Brazil

GLASS LEWIS

2025 Benchmark Policy Guidelines

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About Glass Lewis

Glass Lewis is the world's choice for governance solutions. We enable institutional investors and publicly listed companies to make informed decisions based on research and data. We cover 30,000+ meetings each year, across approximately 100 global markets. Our team has been providing in-depth analysis of companies since 2003, relying solely on publicly available information to inform its policies, research, and voting recommendations.

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The research team engages extensively with public companies, investors, regulators, and other industry stakeholders to gain relevant context into the realities surrounding companies, sectors, and the market in general. This enables us to provide the most comprehensive and pragmatic insights to our customers.

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Guidelines Introduction

Governance Code and Regulations

The most influential institutions with respect to corporate governance in Brazil are the São Paulo stock exchange (B3 S.A. — Brasil, Bolsa, Balcão), the Brazilian Corporate Governance Institute (IBGC) and the Brazilian Association of Capital Market Investors (Amec). The B3 S.A. — Brasil, Bolsa, Balcão (B3) allows companies to list on one of its six segments. Companies that list on the Conventional segment are solely subject to compliance with Brazilian Companies Law 6.404/76 and the regulations of the Brazilian Securities Commission (CVM). If a company wishes to adhere to either Bovespa Mais (BMais), Bovespa Mais Level 2 (BMais N2), Levels 1 or 2 (N1 or N2) or the *Novo Mercado*, they must comply with the regulations of the respective listing segments. We note that in 2023, the regulations of the N1, N2 and Novo Mercado listing segments underwent a review that focused on liquidity rules. With alignment to best international practices as the goal, the minimum liquidity thresholds were amended (including free float).

The regulations governing the *Novo Mercado* incorporate global best practices such as mandating that companies disclose director independence, requiring the presence of 20% director independence on boards, or two independent board members, whichever is greater,[1] requiring that companies maintain a minimum free float of 20% (or 15% for highly liquid stocks),[2] and, most importantly, that they have a single class of shares with equal voting rights. The regulations governing the remaining segments are less rigorous; however, they provide companies and investors a clear path toward best practices.

The *Instituto Brasileiro de Governança Corporativa* (IBGC), founded in 1995 as a non-profit whose mandate is the promotion of best corporate governance practices, is currently the principal agent for the creation and development of best practices in Brazil. Eight years after issuing the 5th version of the Brazilian Code of Best Corporate Governances Practices (the Code), the IBCG published, on August 1, 2023, its 6th edition, with the aim of adapting it to new governance standards and trends including diversity and sustainability, alongside regulatory and legislative changes that have occurred since the Code's last update in 2015. The Code serves as a reference for Brazilian companies, many of which have voluntarily adopted the practices promoted by the IBGC. Additionally, the Code includes references to external business factors, positive and negative, whether social, environmental or governmental, and their impact on third parties.

In 2016, the Brazilian Corporate Governance Code for Listed Companies (the Code for Listed Companies) was released, complementing the prior version of the Code published by the IBGC in 2015. The drafting of the Code for listed companies was coordinated by the IBCG, alongside ten other entities who represent several significant players in the Brazilian capital market (including the B3, investor organizations, and financial institutions). The Code for Listed Companies' provisions apply on a "comply or explain" basis. In 2017, this Code for Listed Companies was incorporated into the country's regulatory framework first through CVM's Instruction 586/17, and currently through Resolution 80/2022. As a result of said Instruction, listed companies must disclose, on an

[1] Article 15 of B3's 2023 updated *Novo Mercado* Listing Regulation.

[2] Article 10 of B3's 2023 updated *Novo Mercado* Listing Regulation.

annual basis, and within the first seven months of the end of each fiscal year, their respective compliance (or not) with the Code for Listed Companies' recommendations, via the Report on the Code for Listed Companies.

Since being established in 2006, Amec has consolidated its position as one of the main driving forces for change and development within Brazilian capital markets, having spearheaded multiple initiatives in what relates to the protection and increased activism of minority shareholders. Amec launched a Stewardship Code in October 2016. The Stewardship Code aims to promote responsible investment, and comprises a set of principles on the most appropriate ways for institutional shareholders to comply with their respective fiduciary duties. It was updated and relaunched in June 2021 with the endorsement of a new sponsor, the CFA Society Brazil.

Glass Lewis' policy guidelines take into account Brazil's capital market law, regulations of the listing segments on the B3 and the CVM, recommendations of the IBGC and what we view as universal best corporate governance practices. These guidelines are reviewed annually and on an ad-hoc basis to ensure they remain in accordance with market practice.

Summary of Changes for 2025

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail in the relevant sections of this document:

Gender Diversity

In a new section of these guidelines we have outlined that the benchmark policy will generally recommend a vote against the chair of the nominating committee, or equivalent, where a proposed board election at a main market company would lead to an all-male board.

Please refer to the "Gender Diversity at Board Level" section of these guidelines for further information.

Diversity of Ethnicity and National Origin

In a new section of these guidelines, we have outlined that the benchmark policy generally expects boards to outline how their nomination process takes diversity and national origin into account, in line with local best practice recommendations.

In egregious cases where a board has failed to address legitimate shareholder concerns regarding the diversity of ethnicity and national origin at board level, we may recommend that shareholders vote against the re-election of the chair of the nominating committee (or equivalent).

Please refer to the "Diversity of Ethnicity and National Origin at Board Level" section of these guidelines for further information.

Board Oversight of Artificial Intelligence

In a new section of these guidelines, we have outlined our expectation under the benchmark policy that boards be cognizant of, and take steps to mitigate exposure to, any material risks that could arise from their use or development of AI. Companies that use or develop AI technologies should adopt strong internal frameworks that include ethical considerations and ensure effective oversight of AI. Clear disclosure on how boards are overseeing AI and expanding their collective expertise and understanding in this area is likely to be of value to shareholders.

In instances where there is evidence that insufficient oversight and/or management of AI technologies has resulted in material harm to shareholders, the benchmark policy may recommend that shareholders vote against the re-election of accountable directors, or other matters up for a shareholder vote, as appropriate, should we find the board's oversight, response or disclosure concerning AI-related issues to be insufficient.

Please refer to the "Board Oversight of Artificial Intelligence" section of these guidelines for further information.

External Commitments

We have restructured this section of the guidelines for ease of reading and to clarify that the benchmark policy will generally refrain from recommending to vote against a director who serves on a potentially excessive number of boards within a consolidated group of companies in related industries, or a director that represents a firm whose sole purpose is to manage a portfolio of investments which include the company.

Please refer to the "External Commitments" section of these guidelines for further information.

Board Size

We have clarified that, while the Code suggests that five to nine members may serve as a possible reference for an optimum board size, the benchmark policy will generally not recommend that shareholders oppose the election of the nominating committee chair on this basis unless the board contains fewer than five members (or fewer than three members for a small-cap company) or more than 20 members.

Please refer to the "Size of the Board of Directors" section of these guidelines for further information.

Stock Split

We have clarified that the benchmark policy generally recommends shareholders vote for proposals to conduct a stock split when a company's historical share price is in a range where a stock split could facilitate trading, assuming the board has provided adequate justification for the proposed split.

A Board of Directors that Serves Shareholder Interest

Election of Directors

Brazilian companies typically have a board of directors (*conselho de administração*), whose members are elected by shareholders, and a management board (*diretoria*) whose members are elected by the board of directors. Although the main purpose of the two-tiered governing system is to separate executives from non-executives, in many cases the board of directors includes members of the management board such as the investor relations officer, CFO and CEO.

In addition, Brazilian law allows for the establishment of a supervisory council (*conselho fiscal*), whose main responsibilities include overseeing the acts of the board and management and reviewing the company's financial statements. It is an oversight body with an advisory role and does not participate in managing business operations. As such, neither executives nor directors (including those of the Company's subsidiaries and affiliates), can serve on the supervisory council.[3]

Together, the members of the board of directors, management board and the supervisory council are referred to as the governing entities (*administradores*).

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium and long term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have a record of positive performance, and have members with a breadth and depth of experience.

As more thoroughly discussed in "Election Procedures" below, directors of Brazilian issuers are still generally elected as slates. As such, where Glass Lewis would normally recommend voting against a director based on an issue described below but shareholders are unable to elect candidates individually, we will note our concerns with individual directors in the analysis of the board. These concerns will be taken into account when making our voting recommendation for a slate.

Independence

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Likewise, when assessing the independence of directors we will also examine whether a director sits on multiple boards and has a track record that indicates a lack of

[3] Article 162 of the Brazilian Companies Law 6.404/1976.

objective decision making. Ultimately, the determination of whether a director is independent will be based on compliance with the applicable independence criteria, as well as consideration of such director's past actions.

We look at each director nominee to examine relationships with a company, company executives, and other directors. We do this to find personal, familial, or financial relationships (not including director remuneration) that may impact a director's decisions. We believe that such relationships may make it difficult for directors to put shareholders' interests above their own or any related parties' interests.

Thus, we place directors into four categories based on an examination of the type of relationship they have with a company:

Independent Director[4] — An independent director has no material financial,[5] familial[6] or other current relationships with a company,[7] its executives, or other board members, except for board service and standard fees paid for that service.

Affiliated Director[8] — An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company. This may include directors whose employers have a material relationship with the company or its subsidiaries. In addition, we will consider directors affiliated if they:

- Own, control or are party to a shareholders' agreement that represents 10% or more of a company's share capital or voting rights or are employed by or have a material relationship with a significant shareholder;[9]
- Have been employed by the company or any of the company's subsidiaries within the past five years;[10]

[4] If a company does not disclose whether a non-executive director is independent, absent any indication to the contrary, we may consider the non-executive director to be independent.

[5] A material relationship is one in which the value exceeds R$100,000 (or 50% of the total compensation paid to a board member or where no amount is disclosed) for consulting or other professional services provided by the board member or 1% of the company's consolidated gross revenue for other business relationships (e.g., where the director is an executive officer of a company that provides services or products to or receives services or products from the company).

[6] Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company.

