

# Approach for the assessment of good governance practices

March 2022

# Introduction

We understand good governance as business operations that are sound and high quality in terms of efficiency, accountability, decision-making processes, information and transparency policies and practices, to ensure that the interests of stakeholders of the assets we are managing are safeguarded. For example, we rely on the principles of the International Corporate Governance Network, where we are member of. Swiss Life Asset Managers is convinced that good governance is essential to generate long term shareholder value and attractive, risk-adjusted returns. The assessment of good governance practices is part of Swiss Life Asset Managers' holistic responsible investment approach [please refer to [www.swisslife-am.com/responsible-investment](http://www.swisslife-am.com/responsible-investment) ].

Assessment of good governance is integrated in the investment decision making process at Swiss Life Asset Managers and is conducted on an ongoing basis with adequate monitoring processes in place.

## 1. Securities

For Securities, Swiss Life Asset Managers' good governance practices assessment is performed along three dimensions: the financial analysis, the ongoing monitoring of ESG indicators and active stewardship.

### *1.1 Equities and corporate bonds*

We are looking for investee companies with dedicated corporate strategies including financial but also non-financial aspects. This should be evident in terms of both the competitiveness of the company as well as the adverse impacts by the company's operations. Such a corporate strategy covers a broad range of activities and structures including company's policies, standards, disclosures and values as well as the board and management structures. Good governance practices show a corporate's commitment to the governance dimension of sustainability.

Therefore, the following sources are mainly used and integrated into the good governance assessment:

- External research such as ratings, controversy flags and scores from specialized third party ESG data provider(s)
- Additional information available from public sources, e.g. dedicated financial market information service providers, public reports of issuers, Task Force on Climate-Related Financial Disclosures (TCFD) transparency recommendations
- Information received from proxy voting service providers and in-house analysis
- Information from direct dialogues with issuers and other engagement activities

For the assessment of investee companies' governance practices, the following elements are taken into consideration:

- Audit and financial reporting practices
- Alignment between remuneration schemes and corporate strategy
- Composition, effectiveness and oversight of the Board
- Company's ownership and control
- Tax transparency
- Business ethics issues such as fraud, executive misconduct, corrupt practices, money laundering, or anti-trust violations

Swiss Life Asset Managers aims to improve governance practices of investee companies primarily through its engagement activities, mainly by means of proxy voting and other engagement activities (e.g. direct

dialogues with issuers). Depending on the severity and the duration of governance issues of investee companies, investment exposure may be reduced, sold or entirely excluded from the investment universe.

In addition, Swiss Life Asset Managers applies norms-based exclusions, to avoid issuers with poor governance practices.

- For example: Severe violation of UN Global Compact Principles
- Companies or countries which are broad-based sanctioned by sanction programs

## 1.2 Sovereign (bonds)

While assessing the governance of sovereigns, Swiss Life Asset Managers considers the level of the development of the countries' economies. Along the three dimensions state above, Swiss Life Asset Managers' governance assessment for sovereigns is performed by using various sources, such as:

- External research such as ratings, controversy flags and scores from specialized third party ESG data provider(s)
- Information from internal research based on recognized data sources
- Additional information available from public sources, e.g. dedicated financial market information service providers, public reports.
- Information from stakeholder dialogues e.g. NGOs

For the assessment of sovereigns' governance practices, the following criteria are taken into consideration:

- Corruption control
- Political rights and civil liberties
- Political stability and peace
- Government finances

Depending on the severity and the duration of the sovereigns' governance issues, investment exposure may be reduced, sold or entirely excluded from the investment universe. Countries that are sanctioned on a broad basis through sanction programs are excluded from the investable universe.

## 1.3 Multi Asset

Multi asset mandates and funds combine investments in various asset classes in one portfolio. We distinguish between portfolios investing in funds and those investing part or the totality of their assets directly into bonds and stocks. Portfolios investing exclusively in funds managed by Swiss Life Asset Managers inherit the governance processes, rules and characteristics of these funds. They therefore automatically reflect the good governance assessment practice of Swiss Life Asset Managers. Portfolios investing in funds managed by third-parties (like for example ETFs) must go through a structured due diligence process which includes an assessment of how governance aspects are considered in the investment process of the target fund. The aim is to ensure a high degree of consistency with Swiss Life Asset Managers' own good governance principles. However, the processes applied to 3rd party funds will most likely differ in various ways from those used in Swiss Life Asset Managers. This might result in unavoidable differences. If an investment is made in a 3rd party fund despite weak results of the ESG due diligence (which includes the good governance assessment), a justification is required. Direct investments in bonds and equities are subject to the same processes as the single asset classes. Therefore, they fully reflect Swiss Life Asset Manager's good governance assessment practice.

