

**THE LIGHTHOUSE**

MORROW SODALI

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# Proxy Season in Brazil

Morrow Sodali's review  
shines a light on shareholder  
engagement and corporate  
governance trends

Brazilian 2023  
Proxy Season Review

A New Cycle Ahead:  
A Glimpse into Brazil's  
2024 Governance Trends

Corporate governance  
trends in 2024

The importance of LGBTQIAPN+  
individuals as board members

Corporate Governance  
and Stewardship:  
Two Sides of the Same Coin

The Role of Investor Relations  
in Annual General Meetings and  
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# Foreword

## Scenario

Macroeconomic and geopolitical uncertainties, intense market volatility, the start of a new government, President Luiz Inácio Lula da Silva's third term, and the Americanas case (considered the biggest corporate fraud in Brazil's history), were all part of the backdrop to the 2023 season of ordinary general meetings (AGMs) of Brazilian publicly traded companies.

In this post-pandemic period, also marked by conflicts, territorial disputes, and political tensions around the world, one of the most relevant issues was the persistence of high interest rates - both in Brazil and abroad. This scenario was a consequence of the strategy adopted by central banks to deal with the high inflation inherited from previous years, when the pandemic and the war between Russia and Ukraine disrupted global supply chains and led governments to stimulate the economies through expansionary fiscal policies, which in turn raised public debt to record levels.

In the local Brazilian context, companies and investors began the year trying to map out the main trends for the new fiscal year, which once again promised to be fraught with complexity and potential surprises. Not only was the scenario already challenging, but there were also collateral effects to come in the credit market, with negative consequences for listed companies, such as higher rates, shorter payment terms and banks' stricter selection of clients and collaterals. Although the magnitude of the crisis of confidence in the credit market was different depending on the sector, Americanas' accounting inconsistencies had serious implications for the country's means of financing, especially for companies that were more leveraged.

Despite the mitigation of the perception of systemic credit risk throughout the year and the approval of a public spending control plan, the Brazilian financial market still faced two other major challenges. The first challenge was the surprising strength of the American economy, which

frustrated expectations that the Fed would start cutting interest rates in 2023 and triggered a sharp withdrawal of funds from Brazil by foreign investors. The second challenge, in turn, was the signs of weakening in vital sectors of the Chinese economy, such as construction, leading the market to project a slower pace of growth in Brazil's main trading partner.

And it was this environment of adversity that shook the framework of corporate governance in the country, in which AGMs were held, seeking approval of accounts, changes to boards and executive remuneration, issues that were once again points of concern, attention and criticism for investors.

We therefore present below a map of the AGMs of the publicly traded companies that were members of the IBrX-50 in 2023, highlighting the main quantitative aspects of this season. We also identify and briefly comment on the points where companies in Brazil are making progress in relation to the growing demands of investors when it comes to transparency. Finally, we point out the gaps in this process that still need to be filled, taking into account international best practices and the demands of domestic and especially foreign investors.

The work serves as a guide, reference and warning for locally listed companies that, at the 2024 AGMs, want to increase the engagement of their shareholder base and maximize their support for the meeting's agendas and show that the business is on the right track - despite the Brazilian context - in line with the global agenda of governance and communication with the market.

Happy reading!

**Agnes Blanco Querido**  
*Managing Director, Brazil*

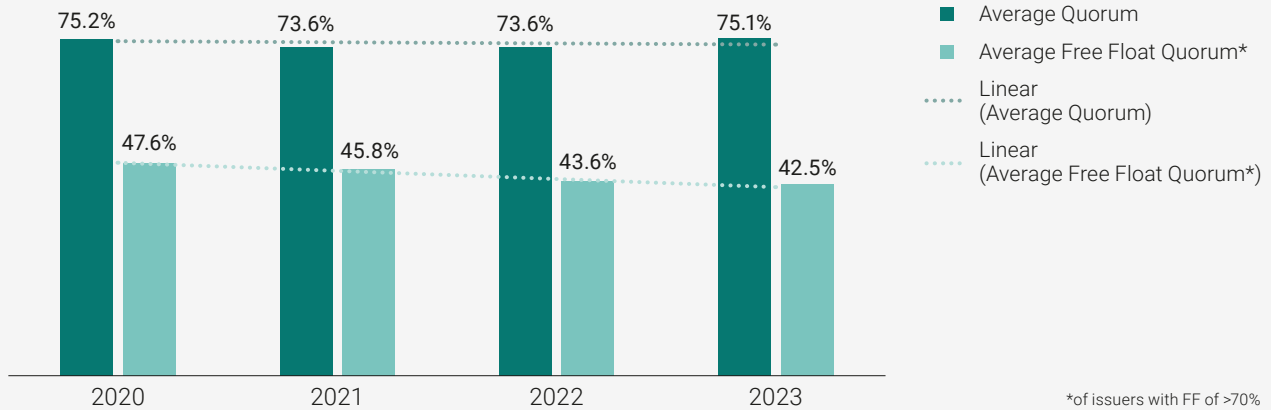
# Brazilian 2023 Proxy Season Review





## Annual General Meeting Participation

### AVERAGE QUORUM FOR IBrX-50 ISSUERS



In the 2023 season, the average participation of shareholders in the meetings of companies that make up the IBrX-50 was **75.1%**, marking a slight increase of 1.5 percentage points compared to 2022 (**73.6%**). This represents the first increase in shareholder participation since the onset of the pandemic in 2020 when the average quorum reached **75.2%**. As such, 2023 interrupted the downward trend in the average attendance at meetings observed since 2019, when participation reached **80.1%**.

However, a closer examination of corporations (defined in this study as companies with **70%** or more free float) reveals a slight decline of 1.1 percentage points compared to 2022, resulting in an average quorum of **42.5%** - reaching the lowest level of participation since 2019 (**57.2%**).

Despite the slight increase in the average quorum in 2023, it is noteworthy that the data on participation in corporations shows that there is a downward trend in the participation of institutional investors in meetings. This can be partially attributed to changes in the composition of companies' shareholder bases, with some cases becoming more concentrated in controlling shareholders and reference investors or have started to attract greater participation from local shareholders, who tend to be less active in voting at meetings.

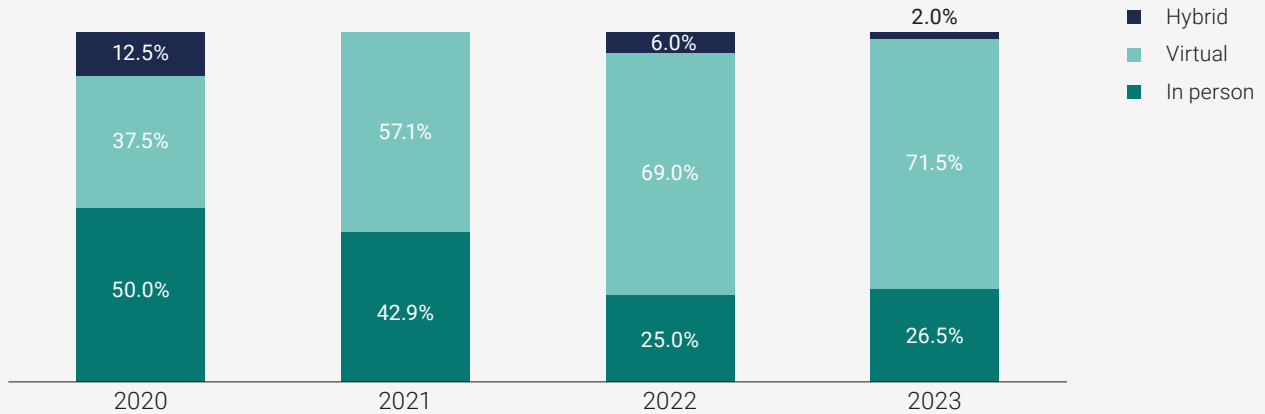
This is worrying from a governance and stewardship point of view, especially for corporations, which will need to make greater efforts to maximize shareholder presence. It is essential to consider that this issue could be one of the major challenges for listed companies in the coming years, as they may find it more difficult to reach the minimum quorum required to discuss and validate important decisions, especially in the event of increased pulverization and diversification of their shareholder bases.

Illustrating this challenge, Oi, for example, was unable to hold an ordinary general meeting on April 28, 2023, due to insufficient attendance, which was intended to ratify its new request for Judicial Recovery. In November 2022, Oi had already postponed, for lack of a quorum, the extraordinary general meeting (EGM), which was to discuss the grouping of all ordinary and preferred shares from 50 to 1, among other issues.

Similarly, in September last year, the Grupo Casas Bahia also had to postpone a shareholders' meeting to approve an increase in its capital limit. In order to carry out a share offering it had previously announced, the company needed to increase the number of shares it could issue, but the minimum quorum was not achieved.

## Format of AGMs

### FORMAT OF AGMs FOR IBrX-50 ISSUERS



The reduction in average investor attendance at general meetings is noteworthy in a context where virtual meetings are increasingly being consolidated in Brazil. In theory, it would be plausible to expect that virtual meetings would facilitate attendance and attract even more investors. However, this is a mechanism that continues to cause strangeness and difficulty for some shareholders in Brazil.

The percentage of virtual meetings rose slightly, from **69.0%** of the total in 2022 to **71.5%** in 2023. It is worth noting that in 2020, at the beginning of the pandemic (when there was still a lot of doubt about how long isolation would take), this percentage was only **37.5%**. Between 2022 and

2023, the number of face-to-face meetings increased by 1.5 percentage points, from **25%** to **26.5%** - in 2020, they accounted for **50%** of the total.

