

Vanguard funds

Proxy voting policy for Brazilian portfolio companies



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Introduction

The information below, organized according to Vanguard Investment Stewardship's four principles, is the voting policy adopted by the Board of Trustees for the funds (the "Fund Board")¹ and describes the general positions of the funds on recurring proxy proposals for Brazil-domiciled companies.

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

Funds' Board. In all cases, proposals are voted as determined in the best interests of each fund consistent with its investment objective.

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 from, and in some cases require a higher level of governance best practice than, the local corporate governance code.

¹ This voting policy details the general positions of the funds for each portfolio advised by Vanguard, including Vanguard index funds and ETFs and the fund assets managed by Vanguard Quantitative Equity Group ("Vanguard-advised funds"), on recurring proxy proposals for Brazil-domiciled companies. Each of the US mutual funds advised by Vanguard retains proxy voting authority and this voting policy reflects the US Fund Board's instructions governing proxy voting by the Vanguard-advised funds.

Principle I: Board composition and effectiveness

The fund's primary interest is to ensure that the individuals who represent the interests of all shareholders are independent, committed, capable, diverse, and appropriately experienced. Diversity of thought, background, and experience, as well as of 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.

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 their temporary position for 18 months or less will be considered independent three years after leaving the interim CEO 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, the Vanguard funds expect increased board independence over the next two years and therefore will apply a two-year phase-in period to allow companies to gradually increase overall board independence levels.

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 post-election board is not composed of at least one-third or two directors, whichever is higher, who are classified as independent.

In 2022, a fund will generally vote against the nonindependent, nonexecutive board members, or the proposed slate of directors (if directors are elected as a slate), of a Novo Mercado or Nivel 2 company that does not maintain a board that is composed of at least 40% independent directors.

Beginning in 2023, a fund will generally vote against the nonindependent, nonexecutive board members, or the proposed slate of directors

(if directors are elected as a slate), of a Novo Mercado or Nivel 2 company that does not maintain a board that is composed of at least half (50%) independent directors.

The Vanguard funds expect 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.

Key committee independence

Generally, the expectation is that "key committees" (defined as the audit, remuneration, and nomination committees, or their equivalent) are composed of independent directors. Companies are expected to maintain 100% independent key committees where market practice and/or local corporate governance code calls 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)

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 will generally 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 commitment

Directors' responsibilities are complex and time-consuming. As no two boards are identical and time commitments may vary, 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 challenging to dedicate the requisite time and attention to effectively fulfill directorship responsibilities at each company.

Looking forward, the Vanguard funds will 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.

Diversity and qualifications disclosure

Well-composed boards have perspectives that are informed by a range of backgrounds, skills, and experiences. Public company boards should consider board diversity and disclose the diversity of their boards on factors such as gender, age, race, ethnicity, and national origin, on at least an aggregate basis. Companies that do not have diverse boards should demonstrate a commitment to achieving board diversity, provide insights on progress across multiple factors, and prioritize adding diverse voices to their boards.

A fund will vote case by case on the nomination committee chair if the company does not disclose evidence of a board composition strategy that appropriately considers – and reflects – diversity, with diversity defined as relevant to the company's market and company strategy. Beginning in 2023, a fund will generally vote against the nomination committee chair if the company does not disclose evidence of self-identified gender diversity on the board of directors. If the nomination committee chair is not on the ballot in a given year, a fund may vote against another relevant board member.

Contested director elections

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

- The case for change at the target company
 - How has the company performed relative to its peers?
 - 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 the company and dissident board nominees
 - Is there reason to question 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?
- 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?

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 is 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.

Principle II: Oversight of strategy and risk

Boards are responsible for effective oversight and governance of the risks most relevant and material to each company and for governance of the company's long-term strategy. They should take a thorough, integrated, and 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 25% of adjusted net income.
- *Disclosure threshold for stock ownership.* A fund will generally vote against the reduction of the stock ownership disclosure threshold to 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, there are serious procedural concerns, and/or the external auditor is considered an affiliate because they have served the company in an executive capacity in the past.

Financial results and 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/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

A fund will vote case by case on all mergers, acquisitions, and financial transactions.

The strategic, operational, and financial benefits (and drawbacks) of the transaction are evaluated based on a number of criteria, including the following:

- Board and management oversight of the deal process
- Valuation
- Prospects for long-term enterprise value under a stand-alone/alternate scenario
- Market reaction
- The surviving entity's governance profile
- Fairness opinions from independent financial advisers
- Effect on stakeholders, if relevant to long-term value

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

Principle III: Remuneration

Compensation policies linked to long-term relative performance are fundamental drivers of sustainable, long-term value for a company's investors. Providing effective disclosure of these practices, 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.

Advisory votes on executive remuneration

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

Considerations fall into three broad categories:

- Evidence of alignment of executive pay and performance
- Compensation plan structure for executives
- Other considerations

Generally, a fund will vote case by case on all remuneration proposals and will likely support those that enhance long-term shareholder value. It may also vote for remuneration 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 remuneration proposals when the details of a company's remuneration policy are not disclosed to shareholders. The expectation is that companies provide robust disclosure of an overall remuneration policy for executives that includes a robust narrative and cohesive assessments of executive pay packages, including an overview of the weighting, structure, and performance alignment for all relevant incentive plans.

Equity remuneration plans

A fund will vote case by case on equity remuneration plans for employees. A plan or proposal will be evaluated in the context of several factors to determine whether it balances the perspectives 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 and the company has failed to disclose an issue price or pricing formula; or
- Result in potential dilution (from all plans) that exceeds 5% of issued capital for a mature company and 10% for a growth company.

Nonexecutive director remuneration

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 on a case-by-case basis, considering whether there are sufficient safeguards to ensure that beneficiaries do not participate in the plan's administration, and the type of grant (i.e., time-based, performance-based, or in lieu of cash) awarded under the plan.

Principle IV: Shareholder rights

Governance structures empower shareholders and ensure accountability of the board and management. Shareholders should be able to hold directors accountable as needed through certain governance provisions.

Dual-class share structure

A fund will 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 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 which 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 practice 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.

Anti-takeover provisions

A fund will generally vote against anti-takeover proposals, unless structured in a way to give shareholders 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 will vote for reasonable pricing provisions.

Shareholder proposals

A fund will vote case by case on all shareholder proposals, including proposals that focus on environmental and social issues, such as requests for 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. Given that sustainability disclosure is an evolving and complex topic, in considering related proposals, a fund's analysis aims to strike a balance between avoiding prescriptiveness and providing a long-term perspective. Engagements with the company and/or the shareholder proponent may be necessary to determine each fund's vote.

Each proposal will be evaluated on its merits, with particular attention given 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 is likely to support proposals that:

- Address a shortcoming in the company's current disclosure relative to market norms;
- Reflect an industry-specific, materiality-driven approach; and

- Are not overly prescriptive about time frame, cost, or other matters.

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.
- *Approve "other such matters that may come before the meeting" or "any other business."* A fund will generally vote against a proposal to approve "other such matters that may come before the meeting."
- *Adjourn 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.
- *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 physical meeting taking place). To date, data shows virtual meetings can be an effective way to increase shareholder participation and reduce cost. Virtual meetings should not curtail shareholder rights (e.g., by limiting the ability of 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 is available and attendees can call into the meeting or send a pre-recorded message; and
 - Shareholder rights are not unreasonably curtailed.

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