# 2. Real Assets

## 2.1 Real Estate

Assessment and verification of good governance on the level of assets in our real estate investment products is important to Swiss Life Asset Managers. Since Swiss Life Asset Managers is exclusively

investing in real estate assets in Europe, governance aspects of the location (country) are generally not assessed in depth due to higher standards according to recognized sources (e.g. Corruption Perception Index from Transparency International, or Worldwide Governance Ratings from the World Bank).

Swiss Life Asset Managers is convinced that real estate assets for which governance aspects are taken into consideration is an important contributor for generating long term value of investment exposure in real estate. The assessment of good governance is part of Swiss Life Asset Managers's responsible investment approach [please refer to [www.swisslife-am.com/responsible-investment](http://www.swisslife-am.com/responsible-investment)] Swiss Life Asset Managers' governance assessment for real estate assets starts in the due diligence process and continues during the acquisition process and the ongoing management.

The three cornerstones of Swiss Life Asset Managers' good governance review at asset level are proper knowledge of assets thanks to building static and dynamic data, proper management of governance issues into the supply chain and proper tenant selection to avoid exposure of assets to controversial activities.

Swiss Life Asset Managers's governance assessment for real estate is performed by using the following sources:

- ESG data at building level from third party data providers
- Information stemming from the due diligence and acquisition phase
- Information stemming from screening tools of stakeholders of asset (e.g. suppliers, service providers, tenants etc.)
- Additional information available from public sources

For the assessment of governance of real estate, the following elements may be taken into consideration:

- Data at asset level, such as building data and data of resources consumption (energy, water, waste) at property level
- Good governance practices into the supply chain covering inter alia:
  - o assessment of governance at key stakeholders' level against UNGC, covering their internal sourcing framework and how stakeholders operate in the labor market
  - o relevant contractual obligations of major service providers and suppliers (e.g. property managers, suppliers, real estate developers, etc.) respectively signature of a pertinent "code of conduct" covering inter alia business ethics and human rights
- Selection and assessment of tenants with regards to their governance practices: covered are tenants for which there are reasonable indications that they have exposure to controversial industries

Depending on the severity and duration of the governance issue of tenants and suppliers, the termination of business relationships may result as ultimo ratio.

## *2.2 Infrastructure*

Due to the long-term nature of infrastructure investments, it is important to include governance aspects in the investment decision making process. Swiss Life Asset Managers is convinced that infrastructure projects with a sound and solid governance framework provide better transparency regarding financial but also non-financial aspects and therefore a good governance framework is an important contributor for generating long term value for investor's having ultimately exposures in such projects.

Swiss Life Asset Managers' governance assessment for infrastructure projects starts before the investment decision has been taken, in the due diligence process. It continues during the ongoing management of the project. The due diligence covers inter alia legal and regulatory topics, business ethics risk, employee relations, diversity aspects, investment location (country) and operational risks in Swiss Life Asset Manager's proprietary scoring model. Furthermore, the strengths of other investors/ financiers of such investment opportunities are also assessed. In particular, the protection of minority right holders.

Furthermore, the supply chains of the major suppliers of infrastructure project are assessed. The assessment on governance issues focuses on whether these companies have an adequate framework regarding their sourcing activities and how they operate in the labor market.

### 3. Internal Governance

The Assessment of good governance practices and actions that have been taken to promote good governance such as active ownership or engagement activities are reported regularly to the asset class dedicated ESG committees and depending on the importance to Swiss Life Asset Managers' ESG Board. The committees meet regularly to ensure a coordinated and consistent implementation of the responsible investment approach and to ensure avoidance of investment and communication inconsistencies, monitoring of ESG thresholds, early flagging of potential issues and discussion of strategic ESG initiatives. In case of adverse developments with individual stakeholders and issuers, additional measures may be considered. Such secondary options as the right to take legal action, or to divest or sell an asset will be communicated by the dedicated ESG Committee to the ESG Board for information, consultation and potential escalation.

«Swiss Life Asset Managers» is the brand name for the asset management activities of the Swiss Life Group. More information is available at [www.swisslife-am.com](http://www.swisslife-am.com).