

# Good Governance

**Introduction** The EU Sustainable Finance Disclosure Regulation (SFDR) requires Article 8 and Article 9 products to invest only in companies following good governance practices.

SFDR sets out four topics against which governance practices should be assessed:

- Management structure
- Employee relations
- Remuneration of staff
- Tax compliance

Additional details were not provided by the regulator.

**Definition** Bonafide aims to follow widely recognized industry norms in its interpretation of good governance.

Due to limited availability of data, good governance will be defined as the absence of negative events for the time being. Negative events entail severe controversies (unless stated otherwise) as determined by ISS ESG on select indicators.

Controversies on the following indicators were chosen to reflect the four topics set out in SFDR:

| SFDR topic            | Indicator  |
|-----------------------|--|
| Management structure  | Anti-competitive behavior<br>Money laundering<br>Bribery |
| Employee relations    | Union rights<br>Discrimination                           |
| Remuneration of staff | CEO/employee pay ratio > 500                             |
| Tax compliance        | Taxation<br>Accounting                                   |

All indicators must be passed at all times. The selection criteria will be updated as new information becomes available.