Principles for Responsible Investment

HOW TO IDENTIFY HUMAN RIGHTS RISKS

A PRACTICAL GUIDE IN DUE DILIGENCE

JUNE 2023

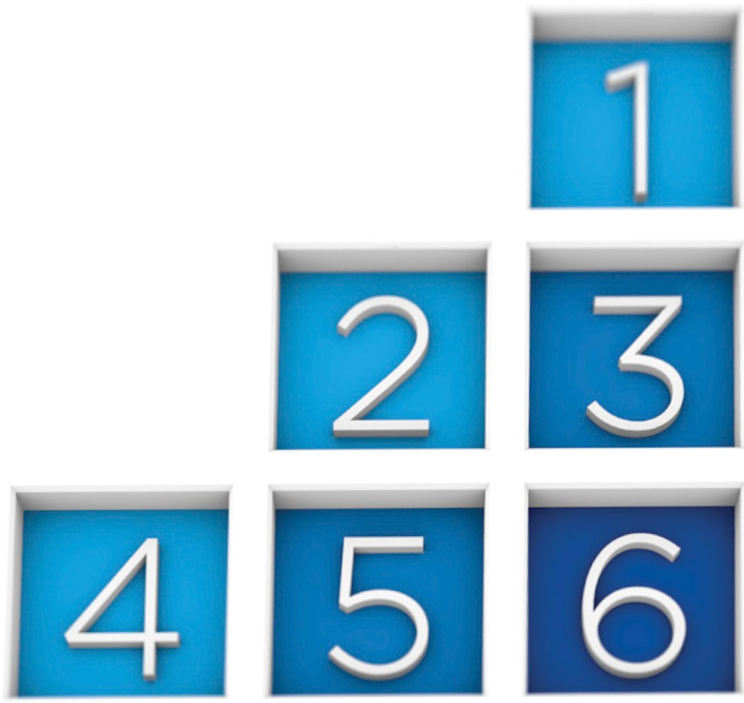
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

CONTENTS

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INTRODUCTION

As formalised by the UN and the OECD in 2011, institutional investors have a three-part responsibility to respect human rights (see Figure 1[1]).

Figure 1: Investor's three-part responsibility to respect human rights

POLICY	DUE DILIGENCE PROCESSES				ACCESS TO REMEDY
Adopt a policy commitment to respect internationally recognised human rights	Identify actual and potential negative outcomes for people, arising from investees	Prevent and mitigate the actual and potential negative outcomes identified	Track ongoing management of human rights outcomes	Communicate to clients, beneficiaries, affected stakeholders and publicly about outcomes, and the actions taken	Enable or provide access to remedy

Identifying actual and potential negative outcomes can be further categorised according to the investment life cycle (see Figure 2).

Figure 2: Actions to identify negative outcomes relative to investment life cycle

Pre-investment due diligence		Post-investment proactive due diligence		Post-investment reactive due diligence
Assess negative human rights outcomes of potential investees to understand their potential risk profile	+	Proactively identify negative human rights outcomes in the portfolio	+	Respond to severe and emerging negative human rights outcomes identified in the portfolio, for example, via controversies alerts

Pre-investment, assessing negative human rights outcomes should be a central part of understanding new securities' risk profiles. Post-investment, investors should take both proactive and reactive actions to identify negative human rights outcomes associated with their investments.

In carrying out due diligence, investors should, where necessary, prioritise companies with the most severe actual and potential adverse human rights outcomes (herein also referred to as 'risk identification and prioritisation'). Prioritisation is typically important for investors with highly diversified investment portfolios. This is explained in the UN Guiding Principles (UNGPs):

> **Guiding Principle 24:** Where it is necessary to prioritise actions to address actual and potential adverse human rights impacts, business enterprises should first seek to prevent and mitigate those that are most severe or where delayed response would make them irremediable.

1 PRI (2023), Why and how investors should act on human rights

2 In this guide, we use the term 'outcome' to refer to what the UNGPs call 'impact'. For investors, outcomes and impacts are commonly understood as distinct concepts. Outcomes can be intended or unintended, actual or potential, and may be caused by, or contributed to or directly linked to the activities of investors. Investors often define impact as an actual change in an outcome caused by an organisation

OBJECTIVE AND SCOPE

This guide provides a systematic framework to support equity and corporate debt investors to identify and prioritise human rights risks. (i.e., "post-investment proactive due diligence" in Figure 2). Acknowledging that data availability is imperfect and that inconsistencies exist[3] between environmental, social and governance (ESG) ratings from data providers, it is vital that investors take a methodological approach when assessing human rights risks to ensure that the most salient risks are identified.

