Report
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*Proxy*mity

The primary motivation behind this Report arose from problems we witnessed in shareholders' meetings, caused in part by the actions of so-called proxy advisory firms (from now on *PAFs*). In the introduction, we take two episodes, separated in time, whose contrast summarizes the debate of opposing views that follows. In the first part, we present, in a more conceptual way, the main arguments of a controversy that has dragged on for decades in the American market and hinders a clearer understanding of the role of PAFs. In the second part, we turn to our practical experience in Brazil, where the fog dissipates and the fracture of an incomplete undertaking emerges more explicitly. Finally, we venture some suggestions to try to find a better governance arrangement for all involved.

At the turn of the millennium, our capital markets were experiencing particularly vibrant times: discussions on reforming the Corporation Law were in full swing, the CVM was taking a more active stance in defending minority shareholders' rights, and Bovespa was preparing to launch the Novo Mercado. Within our limitations, Dynamo actively participated in this institutional modernization movement, which proved transformative. Our work involved not only the daily exercise of fiduciary representation toward companies, but also efforts to mobilize other institutional investors and technical interaction with regulatory agencies. Records of this work can be found in the Dynamo Reports of that period and even in the proceedings of a call for contributions from expert agents within the discussions to update our corporate law in the National Congress.

Another initiative, perhaps less remembered, but for us no less remarkable, was the decision to promote and preface the Portuguese edition of Hillary Rosenberg's 1999 book, "*A Traitor to His Class*", published the following year by Editora Campus, under the title: "*Mudando de Lado: A Luta de Robert AG Monks pela Governança Corporativa nos EUA*".

In the preface, we stated: "*Regardless of business reasons, defending the organizing principles of capital markets has always seemed to us a worthy cause, and we began to devote much of our attention to it. This is where Dynamo's encounter with Robert AG Monks and his fight for corporate governance in the United States begins*". The book narrates Monks's "*personal saga*", seeking to awaken American institutional investors, until then scattered and timid minority shareholders, and encourage them to assume their roles as true "owners" of publicly traded companies. Despite the differences in ownership regimes – there, with the predominance of dispersed capital, here, with defined control – learning from the experience of a pioneer, who would become known as the "*entrepreneur of the corporate governance concept*", seemed to us at the time a unique opportunity. Sharing these lessons was almost an obligation.

On this journey filled with obstacles and mishaps, Monks would create *Institutional Shareholder Services* (ISS) in 1985, whose "*goal was to assist pension plans and their managers in fulfilling their fiduciary duty to vote during proxy season. The firm would analyze proxies' corporate governance issues, such as anti-takeover defenses, director and executive compensation, and greenmail practices, based on a set of principles to be determined, and would present its recommendations on voting decisions. These services would be provided in the interest of Monks's larger mission: to induce company owners to feel and act like owners*" (Rosenberg, 2000)[1].

The timing was particularly opportune. After an intense period of hostile takeovers and takeovers enabled by "aggressive" financial arrangements (LBOs), the corporate establishment in America reacted. Supported by creative lawyers, a series of innovations were developed, giving rise to a repertoire of automatic "protection" mechanisms, such as poison pills, greenmail, golden parachutes, staggered boards, among many others that removed power and voice from shareholders in crucial circumstances when deciding the fate of companies. ISS emerged in this turbulent context, with the mission of restoring shareholders' right to protagonism, acting as "principals" rather than merely supporting "agents." The obstacles faced by Monks – and his early partner, Nell Minow – were not minor and are recounted in detail in the book, such as the fierce campaign waged by the chairman

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1 *As usual, and to make the text more fluid, we have provided the full bibliographic references on our website: www.dynamo.com.br*

and CEO of Sears to prevent the "activist" intruder from reaching the board. The image of the resilience of large corporations, a testament to the scale of the challenge, was captured in the iconic phrase of Sears' CFO. Escorting Monks to a crucial meeting at the company's headquarters, as the elevator door opened, the executive blurted out: "*This is the first time bad news has gotten above the 77th floor*".

Bob Monks recently passed away in April at the age of 91. His obituary was filled with extensive accolades, befitting a professional career as intense as it was long-lasting. In addition to being a public servant, entrepreneur, and corporate governance icon, he was a prolific writer and active politician, having run for the U.S. Senate in the state of Maine three times.

On April 22, 2025, in a document entitled "Letter to Eletrobras Shareholders", the chairman of the company's Board of Directors published a statement to the market making critical considerations regarding ISS's performance in the process of recommending votes for the election of members of the board at the AGM the following week.

According to Mr. Falconi, Eletrobras attempted, unsuccessfully, to contact ISS representatives several times, offering to provide essential clarifications to justify the voting recommendations. The company allegedly promoted "*a comprehensive evaluation and rigorous appointment process, aligned with strategic objectives (...), diligently conducted by the Board of Directors and led by the Human Resources and Governance Committee*".

However, ISS recommended voting for the dissenting shareholders' candidates, arguing simply that they "*would likely bring greater independence and diversity*". According to Eletrobras, "*given that the dissenting shareholder group did not present a compelling rationale for the change (no real rationale was presented) or justify how their candidates would add value to the Board, it is unclear how they would add value to the Company*".

