Brunswick Group
GD Capital Aberto

The Governance Narrative

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September 18, 2018

BRUNSWICK

MarketWatch

Brazilian firms to pay largest-ever foreign bribery fine

Corruption probe relates to Petrobras scandal that has engulfed Brazil

December 22, 2016

FINANCIAL TIMES

VW faces backlash over corporate governance and pay

Investor advisory groups recommend votes against new compensation and board members

May 9, 2017

FINANCIAL TIMES

Development bank wants Batista family out of JBS

BNDES has 21 per cent stake in the scandal-hit meatpacker

September 21, 2017

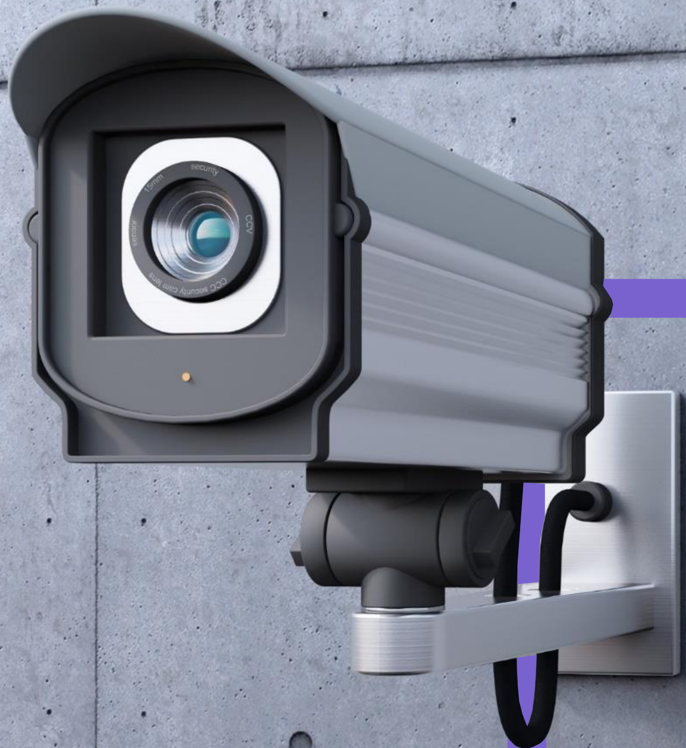
Valor ECONÔMICO

TCU decide ouvir Petrobras e ministérios sobre governança na estatal

August 16, 2018

> Further, Equifax officials reported that the company has implemented a new governance structure to regularly communicate risk awareness to Equifax's board of directors and senior management. The new structure requires the company's Chief Information Security Officer to report directly to the Chief Executive Officer. Officials said this should allow for greater visibility of cybersecurity risks at top management levels.

Data Protection: Actions Taken by Equifax and Federal Agencies in Response to the 2017 Breach - The United States Government Accountability Office (GAO), August 2018



The breakdown of trust requires new levels of transparency

The road to increased transparency

The governance narrative

REGULATORS

The "checkbox" approach is not sufficient anymore

COMPANIES

Compliance with enhanced disclosure requirements is only the first step

INVESTORS

Pressure from investment community amounts

The need for the governance narrative

The "checkbox" approach is not sufficient anymore

Governance crises	Continuous enhancement	Scrutiny and pressure
■ Operational crises are becoming governance crises. What were the management processes in place to foresee and manage the problem? What was the board oversight in this area?	■ Regulators seek to respond to scandals, to improve the framework and to develop new standards. Issues are typically dealt with by requiring enhanced disclosure.	■ The spotlight of disclosure leads to public scrutiny and pressures on companies to change the way they approach governance.

Nothing stands still in the world of corporate governance – continuous process of response, improvement and development, leading to enhanced disclosure

Trends in investment industry also push the demand for the governance narrative

Pressure from investment community amounts

Shift on how investors and asset owners view ESG factors	Money shifting from active to passive investing
▪ Motivated by risk & returns: investors thinking more systematically about risks of unexpected, costly issues arising from ESG factors than can hurt long term returns. ▪ 78% of respondents of survey* conducted by Morgan Stanley listed risk management as an important factor driving adoption of sustainable investing. ▪ 77% of respondents also indicated the importance of returns, accrued through positive corporate reputation, reduced operating costs, new market opportunities and ethical management practices. ▪ CEO of BlackRock (Larry Fink) – "A Sense of Purpose".	▪ 20 years ago passive funds owned 5% of the market. Today they own about 25%. At the current rate of transition, they will own 50% within 10 years. ▪ Passive shareholders BUT active owners. ▪ As the CEO of Vanguard (F. William McNabb) says: "We're going to hold your stock when you hit your quarterly earnings target. And we'll hold it when you don't. We're going to hold your stock if we like you. And if we don't. We're going to hold your stock when everyone else is piling in. And when everyone else is running for the exits. That is precisely why we care so much about good governance"

* "Sustainable Signals – Asset Owners Embrace Sustainability"
Morgan Stanley Institute for Sustainable Investing and Morgan Stanley Investment Management, June 13, 2018

How companies are responding

Compliance with enhanced disclosure requirements is only the first step

	Challenge	Approach
Compliance	▪ Tackling disclosure only from legal standpoint may partially backfire, as in the UK executive remuneration** disclosure implementation, in which excessive explanation and legal detailing made it difficult to distinguish the "wood from the trees", leading to consultations by UK government to increase clarity around the disclosure.	▪ Draw from the challenge posed by the narrative development to come up with an integrated disclosure strategy.
	Challenge	**Approach**

Narrative	▪ Developing the governance narrative:
	  ▪ 'Soul searching': review internal processes, audit external perceptions about governance and benchmark against peers and best practices;
	  ▪ Integrating governance narrative to the overall investment story.
		▪ Governance should not be approached as 'checklist items'. Leveraging the requirement for increased transparency and using as an opportunity for expanded engagement is key.