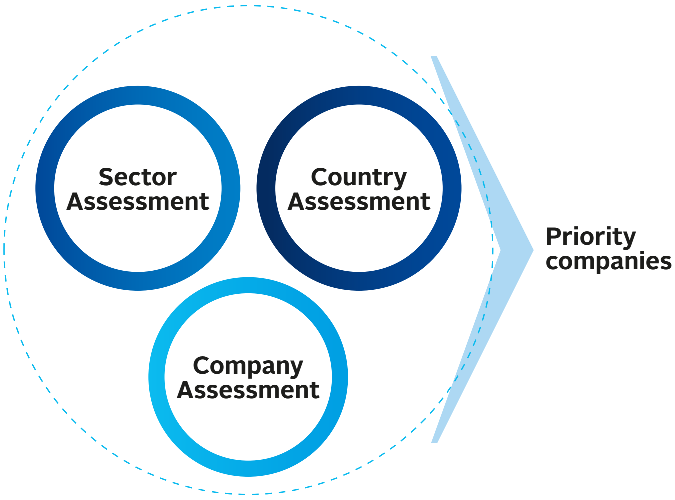
While it is beyond the scope of this guide, investors should also be able to: (a) respond to emerging human rights impacts identified in their portfolio, for example, via controversies alerts; and (b) to assess potential risk profiles of new securities by considering the trading frequency and volumes across their investment strategies.

This guide applies to both asset owners and asset managers who assess human rights risks in their investment portfolios. Asset owners who outsource some or all of their investment management should also set clear expectations to their asset managers in terms of how human rights risks are identified and prioritised, and ensure that they monitor risk exposure and actions to address issues via regular information from their fund managers. See Appendix: *Asset owner questions for investment managers.*

PRIORITISATION FRAMEWORK

As outlined in the UNGPs, the severity of actual and potential human rights outcomes is a deciding factor in company prioritisation. Investors should take a similar approach to the UNGPs in evaluating severity i.e., "judged by their scale,[4] scope[5] and irremediability[6]". The below framework introduces three types of risk identification analysis that could inform company prioritisation: (i) country (ii) sector (iii) company (see Figure 3).

Figure 3: Three ways to identify and prioritise companies' human rights risks



HUMAN RIGHTS RISK IDENTIFICATION		
A. COUNTRY	**B. SECTOR**	**C. COMPANY**
1. Map country exposure and risks (including value chains) 2. Prioritise high-risk countries 3. Prioritise companies headquartered in, and / or with operations in high-risk countries	1. Map sector exposure and risks (including value chains) 2. Prioritise high-risk sectors 3. Prioritise companies within high-risk sectors	1. Map company exposure and risks in terms of their: i. Human rights performance ii. Human rights-related controversies 2. Prioritise high-risk companies

3 PRI (2020), ESG rating disagreement and stock returns
4 The UNGPs defines the term 'scale' as the gravity of the impact on the human rights
5 The UNGPs defines the term 'scope' as the number of individuals that are or could be affected
6 The UNGPs defines the term 'irremediability' as the ease or otherwise with which those impacted could be restored to their prior enjoyment of the right(s)

This prioritisation framework should be tailored to suit investors' individual investment strategies. See below:

Figure 4: How to identify risk based on portfolio centration

CONCENTRATED PORTFOLIOS

Limited prioritisation required – a bottom-up approach can be taken to assess companies in the portfolio and directly inform action. All three types of risk analysis can be considered either simultaneously or in an order that best suits the investor.

A. Country assessment
A1. Map country exposure in portfolio and risks (including value chains)

B. Sector assessment
B1. Map sector exposure and risks (including value chains)

C. Company assessment
C1. Map company exposure and risks
  i. Human rights performance
  ii. Human rights-related controversies

DIVERSIFIED PORTFOLIOS

High degree of prioritisation required – a top-down approach should be taken where the three types of risk analysis are considered to prioritise companies in portfolio.