[7] A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

[8] If a company classifies a non-executive director as non-independent, Glass Lewis will classify that director as an affiliate, unless there is a more suitable classification (i.e., employee representative).

[9] In accordance with generally accepted best practice in Brazil, we treat 10% shareholders as affiliated because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 10% holders may have interests that diverge from those of minority holders, for reasons such as liquidity (or lack thereof) of their holdings, potential for materially increasing or decreasing their holdings in response to company performance, personal tax issues, etc.

[10] In our view, a five-year standard is appropriate because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look back period to directors who have previously served as executives of the company on an interim basis for less than one year.

- Have — or have had within the last three years — a material relationship with the company, directly as a partner, director or senior employee of an entity that has such a relationship with the company.
- Have close family ties with any of the company's directors, senior employees, or advisors; and/ or
- Maintain cross-directorships or have significant links with other directors through their involvement in other companies or entities.

Inside Director — An inside director simultaneously serves as a director and as an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company.

Employee Representative[11] — A director appointed by the company's employees through an election authorized by the company alongside the union that represents the employees.[12] Employee representatives are not taken into account when assessing board independence.

Voting Recommendations on the Basis of Board Independence

In the case of non-controlled companies, Glass Lewis believes a board will be most effective in protecting shareholders' interests when at least half of the directors are independent.[13] In line with the IBGC, Glass Lewis typically recommends voting against a proposed slate where more than 50% of the members are affiliated or inside directors.

In the case of controlled companies, which represent the vast majority of Brazilian companies, we believe that the number of insiders and/or affiliates on the board should be proportional to controlling shareholders' economic interests in companies and not merely their voting interests. As such, and even though the regulations for companies listed on the *Novo Mercado* and N2 segments provide for lower board independence threshold requirements,[14] we believe that a minimum of one-third of directors on the board should be independent, at least for those companies listed on these segments. While we have long considered that a 20% minimum board independence threshold serves as an appropriate counterweight to controlling shareholders' influence over the board of directors, and should, therefore, be applicable to companies listed on the remaining segments (even though they were not subject to any independence threshold within their respective listing regulations), with the amendments to Brazilian Companies Law 6.404/76 enacted by the issuance of Law 14.195/2021,[15] alongside

[11] Law 12.353/2010 obligates companies controlled by the federal government and having more than 200 employees to designate at least one board seat to a member appointed directly by employees.

[12] Article 140, §1, of the Brazilian Companies Law 6.404/1976.

[13] Article 3.3 practice (f) of the Brazilian Code of Best Corporate Governance Practices.

[14] Article 15 of B3's 2023 updated *Novo Mercado* Listing Regulation provides that a minimum of either (i) 20% of directors on the board should be independent or (ii) two members on the board should be independent, whichever is greater (as opposed to article 5.3 of B3's 2023 Corporate Governance Level 2 Listing Regulation, which establishes a standalone 20% board independence threshold).

[15] Article 140, §2, of the Brazilian Companies Law 6.404/76.

the release of CVM Resolution 168/2022 (Resolution 168), most companies,[16] regardless of which segment they are listed in, are now[17] required to comply with, at least, a 20% independent board.

Glass Lewis supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to its composition based on relevant skill sets and experience, as well as on results of director evaluations (as opposed to relying solely on tenure or age limits).

In light of the above, we note that both the Brazilian Corporate Governance Code for Listed Companies, and the Brazilian Code of Best Corporate Governance Practices, set out guidelines on board diversity and evaluation, recognizing its importance and significance within boardrooms.[18]

We believe that a director's experience can be a valuable asset to shareholders because of the complex issues that boards face. However, we recognize that in certain instances, a lack of refreshment[19] can contribute to a lack of board responsiveness and poor company performance. Accordingly, and while we will refrain from recommending voting against any directors on the basis of lengthy tenure alone, we may recommend voting against a director in cases where tenure may have contributed to poor financial performance, lax risk oversight, misaligned remuneration practices, lack of shareholder responsiveness, diminution of shareholder rights or other concerns. In conducting such analysis, we will consider lengthy average board tenure (generally over 9 years), evidence of planned or recent board refreshment, and other concerns with the board's independence or structure.

Other Considerations for Individual Directors

The most crucial test of a board's commitment to companies and their shareholders lay in the actions of boards and their members. We look at the performance and experience of these individuals as directors and executives of the company and of other companies where they have served. We also look at how directors voted while on boards.

Performance

We believe shareholders should avoid electing directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend

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[16] Applicable to companies that, cumulatively: (i) are registered as publicly held, within category "A" (i.e., issuers of all types of securities in the Brazilian market, including shares); (ii) hold securities admitted to trading on the stock market by an organized market management entity and, (iii) have outstanding shares or share deposit certificates (Brazilian Depositary Receipts - BDRs).

[17] Applicable to board terms starting from January 01, 2023.

[18] Articles 2.2.1 practice (ii), 2.2.2 practice (ii) and 2.4.1 of the Brazilian Corporate Governance Code for Listed Companies, as well as Articles 3.2 practice (a) and 3.10.1 practices (a) and (b) of the Brazilian Code of Best Corporate Governance Practices.

[19] Article 3.4 practice (b) of the Brazilian Code of Best Corporate Governance Practices

voting against any director who fails to attend a minimum of 75% of applicable board meetings and committee meetings.[20]

We note, however, that following the issuance of CVM resolution 59/2022, which revised the Formulário de Referência disclosure requirements, most Brazilian companies stopped disclosing board and committee attendance on an individual basis. Nonetheless, we continue to consider that this information can be useful to shareholders when assessing the performance of the board of directors and its members.

Experience

We find that directors' past conduct is often indicative of future conduct and performance. We often find that directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred serve on boards of companies that follow these same patterns. Glass Lewis has a proprietary database that tracks the performance of directors across companies worldwide.

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, over-compensation, audit or accounting-related issues, and/ or other indicators of mismanagement or actions against the interests of shareholders.[21]

Likewise, we examine the backgrounds of those who serve on the board and on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the subject matter for which they are responsible.

External Commitments

We believe that directors should have the necessary time to fulfil their duties to shareholders. In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. We will generally recommend that shareholders oppose the election of a director who:

- Serves as an executive officer[22] of any public company while serving on more than one additional external public company board;
- Serves as a 'full-time' or executive member of the board[23] of any public company while serving on more than two additional external public company boards; or

[20] We apply this policy to directors that, in the previous financial year, attended fewer than (i) 75% of board meetings; or (ii) an aggregate of 75% of board and applicable committee meetings. Where directors are elected for a term greater than one year, we may assess the attendance records of directors standing for re-election over their previous full term. We typically grant an exception to this policy to directors that have served on the board for less than one full year. We will also refrain from recommending voting against directors when the company discloses that the director missed the meetings due to serious illness or other extenuating circumstances.

[21] We typically apply a three-year look-back to such issues and research to see whether the responsible directors have been up for election since the time of the failure.

[22] This policy applies to directors that serve in the top executive team of a publicly-listed company (i.e. executive committee, management board, etc.).

[23] This policy applies to directors that serve on a board in a "full-time" or executive capacity without further defined responsibilities within the executive team (e.g., executive chair that is not a member of the executive committee, or a non-executive chair that serves in the role in a full-time capacity).

- Serves as a non-executive director on more than five public company boards in total.

For this purpose, we believe service as non-executive board chair is equivalent to two ordinary non-executive directorships, given the amount of time needed to fulfil the duties of chair.

As executive directors will presumably devote their attention to the company where they serve as an executive, we will generally not recommend that shareholders vote against the election of a potentially overcommitted director at the company where they serve in an executive function.

We will also generally refrain from recommending to vote against a director who serves on a potentially excessive number of boards within a consolidated group of companies in related industries, or a director that represents a firm whose sole purpose is to manage a portfolio of investments which include the company. In these cases, we nevertheless believe that it is incumbent on companies to proactively address potential shareholder concerns regarding a director's overall commitment level.

Conflicts of Interest

In addition to the three key characteristics — independence, performance, and experience — that we use to evaluate individual board members, we consider conflict-of-interest issues in making voting recommendations.

We believe that boards should be wholly free of people who have identifiable and substantial conflicts of interest or excessive time commitments. Accordingly, we generally recommend that shareholders vote against the following types of directors:

- Directors who provide, or whose immediate family members provide consulting or other material professional services to companies such as legal or other financial services. We question the need for companies to have business relationships with their directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, companies' decisions regarding where to turn for the best professional services may be compromised when doing business with a professional services firm of or represented by company directors. We will also hold the relevant senior director with oversight of related party transactions (whether a board committee, ad hoc committee, or the board as a whole, depending on the board's internal procedures) accountable for particularly egregious transactions concluded between the company and an executive director, which may pose a potential risk to shareholders' interest.
- Directors who have interlocking directorships. We believe that CEOs or other top executives who serve on each other's boards create interlocks that pose conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[24]

[24] Article 13 of the Brazilian Code of Best Corporate Governance Practices. We do not apply a look-back period for this situation. The interlock policy applies to both public and private companies. On a case-by-case basis, we evaluate other types of interlocking relationships, such as interlocks with close family members of executives or within group companies. Further, we also review multiple board interlocks among non-insiders (i.e., multiple directors serving on the same boards at other companies) for evidence of a pattern of poor oversight.

Director Accountability for Climate-Related Issues

Given the exceptionally broad impacts of a changing climate on companies, the economy, and society in general, we view climate risk as a material risk for all companies. We therefore believe that boards should be considering and evaluating their operational resilience under lower-carbon scenarios. While all companies maintain exposure to climate-related risks, we believe that additional consideration should be given to, and that disclosure should be provided by, those companies whose GHG emissions represent a financially material risk.

We believe that companies with this increased risk exposure should provide clear and comprehensive disclosure regarding these risks, including how they are being mitigated and overseen. We believe such information is crucial to allow investors to understand the company's management of this issue, as well as the impact of a lower carbon future on the company's operations.

