



## 2018 Stewardship Report – Brazil

ROBECO | 01.01.2018 – 12.31.2018





# Stewardship Activities in Brazil

In 2018, we expanded our stewardship activities in Brazil by engaging with a larger number of companies, strengthening our proxy voting approach, and establishing a dialogue with market regulator.

Our focus relies on improving corporate governance practices in the market, especially among several companies with exposure to corruption issues in the past. In our engagement dialogues with companies, we incorporated the set of stringent corporate governance provisions required by Novo Mercado, and provided advice on how to comply with these requirements. A summary of our stewardship activities is provided in the report below.

## Engagement Activity

We engage with several Brazilian publicly-listed companies on a wide range of environmental, social, and governance (ESG) financially material topics. Engaging with companies on the most material sustainability issues enhances their competitiveness and profitability, and generates measurable benefits for investors, companies, and society as a whole.

## Governance

We have been closely monitoring the evolution of the corporate governance provisions required of companies listed on the Novo Mercado stock exchange segment. Since companies need to adapt their bylaws and implement these measures by their 2020 AGMs, we have been engaging with companies on how their corporate governance practices score against these provisions. To gain a better understanding of the matter we also spoke to B3 – Brasil, Bolsa, Balcão and discussed

how listed companies approach these regulatory changes. The focus of our engagement is to further improve the independence on boards, transparency on management practices and better market guidance, to implement checks and balance in corporate decision making processes, and to protect the position of minority shareholders.

Last year, we continued our engagement efforts with one of the largest Brazilian meat producers in relation to a bribery scheme involving Brazilian officials. Although the company changed its board composition, we encourage them to develop a nomination policy that safeguards minority shareholder interests in the board. We discussed with the company that the most important improvement in terms of corporate governance is to strengthen the oversight of the company's top executives and to have stricter criteria for reviewing transactions.

We also initiated an engagement dialogue with a company providing steel-related products and services worldwide. Over recent years the company has been implicated in the operation Zelotes, and we discussed how this case is being addressed internally. The decision-making process in the company still relies on the family members that founded the company. We encouraged them to enhance the representation of independent directors at the supervisory board level, which is currently controlled by the family, to ensure that the interests of all shareholders are being taken into account.

Another constructive engagement discussion initiated in 2018 involves one of the largest Brazilian companies operating in the infrastructure concession sector. We discussed how the company is addressing allegations of its involvement in the Lava Jato corruption case. Improvements in its compliance and risk management systems were implemented, and we provided feedback on topics such as related party transactions. Despite the fact that the company's controlling shareholders reduced their combined stake to less than fifty percent of capital ownership, the supervisory board is predominantly comprised of directors affiliated to these shareholders. We encouraged the company to match the number of independent directors on the board to its capital free float.

The company encouraged us to suggest an independent director to the nomination committee. After undertaking several interviews, we finally presented a strong candidate as a potential independent director to serve on the supervisory board. If the candidate is selected by the nomination committee, his appointment to the board will be up for vote at the annual general meeting held in April 2019.

## Environmental and Social

Improving sustainability in the meat and fish supply chains is one of the themes in Robeco's engagement program, and deforestation from the production of soy for cattle feed is one of the main focus areas, given the huge economic and environmental damage it causes in the long-term.

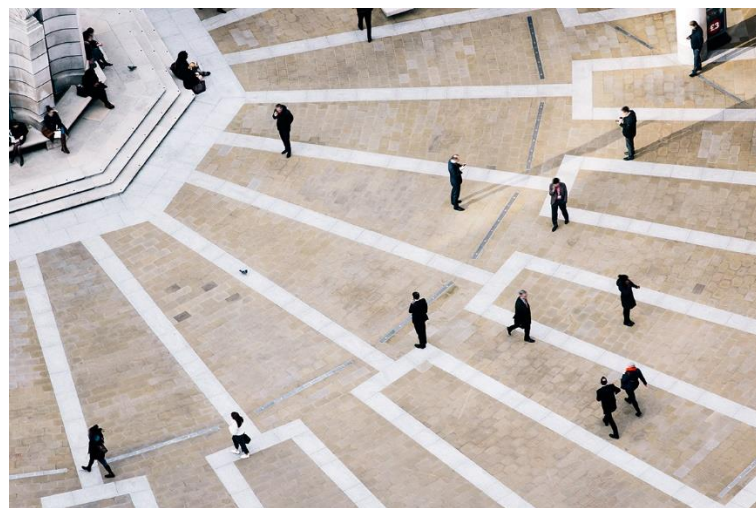
In August 2018 we signed a statement of support for the Cerrado Manifesto, alongside other global institutional investors. The Manifesto calls for a series of measures to end deforestation in the Cerrado region of Brazil and usher in robust sustainable agriculture standards for that operate there. The manifesto has secured backing from 70 global companies.

