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# **Fineco AM Good Governance Policy**

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**FINECO ASSET MANAGEMENT DAC**

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Legal and Investment team

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**Version 1.0**

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**BOARD OF DIRECTORS**

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14<sup>th</sup> October 2022

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## **FINECO AM GOOD GOVERNANCE POLICY**

### **1. Defining Good Governance**

As responsible investing is a key element of Fineco AM's corporate strategy, we commit to making investments in companies which govern their business in a manner that promotes sound management of ESG risks and promotes value creation for shareholders and stakeholders.

The EU Sustainable Finance Disclosure Regulation ("SFDR") requires that products classified as Article 8 or Article 9 products do not invest in companies who do not follow good governance practices.

The EU defines good governance as a core requirement for a sustainable investment under SFDR Article 2(17); "*...an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that **the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance***"

The four elements of "good governance" which are mentioned in the definition above (i.e. sound management structures, employee relations, remuneration of staff and tax compliance) – give a general sense of the measurement indicator but leave room for interpretation on specific metrics to be applied and minimum criteria to be met.

This policy describes how Fineco AM determines if an investee company does not follow good governance practices and should therefore be excluded from the initial investment universe for Article 8 and 9 products.

### **2. Fineco AM'S approach to assessing Good Governance**

Good governance practices of investee companies is addressed in various layers of the Fineco AM investment selection process. To be able to assess Fineco AM's full investment universe, a data driven quantitative good governance assessment has been adopted. The Good Governance assessment is performed by data driven analysis based on external ESG data

vendors, such as MSCI, and is integrated and maintained in Fineco AM’s front office and compliance systems. Portfolio managers are responsible for the ongoing assessment and monitoring of the governance practices of the companies in which they invest in. Such an assessment is inherently subjective, and must be made in the context of their strategy and their fiduciary duties to clients using available data and research they deem to be most relevant. Assessment of investee company governance practices is complex and may be based on data which is difficult to obtain and incomplete, estimated, out of date or otherwise materially inaccurate. Portfolio managers and investment teams are required to consider Fineco AM’s minimum threshold ratings (as described below), where available. Portfolio managers, supported by Fineco AM’s dedicated ESG analysis team should additionally assess Good Governance using any other reasonably available information which they determine to be material to the governance practices of any company in which they invest.

*i. Corporate issuers*

At the fund level, companies are screened using MSCI ESG Ratings as a baseline measure for “good governance” which encompasses all four aspects of good governance practices highlighted by SFDR Article 2(17). MSCI ESG Ratings are designed to measure companies’ ability to manage ESG risks and opportunities tied to their business and operations. They intend to provide a holistic view of companies’ ability to sustainably manage resources, including human capital, ensure operational integrity based on strong management practices and comply with applicable norms, including tax laws. To arrive at a final MSCI ESG Rating, the weighted average of individual Environmental and Social Key Issue Scores and the Governance Pillar Score is calculated and then normalized relative to ESG Rating industry peers. After any MSCI committee-level overrides are factored in, each company’s Final Industry-Adjusted Score corresponds to a rating between best (AAA) and worst (CCC). Therefore, Fineco AM applies a minimum threshold of an MSCI ESG Rating of BB or higher to its investments as this generally indicates a company’s ability to effectively manage resources, mitigate key ESG risks and opportunities and meet baseline corporate governance expectations. The MSCI ESG Ratings are available to all portfolio managers at Fineco AM and should generally be considered the primary data point in assessing good governance of investee companies.

For purposes of the Good Governance assessment, Fineco AM has defined the minimum criteria above and identified the additional safeguards as set forth below. These requirements reflects widely recognized industry- established norms.

SFDR criteria	Minimum requirement	Additional safeguards
Sound Management Structures	Fineco AM applies a minimum threshold of an MSCI ESG Rating of BB or	Once a company passes the minimum requirements test, other due diligence and governance practices are applied that fall

Employee Relations	higher to its investments as this generally indicates a company’s ability to effectively manage resources, mitigate key ESG risks and opportunities and meet baseline corporate governance expectations. This rating encompasses all four aspects of good governance practices highlighted by SFDR Article 2(17) and covers both	<p>outside the scope of this Good Governance policy:</p> <p><b>(i) Fineco AM norms-based exclusion policy:</b> e.g. ensuring that an investment company is compliant with the principles on labor relations of the UN Global Compact and is therefore, not on the Fineco AM exclusion List.</p> <p><b>(ii) ESG Integration</b> – governance criteria are used by the investment teams to determine the attractiveness of a security as part of ESG integration and investment analysis.</p> <p><b>(iii) Proxy voting</b> – We believe a sound corporate governance structure is essential for creating long-term shareholder value. We expect the board of directors of investee companies to oversee and monitor the effectiveness of the company’s governance of environmental, social and business ethics-related issues and risks and to protect shareholder rights. Through our proxy voting provider we use our vote on numerous issues, including shareholder rights, board composition, remuneration etc.</p> <p><b>(iv) Engagement</b> We are starting to engage with investee companies through the UNPRI collective engagement process in line with Fineco AM’s Stewardship approach.</p> <p><b>(v) PAI process</b> – Fineco AM commits to considering principal adverse impacts of its investment decisions on sustainability factors as part of its investment decision making process and investment due diligence process and procedures.</p>
Remuneration of Staff	<b>Corporate Governance topics</b> (i.e. board, remuneration, ownership and control & accounting) and	
Tax Compliance	<b>Corporate Behaviour topics</b> (i.e. business ethics and tax transparency).	

