



2020

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

PORTUGAL



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Guidelines Introduction

These guidelines are intended to supplement Glass Lewis' Continental Europe Policy Guidelines by highlighting the key policies that we apply specifically to companies listed in Portugal and the relevant regulatory background to which Portuguese companies are subject, where they differ from Europe as a whole. Given the growing convergence of governance regulations and practices across companies subject to European Union rules and directives, Glass Lewis combined our general approach to continental European companies in a single set of guidelines, the Continental Europe Policy Guidelines, which set forth the underlying principles, definitions and global policies that Glass Lewis uses when analysing continental European companies.

While our approach to issues addressed in the Continental Europe Policy Guidelines are not repeated here, we will clearly indicate in these guidelines when our policy for Portuguese companies deviates from the Continental Europe Policy Guidelines.

CORPORATE GOVERNANCE BACKGROUND

The Portuguese Commercial Code (Código das Sociedades Comerciais) and the Portuguese Securities Code (Código dos Valores Mobiliários), enforced by the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários or "CMVM") provide the legislative framework for regulation and basic principles of corporate governance in Portugal. CMVM approved Regulation 1/2010, which made it mandatory for listed companies to implement the CMVM Corporate Governance Code (Código de Governo das Sociedades da CMVM), or similar code. A Code of Corporate Governance (Código de Governo das Sociedades do IPCG) published by the Portuguese Institute of Corporate Governance ("IPCG") in January 2014 formed a viable alternative to the CMVM Code for Portuguese companies. On March 16, 2016 CMVM and IPCG announced that IPCG will publish a successor of both previous codes and CMVM will cease to publish its own code. The 2018 Corporate Governance Code (Código de Governo das Sociedades or "the Code") was published in October 2017 and applies to financial years beginning on or after January 1, 2018. The Code, which operates on a "comply or explain" premise, is structured on two levels: principles and recommendations, where principles provide a basis for the interpretation and implementation of more specific recommendations.

MARKET AND REGULATORY UPDATES

The Portuguese Securities Code is under review as of November 2019, and is expected to come into force on January 1, 2020. The proposed changes are intended to transpose Directive (EU) 2017/828 of the European Parliament ("SRD II").

In accordance with the revised law, companies will be required to prepare an annual remuneration report for a shareholder vote of advisory nature, while a remuneration policy must be submitted to a binding vote every four years. Any material change to the remuneration policy must be submitted to a shareholder vote in order to take effect. Should a company fail to gain shareholder approval for its remuneration report, it must submit its remuneration policy to shareholders for approval at the next annual general meeting.

SUMMARY OF CHANGES FOR THE 2020 PORTUGAL POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail in the relevant section of this document:

ELECTION PROCEDURES

We have updated our guidelines in order to reflect Portuguese Law as regards the composition of a proposed slate of director nominees.

Specifically, we note that members of the board of directors are generally elected as a slate proposed by shareholders. A company's articles may allow for up to one-third of board members to be proposed by major shareholders holding between 10% and 20% of a company's share capital. Further, minority shareholders representing at least 10% of share capital in the aggregate may nominate one director. In practice, however, major shareholders generally propose a single slate of candidates for shareholder approval.

Where we have concerns regarding the overall independence of the board, we will generally recommend voting against the election of directors proposal when the election is proposed as a slate.

EXECUTIVE REMUNERATION

We have updated these guidelines to reflect the introduction of an annual advisory vote on remuneration reports and a binding vote on remuneration policies at least every four years upon the signing into law of the revised Portuguese Securities Code.

When analysing such remuneration proposals, we will apply our policies regarding executive remuneration as described in these guidelines and our Continental Europe Guidelines.

