



Amec
Associação de Investidores
no Mercado de Capitais

CÓDIGO AMEC de Princípios e Deveres dos Investidores Institucionais **STEWARDSHIP**



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INTRODUCTION

Context

The capital markets are a crucial source of financing of any country's sustainable development. The crisis of the international financial market in 2008 has given rise to intense debates about the best ways to prevent events that significantly impact on the real economy. The answer has always been there: in the people and in the several incentives and factors that motivate them. What players would have more propriety, power and duty of taking care of sustainable returns adjusted to the risks? The institutional investors – whether fund managers or pension funds. They are the ones with the largest participation in the different market segments (shares, debentures, derivatives, receivables investment funds, etc.). Accordingly, due to their size and relevance, institutional investors should play a central role in defending the sustainability of the financial market.

To gain confidence, one needs to demonstrate responsibility. Seven years after the crisis peak, one of the most solid diagnoses is that structural gaps in the fulfillment of institutional investors' responsibilities open space to several types of collapses: financial, environmental, reputational and social collapses.

The role of institutional investors cannot be separated from the fiduciary duties they assume when they become responsible for managing funds on behalf of a group of people. They are the stewards of third parties' funds. What means they "take care" of the securities, that is, the assets that are addressed in this AMEC Code. The AMEC Stewardship Code, which comprises a set of principles and guidance about the best ways to fulfill fiduciary duties, is necessary because of the crucial role played by the institutional investors.

Brazilian institutional investors do not accept the idea of being labeled activists because of the perception that the term refers to investors who seek to dominate the management of investees in the US market. That would make no sense in the local context, where the shareholding structure with defined control prevails. However, not to be an activist does not justify being passive when it comes to meeting one's fiduciary duties and responsibilities before clients. The responsible engagement in the activities of the issuers of securities is part of the institutional investors' fiduciary duty. Not activists, but active players.

Today, the institutional investors of the few corporations with dispersed ownership established in the Brazilian market after the several IPOs that took place in the 2004-2008 period are little active. Additionally, the Novo Mercado, one of the most important initiatives towards the development of the corporate governance in Brazil launched 16 years ago, has been going

through a crucial moment with the revision of its rules. It's important to highlight that the engagement of institutional investors with the issuers of invested securities is of utmost importance to improve the companies' governance practices; in Brazil, such engagement is almost inexistent.

We cannot fail to mention the paradox of the so-called "passive" investors, or those who follow the composition of a specific index in the stock exchange, exactly because they cannot "vote with their feet," that is, to sell shares when they do not agree with the decisions taken by the companies that comprise the index. That's another reason for them to engage in the activities of their investees. The passive posture of index fund managers should be limited to the composition of their portfolios.

As in corporate governance codes that have proliferated all over the world after the 2001 crisis (more than 100 codes), at least 11 countries already have "stewardship / responsible investment" codes. Transparency and accountability are the guiding principles of all corporate governance codes worldwide. The UK Stewardship Code, issued by the FRC – Financial Reporting Council, was launched in September 2012 and is the most advanced document in promotion and adherence terms. It has 300 signatories and an increasingly active follow-up by the FRC aimed to guide investors on how to effectively engage in the activities developed by their investees and how to report such engagement.

AMEC's Technical Commission has found that there are some disperse stewardship initiatives in regulatory and mainly in self-regulatory documents in the Brazilian market, but no national code that gathers the best stewardship practices. With that in mind, AMEC decided, in the beginning of 2015, to launch the AMEC Stewardship Code. The association created a specific working group (WG) to analyze how the topic has been addressed in Brazil and on a global basis. This work was carried out from November 2015 to May 2016. The WG evaluated trials and errors, difficulties, the evolution of several global codes, and the views of national and international institutional investors about them. The result of this dialogue is compiled in this AMEC Code.

Objectives

By launching this AMEC Code, the association seeks to develop a stewardship culture in Brazil to promote a proprietary attitude among institutional investors and create responsible engagement standards. AMEC understands that the development of stewardship activities by institutional investors will drive the adoption of good corporate governance practices and create value for the companies as more active investors will lead them to have more structured management processes, what will mitigate several potential risks.

The AMEC Code prioritizes the essence over the form, what means it's based on principles: it works like a compass, not a prescription. The efficiency of prescriptive codes has been questioned as they seem to have created the "box ticking mentality," what makes the adherence to them superficial, with few results in practical terms. AMEC intends to start a process to change the management and ownership culture of securities with time. For this same reason, during the initial implementation stage of the AMEC Code, there will be no sanctioning activities for the investors that adhere to it. If necessary, the association may adopt educational measures to clarify the real meaning of AMEC Principles.

In this sense, the AMEC Code is not a rigid list of rules. It comprises 7 principles to be presented hereinafter and detailed in the Implementation Guide for AMEC Code to be launched later on. The Guide will bring recommendations about how principles can be applied.

Initially, companies can adhere to this AMEC Code, but there will be no monitoring by the Association. If AMEC's Management Board decides to, it may start to monitor signatories, but only after the drafting and launch of the Implementation Guide and also after the period necessary for the market to understand its content and how its principles are to be applied. Companies that decide to adhere to the AMEC Code should do it on an integral basis, but the signatories can establish evolution stages to their adherence to each principle. However, it will not be possible to adhere to certain specific principles and not to all of them.