Our environmental engagement efforts also covered one of the most devastating environmental incidents in Brazil. We initiated an engagement dialogue with the company involved in the incident, and discussed which risk management systems they have in place to prevent similar incidents going forward. We also addressed their

remediation plans to mitigate their negative environmental and social impacts. The company showed externally audited inspection reports and risk oversight improvements, yet later incidents suggested that such oversight required further improvement.

A few days after the second environmental incident occurred we joined a group of investors representing over \$1.3 trillion in assets under management. The group jointly calls for a global independent public classification system that monitors the safety risk of mining company tailings dams. We have implemented investment restrictions on this stock due to the negative environmental and social impact inflicted by the company.

On the social front, we worked on promoting gender diversity by joining the discussions initiated by the 30% Club- Brazil Chapter. This organization encourages listed companies to promote gender diversity by achieving a 30% female representation at the board level. In 2019 we will sign a letter, together with local, international pension funds, and asset managers, emphasizing the importance of this topic and encouraging companies to tackle this matter internally.



## Proxy Voting Approach

With our voting and engagement practices, we aim to encourage the management teams of companies in which we invest to implement good corporate governance and responsible policies to increase long-term shareholder value while encouraging responsible corporate behavior. The basis of any well informed proxy voting decision starts with the development of a proxy voting policy that ensure our votes are in the best interest of our clients.

Our voting policy is based on the widely accepted principles of the International Corporate Governance Network (ICGN), which provides a broad framework for assessing companies corporate governance practices. The ICGN principles allows for companies to be assessed



according to local standards, national legislation, and corporate-governance codes of conduct. We constantly monitor the consistency of our general voting policy with the ICGN principles, laws, governance codes and systems, and client specific voting policies.

In 2018 Robeco voted at 5.291 shareholder meetings with an exposure to almost 70 markets. At 56% of these meetings we voted against at least one agenda item. We voted at 142 shareholder meetings held by Brazilian companies, for a total of 731 proposals. The most common proposals we voted against were related to executive compensation (42%) and board nominations (26%).

One of the main drivers behind our votes against executive compensation stems from lack of disclosure around the structure of the pay package and the total compensation provided to executives. For shareholders to make informed voting decisions, it remains crucial to have basic disclosures. As shareholders we want to ensure that top-level managers are adequately incentivized through a performance-based compensation plan linking employee pay to company

performance. Sufficient disclosures on the metrics and targets used by the remuneration committee should be included in the proxy disclosures.

In terms of board composition, the level of independence at most boards still falls below international best practices. Many Brazilian companies have key shareholders that are dominant on the board, but have a disproportionate economic stake in the company. To achieve effective management supervision, it is of utmost importance that the board exercise independent judgment and is without conflicts of interest. This is even more important for key committees, such as the audit committee, which we believe should be comprised solely of independent members.

In light of the stringent governance provisions to be adopted by companies listed in Novo Mercado, we prepared a letter outlining our expectations as institutional investors in relation to corporate governance practices of Brazilian companies. This will be shared with our most important Brazilian investment holdings prior to their 2019 shareholder meetings.

## More information

In the interests of transparency towards all our stakeholders, Robeco publishes both its voting policy and voting activity in its website.

- Voting record: <https://www.robeco.com/en/about-us/voting-report/>
- Voting policy: <https://www.robeco.com/docm/docu-robeco-voting-policy.pdf>
- Robeco 2018 Active ownership report: <https://www.robeco.com/docm/docu-2018-active-ownership-report.pdf>

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The Investment Engineers



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