The hybrid format is falling out of favor, dropping from **6%** in 2022 to **2%** in 2023. In 2022, three companies adopted the hybrid format (Renner, Vibra and Multiplan); in 2023, only Renner kept the model. This change can be attributed to the operational complexity of the hybrid format: it can compromise the fluidity of the meeting and harm the experience of the two audiences (face-to-face and virtual). The trend seems to be to opt for one of the two formats - for the time being, the virtual format still has the upper hand.

## Foreign Participation

Foreign investors account for more than half of the trading on the B3 stock market, rising from **50.5%** in 2021 to **54.9%** in 2022, and remaining practically stable in 2023, at **54.7%**. Despite the high volume of trading, we have noticed a lower proportion of foreigners compared to the percentage of local shareholders in the companies' shareholder base.

Primarily, international investors tend to choose to participate in AGMs - whether virtual or in person - through remote voting ballot (BVD) via the global custody system, rather than directly engaging with the company. The formulation and operation of the remote voting system is still considered confusing and bureaucratic in Brazil, diverging from global systems and practices, often making it difficult for shareholders to participate in using this voting instrument.

Recognizing these challenges, in November 2023, the Brazilian Securities and Exchange Commission (CVM) closed a public consultation to discuss reforms to CVM Resolution 81, which governs shareholders' meetings, with a focus on improving mechanisms for remote participation and voting.

The main changes proposed are listed below:

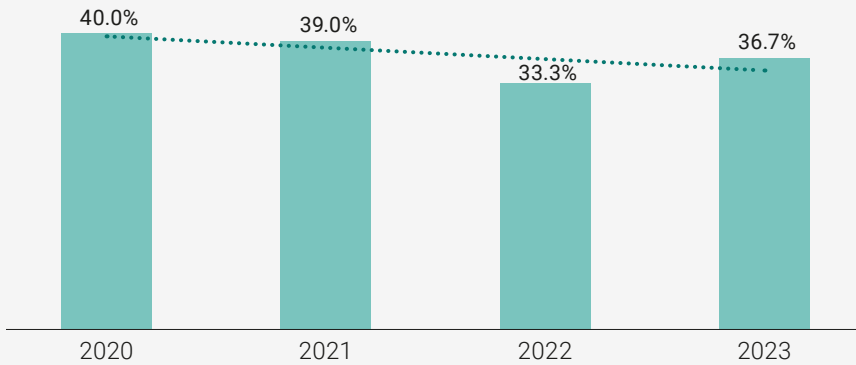
- **Extension of** the obligation to disclose the remote voting form to all shareholders' meetings - general or special, ordinary or extraordinary.
- **Innovation** in the form of remote participation and voting, enabling the company to provide accessory physical locations for shareholders to participate in meetings in real-time.
- **Improvement of** the remote voting form on various issues, incorporating the CVM's experience in applying CVM Resolution 81 in recent years.
- **Inclusion of** cases where the obligation to make the remote voting form available is waived, reducing the cost of compliance for companies in cases where investors are not benefiting from the mechanism.
- **Adjustments to** the flow of transmission of voting instructions, to optimize the use of time for collecting, processing and counting votes by the regulated entities involved in the process.

The outcome of this public hearing, however, should not interfere with the 2024 AGM season.



## Remuneration

### NEGATIVE ISS RECOMMENDATION FOR REMUNERATION PROPOSALS IN IBrX-50



ISS (Institutional Shareholder Services) negative recommendations for remuneration proposals for IBrX-50 companies rose from **33.3%** in 2022 to **36.7%** in 2023; in the period between 2021 and 2022, the percentage of negative recommendations had fallen from **39%** to **33.3%**.

### HIGHLIGHTS OF ISS AND GLASS LEWIS POLICY UPDATES FOR THE BRAZILIAN MARKET IN 2024

The following summary presents the topics of ISS and Glass Lewis policies related to governance, risk management, and regulatory compliance, in Brazil, that were updated for 2024.

#### ISS

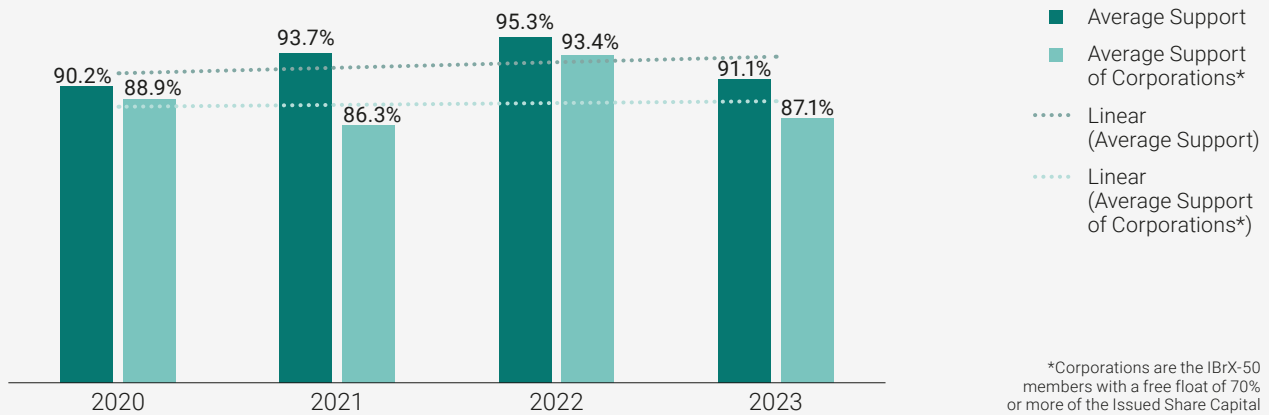
- **Regulatory Compliance:** ISS aligns with Brazilian law for minimum board independence. Brazilian Regulation Compliance: ISS policy now reflects Brazilian Law 14,195 and CVM Resolution 168, requiring a minimum of 20% board independence for publicly traded companies.
  - » However, current ISS policy demands more independence and **boards of issuers belonging to the Novo Mercado and Nivel 2 listing segments must be at least 50 percent independent**, while companies listed under **Nivel 1 or the Traditional segment must have at least one-third of the board or two directors, whichever is higher, classified as independent**.
- **Executive Compensation:** ISS scrutinizes transparency and rationale behind compensation practices.
  - » Under the updated policy, after 1-year grace period, ISS will recommend against proposals when the figure reported by the company as the highest compensation paid to a non-executive director is larger than the highest executive remuneration disclosed for the most recent fiscal year, in the absence of a compelling rationale.

#### Glass Lewis

- **Climate Accountability:** Boards must oversee and disclose strategies for climate risks.
- **Cybersecurity:** Companies need clear communication and mitigation plans for cyber risks.
- **Director interlock:** Policies address interlocking directorships and attendance requirements and now specify that both public and private companies are considered under such policy.
- **Financial Reporting:** Emphasis on the integrity of financial statements and statutory auditor's role.



## AVERAGE SUPPORT FOR REMUNERATION ITEMS IN IBrX-50



Among the IBrX-50 companies, the average approval rate for remuneration proposals fluctuated from **95.3%** in 2022 to **91.1%** in 2023, a drop of 4.2 percentage points - it was the lowest average since 2021 and very close to the percentage of **90.2%** recorded in 2020, the lowest average in the series.

Considering only corporations, the average approval rate fell even more, by 6.3 percentage points, from **93.4%** in 2022 to **87.1%** in 2023 - reaching the lowest average percentage since 2020. At this level, 2023 also marked a significant inflection in the total number of approvals of remuneration proposals between 2021 and 2022, when the study found an increase of 7 percentage points in the period, to **93.4%**, the highest percentage since 2019.

In this context, the figures for 2023 show greater shareholder dissatisfaction with companies' remuneration policies, in line with the increase in recommendations to vote against remuneration proposals by ISS. However, despite the negative oscillation, the percentage of approval remains very high in the vast majority of Brazilian companies.

It is worth remembering that the recommendations of proxy agencies are more followed by foreign investors, who in some cases automatically follow the guidelines of these voting services companies. Therefore, as mentioned above, the increased participation of local investors, as well as the presence of controlling groups or reference shareholders in the shareholder base - quite common in Brazilian companies - help to maintain high approval levels.

Even so, the issue of directors' remuneration continues to be one of the most important, both for shareholders and for the proxy advisors who analyze Brazilian companies.

The issue is especially sensitive in the eyes of international investors, who are used to a higher level of transparency in foreign companies than that required by the local regulatory framework and generally offered by Brazilian companies.

Following local legislation, listed companies in Brazil disclose the annual remuneration package and report the average, highest and lowest individual remuneration among their directors and officers. Unlike other markets, where companies disclose the individual remuneration of each director.

Proxy advisors - and, consequently, shareholders - are demanding more information, especially on the basis of remuneration proposals and alignment with company performance. It is worth remembering that in 2023, ISS modified its remuneration policy, the guidelines for which came into force on February 1, 2024.

ISS should recommend that shareholders reject proposals for the remuneration of managers (board, executive and fiscal council directors) if they lack adequate justification - especially if the proposal is for a large increase in remuneration.

ISS's assessment will include aspects such as the relevance of the proposed increase, alignment with the company's long-term performance, alignment of targets and indicators with the business strategy, adequacy of remuneration in terms of short- and long-term incentives, magnitude of the total return to the investor in the previous three years, among others.

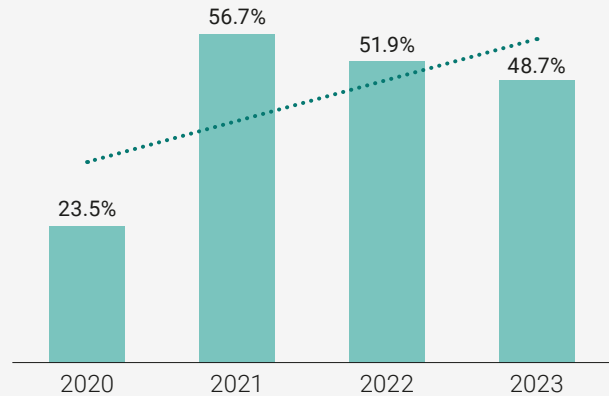
In any case, looking at last season's documents showed that most companies are increasingly concerned with providing plausible justifications for their remuneration.