In line with this view, Glass Lewis will carefully examine the climate-related disclosures provided by large-cap companies with material exposure to climate risk stemming from their own operations[25] as well as companies where we believe emissions or climate impacts, or stakeholder scrutiny thereof, represent an outsized, financially material risk, in order to assess whether they have produced disclosure that is aligned with the recommendations of the Task Force on Climate-related Disclosures (TCFD) or IFRS S2 Climate-related Disclosures. We will also assess whether these companies have disclosed explicit and clearly defined board-level oversight responsibilities for climate-related issues.

In instances where we find either (or both) of these disclosures to be absent or significantly lacking, we may recommend voting against the chair of the committee (or board) charged with oversight of climate-related issues, or if no committee has been charged with such oversight, the chair of the governance committee.

Further, we may extend our recommendation on this basis to additional members of the responsible committee in cases where the committee chair is not standing for election due to a classified board, or based on other factors, including the company's size and industry and its overall governance profile. In instances where appropriate directors are not standing for election, we may instead recommend shareholders vote against other matters that are up for a vote, such as the ratification of board acts, or the accounts and reports proposal.

Board Oversight of Environmental and Social Issues

Glass Lewis understands the importance of ensuring the sustainability of companies' operations and believes that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks for companies that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

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[25] This policy will generally apply to companies in the following SASB-defined industries: agricultural products, air freight & logistics, airlines, chemicals, construction materials, containers & packaging, cruise lines, electric utilities & power generators, food retailers & distributors, health care distributors, iron & steel producers, marine transportation, meat, poultry & dairy, metals & mining, non-alcoholic beverages, oil & gas, pulp & paper products, rail transportation, road transportation, semiconductors, waste management.

Glass Lewis believes that companies should ensure appropriate, board-level oversight of material risks to their operations, including those that are environmental and social in nature. Accordingly, for the largest companies in Brazil and in instances where we identify material oversight issues, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues. In addition, we will make note of whether such oversight has or not been clearly defined by companies within their governance documents. With the release of CVM Resolution 59/2021 (Resolution 59), Brazilian issuers are required to disclose further, and more detailed, ESG-related information. Under Sections 1.9 of the updated Formulário de Referência,[26] or annual report, issuers will be required to detail, among others:

- whether they disclose ESG information in an annual report or within another specific document put together for that purpose (i.e., a sustainability report);
- whether the report or document considers the disclosure of a materiality matrix and key ESG performance indicators (including which indicators are material for the issuer);
- whether the report or document (i) considers the Sustainable Development Goals (SDG) established by the United Nations and what are the material SDGs for the issuer's business, and (ii) the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD); and
- whether they carry out greenhouse gas emission inventories (indicating, when applicable, the scope of the inventoried emissions).

In relation to the above information, the Formulário de Referência takes the same "comply or explain" approach as the Corporate Governance Code for Listed Companies.

Further, the Formulário also requires issuers to disclose information on environmental, climate and social risks,[27] as well as describe ESG-related risks and opportunities included within their respective business plans.[28] From a governance perspective, and specifically in relation to the board of directors, issuers shall describe the channels in place for informing board members of critical ESG issues.[29]

Where it is clear that companies have not properly managed or mitigated environmental or social risks to the detriment of shareholder value or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible with oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit committee. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

[26] As amended by CVM Resolution 59/2021.
[27] Section 4.1, (j), (k) and (l) of the Formulário de Referência, as amended by CVM Resolution 59/2021.
[28] Section 2.10, (d) of the Formulário de Referência, as amended by CVM Resolution 59/2021.
[29] Section 7.2, (c) of the Formulário de Referência, as amended by CVM Resolution 59/2021.

Board Oversight of Technology

Cyber Risk Oversight

Companies and consumers are exposed to a growing risk of cyber-attacks. These attacks can result in customer or employee data breaches, harm to a company's reputation, significant fines or penalties, and interruption to a company's operations. Further, in some instances, cyber breaches can result in national security concerns, such as those impacting companies operating as utilities, defense contractors, and energy companies.

In response to these issues, regulators have increasingly been focused on ensuring companies are providing appropriate and timely disclosures and protections to stakeholders that could have been adversely impacted by a breach in a company's cyber infrastructure.

Given the regulatory focus on, and the potential adverse outcomes from, cyber-related issues, it is our view that cyber risk is material for all companies. We therefore believe that it is critical that companies evaluate and mitigate these risks to the greatest extent possible. With that view, we encourage all issuers to provide clear disclosure concerning the role of the board in overseeing issues related to cybersecurity, including how companies are ensuring directors are fully versed on this rapidly evolving and dynamic issue. We believe such disclosure can help shareholders understand the seriousness with which companies take this issue.

In the absence of material cyber incidents, we will generally not make voting recommendations on the basis of a company's oversight or disclosure concerning cyber-related issues. However, in instances where cyber-attacks have caused significant harm to shareholders we will closely evaluate the board's oversight of cybersecurity as well as the company's response and disclosures.

Moreover, in instances where a company has been materially impacted by a cyber-attack, we believe shareholders can reasonably expect periodic updates communicating the company's ongoing progress towards resolving and remediating the impact of the cyber-attack. We generally believe that shareholders are best served when such updates include (but are not necessarily limited to) details such as when the company has fully restored its information systems, when the company has returned to normal operations, what resources the company is providing for affected stakeholders, and any other potentially relevant information, until the company considers the impact of the cyber-attack to be fully remediated. These disclosures should focus on the company's response to address the impacts to affected stakeholders and should not reveal specific and/or technical details that could impede the company's response or remediation of the incident or that could assist threat actors.

In such instances, we may recommend against appropriate directors should we find the board's oversight, response or disclosure concerning cybersecurity-related issues to be insufficient, or not provided to shareholders.

Board Oversight of Artificial Intelligence

In recent years, companies have rapidly begun to develop and adopt uses for artificial intelligence (AI) technologies throughout various aspects of their operations. Deployed and overseen effectively, AI technologies have the potential to make companies' operations and systems more efficient and productive. However, as the use of these technologies has grown, so have the potential risks associated with companies' development and use of AI. Given these potential risks, we believe that boards should be cognizant of, and take steps to mitigate exposure to, any material risks that could arise from their use or development of AI.

Companies that use or develop AI technologies should consider adopting strong internal frameworks that include ethical considerations and ensure they have provided a sufficient level of oversight of AI. As such, boards may seek to ensure effective oversight and address skills gaps by engaging in continued board education and/or appointing directors with AI expertise. With that view, we believe that all companies that develop or employ the use of AI in their operations should provide clear disclosure concerning the role of the board in overseeing issues related to AI, including how companies are ensuring directors are fully versed on this rapidly evolving and dynamic issue. We believe such disclosure can help shareholders understand the seriousness with which companies take this issue.

While we believe that it is important that these issues are overseen at the board level and that shareholders are afforded meaningful disclosure of these oversight responsibilities, we believe that companies should determine the best structure for this oversight. In our view, this oversight can be effectively conducted by specific directors, the entire board, a separate committee, or combined with the responsibilities of a key committee.

In the absence of material incidents related to a company's use or management of AI-related issues, we will generally not make voting recommendations on the basis of a company's oversight of, or disclosure concerning, AI-related issues. However, in instances where there is evidence that insufficient oversight and/or management of AI technologies has resulted in material harm to shareholders, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of AI-related risks. We will also closely evaluate the board's response to, and management of, this issue as well as any associated disclosures and may recommend voting against the re-election of accountable directors, or other matters up for a shareholder vote, as appropriate, should we find the board's oversight, response or disclosure concerning AI-related issues to be insufficient.

Board Structure and Composition

In addition to the independence of directors, other aspects of the structure and composition of a board may affect the board's ability to protect and enhance shareholder value. The following issues often play a central role in forming corporate governance best practices.

Separation of the Roles of Board Chair and CEO[30]

Glass Lewis believes that separating the roles of corporate officer and board chair creates a better governance structure than a combined executive/chair position. The executives manage the business according to a course set by the board, to which they also report regarding their performance. This is needlessly complicated when a CEO also serves as board chair, as such a person would wield significant power over the board's decision-making

[30] Articles 138, §3, of the Brazilian Companies Law 6.404/76 and 2.3.1 of the Brazilian Corporate Governance Code for Listed Companies.

process. Such a situation may lead to longer-than-optimal terms, fewer checks on management, less scrutiny of business operations, and limitations on independent, shareholder-focused goal setting.

We believe an independent chair can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders.

The regulations of the N1, N2 and *Novo Mercado* listing segments require that all constituent companies separate these roles.[31] Even though the remaining listing segments do not explicitly require that companies separate these roles, the exclusion of CEO duality is currently established within Brazilian Companies Law.[32] However, Resolution 68/2022 provides an exception to this rule for companies deemed as "small." As a result, companies whose annual gross revenue totals less than R$500 million, as verified by the financial statements of the prior fiscal year, are not required to separate the roles of board chair and CEO.[33]

In addition, we do not recommend that shareholders vote against chief executives who serve on or chair the board. While we generally support the existence of a senior independent director with the authority to set the agenda for meetings and to lead sessions outside the presence of the executive chair, the role of senior or lead independent director is not common in Brazil.

Size of the Board of Directors

While we do not believe there is a universally applicable optimum board size[34], we do believe boards should have at least five directors (or three directors in the event of small-cap companies) to ensure sufficient diversity in decision-making and to enable the formation of key board committees with independent directors. Conversely, we believe that boards with more than 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices can make it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

To that end, we typically recommend voting against the nominating committee chair if a board has more than 20 directors. Further, where a board has fewer than five directors we will recommend abstaining from voting on the election of the nominating committee chair. However, we may not apply this policy to small cap companies with smaller boards where a larger board may not be justified by the scope of the company's operations. In the absence of a nominating committee, we will recommend voting against the board chair.

[31] For companies listed on the N1 and N2 segments, there is a three-year grace period counted from accession to the segment.

[32] Article 138, §3, of the Brazilian Companies Law 6.404/76.

[33] Articles 138, §4, and 294-B of the Brazilian Companies Law 6.404/76, and CVM Resolution 168/2022.

