's representation on the board and remuneration and/or nominating committee not exceed their proportional ownership of the company on the whole. We believe the audit committee should be composed exclusively of independent directors, regardless of a company's ownership structure. When a company is controlled, we believe each of the remuneration and/or nominating committee should consist of at least one undoubtedly independent director and maintain that insiders should not serve on any of the key committees.

AUDIT COMMITTEES AND PERFORMANCE

Glass Lewis generally assesses audit committees based on the decisions they make with respect to their oversight and monitoring role. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work all provide useful information by which to assess the audit committee.

When assessing the decisions and actions of audit committees, we typically defer to their judgment and recommend in favour of their members. However, we may recommend voting against:

- The audit committee chair if: (i) audit and audit-related fees total less than one-half of the total fees billed by the auditor; and/or (ii) the committee did not hold a sufficient number of meetings considering the company's financial situation and reporting requirements.[29]

- Members of an audit committee who served during the relevant time period if: (i) material accounting fraud occurred; (ii) financial statements had to be restated due to serious material fraud; and/or (iii) there are conflicts of interest between auditors and shareholders or auditors and members of the committee.

REMUNERATION COMMITTEES AND PERFORMANCE

We evaluate remuneration committee members on the basis of their performance while serving on the remuneration committee in question, not for actions taken by prior committee members who are not currently serving on the committee.

When assessing the performance of remuneration committees, we may recommend voting against members of the remuneration committee who served during the relevant time period if: (i) companies entered into excessive employment agreements and/or severance agreements; (ii) performance goals were changed (i.e., lowered) when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained; (iii) excessive employee perquisites and benefits were allowed; and/or (iv) we have identified other egregious policies or practices.

NOMINATING COMMITTEES AND PERFORMANCE

The nominating committee, as an agent for the shareholders, is responsible and accountable for the selection of objective and competent board members. When assessing the performance of nominating committees, we may recommend voting against:

- The nominating committee chair: (i) if the nominating committee did not meet during the year, but should have (i.e., because new directors were nominated)[30]; (ii) when the board is less than 50% independent in the case of non-controlled companies; and (iii) when there are more than 11 members on the board.

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29 We will apply this criterion if board committee meeting information is available.

30 We will apply this criterion if board committee meeting information is available.

- Members of the nominating committee who served during the relevant time period if the committee nominated or re-nominated an individual who had significant conflicts of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.

ELECTION PROCEDURES

In Brazil, directors are elected as slates and as many issuers are controlled, the outcome of the election of the board is mostly pre-determined. However, minority common shareholders representing at least 15% of a company's common shares and preferred shareholders representing at least 10% of a company's non-voting preferred shares may each petition to nominate one candidate in a separate election. If neither threshold is met, each class of minority shareholders may group their shares together and petition to nominate one candidate so long as they have been shareholders for at least three months prior to the meeting.[31] If this occurs, issuers must disclose the names and/or biographical information of candidates proposed by minority shareholders.

We note that non-controlling common shareholders are presented with the binary option of submitting a vote either (i) for or against the slate presented by the management/controlling shareholder or (ii) the proposed minority representative(s). Further, we note that non-controlling preferred shareholders only have the opportunity to vote on candidates nominated by preferred shareholders, and not on the management/controlling shareholder slate.

We will generally recommend voting for a representative of minority/preferred shareholders where sufficient information regarding the nominee has been disclosed, and when we deem the nominee truly independent and appropriately qualified for the role. In cases where multiple minority/preferred representative candidates have been nominated, we will base our recommendation on the nominees' qualifications and experience and on the company's shareholder structure.

Further, shareholders individually or jointly representing between at least 5% and 10% of a company's voting share capital may request the adoption of cumulative voting, provided the request is received at least 48 hours prior to the shareholder meeting.[32] Following the implementation of Instruction 561, shareholders voting by proxy may now also request the adoption of cumulative voting. In practice, we support the adoption of cumulative voting. However, we recognise that most shareholders voting by proxy will typically not meet the minimum ownership threshold (5% of outstanding share capital) in order for the vote to count. Further, unless the names of candidates (including minority or preferred shareholder representatives) are made public in sufficient time to be included in the proxy form, cumulative voting provides little practical benefit to those shareholders who are not planning to attend the meeting in person. Given the potential for shareholder votes on cumulative voting to not be counted if the election is held as a slate, we will generally not recommend that shareholders support the proposal to adopt cumulative voting or cumulate votes for certain candidates when such a request has not been made prior to the publication of the proxy form.

