INVESTOR ALLIANCE FOR HUMAN RIGHTS

Embedding Human Rights into Private Equity: Challenges and Possibilities

Thursday, October 21, 2021

Panelists

INVESTOR ALLIANCE FOR HUMAN RIGHTS

Benjamin Cokelet
Founder, CEO, and President of Empower

Michael Kleinman
Director of Amnesty International's Silicon Valley Initiative

Sharmeen Contractor
Senior Advisor, Market Systems and Investors at Oxfam

Hannah Leach
Partner at Houghton Street Ventures, Co-Founder of VentureESG

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Benjamin Cokelet

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Investor Alliance for Human Rights

Webinar:
"Embedding Human Rights into Private Equity: Challenges and Possibilities"

Overview:
Private capital and respect for human rights

21 October 2021

Benjamin Cokelet
Lead author,
Runaway Train: The Perilous and Pernicious Path of Private Capital Worldwide

Founder, Executive Director
EMPOWER LLC

About Us

- **Benjamin Cokelet** is the founder and executive director of **Empower** and lead author of the **book Runaway Train**. He was also the founding executive director (2010-19) of **PODER**, a Latin American corporate accountability and human rights NGO. Previously he worked with non-profits and trade unions in the U.S., Mexico, and Latin America, and taught public administration at NYU-Wagner. He has also served on the boards of civil society, educational, philanthropic, social entrepreneurial, and media organizations, including the advisory council of the **Investor Alliance for Human Rights**.

- **Empower** is a Mexico-based worker-owned social enterprise that provides civil society clients and partners with strategic research, guidance, and training services for corporate accountability purposes. It specializes in the areas of **technology and human rights, grave crimes and financial flows, and the economies of today and tomorrow, including private capital**.

- This presentation may include information and images from independent consultant **Annabel Short**. Also, **Eryn Schornick, Mariana Gutiérrez, and Florencia Rivaud Delgado** are co-authors of and/or contributed to the book.

WHAT IS PRIVATE CAPITAL?

- **Legally,** private capital comprises the **direct investments** that only an **accredited, sophisticated investor** can make. In other words, this means any and all **unlisted investments**.

- The most common **asset and sub-asset classes** receiving investment in private capital are **private equities and debt, hedge funds, and unlisted real estate, infrastructure, and natural resource commodities**, also known collectively as alternative investments.

- Private markets **increased by 8x** from 2000-18 and are currently seeing a growth spurt in 2021.

- As of 2020, private market AUM reached **10.74 trillion USD** or roughly 10% of global GDP. This is the most conservative estimate available. By 2025, it will rise to **17.16 trillion USD**, with Asia overtaking the U.S. and the U.K. as the major growth driver.

- Globally — and particularly in North America, Europe, and East Asia — **private equity is the most prominent** asset class within private capital, followed by hedge funds.

EMPOWER

Private equity breaks 40-year record with $500bn of deals

Activity in first half of 2021 propels global merger and acquisitions to all-time high

