



2020 Stewardship Report – Brazil

ROBECO | 01.01.2020 – 12.31.2020



Stewardship Activities in Brazil

In 2020 we continued with our stewardship activities in Brazil by engaging with a larger number of companies whilst strengthening our proxy voting approach in the market. We have been actively participating in several collaborative engagement platforms addressing key ESG challenges in the Brazilian market.

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

In 2020 we conducted a research project to further improve our approach for engagement in Emerging Markets. Together with two other markets, Brazil has been one of the areas of focus in this project. A new engagement project will focus on both policy engagement (with stock exchanges and other regulators) and engagement with our portfolio holdings.

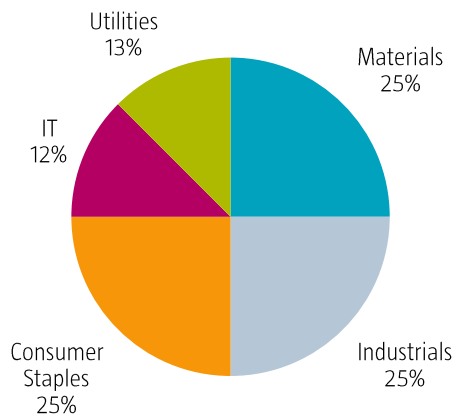
The specific objectives for Brazil are:

- Promote and maintain fair voting positions for minority shareholders (single share class like in Novo Mercado)
- Introduction and implementation of ethics policies, including reference to conflicts of interest and anti-corruption

- Increase independence oversight and/over opportunities for minority representatives on board
- Alignment for sustainability reporting with international reporting practices
- Improve and disclose KPIs and incentives for executive management

In addition to this project we continue to engage with several Brazilian publicly listed companies on a wide range of environmental, social, and governance (ESG) financially material topics. In 2020 we engaged with eight listed companies in the Brazilian market. In this report we share some examples of our engagement work in the Brazilian market.

Companies under engagement (by sector)



Governance

The focus of our engagements is to further improve the independence and diversity 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 concluded our engagement efforts with one of the largest Brazilian meat producers in relation to a bribery scheme involving Brazilian officials. Most of our requests have been met by the company including an independent review of risk control systems, updating applicable policies and replacing the members of the controlling family involved in the corruption scheme. The company has reported a timeline of milestones for its improvement program and has been open to meet regularly to discuss progress with its shareholders. However the controlling family continues to weigh heavily on decision making in the board and can change the composition of the board and the focus of management if they choose to do so.

We also continued our engagement dialogue with a family-owned company providing steel-related products and services worldwide. In the latest AGM shareholders elected another independent member to the board. The board now is majority independent, whereas in earlier years the controlling family had the majority representation on the board. As the key committees are still mainly comprised of insiders and the holdings company remains to have a controlling vote at the AGM, our concerns on the company's governance are not sufficiently mitigated.

We initiated a new dialogue with a large non state-owned Brazilian utility company. Our dialogue focused on their board composition, capital allocation practices and sustainability performance. The company already has a strong sustainability profile in relation to climate change. Especially on the side of corporate governance further improvements can be made to improve the position of minority shareholders. Even though this is a controlled company, we think that remuneration policies, nomination processes, audit committee activities require at least some degree of independent representation and encouraged them to consider appointing them to these committees.

We progressed in our dialogue involving one of the largest Brazilian companies operating in the infrastructure concession sector. We proposed an independent director with a strong background in sustainability and finance to be considered by the nomination committee at the supervisory board. She was eventually appointed to the board after receiving sufficient votes in favor from the company's shareholder base at their 2020 AGM. There seems to be support from the new CEO to make steps in terms of sustainability. We provided feedback to the company to improve transparency on the KPIs of the remuneration policy and provide more guidance on the strategic and financial guidance to assess new projects and the different components of the organizational portfolio.

We continued our dialogue with a Brazilian conglomerate producer of bioethanol, sugar and energy on their corporate restructuring and sustainability disclosures. The company has made clear that it wants to move ahead with its sustainability ambition, which was reflected in the new sustainability report of this year. The report is an improvement from previous years and have met some of our expectations, such as setting forward looking targets, alignment with the corporate strategy. We encouraged the company to report their climate targets in line with international standards such as the TCFD.

