

Proxy Voting in Brasil: the Proxy Adviser Perspective

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GLASS LEWIS

Agenda

- **Overview of Glass Lewis**
- **Effect of Instruction 561**
- **Case Studies from the 2017 Proxy Season in Brasil**
- **Possible Areas of Improvement for Proxy Voting in Brasil**
- **Comparisons to Global Practice**

Glass Lewis Overview

- **Founded in 2003, providing proxy research and voting advice for Brazilian shareholder meetings since 2005**
- **Clients use Glass Lewis research to provide an independent perspective on proxy voting decisions**
 - Viewpoint, Glass Lewis' web-based software, helps clients manage their workflow around voting and issuer engagement, reconcile and vote ballots according to custom voting guidelines, and audit, report and disclose their proxy votes.
 - Research is based solely on **publicly available** information
- **Glass Lewis is a portfolio company of the Ontario Teachers' Pension Plan Board ("OTPP") and Alberta Investment Management Corp. ("AIMCo")**

2017 Glass Lewis Key Policy Updates for Brasil

- **Board elections**

- Support minority or preferred candidates
- Support cumulative (multiple) voting when a request has been received prior to our recommendation
- May not support candidates not included in proxy form, due to uncertainty of how votes will be counted

- **Supervisory council (conselho fiscal) elections: 50% independence**

- **Audit committees: independent, separate from supervisory council**

- **Accounts and reports: may vote against when there are concerns about board or management actions**

- **Remuneration**

- Oppose remuneration when highest, lowest and average remuneration is not disclosed
- Oppose any changes to remuneration that are presented during the meeting
- Oppose any discount to equity awards from fair market value

Engaging with Glass Lewis

- **General GL engagement policy refreshed in 2016**

- Proactively seeking engagement with issuers outside of proxy season (March-June)
- Facilitate flow of information to empower clients; cannot represent clients' specific views
- Focus on understanding context for unique company practices
- Encouragement of clear and consistent disclosure on key topics
- Explanations of policies where requested

- **GL engagement with specific meetings**

- We do not review draft agendas or give any preview of our recommendations
- We cannot engage in any policy discussions between the date of the publication of the agenda and the meeting, BUT:
 - Will ask for factual clarification where we are unable to resolve a discrepancy or find information
 - Will consider additional **public** disclosure made and distribute to clients
 - May host Proxy Talks, which are made public, to facilitate debate on important issues at key meetings

Instruction 561 and Proxy Voting in Brasil

Positives

- Increased clarity of voting options for each meeting
- Better information for each stage in the proxy voting chain (Shareholder-Proxy Advisor-Vote Distributor-Custodian-Company)
- More options for foreign minority investors to elect board candidates
- Improved transparency

Implementation Problems

- Not all voting options are being fed through the entire voting chain in every case
- Significant uncertainty of possible voting outcomes due to possibility of requesting cumulative voting or submitting new candidates *after* proxy form is issued
- Possibility of vote rejections
- Many companies did not disclose or update proxy forms
- Companies have not clearly identified voting options in their meeting agendas

Case Study: Mapping

I - Em Assembleia Geral Ordinária:

- a. Tomar as contas dos administradores, examinar, discutir e votar o relatório da administração e as demonstrações financeiras da Companhia, acompanhadas dos pareceres dos auditores independentes e do Conselho Fiscal, relativos ao exercício social encerrado em 31 de dezembro de 2016;
- b. Aprovar a proposta de destinação do lucro líquido do exercício social encerrado em 31 de dezembro de 2016;
- c. Aprovar o número de membros para compor o Conselho de Administração, observado o que dispõe o artigo 15 do Estatuto Social da Companhia;
- d. Eleger os membros efetivos e suplentes do Conselho de Administração da Companhia;
- e. Eleger os membros efetivos e suplentes do Conselho Fiscal da Companhia;
- f. Fixar o montante global anual da remuneração dos administradores da Companhia para o período de maio de 2017 a abril de 2018; e
- g. Fixar o montante global anual da remuneração dos membros do conselho fiscal para o período de maio de 2017 a abril de 2018.