Blackstone names new ESG global head for private-equity portfolio

BlackRock outlines investment push into private markets

Buttonwood

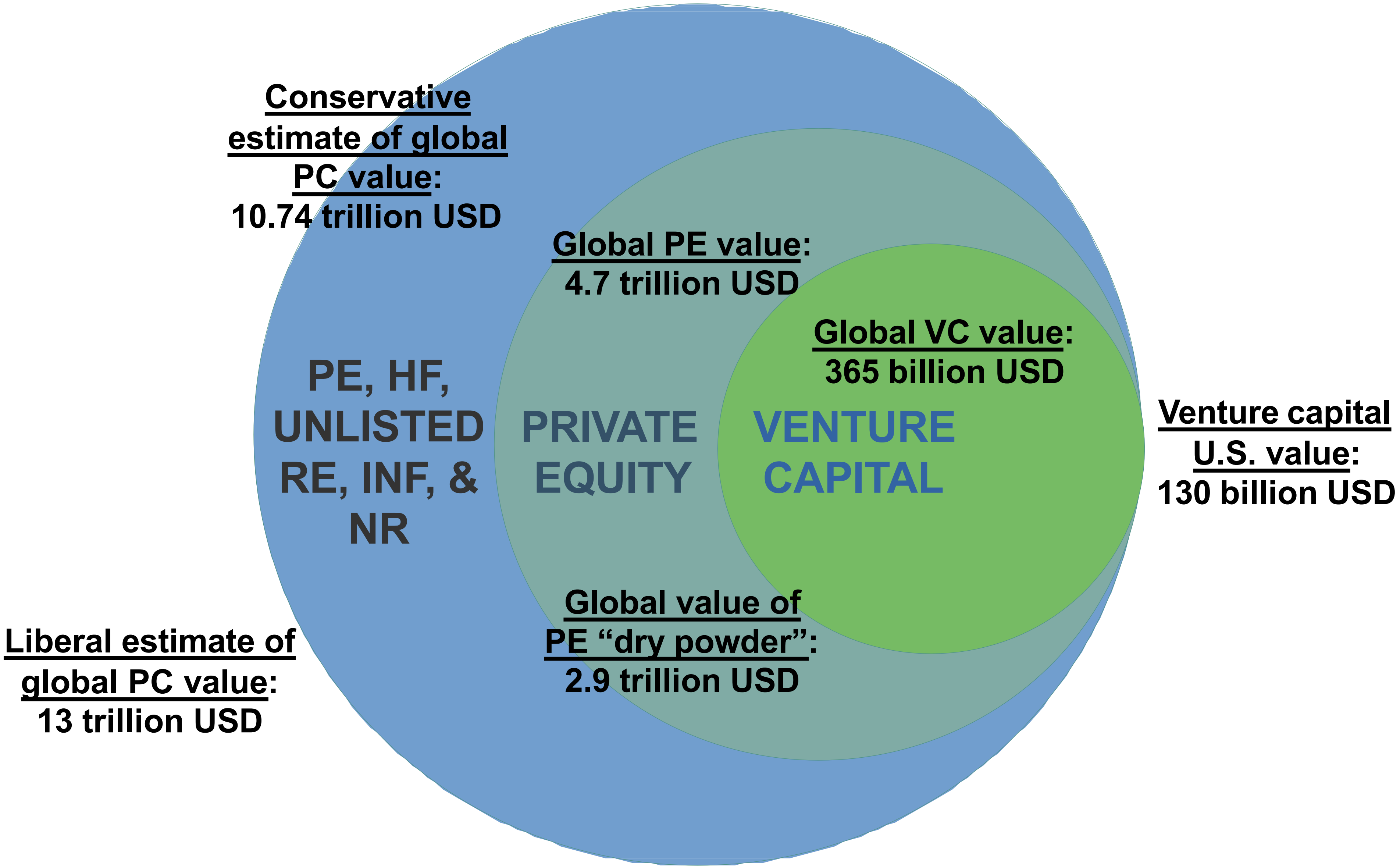
Why private-credit markets are due a growth spurt

