

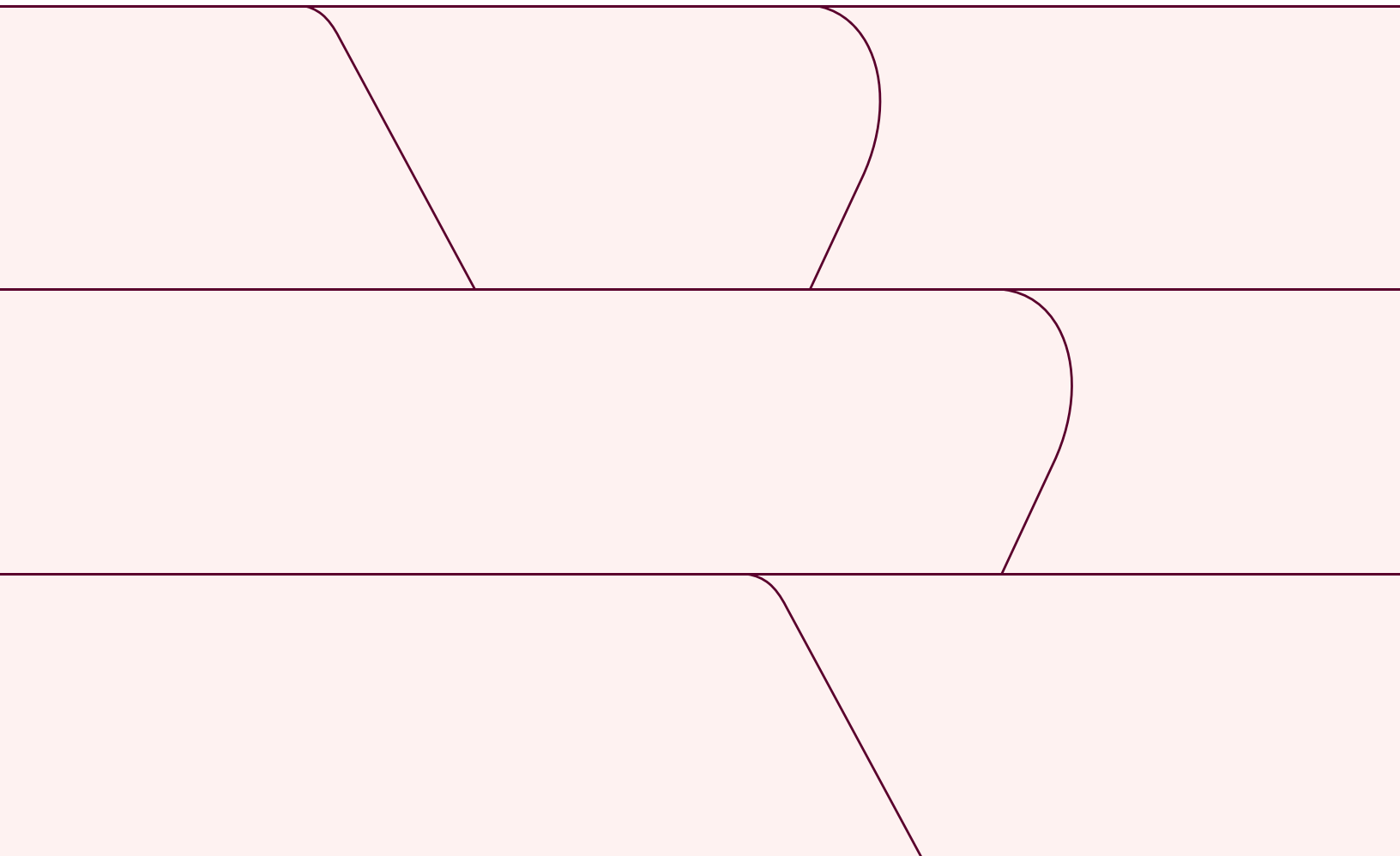
# Proxy voting policy for Brazilian portfolio companies

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Vanguard Portfolio Management, LLC

Vanguard Fiduciary Trust Company

Vanguard Global Advisers, LLC



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## Introduction

This proxy voting policy (the Policy) describes general positions on proxy proposals that may be subject to a shareholder vote at Brazilian-domiciled companies and is aligned with governance practices believed to support long-term shareholder returns. The Policy has been adopted by the boards (or relevant governing bodies) of funds and portfolios managed by certain Vanguard-affiliated entities including U.S.-domiciled mutual funds and ETFs advised by Vanguard Portfolio Management, LLC (VPM), as well as the boards of Vanguard Fiduciary Trust Company and Vanguard Global Advisers, LLC in connection with their management of certain equity index and quantitative equity funds and portfolios (together with the U.S.-domiciled mutual funds and ETFs advised by VPM, the "Funds"). The adoption of this Policy is anchored in the belief that effective corporate governance practices support long-term investment returns.