2017 ANNUAL MEETING

PROPOSAL	ISSUE	BOARD	GLASS LEWIS	CONCERNS
1.00	Accounts and Reports	FOR	FOR	
2.00	Allocation of Profits/Dividends	FOR	FOR	
3.00	Board Size	FOR	FOR	
4.00	Election of Directors	FOR	FOR	
4.01	Elect Yuhai Hu	FOR	FOR	
4.02	Elect Daobiao Chen	FOR	FOR	
4.03	Elect Yan Qu	FOR	FOR	
4.04	Elect Yumeng Zhao	FOR	FOR	
4.05	Elect André Dorf	FOR	FOR	
4.06	Elect Antonio Kandir	FOR	FOR	
4.07	Elect Marcelo Amaral Moraes	FOR	FOR	
5.00	Election of Board Member Representative of Minority Shareholders	UNDETERMINED	ABSTAIN	• Insufficient information
6.00	Allocation of Cumulative Votes for the Election of Directors	UNDETERMINED	AGAINST	• Option to vote on nominees individually
6.01	Elect Yuhai Hu	UNDETERMINED	ABSTAIN	• Option to vote on nominees individually
6.02	Elect Daobiao Chen	UNDETERMINED	ABSTAIN	• Option to vote on nominees individually

6.03	Elect Yan Qu	UNDETERMINED	ABSTAIN	• Option to vote on nominees individually
6.04	Elect Yumeng Zhao	UNDETERMINED	ABSTAIN	• Option to vote on nominees individually
6.05	Elect André Dorf	UNDETERMINED	ABSTAIN	• Option to vote on nominees individually
6.06	Elect Antonio Kandir	UNDETERMINED	ABSTAIN	• Option to vote on nominees individually
6.07	Elect Marcelo Amaral Moraes	UNDETERMINED	ABSTAIN	• Option to vote on nominees individually
7.00	Election of Supervisory Council	FOR	FOR	
7.01	Elect Yuehui Pan	FOR	FOR	
7.02	Elect Ran Zhang	FOR	FOR	
7.03	Elect Ricardo Florence dos Santos	FOR	FOR	
8.00	Elect Supervisory Council Member Representative of Minority Shareholders	UNDETERMINED	ABSTAIN	• Insufficient information
9.00	Remuneration Report	FOR	AGAINST	• Poor compensation disclosure
10.00	Supervisory Council's Fees	FOR	FOR	
11.00	Instruction if Meeting is Held on Second Call	UNDETERMINED	FOR	
12.00	Request for Cumulative Voting for the Election of Directors	UNDETERMINED	ABSTAIN	• Option to vote on nominees individually

Case Studies: Counting Votes

- **Vale: unclear why quorum was not met for minority candidates**
- **Cielo: management candidate nominated for minority shareholders**
- **Cia Brasileira de Distribuição: supervisory council established with no known nominees for proxy voters, no space to cast votes on nominees**
- **Usiminas: shareholder proposal against CEO approved without any proxy votes**
- **Lojas Americanas: 4 supervisory council members elected for 3 spaces; no explanation in summary minutes**

Ideas for Potential Improvement

- **Voting by proxy forms**

- Move forward deadlines for submission of new candidates or requests for cumulative voting (21 days)
- Require updates for new candidates proposed by a certain deadline (21 days)
- Require publication of proxy forms AND explanation of options
- Improve guidance for mapping agendas to proxy forms
- Allow investors to submit votes on ALL of: (a) election of the board; (b) minority candidates; and (c) cumulative vote candidates. [NOTE: this may not be necessary if all of the above points are implemented]
- Clarify rules for counting, recording, and disclosing votes
- Relax requirements for Power of Attorney for underlying beneficial owners

- **Provide guidance for investors submitting nominees**

- Templates for disclosing information and biographical details
- Central repository of information for public disclosure
- Provide forums for debate in advance of the AGM to ensure foreign investors can consider all candidates
- Require companies to publish all information received from shareholders within 48 hours

- **Investigate custodian handling of information**

Comparisons to Global Best Practice

- **Cumulative Voting: Russia**

- Nominees may not be elected to the board unless shareholders request the election at least 30 days before the meeting
- Companies must publish the names of all nominees, but not biographical details
- More than one candidate from minority shareholders may be elected

- **Proxy Forms: USA**

- Proxy forms must be publicly disclosed with all meeting materials
- A new proxy form may be issued for a "contested" election with proposals from a dissident shareholder
- Proxy forms are disclosed well in advance of meetings, with very clear instructions and explanations

- **Shareholder Nominees: Europe**

- Companies are obliged to publish information (limited by number of words) about nominees on company websites
- Shareholders must submit nominees at least 21 days prior to the meeting in most markets
- Companies are obliged to update proxy forms with nominee names in most markets within a number of days from receipt of the request

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Questions?