It should be noted that the pandemic, although it has cooled down, has still had an impact on the 2023 AGM season - regarding the performance of companies in 2022. The trend is that proxy advisory agencies should now be less tolerant of flexibilities that were necessary during the pandemic, and which no longer make sense. In addition, a certain vote of confidence granted to companies due to a scenario that involved a pandemic, war, inflation and very high global interest rates may be coming to an end.



## Board of directors<sup>1</sup>

### IBrX-50 ISSUERS WITH A NEGATIVE RECOMMENDATION FROM ISS



In 2023, out of the 50 companies that make up the IBrX-50, 33 (**66%**) held board elections at their annual meetings.

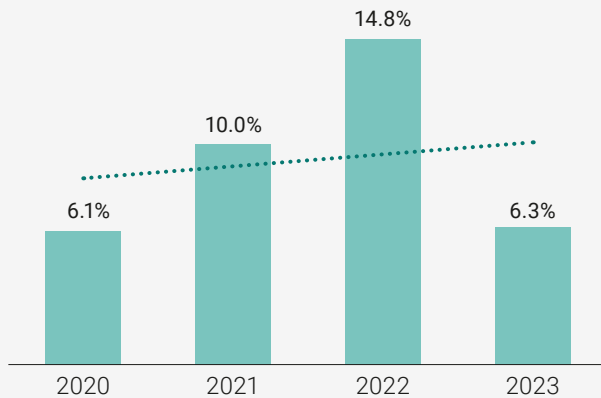
Among these 33 companies, **48.7%** (16) received a negative recommendation for the board election from the ISS voting recommendation consultancy. This percentage was **23.5%** in 2020, rose to **56.7%** in 2021, and has been declining ever since: **51.9%** in 2022 and **48.7%** in 2023.

The main reason behind these negative recommendations continues to be the low level of board independence, followed by "overboarding", i.e. when a board member sits on more than five boards, as well as the "lack" of diversity and female representation on boards.

1. Of the 50 companies that make up the IBrX-50, 33 had a board election in 2023 and the charts below refer only to them

## Cumulative voting

### IBrX-50 ISSUERS USING THE CUMULATIVE VOTING METHOD

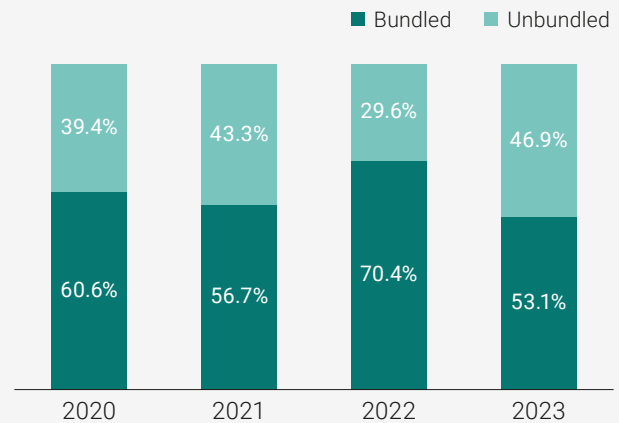


The percentage of companies that elected directors via cumulative voting fell sharply, from **14.8%** in 2022 to **6.3%** in 2023, returning to the level of 2020 (**6.1%**). Cumulative voting allows investors to concentrate the votes of their shares on a single candidate for the board. The legislator's intention in creating the mechanism was to guarantee the election of diverse, independent directors aligned with the will of the shareholders.

However, cumulative voting remains relatively unknown in the local market and requires a lot of organization and coordination between various shareholders. To request the adoption of this procedure, a group of shareholders must hold at least 5% of the company's voting shares (depending on the value of the share capital). Under this system, shareholders can accumulate all their votes for a single candidate or distribute them among several, which increases the chances of shareholders electing their candidates to the board.

From the perspective of foreign investors, who vote via BVD, cumulative voting is still a very confusing system and difficult to participate in, mainly due to the mismatch between deadlines. Shareholders who vote via BVD need to submit their voting instructions a few days before the AGM, without knowing whether or not the cumulative voting process will be adopted, as this information is only made available 48 hours before the meeting, when the request is not made at the AGM itself.

### SLATE VERSUS INDIVIDUAL ELECTIONS IN IBrX-50 COMPANIES



Despite the decline in usage, cumulative voting elections continue to be the main mechanism used by shareholders seeking changes in companies and their boards in Brazil. It can be viewed as a form of activism, albeit timid and less structured than major campaigns in other countries, such as the United States. As such, this poses a risk to which all companies are exposed, especially whenever they have to re-elect their boards. That's why they must be vigilant.

Board elections via a slate saw a significant reduction in 2023, falling from **70.4%** in 2022 to **53.1%** in 2023, returning to 2021 levels. This can be seen as a positive development considering that institutional investors and proxy advisors prefer individual elections over the slate model, which they believe contradicts international best practice by not allowing them to vote against nominees they don't consider suitable.

Of the 33 companies that held board elections in 2023, 15 decided their candidates by individual vote and not by slate. In 2022, there were only eight. It is important to note that some companies don't hold board elections every year, leading to a bigger variation over consecutive years. Nevertheless, when comparing 2023 to 2021, we observe an increase in individual elections in line with the trend toward adopting international best practices.



## Independence on Boards

The independence of board members is a crucial consideration in the recommendations of proxy advisory agencies. For example, ISS clearly recommends that its clients vote against proposals for boards that are not at least **50%** independent in the case of companies listed on the Novo Mercado and Nivel 2. In the case of Nivel 1 and traditional segment companies, the threshold is set at least one-third or two independent directors, whichever is greater. These recommendations apply to controlled companies and corporations.

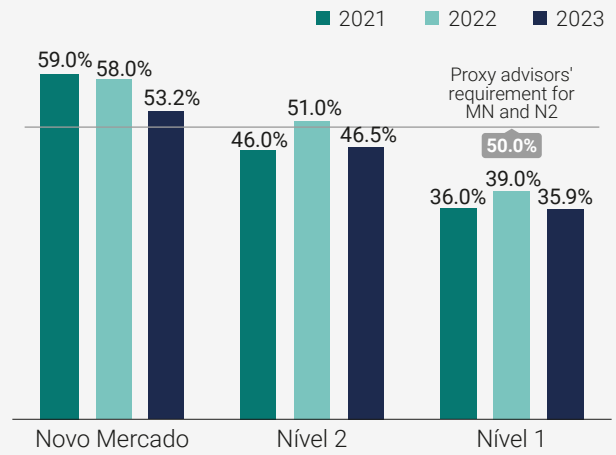
ISS establishes a number of criteria for assessing the independence of directors, which inform their recommendations to vote against or in favor of the election to the board of directors. Some examples are that a candidate appointed as a representative of a relevant shareholder, a beneficiary of at least **10%** of the company's shares, or a supplier of professional services to the company are not considered independent. In addition, ISS deems a director who has served for 12 years or more on the board as not independent.

Glass Lewis' policy, in turn, emphasizes that the independence of directors is also demonstrated by the decisions they make within the board. In structuring its voting recommendation, the agency assesses, where appropriate, whether the candidate has a track record of making objective decisions on the boards they have served on. Another important point for Glass Lewis is whether the candidate serves on the boards of several other companies. In short, the company looks at the candidate's independence and track record.

Like ISS, Glass Lewis also analyzes a board candidate's relationships with the company, other board members and company executives. This information is important for the agency to assess whether the candidate is fully capable of making decisions without the influence of these relationships. This is because Glass Lewis considers that this scenario can lead to conflicts of interest, which is bad for the company and its shareholders.

The difference from ISS is that, for controlled companies, which represent the majority of listed companies in Brazil, Glass Lewis recommends voting against if the board is not made up of at least one-third independent directors, which is

## AVERAGE LEVEL OF INDEPENDENCE ON BOARDS



valid for Novo Mercado and Nivel 2 companies. For companies of other listing categories, the minimum threshold is **20%** independent directors, as mandated by law. For non-controlled companies, the requirements are the same as for ISS.

In Brazil, in September 2022, the CVM issued CVM Resolution 168 to regulate Federal Law No. 14,195/2021 regarding capital markets. According to this resolution, publicly traded companies must have at least **20%** independent members on their boards.

Although this percentage falls below international standards, Brazilian companies listed on B3's main governance tiers (Nível 1, Nivel 2 and Novo Mercado) have largely exceeded this requirement since 2019, when the survey began. However, the percentages have been fluctuating downwards, which may indicate a certain regression on the part of Brazilian companies in this important aspect of governance.

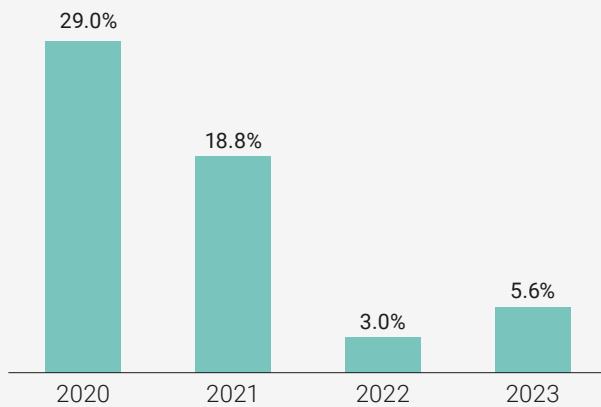
Among Novo Mercado companies, the average number of independent directors fell from **58.0%** in 2022 to **53.2%** in 2023. Among those listed on Nivel 2, the drop was four points, from **51.0%** to **46.5%**. In Nivel 1, the average went from **39.0%** to **35.9%**.