A. Country assessment
A1. Map country exposure in portfolio and risks (including value chains)
A2. Prioritise high-risk countries
A3. Prioritise companies within high-risk countries

B. Sector assessment
B1. Map sector exposure and risks (including value chains)
B2. Prioritise high-risk sectors
B3. Prioritise companies within high-risk sectors

C. Company assessment
C1. Map company exposure and risks
  i. Human rights performance
  ii. Human rights-related controversies
C2. Prioritise high-risk companies

Prioritised companies will be the results from A3, B3 and C2 combined

IDENTIFYING HUMAN RIGHTS RISKS

A. COUNTRY ASSESSMENT

STEP 1: MAP COUNTRY EXPOSURE AND RISKS

Country-level mapping should include countries where companies are headquartered as well as where businesses operate and links through value chains.

Based on available information, investors should assess their exposure and the correlating human rights situations. A wealth of data sources is available (see Figure 5).

Figure 5: Data sources on country-level risks

RESOURCE	DESCRIPTION
The World Bank: The ESG data portal	Contains a range of indicators relevant to human rights, including an index on the strength of legal rights, an estimate of voice and accountability,[7] and a score on economic and social rights performance.[8] Other indicators are also useful, especially under the social category.
The World Bank: Worldwide Governance Indicators	Includes governance indicators, such as political stability, rule of law and absence of violence / terrorism.
The World Bank: Poverty and Inequality Indicators	Indicators on poverty.
Human Rights Watch	Country-level reports on human rights abuses.
OECD (the Organisation for Economic Co-operation and Development): Measuring Distance to the SDG Targets	Assesses how close member countries are to meeting the SDGs.
Sustainable Development Report	Gauges countries' progress in meeting the SDGs.
Human Rights and Business Country Guides	Compiles publicly available information on certain countries.
Amnesty International	Profiles of individual countries.
UN Human Rights Council Universal Periodic Review	Assesses states' human rights records via peer review.
The Global Food Security Index	Examines food affordability, availability, quality and safety, as well as natural resources and resilience, on a country-by-country basis.
UN Development Programme, Human Development Reports	Contains a range of data on social factors within countries, including the Human Development Index, which aims to combine measurements of health, education and living standards.
Fragile States Index	Ranks countries annually on their stability, highlighting vulnerabilities that increase the risk of state fragility.

7 The World Bank defines voice and accountability as "captur[ing] perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e., ranging from approximately -2.5 to 2.5"

8 The World Bank definition: "Economic and social human rights ensure that all people have access to the basic goods, services, and opportunities necessary to survive and thrive"

RESOURCE	DESCRIPTION
International Federation for Human Rights	Publishes ratings of EU countries and the UK that aim to help investors account for how countries meet obligations to respect, protect and fulfil human rights.
International Labour Organization World Social Protection Data Dashboards	Data on social protection by country.
The International Trade Union Confederation: Global Rights Index	Reports on workers' rights, highlighting violations of collective bargaining, the right to strike, and excluding workers from unions.
Global Slavery Index	Estimates the number of people in modern slavery, the factors that make people vulnerable, and analyses governments' responses.
International Labour Organization Statistics on Union Membership	Data on trade union density rate by country.
Human Rights Measurement Initiative	Data on human rights performance by countries, rights, and people.
CIVICUS Monitor	Gives scores on civic space conditions for 197 countries and territories

STEP 2: PRIORITISE COMPANIES WITH LINKS TO HIGH-RISK COUNTRIES

The exposure to and prevalence of human rights harms are closely linked to the environment in which companies are operating. In countries where the state not only fails to protect but also violates human rights, there may be a very high risk of companies contributing to adverse human rights outcomes, either because the government directly compels them to, or more indirectly because the state has a weak rule of law and lack of good governance. Similarly, conflict-affected areas require a heightened degree of due diligence from investors.[9]

Investors should use the data collected in Step 1 (mapping country exposure and risk) to prioritise companies that are exposed to risks in those territories. For instance, if a country is identified to be a conflict-affected or high-risk area, investors should investigate how they may be exposed to human rights risks in the country, either in their portfolio or through value chains, and prioritise these companies for further action.

Country-level assessment can be an independent step or integrated into sector and company-level assessments.