It is important to note that proposals—whether submitted by company management or other shareholders—often require a facts-and-circumstances analysis based on an expansive set of factors. While the Policy may recommend a particular voting decision, all proposals are voted case by case as determined in the best interests of each Fund consistent with its investment objective. The Policy is applied over an extended period of time; as such, if a company's board is not responsive to voting results on certain matters, support may be withheld for those and other matters in the future.

As a baseline, the Policy looks for companies to abide by the relevant governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.) of the market(s) in which they are listed. While the Policy is informed by such frameworks, final voting decisions may differ from the application of those frameworks due to the investment stewardship team's independent research, analysis, and engagement. In addition, this Policy and its application to specific voting matters are predicated on the relevant Funds' acquisition and ownership of securities in the ordinary course of business, without the intent of influencing company strategy or changing the control of the issuer. These Funds will not nominate directors, solicit or participate in the solicitation of proxies, or submit shareholder proposals at portfolio companies. The application of this Policy to specific voting matters will also adhere to any passivity requirements to which the Funds and/or The Vanguard Group, Inc., and any of its subsidiaries (collectively, Vanguard) may be subject.

Timely and relevant public disclosure is key to the implementation of these voting policies. Shareholders can only factor certain information into voting decisions when it is publicly disclosed in a timely manner prior to proxy voting deadlines. As such, proposals for which disclosure is insufficient to enable an informed vote will generally not be supported.

## **Pillar I: Board composition and effectiveness**

The Funds believe that in order to maximize the long-term return of shareholders' investments in each company, the individuals who serve as board directors to represent the interests of all shareholders should be appropriately independent, experienced, committed, capable, and diverse. Diversity of thought, background, and experiences meaningfully contribute to the ability of boards to serve as effective, engaged stewards of shareholders' interests. The evaluation of portfolio company boards will be informed by relevant market-specific governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.).

### **Board and key committee independence**

In order to appropriately represent shareholder interests in the oversight of company management, a sufficient number of directors should be independent. The level of board independence at Brazilian companies will vary based on a company's listing segment. With regard to Novo Mercado and Nivel 2 companies, at least half of directors should be independent.

With regard to Nivel 1 and traditional companies, at least one-third or two of the directors, whichever is higher, should be independent.

Boards of widely held, noncontrolled companies should make progress toward having a majority independent board in alignment with global best practice standards, or at least maintain a level of board independence proportionate to, and reflective of, the company's ownership structure.

A director's independence will generally be determined based on a company's disclosure in the context of relevant market-specific governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.) supplemented by independent research and/or engagement.

In cases where a noncontrolled company does not maintain a sufficiently independent board, votes may be recommended against all nonindependent directors or a slate of directors (if directors are elected as a slate).

Key committees (defined as the audit, compensation, and nomination committees, or their equivalent) should generally be composed of independent directors. Companies should maintain 100% independent key committees where market practice and/or local corporate governance codes call for such composition. Brazilian law does not require separate, independent key committees at this time. Therefore, voting concerns surrounding key committee independence will be evaluated case by case.

Votes will generally be recommended against directors, or a proposed slate of directors (if directors are elected as a slate), whose names and biographical details have not been publicly disclosed sufficiently in advance of the company's general meeting.

### **Board composition**

The Funds believe that boards should be fit for purpose by reflecting sufficient breadth of skills, experiences, and perspectives resulting in cognitive diversity that enables effective, independent oversight on behalf of all shareholders. The appropriate mix of skills, experiences, and perspectives is unique to each board and should reflect expertise related to the company's strategy and material risks from a variety of vantage points.

To this end, the Funds believe that companies should produce fulsome disclosure of a board's process for building, assessing, and maintaining an effective board well suited to supporting the company's strategy, long-term performance, and shareholder returns. Such fulsome disclosure may include the

range of skills, background, and experiences that each board member provides and their alignment with the company's strategy (often presented as a skills matrix). Such disclosure may also cover the board's process for evaluating the composition and effectiveness of their board on a regular basis, the identification of gaps and opportunities to be addressed through board refreshment and evolution, and a robust nomination (and renomination) process to ensure the right mix of skills, experiences, and perspectives in the future.