[34] Section 3.2 c) of the Brazilian Code of Best Practices for Corporate Governance suggests an odd number between five and nine members as a possible reference to ensure the diversity of perspectives and not hinder the productivity and effectiveness of the board. The previous version of the Code recommended that boards should not consist of more than 11 directors.

Board Diversity

Glass Lewis recognizes the importance of ensuring that the board is comprised of directors who have a diversity of skills, thought, and experience, as such diversity benefits companies by providing a broad range of perspectives and insights.

While there are currently no diversity requirements for Brazilian companies, the Code recommends[35] that boards should consider the diversity of knowledge, experience, age, gender, color or race, ethnicity, sexual orientation, and other aspects of diversity that reflect the company. Further, on a comply-or-explain basis, companies are required to appoint at least one woman to the board of directors or executive committee by 2025, and one 'member of an underrepresented minority' to the board of directors or executive committee by 2026.[36]

Gender Diversity at Board Level

Given the progress in increasing gender diversity at board level in Brazil and the rise of board gender diversity as a global best practice, the benchmark policy expects the boards of all main market companies to contain at least one gender diverse[37] director. Accordingly, where a proposed board election would lead to an all-male board, the benchmark policy will generally recommend that shareholders vote against the reelection of the chair of the nominating committee (or equivalent).We may provide limited exceptions to these policies where a company discloses a credible plan to address the lack of gender diversity on the board within a near-term and defined timeframe (e.g. by the time of the next annual meeting or scheduled board election). We will also take into account recent progress made to improve board diversity while maintaining the required balance of board skills and refreshment, although we believe that it is incumbent on companies to provide compelling disclosure in this regard. Further, we will generally provide exceptions to these policies to boards consisting of four or fewer members where a company provides compelling disclosure as to why it has failed to ensure board-level gender diversity.

Where directors are elected as a slate, we will generally not recommend that investors oppose the slate solely on this basis. This will however be considered as part of our overall assessment of the board and may contribute to a negative recommendation where other board composition or performance concerns exist.

Diversity of Ethnicity and National Origin at Board Level

Glass Lewis generally believes that the composition of a board should be representative of a company's workforce, the jurisdictions in which it principally conducts its business activities, and its other key stakeholders. In line with local best practice recommendations[38] in Brazil, we believe that boards should outline how the board nomination process takes diversity of ethnicity and national origin into account.

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[35] Section 3.2 a) of the Brazilian Code of Best Practices for Corporate Governance.

[36] B3 Circular Letter 002/2023-VPE. A member of an underrepresented minority is understood as any person "(a) "black", "brown" or "indigenous", according to the classification presented by IBGE, (b) who self-identifies as part of the LGBTQIA+ community, or (c) who is considered a disabled person under Law 13,146/2015."

[37] Women, and directors that identify with a gender other than male or female.

[38] B3 Circular Letter 002/2023-VPE. On a comply-or-explain basis, companies are required to establish a nomination policy for the board of directors and executive committee that considers diversity in gender, sexual orientation, color or race, age, and inclusion of disabled people.

In egregious cases where a board has failed to address legitimate shareholder concerns regarding the diversity of ethnicity and national origin at board level, we may recommend that shareholders vote against the reelection of the chair of the nominating committee (or equivalent).

Ratification of the Co-option of Board Members

In certain instances, board members are appointed directly by boards to serve as directors. Shareholders are then asked to ratify co-opted board members and formally appoint them for a new term. We apply the same standards for such proposals as we do when analyzing a standard election of directors' proposal.

Supervisory Council

The supervisory council must be composed of three to five members, none of whom can be: (i) an executive, director or employee of the company, a subsidiary or an affiliate; or (ii) a spouse or relative of any of the aforementioned, up to the third degree.[39] In most cases, controlling shareholders typically elect a majority of supervisory council members. Preferred shareholders are entitled to elect one member and respective alternate to this oversight body. Minority common shareholders who jointly represent at least 10% of the voting share capital are entitled to elect one member and respective alternate to the supervisory council. If a supervisory council is not permanently established, it can be established by the shareholders meeting at the request of shareholders.[40]

Glass Lewis believes the supervisory council should consist of at least one undoubtedly independent director. In the case of non-controlled companies, we maintain that at least 50% of the council's members should be independent. For controlled companies, we expect that the representation of major shareholders on the supervisory council should not exceed major shareholders' proportional stakes in the company's issued share capital or voting rights. Further, we prefer that the board maintain a separate committee accountable for audit oversight.

While we believe that the supervisory council can be a useful oversight mechanism, we also recognize that its primary benefit is providing additional clarity and independent information to shareholders upon request. As such, we do not believe this council can reasonably replace the important control function of an audit committee on the board of directors, nor do we believe it is always an essential feature of good governance. Although we generally support the function of a supervisory council, we will recommend that shareholders support a proposal to establish a supervisory council only when: (i) the proposed members of the council have been disclosed; and (ii) the proposed members represent a sufficiently diverse and independent perspective to add value for all shareholders.

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[39] Articles 161 and 162 of the Brazilian Companies Law 6.404/1976.

[40] Article 161, §2, of the Brazilian Companies Law 6.404/1976. CVM Resolution 70/2022 regulates the minimum ownership requirements to request the establishment of a supervisory council, which ranges between 2% and 8% of voting shares, and between 1% and 4% of non-voting shares, depending on the company's share capital.

Board Committees

Most Brazilian companies are not required to establish board committees. However, the IBGC recommends the establishment of an audit committee.[41] Further, companies may choose to establish audit committees pursuant to CVM Instruction 23/2021 in order to, among other things, allow them to hire independent auditors for a term of up to 10 consecutive years.[42] In addition, publicly listed financial institutions and other entities authorized to operate by the Central Bank of Brazil must establish remuneration committees.[43]

Committee Independence

Given that there is no requirement under Brazilian law obligating issuers to establish an audit or remuneration and nominating committee, often when they are established, they are comprised of individuals who are not board members. These outsiders are usually employees of the company or consultants and their appointment is not subject to shareholder approval.

Companies with established audit committees pursuant to CVM Instruction 23/2021[44] may appoint members who are not directors of the board to serve on the audit committee. We prefer all audit committee members to be directors of the board, which we feel provides for increased accountability to shareholders who may voice their concerns with committee members through the election of directors process. We will note instances of non-board members serving on the audit committee as an issue of concern and will recommend that shareholders vote against any affiliates or insiders serving on the audit committee. Similarly, we believe that each of the key committees established by a company should consist solely of independent directors.[45] However, we may make exceptions to this standard in instances of companies with significant beneficial ownership by a person or group of entities. In this case, we prefer that such owner's representation on the board and remuneration and/or nominating committee not exceed their proportional ownership of the company on the whole. We believe the audit committee should be composed exclusively of independent directors, regardless of a company's ownership structure. When a company is controlled, we believe each of the remuneration and/or nominating committee should consist of at least one undoubtedly independent director and maintain that insiders should not serve on any of the key committees.

[41] Article 4.1 of the Brazilian Corporate Governance Code for Listed Companies.

[42] Pursuant to article 31-A of the Instruction, publicly-listed companies in Brazil that establish audit committees may contract independent auditors to provide audit services for up to 10 consecutive years, as long as the lead audit partner/any element of the audit team in a managerial position, rotates off the audit at least every five years, with no return for a further three years.

[43] Article 11 of Resolution 3.921/2010 of the Central Bank of Brazil.

[44] Article 31-C of the Instruction.

[45] Previous editions of the Brazilian Code of Best Corporate Governance Practices recommended that committees be exclusively independent; however, the current edition of the Code recommends that no executive members serve on key board committees (Article 3.7.1, practice d). Nevertheless, we believe these committees will be most effective in protecting shareholders' interests when both of these thresholds are met.

Audit Committees and Performance

Glass Lewis generally assesses audit committees based on the decisions they make with respect to their oversight and monitoring role. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work all provide useful information by which to assess the audit committee.

When assessing the decisions and actions of audit committees, we typically defer to their judgment and recommend in favor of their members. However, we may recommend voting against:

- The audit committee chair if: (i) audit and audit-related fees total less than one-half of the total fees billed by the auditor; and/or (ii) the committee did not hold a sufficient number of meetings considering the company's financial situation and reporting requirements.[46]
- Members of an audit committee who served during the relevant time period if: (i) material accounting fraud occurred; (ii) financial statements had to be restated due to serious material fraud; and/or (iii) there are conflicts of interest between auditors and shareholders or auditors and members of the committee.

Expertise of Audit Committee Members

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities. We believe that companies should clearly outline the skills and experience of the members of the audit committee, and that shareholders should be wary of audit committees that include members that lack the requisite expertise.

In Brazil, boards that choose to establish an audit committee must ensure that at least one member of the audit committee has proven expertise in corporate accounting matters.[47] This is also required by the *Novo Mercado* listing segment regulations,[48] and recommended by the Brazilian Code of Best Corporate Governance Practices.[49] When we have been unable to determine the representation of such expertise on the audit committee through the director biographies and disclosure provided by a company listed on the *Novo Mercado*, we may recommend that shareholders vote against the re-election of the audit committee chair.

Remuneration Committees and Performance

We evaluate remuneration committee members on the basis of their performance while serving on the remuneration committee in question, not for actions taken by prior committee members who are not currently serving on the committee.

When assessing the performance of remuneration committees, we may recommend voting against members of the remuneration committee who served during the relevant time period if: (i) companies entered into

[46] We will apply this criterion if board committee meeting information is available.
[47] Article 31-C II, §5, CVM Instruction 23/2021.
[48] Article 22, V, (b) of the 2023 *Novo Mercado* Listing Regulations.
[49] Article 3.8, practice (b) of the Brazilian Code of Best Corporate Governance Practices.

excessive employment agreements and/or severance agreements; (ii) performance goals were changed (i.e., lowered) when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained; (iii) excessive employee perquisites and benefits were allowed; and/or (iv) we have identified other egregious policies or practices.

