



2019 Stewardship Report – Brazil

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Stewardship Activities in Brazil

In 2019 we expanded our stewardship activities in Brazil by engaging with a larger number of companies whilst strengthening our proxy voting approach in the market. We have also joined the advisory council of AMEC in April 2019, taking a more proactive role in collective engagement.

As the role of stewardship grows ever more prominent, we believe strongly in acting as responsible stewards of the assets we manage on behalf of our clients across the globe. We embrace this role and increasing responsibility since we believe it creates long term value for our clients and other stakeholders. At Robeco, we believe that engagement and voting are critical elements of a successful Sustainable Investing strategy and can improve a portfolio's risk-return profile. We target a relevant subset of companies globally in our clients' equity and credit portfolios for a constructive dialogue on environmental, social and governance factors.

Engagement Activity

We engage with several Brazilian publicly listed companies on a wide range of environmental, social, and governance (ESG) financially material topics. In 2019 we engaged with seven listed companies in the Brazilian market.

Governance

The focus of our engagements 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. Several examples are provided below:

Business Ethics and Good Governance

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 has improved several aspects of their corporate governance, including a new whistleblower system and a higher degree of independence on the board, we see further area for improvement in these practices. We encouraged the company to improve the oversight of top executives and provide more transparency on how transactions are being carried out.

We also continued our engagement dialogue with a family-owned company providing steel-related products and services worldwide. Over recent years the company has been implicated in the operation Zelotes, where more than 70 companies were investigated under the suspicion that they had paid bribes to Brazil's

Administrative Council of Tax Appeals to reduce, or avoid, fines for tax evasion. The company's Supervisory Board remains influenced by the family owners, which limits transparency on how this case has been handled internally. In later calls with the company we provided feedback on potential ESG disclosures that would be beneficial for shareholders and noted much more willingness to make gradual changes.

In 2019 we progressed in our dialogue involving one of the largest Brazilian companies operating in the infrastructure concession sector. We discussed how the company was strengthening their risk management and compliance systems following the involvement of former executives in the Lava Jato corruption case. We proposed a candidate to be potentially nominated to the board in their 2019 shareholder meeting. In the end another independent director was proposed to serve on the board as his profile was more suitable according to the nomination committee. We communicated to the company our dissatisfaction with the payment to previously convicted former executives to collaborate with the legal authorities in relation to the Lava Jato case. In the course of last year, we noted a positive progress in strengthening the corporate governance structures of the company, as they implemented a new compliance system with robust decision-making structures in place.

Cybersecurity

We initiated a new engagement dialogue with a Brazilian web content, products and services firm to discuss the company's cyber risk management and implementation strategy. The company appears to have set up a reasonably well-resourced internal cybersecurity management structure. An audit by the Brazilian Central Bank on information security systems yielded targeted recommendations to better structure the procedures and translate them into more concrete policies, such as a business continuity plan. Brazil has implemented its own privacy legislation, the LGPD, similar to the EU GDPR. Whilst this only comes into force in 2020, the company paid close attention to GDPR requirements and believes to be already well prepared to comply with the upcoming legislation.

Environmental and Social

Deforestation

The Brazilian rainforest was hit by record numbers of fires in 2019, many of which were started deliberately to clear land for livestock or farming. The Amazon is seen as acting as the world's lungs, taking billions of tons of CO₂ out of the atmosphere and producing 20% of the planet's oxygen.

In response to the fires, the UN Principles for Responsible Investment (PRI) coordinated an investor statement on

deforestation and forest fires in the Amazon. This statement was endorsed by 254 investors representing approximately US \$17.7 trillion in assets, and urged companies sourcing products from the Amazon to make sure their supply chains are not involved in rainforest clearance. Robeco co-signed this statement and currently sits on the advisory committee of the PRI working group on deforestation.

We continued our work following our involvement in the 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. We addressed this topic with global companies sourcing soy from this area, highlighting that forest loss is not just an environmental issue but a pressing financial risk that must be addressed. In our engagement dialogues we requested companies to require zero deforestation and no conversion of native vegetation within its own soy supply chain after a set cut-off date, and to contribute to a biome-level solution for zero deforestation in the Cerrado through the Cerrado Working Group (GTC).

In December we co-signed an open letter aimed at the Brazilian Government and calling the protection of the 'Amazon Soy Moratorium (ASM)'. This letter was backed by institutional investors managing over USD \$3 trillion of assets worldwide. The ASM agreement was signed in 2006 to ensure that soy production in the Amazon region only occurs on existing converted agricultural land and not through deforestation of native vegetation. Deforestation in the Amazon from other causes (mostly cattle ranching) has continued to grow. Brazilian Government data recently published shows that, since 2012, it has increased from 460 thousand hectares to almost 1 million in the last year. These deeply concerning figures reinforce the importance of continuing to uphold the ASM.

Tailings Dams Management

We engaged since 2015 with Vale S.A., a Brazilian multinational corporation engaged in metals and mining, in connection to the breach of a tailings dam in the Brazilian state of Minas Gerais. Tailings dams are very large and often highly toxic, causing widespread pollution if they collapse. Worse was yet to come after 248 people were killed in January 2019 due to the collapse of another dam owned by Vale holding mining waste in Brumadinho, Brazil.