CASE STUDY

AP2: Country-level framework to assess human rights

9 Guiding Principle 7 states, "the risk of gross human rights abuses is heightened in conflict-affected areas"

B. SECTOR ASSESSMENT

STEP 1: MAP SECTOR EXPOSURE AND RISKS

Here, investors should map sector[10] exposure in their portfolio, and collect and analyse data to evaluate the severity of human rights risks on people for each sector, across the entire value chain. We recommend that investors analyse impacts on three stakeholder groups, namely: (i) affected communities, including in the value chain, (ii) workers in the company's own workforce and in the value chain, and (iii) those people impacted using the company's products or services.[11]

Figure 6 presents a non-exhaustive list of publicly available indicators and data sources that can help investors assess the severity of human rights risks across the three stakeholder groups, per sector and across sectors. For some key human rights issues such as child labour and gender discrimination, no data source was identified to cover all sectors. In such cases, we have included examples of alternative sources (e.g., reports) that could be consulted.

The "illustrative examples and findings" column demonstrates how the data could be used to assess and compare human rights performance at a sector level. In the "notes" column, we discuss benefits and limitations of data sources provided.

The list is a starting point to guide investors in collecting their own data on sector-level risks. In addition, investors should seek information from affected stakeholders and their representatives, where possible, to gain further sector-specific insights on vulnerable and marginalised groups, as outlined in the UNGPs.

Mapping the severity of risks across sectors is an imperfect exercise and as the risk landscape constantly changes – due to changes in the external environment and the investor's own portfolio – we recommend that investors undertake their assessments on a regular basis.

Figure 6: Indicators and data sources for sector-level severity assessment

Stakeholder group	ASSESSMENT OF HUMAN RIGHTS RISKS				
	Info type (contextual /severity)	**Risk Indicator**	**Available data sources**	**Illustrative examples and findings**	**Notes**
Communities	Severity	Controversies	▪ Organisation for Economic Corporation and Development Watch National Contact Points database[12] ▪ Business & Human Rights Resource Centre (BHRRC) allegations and litigations database ▪ Business and Human Rights Resource Centre (BHRRC) Human Rights Defenders Attacks database	As of 2022, three sectors with the highest number of allegations and litigations are metals and mining, oil and gas, and agricultural products. These sectors had over than 10 times the allegations each, compared to the medical equipment and products sector.	The number of controversies is a proxy for the scope of risks, while the content of controversies would indicate the scale and irremediability of risks. The numbers may not fully reflect the actual issues within each sector as certain companies face more allegations given higher media attention in certain countries or consumer attention to specific sectors.

10 In this guide, we use the term 'sector' to refer to what the Global Industry Classification Standard (GICS) refers to as 'industry group'. GICS is a four-tiered, hierarchical industry classification system that includes 11 sectors, 24 industry groups, 69 industries and 158 sub-industries

11 PRI (2022), Managing human rights risks: what data do investors need?

12 Although listed in a specific category, this data source encompasses all stakeholder group (communities, workers, and end-users)

Stakeholder group	ASSESSMENT OF HUMAN RIGHTS RISKS				
	Info type (contextual /severity)	Risk Indicator	Available data sources	Illustrative examples and findings	Notes
Workers	Contextual	Sector size of workforce	▪ International Labour Organisation (ILO) statistics on employment ▪ ILO Monitor: COVID-19 and the world of work. Second edition	The three sectors with the largest workforce, including in value chains, are agricultural products, retail and apparel and footwear.	The ILO statistics on employment provide good coverage across sectors. Nevertheless, the numbers may not accurately reflect the size of workforce in sectors where a large share of employment is informal.
	Severity	Forced labour, child labour, bonded labour and modern slavery	▪ Reports on global estimates: Global Estimates of Modern Slavery and Child labour: global estimates 2020, trends and the road forward ▪ Reports pertaining to specific sectors: ILO Child labour in agriculture and UNICEF Children's rights in the garment and footwear supply chain ▪ Reports pertaining to specific goods produced: 2020 list of goods produced by child labor or forced labor ▪ Migration Data Portal	▪ Data indicates that forced and child labour are prevalent in agricultural products, apparel and footwear, construction materials and supplies, as well as in the metals and mining sectors, although comparable data points are not readily available. ▪ Forced labour is also highly prevalent in the renewable energy sector, although concentrated in a few countries.	Information on forced labour and child labour is not readily available – there is no database that covers all sectors and countries. However, it is possible to deduce a rough estimate from several sources – reports on global and / or national estimates, as well as data on specific sectors or goods produced. Information on the percentage of migrant labour in the total workforce should be sought. Investors should seek information on working conditions and the risk of debt bondage often faced by migrant workers.
		Worker health and safety	▪ ILO statistics on safety and health at work	▪ As of 2022, sectors with the highest average work-related fatality rate are agricultural products, metals and mining, and construction materials and supplies sectors. ▪ The same three sectors have the highest average work-related non-fatal injury rate. ▪ Additional medium-risk sectors captured by the non-fatal injury rate database include food and beverage, retail, and utilities.	The data source has good coverage across sectors.