Nominating Committees and Performance

The nominating committee, as an agent for the shareholders, is responsible and accountable for the selection of objective and competent board members. When assessing the performance of nominating committees, we may recommend voting against:

- The nominating committee chair: (i) if the nominating committee did not meet during the year, but should have (i.e., because new directors were nominated)[50]; (ii) when the board is less than 50% independent in the case of non-controlled companies; and (iii) when there are fewer than five and more than 20 members on the board[51].
- Members of the nominating committee who served during the relevant time period if the committee nominated or re-nominated an individual who had significant conflicts of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.

Election Procedures

In Brazil, directors are elected as slates and as many issuers are controlled, the outcome of the election of the board is mostly pre-determined. However, minority common shareholders owning from 0.5% to 2.5% of the Company's common share capital (depending on the Company's market cap) can nominate members to the board of directors, via the distance-voting proxy form.[52] The candidates presented by minority common shareholders need to receive at least 15% of the votes cast to be elected to the board of directors. In the case of candidates nominated by preferred shareholders, the nominees need to receive at least 10% of the votes cast to be elected.[53] If the threshold required to nominate a candidate to the board is not met, each class of minority shareholders may group their shares together and petition to nominate one common candidate so long as they have been shareholders for at least three months prior to the meeting.[54]

In cases where there are more nominees than seats, those who receive the highest number of votes, with a minimum of 10% (preferred shareholders) or 15% (minority shareholders), will be elected.

As mentioned earlier and pursuant to Resolution 81, we note that common shareholders have the opportunity to cast votes both on the (i) candidates (slate or individual nominees) presented by the controlling shareholder/management; and (ii) the minority candidate(s), through a separate election. We will analyze the candidates up for election as directors on a case-by-case basis and recommend that shareholders cast their

[50] We will apply this criterion if board committee meeting information is available.
[51] Please refer to “Size of the Board of Directors” for further information.
[52] Annex N of CVM Resolution 81/2022.
[53] Article 141, §4, I and II of Brazilian Companies Law 6.404/76.
[54] Article 141, §5 of Brazilian Companies Law 6.404/76.

votes on the suitable candidate(s) proposed by minority shareholders and/or on the slate/nominees presented by the controlling shareholder/management.

Further, we note that non-controlling preferred shareholders only have the opportunity to vote on candidates nominated by preferred shareholders, and not on the management/controlling shareholder slate.

Because petitions for separate elections are generally made at a meeting or after instructions from those voting by proxy have already been sent, issuers usually do not disclose the names and/or biographical information of candidates proposed by minority shareholders, or at least not with sufficient time for the information to be disseminated to shareholders.

We will generally recommend voting for a candidate presented by minority/preferred shareholders where sufficient information regarding the nominee has been disclosed, and when we deem the nominee truly independent and appropriately qualified for the role. In cases where multiple minority/preferred candidates have been nominated, we will base our recommendation on the nominees' qualifications and experience and on the company's shareholder structure.

Further, shareholders may request the adoption of cumulative voting, provided the request is received at least 48 hours prior to the shareholder meeting.[55]

Shareholders voting by proxy may also request the adoption of cumulative voting. In practice, we support the adoption of cumulative voting. However, we recognize that most shareholders voting by proxy will typically not meet the minimum ownership threshold (5% of outstanding share capital) in order for the vote to count.

If the cumulative voting procedure is adopted, each shareholder will have as many votes as the number of their shares, multiplied by the number of candidates up for election to allocate, which can increase the chances of electing independent candidates where there are more candidates than seats, something rarely seen in Brazil. Moreover, where cumulative voting is requested and there is also a separate election for a minority candidate, the latter will continue to be elected through a separate election and only the management slate members/nominees will be elected through the cumulative method.

We will generally recommend shareholders cumulate their votes equally among suitable candidates, taking into account a number of factors including the number of candidates presented and the shareholder structure, so as to ensure a reasonable balance between independent and non-independent directors on the board, as well as an adequate global board composition. We will recommend that shareholders abstain from voting on the remaining nominees and will analyze the candidates up for election and the composition of the board on a case-by-case basis.

As for the adoption of cumulative voting per se, we will generally recommend shareholders abstain from requesting this election method unless its adoption presents an unquestionable advantage towards improving the board's independence.

[55] Article 141 of the Brazilian Companies Law 6.404/1976 and Article 3 of CVM Resolution 70/2022. The minimum voting share capital percentage required for the adoption of cumulative voting varies according to a company's share capital, e.g., for companies whose share capital is between R$0 and R$10,000,000, the requirement is 10% and for companies whose share capital exceeds R$100,000,001, the requirement is 5%.

Management seldom communicates changes to election methods to shareholders or custodians and requests for cumulative voting are typically made after instructions for those voting by proxy have been sent.[56]

When shareholders voting by proxy are only provided with the opportunity to vote on the election of directors as a slate, we will generally recommend that shareholders support the slate, unless we have identified independence or performance concerns. When the proposed slate raises concerns regarding board or committee independence, we will generally recommend that shareholders vote against the director slate. Where we have identified substantial concerns regarding the performance of the board, its committees, and/or individual directors, we may also recommend that shareholders vote against the slate.

Board Skills Disclosure

Glass Lewis believes companies should disclose sufficient information to allow for a meaningful assessment of a board's skills and competencies. We look carefully at the backgrounds of individuals who are up for election or re-election to the board in order to ensure they contribute appropriate skills and diverse backgrounds and identify any potential skills gaps.

Although Brazilian legislation only requires companies to disclose details of the directors' employment in the past five years,[57] we believe, in line with the Brazilian Code of Best Corporate Governance Practices, that a more thorough disclosure of the directors' background, capacities and areas of expertise is an essential requirement to fully assess the qualification and suitability of the members of the board of directors as individuals, as well as the global strengths and weaknesses of the board as a whole.

This is equally applicable to the candidates presented by minority or preferred shareholders. In order to adequately assess their eligibility, shareholders should provide ample and timely information on the qualifications of their candidates to merit their election to the board.

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[56] While proxy voting instructions may, at times, be amended up to approximately 16 days prior to the meeting based on an amended proxy form, we will generally refrain from making updates that are not included on a proxy form as a result of information not being filed in a timely manner due to the risk that such updates will not be accepted or accounted for. In any event, we will update our recommendations on a best-effort basis for requests that are made subsequent to the initial publication of our report and fewer than 16 days prior to the meeting.

[57] Section 7.3, (i) of the Formulário de Referência, as amended by Annex C of CVM Resolution 80/2022.

Transparency and Integrity in Financial Reporting

Accounts and Reports

Brazilian company law requires that shareholders approve the annual and consolidated financial statements of companies within the four months following the close of the fiscal year in order for them to be valid. A company's consolidated financial statements combine the activities of the company with the activities of its subsidiaries. Some companies may seek separate approval of the consolidated and standalone accounts and reports. Brazilian companies make their audited financial statements electronically available to shareholders through the B3.[58] We generally recommend that shareholders vote for proposals to approve or acknowledge receipt of a company's accounts and reports. However, in cases where a company's statutory auditor has refused to provide an unqualified opinion on the financial statements[59] or there are other legitimate concerns regarding the integrity of the financial statements or reports, we may recommend that shareholders oppose such proposals on a case-by-case basis.

In the event that the audited financial statements have not been made available, we do not believe shareholders have sufficient information to make an informed judgment regarding these matters. As such, we will recommend that shareholders abstain from voting on the relevant agenda items.

Approval of the accounts also ratifies the acts of the members of the board of directors. This would not release directors in instances of error, bad faith, fraud or misrepresentations of accounting. Nevertheless, seeking recourse for directors' actions could prove time-consuming and expensive for shareholders. As such, when we have significant concerns regarding a board's actions during the prior fiscal year and find a material risk to shareholder value resulting from such actions (or inaction), we will recommend voting against this proposal.

Allocation of Profits/Dividends

In Brazil, companies must submit the allocation of income for annual shareholder approval. Brazilian law stipulates that shareholders are entitled to receive, as a mandatory dividend, the share of a company's profits established in its bylaws. Where the bylaws do not provide for a mandatory dividend, Brazilian legislation mandates that companies must distribute at least 50% of their adjusted net profits.[60] Should a company propose the inclusion of a mandatory dividend provision in its bylaws, such dividend may not amount to less than 25% of

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[58] Article 132 of the Brazilian Companies Law 6.404/1976.

[59] In our assessment, we will consider the reasoning provided by the statutory auditor as well as any relevant public disclosure from the company. In cases where the auditor has included an emphasis of matter or raised concerns regarding the going concern basis of a company in its report on the financial statements, we will note this in our analysis but will generally not recommend a vote against the proposal unless there are other legitimate concerns regarding the integrity of the financial statements and reports.

[60] Article 202 of the Brazilian Companies Law 6.404/76.

its adjusted net profits for the previous fiscal year.[61] In this regard, net profits may be adjusted through the establishment of a legal reserve,[62] the allocation of a portion of the profits towards a contingency reserve,[63] or by accounting for unrealized gains.

In the event of a loss, a company may use its retained earnings, profit reserves or legal reserve to absorb losses and is exempt from the distribution of any dividends. We will generally recommend voting for such a proposal.

However, we will apply particular scrutiny to cases where the company's dividend payout ratio is excessively high or low and the company has not provided a satisfactory explanation. We will support uncovered dividends when we believe that such payouts are justified and will not negatively impact the financial health of the company in the long-term.

Payments of Interest on Capital

In Brazil, companies may distribute interest on capital in addition to or in lieu of a dividend. In our view, paying interest on capital allows companies to benefit from accrued interest collected on their own capital, and treat such payments as fiscal expenses for income tax and social contribution purposes. The interest is limited to the daily pro rata variation of a nominal long-term interest rate determined by the federal government that includes an inflation factor. The aggregate interest on capital may not exceed the greatest of 50% of net profit for the period in which the payment is made, or 50% of the sum of retained earnings and profit reserves. We will generally recommend voting for such a proposal.[64]

Capital Expenditure Budget

Brazilian companies often request shareholder approval of their capital expenditure budget for the current fiscal year.[65] This information is presented to shareholders at the annual meeting. We will typically recommend in favor of this proposal given that we believe management and the board are in the best position to determine what operational decisions are best in the context of a company's business. We believe that board members can be held accountable on this issue when they face reelection.

