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Mr. Robert McCormick
Chief Policy Officer
Glass Lewis & Co.
One Sansome Street, Suite 3300
San Francisco, CA 94104
United States
rmccormick@glasslewis.com

CC: Katherine Rabin, krabin@glasslewis.com
Maria Francisca Vicente, fvicente@glasslewis.com
Andrew Gebelin, agebelin@glasslewis.com

Re: Contributions to Glass Lewis's Proxy Voting Guidelines for Brazil

Dear friends,

I write you as the CEO of AMEC – the Brazilian Association of Capital Market Investors. Our Association was created on October 26th 2006 by a group of institutional investors – both independent and linked to financial groups. Its main goals are the protection of minority shareholders' rights, and development of Brazilian stock markets. Over its 10 years of operation, AMEC has become the most important forum for institutional investors in Brazil on matters related to corporate governance practices and shareholders' rights.

AMEC's opinions have achieved recognition among investors, companies and regulators for its content and independence. Today our membership is comprised of 59 institutional investors – both local and foreign – with an AUM in Brazilian equities of approximately BRL 500 billion.

Over the past few years, AMEC has engaged with Glass Lewis on a number of situations, including both company-specific and systemic cases. We were happy, for example, to count on your associate Vanessa Iriarte, who was a speaker at our 2012 Annual Seminar.

Maybe one of the most evident of our joint work was during our engagement with Petrobras, that resulted not only in significant corporate governance improvements at



the company, but also in a true revolution in proxy voting in Brazil – both via regulation and better market practices. Another example is our letter to you, dated April 29th 2015 ([Carta Presi 03B-2015](#)), in which we voice our concerns over Glass Lewis's endorsement of the Gol restructuring, that in practice allows the controlling shareholder to retain control with a mere 1.4% of the equity, by means of a creative and highly distortive dual-class share structure.

Our goal with this letter is manifold. First, we want to avoid situations similar to Gol, by means of a healthy exchange of experiences between Glass Lewis and AMEC. Second, we hope to strengthen our communications, especially to feed you with our most up-to-date concerns related to corporate governance and, more specifically, the voting agendas at our companies. Finally, we want to keep working with you in order to further improve the proxy voting process and all other aspects related to our capital markets.

In other words, please take the comments below as a constructive collaboration, based on the experience of our members. We are ready to discuss any of the items (and others that may be of interest to you at any time).

We also note that we hope to count on Glass Lewis in one of our forthcoming events. It was a pity that you could not participate in our Workshop on Shareholder Meetings that took place in June. I am sure that we will have more such opportunities in the future.

Best regards,

MAURO RODRIGUES DA CUNHA
CEO

CONTRIBUTIONS TO GLASS LEWIS VOTING GUIDELINES - BRAZIL

1. Our members have suggested that Glass Lewis could benefit from further investments in its team covering Brazil. This is an issue especially during proxy season, when bottlenecks have been reported. Members report that when Brazil was covered from the United States, communication with Glass Lewis was also better, possibly given the time zone.
2. On Page 1 of your guidelines, we kindly ask you to consider mentioning AMEC as one of the entities considered “influential” in corporate governance. Modesty aside, we play an important part in this scenario.
3. On Page 1, IBGC is misspelled on the 3rd from last paragraph (same on footnote 2 of Page 2).
4. On Page 2, our members believe that more detail on your policy regarding conflicts of interests may be in order, as this is a recurring problem in our listed companies.
5. On Page 3, your discussion on the election procedures could be updated to take into account recent changes in regulation and market practices. Firstly, it is not true that the *conselho fiscal* has to be comprised “entirely of outside independent members”. Members appointed by the controlling shareholder must be outside, but not necessarily independent. The importance of this will come back on items 9 to 12 below, when we discuss the concept of independence.
6. Still on Page 3, while it is true that many Brazilian companies submit board nominees as a slate, this is changing fast. Many companies are submitting individual candidates. Specifically, we believe that the language in your 5th paragraph on this page (“As more thoroughly discussed...”) suggest a “default” situation where voting for minority or dissident candidates is not possible. This is not true – albeit obstacles remain. Also, the language in CVM’s Oficio Circular 02/2016, as well as the new regulation on CVM Instruction 561 set the stage for significant change in this area. As a matter of fact, a fast increasing number of dissident/independent candidates are being elected at shareholder meetings in Brazilian companies. This paragraph disregards this evolution, and has been

reported to lead to “ABSTAIN” recommendations (or almost to that) when legitimate candidates were available.