Stakeholder group	Info type (contextual /severity)	Risk Indicator	Available data sources	Illustrative examples and findings	Notes
	ASSESSMENT OF HUMAN RIGHTS RISKS				
Workers	Severity	Living wage	▪ ILO Global Wage Report ▪ ILO report pertaining to a specific region and sector: Weak minimum wage compliance in Asia's garment industry	Research shows that the apparel and footwear sector has a large share of sub-minimum and minimum wage earners, mainly in Asia.	The ILO Global Wage Report has a section on the labour market characteristics of minimum wage earners. This section sheds light on the sectoral distribution of sub-minimum and minimum wage earners compared with those paid above the minimum wage, both globally and regionally. Reports focused on a specific region and sector can be further consulted to better understand the regional and sectoral contexts.
Workers	Severity	Gender gap	▪ For information on share of women employees: World Economic Forum Global Gender Gap Report 2021 ▪ For sector-specific information on share of women employees: Deloitte 2020 Women in Automotive industry study	▪ As of 2019, the automobiles and components sector has one of the lowest representations of women in senior management roles. ▪ Academic and industry research on gender inequality indicate that gender gap may be more comparable between regions than between sectors.	Information on the gender gap is not readily available – there is no database that covers all sectors and countries. Investors should consult a diverse range of sources to attain a better understanding of sectoral contexts – reports on global and / or national estimates, as well as data on specific sectors.
Workers	Severity	Freedom of association and collective bargaining	▪ ILO statistics on union membership ▪ The International Trade Union Confederation (ITUC) Global Rights Index ▪ Shared Prosperity: The Investor Case for Freedom of Association and Collective Bargaining	The ITUC report states that in the garment sector, 500,000 workers employed in Export Processing Zones (EPZs) were not allowed to form or join unions, which left workers without power to bargain for better working conditions.	A comprehensive global comparison on collective bargaining by sector is difficult with publicly available data. However, sectoral insights could be derived from the data sources presented.

Stakeholder group	ASSESSMENT OF HUMAN RIGHTS RISKS				
	Info type (contextual /severity)	**Risk Indicator**	**Available data sources**	**Illustrative examples and findings**	**Notes**
Workers	Severity	Informal employment	▪ ILO statistics on proportion of informal employment in total employment by sex and sector (%) – Annual	Aggregating the country-level data by economic activity (agriculture / non-agriculture), the agricultural products sector has a high proportion of informal employment. This data source can also be used to further understand the country-level differences.	A comprehensive cross-sectoral comparison by sector is difficult as the ILO statistics only categorise economic activity as agricultural and non-agricultural. Investors could consult additional sources to attain a more comprehensive understanding of sectoral differences.
End users	Contextual	Consumer / user base	▪ World Bank Data: Mobile cellular subscriptions ▪ Global Findex Database 2021	There are 4.9 billion internet users globally, indicating the IT software and services sector has a large user base.	The size of user base is a proxy for the scope of risks on end-users.
	Severity	Access to products and services	▪ Access to Medicine Foundation ▪ Global Findex Database 2021 ▪ GSMA: The State of Mobile Internet Connectivity Report 2022 ▪ GSMA: The Mobile Gender Gap Report 2022 ▪ International Monetary Fund Financial Access Survey	Unequal access to products and services can be readily observed in sectors including banks, electronics, medical equipment and products, and pharmaceuticals and biotechnology. The inequity occurs at various levels – international, regional, community, and individual.	Data sources to evaluate the level of access vary depending on sectors' products and services. We have provided some sources which could be consulted for medical equipment and products, banking and electronics sectors.
		Sector-specific impact indicators	▪ Insurance Information Institute: Facts and Statistics: Identity theft and cybercrime ▪ World Health Organisation Databases	Prevalent negative human rights outcomes in the IT software and services sector include data breaches, illegal and harmful online content, propaganda and hate speech, as well as unlawful surveillance.	These data sources may only apply to one or several sectors. The data sources listed provide information on human rights risks that are experienced by end-users in the relevant sectors.