[61] Article 202, §2, of the Brazilian Companies Law 6.404/76.
[62] Amounting to 5% of the net profits for the previous fiscal year (up to a maximum of 20% of a company's share capital), as reflected in article 193 of the Brazilian Companies Law 6.404/76.
[63] Retained earnings that have been set aside to guard against possible future losses.
[64] Article 9, §1, of Federal Law 9.249/1995
[65] Article 196 of the Brazilian Companies Law 6.404/1976.

The Link Between Compensation and Performance

Glass Lewis carefully reviews the remuneration awarded to executive and management board members as we believe that this is an important area in which the board's priorities are revealed. We strongly believe that comprehensive, timely and transparent disclosure of executive pay is critical to allowing shareholders to evaluate the extent to which the pay is keeping pace with company performance.

Glass Lewis believes executive remuneration should be linked directly with the performance of the business the executive is charged with managing. When reviewing proxy materials, we typically look for remuneration arrangements that provide for a mix of performance-based short and long-term variable incentives in addition to a fixed base salary, examine whether a company discloses the performance metrics used to determine variable compensation, and analyze whether performance metrics vary and include a mix of financial and nonfinancial measures.

We acknowledge that it is rarely in shareholders' interests for companies to disclose competitive data about individual salaries below the senior executive level. Such disclosure could create internal personnel discord that would be counterproductive for a company and its shareholders. However, we favor full disclosure of senior executive payouts and remuneration disclosure at the aggregate level (e.g., the number of employees being paid over a certain amount or in certain categories).

Vote on Executive Compensation (Remuneration Policy)

We believe that each company should design and apply specific remuneration policies and practices that are appropriate to its circumstances and, in particular, will attract and retain competent executives while motivating them to grow the company's long-term shareholder value.

In accordance with Brazilian law, shareholders must approve the aggregate remuneration of the board of directors, management board and the supervisory council (if applicable) at annual meetings.[66] Further, companies must provide the information required under Section 8 of the updated *Formulário de Referência*,[67] or annual report, which details a company's remuneration policy.[68] The two most important principles we consider when evaluating Section 8 are: (i) the overall structure and policies that govern remuneration levels and drive performance; and (ii) the disclosure of remuneration policies and procedures.

With this in mind, Glass Lewis reviews each remuneration policy on a case-by-case basis with the belief that each company must be examined in the context of industry, size, ownership structure, financial condition,

[66] Article 152 of the Brazilian Companies Law 6.404/1976.

[67] As amended by CVM Resolution 59/2021.

[68] Article 13 of CVM Resolution 81/2022.

historic pay-for-performance practices and any other individual mitigating internal or external factors. In completing our assessment of executive remuneration policies, we may consider, among other factors:

- Whether the highest, lowest and average executive remuneration figures have been disclosed;[69]
- Whether a company has a controlled or dispersed shareholder base;
- The appropriateness of variable remuneration performance metrics and how such goals and metrics are used to drive company performance;
- The use and structure of long-term incentives;
- Whether compensation encourages prudent risk-taking;
- The overall link between pay and performance;
- The quality and content of a company's disclosure; and
- If remuneration practices and policies are aligned with Brazilian and/or international best practice.

Where those specific policies and practices are consistent with Glass Lewis' guidelines, and such practices are adequately disclosed, we will generally support a company's approach.

In cases where our analysis reveals a remuneration structure in drastic need of reform, we will generally recommend that shareholders vote against the remuneration policy proposal. Generally, such instances include evidence of a pattern of poor pay-for-performance practices, unclear or questionable disclosure (i.e., unconvincing information regarding executive remuneration, insufficient rationale for bonus performance metrics and targets, etc.), questionable adjustments to certain aspects of the overall remuneration structure (i.e., limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizable retention grants, etc.), and/or other egregious remuneration practices.

Any significant changes or modifications made to a company's remuneration structure or award amounts, including base salaries, are also taken into consideration. Although not an exhaustive list, the following issues are seen as problematic pay practices that may cause Glass Lewis to recommend that shareholders vote against a remuneration policy proposal:

- Executive remuneration that is noticeably out of line with the company's performance;
- Non-executive directors are eligible to participate in incentive plans designed for executives;
- Lack of a long-term incentive plan/equity-based scheme;
- Inappropriate long-term incentive plan/equity-based scheme terms, such as equity awards granted at a discount to fair market value;
- Guaranteed bonuses;
- Egregious or excessive bonuses, equity awards or severance payments;
- Performance targets lowered without justification; and
- Discretionary bonuses paid when short or long-term equity-based incentive plan targets were not met.

Moreover, in cases where companies have simply failed to provide sufficient disclosure of their policies or have not disclosed a breakdown of the highest, lowest and average pay received by executives (a crucial disclosure requirement mandated by the CVM) we will generally recommend shareholders vote against remuneration

[69] Article 19 of B3's updated 2023 *Novo Mercado* Listing Regulation, section 8.15, (c), (d) and (e) of the Formulário de Referência, as amended by CVM Resolution 59/2021 and Official CVM/SEP Letter 04/2018 published by the CVM's Superintendent Office of Corporate Relations.

policies solely on this basis, given the absence of meaningful information on which to judge the appropriateness of pay levels.

Further, when companies maintain poor remuneration policies year-after-year without any apparent steps to address the issues, we may recommend that shareholders vote against the chair and/or members of the remuneration and nominating committee. We may also recommend voting against the committee based on the practices or actions of its members, such as approving large one-off payments, the inappropriate use of discretion, or sustained poor pay-for-performance practices.

In practice, Brazilian companies may submit a revised remuneration policy to a vote during the general meeting, preventing shareholders voting by proxy from participating. In the event that shareholders are provided with the option in the proxy to authorize the board to submit a revised remuneration policy during the meeting, we will recommend voting against this proposal.

We note that Annex B of the updated issuers' regulations establishes that companies should include performance measures linked to ESG themes or goals (applicable on a "comply or explain" basis), within their respective remuneration policies or practices, and where there is variable remuneration for executives. This requirement takes effect from 2025.

Short-Term Incentives

Annual bonuses, or short-term incentives (STIs) for Brazilian executives, often awarded in the form of cash or shares and/or profit sharing, should be demonstrably tied to performance. Whenever possible, we believe a mix of corporate and individual performance measures is appropriate. We would normally expect performance measures for STIs to be based on internal financial measures as well as non-financial factors such as individual performance and those related to sustainability. However, we accept variations from these metrics if they are tied to a company's key business objectives. Glass Lewis acknowledges that some measures may involve the disclosure of commercially confidential information, in which case justification for non-disclosure should be provided. However, where an STI has been paid, companies should disclose the extent to which performance has been achieved against relevant targets.

Additionally, we believe that potential maximum STI levels should be disclosed. Shareholders should expect stretching performance targets for the maximum award to be achieved. We also believe that any increase in a potential maximum award should be clearly justified to shareholders.

Where management has received significant STIs but short-term financial or individual performance is demonstrably poor or negative, a company should provide a clear explanation as to why these significant short-term payments were made.

Finally, despite these practices still not being standardized in Brazil, we believe all companies, not just financial institutions, should provide that bonuses will be subject to clawback provisions, allowing companies to reclaim bonuses in the case of poor results in subsequent fiscal years. Similarly, we believe that a significant portion of bonus payments should be subject to a minimum deferral period of three years.

Equity-Based Long-Term Incentive Plans

We believe that equity incentive awards are useful tools, when not abused, for retaining employees and providing an incentive for them to act in a way that will improve company performance. Equity-based plans, often in the form of stock option plans, are common in Brazil. These plans have important differences from cash or other performance-based incentive plans and STI programs. Accordingly, our analysis takes into account factors such as plan administration, the method and terms of exercise, and express or implied rights to re-price. In our evaluation, we examine the potential dilution to shareholders, the company's grant history and compliance with best practice recommendations. We evaluate equity-based incentive plans based on the following principles:

- Total potential voting power dilution to current shareholders should not be unreasonable;
- Companies should have a demonstrated history of reasonable equity incentive grants over the past three fiscal years;
- A vesting period of at least three years;
- Awards should be granted at fair market value;
- Plans should not be managed by interested parties; and
- Plans should not permit the re-pricing of stock options.

Performance-Based Long-Term Incentive Plans

Glass Lewis recognizes the value of performance-based long-term incentive programs. In Brazil, performance-based long-term incentive plans are still not the norm. Nonetheless, there are certain elements that Glass Lewis believes are common to most well-structured long-term incentive plans (LTIPs) based on best practice for corporate governance. These include:

- No re-testing or lowering of performance conditions;
- Two or more performance metrics (at least one relative performance metric that compares the company's performance to a relevant peer group or index);
- Performance periods of at least three years;
- Performance metrics that cannot be easily manipulated by management;
- Stretching metrics that incentivize executives to strive for outstanding performance; and
- Individual limits expressed as a percentage of base salary.

Performance measures should be carefully selected and should relate to the specific business/industry in which the company operates and, especially, applicable to its key value drivers. When evaluating LTIPs, we will consider whether awards granted under the plans are conditional on the achievement of detailed and challenging performance targets and adequately align management interests with those of shareholders. Further, and as discussed above, Glass Lewis believes that measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance than a single metric, which may focus too much management attention on a single target. External benchmarks should be disclosed and transparent, such as total shareholder return against a well-selected sector index, peer group or other performance hurdles. The rationale behind the selection of a specific index or peer group should be disclosed.

Internal benchmarks should also be disclosed and transparent, unless a cogent case for confidentiality is made and fully explained. We note, however, that performance targets are still rarely fully disclosed by Brazilian companies.

We will generally recommend voting against LTIPs that do not demonstrate a clear link to company performance or whose terms severely deviate from best practice. Similarly, the structure of the LTIP will be considered when determining our recommendation of remuneration policy proposals.

