



Associação de Investidores
no Mercado de Capitais

Amec Stewardship Code

October, 2016

- Amec Vision
- Amec Stewardship Code
- Amec Stewardship Code Principles
- Adherence and Monitoring

- Capital Markets ➔ a crucial source of financing of any country's sustainable development
- The 2008 crisis: how to prevent events that significantly impact the economy?
- The answer is in the people and in the incentives and factors that motivate them
- What players have more propriety, power and duty of taking care of sustainable returns adjusted to the risks?

INSTITUTIONAL INVESTORS

- **Must play a central role** in defending the sustainability of the financial market
- Must act with responsibility = their failure to do so open space to structural collapses (financial, environment, reputational and social collapses)

- Institutional Investors - Role #1 ➡ associated with the **fiduciary duty** assumed when they become responsible for managing funds on behalf of third parties
- They are the stewards of third parties' funds ➡ they “take care” of the securities
- Different jurisdictions = different approaches
 - USA – Based on regulations – ERISA
 - UK – Based on principles – Stewardship
- Stewardship code:
 - Set of principles and guidance about the best way to meet the fiduciary duty

- In Brazil

- Investors reject the idea of being labeled activists: no sense in the local context where there is a defined control
- Not to be an activist does not justify a passive posture when it comes to complying with their fiduciary duties
- Responsible engagement = part of the fiduciary duty
- Not “coded” in regulation and self-regulation codes
- Not activists ➡ but active investors
- Brazilian corporations ➡ poor engagement of investors

- In Brazil
 - Evolution of the debate about shareholders' rights
 - Transactional
 - Structural (proxy voting)
 - Next step... Develop the institutional investor's role

Feb/11

Apr/11

Jun/11

Sep/12

Dec/12

Jan/13

Feb/14

Jun/14



Aug/15

Oct/15

Dec/15

Mar/16

2016

Oct/16



- 14 stewardship codes since 2011

Amec Stewardship Code

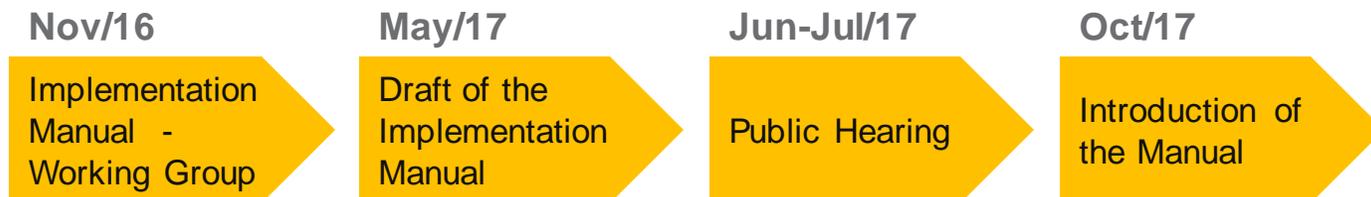
- Objectives:
 - Develop the stewardship culture in Brazil
 - Promote the sense of ownership among institutional investors
 - Establish responsible engagement standards
 - Not to create new compliance obligations for institutional investors.
 - The mentioned policies, especially regarding internal controls and conflicts of interest, are already part of the most recent regulatory and self-regulatory requirements
- Stewardship ➡ promotes the adoption of good corporate governance practices, creating value for the companies.

- Evolution:



- Next steps

- Implementation Manual:



- 3-step monitoring

Amec Stewardship Code

- Prioritizes the essence over the form
- Based on principles: it works like a compass, not a prescription
 - Prescriptive codes = inefficient / “box ticking mentality”
- Based on the UK Code; compatible with the ICGN Principles
- 7 guiding principles
- Details to be described in the Implementation Manual, to be introduced in the 2H/17
- Gradual monitoring of signatories
- Full adherence
 - Not possible to adhere to certain specific principles and not to all of them
 - Signatories can establish evolution stages to their adherence to each principle
 - Voluntary adherence by members and non-members