As the proxy advisors require a percentage above **50%** for Novo Mercado and Nivel 2 companies, in 2023, Nivel 2, therefore, fell below the international requirement, after having shown an increase from 2021 (**46.0%**) to 2022 (**51.0%**).

In a sample of meetings held by 49 companies in 2023, four - 3R, B3, Eneva and Equatorial Energia - elected **100%** independent boards. The lowest percentage of independence was achieved by Cielo (**16.7%**), Multiplan (**14.3%**) and Minerva (**10.0%**).

## Gender Diversity

### ISSUERS IN NOVO MERCADO WITH NO FEMALE BOARD DIRECTORS



The issue of gender diversity on the boards of directors of Brazilian companies has garnered significant attention of investors and proxy advisors. While it remains a prominent topic internationally, progress in Brazil still lags behind.

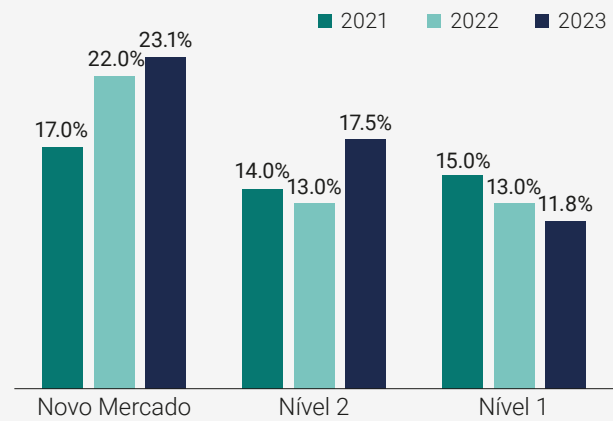
Analysis of data from the 2023 AGMs indicates that companies have gradually improved in this respect. However, the pace of these changes may need to accelerate to align with global standards.

Looking only at the companies listed on the Novo Mercado, the percentage of companies with no women on their boards of directors decreased from **29.0%** in 2020 to just **5.6%** in 2023. Despite the notable decrease, questions remain about whether it is acceptable for **5.6%** of companies in the highest governance tier on the Brazilian stock exchange still lack female representation on their boards.

For companies that are on the IBrX-50 and are listed on Novo Mercado, the average percentage of women on boards is **23.1%**.

In both cases, despite the improvement, female participation on the board is still below the minimum representation considered by international best practice, which is at least **30%**. The highest percentage identified at the end of the 2023 general meeting season is that of retailer Magazine Luiza, with **57.1%**.

### FEMALES ON THE BOARDS OF IBrX-50 ISSUERS



In the 2023 season, two other Novo Mercado and IBrX-50 companies stood out in terms of female presence on the board: Banco do Brasil, which has half its board made up of women; and TOTVS, with **42.9%** women.

The presence of women on boards, however, decreases as the tier of governance decreases. Taking the IBrX-50 and Nível 2 companies as a sample, the average number of women on boards is **17.5%** - 5 percentage points lower than the Novo Mercado average. In this segment, the company with the highest female presence is Klabin, with **28.6%** - in 2022, company's percentage was **14.3%**.

Among the companies in the IBrX-50 that are at Nível 1 tier of governance, the average presence of women on the boards is **11.8%** - 11 percentage points below the Novo Mercado and 6 points below Nível 2. The company with the most female board members is the investment holding company Itaúsa with **22.2%**.

The behavior over time has also differed in each governance segment in recent years. In the Novo Mercado, the presence of women has only grown, from **13.0%** in 2020 to **17.0%** (2021), **22.0%** (2022) and reaching **23.1%** in 2023.

At Nível 1, the presence of women on boards rose from **10.0%** in 2020 to **15.0%** in 2021; since then, it has only fallen: **13.0%** in 2022 and **11.8%** in 2023.

At Nivel 2, the rate remained stable between the years 2020 (**13%**), 2021 (**14%**) and 2022 (**13%**) and rose 5 points in 2023, to **17.5%**.

Despite the progress made in recent years, the percentage of Brazilian companies is still below the **30%** of women on boards recommended by proxy advisors. The consultancies, by the way, have already signaled that it is no longer acceptable to have **100%** male boards, and ISS in 2023 has already started recommending voting against boards or the chairman of the board (in the case of companies that have individual elections) that do not have at least one seat on the board occupied by women.

Glass Lewis does not make voting recommendations solely on the basis of gender diversity, but says that this aspect is taken into account in the analysis and points out that it is "worrying" when the board of a large company does not have this characteristic, especially in cases where the board has failed to structure a convincing gender diversity policy.

The issue of diversity - and not just gender - has received a lot of attention in Brazil, both from regulation and self-regulation.

In 2023, CVM Resolution 59/2021 came into force, which states that Brazilian companies must disclose information about the diversity of their employees. In relation to the board and management, the company must detail information such as gender, color, race and other indicators it considers relevant; and also, whether there are any specific objectives regarding diversity among its managers.

In July 2023, the CVM approved the ESG Annex, a document containing the measures proposed by B3 to encourage gender diversity and the presence of under-represented groups in senior leadership positions and the reporting of good environmental, social and governance practices by listed companies. Before drawing up the document, B3 held a public consultation in the second half of 2022.

According to B3's proposal, listed Brazilian companies must elect at least one woman and one member of an underrepresented community (defined as black, brown or indigenous people, members of the LGBTQIA+ community or people with disabilities) to their board of directors or statutory board within two years of the ASG Annex coming into force. The accumulation of both characteristics (being a woman and a member of an under-represented community) by the same director will not be enough to comply with the proposal.

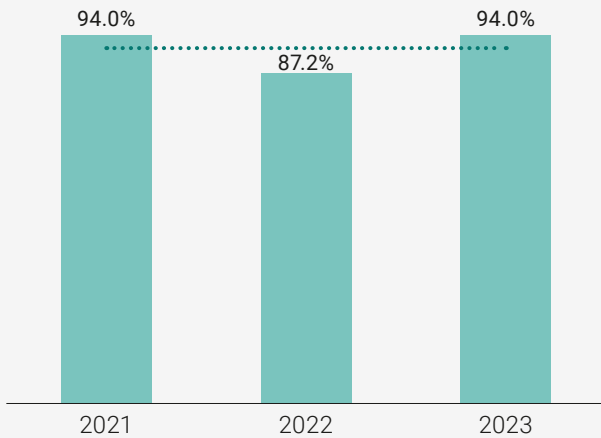
The mechanism proposed by B3 for applying the ESG Annex is "comply or explain": companies need to provide transparency to the market about the actions taken to comply with the measures or explain the reasons for not adopting them. This information will need to be included in the company's Reference Form. The first reports should begin in 2025.

A survey carried out by B3 with data from 343 listed companies that submitted their Reference Forms by June 20, 2023, showed that **55%** of the companies have no women among their statutory directors and **36%** have no female members on the board of directors. With regard to data on race and ethnicity, of these 343 companies, 304 declared that they had no brown people on the board of directors, and 310 had no brown people on the board. The participation of black people in top management is even lower: they do not hold positions on the board of directors in 336 companies and are not on the boards of 327 companies.

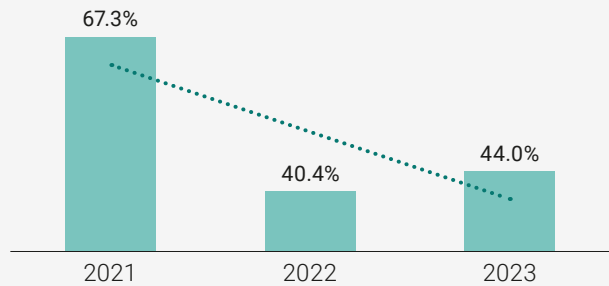


## Fiscal Council

COMPANIES WITH FISCAL COUNCIL INSTALLED (IBrX-50)



COMPANIES WITH AN INSTALLED FISCAL COUNCIL THAT WAS REQUESTED BY THE FREE FLOAT (not permanent)



In Brazilian companies, there is the figure of the fiscal council, which may or may not be installed at the request of the shareholders at a general meeting, in accordance with the Corporate Law.

The fiscal council's mission is to supervise the actions of the company's managers (directors and board members) to check that they are fulfilling their legal and statutory duties. It is also up to the fiscal council members to report any errors, fraud or criminal acts that may be discovered in relation to the directors. From the point of view of international stakeholders, it is seen as a kind of supervisory board.

The installation of the fiscal council in the companies that make up the IBrX-50 in 2023 reached **94%**, returning to the level of 2021, after falling to **87.2%** in 2022. In other words, it is an instrument that is widely used and demanded by shareholders.

The percentage of companies that have a fiscal council installed at the request of minority shareholders rose from **40.4%** in 2022 to **44.0%** in 2023. In 2021, this percentage was **67.3%**.

Together, the data shows that more companies have adopted the installation of the fiscal council as a practice, with no need for a shareholder request for its installation, which does not, however, prevent shareholders from continuing to nominate their candidates for the composition of the fiscal council.

In its policy for Brazil, ISS recommends voting to approve the installation of the fiscal council - unless the names of the nominees (either by management or minority shareholders) have not been disclosed "in a timely manner". The consultancy's recommendation is to abstain on this proposal if there are no nominees whose information has been published along with the meeting materials.

If there is a recommendation against the installation of the fiscal council by management, the analysis will be made on a case-by-case basis.

