Vanguard

Vanguard-advised funds

Proxy voting policy for Brazilian portfolio companies

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Introduction

The information below, organized according to Vanguard Investment Stewardship's four pillars of corporate governance, is the voting policy adopted by the Boards of Trustees of the Vanguard-advised funds (the "Funds' Boards") and describes the general positions of the funds on proxy proposals that may be subject to a shareholder vote at Brazil-domiciled companies.[1]

It is important to note that proposals often require a facts-and-circumstances analysis based on an expansive set of factors. Proposals are voted on case by case, under the supervision of the Investment Stewardship Oversight Committee and at the direction of the relevant Fund's Board. Companies should abide by the relevant local laws and regulations of the market in which they are listed and follow any applicable local corporate governance codes and best practices.

These local corporate governance codes form the basis of the funds' country-specific guidelines. However, they may differ and, in some cases, require a higher level of governance best practice than, the local corporate governance code.

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

The following policies are applied over an extended period of time; as such, if a company's board is not responsive to voting results on certain matters, a fund may withhold support for those and other matters in the future. Regardless of whether proposals are submitted by company management or by other shareholders, they are voted in accordance with these policies and as determined to be in the best interests of each fund, consistent with its investment objective.

1 Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

Pillar I: Board composition and effectiveness

In the interest of maximizing the long-term return of their investment in each company, the funds seek to ensure that the individuals who serve as board directors to represent the interests of all shareholders are appropriately independent, experienced, committed, capable, and diverse. Diversity of thought, background, and experience, as well as personal characteristics (such as gender, race, ethnicity, and age), meaningfully contribute to a board's ability to serve as effective, engaged stewards of shareholders' interests.

In order to appropriately represent shareholder interests in the oversight of company management, at least half of the directors at Novo Mercado and Nivel 2 companies should be independent, and at least one-third or two of the directors (whichever is higher) at Nivel 1 and traditional companies should be independent. While the funds generally rely on the relevant exchange listing or regulatory requirements in establishing a director's independence, there may be instances (such as situations involving former CEOs) in which directors who may be "technically independent" are considered otherwise after engagement and/or research.[2]

As detailed below, if a board's composition is inconsistent with these independence standards, a fund may not support (a) the nonindependent nominees on the board/committee and (b) members of the nominating/governance committee on the ballot.

Board independence

Independence is defined in accordance with local regulations and best practice standards, and therefore a fund will generally defer to these standards in assessing director independence (including the boards' affirmative determination of a director's independence under those standards). The exception to this rule is that former CEOs will never be considered independent, unless they only held an "interim" CEO position for less than 18 months.

An interim CEO who held that temporary position for less than 18 months will be considered independent three years after leaving the position.

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, a fund will generally vote against the nonindependent board members, or the proposed slate of directors (if directors are elected as a slate), if the postelection board is not composed of at least half independent directors.

With regard to Nivel 1 and traditional companies, a fund will generally vote against nonindependent directors or a slate of directors (if directors are elected as a slate) if the postelection board is not composed of at least one-third or two of the directors who are classified as independent, whichever is higher.

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

A fund will generally vote 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.

2 For example, the funds will generally consider former CEOs of the company—other than those who may have served in an interim capacity for less than 18 months—as permanently nonindependent members of their board. In addition, CEOs who serve on one another's boards (so-called interlocking directorships) may also be considered nonindependent.

Key committee independence

Generally, a fund will look for key committees (defined as the audit, compensation, and nomination committees, or their equivalent) to be composed of independent directors. The funds look for companies to 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, the funds will evaluate voting concerns surrounding key committee independence on a case-by-case basis.

Election of minority nominees (separate election)[3]

Taking into account the independence, background, experience, and diversity that the nominee brings to the board, a fund will generally vote 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.

Establish fiscal council and appoint internal statutory auditors

A fund will generally vote 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, a fund will generally vote 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.