7. The next paragraph is also not entirely true. Minority shareholders can, in fact CHOOSE to vote on independent/minority/dissident candidates OR on candidates submitted by the controlling shareholders – or on a mixture thereof, in the case of the multiple voting process. More on this process later.
8. On the same paragraph, we also believe that the sentence “due to the absence of timely information, we typically recommend that minority shareholders abstain from voting on these candidates” has a detrimental effect on activist investors seeking support from your clients, as they overcome the hurdles to present the candidates in time. As this will probably improve in the future, we believe the sentence must be reviewed.
9. On Page 4, we suggest a reflection on the concept of independent director as applied in Brazil. Most of the times there is a strong difference in the degree of independence of a director nominated by management/controlling shareholder when compared to independent directors nominated by minority shareholders. Your guidelines and recommendations should take that into account, so that we have a board populated by directors who fit more than a nominal definition of independence.
10. Along the same lines, we suggest that you review upwards the number of years of “distance” (your bullets on Page 4) from the company and/or the controlling shareholder to gain independence status.
11. On Page 5, we recommend that you consider, for controlled companies, the minimum of 2 independent directors – preferably nominated by minorities. This is in line with BM&F Bovespa’s proposal to update the rules of the Novo Mercado, and stems from the fact that a lone director has a much weaker voice than if he has another independent peer in the room.
12. At the bottom of Page 5, we recommend that you make an explicit exception for independent directors that are working to change these negative practices or issues. Otherwise, you might end up “punishing” precisely the directors one would want to encourage.

13. On Page 6, we recommend that you reflect on the situation of a CEO of Company A that becomes Chairman of Company B, taking into account (1) conflicts of interest; (2) time commitment; and (3) the feasibility of holding such leading roles in two listed entities.
14. On Page 7, we suggest that you review your policy on the combined CEO/COB role for non-special segment companies. We understand that the practice is negative for all companies, and therefore there is no reason not to vote in this way.
15. On the bottom of Page 7, we suggest strong attention to auditor rotation – ensuring that companies are rotating both audit firm and partner within 5 or 10 years, accordingly. The practice of having the audit partner move to the new audit firm should be identified and warrants, in our opinion, votes against the board.
16. We agree with your views on Committee independence, and praise your positioning on this important matter.
17. On Page 17, we come back to the issue of Election Procedures. Initially, we refer to Items 6, 7 and 8 above.
18. The sentence “petitions for separate elections are generally made at a meeting or after instructions... have been sent” is each year less true. Especially given Instruction 561, we anticipate petitions for multiple voting to be more timely, and count on broader support. Your guidelines should recognize this evolution, and indicate GL’s best efforts to recommend individual candidates.
19. We particularly believe that your reports should include recommendations for both scenarios, ie, slate voting or multiple voting. This, of course, is separate from the possibility of separate voting, as you acknowledge on the first paragraph in this section (“In Brazil,...”). Also, global clients not familiar with the multiple voting procedures could benefit from specific education and scenario analysis in your reports, on a company by company basis. More specifically, investors willing to elect independent should be instructed not to waste votes on incumbent candidates, both under the multiple voting and the separate voting methodologies.