Furthermore, based on certain provisions previously contracted by Eletrobras (whose details we will see later), as a corollary of the ISS recommendation, this group of shareholders, partly identified as not being long-term investors, with just over 10% of the company's share capital, would have the right to elect 43% of the board positions, a very unusual asymmetry, which reinforced the company's repudiation:

"Eletrobras strongly disagrees with the ISS recommendation, which disproportionately favors the dissenting candidates without providing a substantive analysis to support this recommendation, especially considering that no evidence justifying the change was presented by the dissenting group, either to Eletrobras, to ISS, or publicly. The ISS recommendation failed to give due consideration to the dissenting candidates' lack of specific skills and new ideas and, more importantly, to the actions Eletrobras is taking to unlock value for the Company.

Notably, "an alternative plan" for the Company that would be better for shareholders than the Board's current strategy was not presented. Certainly not one that justifies replacing nearly 50% of the Board of Directors".

In view of the above, the chairman of the board requests that each shareholder vote "IN FAVOR" of the candidates nominated by the company and "ABSTAIN" on the dissenting candidates.

For some time, we had been considering addressing the role of PAFs in our Reports. The public stance of a Brazilian-listed company, strongly critical of ISS's actions, brought to mind our fond memories of a more distant past, precisely in the week in which the founder, a pioneer of important changes, passed away. In the contrast of such disparate facts and experiences, we saw an opportunity to bring these reflections together.

This Report is not meant to recount ISS's business trajectory, or how those noble initial intentions might have been diluted along the way. As far as we know, Monks divested his stake in ISS in the early 1990s, possibly when he decided to face his third election campaign. Since then, control of the company has changed hands several times. Thomson Financial, Warburg Pincus, RiskMetrics, MSCI, Vestar Capital, Genstar Capital, and Deutsche Borse are some of the key shareholders we have been able to identify over time. In our last Report, regarding Rede D'Or's journey, while highlighting the cohesion of the company's culture, we said: "*Culture is a vital – if intangible – investment factor. Many firms see theirs fade as they scale*" (Dynamo Report 125). Without going into the merits of the specific case of Eletrobras, in which we did not participate directly, assuming, as we believe, the account of the company's chairman is correct, nothing could be further from the founding purposes of ISS than treating the board election process so rashly, thus supporting a substantial change in its composition by embracing candidates without the necessary alignment with the company's long-term aspirations.

As we saw above, ISS emerged as a startup, stemming from a business insight by its founder, who recognized the opportunity to offer a unique service, initially to American pension funds and then expanding to other institutional investors. It was a spontaneous innovation that emerged as a market solution to bridge the enormous gap between ownership and power in an environment where the topic of corporate governance was still in its infancy[2].

Since then, the activity has prospered rapidly, benefiting from a combination of factors, including: (i) the trend toward "institutionalization" of investment activity, with the gradual and continuous growth of institutional investor participation gaining relative prominence over retail investors; (ii) the increase in the number and complexity of proposals submitted to votes at shareholders' meetings, reflected in the depth of the *proxy statements* to be analyzed; (iii) the rise in activism initiatives, requiring shareholders to exercise greater frequency and scrutiny in key corporate decisions; (iv) the regulatory push, through successive normative instruments, which, by establishing a repertoire of legal obligations for institutional investors, consolidated an incentive to hire the services of PAFs.

Regarding this last aspect, some regulatory decisions deserve to be highlighted. The first dates back to 1988, in the *Department of Labor's so-called "Avon Letter"*, which stated that "*the fiduciary act of managing plan assets which are shares of corporate stock would include voting of proxies appurtenant to those shares of stock*" (DoL, 1994). In other words, as an integral part of their fiduciary obligations, those responsible for managing retirement plans subject to ERISA regulation must exercise their right to vote, regardless of the materiality of the issue. Later, in 2003, through Rule 206(4)-6, the SEC compelled investment companies that manage mutual funds to be transparent about their votes, requiring them to file with the regulator and made voting results available to their shareholders. The following year, through two "*no-action letters*," the SEC clarified that investment advisors could transfer the proxy statement review and voting process to an "*independent third party*". Experts identify this regulatory act as the official establishment of the PAFs' activity. This initiative clearly provides a compliance safeguard for institutional investors to balance the fulfillment of their fiduciary obligations while avoiding accusations of conflicts of interest, when exercising the authority to vote on behalf of their clients. At the same time, the SEC also understood that it was not the managers' obligation to verify the merits of relationships between PAFs and issuers, thus leaving room for PAFs to offer governance consulting services and voting advice simultaneously. Subsequent regulation also contributed to an increase in the complexity of voting. An example was the Dodd-Frank Act of 2010, which required *investment advisors* to vote on all matters involving executive compensation (*say-on-pay*).

The fiduciary obligation of institutional investors to act as representatives of their clients' best interests regarding the exercise of voting rights translates into the task of analyzing and voting on each proposal submitted for consideration at the general meetings of invested companies. This is a demanding and time-consuming task. It requires reviewing extensive documentation, often addressing specific matters, in addition to requesting diligence in going through the formal steps of document verification and properly completing voting forms. As an additional challenge, it is worth remembering that meetings are concentrated within a short period of time. In the United States, the season typically runs from April to June. In 2023, 82% of the meetings of companies participating in the Russell 3000 index took place during this period. In Brazil, the concentration is even more dramatic: last year, 90% of meetings took place in April, with 23% of them only on the 30th of that month, the legal deadline. Similarly, in 2024, Japan recorded 30% of all meetings in a single day. This time crunch becomes particularly problematic for large, diversified investors who sometimes need to monitor hundreds or even thousands of meetings, often across multiple jurisdictions.