Remuneration Policy Relative to Ownership Structure

Glass Lewis recognizes that differences in the ownership structures may affect incentive structure for executives. In particular, where a company is controlled and managed by a family or individual, we believe the use of equity incentives for representatives of the controlling family or individual are inappropriate and may serve to further entrench the controlling shareholders' stake and expropriate minority shareholders. Additionally, in general, we expect companies with more dispersed ownership to demonstrate a more precise and linear pay-performance link than those where the ownership is more concentrated.

Severance Payments

In general, we believe that severance payments should be limited to two years fixed salary and should not be paid in the event of inadequate performance or voluntary departure.

Remuneration Plans for Non-Executive Directors

Glass Lewis believes that non-executive board members should receive reasonable compensation for the time and effort they spend serving on the board and its committees. Board fees should be competitive in order to retain and attract qualified individuals. Excessive fees represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee board members. Therefore, a balance is required.

The aforementioned fees do not include benefits, allowances and compensation as a result of profit-sharing. In Brazil, in addition to fees, executive officers and directors may receive an annual bonus, share in net profits of a company if the company has complied with the mandatory dividend policy[70] and may be eligible to receive equity-based incentives. Nonetheless, we believe that non-executive directors should not partake in profit sharing, as this practice may incentivize directors to make decisions that do not contribute to the long-term success of the company.[71]

[70] Articles 152, 190, and 202 of the Brazilian Companies Law 6.404/1976. In cases where companies provide for a 25% mandatory dividend in their bylaws, the total participation amount may not exceed the annual fees of the officers and directors nor one-tenth of the profits for the previous fiscal year, whichever is less.

[71] The Brazilian Code of Best Corporate Governance Practices not only recommends, in line with the Brazilian Corporate Governance Code for Listed Companies, that board and management be compensated in different ways, but its current

Supervisory Council Members' Compensation

Glass Lewis believes that members of the supervisory council should receive compensation for the time and effort they spend serving on the council. According to Brazilian law, members of the supervisory council must receive at least 10% of the average compensation paid to the Company's directors.[72]

Remuneration Policy Voting Recommendations for Financial Institutions

In addition to the aforementioned guidelines for say on pay voting recommendations, Glass Lewis applies the rules of Resolution 3.921/2010 (the Resolution) to financial institutions when analyzing say on pay proposals. The Resolution seeks to improve the alignment between executive remuneration and risk. In line with the Resolution, Glass Lewis believes that financial institutions should incorporate the following into their remuneration policies:

- At least 50% of variable remuneration should be paid in shares or other share-based instruments;
- At least 40% of variable pay should be subject to (i) a minimum deferral period of three years, and to (ii) clawback provisions;
- Along with a company's performance, a portion of variable compensation should take into account individual performance; and
- Guaranteed bonuses should only be used in exceptional circumstances such as recruitment or relocation and should be adequately justified.

If a financial institution does not have the following policies in place, we may recommend that shareholders vote against the remuneration policy proposal. We will also consider the level of disclosure when determining our voting recommendation. Further, Glass Lewis may recommend that shareholders vote against remuneration policies of financial institutions if the following disclosure requirements are not sufficiently met:

- A description of the process adopted for establishing the remuneration policy;
- The criteria used for performance measurement and risk adjustment;
- The relationship between pay and performance; and
- The policy regarding deferral of remuneration and deferred compensation amounts.

Remuneration Policy and Best Practice

In our analysis of remuneration policies, we may apply higher standards to policies of the largest companies in Brazil, which compete with international companies in similar industries for talented executives. In particular, we expect companies on the *Índice Bovespa*[73] to provide an increased level of remuneration-related disclosure

edition now also advises that the board's remuneration be restricted to a fixed component (article 3.14 practices b and c of the Brazilian Code of Best Corporate Governance Practices).

[72] Article 162, §3, of the Brazilian Companies Law 6.404/1976.

[73] Index with approximately 90 companies that covers the majority of the market capitalization of the B3.

than other companies in Brazil. We also expect these companies to apply remuneration practices that meet a majority of key recommendations for best practice in Brazil and align them with international standards for best practice. In contrast, we are more likely to support the remuneration policies of smaller Brazilian issuers where policies generally align with key regional best practice recommendations, even if such practices do not satisfy the more stringent expectations of international best practice.

Governance Structure and the Shareholder Franchise

Virtual Shareholder Meetings

Glass Lewis supports companies facilitating the virtual participation of shareholders in general meetings. We believe that virtual meeting technology can be a useful complement to a traditional, in-person shareholder meeting by expanding participation of shareholders who are unable to attend a shareholder meeting in person (i.e., a hybrid meeting). However, we also believe that virtual-only meetings have the potential to curb the ability of a company's shareholders to meaningfully communicate with company management and directors.

When analyzing the governance profile of companies that choose to hold virtual-only meetings, we look for robust disclosure in a company's proxy statement that assures shareholders that they will be afforded the same rights and opportunities to participate as they would at an in-person meeting. We will generally recommend voting against members of the governance committee of a board, where one is established, if the board is planning to hold a virtual-only shareholder meeting and the company fails to provide such disclosure. In the absence of a governance committee, we may recommend voting against the board chair.

Meeting Format and Convocation

Meetings can be (i) entirely virtual, if shareholders participate and vote exclusively through electronic systems, or (ii) partially virtual (hybrid), if shareholders participate and vote both in person and remotely (in both cases, without prejudice to the use of the distance-voting proxy form as a means to exercise shareholders' respective voting rights).

Where a meeting is held partially or solely virtually, Resolution 81/2022 establishes that the notice of meeting must include information detailing the rules and procedures on how shareholders may participate and vote remotely, as well as foresee the option for shareholders to participate and/or vote in the meeting (in addition to the information required under article 124 of Brazilian Companies Law 6.404/76).

Although Resolution 81/2022 does not prescribe the technical features of meetings,[74] allowing companies discretion in determining the format and platform used, it does state that where a company provides an electronic system for remote participation, it shall guarantee shareholders' registrations and respective votes, as well as foresee the option for shareholders to participate and/or vote in the meeting.

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[74] A "Guide to Best Practices in Virtual Meetings" was released on February 11, 2021. An initiative of several of the most influential players with respect to corporate governance in Brazil, including AMEC and IBCG, it provides additional guidance on virtual meetings beyond the legal and regulatory prescribed rules, so as to further support companies regarding this issue.

In addition, the company is required to guarantee (i) access to documents presented during the meeting that had not been previously made available, (ii) full meeting records, (iii) adequate communication between shareholders, and, (iv) shareholders' ability to file documents (i.e., dissenting votes).

Amendments to the Articles of Association

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from judging each amendment on its own merits and is a practice which we believe negatively limits shareholder rights. In such cases, we will analyze each proposed change individually. We will recommend voting for the proposal only when, on balance, we believe that the amendments are in the best interests of shareholders.

Control Enhancing Mechanisms

Shareholder Agreements

Where a group of shareholders, acting in concert to vote and make other business decisions, have entered into an agreement to control a majority of a company and its board, we will apply the same rules applied to controlled companies.

Multi-Class Share Structure[75]

According to Brazilian law, companies may issue up to 50% of their total share capital in the form of preferred shares with no voting rights or restricted voting rights that entitle their holders to receive fixed or minimum dividends and other financial benefits.[76] However, due in part to the single-class, common share requirement of the *Novo Mercado* listing segment of the B3, there are an increasing number of cases wherein companies maintain a single-class, diffuse shareholder base with no controlling shareholder (economic and voting power) as companies migrate to the *Novo Mercado* from the other listing segments.

More recently, the issuance of Law 14.195/2021 allowed for newly listed companies to establish multiple share classes, with up to 10 votes allocated per share ("plural voting").[77] This represented a deviation from the principle of one vote per share, on which Brazilian Companies Law 6.404/1976 had operated on until then.

[75] Articles 16 and 16-A of Brazilian Companies Law 6.404/76.
[76] Article 15, §2, of the Brazilian Companies Law 6.404/1976.
[77] Article 110-A of the Brazilian Companies Law 6.404/76.

We note that plural voting is barred on specific proposals where independent oversight is especially relevant (including the approval of related party transactions and administrators' remuneration). Further, a seven-year sunset clause will apply.[78]

The adoption of the plural vote will not interfere with the *Novo Mercado* rules, where the single-class, common share requirement[79] will continue to apply. As a result, companies with plural voting may not be listed within the *Novo Mercado* segment.

Golden Shares

While golden shares are entitled to all of the same rights as other share classes, they often grant the holder, usually a government or state, discretionary power to veto certain corporate actions such as a change in the name or business purpose of the company, as well as the transfer of equity of the company, so as to ensure that the company does not act contrary to national interests. In Brazil, there are few instances in which the federal government holds golden shares in a company. However, in these cases, unless the government holding golden shares is also a controlling or majority shareholder, we will consider companies non-controlled.

Anti-Takeover Devices and Mandatory Takeover Bids

Glass Lewis believes that provisions intended to prevent or thwart a potential takeover of a company are not conducive to good corporate governance and can reduce management accountability by substantially limiting opportunities for shareholders.

In the event that control of a company changes, we believe that minority shareholders should be granted the right to tender their shares under the same conditions as those granted to the majority shareholder. However, a balance should be maintained between the need for minority protection and the promotion of takeover activities. Therefore, we generally support provisions in the articles of association that require a shareholder to make a mandatory tender offer for all of the company's outstanding shares if it acquires control over 30% or more of the total available share capital. Nevertheless, we will typically oppose provisions that allow this threshold be set at a lower percentage as they may function as a defensive mechanism that discourages investors from purchasing shares in a company.

Merger of Shares (Wholly-Owned Subsidiaries)

In Brazil, any merger of a wholly-owned subsidiary into its parent company must be submitted for shareholder approval.[80] We note that since the company already controls the merging entity, the main purpose of the proposed transaction is to simplify the company's corporate structure. Moreover, given that the subsidiary's financial statements are already consolidated with those of the parent company we do not believe there would

[78] This seven-year period may only be renewed if approved by the majority of shareholders (excluding those who hold shares of the class whose plural vote is looking to be extended). Dissenting shareholders' right to withdraw shall also be guaranteed in such cases.