Director attendance

A fund may vote against directors who attended less than 75% of board or committee meetings (in the aggregate) in the previous year unless acceptable, extenuating circumstances are disclosed or they have served on the board for less than one year.

Director capacity and commitments

Directors' responsibilities are complex and time-consuming. Therefore, the funds seek to understand whether the number of directorship positions held by a director makes it challenging 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 may vary, the funds believe that limitations on the number of board positions held by individual directors are appropriate, absent compelling evidence to the contrary. A fund will vote on director elections on a case–by-case basis when the number of directorship positions that a director has accepted make it

3 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.

challenging to dedicate the requisite time and attention to effectively fulfill directorship responsibilities at each company.

The funds look for portfolio companies to adopt good governance practices regarding director commitments, including adopting an overboarding policy and disclosure of the board's oversight of the implementation of that policy. Such disclosure should include, at a minimum, a discussion of what a company's policy is (e.g., what limits are in place) and, if a nominee for director is in conflict with that policy, any considerations and rationale for their nomination. Additionally, it is good practice to include disclosure of how the board developed its policy and how frequently the policy is reviewed, to ensure that it remains appropriate.

Board composition

The funds look for boards to be "fit for purpose" by reflecting appropriate diversity of skills, experience, perspective, and personal characteristics (such as gender, age, race, and ethnicity) resulting in cognitive diversity that enables effective, independent oversight on behalf of all shareholders. The funds believe that the appropriate mix of skills, experience, and characteristics is unique to each board and should reflect expertise related to the company's strategy and material risks from a variety of vantage points.

The funds look for companies to disclose their perspectives on the appropriate board structure and composition for their company and how those elements support the company's strategy, long-term performance, and shareholder returns. Disclosure of how the board's composition evolves over time enables shareholders to better understand how the board is positioned to serve as effective, engaged stewards of shareholders' interests.

The funds look for disclosure of tenure, skills, and experience at the director level (sometimes referred to as a "skills matrix"). To this end, a fund may support requests for disclosure of the company's approach to board composition, inclusive of board diversity.

To evaluate board composition in relation to this policy, factors for the funds to consider include applicable market regulations and practices, along with additional company-specific context.

- Boards should reflect diversity of attributes including tenure, skills, and experience.
- A board should also, at a minimum, represent diversity of personal characteristics, inclusive of at least diversity in gender, race, and ethnicity on the board.
- Boards should take action to reflect a board composition that is appropriately representative, relative to their markets and to the needs of their long-term strategies.
- Disclosure of directors' personal characteristics (such as race and ethnicity) should occur on a self-identified basis and may occur on an aggregate level or individual director level. The funds look for disclosure of skills and experience at the director level.
- Companies should provide disclosure regarding their 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, experience, perspective, and personal characteristics into the future.

Absent a compelling reason, a fund will vote case by case on the nomination committee chair (or any other relevant director) if a company's board is not taking action to achieve board composition that is appropriately representative relative to market norms, local regulatory or listing standards, and the needs of the company's long-term strategies.

Escalation process: Director and committee accountability

Directors are generally nominated by boards and elected by shareholders to represent their interests. While a fund may generally support the board's director nominees, if there are instances in which the board has failed to respond to actions approved by a majority of shareholders, unilaterally taken action against shareholder interests, or, in the fund's view, failed in its oversight role, the fund may withhold support from those directors deemed responsible (generally based on their functional or committee-level responsibilities.

Contested director elections

A fund will vote on shareholder nominees case by case in contested director elections. The analysis of proxy contests focuses on three key areas:

- *The economic and strategic case for change at the target company*
  - — How has the company performed relative to its peers?
  - — Has the current board's oversight of company strategy or execution been deficient?
  - — Is the dissident focused on strengthening the target company's long-term strategy and shareholder returns?
- *The quality of company governance*
  - — Did the board engage in productive dialogue with the dissident?
  - — Is there evidence of effective, shareholder-friendly governance practices at the company?
  - — Has the board actively engaged with shareholders in the past?
- *The quality of the company's and dissident's board nominees*
  - — Are there concerns with the independence, engagement, or effectiveness of the incumbent board?
  - — Has the board delivered strong oversight processes with long-term shareholders' interests in focus?
  - — Are the directors proposed by the dissident (whether the full slate or a subset) well-suited to address the company's needs, and is this a stronger alternative to the current board?