A Board of Directors that Serves the Interests of Shareholders

ELECTION OF DIRECTORS

Pursuant to Portuguese law, a company may elect to be governed by either a one-tier or a two-tier system of corporate control.¹ Under a one-tier system, the most prevalent board-style in Portugal, a company is governed by a single board of directors,² comprising non-executive members as well as some executive representation. Further, under this system, a company must have either an external supervisory council (conselho fiscal)³ or an audit committee (comissão de auditoria) on the board.⁴

Under a two-tier system, a company is governed by a management board,⁵ composed entirely of executive directors, which manages the company and is headed by the CEO, and a supervisory board⁶ composed entirely of non-executive directors, which exercises control over the management board and is headed by a chair. Under this system, shareholders are entitled to elect only the members of the supervisory board; members of the management board are elected by the supervisory board. Further, companies governed by the two-tier system must have a financial affairs committee (comissão para as matérias financeiras),⁷ which serves a role similar to that of the audit committee.

Unless otherwise provided by these guidelines, any and all rules applicable to a company governed by a board of directors will apply to a company that elects to be governed by a two-tiered system.

INDEPENDENCE

In Portugal, we place directors into three categories based on an examination of the type of relationship they have with the company:

1. **Independent Director** — An independent director has no material financial,⁸ familial⁹ or other current relationships with the company, its executives, or other board members, except for board service and standard fees paid for that service.

1 Article 278 of the Portuguese Commercial Code.

2 Board of Directors: Articles 390 – 412 of the Portuguese Commercial Code.

3 Supervisory Council: Articles 413 – 423-A of the Portuguese Commercial Code.

4 Audit Committee: Articles 423-B – 423-G of the Portuguese Commercial Code.

5 Management Board: Articles 424 – 433 of the Portuguese Commercial Code.

6 Supervisory Board: Articles 434 – 445 of the Portuguese Commercial Code.

7 Financial Affairs Committee: Article 444 of the Portuguese Commercial Code.

8 Per Glass Lewis' Continental Europe Policy Guidelines, "material" as used herein means a relationship in which the value exceeds: (i) €50,000 (or 50% of the total compensation paid to a board member, or where no amount is disclosed) for board members who personally receive compensation for a professional or other service they have agreed to perform for the company, outside of their service as a board member. This limit would also apply to cases in which a consulting firm that is owned by or appears to be owned by a board member receives fees directly; (ii) €100,000 (or where no amount is disclosed) for those board members employed by a professional services firm such as a law firm, investment bank or large consulting firm where the firm is paid for services but the individual is not directly compensated. This limit would also apply to charitable contributions to schools where a board member is a professor, or charities where a board member serves on the board or is an executive, or any other commercial dealings between the company and the board member or the board member's firm; (iii) 1% of the company's consolidated gross revenue for other business relationships (e.g., where the board member is an executive officer of a company that provides services or products to or receives services or products from the company); (iv) 10% of shareholders' equity and 5% of total assets for financing transactions; or (v) the total annual fees paid to a director for a personal loan not granted on normal market terms, or where no information regarding the terms of a loan have been provided.

9 Per Glass Lewis' Continental Europe Policy Guidelines, familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company.

2. **Affiliated Director** — An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company. This may include directors whose employers have a material relationship with the company or its subsidiaries or major shareholders. In addition, we will normally consider directors affiliated if they:
- Own or control 2% or more of the company’s voting share capital¹⁰;
 - Have been employed by the company within the past five years;
 - Have – or have had within the past three years – a material relationship with the company, either directly or as a partner, shareholder, director or senior employee of any entity that has such a relationship with the company;
 - Have served on the board for 12 or more years;¹¹
 - Have close family ties with any of the company’s senior employees; and/or
 - Hold cross-directorships or have significant links with other directors through their involvement in other companies or entities.
3. **Inside Director** — An inside director simultaneously serves as a director and as an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company.

Voting Recommendations on the Basis of Board Independence

In line with the Code, Glass Lewis believes that at least one third (but not less than two) of the non-executive directors serving on a board should be independent.¹² While the Code does not recommend a minimum overall independence threshold for the board, we believe that a minimum 25% of the directors should be independent to ensure sufficient objectivity. Further, we believe a board will be most effective in protecting shareholders’ interests when at least a majority of the directors are non-executive or unaffiliated with the company itself.¹³ Where 50% or more of the directors are affiliated with the company or are inside directors and/or the board does not include a sufficient number of independent members, we may recommend voting against some of the insiders and/or affiliated directors to satisfy these independence thresholds.