Glass Lewis also points out that the names appointed to the fiscal council must be nominated in advance and publicly, and also believes that the nominees need to have an independent stance in order to add value to all shareholders.

# A New Cycle Ahead: A Glimpse into Brazil's 2024 Governance Trends

If 2023 was a feeling, we could define it as "keeping our heads above water." After all the struggle in the COVID-19 pandemic, the monetary tightening cycle, and the political polarization that peaked during the 2022 presidential election, Brazilian financial markets benefitted from calmer seas. However, that doesn't mean the ride was smooth: the year began with one of the biggest corporate scandals in Brazil's history, the Americanas fraud case, with spillover effects on the debt industry. On the monetary front, inflation is gradually easing and the Central Bank slowly started to reduce interest rates in the second half of the year, but not enough to really get new IPOs picking up yet. And political interference was yet again an issue for State-Owned Enterprises (SOE).



## Fábio Henrique de Sousa Coelho

CEO, Association of Capital Markets Investors (AMEC)

In a way, the past few months started a transition for what seems to be a more constructive outlook for the Brazilian capital market. The events of last year brought some hard conversations to the table, especially regarding corporate governance practices. Many of those debates are now taking place in the regulatory and legal fields, with potential long-lasting consequences. The year that lies ahead may bring invaluable opportunities for fixing structural issues and building the foundations for future growth.

Here's what's on our radar for 2024:

- **Public Spending and Interest Rates**

The Brazilian Central Bank started a gradual monetary easing, but concerns regarding the expectations of fiscal spending can stall the process that has been eagerly awaited by investors and businesses alike. New deals rely upon increased liquidity, but that should only happen following a satisfactory solution to the fiscal-monetary equation.

- **M&A Could Resume Old Conflicts**

With interest rates decreasing, deals should start picking up again — prompting a resurfacing of old corporate conflicts. Issues like poison pills, mandatory bids (OPA) and related party transactions commonly happen in corporate reorganizations and tender offers in Brazil. Due to existing regulatory gaps, there is a possibility that these issues may come back in the future.

- **Are IPOs Back on Track?**

The local stock exchange hasn't celebrated IPOs since 2022, marking a dry period after the booming window of 2020-2021. The tides may turn in the second half of 2024 as interest rates progressively fall. With more organizations seeking capital markets and some with a potential family background, governance talks might spin around issues like board composition and independence of individual board members, succession, and the onboarding of professional directors.

- **SOEs Face Political Pressure (Yet Again)**

Political interference in Brazilian state-owned enterprises (SOEs) is a constant fear in investors' minds, as the indiscriminate use of such companies for public policies and corruption scandals led to massive losses in market cap and expensive class actions in Brazil and the US. In 2023, such worries have been renewed, as a temporary Supreme Court decision striking down key elements in the SOEs Law set a precedent for nominating politicians to executive positions in these enterprises. Investors will closely follow any legal or juridical developments regarding this matter.

- **Crisis and Regulation to Boost Stewardship**

Stewardship is still being developed among local institutional investors, as only thirty have formally

embraced the Brazilian Stewardship Code (CBS). Yet, the Americanas corporate scandal increased awareness of the need for more engagement with companies and better governance practices, especially regarding executive compensation. The upcoming regulation on AGMs, currently under public hearing, can reduce this breach by mandating the use of tools like the remote voting card (RVC), for instance. The RVC is particularly important as it will facilitate the participation of foreign investors in local meetings, with potential waterfall effects. That's because, as the latest report published by the Executive Committee of the Brazilian Stewardship Code (CBS) shows, foreigners still lead engagement practices alongside Brazilian companies, inspiring local institutional investors to act. And when it comes to topics, expect higher engagement on "say on pay" during the upcoming AGM season.

- **Environmental Agenda in the Spotlight**

The environmental agenda is still growing in Brazil compared to other economies. However, notable developments occurred in 2023, including the issuance of Brazil's inaugural green sovereign bond, ensuring continued attention to the topic. Other trends, like the increased publication of annual ESG reports by listed companies and the regulator's decision to adopt the ISSB standards as default for ESG reports, should also have a positive impact on the availability of comparable information for investors. As a consequence, enterprises that still have not committed to reducing their carbon footprint should start to feel the pressure to do so. Last, but not least, local shareholders meetings can start to mirror topics widely discussed in AGMs abroad, especially carbon emissions. We expect the "say on climate" movement to pick up shortly.

- **Emerging Issues gradually make it to the Boardroom**

The digital transformation is making its way to the board meetings, confronting directors with the challenge of balancing traditional KPIs, like EBITDA, with new success metrics of the innovation economy. Cybersecurity is another topic that's making it to the Board's risk assessment matrix, as cyber threats have been picking up in the past few years and impacting Brazilian companies' operations.



# Corporate governance trends in 2024



## Valeria Café & Luiz Martha

**CEO,**  
Brazilian Institute  
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**Research and Content Manager,**  
Brazilian Institute  
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To begin our reflections on the outlook for next year in corporate governance, we must stress that trends in company management in 2024 will be greatly influenced by the international geopolitical context – considering its direct and indirect impacts on the activities of all organizations in Brazil and around the world. In this scenario, which will have repercussions for the economy and the world's population, environmental, social and governance (ESG) aspects are gaining even more strength and are emerging as essential components of business, and not just simple institutional marketing rhetoric.

Another important factor to mention concerns the impact of technology on companies, both on the actions of boards of directors and the different levels of corporate governance, and on the business itself. This includes, on the one hand, issues related to productivity gains and process optimization, and on the other, the risks in terms of handling personal data, credibility and reliability.

In the social context, corporate governance is increasingly related to the organizational climate and the physical and mental well-being of all employees, as these factors are seen as decisive elements in achieving good results in organizations. It also takes into account the external consequences of business and the influences they have on both people and the environment. For example, from this environmental perspective, the entire supply chain and its consequent impact on carbon emissions should be evaluated.

A significant trend concerns the growing transparency of companies' non-financial issues, such as sustainability information. Hence the significance and impact of the first two sustainability standards under the International Financial Reporting Standards (IFRS), a global accounting standard to which our country adheres. These are IFRS S1 and IFRS S2, issued by the International Sustainability Standards Board (ISSB). The Brazilian Securities and Exchange Commission (CVM) is adapting them for Brazil, which should be the first country in the world to adopt them in practical terms.

Compliance, strongly linked to the concept of integrity, represents another trend in progress. Far beyond complying with laws and regulations, it is essential to foster a culture of ethics and integrity in order to embed it in the structure and routine of organizations, encouraging good practices – and not just punishing wrongdoing. Resilience is also a requirement that is gaining in importance: after all, in increasingly complex scenarios, companies must always be prepared to face risks and to remain strong in the market.

It is important to stress that all the trends that are being emphasized in this new year of 2024 have been increasingly materializing since the pandemic. ESG itself is an example of this. The concept – which was created two decades ago, in 2004, in a financial market document and within the framework of the Global Compact – only gained greater prominence during the outbreak of COVID-19, when the view of the need to take care of people and tackle climate change on the planet became stronger.



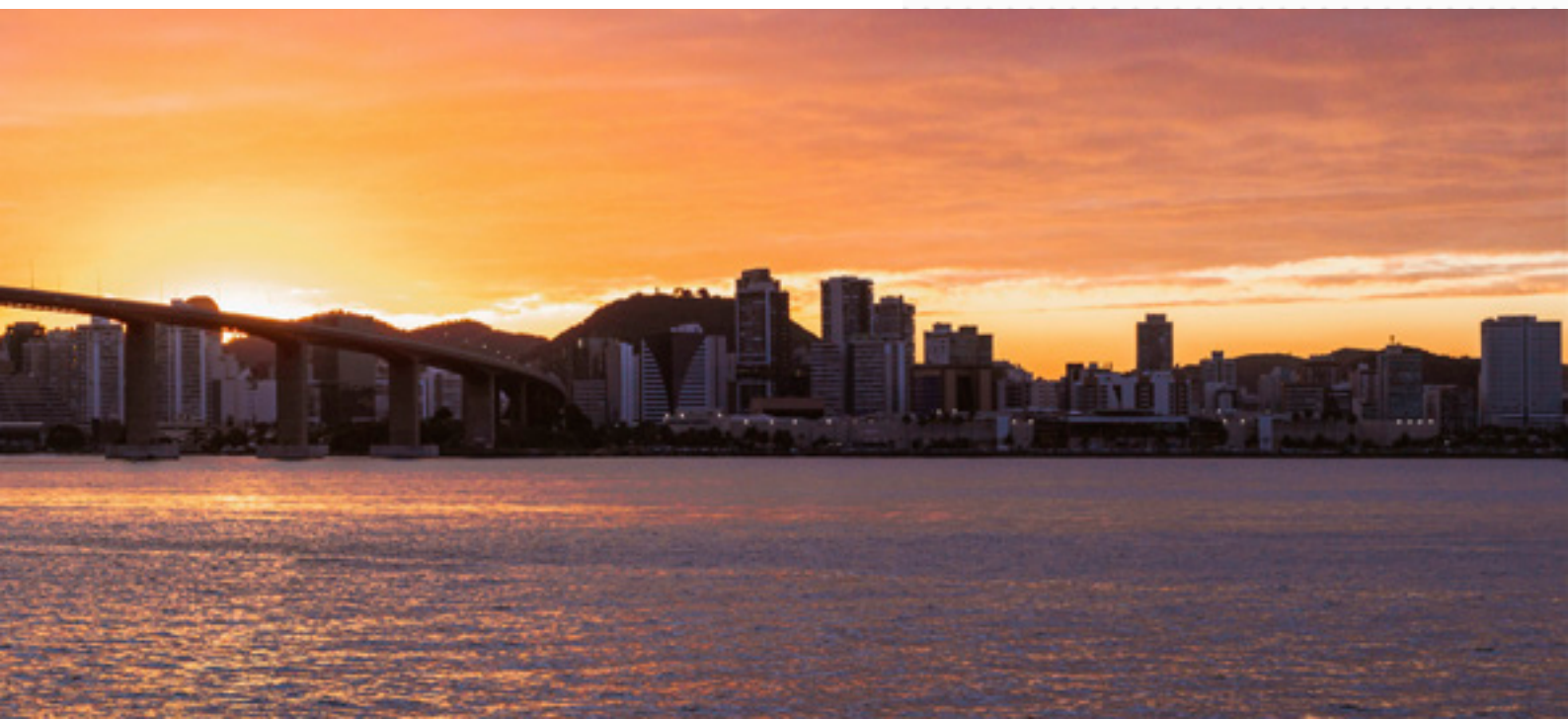
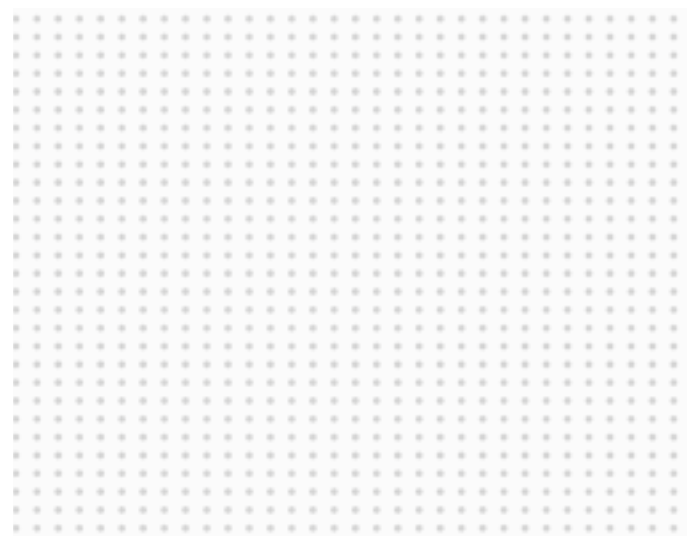
In the midst of this new context, the IBGC has also broadened its outlook and promoted the revision of its Code of Best Practices of Corporate Governance, the sixth edition, launched in August 2023. It was drawn up through a process of collective construction, including internal and public consultations, analysis of international codes, guides and a broad participation.