20. Since the multiple voting process can be requested up to 48 hours before the meeting, voting instructions should ideally read “if the voting process is SLATE, we recommend voting for XXXXX; in case of separate voting, we recommend voting for XXXX; in case of multiple voting, we recommend allocating votes in the following manner (percentage of vote for each candidate). This is aligned with the new Brazilian proxy card, that will be effective in 2017.
21. Additionally, you must take into account that, with the new proxy card mandated by CVM Instruction 561, investors will have to opine on the adoption of multiple voting. It will be a standard field on the card, opening an important new decision to be made. We urge you to include in your guidelines a default recommendation to vote FOR the adoption of the multiple voting system under this new option, as it improves the chance of the election taking place on a seat by seat basis, thus improving the odds to elect independent candidates.
22. In the same sense as our Item 8, we recommend that you rephrase the third paragraph in the section (“Given the absence..”).
23. We also suggest that GL specifically commits to a “best effort” approach to receive and analyze independent/dissident candidates, publicly indicating the hard deadline for the names to be made available prior to the meeting in order to be considered.
24. On Page 10, we disagree with the idea that approving audited financials be a matter of routine. In Brazil, a unanimous approval of financial statements in effect release management from liabilities related to that year. Therefore, if investors have issues, even remote, about some management actions in the year, they should carefully ponder whether they should vote in favor of the financial statements, with votes AGAINST, ABSTAIN or WITH RESERVATIONS as alternative courses of action.
25. Still on Page 10, on the matter of dividends, Brazilian investors are more concerned with situations in which dividends are wrongly withheld than situations of excessive dividends. Your analysis should consider this.
26. On the same Page, the discussion on Capital Expenditure Budget is also not irrelevant. This is the instrument thru which shareholder approve capex based on retained earnings. It is very hard to hold management accountable for

squandering corporate assets – such as in the case of Petrobras – if shareholders approve the capital budget without question.

27. On Page 11, we like the fact that you acknowledge the situation of companies that do not publish detailed compensation data due to injunctions. In our opinion, you could add more unequivocal language to say that you will vote against proposals that use such injunction and therefore do not comply with CVM regulations. The same applies to the second to last paragraph in the section (on Page 12) (“Moreover, in cases where companies...”). In the last sentence of the paragraph we suggest that you say “we will generally recommend vote against”, instead of “we may”.
28. One issue that appeared on the 2016 season is that of compensation packages that are voted down, only to be approved in the same meeting with slight changes. We suggest that, if you recommend voting against a compensation package that you clients vote NO to ANY PACKAGE that is presented in the meeting itself, and thus not subject to due scrutiny by investors voting by proxy. We have seen situations of pay packages approved by a small number of shareholders physically present, given that those voting by proxy abstained in this new proposal, as they had no specific voting instructions. AMEC believe that if shareholder voted NO, any new proposal needs to be submitted in time to be voted against – and not to strategically exploit abstentions. In fact, our membership suggests that this practice be adopted for all votes – not just those related to executive pay. In other words, given a recommendation to vote against any item of the agenda, should a competing proposal be presented at the meeting, Glass Lewis should instruct its clients to vote against that proposal as well, on the grounds that it has not been properly disclosed or analyzed.
29. On Page 13, we recommend that you consider voting against stock option plans that give the board or the committees too much freedom on variables that are key to the plan’s value (such as strike price, repricing parameters, vesting periods, lockups, etc.).
30. On Page 14, we recommend that you consider voting against compensation for the board of directors or to the supervisory council that are too low. This is a strategy that many companies use to discourage first-class professionals to seek positions on their boards, thus filling the room with complacent friends that are not interested, or do not have the skills, to fulfill their fiduciary duties.

31. We like your position on opposing bundling (Page 16). We suggest you voice that concern very clearly in your reports and recommendations.
32. On Page 16, you should consider withholding votes for directors that are bound by registered shareholder's agreements. In some companies, these directors have to vote according to instructions given to them by signatories of such agreements – defeating the purpose of the very existence of a board of directors.
33. Still on Page 16, we strongly suggest that you review your policy on dual-class shares. While we agree with the existing language in your guidelines, it has proved insufficient to warrant a vote against the most egregious proposal in this area of recent: the case of Gol Airlines. Any creative attempt to create or simulate dual-class share structures or other mechanisms that distort the relation between voting power and economic interest should be clearly opposed.
34. On Page 16, some members believe that, under certain circumstances, anti-takeover devices may benefit all shareholders. We suggest that you review the language on the first paragraph of this section, while remaining alert for provisions that indeed entrench management to the detriment of shareholders.
35. On Page 17, we strongly suggest that you review your policy on "merger of shares". When the merged entity is a listed company, this is the path companies use to bypass mandatory tender offers. It is a major loophole in Brazilian legislation. In most cases, these transactions should be opposed by investors.
36. On Page 19, GL must be alert for companies that repurchase shares aggressively, in practice pursuing a "stealth delisting", bypassing tender offer rules.