The combination of these factors makes effectively fulfilling the legal obligation to review and vote on matters an onerous and enormously complex task, perhaps not always feasible to execute with the necessary diligence. On the other hand, we know that a significant portion of investors lack the desire, ambition, or even the mandate to participate in business decisions. This may be because they have little representation in the share capital, or because they are part of passive vehicles, systematic strategies, or even admittedly lack interest in the company's long-term trajectory. In recent Dynamo Reports 123 and 124, we discussed the steep rise of systematic and passive strategies, and how ETFs have become so dominant. In line with an automatic/algorithmic investment proposition, lacking any discretionary merit, these vehicles often compete with each other by charging low fees. In other words, for these participants, the benefits perceived in voting due diligence are diffuse, and their fee structure does not support the costs of internalizing these responsibilities. For long-term investors with a genuine interest in producing weighted votes, the challenge is that of free-riding: the individual investor bears the private costs of due diligence, while the benefit of a good vote is shared with everyone else. In theory, this collective action problem can discourage the production of information, resulting in worse votes for everyone.

2 *Recording this point is important because, as we will see later, the most vocal critics of PAFs claim that the activity was the exclusive result of regulatory action and, as such, must also be undone by regulatory action. This is not true, since the ISS foundation precedes specific regulation.*

And so we find ourselves faced with a dilemma. On the one hand, shareholders of publicly traded companies must express their governance rights through votes at annual meetings. Well-founded votes reflecting the diversity of shareholder preferences are the basis for legitimizing corporate decisions. On the other hand, issues involving interests, mandates, and diffuse incentives conspire against the effective implementation of these principles. It is in this context that PAFs emerge as a potential market solution to increase the efficiency and quality of fund votes while simultaneously reducing the costs of acquiring information, improving *economics* and encouraging participation. It is no coincidence that the regulator, recognizing the dilemma, endorsed this spontaneously emerging innovation, formally providing that tasks related to the voting process could be performed by specialized third parties, granting the appropriate powers of representation.

Based on the combination of these economic fundamentals and regulatory drivers, the PAF activity has steadily prospered. An intrinsic characteristic of the business is scalability, as the tasks of producing information and facilitating vote transmission are scalable, allowing fixed costs to be diluted as the services expand. Additionally, for larger clients with operations in different geographies, a global service provider is highly valuable, as it overcomes the need to hire multiple local players. Thus, the industry's evolutionary organizational structure has led to a formation in which the two largest players currently hold approximately 90% of the global market. These are ISS, a pioneer, operating as we have seen since 1985, and Glass Lewis, which commenced in 2003, both headquartered in the United States. As a *first mover*, ISS basically expanded organically, always remaining the market leader. GL has already gone through a long journey of acquisitions of local participants, including: Esgaia (Sweden), CGI (Australia), IVOX GmbH (Germany), Alembeeks (Spain) and Proxinvest (France).

With such market dominance and the widespread understanding that the two main PAFs would have substantial power to influence voting results and, consequently, the governance design and the very fate of the companies, the steps of both firms have been closely followed inflaming a fierce debate between critics and defenders.

In summary, the main accusations/objections are as follows:

(i) Conflict of interest: PAFs are for-profit companies that, in addition to providing voting advisory services, have also begun (notably ISS) to provide governance consulting services to companies (issuers). In practice, the conflict is described as follows: with the proxy advisory arm, the PAF issues a negative voting recommendation, rejecting, for example, the executive compensation package. With the consulting arm, it offers a solution for the client to address the problem. Another manifestation of the conflict would be when the company is already a client of the governance consulting service, and then, in theory, there could compromise the objectivity of the proxy assessment given the incentive to preserve this relationship by avoiding opposing recommendations;

(ii) Questions about the quality of advice: PAFs use general guidelines and benchmark-based policies that ultimately generate *de facto* governance standards for companies to follow. The use of *benchmarks* leads to a one-size-fits-all, undifferentiated approach;

(iii) This lack of granularity would lead to a high percentage of imperfections and errors. Some critics cite surveys in which 42% of respondents say they identified some type of factual error or omission (SOC, 2019), while others mention that up to 95% of respondents claim that PAFs provided incomplete information to investors (BR, 2023).