There may not be a MSCI ESG rating available for all companies within the Fineco AM universe for a variety of reasons, typically this occurs where there is a lack of information informing

the underlying constituent data due to the nature of the security type or the company, the region in which the company operates or whether the company is a private, or recently private, entity, it is a primary transaction etc. In this case, Portfolio Managers should make best efforts to provide alternative data/research to assess the corporate governance related to these types of securities. Without an MSCI ESG rating, governance may be assessed by taking into account the nature of the issuer relative to other issuers of a similar type and in the context of the region or industry in which it operates. Where a portfolio manager invests in a company without an ESG Rating, such companies should generally be those whose management and board, to the best of the portfolio manager's knowledge, are credible, have a strong capital allocation track record, promote a strong corporate culture and are appropriately incentivised to run the company in a responsible manner.

The above Good Governance assessment is not applied to investments in securities issued by sovereigns or supranational entities as part of Article 8 or 9 products, however, separate sustainable investing measures for sovereigns are in place.

#### *ii. Government issuers*

In respect of sovereign issuers, the Fineco AM assessment of good governance practices is based on MSCI ESG Government Ratings. This is a letter rating which reflect how countries' exposure to and management of environment, social, and governance (ESG) risk factors may affect the long-term sustainability and long-term competitiveness of their economies. Managing these risks effectively has an important bearing on the long-term attractiveness of the country as an investment destination. MSCI ESG Government Ratings use a quantitative, data-based method to measure this, using available indicators from reputable external sources (such as the World Bank). MSCI apply the same methodology and weightings for all countries globally, and their ESG Government Ratings are a global spectrum from AAA to CCC. Regions with low risk exposure and strong management of ESG risk factors score highest (AAA); regions with high risk exposure and weak management of ESG risk factors score lowest (CCC).

### **3. Divestment or Derogation**

Fineco AM has put in place pre-purchase approval and monitoring controls which are required for investment/divestment in companies with a MSCI rating of below BB. Under SFDR, companies that fail the Good Governance assessment are not eligible for Article 8 or 9 products. For these ineligible companies, all related investment instruments (e.g. equity, bonds, derivatives on respective companies) are in scope. The ineligible instruments should be divested within three months after the outcome of the Good Governance assessment has been approved.

As part of Fineco AM's ESG integration into investment decision making, the most recently approved investment processes provides that should Portfolio Managers wish to purchase a security that has an MSCI ESG rating of below BB, that they should first seek approval from the Fineco AM Sustainable Finance Committee ("SFC") prior to execution.

If a Portfolio Manager wishes to exceptionally purchase a security from an entity that has a MSCI rating of below BB, such PM will have to provide a Derogation Request, setting out a rationale for the purchase of the said security. A request for derogation must be supported by Fineco AM's Sustainable Investment Lead, determining that a credible case can be made that derogation can lead to improved Governance practices and a positive assessment within one year. The SFC will review this Derogation Request and will decide whether to approve the purchase. In the case that the Sustainable Finance Committee approves the derogation request, the Good Governance assessment is deemed to be met and the company does not need to be divested during that year. If the request is rejected, the ineligible instruments should still be divested within the original three months period.

In certain circumstances, the Portfolio Manager can request an accelerated derogation to the Sustainable Investment Lead, whom, on receipt of an initial summary derogation report may approve the purchase. For such exceptional, accelerated derogation requests, the CIO (or Deputy CIO in their absence) must also give written pre-approval to the Sustainable Investment Lead. A full derogation report will have to be brought to the SFC for review and approval within 1 month of purchase and at such a time a decision will be taken whether to keep or sell the position.

#### **4. Responsibility Review and Monitoring**

This document will be reviewed periodically by the Fineco AM SFC and updated accordingly, if required.



**FINECO**

ASSET  
MANAGEMENT

Fineco Asset Management D.A.C. is part of the FinecoBank Group. Fineco Asset Management D.A.C. is regulated by the Central Bank of Ireland.