Cybersecurity

We continued our engagement dialogue with a Brazilian web content, products and services firm to discuss the company's cyber risk management and implementation strategy. COVID-19 has accelerated the implementation of alternative payments methods. The company reacted very quickly to the pandemic by offering small business in Brazil the opportunity to change from a brick-and-mortar model to e-commerce to continue sales. Regarding risk management and controls, the company is well positioned in security and fraud prevention given its large and specialized team. We asked the company to provide more transparency on the number of incidents and how the company responded to them in their annual report. We also asked the company to share data governance committee statistics with us, but the company was

reluctant to share this at this point and will need to take that request back to the committee to discuss.

Environmental and Social

Biodiversity Loss Linked to Deforestation

In 2020 we initiated an engagement program focused on biodiversity loss linked to commodity-driven deforestation. Our engagement program focuses on the impact on biodiversity from deforestation linked to five high-risk crop commodities, including soy and beef. We expect companies to commit to zero deforestation, conduct biodiversity impact assessments, engage in biodiversity restoration, embrace a circular approach in their production, improve sustainability reporting and protect both human and land rights in the communities where commodities are sourced from.

The engagement work on biodiversity supports Robeco's commitment to the Finance for Biodiversity Pledge, signed on September 2020. This pledge is endorsed by 55 financial institutions committing to reverse nature loss in this decade to ensure ecosystem resilience. Signatories of this pledge commit to engage with their investee companies on biodiversity, assess the biodiversity footprint of their portfolios and set targets to minimize negative impacts on biodiversity by 2024. Robeco has set up an internal Biodiversity Taskforce to ensure it is able to deliver the commitments encompassed in the Pledge.

We spoke with one of the largest Brazilian meat producers in relation to their supply chain traceability and efforts to eliminate deforestation. The company committed to increase supply chain monitoring using blockchain technology and pledged to eradicate deforestation from its supply chain by 2030. We still identified various challenges and will need to monitor its implementation to get a better understanding of its effectiveness and report progress on our objectives. We also asked the company to organize a more technical session for investors to better understand how the blockchain platform will operate in practice.

We also spoke to the another large Brazilian meat producer on the same topic. The company committed to become deforestation free by 2025. While we recognize the important first steps taken by the company to step up their sustainability and traceability efforts, we still have significant concerns regarding the robustness of the methodology behind their current strategy.

We held a conversation with the largest pulp and paper company in Latin America. The company has developed a comprehensive set of sustainability targets, aiming to capture 40 million tons of carbon by 2030. This will be an opportunity to sell credits in the carbon market. On top of that, it is currently defining what the supply chain controls need to be when outsourcing production. Expectations for own plantations should also be adhered by suppliers. The company has arrived to date at 87% of certification with FSC. The company explained that they are always expanding into new areas which means they don't reach 100% as they continue to apply for

certification of new areas. We have encouraged the company to also report on 'area under certification process' to provide a more holistic picture of their certification efforts.

Lifecycle Management of Mining

We initiated an engagement dialogue with a family-owned company providing steel-related products and services worldwide. During the first discussions we covered the company's management of their water use, particularly in water stressed areas. The company has announced their intention to stop using tailings dams and the actual decommissioning of their existing tailings dams.



Collective Engagement

Statement of Support for the Cerrado Manifesto (SoS)

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 2020 cut-off date, and to contribute to a biome-level solution for zero deforestation in the Cerrado through the Cerrado Working Group (GTC).

Investor Mining and Tailings Safety Initiative

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.

Stock Exchange (B3)

We engaged with the Brazilian stock exchange B3 proposing them to encourage listed companies to provide disclosure on the several sustainability-related topics, or even make some of these requirements mandatory for some of their listing segments. For instance, we proposed the introduction and implementation of ethics policies, including reference to conflicts of interest and anti-corruption. Other suggestions related to the improvement and disclosure of Key Performance Indicators (KPIs) and incentives for executive management compensation, and increasing the independence oversight on supervisory board. B3 was keen on learning more about the disclosure requirements from international investors and we agreed on following up on this discussion in 2021.