In this current edition of the Code, we have included another principle, that of integrity, to further reinforce the imperative need to continuously improve the ethical culture in organizations, and we have continued with the four other principles that were already included in the previous version of the document: transparency, fairness, accountability and sustainability, which together consolidate the foundation from which good governance is developed.

Incidentally, more than ever, good corporate governance emphasizes human beings and society as essential factors in any business activity. In order to promote the well-being of populations, work in favor of the environment, win the fight against climate change and be protagonists in development, businesses need to be solid, well-managed, successful, long-lived and driven by the awareness that the necessary profit only makes sense if it supports the search for a better world, a purpose we must never give up.

**Valeria Café** has been CEO of the Brazilian Institute of Corporate Governance (IBGC) since January 2024, a board member of the ILPS since 2022, sits on the CEBDS Ethics Committee and the CGU Integrity Council, and is a guest professor of governance at FGV.

**Luiz Martha** is IBGC's Research and Content Manager. He has a degree in Business Administration from FEA/USP and an MBA in Investor Relations from FIPECAFI. He coordinates the governance dimension of the ISE/B3 and represents the IBGC on the GNDI Policy Committee.





# The importance of LGBTQIAPN+ individuals as board members



**Robert  
Juenemann**

**Board Member,**  
Banco do Brasil SA

Soon the AGMs will take place and new board members will be appointed and others will be reelected in Brazilian companies. This represents an opportunity to change the composition of boards of directors and shed light on a very sensitive issue – the almost total lack of LGBTQIAPN+ individuals on boards in Brazil.

Diversity and Inclusion has only become relevant for most companies when ESG practices reached the investors' agenda, who then incorporated the concept into investment decisions. As a result of that, a shift has been seen in policies worldwide, so that companies would not lose funds from these investors in the short and long term.

The process of assessing the importance of diversity and inclusion has been taking place worldwide, with different speeds, as it basically depends on how each local culture and stakeholders value this change of perception.

Gender and ethnic inclusion has been around for quite a while and with some significant achievements, especially in the Northern hemisphere. It is not perfect, but it has come a long way, and respect for gender and ethnic diversity is somewhat common sense in Western Europe and parts of the United States, at least when one publicly discusses the matter.

It is worth pointing out that further development and improvement is needed as companies come to reflect the evolution of societies when the concept of diversity is brought to the table for discussion.

Diversity means a range of different things, the state of being diverse, variety, singularity, it is an intrinsically human characteristic to be unique. Different means not the same as another or each other. Societies in general value heterosexuality as the 'proper way' to be, as heterosexuals represent around 80 to 90 percent of the population in general, according to different studies.

That means that heterosexuals are not diverse when the topic of sexual orientation comes to light in discussions. Coming back to investors and the adoption of ESG practices in their invested companies, a group that hadn't been on the radar was the LGBTQIAPN+ community.

Even though it represents around 10 to 20 percent of the population, LGBTQIAPN+ individuals have been overlooked and were not part of the center of the 'inclusion' issue.

In the Northern hemisphere the LGBTQIAPN+ community has been very active in the last decades, affirming societies to acknowledge their existence and to respect individuals as citizens. However, it has been only recently that this segment of society has started to be on the radar of investors.

There are successful initiatives in the United States focused on the inclusion of LGBTQIAPN+ individuals in companies. One of them is the ruling that requires companies listed on NASDAQ U.S. Exchange to have at least two diverse directors,

including one self-identified woman director and one director who self-identifies as an underrepresented minority or LGBTQ+. If the company does not satisfy both criteria, the company must specify the particular aspect(s) of board diversity it fails to satisfy and provide the reasons why it does not have two diverse directors within its composition.

In Brazil, we are seeing changes that will hopefully start changing the chart of board members. The most relevant is one that states that as of 2026, listed companies will have to have at least one self-identified woman director and one director who self-identifies as an underrepresented minority group at the board of directors or on the leadership management team.

A survey carried out by the Brazilian Institute of Corporate Ethics and Law – IBDEE – that took place in 2020 and 2021 showed that the LGBTQIAPN+ pillar was the least represented of all diversity groups. Only 0.2% out of the total 408 board member seats at 61 companies that were researched had a LGBTQIAPN+ board member. Among the companies, the only one counting with a LGBTQIAPN+ board member was an institution acting in the third sector.

That being said, for the new ruling to be effective, shareholders will have to demonstrate at the AGMs in Brazil their belief that these changes are for real, and they can do that by nominating and electing diverse individuals, including those from the LGBTQIAPN+ community, for the boards of companies where they own shares.

I am a 58 year-old openly gay lawyer and board member and since 2021 I have been very active in bringing to the media the relevance of having LGBTQIAPN+ individuals on the board of directors. So far, I have been the only board member in Brazil to support the cause and highlight the importance of inclusion of this significant and diverse segment of society.

**Investors, shareholders: I hope you do your part now.**

The inclusion of LGBTQIAPN+ individuals as board members is not only a matter of box-checking but a powerful source of innovation and competitiveness for companies seeking to navigate an ever-changing and complex business environment of diversified and increased stakeholder expectations.

# Corporate Governance and Stewardship: Two Sides of the Same Coin

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**Geraldo Affonso  
Ferreira**

Brazilian executive and specialist  
in corporate governance

Although Brazil has recently returned to [9th place](#) among the world's largest economies, its stock market is still in [20th place](#) in terms of capitalization, according to the World Federation of Exchanges. These data demonstrate the growth potential of the Brazilian capital market. However, since capitalism is a game of risk, to advance in this field, the key word is trust – which involves at least the foundations of stability in the country's economy and politics, in the business environment and in company management. This last case is also known by the name of Corporate Governance, which has, among its principles, the concept of Stewardship, the fiduciary duty of asset managers to look after their clients' investments.

Corporate Governance and Stewardship are, therefore, two sides of the same coin. But both are still very incipient in Brazil. Although Corporate Governance has been part of the best business practices for more than 30 years, it has become – in many Brazilian companies – just a matter of compliance, supervised by legal departments, with the strict objective of keeping companies in accordance with the rules, standards, and laws – a practice also known as “Box Ticking”.

However, in Brazil, we still do not have effective Law Enforcement in the capital markets. The Securities and Exchange Commission (CVM) does not have the human and financial resources necessary for supervision to ensure compliance with best practices in companies' relations with their investors.

While this is not the reality in Brazil, the means to increase investor confidence in local companies will be through effective Corporate Governance practices. However, as the realities and contexts of each company are different, there is no guide with standards to be followed by all of them. Corporate Governance is more than that - it is a model of ethical, honest, and responsible management that must be present throughout company culture.