(iv) Lack of transparency in the criteria used by PAFs, particularly in the methodologies that support opposing voting recommendations. A recurring complaint from companies is that, in practice, they lack sufficient time to discuss and present clarifications, as PAFs do not provide sufficient opportunities for dialogue. Anticipating a few paragraphs, in light of our experience in Brazil, this practical disregard for frank dialogue with other interlocutors seems to us to be a central criticism of PAFs' performance;

(v) The significant influence of PAFs, these "mysterious private company(ies) controlling control corporate America" (Celarier, 2018). Analyzing the voting patterns of diverse samples, statistical studies conclude that, in practice, the vast majority of institutional investors simply outsource their voting decisions to PAFs[3]. Sometimes, votes are submitted through the PAFs' proprietary electronic platforms, which offer additional functionality to investor-users, allowing them to follow their recommendations by simply pressing a command. This "automatic" adherence to PAFs' recommendations has become known as *robo-voting* . Some lawyers suspect that *robo-voting* violates fiduciary duty (Brannon, 2018);

(vi) Despite this high power to influence votes, PAFs face only "modest regulation" and have no direct economic interest in the outcome of votes;

(vii) Academic studies find no empirical evidence that PAFs' voting guidelines and governance policies are associated with increased shareholder value, effective improvements in company governance, or significant

3 *We will see the discussion of academic articles later.*

progress in implementing the social agenda they advocate;

(viii) The high market concentration of the two largest PAFs effectively establishes a duopoly in the industry.

Faced with this repertoire of detractions accumulated over two decades, the PAFs and their allies tried to construct defense arguments:

(i) PAFs emerged precisely to address the conflict that arose when institutional investors supported company management seeking to protect their own interests rather than represent their clients' interests. Data compilation and governance ranking services are not used as inputs in the vote-assessment process. They are simply offered to clients, and they may or may not use them in their own analyses;

(ii) The most vocal criticism of PAFs' actions generally comes from groups whose interests are aligned with the companies, not the clients who pay for their services. Recommendations against company management, which represent "only" about 4% of the total votes submitted, are never well received by the establishment;

(iii) Some institutional investor groups strongly defend the role of PAFs, asserting that outsourcing this service is essential for them to comply with regulatory requirements to vote on every matter for numerous companies in their portfolios. Also, supporters of governance and stewardship believe that PAFs play a fundamental role in shareholder democracy. They function as an oversight body, providing additional accountability for companies, increasing accountability and helping to reduce misalignments.

(iv) There are no artificial barriers in the industry. History shows that several new entrants have attempted to establish themselves in a market that is open to competition. Furthermore, PAF services are acquired exclusively and voluntarily by sophisticated professionals, operating in a highly competitive sector, who are subject to fiduciary duty rules and rigorous legal standards. If these qualified clients continue to acquire the services, it is because they see value. Similarly, some major asset managers such as BlackRock, Fidelity, Vanguard, and State Street have already established an internal structure responsible for the due diligence of votes for their fund families. This in-house solution represents a counterbalance to the supposed "duopoly" power in the industry and may eventually be offered as a service to third parties in the future.

(v) The PAFs' job is to synthesize data, analyze proxy statements, and formulate voting recommendations that flow from their clients' policies and guidelines. Indeed, most large institutional investors have their own governance principles, based on which the PAFs develop recommendations tailored to each of these clients. In other words, these large investors internally develop a vision of how to access the matters to be voted on, using the PAFs to assist them in managing the votes, rather than simply relying on these companies' general guidelines.

(vi) Therefore, the influence of PAFs on investor votes would be much less than some academic studies suggest. Analysts would be confusing correlation with causation, since in this important group of investors, it is more appropriate to say that PAFs follow investors' governance policies, rather than determining them;

(vii) Regarding errors. In a letter to a group of senators (ISS, 2018), the ISS states that, based on a sample of 6,400 meetings in 2017, the rate of material errors reported by clients was approximately 0.76%. In a 2020 document, based on 17,000 votes, the SEC found a "trivially low" rate of factual errors identified by companies, of around 0.3% (SEC, 2020).

Given the scope of the controversy and the relevance of the matter, it's not surprising that the authority empowered to arbitrate the matter has been called upon on several occasions to comment. But the scale of the difficulty is such that even the SEC has not yet been able to issue a final ruling. Without delving into the intricacies of legal technicalities of a legal regime far removed from our reality, it's worth briefly reviewing some recent episodes in the regulatory debate. In September 2019, the SEC issued a directive stating that PAFs' voting recommendations should be considered "solicitations" under Rule 14a-1(i) of the Exchange Act of 1934. In short, the "solicitor" classification imposes a series of formal obligations and constraints on PAFs, representing a clear victory for their critics. ISS immediately filed a lawsuit alleging that the SEC and its chairman, Jay Clayton, had exceeded their statutory authority. Even so, the following year, based on that interpretation, the SEC required PAFs to provide transparency about potential conflicts of interest and determined that they facilitate engagement with the companies subject to their recommendations.

In June 2021, the newly appointed SEC Chairman, Gary Gensler, announced he would revisit the issue. Indeed, the following year, the regulator overturned several previous decisions favorable to those who advocated for restrictions on the activities of PAFs, rescinding, for example, the obligation for them to engage with companies. The examination of the merits of the "solicitor" status would be left to the courts. And so, finally, in July 2024, almost five years after the initial decision, the Federal Court for the District of Columbia, after an extensive lexical and legal analysis of the meaning of the word "solicitation" and its legal context, invalidated the previous interpretation that PAFs were "solicitors," reversing the resulting legal obligations. It turns out that this important victory for PAFs may not yet be definitive: representatives of the NAM (National Association of Manufacturers), long-time adversaries, have admitted to contesting the decision.