Brazilian Securities and Exchange Commission (CVM)

We participated in the response coordinated by Amec on the proposal from the CVM to implement super-voting share structure in the Law 6,404/1976. We expressed our disagreement with the adoption of a super-voting share structure policy in the Brazilian capital market. However, if the proposal is eventually approved, we understand it should be implemented in conjunction with robust safeguards, especially considering the characteristics of Brazil's legal and regulatory framework. We believe that minimum requirements should be adopted to safeguard shareholders' rights and the credibility of the Brazilian capital market. In the letter shared with CVM we proposed five suggestions on safeguards that could be implemented to protect shareholders' rights should this directive be approved.

30% Club Brazil Chapter

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.

Investor Policy Dialogue on Deforestation (IPDD)

The Investors Policy Dialogue on Deforestation (IPDD) is a collaborative investor initiative set up in July 2020 to

engage with public agencies and industry associations in selected countries on the issue of deforestation.

The goal of the initiative is to coordinate a public policy dialogue on halting deforestation. The IPDD seeks to ensure long-term financial sustainability of investments in the countries they are invested in by promoting sustainable land use and forest management and respect for human rights, with an initial focus on tropical forests and natural vegetation.

The goal of the IPDD Brazil workstream is to coordinate a public policy dialogue with Brazilian government related authorities and associations, as well as other stakeholders on halting deforestation. It marks the start of an ongoing process of investor engagement with Brazilian authorities and associations, and others on the systematic and sustainable management of Brazil's forest assets and to ensure respect for human rights.

We urged the government of Brazil to demonstrate clear commitment to eliminating deforestation and protecting the rights of indigenous peoples, and via this dialogue, the IPDD group is expecting five outcomes from the Brazilian government:

1. Significant reduction in deforestation rates, i.e. showing credible efforts to comply with the commitment set down in Brazil's Climate Law, article 19.
2. Enforcement of Brazil's Forest Code.
3. The ability of Brazil's agencies tasked with enforcing environmental and human rights legislation to carry out their mandates effectively, and any legislative developments that may impact forest protection.
4. Prevention of fires in or near forest areas, in order to avoid a repetition of fires like in 2019.
5. Public access to data on deforestation, forest cover, tenure and traceability of commodity supply chains.

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 allow 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 2020 Robeco voted at approximately 7.800 shareholder meetings across 73 markets. On a global scale we voted against management recommendations for 14% of proposals voted in 2020.

Brazil Focus

We voted at 229 shareholder meetings held by Brazilian companies, for a total of 1915 proposals. The most common proposals we voted against were related to executive compensation (42%) and board nominations (23%) and SHPs related to governance (33%). For Robeco the more stringent governance provisions to be adopted by companies listed in Novo Mercado remain an important area of focus. Although we see that several companies are working to improve governance practices along the lines of these requirements, the implementation can still be improved for many companies. Especially we believe that appointing a higher degree of experienced independent members would be beneficial for shareholders. Additionally remuneration structures often remain insufficiently disclosed which makes it hard to assess if incentives are set appropriately.

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. Additionally, we note that several Brazilian companies have not made much progress in terms of board diversity. In cases where companies have all male boards we have voted against the members responsible for the nominations process.

Exclusion Policy and List

Robeco believes that some products and business practices are detrimental to society and incompatible with sustainable investment strategies. Therefore, certain exclusion criteria are applied that are outlined in this policy. Robeco will apply this exclusion policy to all assets under management from all funds over which we have full discretion, including those funds sub-advised by group members, but excluding discretionary mandates and client specific funds. For specific discretionary mandates, Robeco offers various other exclusion criteria to suit clients' needs. In 2020 we updated our exclusion policy and changed the thresholds for tobacco, thermal coal and weapons. We currently have 5 Brazilian companies included in our exclusion list.

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 2020 Stewardship Report: <https://www.robeco.com/en/insights/2021/03/climate-change-and-covid-19-lead-stewardship-report.html>
- Voting record: <https://www.robeco.com/en/about-us/voting-report/>



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