Dismissal and discharge of directors and/or management

A fund will vote case by case on proposals to dismiss the board and/or individual directors, taking into consideration:

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

Generally, a fund will vote 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

A fund will vote case by case on management proposals to limit directors' liability and/or to expand indemnity provisions. A fund will vote 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.

A fund will vote against proposals to indemnify directors for activity involving willful breach of fiduciary duties or other criminal activity and will vote against proposals to indemnify external auditors.

Board structure

- *Board size.* A fund will generally vote for proposals to fix the size of the board, as long as the maximum number is not greater than 11.
- *Classification.* A fund will generally vote against proposals that would classify the board.
- *Mandatory retirement age.* A fund will generally vote against proposals that would enforce mandatory retirement ages for directors.
- *Fight for control.* A fund will generally vote against proposals that would alter board structure or size in the context of a fight for control.
- *Board terms.* A fund will generally vote against proposals to increase board terms.

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 value over the long term. Boards should communicate their approach to risk oversight to shareholders through their normal course of business.

Capital structures

- *Dividends*. A fund will generally vote 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*. A fund will generally vote for changes to a company's fiscal term as long as the changes do not intentionally postpone the annual meeting.
- *Allocation of income*. A fund will generally vote 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*. A fund will generally vote 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*. A fund will typically vote 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*. A fund will vote 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*.
  - A fund will generally vote for share issuance requests with preemptive rights up to 100% of currently issued capital.
  - A fund will generally vote for share issuance requests without preemptive rights up to 20% of currently issued capital.

Independent auditors

Auditor appointment and auditor's fees. A fund will generally vote 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. A fund will generally vote for the approval of financial results and statutory reports unless there are concerns regarding the accounts presented or audit procedures, the external auditor expresses no opinion or a qualified opinion regarding the financial statements, or the company is not responsive to shareholder questions regarding information that should be disclosed. A fund will consider voting 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.

Mergers, acquisitions, and financial transactions

The funds seek to assess the likelihood that a transaction preserves or will create long-term value for shareholders. A fund will vote case by case on all mergers, acquisitions, and financial transactions based on a governance-centric evaluation focused on four key areas:

- Valuation
- Strategic rationale
- Board oversight of the deal process
- The surviving entity's governance profile.

In evaluating board oversight, the fund will consider independence, potential conflicts of interest, and management incentives.

Environmental/social proposals

A fund will vote case by case on all shareholder proposals, including proposals that focus on environmental and social issues, such as requests of disclosures, setting of targets or goals, and adoption of policies and practices.

Clear, comparable, consistent, and accurate disclosure enables shareholders to understand the strength of a board's risk oversight. Because sustainability disclosure is an evolving and complex topic, a fund's analysis of related proposals aims to strike a balance between avoiding prescriptiveness and providing a long-term perspective.

Each proposal will be evaluated on its merits, with particular attention to the wording of the proposal, and in the context that a company's board has ultimate responsibility for providing effective ongoing oversight of strategy. This includes sector- and company-specific sustainability risks and opportunities that have a demonstrable link to long-term shareholder value.

A fund may support a shareholder proposal that:

- Addresses a shortcoming in the company's current disclosure relative to market norms;
- Reflects an industry-specific, materiality-driven approach; and
- Is not overly prescriptive about time frame, cost, or other matters.

Pillar III: Executive pay (compensation)

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 incentives and rewards and the creation of long-term value 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.