Robeco acts in accordance with the United Nations Global Compact (UNGC) Principles and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises to assess the behavior of companies. An enhanced engagement process is applied with companies that have severe breaches of these principles and guidelines, as it was the case for Vale. Given that our engagement the company

did not lead to the desired change considering the second incident in Bumardinho, Robeco decided to exclude Vale from its investment universe under the terms outlined in Robeco's Exclusion Policy. An exclusion exemption has been granted on product specific grounds in relation to funds and/or mandates subject to the Robeco Exclusion policy that apply Enhanced Indexing strategies. For the funds and mandates in scope of this exception, the strategy will target a maximum underweight position in the company. A link to this Robeco's Exclusion Policy can be found at the end of this report.

Following the devastating consequences of the dam collapse, in April 2019 the Investor Mining and Tailings Safety Initiative was set up by the Church of England Pensions Board and the Swedish Ethics Council, and Robeco became a member of the steering committee. The total group consists of 96 investors with USD \$10.3 trillion in assets under management.

The initiative brings together institutional investors in extractive industries, including major asset owners and asset managers, using roundtables to pursue its agenda. Inputs have been sought from communities impacted by recent disasters, along with advice from leading international experts, government representatives, leading international technical advisors, and company representatives.

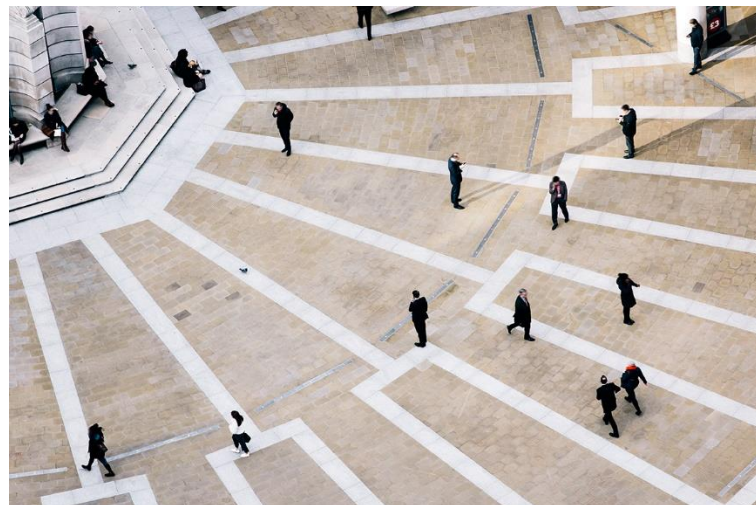
Food Security

We concluded our dialogue with two Brazilian companies in the food segment in relation to their product quality, safety management and labor standards. One of the dialogues involved a Brazilian company deemed as one of the biggest food companies in the world. We discussed their product quality, safety management and labor standards. The company continued to be involved in a large number of investigations into bribery of veterinary government officials and laboratories that test for salmonella infection levels of meat. While the company has made the case that these are facilitation payments to expedite exports and are not linked to adulterated products with poor product quality standards, we continue to be cautious on the ability of the company to ensure product quality and safety throughout their operations.

Gender Diversity

On the social front, we continued our work on promoting gender diversity through our involvement in the 30% Club-Brazil Chapter. This organization encourages listed companies to promote gender diversity by achieving a 30% female representation at the board level. Together with local, international pension funds, and asset managers, we sent a letter to companies listed in Novo Mercado with boards comprised of only male directors emphasizing the importance of this topic and

encouraging them to tackle this matter by appointing female directors in the near future.



Proxy Voting

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 ensures 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. Robeco's proxy voting activities are carried out by dedicated, in house, voting analysts in the Active Ownership team.

In 2019 Robeco voted at approximately 6.000 shareholder meetings across 73 markets. On a global scale we voted against management recommendations at 59% of shareholder meetings.

Brazil Focus

We voted at 179 shareholder meetings held by Brazilian companies, for a total of 731 proposals. The most common proposals we voted against were related to executive compensation (36%) and board nominations (21%). In light of the stringent governance provisions to be adopted by companies listed in Novo Mercado, we

wrote to our most important Brazilian investment holdings prior to their 2019 shareholder meetings, explaining our expectations in relation to the governance standards set by the stock exchange. We informed companies that by not meeting our expectations we would not to support the management proposals.

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 performance hurdles included in the remuneration report should be included in the proxy disclosures. However, one of the main drivers behind our votes against executive compensation in Brazil 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 on how management performance is being rewarded.

We believe that the number of independent directors on the board should at least match the proportion of shares of a corporation that are in the hands of public investors (and preferably higher) as opposed to locked-in stock held by controlling shareholders. We note that independence levels in Brazilian Supervisory Boards remain 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. We opposed the election of directors in cases where the board composition was deemed inappropriate, such as having a lack of independent directors.

More information

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

Policies

- Robeco Stewardship Policy: <https://www.robeco.com/docm/docu-robeco-stewardship-policy.pdf>
- Robeco Exclusion Policy and List: <https://www.robeco.com/docm/docu-exclusion-policy-and-list.pdf>
- Robeco Voting Policy: <https://www.robeco.com/docm/docu-robeco-voting-policy.pdf>

Reports

- Robeco 2019 Stewardship Report: <https://www.robeco.com/en/insights/2020/04/robeco-publishes-stewardship-report-2019.html>
- Voting record: <https://www.robeco.com/en/about-us/voting-report/>

ROBECO
The Investment Engineers



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Additional Information for investors with residence or seat in Brazil

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