The AMEC Code is not intended to create new compliance obligations for institutional investors. Instead, it should lead to the creation of a unique internal document that can be eventually further developed depending on each signatory's organizational structure. The policies mentioned herein, especially those related to internal controls and conflicts of interest, are already part of the current and most updated regulatory and self-regulatory requirements of institutional investors.

AMEC CODE PRINCIPLES

For the AMEC Code purposes, stewardship embodies the careful management and monitoring of securities owned by the end beneficiaries, that is, the clients. Such careful management and monitoring will be outlined in this AMEC Code through its 7 principles. The management of funds is an activity that demands trust, that is consolidated through the adoption of stewardship practices.

Accordingly, to meet their fiduciary duty towards the end beneficiaries, institutional investors should:

1. Implement and disclose a stewardship program
2. Implement and disclose mechanisms to manage conflicts of interest
3. Take ESG factors into account in their investment processes and stewardship activities
4. Monitor the issuers of invested securities
5. Be active and diligent in the exercise of their voting rights
6. Establish collective engagement criteria
7. Be transparent as to their stewardship activities

THE AMEC CODE

Principle 1

Implement and disclose a stewardship program

Institutional investors should implement a stewardship program establishing clear and objective parameters about when and how their stewardship activities will progress.

Guidance

Stewardship is an evolutionary process, a long-term planning initiative with clear goals and not a decision with immediate effects.

To establish the stewardship activities to be developed and how the exercise of these activities will progress.

To establish how the guidelines chosen for the interaction between institutional investors and the issuers of securities will create value for end beneficiaries and protect them.

To provide stakeholders with visibility as to their stewardship program and make its implementation feasible in relation to all stakeholders, including but not limited to the clients and the issuers of securities.

Principle 2

Implement and disclose mechanisms to manage conflicts of interest

Institutional investors should establish mechanisms to manage conflicts of interest and ensure they are fully applied in the scope of their stewardship activities.

Guidance

The fiduciary duty of institutional investors is to act based on the interest of end beneficiaries. However, conflicts of interest are common in the interaction with the issuers of securities. These conflicts can take place between the institutional investors and their end beneficiaries, between institutional investors' several business segments, between the institutional investors and the invested assets and also between the end beneficiaries themselves. The decision to vote in the shareholder meeting is an example of possible conflicts of interest.

Institutional investors should always manage these conflicts by indicating the necessary measures so that the interests of their end beneficiaries prevail, subject to legal provisions, especially the Article 115 of the Corporate Law 6.404/76.

Institutional investors should be able to show that stewardship activities are protected against pressures and conflicts of interest.

Principle 3

Take ESG factors into account in their investment processes and stewardship activities

Institutional investors should integrate environmental, social and governance factors into their investment process, evaluating both their impact on risks and returns and their contribution to the sustainable development of the issuers of securities.

Guidance

The ESG factors impact on the issuers of securities and significantly affect their sustainability. The analysis and monitoring of ESG factors is part of the evaluation of the risks and opportunities associated with the investments, although they are not the final drivers for an investment decision.

By carefully managing the assets of their end beneficiaries, institutional investors should consider relevant ESG factors as crucial aspects when it comes to the fulfillment of their fiduciary duty, being duly transparent about the way these factors will be considered.

Investors should evaluate the view of the issuers of securities about relevant ESG topics.

Principle 4

Monitor the issuers of securities

Institutional investors should monitor the issuers of securities

Guidance

Investors should define their level of engagement with the issuers of securities, outlining 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.

To define the progress of the investor knowledge about key issues related to the issuers of securities. Examples of key issues: strategy, compensation, policy on the nomination of directors, mapping and monitoring of the risks incurred in the corporate activities and ESG policies.

The interaction between institutional investors and the issuers of securities should be reported in internal documents.

Principle 5

Be active and diligent in the exercise of voting rights

Institutional investors should actively and diligently exercise their voting rights in the issuers of securities. Votes should be duly reported, as well as the justification for the non-exercise of voting rights.

Guidance

Diligent stewardship practices culminate in the conscious exercise of voting rights. Far from being an end in itself, voting rights are the way through which securities holders play their role in the corporate governance structure of their investees. The non-diligent exercise of voting rights proportionally and negatively affects the checks and balances of issuers, impacting on their performance and, consequently, on end beneficiaries.

To exercise political rights with diligence – and especially the voting rights of the invested assets and the behavioral posture to be demanded from institutional investors so that they can appropriately meet their fiduciary duties. The non-exercise of such rights, therefore, should be an exception, duly justified and documented. This understanding should be part of the institutional investor's investment policy.

Institutional investors should actively participate in the shareholder's meetings held by the issuers of securities, justify their votes in every matter and document the internal discussion process and the decisions taken. Waivers to the active exercise of voting rights should be justified, even if on an aggregate basis.

Principle 6

Establish collective engagement criteria

Institutional investors should create collective engagement conditions with other investors when appropriate

Guidance

In specific cases, the collective engagement is the most efficient form of communication between investors and the issuers of securities as it increases the legitimacy of the topics one wants to influence and optimizes costs and risks for all stakeholders.

Institutional investors should define the situations in which they will act together with other invested securities holders, clarifying whether they will play an active or passive role in this interaction.

Principle 7

Be transparent as to their stewardship activities

Institutional investors should disclose the stewardship activities they will develop and how the progress in the exercise of such activities will be performed and disclosed.

Guidance

Investors should announce their adherence to the AMEC Code and report the activities regulated herein and the relevant developments as to the adherence to each principle of this Code on a periodical basis.