When a company discloses that cumulative voting will be adopted well in advance of the meeting, we will generally recommend shareholders cumulate their votes equally among qualified, independent candidates, taking into account the number of candidates presented and the shareholder structure, to ensure that minority shareholders are represented within the board. We will recommend that shareholders abstain from voting on the remaining nominees.

Because petitions for separate elections are generally made at a meeting or after instructions from those voting by proxy have already been sent, issuers rarely disclose the names and/or biographical information of candidates proposed by minority shareholders at all, or at least not with sufficient time for the information to be disseminated to shareholders. Further, management seldom communicates changes to election methods to shareholders or custodians and requests for cumulative voting are typically made after instructions from those

31 Paragraphs 4, 5 and 6 of Article 141 of the Brazilian Companies Law 6.404/1976.

32 Article 141 of the Brazilian Companies Law 6.404/1976 and CVM Instruction 165/1991 (as amended by CVM Instruction 282/1998). The minimum voting share capital percentage required for the adoption of cumulative voting varies according to a company's issued share capital, e.g., for companies whose share capital is between R$0 and R$10,000,000, the requirement is 10% and for companies whose share exceeds R$100,000,001, the requirement is 5%.

voting by proxy have been sent. Shareholders voting by proxy still face significant obstacles to participating in board elections when information is not made available well in advance of the meeting. Where information regarding a proposal to elect directors or to adopt cumulative voting has not been made available 21 days prior to the meeting date, in many cases shareholders voting by proxy will not have the opportunity to cast informed votes on the election of directors.[33]

33 While proxy voting instructions may, at times, be amended up to approximately 16 days prior to the meeting based on an amended proxy form, we will generally refrain from making updates that are not included on a proxy form as a result of information not being filed in a timely manner due to the risk that such updates will not be accepted or counted. In any event, we will update our recommendations on a best-effort basis for requests that are made subsequent to the initial publication of our report and fewer than 16 days prior to the meeting.

Transparency and Integrity in Financial Reporting

ACCOUNTS AND REPORTS/CONSOLIDATED ACCOUNTS AND REPORTS

Brazilian company law requires that shareholders approve the annual and consolidated financial statements of companies within the four months following the close of the fiscal year in order for them to be valid. Brazilian companies make their audited financial statements electronically available to shareholders through the B3.[34] Unless there are concerns about the integrity of the statements/reports, or they have not been prepared in accordance with IFRS or Brazilian GAAP, we will generally recommend voting for these proposals.

Approval of the accounts also ratifies the acts of the members of the board of directors. This would not release directors in instances of error, bath faith, fraud or misrepresentations of accounting. Nevertheless, seeking recourse for directors' actions could prove time-consuming and expensive for shareholders. As such, when we have significant concerns regarding a board's actions during the prior fiscal year and find a material risk to shareholder value resulting from such actions (or inaction), we will recommend voting against this proposal.

ALLOCATION OF PROFITS/DIVIDENDS

In Brazil, companies must submit the allocation of income for annual shareholder approval. Brazilian law requires the distribution of a mandatory dividend equal to at least 25% of a company's profits for the previous fiscal year, subsequent to the allocation of 5% to the legal reserve, if the company has not reported a loss.[35] In the event of a loss, a company may use its retained earnings, profit reserves or legal reserve to absorb losses and is exempt from the distribution of any dividends. We will generally recommend voting for such a proposal.

However, we will apply particular scrutiny to cases where the company's dividend payout ratio is excessively high or low and the company has not provided a satisfactory explanation. We will support uncovered dividends when we believe that such payouts are justified and will not negatively impact the financial health of the company in the long-term.