A board's composition should comply with requirements set by relevant market-specific governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.) and be consistent with market norms in the markets in which the company is listed. To the extent that a board's composition is inconsistent with such requirements or differs from prevailing market norms, the board's rationale for such differences (and any anticipated actions) should be explained in the company's public disclosures.

Votes against the nomination/governance committee chair may be recommended if, based on research and/or engagement, a company's board composition and/or related disclosure is inconsistent with relevant market-specific governance frameworks or market norms.

### **Election of minority nominees (separate election)<sup>1</sup>**

Taking into account the independence, skills, experiences, and perspectives that the nominee brings to the board, votes will generally be recommended for a minority board nominee as well as a minority fiscal council nominee presented under a separate election as long as there is timely public disclosure of such nominee's name and biographical information and there are no other concerns regarding the proposed nominee.

### **Director capacity and commitments**

Directors' responsibilities are complex and time-consuming. Therefore, shareholders seek to understand whether the number of directorship positions held by a director makes it challenging for that director to dedicate the requisite time and attention to effectively fulfill their responsibilities at each company (sometimes referred to as being "overboarded"). While no two boards are identical and time commitments for directorships may vary, the Funds believe that limitations on the number of board positions held by individual directors may be appropriate, absent compelling evidence to the contrary.

Director elections will be considered case by case when the number of directorship positions that a director has accepted makes it challenging to dedicate the requisite time and attention to effectively fulfill their responsibilities at each company.

In certain instances, votes may be recommended for a director who would otherwise be considered overboarded under the standards above, taking into account relevant market-specific governance frameworks or because of company-specific facts and circumstances. This may include, but is not limited to, indications that the director will have sufficient capacity to fulfill their responsibilities on the board of that company and/or a review of the full board's composition and capacity. In addition, votes may be recommended for a director if the director has publicly committed to stepping down from the directorship(s) necessary to fall within these thresholds.

<sup>1</sup> Article 141 of the Brazilian Corporations Law grants the right to minority common and preferred shareholders to appoint one member each to the board in a separate election in which the controlling shareholder is not allowed to vote. Minority common shareholders owning from 0.5% to 2.5% of a company can nominate directors; any such nominees must receive at least 15% of votes cast to be elected to the board.

Portfolio companies should adopt good governance practices regarding director commitments, including a policy regarding director capacity and commitments and disclosure of the board's oversight of the implementation of that policy. Helpful disclosure includes a discussion of the company's policy (e.g., what limits are in place) and, if a nominee for director exceeds the policy, any considerations and rationale for the director's nomination. Additionally, it is good practice to include disclosure of how the board developed its policy and how frequently it is reviewed to ensure it remains appropriate.

### **Director attendance**

Votes may be recommended against directors who attended less than 75% of board or committee meetings (in the aggregate) in the previous year unless an extenuating circumstance is disclosed or they have served on the board for less than one year.

### **Establish fiscal council and appoint internal statutory auditors**

Votes will generally be recommended for a proposal to establish a fiscal council as long as there is timely public disclosure of candidates, including names and biographical information. In addition, votes will generally be recommended for the appointment or reelection of fiscal council members as long as:

- Timely disclosure has been provided;
- There are no serious concerns regarding the statutory reports, the audit procedures, or the statutory auditors;
- The auditors have not previously served in an executive capacity or been affiliated with the company; and
- For noncontrolled companies, there is a minimum of one independent member.

### **Dismissal and discharge of directors and/or management**

Proposals to dismiss the board and/or individual directors will be evaluated case by case, taking into consideration:

- Whether compelling rationale for the request has been presented, and
- Whether the overall independence levels of the newly proposed board are in line with our guidelines.

Votes will generally be recommended for proposals to discharge the board, individual directors, and/or management in the absence of concerns regarding a lack of oversight, legal proceedings or other egregious governance issues, or information regarding significant controversies as to whether the board is fulfilling its fiduciary duties.

### **Director liability**

Management proposals to limit directors' liability and/or to expand indemnity provisions will be evaluated case by case. Votes will generally be recommended for proposals to indemnify directors for breach of fiduciary duty of care so long as the director is found to have acted in good faith.

Votes will generally be recommended against proposals to indemnify directors for activity involving willful breach of fiduciary duties or other criminal activity and against proposals to indemnify external auditors.