STEP 2: PRIORITISE HIGH-RISK SECTORS

This step involves evaluating the data collected in Step 1 (mapping country exposure and risks) to identify sectors where the most severe human rights risks lie. A traffic light or heat map may be helpful here.

Below is a template that investors could use to assess the severity of risk for each human rights issue.

The template is simplified for illustrative purposes – in practice, it will contain more sectors and risk indicators.

In the example below, Sector A has the most severe human rights risks, across all three stakeholder groups, and investors should consider prioritising companies in Sector A (see Figure 7).

Figure 7: Sector mapping template: high, medium and low risks

SECTOR	COMMUNITIES			WORKERS			END USERS	
	Allegations & litigations	Attacks on human rights defenders	OECD National Contact Points	Forced / child labour	Health & safety	Collective bargaining	Equitable access to products & services	Products & services safety
A	High	High	Medium	High	High	Low	High	High
B	High	Medium	Medium	Low	Medium	Low	Medium	Medium
C	Medium	Low	Low	Low	Low	Low	Low	Low
D	High	Low	High	Medium	Low	Medium	Low	Low
E	Medium	Medium	Low	Medium	Medium	Medium	Medium	Medium

Building on the above exercise, investors will then be able to identify which sectors and stakeholder groups are most at risk more broadly (see example below).

Figure 8: Cross-sector comparison template

SECTOR	COMMUNITIES	WORKERS	END USERS	OVERALL RISK LEVEL
A	High risk	High risk	High risk	High risk
B	Medium risk	Low risk	Medium risk	Medium risk
C	Low risk	Low risk	Low risk	Low risk
D	High risk	Medium risk	Low risk	Medium risk
E	Medium risk	Medium risk	Medium risk	Medium risk

If investors need to further rank companies after sector-level analysis is completed, a country-level analysis may be useful. The following two scenarios show how this could work:

1. The materials sector is identified as a high-risk sector with an exceptionally high level of forced labour. An investor is exposed to the sector through portfolio companies headquartered in Country A, which has strict modern slavery regulations that protects workers against forced labour. In this case, the investor should further seek to understand how they may still be exposed to forced labour risks through their value chains. If their portfolio companies in the materials sector have business relationships in Country B where modern slavery is prevalent and state governance is poor, the investor may still consider prioritising companies headquartered in Country A and is linked to Country B through value chain relationships.
2. The energy sector is identified as a high-risk sector, and an investor has exposure to companies in the sector through operations in Country X and Country Y. Country X scores worse than Country Y across indices such as the Global Slavery Index and Fragile States Index, and has also been accused of numerous human rights abuses in the energy sector by the Human Rights Watch reports. The investor may consider prioritising energy companies in Country X, if further prioritisation is necessary.

CASE STUDY

ABN AMRO: Developing a human rights risk register

CASE STUDY

AP2: Human Rights

CASE STUDY

Dai-ichi Life: Our approach to human rights as a responsible investor

C. COMPANY ASSESSMENT

STEP 1: MAP COMPANY EXPOSURE AND RISKS

The company-level risk assessment enables investors to directly identify and prioritise companies that perform poorly on human rights. This activity can be carried out for companies within a specific sector or with operations or links to a particular country – following country or sector analysis – or independently across the portfolio.

This step involves mapping out the company exposure across the full portfolio and identifying human rights risks present in these companies; operations and value chains.

To identify value chain relationships, investors are typically required to complement information from ESG databases with more traditional business and markets datasets.

This section provides additional data sources which should be consulted to understand companies' exposure and performance relating to human rights risks. See below for publicly available data sources.

Figure 9: Suggested data sources for company-level risk assessment

INFO TYPE	DATA SOURCE	EXPLANATION
Company human rights performance	Corporate disclosures	Typically cover a range of issues, depending on regulatory disclosure obligations.
	Human rights benchmarks for investors: an overview	A list of publicly available human rights benchmarks, with a summary of their scope and methodology. The benchmarks can be used to assess companies' human rights performance.
	Affected stakeholders and their representatives (e.g., trade unions)	Information derived from direct engagement and typically focuses on industry practices in specific locations, or an individual company's conduct.
Human rights-related controversies	BHRRC company directory	Companies' allegations and litigations linked to human rights.
	OECD Watch National Contact Points database	Information on OECD Guidelines cases raised by civil society organisations, against companies.

STEP 2: PRIORITISE HIGH-RISK COMPANIES

Similar to sector-level assessment, we recommend expressing company risks in a traffic light or heat map format.