PAYMENTS OF INTEREST ON CAPITAL

In Brazil, companies may distribute interest on capital in addition to or in lieu of a dividend. In our view, paying interest on capital allows companies to benefit from accrued interest collected on their own capital, and treat such payments as fiscal expenses for income tax and social contribution purposes. The interest is limited to the daily pro rata variation of a nominal long-term interest rate determined by the federal government that includes an inflation factor. The aggregate interest on capital may not exceed the greatest of 50% of net income for the period in which the payment is made, or 50% of the sum of retained earnings and profit reserves. We will generally recommend voting for such a proposal.[36]

34 Article 132 of the Brazilian Companies Law 6.404/1976.

35 Articles 193 and 202 of the Brazilian Companies Law 6.404/1976.

36 Article 9 of Federal Law 9.249/1995.

CAPITAL EXPENDITURE BUDGET

Brazilian companies often request shareholder approval of their capital expenditure budget for the current fiscal year.[37] This information is presented to shareholders at the annual meeting. We will typically recommend in favour of this proposal given that we believe management and the board are in the best position to determine what operational decisions are best in the context of a company's business. We believe that board members can be held accountable on this issue when they face reelection.

37 Article 196 of the Brazilian Companies Law 6.404/1976.

The Link Between Compensation and Performance

Glass Lewis carefully reviews the remuneration awarded to executive and management board members as we believe that this is an important area in which the board's priorities are revealed. We strongly believe that comprehensive, timely and transparent disclosure of executive pay is critical to allowing shareholders to evaluate the extent to which the pay is keeping pace with company performance.

Glass Lewis believes executive remuneration should be linked directly with the performance of the business the executive is charged with managing. When reviewing proxy materials, we typically look for remuneration arrangements that provide for a mix of performance-based short and long-term variable incentives in addition to a fixed base salary, examine whether a company discloses the performance metrics used to determine variable compensation, and analyse whether performance metrics vary and include a mix of financial and non-financial measures.

We acknowledge that it is rarely in shareholders' interests for companies to disclose competitive data about individual salaries below the senior executive level. Such disclosure could create internal personnel discord that would be counterproductive for a company and its shareholders. However, we favour full disclosure of senior executive payouts and remuneration disclosure at the aggregate level (e.g., the number of employees being paid over a certain amount or in certain categories).

VOTE ON EXECUTIVE COMPENSATION ("REMUNERATION POLICY")

We believe that each company should design and apply specific remuneration policies and practices that are appropriate to its circumstances and, in particular, will attract and retain competent executives while motivating them to grow the company's long-term shareholder value.

In accordance with Brazilian law, shareholders must approve the aggregate remuneration of the board of directors, management board and the supervisory council (if applicable) at annual meetings.[38] Further, companies must provide the information required under Section 13 of the *Formulário de Referência*, or annual report, which details a company's remuneration policy.[39] The two most important principles we consider when evaluating Section 13 are: (i) the overall structure and policies that govern remuneration levels and drive performance; and (ii) the disclosure of remuneration policies and procedures.

With this in mind, Glass Lewis reviews each remuneration policy on a case-by-case basis with the belief that each company must be examined in the context of industry, size, ownership structure, financial condition, historic pay-for-performance practices and any other individual mitigating internal or external factors. In completing our assessment of executive remuneration policies, we may consider, among other factors:

- Whether the highest, lowest and average executive remuneration figures have been disclosed;[40]
- Whether a company has a controlled or dispersed shareholder base;

38 Article 152 of the Brazilian Companies Law 6.404/1976.

39 Articles 12 and 13, and annex 13 of CVM Instruction 481/2009.

40 Article 19 of B3's updated *Novo Mercado* Listing Regulation, and line 13.11, annex 24 of CVM Instruction 480/2009, and Official Letter 04/2018 published by the CVM's Superintendent Office of Corporate Relations. In May 2018, a federal regional court overturned an injunction obtained by the Brazilian Institute of Finance Executives of Rio de Janeiro ("IBEF-RJ"), used by companies to not comply with the aforementioned executive remuneration disclosure requirement. However, even though the decision took immediate effect, the IBEF-RJ stated it would appeal.