## **Board structure**

*Board size.* Votes will generally be recommended for proposals to fix the size of the board, as long as the maximum number is not greater than 11.

*Mandatory retirement age.* Votes will generally be recommended against proposals that would enforce mandatory retirement ages for directors.

*Fight for control.* Votes will generally be recommended against proposals that would alter board structure or size in the context of a fight for control.

*Board terms.* Votes will generally be recommended against proposals to increase board terms.

## **Director accountability**

Directors are generally nominated by boards and elected by shareholders to represent their interests. If there are instances in which the board has failed to adequately consider actions approved by a majority of shareholders, unilaterally taken action against shareholder interests, or, based on independent analysis, failed in its oversight role, votes against those directors deemed responsible (generally based on their functional or committee-level responsibilities) may be recommended. Such conditions will generally not apply to a director who has served less than one year on the board and/or applicable committee, but in such instances may apply to another relevant director in their place.

## **Contested director elections**

Contested director elections will be analyzed case by case. The analysis of proxy contests focuses on three key areas:

- *The case for change at the target company.*
  - How has the company performed relative to its peers?
  - How effectively has the current board overseen the company's strategy and execution?
  - How does the dissident's case strengthen the target company's long-term shareholder returns?
- *The quality of company governance.*
  - How effectively has the company's governance structure supported shareholder rights consistent with market norms?
  - Has the board been sufficiently accessible and responsive to shareholder input in the past?
- *The quality of the company's and dissident's board nominees.*
  - Is the incumbent board (and/or the company's nominees) sufficiently independent, capable, and effective to serve long-term shareholder interests?
  - Having made a compelling case for change, do the dissident's nominees appear better aligned with long-term shareholder interests relative to the company's nominees?

## Pillar II: Board oversight of strategy and risk

Boards are responsible for effective oversight and governance of their companies' most relevant and material risks and for governance of their companies' long-term strategy. Boards should take a thorough, integrated, thoughtful approach to identifying, quantifying, mitigating, and disclosing risks that have the potential to affect shareholder returns over the long term. Boards should communicate their approach to risk oversight to shareholders through their normal course of business.

### Capital structures

- *Dividends.* Votes will generally be recommended for proposals to allow a dividend as long as a cash option is allowed, unless a cash option has been determined to not be in the best interests of shareholders.
- *Fiscal term.* Votes will generally be recommended for changes to a company's fiscal term as long as the changes do not intentionally postpone the annual meeting.
- *Allocation of income.* Votes will generally be recommended for the approval of allocation of income as long as the payout is reasonable and the dividend payout ratio is at least 30% of adjusted net income.
- *Disclosure threshold for stock ownership.* Votes will generally be recommended against a reduction of the stock ownership disclosure threshold that is less than 5% unless an adequate rationale is presented to warrant the lower threshold.
- *Reduction of capital/cancellation of shares.* Votes will generally be recommended for proposals to reduce the outstanding share capital or cancel treasury shares, as long as the terms are in the best interests of shareholders.
- *Preferred stock.* Votes will generally be recommended case by case on proposals to create, amend, or issue preferred stock, taking into account the reason for the issuance, the ownership profile of the company, any historical abuses of share issuances, and the company's general approach to shareholder rights.
- *Share issuance requests.*
  - Votes will generally be recommended for share issuance requests with preemptive rights up to 100% of currently issued capital.
  - Votes will generally be recommended for share issuance requests without preemptive rights up to 20% of currently issued capital.

### Mergers, acquisitions, and financial transactions

Transactions are assessed based on the likelihood that they will preserve or create long-term returns for shareholders. All mergers, acquisitions, and financial transactions will be considered case by case based on a governance-centric evaluation focused on four key areas:

- *Valuation*
  - Does the consideration provided in the transaction appear consistent with other similar transactions (adjusting for size, sector, scope, etc.)?
- *Rationale*
  - Has the board sufficiently articulated how this transaction is aligned with the company's long-term shareholder returns?

- *Board oversight of the deal process*
  - Has the board provided sufficient evidence of the rigor of the evaluation process? This could include disclosures such as an independent valuation report or fairness opinion, a discussion of the board's process for evaluating alternative opportunities, management incentives, or other relevant disclosures.
  - How did the board manage any potential conflicts of interest among the parties to the transaction?
- *The surviving entity's governance profile*
  - Are shareholders' interests sufficiently protected in any surviving entities (in noncash transactions)?