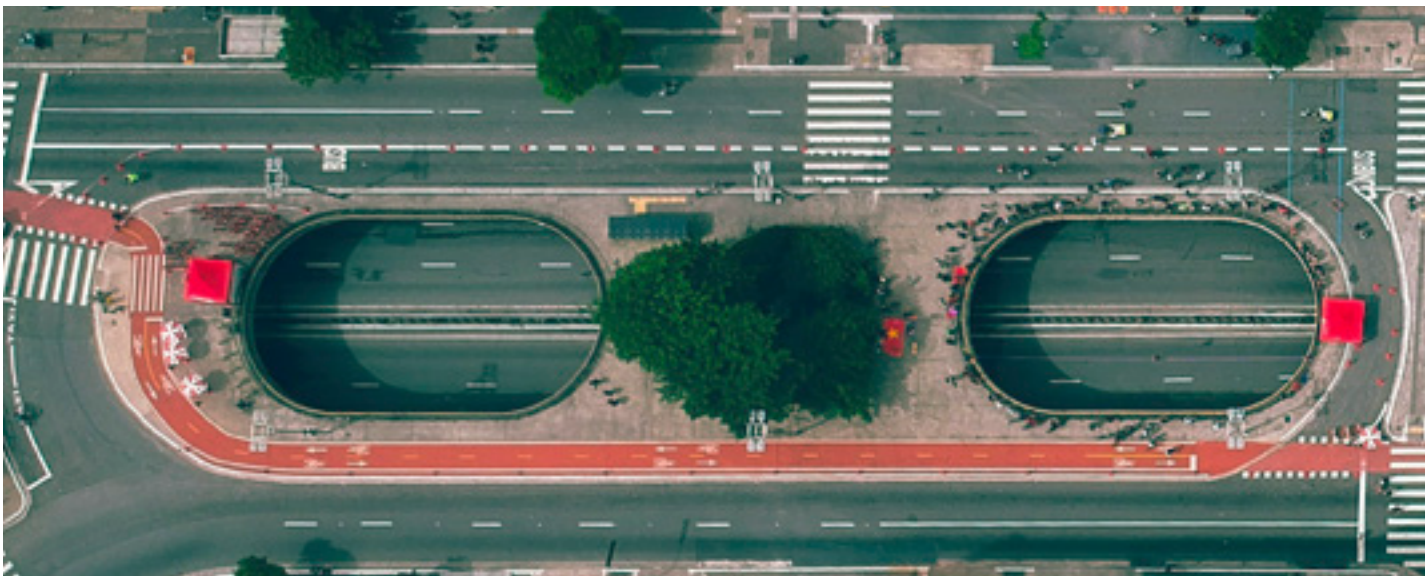
For this reason, the Brazilian Institute of Corporate Governance (IBGC) promoted some changes in its 6th edition of the [Code of Best Practices of Corporate Governance](#), published last year. Founded in 1995, IBGC noted the need to review this important document, with the help of experts and with a new perspective.

“The group looked at the existing recommendations in the previous edition with a critical and careful vision, in order to make the publication less prescriptive and more oriented towards bringing principles that are comprehensive to different organizations, as well as placing them in a context of greater relevance of environmental and social aspects in their decision-making processes,” says the new Code, in its presentation.

As one of the best Corporate Governance practices, Stewardship should also be a widely disseminated theme and applied by companies that are committed to ethics, transparency, and integrity in their relations with their investors. But this is a concept that is still practically unknown, as well as viewed with prejudice and almost non-existent in Brazil.

The following numbers prove this situation: the Brazilian Association of Financial and Capital Market Entities (Anbima) represents more than 900 asset managers, of which only 27 are signatories to the Brazilian Stewardship Code. Furthermore, Brazil still does not have a resolution from the capital market regulator (CVM) that is, at least, in line with the “comply or explain” model practiced in other countries.

A year ago, the Financial Reporting Council (FRC), the British capital markets regulator, published a very useful guide entitled [“Corporate Governance and Stewardship mythbuster”](#). The document explains, in a very didactic and synthetic way, what these two concepts are and what the power of the FRC is to make UK companies comply with these provisions.





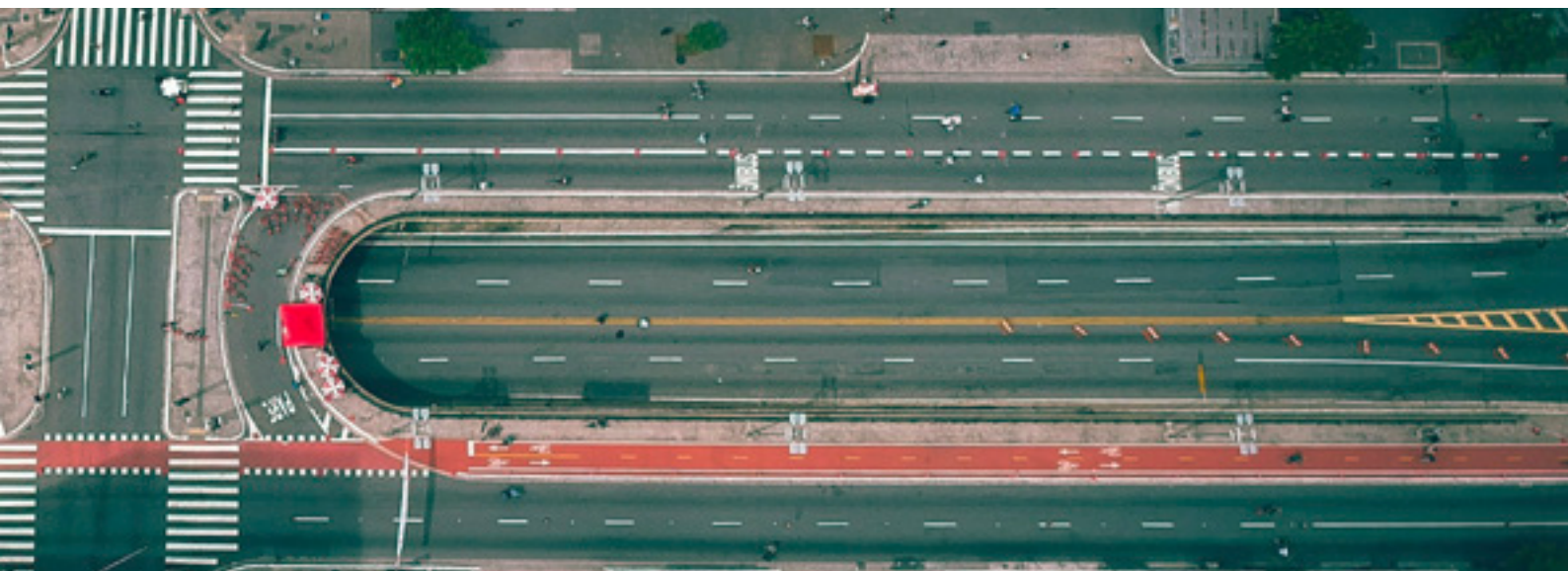
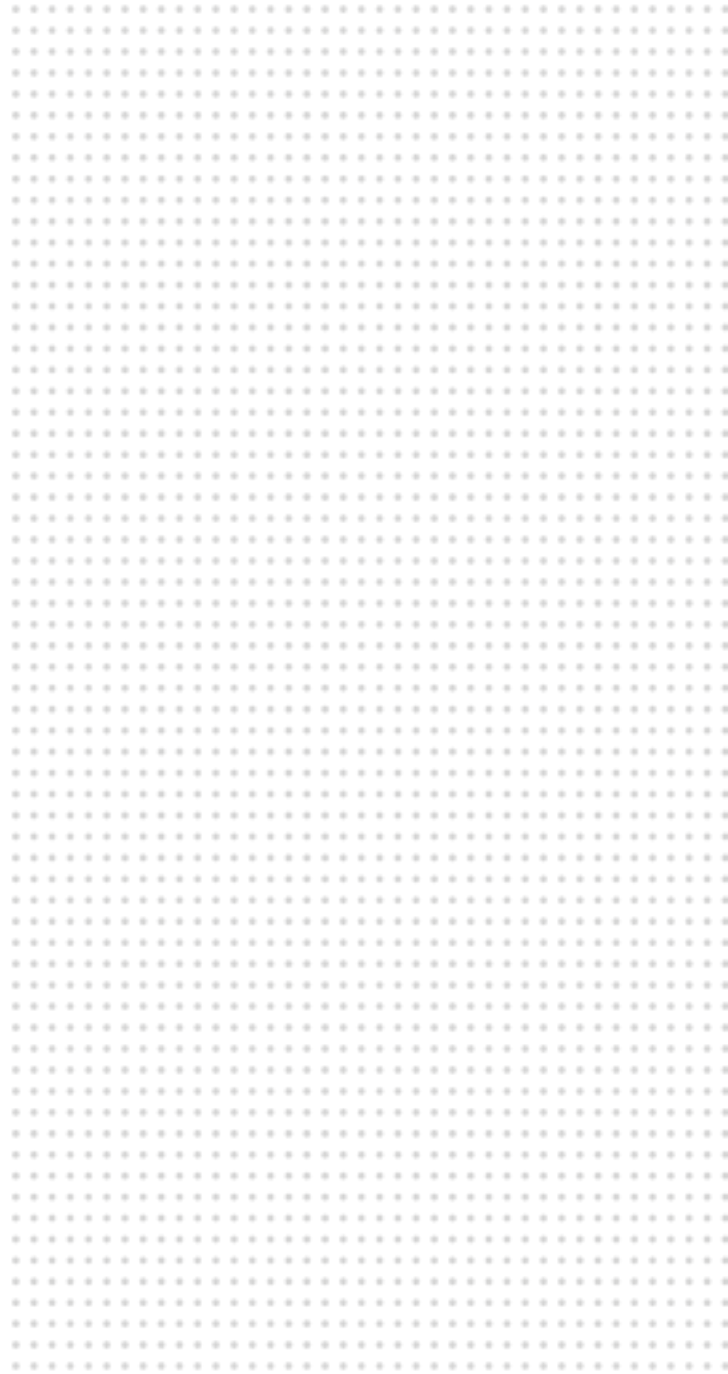
Below, I highlight three excerpts that I believe are essential for the capital market in any country. In the case of Brazil, I draw particular attention to the underlined terms, which are still little known or used among local companies:

“Corporate governance... involves a framework of legislation, regulation, codes and voluntary action for companies and their shareholders. It includes important issues such as directors’ duties and remuneration, audit, shareholder rights, capital structure and corporate reporting”.