Figure 10 below is a simplified risk assessment template that can help investors identify high-risk companies. In the example below, Company B and Company E should be prioritised.

Figure 10: Company risk assessment template

COMPANY NAME	PERFORMANCE (higher score = better performance)		CONTROVERSIES (higher number = more frequent human rights violations)			OVERALL RISK LEVEL
	WBA Social Transformation Baseline Assessment (out of 20)	WBA Corporate Human Rights Benchmark (out of 26)	BHRRC allegations & litigations	BHRRC attacks on human rights defenders	OECD National Contact Points	
A	10	12	8	24	4	Medium
B	2	8	12	15	2	High
C	16	18.5	5	2	1	Low
D	13	17	9	12	15	Medium
E	5	6	12	22	10	High

If investors need to further prioritise companies, they should also consider is the likelihood of human rights risks.[13]

CASE STUDY

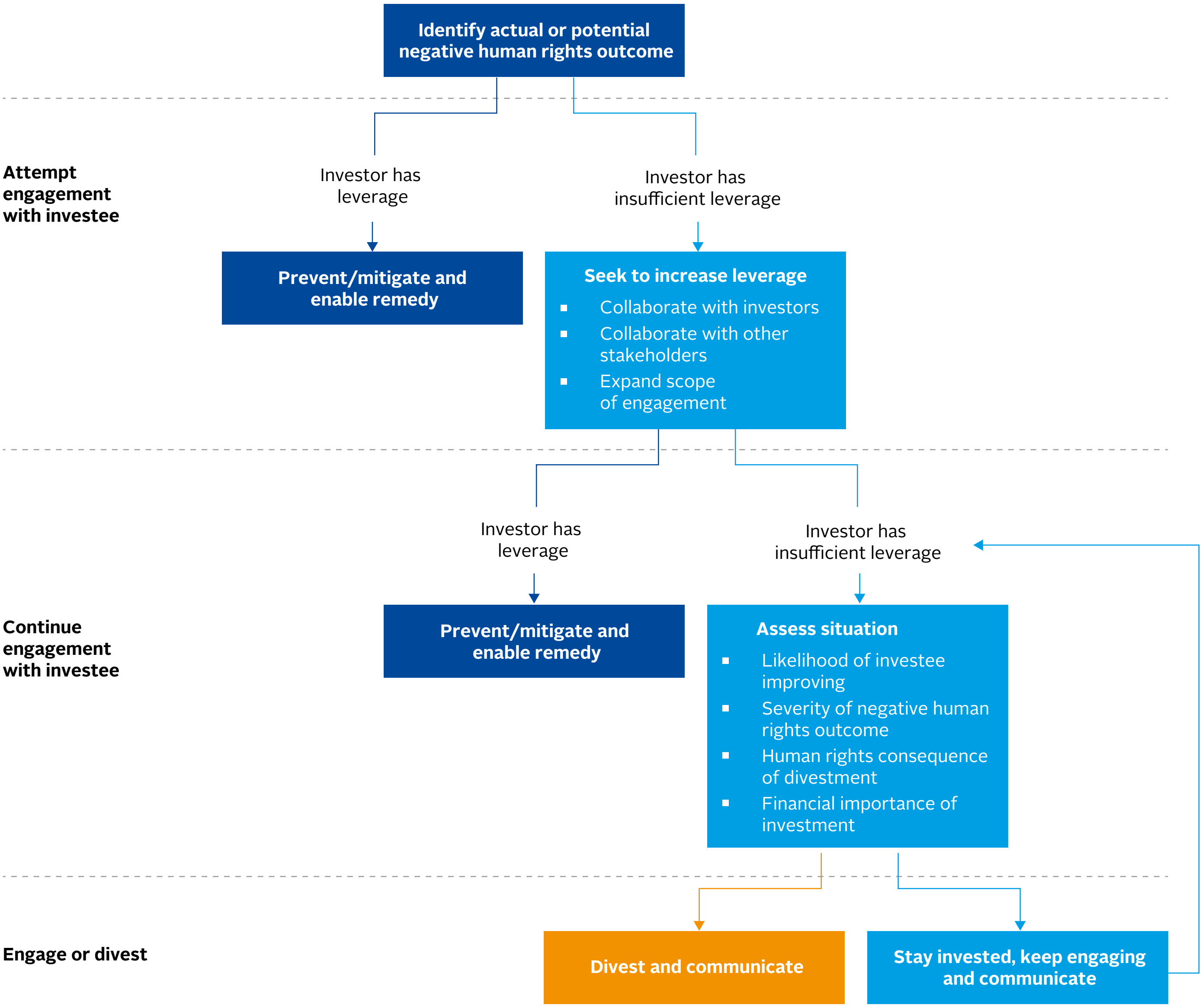
Dai-ichi Life: Our approach to human rights as a responsible investor

13 UNHR (2012), The Corporate Responsibility to Respect Human Rights: An Interpretive Guide

ACT

Once companies have been prioritised, investors have various ways to act.