## **Environmental/social proposals**

Each proposal will be evaluated on its merits and in the context that a company's board has responsibility for providing effective oversight of strategy and risk management. This oversight includes material sector- and company-specific risks and opportunities that have the potential to affect long-term shareholder returns.

While each proposal will be assessed on its merits and in the context of a company's public disclosures, vote analysis will also consider these proposals relative to market norms or widely accepted frameworks.

Support may be recommended for a shareholder proposal that:

- Addresses a shortcoming in the company's current disclosure relative to market norms or to widely accepted investor-oriented frameworks (e.g., the International Sustainability Standards Board (ISSB));
- Reflects an industry-specific, financial materiality-driven approach; and
- Is not overly prescriptive, such as by dictating company strategy or day-to-day operations, time frame, cost, or other matters.

Each of the Funds adopting this policy is a passive investor whose role is not to dictate company strategy or interfere with a company's day-to-day management. Fulsome disclosure of material risks to long-term shareholder returns by companies is beneficial to the public markets to inform the company's valuation. Clear, comparable, consistent, and accurate disclosure enables shareholders to understand the strength of a board's risk oversight. Furthermore, shareholders typically do not have sufficient information about specific business strategies to propose specific operational targets or environmental or social policies for a company, which is a responsibility that resides with management and the board. As such, support is more likely for proposals seeking disclosure of such risks where material and/or for the company's policies and practices to manage such risks over time.

## **Independent auditors**

*Auditor appointment and auditor's fees.* Votes will generally be recommended against the appointment of the auditor and setting the auditor's fees in instances where the name of the proposed auditor has not been published, where there are serious procedural concerns, and/or where the external auditor is considered an affiliate because they have served the company in an executive capacity in the past.

*Financial results and statutory reports.* Votes will generally be recommended for the approval of financial results and statutory reports unless there are concerns regarding the accounts presented or audit procedures, or the external auditor expresses no opinion or a qualified opinion regarding the financial statements. Votes may be recommended against the approval of financial results and statutory reports if there is reliable information regarding significant controversies as to whether the board is fulfilling its fiduciary duties.

## Pillar III: Executive pay

Compensation policies linked to long-term relative performance are fundamental drivers of sustainable, long-term returns for a company's investors. Providing effective disclosure of compensation policies, their alignment with company performance, and their outcomes is crucial to giving shareholders confidence in the link between executives' incentives and rewards and the long-term returns for shareholders.

### Executive pay

Because norms and practices vary by industry type, company size, company age, and geographic location, the following guidelines are intended to represent preferences for executive compensation and are not a one-size-fits-all tool.

Considerations when evaluating executive pay fall into three broad categories:

- *Alignment of pay and performance.* Company disclosure should include evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with strategy set by the company and analysis of three-year total shareholder return and realized pay over the same period versus a relevant set of peer companies. If there are concerns that pay and performance are not aligned, votes against a pay-related proposal may be considered.
- *Compensation plan structure.* Plan structures should be aligned with the company's stated long-term strategy and should support pay-for-performance alignment. Where a plan includes structural issues that have led to, or could in the future lead to, pay-for-performance misalignment, votes against a pay-related proposal may be considered. For compensation structures that are not typical of a market, companies should consider specific disclosure demonstrating how the structure supports long-term returns for shareholders.
- *Governance of compensation plans.* Boards should articulate a clear philosophy on executive pay, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans responsive to shareholder feedback over time. Boards should also explain these matters to shareholders via company disclosures. Where pay-related proposals consistently receive low support, boards should demonstrate consideration of shareholder concerns.

Executive compensation proposals will be evaluated case by case. Support is more likely for proposals and plans aligned with long-term shareholder returns. Those that reflect improvements in compensation practices in the interests of long-term shareholder returns may be supported, even if the proposals are not perfectly aligned with all these guidelines.

Votes will generally be recommended against compensation proposals when the details of a company's compensation policy are not disclosed to shareholders. Companies should provide robust disclosure of an overall remuneration policy for executives that includes a robust narrative and cohesive assessments of executive pay packages, including an overview of the weighting, structure, and performance alignment for all relevant incentive plans.

## **Equity compensation plans**

Votes on equity compensation plans for employees will be evaluated case by case. A plan or proposal will be evaluated in the context of several factors to determine whether it balances the interests of employees and those of the company's other shareholders. Votes will generally be recommended against the approval of plans that:

- Lack a minimum vesting cycle of three years;
- Allow directors who are eligible to receive options or shares under the scheme to be involved in the administration of the plan;
- Allow options to be issued at a discount to fair market value while the company has failed to disclose an issue price or pricing formula; or
- Result in potential dilution that exceeds 5% of issued capital for a mature company and 10% of issued capital for a growth company.