A fund's considerations when evaluating executive pay fall into three broad categories:

- *Alignment of pay and performance.* The funds look for evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with corporate strategy and analysis of three-year total shareholder return and realized pay over the same period versus a relevant set of peers. If there are concerns that pay and performance are not aligned, a fund may vote against a pay-related proposal.
- *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 the funds determine have led to, or could in the future lead to, pay-for-performance misalignment, a fund may vote against a pay-related proposal. For compensation structures that are not typical of a market, the funds look for specific disclosure demonstrating how the structure supports long-term value creation for shareholders.
- *Governance of compensation plans.* The funds look for boards to have a clear strategy and philosophy on executive pay, to have robust processes to evaluate and evolve executive pay plans, and to implement executive pay plans responsive to shareholder feedback over time. The funds also look for boards to communicate these matters via company disclosures. Where pay-related proposals consistently receive low support, the funds look for boards to demonstrate responsiveness to shareholder concerns.

Generally, a fund will vote case by case on all compensation proposals and will likely support those that enhance long-term shareholder value. It may also vote for compensation proposals that reflect improvements in practices but are not perfectly aligned with all of these guidelines, if the proposals are clearly in the interests of long-term shareholder value.

A fund will generally vote against compensation proposals when the details of a company's compensation policy are not disclosed to shareholders. The funds look for companies to provide robust disclosure of an overall compensation 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

A fund will vote case by case on equity compensation plans for employees. 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. In general, a fund will vote 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

A fund will generally vote against a plan that allows nonexecutive directors to receive an egregious share of equity incentives comparable to that of executive officers.

In general, a fund will vote 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 effective corporate governance includes shareholders having the ability—in proportion to their economic ownership of a company's shares—to effect and approve changes in corporate governance practices and the composition of the board. The funds look for companies to adopt governance practices that support board and management service in the interest 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; a fund may generally support proposals—irrespective of the proponent—that seek approval for governance structures that safeguard shareholder rights (and oppose those that do not) as described below.

Dual-class share structure

A fund will generally vote against a proposal to increase the percentage of preferred shares outstanding among shareholders.

Golden shares

Golden shares grant a shareholder the power to veto a company's amendment to its charter. A fund will vote against a proposal to allocate golden shares to specified shareholders.

Special meeting

A fund will vote for a proposal that provides shareholders with a right to call a special meeting at a 5% threshold.

Reincorporation

A fund will vote case by case on management proposals to reincorporate to another country and/or proposals to change a company's primary listing.

A fund will consider the reasons for the relocation, including the company's history, the company's strategy, and the company's shareholder base, along with any differences in regulation, governance, and shareholder rights.

Amendments to articles of association

A fund will generally vote 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

A fund will vote for proposals to change the corporate name unless evidence shows that the change would negatively affect shareholder value.

Antitakeover provisions

A fund will generally vote 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, a fund will vote for mandatory bid provisions with ownership of 30% or higher and reasonable pricing provisions.

Shareholder meeting rules and procedures

Quorum requirements. A fund will generally vote 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. A fund will generally vote against proposals to approve "other such matters that may come before the meeting."

Adjournment of meeting to solicit more votes. In general, a fund will vote for the adjournment if the fund supports the proposal in question and against the adjournment if the fund does not support the proposal.

"Bundled" proposals. A fund will vote case by case on all bundled management proposals.

Change of date, time, or location of annual general meeting. A fund will typically vote for management proposals to change the date, time, or location of the annual meeting if the proposed changes are reasonable.

Hybrid/Virtual meetings. A fund will generally support proposals seeking to conduct "hybrid" meetings (in which shareholders can attend a physical meeting of the company in person or elect to participate online). A fund may vote for proposals to conduct "virtual-only" meetings (held entirely through online participation with no corresponding in-person meeting). Virtual meetings should not curtail shareholder rights—e.g., by limiting the ability for shareholders to ask questions.

A fund will consider support if:

- meeting procedures and requirements are disclosed ahead of a meeting;
- a formal process is in place to allow shareholders to submit questions to the board;
- real-time video footage is available and attendees can call into the meeting or send a prerecorded message; and
- shareholder rights are not unreasonably curtailed.

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