Figure 11: Investor action flowchart



PREVENT / MITIGATE AND ENABLE REMEDY

INVESTEE STEWARDSHIP

Investors have diverse stewardship tools at their disposal to influence how investees prevent, mitigate, and remedy negative human rights outcomes. Depending on the rights afforded to the investor by the kind of equity or debt they hold in the company, they can consider:

- engaging directly with the company to address the relevant issue;
- voting at shareholder meetings (including in relation to board composition or remuneration);
- filing shareholder resolutions setting expectations for sustainability performance improvements;
- seeking direct roles on investee boards and board committees; and / or
- litigation (where necessary).

Even if fewer options exist for bondholders, they can still wield significant influence when companies need to access the debt markets to raise capital.

BROADER STEWARDSHIP

Policy engagement

Regulation and its enforcement are crucial in safeguarding human rights. Where regulatory clarity, new regulation or enforcement of existing regulation are needed to level the playing field in which investee companies operate, investor engagement with policy makers and regulators can support improved outcomes.

Service providers

Investors can drive positive outcomes by setting expectations with third parties (such as data providers, voting and engagement service providers, or for asset owners, their investment managers and consultants) and requesting that they account for human rights issues in the delivery of their services.

COLLABORATIVE ENGAGEMENT

In situations where investors have limited leverage, expertise and / or resources, taking part in collaborative engagements can enable investors to pool resources and have a stronger voice as they seek to influence companies, mitigate risk and drive positive outcomes for people. This can be done via taking part in the Advance Initiative, a PRI stewardship initiative for human rights and social issues, and by collaborating with other investors through the PRI Collaboration Platform.

DIVEST AND COMMUNICATE

If the investor is unable, through engagement, to alter the behaviour of the investee to prevent or mitigate a negative outcome they could consider divestment. The severity and the human rights consequence of divesting should, however, always be considered first.

The investor will need to consider how crucial the investment is from a financial perspective. In cases where an investor cannot establish enough leverage to address an issue and is unable to divest due to a given mandate or asset allocation requirements, they should continue to stay invested and communicate the reasoning to their clients, beneficiaries, affected stakeholders and other relevant parties.

For investors who divest as the final step in an escalation strategy, they can strengthen the signalling effect by publicly communicating (i) the reasons for doing so and (ii) the sustainability performance criteria which, if met by the company, may lead to re-investment.

APPENDIX: ASSET OWNER QUESTIONS FOR INVESTMENT MANAGERS

We have collated a set of questions that asset owners or their consultants could ask their investment managers, to ensure they are conducting comprehensive human rights due diligence in a methodical way and in line with the UNGPs.

The following questions could be used by asset owners as part of RFPs, during one-to-one manager meetings or as part of an ongoing monitoring process. Insufficient responses could lead to the investment manager not being selected, increased engagement, and even escalation with existing managers.

1. Does the investment manager proactively and systematically identify and monitor human rights risks in the portfolio? If so, how?
2. What are the key geographical and sector risks that the investment manager has identified?
3. What sources has the investment manager used to identify and prioritise risks and outcomes? Have the views of affected stakeholders been considered?
4. What companies does the investment manager focus on? How did the manager reach this conclusion?
5. What are the key human rights issues that the investment manager will aim to address?
6. How have the risks identified affected / will affect allocation decisions and stewardship activities? Give examples.
7. How is progress monitored?
8. How, and how often, will progress / updates be communicated to various stakeholders, including the asset owner?

Key requirements can be embedded through contractual agreements with investment managers, for example, to commit to respecting human rights in line with the UNGPs.

The responses to these questions will help asset managers decide if their investment managers are aligned with this guide and therefore have robust human rights due diligence practices.

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

PRI Principles for Responsible Investment

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

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United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

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