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It exists to set high standards for investors to demonstrate the effectiveness of their stewardship and allows investors to demonstrate successful engagement with companies”.

“All companies are different, and we recognise that there may be circumstances where companies can achieve a high standard of governance without strict compliance with a provision. If you choose not to comply with a provision, you must say so and explain why. It’s important that any explanations are clear and appropriately high-quality”.

I believe that only with the wide dissemination of the best practices of corporate governance and stewardship, to the point that they are part of the daily culture of companies and investors, will we progress towards a better and more reliable capital market, with long-term benefits for the development of the Brazilian economy.



# The Role of Investor Relations in Annual General Meetings and the Significance of AGMs in Shareholder Relations

Annual General Meetings (AGMs) are one of the most important events on the corporate calendar, providing a stage for companies to engage with their shareholders, discuss key business matters, and showcase their strategic direction. Within this framework, Investor Relations (IR) facilitates effective communication between the company and its shareholders, ensuring transparency, trust, and alignment of interests.



**Renata Oliva  
Battiferro**

**Chairman of the Board of Directors,**  
Brazilian Institute  
of Investor Relations (IBRI)



**& Luiz Henrique  
Valverde**

**CEO,**  
Brazilian Institute  
of Investor Relations (IBRI)

Observing the evolution of AGMs over the years, more and more companies are being forced to pay closer attention to their AGM procedures. Not only international but also domestic investors are demanding better performance from companies in terms of corporate governance, ESG disclosures, and shareholder engagement. We also note an increase in investor participation in General Meetings in Brazil, which could be mainly explained by the facilitation of participation through remote voting ballot adoption (Boletim de Voto à Distância or BVD), created in 2015 by the Securities and Exchange Commission of Brazil (CVM).

**The Role of Investor Relations in AGMs:** Investor Relations professionals act as the primary link between the company's management and its shareholders, serving as sponsors for transparent communication and shareholder engagement. They are responsible for coordinating the entire process in the AGMs, from drafting the agenda and preparing the necessary documents to facilitating Q&A sessions and addressing shareholder inquiries.

IR is also responsible for ensuring that shareholders are well-informed about the company's performance, strategy, and governance practices to enable them to make well-informed decisions and actively participate in the meeting, ensuring that the meeting is conducted smoothly and efficiently. In addition to the IR role, the dynamics of the AGM include coordinating with legal and compliance teams

the regulatory requirements, managing logistics such as venue definition and technology setup (considering the adoption of virtual-only and/or hybrid meetings), and providing support to the board and executive team during the meeting.

**Importance of AGMs in Shareholder Relations:** AGMs serve to strengthen shareholder relations, providing opportunities for them to interact directly with the company's management, discuss their concerns, exercise their voting rights and to gain insights into the company's strategic priorities, corporate governance practices and financial performance. Through the AGMs, shareholders can enhance their confidence in the company and in the management. On the other hand, by engaging with shareholders, companies can also build trust, mitigate potential conflicts, and strengthen their reputation in the market. This demonstrates a commitment to open dialogue and engagement between the company and its shareholders.

**From a regulatory perspective:** AGMs play a critical role in upholding corporate governance standards and ensuring shareholder democracy. By providing shareholders with the opportunity to vote on key matters such as board elections, executive compensation, and major corporate transactions, AGMs empower shareholders to actively participate in the decision-making process and hold the company accountable for its actions.

“By ensuring transparent communication, facilitating shareholder engagement, and upholding corporate governance guidelines, IR professionals contribute to the effectiveness and credibility of the AGMs.”

**Renata Oliva Battiferro**

Chairman of the Board of Directors of IBRI – Brazilian Institute of Investor Relations – & IR General Manager of Gerdau

**Trends and challenges:** The Investor Relations department must be kept informed on several trends and challenges in annual general meetings (AGMs). Some of them include:

1. **Digital:** The trend of holding AGMs virtually has increased, bringing challenges related to cybersecurity, accessibility, and shareholder engagement.
2. **Shareholder Engagement:** Increased shareholder engagement requires a proactive approach to understanding and addressing their concerns, which can be a logistical and strategic challenge.
3. **Free Float Activism:** The adoption of cumulative voting processes has been increasing, resulting in free float nominees being elected for seats on boards of directors.
4. **Sustainability and ESG:** Shareholders are increasingly interested in sustainability and corporate governance practices, demanding more transparency and accountability in these areas during AGMs.
5. **Technology and Innovation:** Using technologies such as artificial intelligence and data analytics can optimize the preparation and conduct of AGMs, but also presents challenges in terms of compliance and security.
6. **Governance and Compliance:** Compliance with evolving regulations and standards is an ongoing challenge, especially in complex regulatory environments.
7. **Transparent Communication:** Shareholders' expectations regarding transparency and effective communication continue to grow, requiring a strategic approach to ensure trust and credibility.
8. **Diversity and Inclusion:** Gender, ethnic, and skill diversity are becoming a priority for many investors, which may require changes in recruitment practices and board composition.
9. **Market Volatility:** Economic fluctuations and market volatility can affect the atmosphere of AGMs and influence shareholder expectations and voting decisions.

“IR Professionals play a pivotal role during AGMs using this process as an opportunity to strengthen the relationship with shareholders, maximizing their engagement with the company’s strategy and ultimately contributing with reputation build-up.”

**Luiz Henrique Valverde**

CEO of IBRI – Brazilian Institute of Investor Relations

Therefore, when preparing for AGMs, it is important to be aware of these trends and challenges, adapting strategies and practices to ensure effective and successful conduct of these important meetings.

In that regard, as companies continue to prioritize stakeholder engagement and transparency, and this is critical, AGMs will remain an indispensable forum for shaping shareholder relations and driving long-term value creation. In this process, IR plays a pivotal role in successfully orchestrating the AGMs.



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Morrow Sodali is a leading provider of strategic advice and shareholder services to corporate clients around the world. The firm provides corporate boards and executives with strategic advice and services relating to corporate governance, shareholder and bondholder communication and engagement, capital markets intelligence, proxy solicitation, shareholder activism and mergers and acquisitions.

From headquarters in New York, London, and Sydney, with offices and partners in major capital markets, Morrow Sodali serves more than 2,000 clients in 70 countries, including many of the world's largest multinational corporations. In addition to listed and private companies, our clients include financial institutions, mutual funds, ETFs, stock exchanges, and membership associations.

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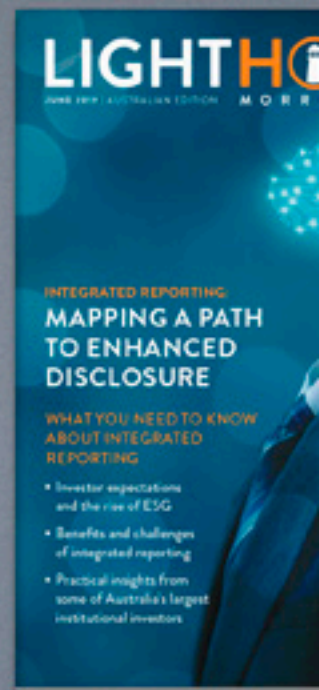
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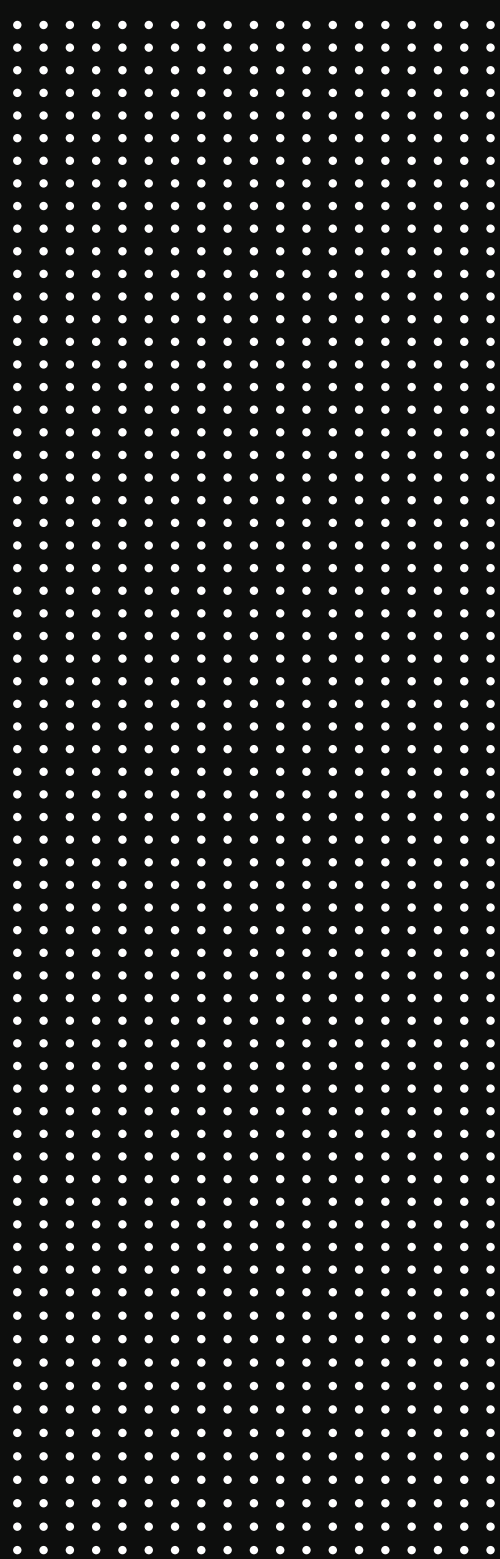




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