[79] Article 8 of B3's updated 2023 *Novo Mercado* Listing Regulations.

[80] Articles 225 and 252 of the Brazilian Companies Law 6.404/1976.

be any adverse economic effect to the parent company's current shareholders. We will generally recommend voting for these proposals.

Shareholder Rights

Glass Lewis strongly supports the right of shareholders to call special meetings. We note that pursuant to Brazilian law, shareholders holding between 1% and 5% (depending on a Company's total share capital) of a company's share capital are allowed to call a special meeting.[81]

Glass Lewis recognizes that adequate capital stock is important to a company's operation. In Brazil, shareholders may vote on the issuance of shares and/or convertible securities, capital increases and decreases, stock splits and share repurchase authorities.

Shareholder Proposals

Glass Lewis believes that shareholders should seek to promote governance structures that protect shareholders, support effective ESG oversight and reporting, and encourage director accountability. Accordingly, Glass Lewis places a significant emphasis on promoting transparency, robust governance structures and companies' responsiveness to and engagement with shareholders. We also believe that companies should be transparent on how they are mitigating material ESG risks, including those related to climate change, human capital management, and stakeholder relations.

To that end, we evaluate all shareholder proposals on a case-by-case basis with a view to promoting long-term shareholder value. While we are generally supportive of those that promote board accountability, shareholder rights, and transparency, we consider all proposals in the context of a company's unique operations and risk profile.

For a detailed review of our policies concerning compensation, environmental, social, and governance shareholder proposals, please refer to our comprehensive *Benchmark Policy Guidelines for Shareholder Proposals & ESG-Related Issues*, available at www.glasslewis.com/voting-policies-current/.

[81] Article 123 of the Brazilian Companies Law 6.404/1976, alongside CVM Resolution 70/2022.

Capital Management

Issuance of Shares and/or Convertible Rights

In Brazil, shareholders are required to approve all proposals related to the issuance of shares and/or convertible securities (debentures).[82] Further, preemptive rights are a statutory requirement under Brazilian law.[83]

Issuing an excessive amount of additional shares and/or convertible securities may dilute existing holders. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to potential takeovers. Accordingly, where we find that a company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we may recommend against the authorization of additional shares. While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of a large pool of unallocated shares available for any purpose.

In our view, any authorization to issue shares and/or convertible securities with preemptive rights should not exceed 100% of the company's total share capital and any authorization to issue shares and/or convertible securities without preemptive rights should not exceed 20% of the company's total share capital.

We may recommend voting against an authority to increase authorized capital through the issue of shares and/or convertible securities if the board will be granted the authority to issue shares without preemptive rights in excess of 20% of a company's issued share capital or if it does not clearly limit share issuances without preemptive rights to 20%. However, we will consider each authority on a case-by-case basis, taking into account a company's rationale for exceeding the aforementioned limit and whether a company has a history of issuing a large number of shares without preemptive rights without consulting shareholders. We will also consider the limits, if any, to the board's authority to issue shares from authorized capital without shareholder approval, as specified in a company's articles of association. We apply this limit in cases where there is a single proposal to increase a company's authorized share capital limit or, in the aggregate, when there are separate/multiple proposals for the issuance of shares and convertible securities within the authorized limit. Further, in instances where the potential dilution is not calculable and/or the proposed authorized share capital maximum is not expressed in capital or number of shares, we will recommend voting against these authorities.

Capitalization

The successive or simultaneous capitalization (i.e., incorporation) of reserves, retained earnings or paid-in capital, resulting in the free allotment of shares and/or an increase in the par value of shares, is another

[82] Articles 59 and 166 of the Brazilian Companies Law 6.404/1976.

[83] Article 171 of the Brazilian Companies Law 6.404/1976.

approach Brazilian companies may take to increase their paid-in capital. In these cases, there is no risk of shareholder dilution.

Under Brazilian law, the capitalization of reserves is voted on every year at the annual meeting of shareholders after the approval of the company's annual financial statements if there remains a positive balance of the capital reserve for the fiscal year.[84]

Stock Split

We typically consider two metrics when evaluating whether a proposed stock split is reasonable: (i) the historical pre-split stock price; and (ii) the current price relative to the company's average trading price over the past 52 weeks. In general, we recommend voting for these proposals when a company's historical share price is in a range where a stock split could facilitate trading, assuming the board has provided adequate justification for the proposed split.

Issuance of Debt Instruments

In Brazil it is a routine matter for boards to seek shareholder approval to issue and/or trade in non-convertible, convertible and/or exchangeable debt obligations.[85] Generally, shareholders determine the amount and number of series of a debt instrument issuance and the board is granted the authority to establish a fixed or variable interest rate and to establish all other aspects of the debt instruments.

We believe it is customary for companies to increase their leverage by using debt to finance expansion plans. A majority of companies issue debt to avoid short-term equity dilution and to signal future growth opportunities. If the requested authorities to issue debt are reasonable and we have no reason to believe that the increase in debt will weaken companies' financial position, we will usually recommend in favor of such proposals.

Authority to Cancel Shares and Reduce Capital

In the case of a loss, boards may seek shareholder approval to reduce share capital up to the amount of the accrued loss, or if the board deems the share capital to be excessive.[86]

Furthermore, it is a routine matter for shareholders to grant the board the authorization to cancel shares held in treasury. We see no reason to vote against such a proposal, given that the cancellation of treasury shares has no effect on the company's share capital nor is there any risk of dilution to current shareholders.

[84] Article 167 of the Brazilian Companies Law 6.404/1976.
[85] Article 59 of the Brazilian Companies Law 6.404/1976.
[86] Article 173 of the Brazilian Companies Law 6.404/1976.

Overall Approach to Environmental, Social & Governance

Glass Lewis evaluates all environmental and social issues through the lens of long-term shareholder value. We believe that companies should be considering material environmental and social factors in all aspects of their operations and that companies should provide shareholders with disclosures that allow them to understand how these factors are being considered and how attendant risks are being mitigated. We also are of the view that governance is a critical factor in how companies manage environmental and social risks and opportunities and that a well-governed company will be generally managing these issues better than one without a governance structure that promotes board independence and accountability.

We believe part of the board's role is to ensure that management conducts a complete risk analysis of company operations, including those that have material environmental and social implications. We believe that directors should monitor management's performance in both capitalizing on environmental and social opportunities and mitigating environmental and social risks related to operations in order to best serve the interests of shareholders. Companies face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight thereof. Therefore, in cases where the board or management has neglected to take action on a pressing issue that could negatively impact shareholder value, we believe that shareholders should take necessary action in order to effect changes that will safeguard their financial interests.

Given the importance of the role of the board in executing a sustainable business strategy that allows for the realization of environmental and social opportunities and the mitigation of related risks, relating to environmental risks and opportunities, we believe shareholders should seek to promote governance structures that protect shareholders and promote director accountability. When management and the board have displayed disregard for environmental or social risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental and social risks that threaten shareholder value, we believe shareholders should consider holding directors accountable. In such instances, we will generally recommend against responsible members of the board that are specifically charged with oversight of the issue in question.

When evaluating environmental and social factors that may be relevant to a given company, Glass Lewis does so in the context of the financial materiality of the issue to the company's operations. We believe that all companies face risks associated with environmental and social issues. However, we recognize that these risks manifest themselves differently at each company as a result of a company's operations, workforce, structure, and geography, among other factors. Accordingly, we place a significant emphasis on the financial implications of a company's actions with regard to impacts on its stakeholders and the environment.

When evaluating environmental and social issues, Glass Lewis examines companies':

Direct environmental and social risk — Companies should evaluate financial exposure to direct environmental risks associated with their operations. Examples of direct environmental risks include those associated with oil or gas spills, contamination, hazardous leakages, explosions, or reduced water or air quality, among others. Social risks may include non-inclusive employment policies, inadequate human rights policies, or issues that adversely affect the company's stakeholders. Further, we believe that firms should consider their exposure to risks emanating from a broad range of issues, over which they may have no or only limited control, such as insurance companies being affected by increased storm severity and frequency resulting from climate change.

Risk due to legislation and regulation — Companies should evaluate their exposure to changes or potential changes in regulation that affect current and planned operations. Regulation should be carefully monitored in all jurisdictions in which the company operates. We look closely at relevant and proposed legislation and evaluate whether the company has responded proactively.

Legal and reputational risk — Failure to take action on important environmental or social issues may carry the risk of inciting negative publicity and potentially costly litigation. While the effect of high-profile campaigns on shareholder value may not be directly measurable, we believe it is prudent for companies to carefully evaluate the potential impacts of the public perception of their impacts on stakeholders and the environment. When considering investigations and lawsuits, Glass Lewis is mindful that such matters may involve unadjudicated allegations or other charges that have not been resolved. Glass Lewis does not assume the truth of such allegations or charges or that the law has been violated. Instead, Glass Lewis focuses more broadly on whether, under the particular facts and circumstances presented, the nature and number of such concerns, lawsuits or investigations reflects on the risk profile of the company or suggests that appropriate risk mitigation measures may be warranted.

Governance risk — Inadequate oversight of environmental and social issues carries significant risks to companies. When leadership is ineffective or fails to thoroughly consider potential risks, such risks are likely unmitigated and could thus present substantial risks to the company, ultimately leading to loss of shareholder value.

Glass Lewis believes that one of the most crucial factors in analyzing the risks presented to companies in the form of environmental and social issues is the level and quality of oversight over such issues. When management and the board have displayed disregard for environmental risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental risks that threaten shareholder value, we believe shareholders should consider holding directors accountable. When companies have not provided for explicit, board-level oversight of environmental and social matters and/or when a substantial environmental or social risk has been ignored or inadequately addressed, we may recommend voting against members of the board. In addition, or alternatively, depending on the proposals presented, we may also consider recommending voting in favor of relevant shareholder proposals or against other relevant management-proposed items, such as the ratification of auditor, a company's accounts and reports, or ratification of management and board acts.

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