

PORTUGAL

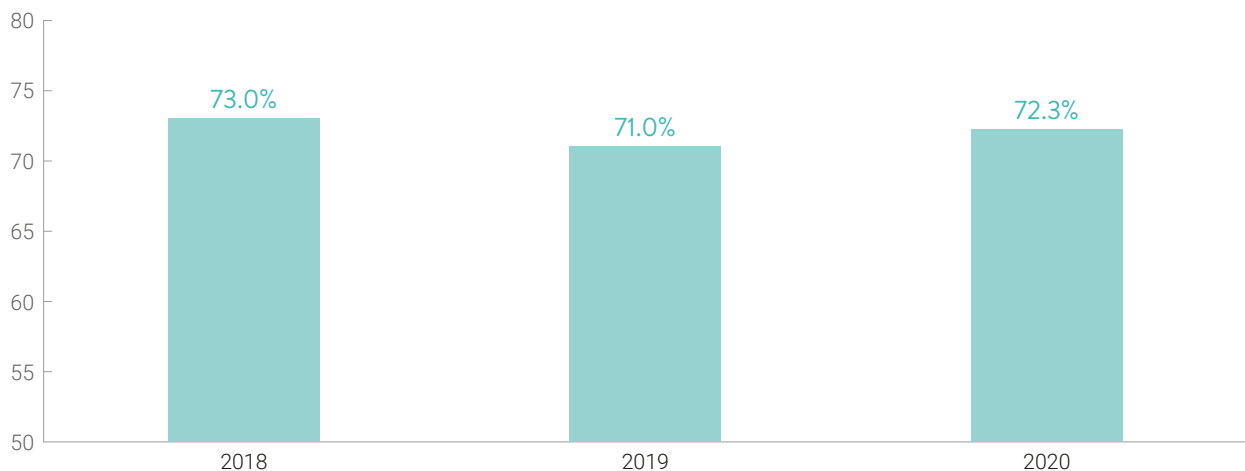
QUORUM

Like in all European countries and regions, the Covid-19 pandemic has dramatically impacted the life course in Portugal. Shareholders' meetings were not an exception in 2020 and although the PSI-20 proxy season occurred during the usual months of March and June, **22%** of the AGMs had to be postponed and issuers had to put in place more means to be able to hold either hybrid AGMs (**6%**) or remote-only AGMs (**72%**).

However, quorum average figures did not decrease in proxy season 2020 among PSI-20 constituents, but they went up regarding in the previous years:

“At the gates of implementing the new legal standards arising from the transposition of SRD II, the PSI-20 issuers concentrated the highest shareholder opposition levels and numbers of negative voting recommendations on remuneration-related items.”

AVERAGE QUORUM IN PSI-20



BOARD

Portugal generally maintains a slate election for its board members, who are normally elected jointly for a three-year period -being four years the maximum length. Individual elections remain rare and may only happen if there is a ratification of a new director who replaces an early-outgoing board member.

In this proxy season 2020, PSI-20 constituents have submitted board-related items that represented **22.7%** of the total items, receiving **27.3%** of the total negative

voting recommendations issued by global proxy adviser ISS. At any rate, the average opposition to these items was only of **1.9%**, being **18.2%** the highest level of negative votes registered at an AGM this season.

The main areas of complain of proxy advisers and institutional investors were mainly connected with insufficient board independence and the appointment of combined Chair/CEO roles.

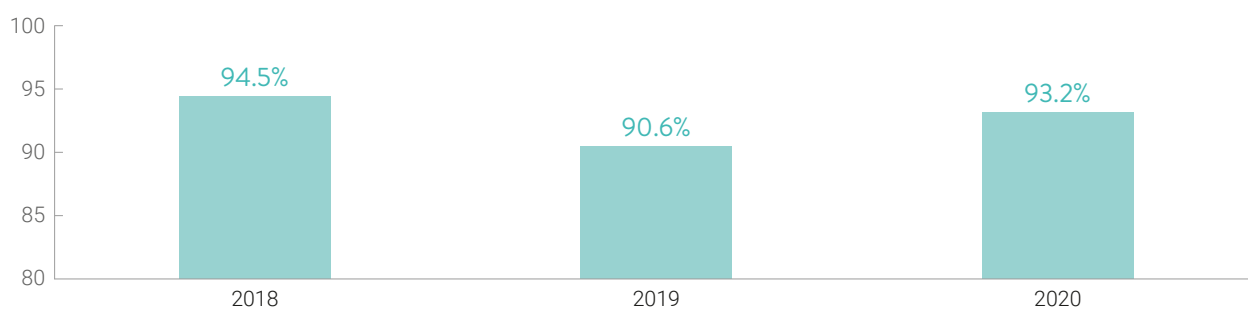
REMUNERATION

The transposition of Directive 2017/828/EU (Shareholders' Rights Directive II) into the Portuguese regulatory framework will bring significant changes in AGMs' remuneration-related items in the future. Nonetheless, in proxy season 2020 has still resembled the previous seasons in this regard.

In proxy season 2020, the approval of the remuneration policy has been submitted to shareholder vote by all 18 constituents of the PSI-20, except for energy issuer EDP, who submitted it twice, one time for its executive committee and the other for its corporate bodies.

At any case, remuneration-related items represented **14.9%** of the total items submitted to shareholder vote in PSI-2020 this season, receiving **45.4%** of the total negative voting recommendations issued by the global proxy adviser ISS in PSI-20. This means that these items concentrated the highest proportion of ISS' unfavorable recommendations. Further, the average support received by these items was **93.2%**, while against votes hit **5.0%** in average. While these average figures show a broad shareholder adherence to the remuneration policies and improved 2019's average figures, some individual issuers received significant opposition levels when tabling this item, fixing the maximum of negative votes at a significant **35.5%** of the quorum:

AVERAGE SHAREHOLDER SUPPORT TO REMUNERATION POLICIES IN PSI-20



Shortcomings such as uncapped bonuses, the participation of non-executive directors in executive remuneration schemes, the lack of severance caps, the absence of clawback clauses, the existence of too short long-term incentive plans, and excessive dilution were among the most common complains of proxy advisers and institutional investors when issuing voting recommendations and casting votes on the remuneration policies, respectively.

CAPITAL

Capital-related items were **24.1%** of the total items submitted to shareholder vote at this proxy season, receiving the remaining **27.3%** of the total negative voting recommendations issued by proxy adviser ISS. However, similarly to neighboring markets such as Spain, these items did not trigger significant opposition levels by shareholders, whose average votes against were only **0.8%**, hitting the highest opposition level among cast votes **9.7%**.

Proxy advisers and institutional investors focused their complains on features such as the repurchase of shares allocated in problematic compensation schemes, or the excessive exclusion of preemptive rights in capital increase and debt issuance authorizations.

OUTLOOK 2021

- Remuneration-related items in Portuguese shareholders' meetings will be even more important in 2021, mainly after the EU-driven regulation changes.
- Portuguese issuers will have to improve the quality of hybrid and remote-only shareholders' meetings in 2021. After the disruption of 2020, investors expect issuers to find more means to participate online and live at meetings.
- Board diversity, mainly in terms of gender diversity, will remain as a hot topic regarding board-related matters.