- The appropriateness of variable remuneration performance metrics and how such goals and metrics are used to drive company performance;
- The use and structure of long-term incentives;
- Whether compensation encourages prudent risk-taking;
- The overall link between pay and performance;
- The quality and content of a company's disclosure; and
- If remuneration practices and policies are aligned with Brazilian and/or international best practice.

Where those specific policies and practices are consistent with Glass Lewis' guidelines, and such practices are adequately disclosed, we will generally support a company's approach.

In cases where our analysis reveals a remuneration structure in drastic need of reform, we will generally recommend that shareholders vote against the remuneration policy proposal. Generally, such instances include evidence of a pattern of poor pay-for-performance practices, unclear or questionable disclosure (i.e., limited information regarding executive remuneration, insufficient rationale for bonus performance metrics and targets, etc.), questionable adjustments to certain aspects of the overall remuneration structure (i.e., limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizable retention grants, etc.), and/or other egregious remuneration practices.

Any significant changes or modifications made to a company's remuneration structure or award amounts, including base salaries, are also taken into consideration. Although not an exhaustive list, the following issues are seen as problematic pay practices that may cause Glass Lewis to recommend that shareholders vote against a remuneration policy proposal:

- Executive remuneration that is noticeably out of line with the company's performance;
- Non-executive directors are eligible to participate in incentive plans designed for executives;
- Lack of a long-term incentive plan/equity-based scheme;
- Inappropriate long-term incentive plan/equity-based scheme terms, such as equity awards granted at a discount to fair market value;
- Guaranteed bonuses;
- Egregious or excessive bonuses, equity awards or severance payments;
- Performance targets lowered without justification; and
- Discretionary bonuses paid when short or long-term equity-based incentive plan targets were not met.

Moreover, in cases where companies have simply failed to provide sufficient disclosure of their policies or have not disclosed a breakdown of the highest, lowest and average pay received by executives (a crucial disclosure requirement mandated by the CVM)[41] we will generally recommend shareholders vote against remuneration policies solely on this basis, given the absence of meaningful information on which to judge the appropriateness of pay levels.

41 CVM Instruction 480/2009, and Official Letter 04/2018 published by the CVM's Superintendent Office of Corporate Relations.

Further, when companies maintain poor remuneration policies year-after-year without any apparent steps to address the issues, we may recommend that shareholders vote against the chair and/or members of the remuneration and nominating committee. We may also recommend voting against the committee based on the practices or actions of its members, such as approving large one-off payments, the inappropriate use of discretion, or sustained poor pay-for-performance practices.

In practice, Brazilian companies may submit a revised remuneration policy to a vote during the general meeting, preventing shareholders voting by proxy from participating. In the event that shareholders are provided with the option in the proxy to authorise the board to submit a revised remuneration policy during the meeting, we will recommend voting against this proposal.

SHORT-TERM INCENTIVES

Annual bonuses, or short-term incentives ("STIs") for Brazilian executives, often awarded in the form of cash or shares and/or profit sharing, should be demonstrably tied to performance. Whenever possible, we believe a mix of corporate and individual performance measures is appropriate. We would normally expect performance measures for STIs to be based on internal financial measures as well as non-financial factors such as individual performance and those related to sustainability. However, we accept variations from these metrics if they are tied to a company's key business objectives. Glass Lewis acknowledges that some measures may involve the disclosure of commercially confidential information, in which case justification for non-disclosure should be provided. However, where an STI has been paid, companies should disclose the extent to which performance has been achieved against relevant targets.

Additionally, we believe that potential maximum STI levels should be disclosed. Shareholders should expect stretching performance targets for the maximum award to be achieved. We also believe that any increase in a potential maximum award should be clearly justified to shareholders.

Where management has received significant STIs but short-term financial or individual performance is demonstrably poor or negative, a company should provide a clear explanation as to why these significant short-term payments were made.

Finally, despite these practices still not being standardised in Brazil, we believe all companies, not just financial institutions, should provide that bonuses will be subject to clawback provisions, allowing companies to reclaim bonuses in the case of poor results in subsequent fiscal years. Similarly, we believe that a significant portion of bonus payments should be subject to a minimum deferral period of three years.