However, we accept the presence of representatives of significant shareholders in proportion to their equity or voting stake in the company. We believe shareholder representation on the board can be beneficial to all shareholders but should be proportional to economic interest. As a result, the composition of the board should mirror the company’s share capital structure. Where the relation between shareholder representatives and independent board members does not match the proportion between the economic interest represented by shareholder representatives and the free float, we may recommend voting against some of the shareholder representatives to make the representation proportional.

¹⁰ Subparagraph A of Paragraph 5 of Article 414 of the Portuguese Commercial Code.

¹¹ Recommendation III.4 of the 2018 Corporate Governance Code. While we will classify board members as affiliates in accordance with this standard, we will evaluate voting recommendations based on this issue on a case-by-case basis. When a board or committee does not meet the independence standards set forth in these guidelines solely as a result of a nominee’s length of service on the board, we may refrain from recommending to vote against the nominee if the board or relevant committee is otherwise sufficiently independent.

¹² Recommendation III.4 of the 2018 Corporate Governance Code and Interpretative Note No.1 of the Commission for the Monitoring of the Code (Comissão de Acompanhamento e Monitorização do Código or “CAM”).

¹³ Recommendation III.3 of the 2018 Corporate Governance Code.

Voting Recommendations on the Basis of Committee Independence

In accordance with Portuguese law, an audit committee should be composed exclusively of a minimum of three non-executive directors, a majority of whom should be independent.¹⁴ Further, we strongly believe that the chair of the audit committee should be independent.

OTHER CONSIDERATIONS FOR INDIVIDUAL DIRECTORS

Our policies with regard to performance, experience and conflict of interest issues are not materially different from our Continental Europe Policy Guidelines.

BOARD STRUCTURE AND COMPOSITION

Our policies with regard to board-level risk management oversight and board diversity are not materially different from our Continental Europe Policy Guidelines. The following are clarifications regarding best practice recommendations in Portugal.

SEPARATION OF THE ROLES OF BOARD CHAIR AND CEO

The Portuguese Commercial Code does not specifically mandate the separation of the roles of board chair and CEO. However, it states that the board is subject to the independence requirements set forth in Articles 414 and 414-A which deem an officer of a company as incompatible for the post of board chair.¹⁵ The Code, however, states that if the board chair is not independent, the board should appoint a lead independent director and/or ensure the board has efficient mechanisms in place to make certain that the non-executive directors maintain the ability to make independent decisions.¹⁶

In line with our Continental Europe Policy Guidelines, when Portuguese companies combine the positions of board chair and CEO, we generally believe the presence of a lead independent director or vice chair can serve to oversee any potential conflicts of interest. We may recommend voting against the nominating committee chair when the roles are combined and the board is insufficiently independent and/or the board has failed to implement adequate measures to prevent and manage the potential conflict of interests deriving from the combination of the two positions such as appointing an independent lead or presiding director or adopting other countervailing board leadership structures.

SIZE OF THE BOARD OF DIRECTORS

Portuguese law does not stipulate the minimum or maximum number of members that should serve on a company's board. However, in line with our Continental Europe Policy Guidelines, which specify a maximum board size of 20 members, for Portuguese-listed companies, we typically recommend voting against the nominating committee chair if a board has fewer than five directors or more than 20 directors. It is relatively common in Portugal for boards to comprise more than 20 members.

BOARD COMMITTEES

In accordance with Portuguese law, an audit committee should be composed exclusively of a minimum of three non-executive directors, a majority of whom should be independent.¹⁷ Further, we strongly believe that the audit committee chair should be independent.

¹⁴ Article 423-B of the Portuguese Commercial Code. The law further states that the audit committee must include at least one independent member who possesses a degree suitable for the exercise of his/her functions, together with knowledge of audit and accounting.

¹⁵ Paragraph 4 of Article 434 of the Portuguese Commercial Code.

¹⁶ Recommendation III.1 of the 2018 Corporate Governance Code.

¹⁷ Article 423-B of the Portuguese Commercial Code. The law further states that the audit committee must include at least one independent member who possesses a degree suitable for the exercise of his/her functions, together with a sufficient auditing and accounting background.