Amec Stewardship Code - Principles

- Implement and disclose the stewardship program
- Implement and disclose mechanisms to manage conflicts of interest
- Take ESG factors into account in investment processes and stewardship activities
- Monitor the issuers of invested securities
- Be active and diligent in the exercise of voting rights
- Establish collective engagement criteria
- Be transparent as to stewardship activities

Principle 1: Implement and disclose a stewardship program

- Evolutionary process – long-term planning
- Establish clear and objective goals to evolve stewardship activities

Principle 2: Implement and disclose mechanisms to manage conflicts of interest

- To act based on the interest of end beneficiaries (quota holders, pension fund members and insured parties)
- Conflicts: institutional investors x end beneficiaries, between the institutional investors' several business segments, between the institutional investors and the invested assets and between the end beneficiaries themselves

Principle 3: Take ESG factors into account in investment processes and stewardship activities

- The ESG factors impact on the issuers of securities and significantly affect their sustainability
- Balance the impact on the risks and returns and the contribution to the sustainable development of the issuers of securities

Principle 4: Monitor the issuers of securities

- Define the level of engagement with the issuers of securities
 - If, when and how they will communicate with them to seek a clear position and the adoption of the necessary measures in relation to key issues (strategy, compensation, succession, risks, etc.)

Principle 5: Be active and diligent in the exercise of voting rights

- The exercise of voting rights is part of the fiduciary duty
- The non-diligent exercise of voting rights negatively affects the checks and balances of issuers, impacting on their performance
- The non-exercise of voting rights must be duly justified, yet on an aggregated basis

Principle 6: Establish collective engagement criteria

- Efficient form of communication between investors and the issuers of securities
- Increases the legitimacy of the topics one wants to influence
- Optimizes costs and risks for all stakeholders
- Define the situations in which they will act together

Principle 7: Be transparent as to their stewardship activities

- Announce their adherence to the Amec Code
- Report relevant developments as to the adherence to each principle of the Code on a periodical basis

Adherence and Monitoring

- Signing the Adherence Form
- Amec's monitoring
 - 2017: there will be no monitoring during the 1st year (2018 report on 2017 activities)
 - 2018 and 2019: 2019 and 2020 reports will be monitored to educate signatories by providing private guidance
 - As of 2020 (2021 report): monitoring subject to Amec's enforcement
- Amec will award the top 3-5 stewardship reports
 - Fund managers will be allowed to make commercial use of the recognition

Adherence and Monitoring

- Stewardship Report
 - Hermes Benchmark
 - Hermes EOS team

<https://www.hermes-investment.com/wp-content/uploads/2016/03/Annual-Report-2015.pdf>

EOS Annual voting and engagement report 2015

Engagement methodology and progress in 2015

Our proprietary milestone system allows us to track progress in our engagements relative to objectives set at the beginning of our interactions with companies. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective. They can broadly be defined as follows:

| | |
|-------------|---|
| Milestone 1 | Concern raised with company at appropriate level |
| Milestone 2 | Acknowledgement of the issue |
| Milestone 3 | Development of a credible strategy or plan to address the concern |
| Milestone 4 | Implementation of a strategy or measures to address the concern |

The information below sets out the status of these engagements relative to our engagement objectives and our progress in the past year.

Milestone status of engagement

The chart below shows the milestone status of the Hermes EOS' engagement objectives by theme.

| Theme | Total engagement objectives | Engagement objective status | | | | Completed engagement objectives | |
|--------------------------|-----------------------------|-----------------------------|----------------|----------------------|------------------|---------------------------------|--------------|
| | | Objective set | Concern raised | Concern acknowledged | Plan established | Completed | Discontinued |
| Environmental | 118 | 5 | 16 | 44 | 39 | 6 | 8 |
| Social and ethical | 161 | 10 | 16 | 38 | 63 | 26 | 8 |
| Governance | 315 | 10 | 69 | 88 | 90 | 49 | 9 |
| Strategy and risk | 125 | 8 | 20 | 32 | 44 | 14 | 7 |
| Stewardship | 23 | 0 | 8 | 7 | 4 | 3 | 1 |
| Total engagements | 742 | 33 | 129 | 209 | 240 | 98 | 33 |



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Thank you