After the SEC's second ruling, the matter escalated back to Congress. In April of this year, the Capital Markets Subcommittee, part of the House Financial Services Committee, held a hearing titled " *Exposing the PA Cartel: How ISS and Glass Lewis Influence Markets* [4]." Five witnesses were heard, four of whom criticized the PAFs' practices, advocating for greater regulation and federal scrutiny, while only one took the opposite position: Nell Minow herself, Robert Monks' partner in the early days of ISS. The debate was supposed to be technical, but the witnesses were questioned under the spotlight of a bipartisan debate. And here we need a quick explanation to contextualize this deviation.

As we saw in Dynamo Reports 121 and 122, especially in the post-pandemic years, the number of investor motions on ESG issues submitted for consideration at shareholder meetings has increased significantly. Sensitive to everything related to voting rights, the PAFs included criteria on sustainability issues in their general guidelines and specific advisory boards. With growing political polarization, when Republicans treated ESG as a "left-wing agenda," the PAFs were accused of promoting this "ideological movement." It is worth noting that the SEC's groundbreaking 2019 decision was issued during the first Trump administration, supposedly under a pro-business orientation. When the decision was reversed in 2021, the SEC was already being led by figures linked to the Biden administration. At the recent Congressional hearing, congressmen preferred to explore this bipolar view, in which the Trump-SEC allegedly persecuted the PAFs, which were "cleared" by the Biden-SEC. Thus, some representatives saw excessive influence from this "unregulated duopoly" formed by "private companies controlled by foreign shareholders," which "determine the results of American shareholder votes," while others understand that these companies operate in an open market, where they are freely chosen by their clients, providing them with an important service for the prudent exercise of their roles as owners, when they often have to contend with the interests of "representatives of corporate America." Therefore, the first group believes that Congress needs to intervene by imposing limits on the PAFs' activities, while the second sees no reason even for discussion in the House.

The debate has also sparked academic interest from the outset. As expected, the abundant historical voting records offer an attractive database for empirical studies. Thus, on the one hand, several econometric studies find evidence that PAFs effectively influence their clients' votes. Estimates of this influence range from 14% to 33% (Cai et al. 2009; Kahan and Rock, 2010; Malenko and Shen, 2016). Another study notes that approximately 20% of other shareholders' votes are cast within three business days of the ISS's recommendations being released (Placenti, 2018). It was also found that the proportion of *robo-voting* based on ISS recommendations grew from 7% in 2007 to 23% in 2021, and from 0% to 9% in the same period for GL (Shu, 2024).

On the other hand, there are also several publications that reach different conclusions, stating that the influence of PAFs on investors would be much less. Adjusting the sample for other elements related to governance quality, Choi et al. (2010) estimate that ISS recommendations are capable of changing 6% to 10% of votes, and conclude: "*The ISS is not so much a Pied Piper (of Hamelin) blindly followed by institutional investors as it is an information agent and guide, helping investors to identify voting decisions that are consistent with their existing preferences*". Consistent with this result, a survey conducted by the Rivel Research Group (Copland, 2018) reveals that only 7% of institutional investors interviewed admit that PAFs are the main influencers of their policies. In another survey (McCahery et al., 2015), more than half of investors agree that PAFs help them make better decisions, but they are the ones who ultimately decide. In other words, the PAFs' role would be *complementary* and not necessarily a substitute.

While past empirical studies inferred correlations based on general guidelines, or *benchmarks,* developed by PAFs, more recent research emphasizes the more "customized" nature of these services. Thus, Shu (2024) finds that PAFs learn from the votes of dissenting investors, notably the "better-informed" large investors, and from there, they change their own recommendations – that is, they not only influence, but are also influenced. Hu et al. (2024) state that "*most institutional investors play an active role in shaping the recommendations they receive from proxy advisors. In particular, they work with the proxy advisor to develop custom voting policies, i.e., the set of rules and standards to be applied by the proxy advisor that reflect the shareholders' voting ideology. These custom policies allow the proxy advisor to issue custom recommendations tailored to the clients' preferences and beliefs*". Using proprietary GL data from the 2011 to 2017 meeting seasons, the authors find that about 80% of funds use customized voting policies, the same proportion revealed by ISS in Congressional testimony in 2023.

The controversy surrounding the role of proxy advisory firms (PAFs) has dragged on for over twenty years and shows no signs of ending. A frequent critic, JPMorgan CEO Jamie

4 *This wasn't the first time the issue had reached the U.S. Congress. In 2013, the same subcommittee had already held a hearing titled "Examining the Market Power and the Impact of PAFs", and in 2023, another hearing was held titled "Oversight of the PA Industry".*

Dimon – who has faced some dissenting recommendations regarding his compensation packages – recently resumed his harsh rhetoric: "*We have to get rid of people like ISS and Glass Lewis*," they "*invaded our system… they're a cancer*" (Pensions & Investments, 2025). Marcie Frost, CEO of CalPERS – the pension fund that in 2024 cast 95,000 individual votes across 10,000 shareholder meetings in 63 countries – came to their defence: "*While we ultimately make our own decisions, PAFs provide valuable research, grounded in governance best practices. Their work enhances transparency, promotes accountability, and empowers shareowners to exercise their rights effectively. Eliminating these firms would not only harm institutional investors, but also weaken the corporate governance system as a whole*" (Prete, 2025). Nell Minow reacted even more emphatically: "*He's shooting the messenger. Dimon is more than welcome to compete in the market if he believes he can offer a better product*" (LinkedIn). And so, the media constantly provides fuel for both sides. The regulator took a stance and then backtracked. The courts endorsed the reversal. Academia also arms both camps, drawing correlations without being able to prove causation. Meanwhile, Congress has brought the debate into the political arena, reducing the likelihood of a consensus decision.