**"Disclosure of executive remuneration in UK; recent developments and US comparison" by Peter King, Lauren Pau and Rebecca Grapsas, Weil, Gotshal & Manges LLP, February 2013

CEO Pay Ratio Disclosure in US – Risks and Strategies (Brunswick Advice Note, March 2018)

Potential challenges

- **Comparison effect** - not only for investors, but companies' own employees - catching general public attention;
- Higher CEO pay ratio relative to investment peers may **create openings for shareholder and labor activists**;
- Government may take the ratio into account when considering **policies that may impact companies located in their states or districts**.

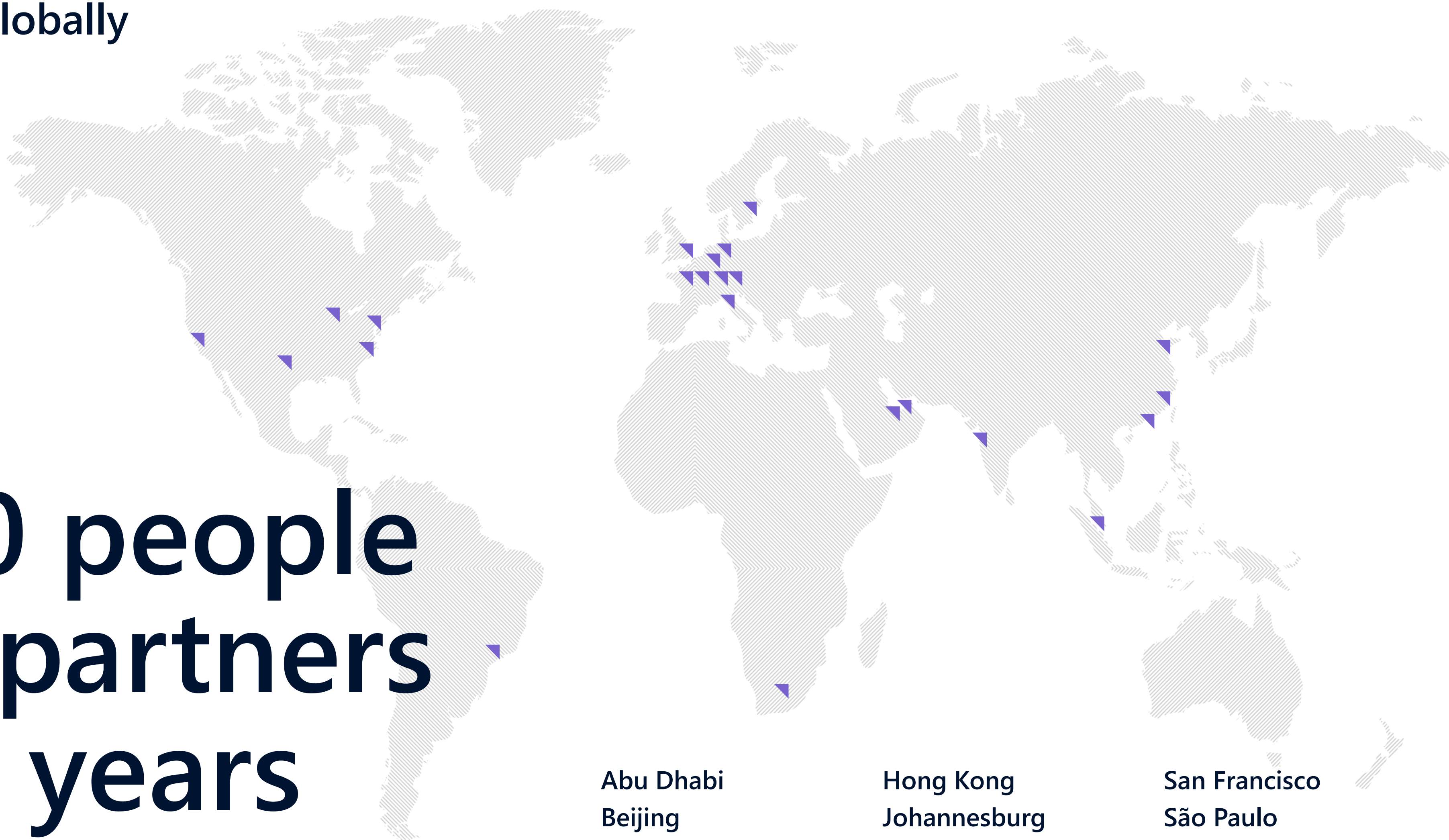
Some findings

- The Equilar survey found that the **average ratio will be 140-to-1, with wide variation** by company size, distribution chain complexity, and industry.
- Ratios are likely to be especially high in companies with many part-time workers, such as retailers and restaurants.
- Large companies tend to have above-average ratios, given their generally higher CEO compensation packages. This fact is also true for companies with a high percentage of employees outside the U.S.
- Few examples:
  - Manpower: 2,438 to 1
  - Six Flags: 1,804 to 1
  - Blackstone: 575 to 1
  - Carlyle Group: 1 to 1

Approach

- This is **not only a regulatory disclosure requirement,** it is subject to wider scrutiny and so preparation is key.
- **Engaging all audiences effectively,** using this moment to educate about compensation and articulate a narrative tying successful implementation of a strategic vision to executive pay.
- The wide range of ratios reported **underscores the need for every company to understand where it falls and how its ratio affect its communications strategy**.

Working Globally



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One firm

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Beijing
Berlin
Brussels
Chicago
Dallas
Dubai
Frankfurt

Hong Kong
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