



GOOD  
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### **The assessment of issuers' good governance practices**

This Management Company has adopted an approach for assessing the good governance practices of the investee companies or government issuers in which it invests, based on the methodology implemented by the benchmark info-provider (MSCI). This methodology provides for an evaluation of the factor linked to the governance of corporate issuers that is uniform and independent of the product sector to which the company belongs or the jurisdiction in which the activity is carried out. More specifically, this methodology provides for the definition of two information sets:

- *MSCI ESG Score* on the Governance pillar: the methodology proposed by MSCI carefully evaluates two themes, Corporate Governance and Corporate Behaviour, examining the merits of 6 key characteristics for all companies.

As these issues are universally relevant and closely intertwined, a company's good governance is assessed through an approach that quantifies the gap between the governance practices adopted by the issuer and what is considered best practice, thus identifying the main governance risks faced by investors.

With reference to the governance pillar, MSCI's methodology involves the attribution of a score, calculated using an approach based on deductions, in which points are subtracted from a perfect 10 representing best practice, depending on the key metrics that are activated in the assessment of the various issues.

With reference to the topic of corporate governance, the provider uses a set of key metrics related to the following issues: (i) the ownership and management structure of a company, including the election mechanisms, composition and independence of the board of directors, (ii) the leadership, independence, as well as the effectiveness and diversity of the board, (iii) the remuneration policies in place, including any performance-related incentives, and their alignment with the company's long-term objectives, (iv) accounting issues, through which a check is made regarding the occurrence of a material accounting event and the auditor's independence is attested.

With regard to the topic of Corporate Behaviour, the metrics used concern the assessment of issues such as corporate ethics and tax transparency. In the former case, policies on ethical standards, anti-money laundering practices and possible exposure to corruption risk of investee companies, as well as the presence of controversies on corporate ethics are taken into account for the analysis. While on the issue of tax transparency, the company's involvement in any ongoing tax disputes is checked.

As far as government issuers are concerned, the Msci methodology, with regard to the Governance factor, assesses two pillars in order to define a country's institutional capacity, with reference to the financial, legal and political system, to support and address environmental and social issues in the medium to long term. More specifically, the following are identified and assessed:

- Financial Governance: with reference to the financial management of the country and the availability of capital and adequate and balanced trade relations.
- Political Governance: with reference to the country's institutions, their stability, i.e. the civil and criminal justice system, respect for human, political and civil rights.



Similarly to the assessment of corporate issuers, government issuers are also assigned a score calculated using an approach based on deductions, in which points are subtracted from a perfect 10 representing best practice, depending on the key metrics that are activated in the assessment of the various issues.

- *MSCI ESG Controversies*: the methodology adopted by MSCI identifies, assesses and monitors issuers involved in major environmental, social and governance controversies, identifying the company's involvement in the main ESG controversies, as well as its adherence to international standards and principles, and assessing the company's performance against these standards and principles on their merits. This approach involves, depending on the severity of the controversies in which issuers are involved, the assignment of a flag that can be green, yellow, orange or red when the situation is assessed as particularly serious. The MANAGEMENT COMPANY's responsible investment policy is to exclude from the investable universe all issuers for which red flags have been identified (i.e. a very serious ongoing ESG controversy involving a company directly through its shares, products or operations).

With reference to government issuers, the MANAGEMENT COMPANY's responsible investment policy provides for the exclusion from the investable universe of those countries that are subject to international sanctions or are in serious breach of principles defined in the UN Global Compact.

The information needed to assess good governance practices will be retrieved with the support of the information provider used for the exclusion and monitoring activities, but should this information and/or the ESG ratings provided be assessed as not consistent, the MANAGEMENT COMPANY reserves the right to use data, information and ESG ratings either from other third party companies or produced internally.







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