We note that for Portuguese listed companies, we may recommend voting against the audit committee chair if the annual compensation paid to the auditor for its services (including a break-down of said fees) has not been disclosed.¹⁸

Further, the Code recommends the establishment of a remuneration committee. In Portugal, remuneration committees are often formed with external members who are not directors. These committees should be independent from management.¹⁹ Glass Lewis prefers that all key committees be comprised solely of board members, though we will not recommend voting against directors based solely on the presence of outside members on key committees. We will recommend voting against any insiders who serve on the remuneration committee.²⁰

In addition, the Code recommends the establishment of a nominating committee, (or combined remuneration and nominating committee) with competencies relating to the appointment of members of senior management and promotion of suitable diversity, including gender diversity.²¹ The nominating committee should consist of a majority of independent directors.²²

Our policies with respect to committee performance and standards for assessing committees are not materially different from our Continental Europe Policy Guidelines.

BOARD DIVERSITY

The Portuguese Law 62/2017 states that listed companies should have a minimum of 20% female representation on corporate bodies from the first general meeting after January 1, 2018, and at least one-third from the first general meeting after January 1, 2020. This does not apply to mandates in progress. Non-compliance will result in a non-compliance declaration by the Portuguese Securities Market Commission (CMVM) and the appointments being provisional with companies having 90 days to reorganise. After 360 days of non-compliance CMVM shall impose a periodic fine on the corporate body not exceeding a total of one month's remuneration for each half-year of non-compliance.²³

ELECTION PROCEDURES

Our policies with regard to election procedures are not materially different from our Continental Europe Policy Guidelines. However, the following are best practice procedures and recommendations in Portugal.

TERM LENGTH

Although Glass Lewis favours the annual election of directors, under Portuguese company law directors may be elected for a term of up to four years.²⁴ However, it is common practice for Portuguese companies to elect their directors for three year terms. We generally do not recommend voting against any directors based on this issue alone.

ELECTION OF DIRECTORS AS A SLATE

In Portugal, members of the board of directors are generally elected as a slate proposed by shareholders. A company's articles may allow for up to one-third of board members to be proposed by major shareholders holding between 10% and 20% of a company's share capital. Further, minority shareholders representing at

¹⁸ Section IV of the CMVM Corporate Governance code mandates that all companies disclose this information, including a description of the auditor's independence safeguarding measures if the auditor provides tax consulting and other non-statutory auditing services.

¹⁹ Recommendation V.2.1. of the 2018 Corporate Governance Code. Interpretative Note No. 1 of the Commission for the Monitoring of the Code states that less than half of the members should be board members.

²⁰ EU Commission Recommendation of 15 February 2005, Annex I, Articles 3.1 and 4.1.

²¹ Recommendation V.4.2. of the 2018 Corporate Governance Code.

²² Recommendation V.4.3. of the 2018 Corporate Governance Code.

²³ Law 62/2017 on the balanced representation of women and men in the administrative and supervisory bodies of public sector entities and listed companies. Further, Law 60/2018 requires companies to disclose a transparent remuneration policy, which includes information on the gender pay gap, with penalties of up to a two-year ban on tendering for public contracts for non-compliance.

²⁴ Article 391 of the Portuguese Commercial Code.

least 10% of share capital in the aggregate may nominate one director. In practice, however, major shareholders generally propose a single slate of candidates for shareholder approval.

Where we have concerns regarding the overall independence of the board, we will generally recommend voting against the election of directors proposal when the election is proposed as a slate.

SUPERVISORY COUNCIL

The supervisory council is an oversight body with an advisory role and does not participate in managing Portuguese companies. The supervisory council must be comprised of at least three members, a majority of whom must be independent. Further, at least one member should have a sufficient auditing and accounting background. Supervisory council members who have served for more than two consecutive terms will no longer be considered independent.²⁵ When shareholders have a separate vote on the composition of the supervisory council, we generally recommend voting for the nominees unless we have serious concerns regarding their independence or past performance. However, in most cases, the election of the supervisory council is bundled together with the election of directors. In these instances, we may recommend that shareholders vote for the bundled proposal only if the benefits provided by one proposal outweigh the possible negative consequences.