EQUITY-BASED LONG-TERM INCENTIVE PLANS

We believe that equity incentive awards are useful tools, when not abused, for retaining employees and providing an incentive for them to act in a way that will improve company performance. Equity-based plans, often in the form of stock option plans, are common in Brazil. These plans have important differences from cash or other performance-based incentive plans and STI programs. Accordingly, our analysis takes into account factors such as plan administration, the method and terms of exercise, and express or implied rights to re-price. In our evaluation, we examine the potential dilution to shareholders, the company's grant history and compliance with best practice recommendations. We evaluate equity-based incentive plans based on the following principles:

- Total potential voting power dilution to current shareholders should not be unreasonable;
- Companies should have a demonstrated history of reasonable equity incentive grants over the past three fiscal years;
- A vesting period of at least three years;
- Awards should be granted at fair market value;

- Plans should not be managed by interested parties; and
- Plans should not permit the re-pricing of stock options.

PERFORMANCE-BASED LONG-TERM INCENTIVE PLANS

Glass Lewis recognises the value of performance-based long-term incentive programs. In Brazil, performance-based long-term incentive plans are the exception rather than the norm. Nonetheless, there are certain elements that Glass Lewis believes are common to most well-structured long-term incentive plans ("LTIPs") based on best practice for corporate governance. These include:

- No re-testing or lowering of performance conditions;
- Two or more performance metrics, at least one relative performance metric that compares the company's performance to a relevant peer group or index;
- Performance periods of at least three years;
- Performance metrics that cannot be easily manipulated by management;
- Stretching metrics that incentivise executives to strive for outstanding performance; and
- Individual limits expressed as a percentage of base salary.

Performance measures should be carefully selected and should relate to the specific business/industry in which the company operates and, especially, applicable to its key value drivers. When evaluating LTIPs, we will consider whether awards granted under the plans are conditional on the achievement of detailed and challenging performance targets and adequately align management interests with those of shareholders. Further, and as discussed above, Glass Lewis believes that measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance than a single metric, which may focus too much management attention on a single target. External benchmarks should be disclosed and transparent, such as total shareholder return against a well-selected sector index, peer group or other performance hurdles. The rationale behind the selection of a specific index or peer group should be disclosed. Internal benchmarks should also be disclosed and transparent, unless a cogent case for confidentiality is made and fully explained. We note, however, that performance targets are still rarely fully disclosed by Brazilian companies.

We will generally recommend voting against LTIPs that do not demonstrate a clear link to company performance or whose terms severely deviate from best practice. Similarly, the structure of the LTIP will be considered when determining our recommendation of remuneration policy proposals.

REMUNERATION POLICY RELATIVE TO OWNERSHIP STRUCTURE

Glass Lewis recognises that differences in the ownership structures may affect incentive structure for executives. In particular, where a company is controlled and managed by a family or individual, we believe the use of equity incentives for representatives of the controlling family or individual are inappropriate and may serve to further entrench the controlling shareholders' stake and expropriate minority shareholders. Additionally, in general, we expect companies with more dispersed ownership to demonstrate a more precise and linear pay-performance link than those where the ownership is more concentrated.

SEVERANCE PAYMENTS

In general, we believe that severance payments should be limited to two years fixed salary and should not be paid in the event of inadequate performance or voluntary departure.

REMUNERATION PLANS FOR NON-EXECUTIVE DIRECTORS

Glass Lewis believes that non-executive board members should receive reasonable compensation for the time and effort they spend serving on the board and its committees. Board fees should be competitive in order to retain and attract qualified individuals. Excessive fees represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee board members. Therefore, a balance is required.