And what is our position here at Dynamo?

When we observe this conceptual debate between critics and defenders **in the U.S. market**, our instincts as active investors tend to align more with the arguments that highlight PAFs' contribution to a more balanced functioning of the capital markets. For more informed investors – knowing that recommendations are increasingly customized – the complementary role of PAFs seems to help shareholders express their views, playing an important role in aggregating preferences. For smaller funds or those less concerned with the long-term effects of voting, PAFs aggregate information and simplify the process, helping make it economically viable for these vehicles to remain an affordable option for their clients. In the U.S., given the positional advantage held by the establishment – which enjoys broad discretion in conducting corporate governance discussions – it is clear that PAFs help channel investors' voices and bring greater representation and balance to the governance agenda. The recommendations opposing excessive compensation packages are clear signs that these demands are heading in the right direction. In other words, when following the conceptual debate from a distance, we see merit in the work of PAFs.

However, when we turn to Brazil, the reality has been different. Unfortunately, our attempts to engage with PAFs to discuss the interests of conspicuous investors – as we believe we qualify – have been frustrating. We have not had access to interact. We've also noticed companies voicing similar complaints. Like Eletrobras, these companies say they seek dialogue but find no local interlocutors. It appears that the PAFs do not have a properly sized team dedicated to Brazil. As a result, they vote by the book, not by analyzing specific cases that often fall outside the scope of the general rules their models are based on.

ISS only translated the homepage of its website into Portuguese[5], and its recommendation to companies is to engage through the "ISS Help Center." Regarding Brazil, the firm makes two documents available: (i) Brazil Proxy Voting Guidelines (ISS, 2024a), which lays out general voting recommendations across six issue blocks (operational items, board of directors, capital structure, compensation, ES issues – environmental and social – plus a chapter on other topics such as M&A, waivers of mandatory tender offers for control, related-party transactions, among others); (ii) Brazil Remote Voting Card (FAQ) (ISS, 2024b), a frequently updated Q&A document, aligned with local regulations through August 2024, covering key concepts and operational procedures for filling out and submitting remote voting ballots. Aside from the U.S. and Canada, Brazil is the only country in the Americas with dedicated material, which should, in theory, signal some level of ISS's commitment to our market. Similarly, Glass Lewis

5 *Even then, apparently without due care. The service "engagement letter writing," for example, was translated as "escrevendo carta de noivado" (which in Portuguese means "writing an agreement to get married") ... Glass Lewis didn't even go that far – we didn't find any material in Portuguese.*

Dynamo Cougar x Ibovespa Performance in R$ up to June 2025

Period	Dynamo Cougar	Ibovespa*
120 months	199.1%	161.6%
60 months	24.6%	46.1%
36 months	42.4%	40.9%
24 months	16.2%	17.6%
12 months	10.4%	12.1%
Year (2025)	20.6%	15.4%
Month (June)	-0.1%	1.3%

(*) Ibovespa closing. Indices are presented as economic reference only, and not as a benchmark.

(GL) offers a comparable document titled "Brazil – 2025 Benchmark Policy Guidelines" (GL, 2025).

In several points of the "guidelines," ISS refrains from making specific recommendations and advises a case-by-case assessment. And this is precisely the central issue. From our perspective, when it comes to shareholder participation, each item on a shareholder meeting must be examined with a magnifying glass – considering history, context, stakeholders, circumstances, and nuances. Without that, general guidelines and quantitative rankings become dangerously superficial. Properly understanding what constitutes an "independent director" involves far more nuance than any formal definition can capture. Sometimes, a so-called "overboarded" director may contribute more than someone with more availability but lacking executive experience. Likewise, the qualifications of individual candidates must be weighed in light of the board's collective instance. We have numerous reservations about the automatic application of broad definitions, having learned through experience that good governance must be grounded in the present and historical reality of each specific case. That's why at Dynamo focus is treated as another pillar of our investment approach. Where a high level of granularity is required to meet a standard of excellence, the scope of action must be properly scaled. This, to us, seems like a structural weakness in the PAF business model: there is a point beyond which scale economies clash with delivery quality – where the economics of outsourcing may no longer make sense. And the situation worsens with PAFs' lack of communication, which allows them to make errors without enabling informed criticism or constructive collaboration.

The case of Eletrobras – which we use here as a synecdoche to save our reader's time, as we at Dynamo have a collection of other examples – seems to illustrate the hidden eloquence of details. The shareholder meeting contained peculiarities: there was the possibility of cumulative voting, as well as provisions for separate elections by preferred shareholders. Furthermore, depending on whether an agreement with the federal government was approved in an extraordinary meeting immediately prior to the annual general meeting (AGM), the number of board seats available to common shareholders would be automatically reduced from nine to six. In other words, there were crucial specifics that only a dedicated analysis would be able to capture.