²⁵ Articles 414 and 414-A of the Portuguese Commercial Code.

Transparency and Integrity in Financial Reporting

In Portugal, shareholders are required to approve a company's financial statements and the allocation of profits and dividends annually.²⁶ Shareholders are also required to approve the company's choice of independent auditor, which may be appointed for terms of up to four years.²⁷ While we have outlined the principle characteristics of these types of proposals that we encounter in Portugal below, our policies regarding these issues are not materially different from our Continental Europe Policy Guidelines.

ACCOUNTS AND REPORTS/CONSOLIDATED ACCOUNTS AND REPORTS

As a routine matter, Portuguese company law requires that shareholders approve a company's annual financial statements, within the three months following the close of the fiscal year or five months in cases where a company submits consolidated financial statements, in order for them to be valid.²⁸

Further, Portuguese law requires that large companies disclose additional non-financial information on environmental, social and diversity issues. The information related to corporate social responsibility must be incorporated into the management report or presented in a separate report.²⁹

ALLOCATION OF PROFITS/DIVIDENDS

In accordance with Portuguese company law, prior to the distribution of dividends, companies are required to allocate at least 5% of their profits to the legal reserve provided that the company has not reported a loss.³⁰ In the event that a company reports a loss, it may use its retained earnings, profit reserves or legal reserve to absorb such losses and is exempt from paying any dividends.³¹ Additional allocations for legal reserves are no longer required when the legal reserve reaches 20% of the company's share capital (i.e., the nominal value of all company issued shares). After the statutory requirement for allocation to the legal reserve has been met, shareholders may decide to declare a dividend payable to shareholders and/or to carry the profits forward in retained earnings. According to Portuguese company law, at least 50% of a company's profits must be distributed to shareholders unless otherwise stated in the company's articles of association or modified by a resolution approved by 75% of shareholders.³²

APPOINTMENT/RATIFICATION OF AUDITOR

Portuguese company law allows shareholders to elect an auditor for maximum terms of four years.³³ According to Portuguese law, the initial minimum period is two years and public companies must rotate their auditors after two or three terms depending on whether the auditor is elected for four or three years, respectively.³⁴

²⁶ Article 376 of the Portuguese Commercial Code.

²⁷ Article 446 of the Portuguese Commercial Code.

²⁸ Article 376 of the Portuguese Commercial Code.

²⁹ Article 66b of the Portuguese Commercial Code.

³⁰ Article 295 of the Portuguese Commercial Code.

³¹ Article 33 of the Portuguese Commercial Code.

³² Articles 294 and 295 of the Portuguese Commercial Code.

³³ Article 415.1 of the Portuguese Commercial Code.

³⁴ Article 54 of Law 140/2015 of September 7, 2015 on Statutory Auditors.

The Link Between Pay and Performance

In Portugal, the Code provides best practice remuneration recommendations and CMVM Regulations 28/2009 and 4/2013 provide the legislative framework for the remuneration policies of Portuguese-listed companies. Other than Portuguese-specific aspects of remuneration disclosure and policies mandated by the Code or required by regulations 28/2009 and 4/2013, discussed below, our assessment of a company's remuneration policy does not differ materially from the recommendations discussed in Glass Lewis' Continental Europe Policy Guidelines.

VOTE ON EXECUTIVE REMUNERATION

In accordance with Portuguese law, the annual general meeting must approve the remuneration reports for a company's management and corporate bodies (board of directors and supervisory council).³⁵ This resolution is solely advisory and does not bind a company. In addition, companies will be required to submit a remuneration policy to a binding shareholder vote at least every four years upon the signing into law of the revised Portuguese Securities Code. We take into account companies' compliance with best practice in Portugal, as described below, when analysing say-on-pay proposals.