The aforementioned fees do not include benefits, allowances and compensation as a result of profit-sharing. In Brazil, in addition to fees, executive officers and directors may receive an annual bonus, share in net profits of a company if the company has complied with the 25% mandatory dividend policy[42] and may be eligible to receive equity-based incentives. Nonetheless, we believe that non-executive directors should not partake in profit sharing, as this practice may incentivise directors to make decisions that do not contribute to the long-term success of the company.[43]

SUPERVISORY COUNCIL MEMBERS' COMPENSATION

Glass Lewis believes that members of the supervisory council should receive compensation for the time and effort they spend serving on the council. According to Brazilian law, members of the supervisory council must receive at least 10% of the average compensation paid to the Company's directors.[44]

REMUNERATION POLICY VOTING RECOMMENDATIONS FOR FINANCIAL INSTITUTIONS

In addition to the aforementioned guidelines for say on pay voting recommendations, Glass Lewis applies the rules of Resolution 3.921/2010 (the "Resolution") to financial institutions when analysing say on pay proposals. The Resolution seeks to improve the alignment between executive remuneration and risk. In line with the Resolution, Glass Lewis believes that financial institutions should incorporate the following into their remuneration policies:

- At least 50% of variable remuneration should be paid in shares or other share-based instruments;
- At least 40% of variable pay should be subject to (i) a minimum deferral period of three years, and to (ii) clawback provisions;
- Along with a company's performance, a portion of variable compensation should take into account individual performance; and
- Guaranteed bonuses should only be used in exceptional circumstances such as recruitment or relocation and should be adequately justified.

If a financial institution does not have the following policies in place, we may recommend that shareholders vote against the remuneration policy proposal. We will also consider the level of disclosure when determining our voting recommendation. Further, Glass Lewis may recommend that shareholders vote against remuneration policies of financial institutions if the following disclosure requirements are not sufficiently met:

- A description of the process adopted for establishing the remuneration policy;
- The criteria used for performance measurement and risk adjustment;

42 Articles 152 and 190 of the Brazilian Companies Law 6.404/1976 state that in these instances, the total participation amount may not exceed the annual fees of the officers and directors nor one-tenth of the profits for the previous fiscal year, whichever is less.

43 The current edition of the Code, alongside the Brazilian Corporate Governance Code for Listed Companies, do not explicitly recommend that non-executive directors should not partake in profit sharing; rather, they recommend that the board and management be compensated in different ways. If the board is to be compensated through variable remuneration, like profit-sharing, then this remuneration should not be linked to short term incentives (Articles 21.6 and 2.16d of the Code, and 2.7 of the Brazilian Corporate Governance Code for Listed Companies).

44 Paragraph 3 of Article 162 of the Brazilian Companies Law 6.404/1976.

- The relationship between pay and performance; and
- The policy regarding deferral of remuneration and deferred compensation amounts.

REMUNERATION POLICY AND BEST PRACTICE

In our analysis of remuneration policies, we may apply higher standards to policies of the largest companies in Brazil, which compete with international companies in similar industries for talented executives. In particular, we expect companies on the *Índice Bovespa*[45] to provide an increased level of remuneration-related disclosure than other companies in Brazil. We also expect these companies to apply remuneration practices that meet a majority of key recommendations for best practice in Brazil and align them with international standards for best practice. In contrast, we are more likely to support the remuneration policies of smaller Brazilian issuers where policies generally align with key regional best practice recommendations, even if such practices do not satisfy the more stringent expectations of international best practice.

45 Index with approximately 60 companies that covers over 50% of the market capitalisation of the B3. Source: http://www.bmfbovespa.com.br/pt_br/produtos/indices/indices-amplos/indice-ibovespa-ibovespa-composicao-da-carteira.htm.

Governance Structure and the Shareholder Franchise

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from judging each amendment on its own merits and is a practice which we believe negatively limits shareholder rights. In such cases, we will analyse each proposed change individually. We will recommend voting for the proposal only when, on balance, we believe that the amendments are in the best interests of shareholders.

CONTROL ENHANCING MECHANISMS

SHAREHOLDER AGREEMENTS

Where a group of shareholders, acting in concert to vote and make other business decisions, have entered into an agreement to control a majority of a company and its board, we will apply the same rules applied to controlled companies.

DUAL-CLASS SHARE STRUCTURE

According to Brazilian law, companies may issue up to 50% of their total share capital in the form of preferred shares with no voting rights or restricted voting rights that entitle their holders to receive fixed or minimum dividends and other financial benefits.[46] However, due in part to the single-class, common share requirement of the *Novo Mercado* listing segment of the B3, there are an increasing number of cases wherein companies maintain a single-class, diffuse shareholder base with no controlling shareholder (economic and voting power) as companies migrate to the *Novo Mercado* from Level 1, Level 2 and the Conventional listing segments.