ISS's recommendation to vote for dissident candidates violated its own guidelines, which suggest supporting management when the election is conducted by a slate, as long as certain criteria are met – which appears to have been the case here. So, since ISS couldn't contradict its own policy, it likely misinterpreted the situation as a separate election, which would lead to a recommendation in favour of minority shareholders. Additionally, by failing to consider the conditional nature of the extraordinary meeting, it overlooked the gravity of endorsing a dissident group that would effectively take over the board, despite holding only a small equity stake – not to mention their "*lack of specific skills*" or apparent disregard for the company's "*long-term*" concerns.

This careless voting guidance – concerning in itself – may lead to even more damaging unintended consequences when we take into account other surrounding factors. Our system for electing board members includes two clever and well-suited mechanisms: cumulative voting and separate elections for minority shareholders – designed to protect minority interests and ensure greater board representation. Naturally, the basic premise behind this legal device for minority representation – which enables perspectives other than the controlling shareholder's – is to always uphold the best corporate interest, not individual agendas.

If that's not the case, the combination of open access, a superficial evaluation of candidates, mechanical filling out of remote ballots, the proliferation of virtual-only meetings, in addition to stock lending (which allows disproportionate political power without proportional economic commitment) can engender a merely formal participation – or worse, can lead to outcomes that are far removed from the company's long-term best interests. This scenario becomes even more critical in corporations. The combination of the above elements in a corporation's shareholders' meeting can severely hinder the formation of a cohesive board aligned exclusively with the company's interests[6].

We are by no means discrediting the value of our legal framework, which has evolved to promote balance and governance. On the contrary, our history at Dynamo of active engagement in a landscape long dominated by controlling shareholders has taught us to value every inch of progress in participation. We simply want to stress that

6 *Cumulative voting, which has been part of Brazil's Corporate Law since 1976, was not invented by Brazilian jurists but rather copied from American law, where it had been introduced a century earlier. Despite the time gap, the original motivation was the same: to increase minority shareholder representation in the face of organized majority power. Later, around the turn of the 20th century, the U.S. saw a strong campaign against this mechanism, arguing that cumulative voting increased the risk of a divided board – an argument known as "factionalism" (cf. Rose, 1990 and Haan, 2023). In other words, history teaches us that the balance of governance cannot be resolved ex ante through conceptual and abstract legal provisions. Cumulative voting can serve as a valuable channel for healthy representation of minorities, or as a vehicle for undesirable fractures within the board. That uncertainty must be resolved through open dialogue among shareholders, considering the specific context, case-by-case, of the actors involved.*

there can be no room for superficial approaches or carelessness when exercising voting rights – whose extraordinary power lies in determining the future of the company. That is why voting is considered a fundamental right of minority shareholders and a fiduciary duty of controllers. Worse still is when a major vote aggregator for foreign investors like ISS makes decisions without even considering alternative views – even those coming from long-term investors with a strong track record of acting in the company's and governance's best interests.

So, how could we improve this arrangement to avoid undesirable outcomes? Here, perhaps a combination of initiatives, among which we venture to suggest:

(i) PAFs should recognize that manuals containing general guidelines, prepared without due grounding in factual, historical, and localized experience, are insufficient to guide informed votes, much less to contribute to a robust collective governance process. They should, therefore, seek closer engagement with certain stakeholders who have a proven track record of acting in the long-term best interests of companies – of which there are many in Brazil. In short, they could themselves adopt the good governance practice of "Active Listening.";

(ii) All stakeholders interested in a healthy voting process need to organize themselves to overcome the chronic problem of limited preparation time for the meeting. In other words, company directors, shareholders, and PAFs should plan ahead for interactions. We know that an industry is beginning to establish itself to offer these services. This introduces an additional *layer* and higher costs for companies, but it can be a path forward. This planning also applies to investors, especially long-term ones, who have greater confidence that they will be part of the company's capital structure six months ahead, say, at the time of the next AGM.

(iii) Increase transparency in the justifications for voting recommendations, especially on matters of disagreement. Somewhere, on the companies' investor relations website or in documents attached to the voting ballot, shareholders should be able to find side-by-side arguments from both parties – PAFs and company management – as supporting material to inform an even more informed decision;

(iv) In order to reduce the incentive for the practice of episodic share rental that aims exclusively to collect votes at shareholders´ meetings, one could consider extending paragraph 6 of article 141 of Law No. 10,303 (that changed Brazilian Corporation Law) also to cases of suffrage by multiple vote, and not only in situations of separate elections[7];

(v) Greater participation by local investors. Because US legislation has linked voting to the fulfillment of institutional investors' fiduciary duty, they feel obligated to vote. Here, the regulatory push has been more muted, as a self-regulatory directive with a more limited scope[8]. And so, we still observe a certain investor apathy regarding attendance at shareholders´ meetings. As a result, the relative participation between foreign and local investors has become asymmetrical. We've had a higher quorum, but, with investors with a geographic and economic focus more dispersed. The presence of local investors willing to engage in early interactions would be very welcome;

(vi) The widespread adoption of online meetings has also had the unintended consequence of making shareholder meetings even more impersonal and procedural. In the past, C-level executives and even members of the controlling families/shareholders attend in-person meetings. It was an opportunity for interaction and dialogue. Today, hosts have also come to prefer a more distant formalism.