STRUCTURE AND CONTENT OF REMUNERATION REPORTS

At a minimum, the remuneration report in which the policies are presented should include a complete breakdown of individual executives' and directors' remuneration by fixed and variable components, including any deferred portion of annual bonuses.³⁶ Further, the report should disclose the aggregate and individual remuneration executives receive from other companies in the same group, pensions during the fiscal year in question,³⁷ or stock option plans and/or any form of share-based remuneration.³⁸

SHORT-TERM AND LONG-TERM INCENTIVES

In accordance with Portuguese regulations, companies must state the criteria defining the variable component of remuneration and must disclose any mechanisms restricting variable remuneration in the event of a clear decline in a company's performance.³⁹ In practice, however, many companies, particularly small and medium-sized companies, do not disclose variable incentive performance hurdles.

Further, we note that Portuguese-listed companies are required to disclose, among other things: (i) how variable remuneration is linked to performance; (ii) variable incentive limits; and (iii) the main factors and reasons for awarding annual bonuses.⁴⁰ Additionally, the Code emphasises the deferral of a portion of variable remuneration for at least three years,⁴¹ as well as minimum three-year vesting periods for all equity-linked remuneration.⁴²

³⁵ Article 2.1 of CMVM Regulation 28/2009.

³⁶ CMVM Regulation 4/2013 requires this information be disclosed in Section IV of the Corporate Governance Report.

³⁷ *Ibid.*

³⁸ *Ibid.*

³⁹ Article 2.3 of CMVM Regulation 28/2009.

⁴⁰ CMVM Regulation 4/2013 requires this information be disclosed in Section III of the Corporate Governance Report.

⁴¹ Recommendation V.3.2. of 2018 Good Governance Code.

⁴² Recommendation V.3.4. of 2018 Good Governance Code.

With respect to long-term incentives (“LTIs”), which, if in place, are often in the form of stock option plans rather than performance-based plans, companies are required to disclose sufficient information regarding the terms of LTIs, including performance conditions, exercise price, and their role in relation to the value of total annual remuneration.⁴³

EXECUTIVE DIRECTOR SHAREHOLDING GUIDELINES

We generally believe that share ownership goals (typically of between 100% and 250% of base salary) for executive directors to achieve within a set timeframe serve to better align executive and shareholder interests. As such, Glass Lewis generally recommends that shareholders vote for share grants that allow executives to meet this threshold.

REMUNERATION POLICY RELATIVE TO OWNERSHIP STRUCTURE

Glass Lewis recognises that differences in the ownership structures may affect incentive structure for executives. In particular, where a company is controlled and managed by a family or individual, as is common in Portugal, we believe the use of equity incentives for representatives of the controlling family or individual are inappropriate and may serve to further entrench the controlling shareholders’ stake. Additionally, in general, we expect companies with dispersed ownership to demonstrate a more precise and linear pay-performance link than those with ownership that is more concentrated.

⁴³ Recommendation V.2.3. of 2018 Good Governance Code.

Governance Structure and the Shareholder Franchise

Shareholders of Portuguese-listed companies may be asked to approve amendments to articles and ratify the acts of the board and/or management. While we have outlined the principle characteristics of these types of proposals that we encounter in Portugal below, our policies regarding these issues are not materially different from our Continental Europe Policy Guidelines.

RATIFICATION OF BOARD, MANAGEMENT AND SUPERVISORY COUNCIL ACTS

In Portugal, ratifying the acts of the board of directors is primarily a vote of confidence and does not release its members from liability for their actions. The general meeting will carry out a general appraisal of the management and supervision of the company. This appraisal concludes with a vote of confidence in the management, board and supervisory bodies or, alternatively, their dismissal.⁴⁴

Further, the resolution adopted by the general meeting to approve the accounts or the management of the directors shall not imply a waiver of indemnification unless the facts that constitute the liability were specifically known to the shareholders prior to the approval. A company may only relinquish its right to indemnification by an express resolution where shareholder opposition is less than 10% of the share capital.⁴⁵

As noted in Glass Lewis' Continental Europe Policy Guidelines, we will evaluate each proposal on a case-by-case basis. Unless there are any concerns about the integrity and performance of the directors and/or members of management being ratified, we will generally recommend voting for this proposal. In addition, when we have serious concerns regarding the actions of the board and no members of the board are up for election, we are more likely to recommend voting against the ratification of board acts.