GOLDEN SHARES

While golden shares are entitled to all of the same rights as other share classes, they often grant the holder, usually a government or state, discretionary power to veto certain corporate actions such as a change in the name or business purpose of the company, as well as the transfer of equity of the company, so as to ensure that the company does not act contrary to national interests. In Brazil, there are few instances in which the federal government holds golden shares in a company. However, in these cases, unless the government holding golden shares is also a controlling or majority shareholder, we will consider companies non-controlled.

ANTI-TAKEOVER DEVICES AND MANDATORY TAKEOVER BIDS[47]

Glass Lewis believes that provisions intended to prevent or thwart a potential takeover of a company are not conducive to good corporate governance and can reduce management accountability by substantially limiting opportunities for shareholders.

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46 Article 15 of the Brazilian Companies Law 6.404/1976.

47 Article 1.3 of the Brazilian Code of Best Corporate Governance Practices.

In the event that control of a company changes, we believe that minority shareholders should be granted the right to tender their shares under the same conditions as those granted to the majority shareholder. However, a balance should be maintained between the need for minority protection and the promotion of takeover activities. Therefore, we generally support provisions in the articles of association that require a shareholder to make a mandatory tender offer for all of the company's outstanding shares if it acquires control over 30% or more of the total available share capital. Nevertheless, we will typically oppose provisions that allow this threshold be set at a lower percentage as they may function as a defensive mechanism that discourages investors from purchasing shares in a company.

MERGER OF SHARES (WHOLLY-OWNED SUBSIDIARIES)

In Brazil, any merger of a wholly-owned subsidiary into its parent company must be submitted for shareholder approval.[48] We note that since the company already controls the merging entity, the main purpose of the proposed transaction is to simplify the company's corporate structure. Moreover, given that the subsidiary's financial statements are already consolidated with those of the parent company we do not believe there would be any adverse economic effect to the parent company's current shareholders. We will generally recommend voting for these proposals.

SHAREHOLDER RIGHTS

Glass Lewis strongly supports the right of shareholders to call special meetings. We note that pursuant to Brazilian law, shareholders holding at least 5% of a company's share capital are allowed to call a special meeting.[49]

Glass Lewis recognises that adequate capital stock is important to a company's operation. In Brazil, shareholders may vote on the issuance of shares and/or convertible securities, capital increases and decreases, stock splits and share repurchase authorities.

48 Articles 224, 225 and 252 of the Brazilian Companies Law 6.404/1976.

49 Article 123 of the Brazilian Companies Law 6.404/1976.

Capital Management

ISSUANCE OF SHARES AND/OR CONVERTIBLE SECURITIES

In Brazil, shareholders are required to approve all proposals related to the issuance of shares and/or convertible securities (debentures).[50] Further, preemptive rights are a statutory requirement under Brazilian law.[51]

Issuing an excessive amount of additional shares and/or convertible securities may dilute existing holders. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to potential takeovers. Accordingly, where we find that a company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we may recommend against the authorisation of additional shares. While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of a large pool of unallocated shares available for any purpose.

In our view, any authorisation to issue shares and/or convertible securities with preemptive rights should not exceed 100% of the company's total share capital and any authorisation to issue shares and/or convertible securities without preemptive rights should not exceed 20% of the company's total share capital.

We may recommend voting against an authority to increase authorised capital through the issue of shares and/or convertible securities if the board will be granted the authority to issue shares without preemptive rights in excess of 20% of a company's issued share capital or if it does not clearly limit share issuances without preemptive rights to 20%. However, we will consider each authority on a case-by-case basis, taking into account a company's rationale for exceeding the aforementioned limit and whether a company has a history of issuing a large number of shares without preemptive rights without consulting shareholders. We will also consider the limits, if any, to the board's authority to issue shares from authorised capital without shareholder approval, as specified in a company's articles of association. We apply this limit in cases where there is a single proposal to increase a company's authorised share capital limit or, in the aggregate, when there are separate/multiple proposals for the issuance of shares and convertible securities within the authorised limit. Further, in instances where the potential dilution is not calculable and/or the proposed authorised share capital maximum is not expressed in capital or number of shares, we will recommend voting against these authorities.