We have said, "*The active approach is one of the four 'nitrogenous bases' of our DNA at Dynamo. It is the conduit through which we expand the power of our fundamental analysis work and the reach of our prerogative as a long-term investor*" (Dynamo Reports 114 and 115). Therefore, interacting with other shareholders and members of management, seeking dialogue with those interested in the long-term future of companies, is a fundamental element of our management.

A basic premise of a democratically healthy capital market is the presence of informed and diligent shareholders. To that end, it is essential to foster a transparent and balanced institutional environment, where company management, shareholders, and their legal representatives can present their viewpoints, seeking to gain support through the persuasive power of technical arguments.

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7 *Art. 141 § 6: "Only shareholders who prove uninterrupted ownership of the participation required therein for a period of at least 3 (three) months immediately prior to the holding of the general meeting may exercise the right provided for in § 4". § 4 deals with the election by separate vote.*

8 *These are Anbima's "regulatory council guidelines and best practices" for investment funds that leave discretion to the exercise of voting rights at meetings when the shareholding in the asset is less than 5%.*

DYNAMO COUGAR x IBOVESPA (Performance in US$)*

Period	DYNAMO COUGAR Year	DYNAMO COUGAR Since Sep 1. 1993	IBOVESPA** Year	IBOVESPA** Since Sep 1. 1993
1993	38.8%	38.8%	7.7%	7.7%
1994	245.6%	379.5%	62.6%	75.1%
1995	-3.6%	362.2%	-14.0%	50.5%
1996	53.6%	609.8%	53.2%	130.6%
1997	-6.2%	565.5%	34.7%	210.6%
1998	-19.1%	438.1%	-38.5%	91.0%
1999	104.6%	1,001.2%	70.2%	224.9%
2000	3.0%	1,034.5%	-18.3%	165.4%
2001	-6.4%	962.4%	-25.0%	99.0%
2002	-7.9%	878.9%	-45.5%	8.5%
2003	93.9%	1,798.5%	141.3%	161.8%
2004	64.4%	3,020.2%	28.2%	235.7%
2005	41.2%	4,305.5%	44.8%	386.1%
2006	49.8%	6,498.3%	45.5%	607.5%
2007	59.7%	10,436.6%	73.4%	1,126.8%
2008	-47.1%	5,470.1%	-55.4%	446.5%
2009	143.7%	13,472.6%	145.2%	1,239.9%
2010	28.1%	17,282.0%	5.6%	1,331.8%
2011	-4.4%	16,514.5%	-27.3%	929.1%
2012	14.0%	18,844.6%	-1.4%	914.5%
2013	-7.3%	17,456.8%	-26.3%	647.9%
2014	-6.0%	16,401.5%	-14.4%	540.4%
2015	-23.3%	12,560.8%	-41.0%	277.6%
2016	42.4%	17,926.4%	66.5%	528.6%
2017	25.8%	22,574.0%	25.0%	685.6%
2018	-8.9%	20,567.8%	-1.8%	671.5%
2019	53.2%	31,570.4%	26.5%	875.9%
2020	-2.2%	30,886.1%	-20.2%	679.0%
2021	-23.0%	23,762.3%	-18.0%	538.9%
2022	-7.8%	21,899.9%	12.0%	615.4%
2023	32.1%	28,965.0%	31.8%	842.8%
2024	-30.8%	20,002.8%	-29.9%	560.7%
2025* **	37.2%	27,441.8%	31.0%	734.5%

(*) Considering that this is a Fund that has existed since 1993. the figures were converted into dollars (US$) as a way to eliminate the volatility of the Brazilian currency throughout the period and. in this way. minimize the risk of possible misinterpretations by the reader in the case of an investment decision/ divestment. Dynamo Cougar is a fund that invests in NAV of an equity investment fund and is currently closed for new investments. (**) Ibovespa closing price. The index is presented as a mere economic reference and does not constitute a target or benchmark for the Fund. (***) Return up to June 2025.

From there, informed shareholders will be able to diligently exercise their rights – among which the fundamental right to vote stands out. Outside of this framework, we risk squandering the proven benefits of collective shareholder action in building consensus at shareholder meetings.

Rio de Janeiro, July 10th, 2025.

Additional information:

- **Inception:** 09/01/1993
- **Objective:**
  Deliver NAV appreciation above inflation in a medium/ long term horizon by investing at least 95% (ninety-five percent) of the fund´s net worth in the NAV of Dynamo Cougar Master Equity Investment Fund ("Master Fund")
- **Target investor:** Qualified investors
- **Status:** Closed for new investments
- **Redemption grace period:** 12 months grace period or liquidity fee of 3% for redemption within this time period*
- **Redemption NAV:** D+12 (calendar days)*
- **Redemption payment:**
  D+2 (working days) after NAV conversion*
- **Applicable taxation:** Equity
- **Anbima´s classification:** "Equity – Free Portfolio"
- **Management fee:** 1.90% per year for the Fund + 0.10% for the Master Fund
- **Performance fee:** on the top of IPCA + IMAB*
- **Average monthly net worth last 12 months:**
  R$ 5,458.3 Million.

(*) Detailed description provided in the bylaws

To find more information about Dynamo and our funds. or if you wish to compare the performance of Dynamo Cougar to other indices in different time periods. please visit our website:

www.dynamo.com.br

DYNAMO

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