## **Nonexecutive director compensation**

Votes will generally be recommended against a plan that allows nonexecutive directors to receive an egregious share of equity incentives comparable to that of executive officers.

In general, these votes will be evaluated case by case, considering whether there are appropriate safeguards to ensure that beneficiaries do not participate in the plan's administration and considering the type of grant (that is, time-based, performance-based, or in lieu of cash) awarded under the plan.

## **Pillar IV: Shareholder rights**

The Funds believe that companies should adopt governance practices to ensure that boards and management serve in the best interests of the shareholders they represent. Such governance practices safeguard and support foundational rights for shareholders. Proposals on many of the following matters may be submitted by either company management or shareholders; proposals—irrespective of the proponent—that seek approval for governance structures that safeguard shareholder rights will generally be supported (and those that do not will generally be opposed) as described below.

### **Additional share classes**

The Funds believe that the alignment of voting and economic interests is a foundation of good governance. As such, companies issuing, or proposing to issue, more than one class of stock with different classes carrying different voting rights should bear in mind many investors' "one-share, one-vote" philosophy, while not hindering public capital formation in the equity markets. Furthermore, a newly public, dual-class company should consider adopting a sunset provision that would move the company toward a one-share, one-vote structure over time.

Proposals relating to the introduction of additional share classes with differential voting rights and proposals relating to the elimination of dual-class share structures with differential voting rights will be evaluated case by case.

### **Golden shares**

Golden shares grant a shareholder the power to veto a company's amendment to its charter. Proposals to allocate golden shares to the Brazilian government will be evaluated case by case.

### **Reincorporation**

Management proposals to reincorporate to another domicile and/or proposals for companies to change their primary listing will be evaluated case by case based on the relative costs and benefits to both the company and shareholders. Considerations include the reasons for the relocation and the differences in regulation, governance, shareholder rights, and potential benefits.

Votes will generally be recommended against shareholder proposals to reincorporate from one domicile to another.

### **Amendments to articles of association**

Votes will generally be recommended for minor amendments that include any administrative or housekeeping updates and corrections. When evaluating all other amendments to the articles of association, the following will be considered:

- Any changes to corporate law and/or listing rules that may require an amendment to the articles of association;
- Whether the amendments may result in corporate governance structures and/or processes that are not best practices or are a regression from what the company already does (taking into account any explanation provided by the company for the change); and/or
- Whether the amendments are detrimental to shareholder rights generally.

## **Change of company name**

Votes will generally be recommended for proposals to change the corporate name unless evidence shows that the change would negatively affect shareholder returns.

## **Antitakeover provisions**

Votes will generally be recommended against antitakeover proposals, unless they are structured in a way to give shareholders the ultimate decision on a proposal.

For companies listed on the Novo Mercado listing segment, votes will generally be recommended for mandatory bid provisions with ownership of 30% or higher and reasonable pricing provisions.

## **Shareholder meeting rules and procedures**

*Quorum requirements.* Votes will generally be recommended against proposals that would decrease quorum requirements for shareholder meetings below a majority of the shares outstanding, unless there are compelling arguments to support such a decrease.

*Other such matters that may come before the meeting.* Votes will generally be recommended against proposals to approve other such matters that may come before the meeting.

*Approval of deliberations on possible legal action against directors, if presented by shareholders.* Votes will generally be recommended against such a proposal because of the lack of disclosure regarding the proposed deliberation.

*Adjournment of a meeting to solicit more votes.* In general, votes will be recommended for proposals to adjourn the meeting if the proposals in question are being supported and against such proposals if they are being opposed.

*Bundled proposals.* Bundled management proposals will be evaluated case by case.

*Change in date, time, or location of annual general meeting.* Votes will generally be recommended for management proposals to change the date, time, or location of the annual meeting if the proposed changes are reasonable.

*Hybrid/virtual meetings.* Votes will generally be recommended for proposals seeking permission to conduct "hybrid" meetings (in which shareholders can attend a meeting of the company in person or elect to participate online). Proposals to conduct "virtual-only" meetings (held entirely through online participation with no corresponding in-person meeting) may be supported. Virtual meetings should be designed by a company so as not to curtail shareholder rights—e.g., by limiting the ability for shareholders to ask questions.

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