CAPITALISATION

The successive or simultaneous capitalisation (i.e., incorporation) of reserves, retained earnings or paid-in capital, resulting in the free allotment of shares and/or an increase in the par value of shares, is another approach Brazilian companies may take to increase their paid-in capital. In these cases, there is no risk of shareholder dilution.

Under Brazilian law, the capitalisation of reserves is voted on every year at the annual meeting of shareholders after the approval of the company's annual financial statements if there remains a positive balance of the capital reserve for the fiscal year.[52]

50 Articles 59 and 166 of the Brazilian Companies Law 6.404/1976.

51 Article 171 of the Brazilian Companies Law 6.404/1976.

52 Article 167 of the Brazilian Companies Law 6.404/1976.

STOCK SPLIT

We typically consider three metrics when evaluating whether we think a stock split is reasonable: (i) the historical stock pre-split price, if any; (ii) the current price relative to the company's most common trading price over the past 52 weeks; and (iii) some absolute limits on stock price that, in our view, either always make a stock split appropriate if desired by management or would almost never be a reasonable price at which to split a stock.

ISSUANCE OF DEBT INSTRUMENTS

In Brazil it is a routine matter for boards to seek shareholder approval to issue and/or trade in non-convertible, convertible and/or exchangeable debt obligations.[53] Generally, shareholders determine the amount and number of series of a debt instrument issuance and the board is granted the authority to establish a fixed or variable interest rate and to establish all other aspects of the debt instruments.

We believe it is customary for companies to increase their leverage by using debt to finance expansion plans. A majority of companies issue debt to avoid short-term equity dilution and to signal future growth opportunities. If the requested authorities to issue debt are reasonable and we have no reason to believe that the increase in debt will weaken companies' financial position, we will usually recommend in favour of such proposals.

AUTHORITY TO CANCEL SHARES AND REDUCE CAPITAL

In the case of a loss, boards may seek shareholder approval to reduce share capital up to the amount of the accrued loss, or if the board deems the share capital to be excessive.[54]

Furthermore, it is a routine matter for shareholders to grant the board the authorisation to cancel shares held in treasury. We see no reason to vote against such a proposal, given that the cancellation of treasury shares has no effect on the company's share capital nor is there any risk of dilution to current shareholders.

53 Article 59 of the Brazilian Companies Law 6.404/1976.

54 Article 173 of the Brazilian Companies Law 6.404/1976.

Shareholder Initiatives

Glass Lewis typically prefers to leave decisions regarding day-to-day management and policy decisions, including those related to social and environmental issues to management and the board, except when there is a clear link between adoption of the proposal and value enhancement or risk mitigation. We strongly feel that shareholders should not attempt to micromanage the company, its business or its executives through

the shareholder initiative process. Rather, we believe shareholders should use their influence to push for governance structures that protect shareholders and promote director accountability. Shareholders should put in place a board they can trust to make informed decisions that are in the best interests of the business and its owners, and hold directors accountable through the election of directors.

To this end, we examine the circumstances at each company on a case-by-case basis. We thoroughly research each firm, using publicly available information, such as annual reports, sustainability reports, companies' websites, NGO websites, and news sources. When we identify situations where shareholder value may be at risk, we will note our concerns in the relevant section of the Proxy Paper analysis as well as in any applicable shareholder proposals.

Though rare in Brazil, should a shareholder proposal seek action on a specific ESG issue, Glass Lewis will recommend voting in favour of such a proposal when we believe its implementation will enhance or protect shareholder value. We will also recommend voting in favour of a proposal if we believe supporting such proposal will promote disclosure of significant risk exposure. Only in extreme cases will we recommend shareholders vote against board members based on ESG concerns.

ENVIRONMENTAL, SOCIAL & GOVERNANCE INITIATIVES

For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive Proxy Paper Guidelines for Shareholder Initiatives, available at www.glasslewis.com.

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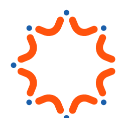
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