POWER TO CALL A MEETING

Under Portuguese law, shareholders holding at least 2% of a company's share capital may request that a special meeting is convened or submit additional items to the agenda of a general meeting already convened. The requests must be addressed in writing to the chair of the general meeting.⁴⁶

It is common in Portugal for major shareholders to submit proposals to the general meeting in lieu of, rather than in opposition to, management. Absent any evidence to the contrary, we believe it is reasonable to interpret a board's silence on such non-contentious issues to be a tacit endorsement of the proponent's proposal. Accordingly, we will recommend in favour of such proposals when they align with our policies.

⁴⁴ Article 455 of the Portuguese Commercial Code.

⁴⁵ Article 74 of the Portuguese Commercial Code.

⁴⁶ Article 23-A and 23-B of the Portuguese Securities Code.

Capital Management

In Portugal, the Commercial Code provides the legal framework for authorities involving increases and decreases in share capital, trading in company shares and the issuance of shares or convertible and non-convertible debt instruments. With the exception of country-specific regulations regarding capital proposals described below, our policies on these issues are not materially different from Glass Lewis' Continental Europe Policy Guidelines.

AUTHORITY TO REPURCHASE SHARES⁴⁷

Portuguese law limits the number of shares that may be repurchased to no more than 10% of the company's capital.⁴⁸ Furthermore, the authority to repurchase and reissue shares cannot be granted for a period exceeding 18 months.⁴⁹ Given these limits, we will generally support buyback programs in Portugal.

CANCELLATION OF SHARES AND REDUCTION OF SHARE CAPITAL⁵⁰

In conjunction with a share repurchase program, companies may request shareholder approval to cancel repurchased shares. The capital reduction will not exceed more than the amount of the company's outstanding treasury shares and must be carried out within 60 days.⁵¹ We generally support these proposals.

ISSUANCE OF SHARES AND/OR CONVERTIBLE SECURITIES

In Portugal, shareholders generally delegate the power to determine the terms and conditions of the issuance of shares and/or convertible securities to the board by way of an amendment to the articles of association.⁵² Notwithstanding the aforementioned, shareholders must determine the length of the authority, which in no event may be greater than five years.⁵³ In addition, the company may determine whether it wishes to issue the shares and/or convertible securities with or without preemptive rights. However, in the event that it wishes to waive such rights, the board must request shareholder approval given that issuing additional shares may dilute existing holders.⁵⁴ In line with our Continental Europe Policy Guidelines, if a company seeks to amend its articles to issue shares and/or convertible securities without preemptive rights exceeding 20% of the company's total share capital, we will generally recommend voting against the proposal.

ISSUANCE OF DEBT INSTRUMENTS

In Portugal, it is a routine matter for shareholders to grant the board authorisation to issue and/or trade in non-convertible, convertible and/or exchangeable debt obligations for a period not exceeding five years.⁵⁵ The special report of the statutory audit committee should discuss the conditions placed on the issuance. Generally, the board is granted the authority to establish a fixed or variable interest rate, and more globally, to establish all other aspects of the debt instruments.

If the requested authority to issue debt is reasonable and we have no reason to believe that the increase in debt will weaken the company's financial position, we will usually recommend a vote in favour of such a proposal.

47 Articles 317 and 354 of the Portuguese Commercial Code.

48 Article 317 of the Portuguese Commercial Code.

49 Articles 319 and 320 of the Portuguese Commercial Code.

50 Article 347 of the Portuguese Commercial Code.

51 Article 95 of the Portuguese Commercial Code.

52 Article 350 of the Portuguese Commercial Code.

53 *Ibid.*

54 Article 460 of the Portuguese Commercial Code.

55 Article 350 of the Portuguese Commercial Code.

DISCLAIMER

This document is intended to provide an overview of Glass Lewis' proxy voting policies and guidelines. It is not intended to be exhaustive and does not address all potential voting issues. Additionally, none of the information contained herein should be relied upon as investment advice. The content of this document has been developed based on Glass Lewis' experience with proxy voting and corporate governance issues, engagement with clients and issuers and review of relevant studies and surveys, and has not been tailored to any specific person.

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