With dealmaking at a frantic pace, speed matters

Warburg Pincus launches distressed asset venture in China

US private equity firm invests $600m in a partnership with local group Wensheng

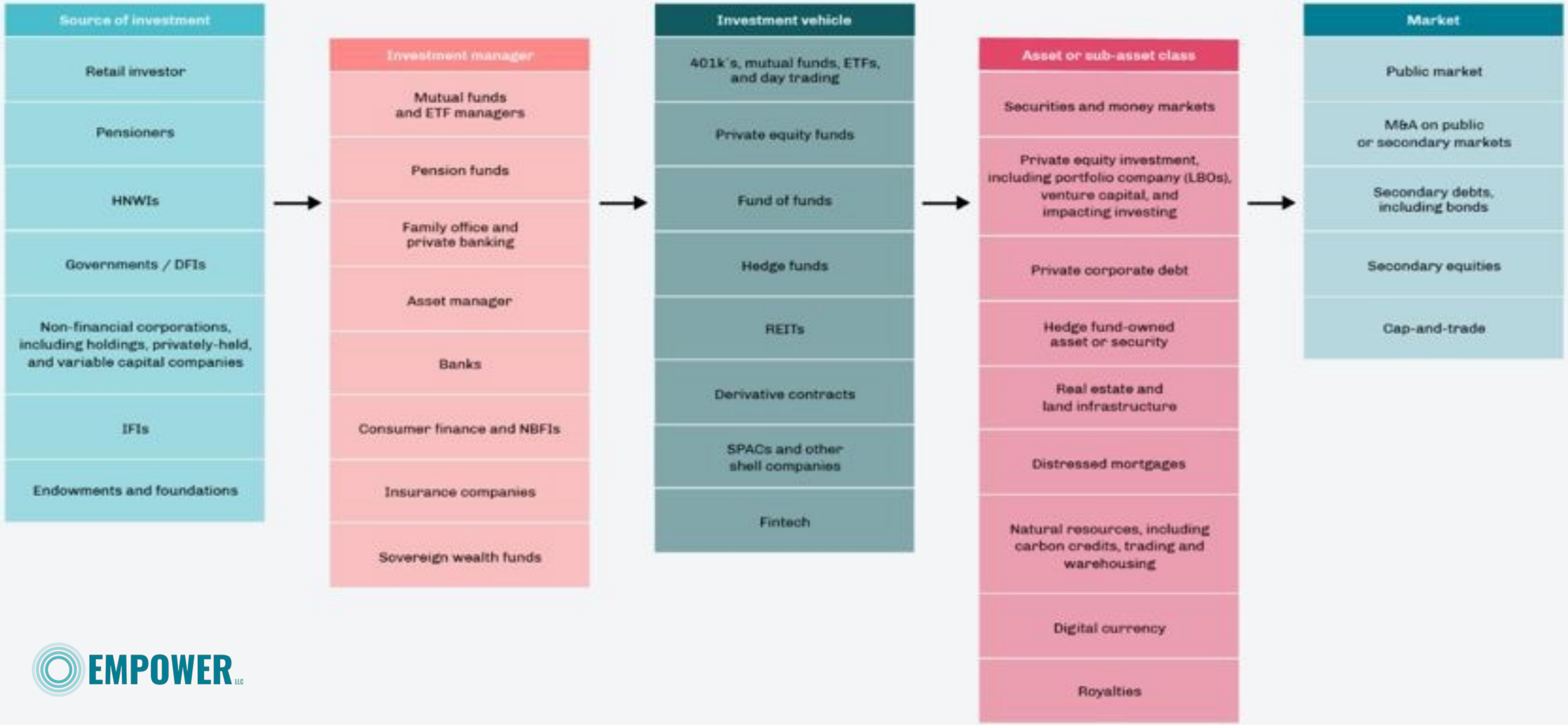
PRIVATE CAPITAL UNIVERSE



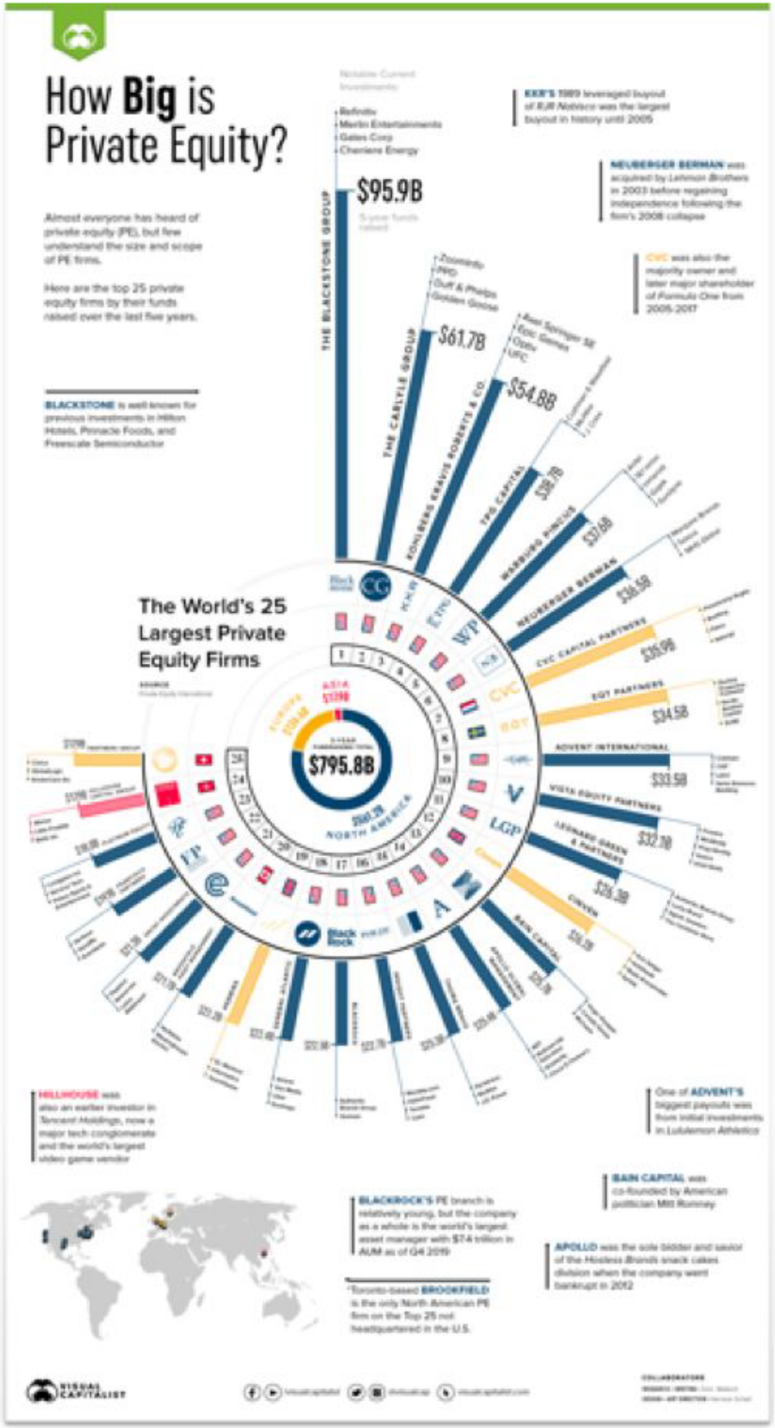
Sources: Runaway Train, Preqin, and Statista.

PRIVATE CAPITAL INVESTMENT CONTINUUM

- Where does private capital's money come from? All of us! **We all contribute, directly or indirectly, to private capital.** Institutional investors – particularly **pension funds** – are the largest investors.
- Empower proposes using an **investment analysis continuum** whereby the universe of private capital can be better understood at each link of the chain, beginning with where money comes from until which markets facilitate investment and ultimately liquidity (exit).



EMPOWER LLC



WHO ARE THE GENERAL PARTNERS?

- Investment advisors or managers set up **limited liability companies**, usually based in either offshore **tax havens** such as the Cayman Islands or onshore havens such as Delaware, so as to create private equity or hedge funds.
- The **fund sponsor** becomes a **general partner (GP)** and **asset owners or managers** become **limited partners (LPs)**.
- With LLCs as the preferred corporate form and funds as the preferred investment vehicle, GPs and LPs can create **limited partnership agreements (LPAs)** for fund-specific investments.

WHO ARE THE LIMITED PARTNERS?

- **Wealthy individuals** and family offices

- **Institutional investors**:
  - **Pension funds**
  - Banks
  - Insurance companies
  - Asset managers
  - Investment managers of mutual funds and ETFs
  - Sovereign wealth funds
  - Development finance institutions
  - **Endowments and foundations** (independently of non-profit status)

EMPOWER

How Private Equity Killed Toys "R" Us

Private equity firms bled the company dry to turn a profit, and now m
layoffs are imminent.

Dutch pension funds invest in deforestation in the Brazilian Amazon

Private Equity Firms Like Blackstone Are Destroying the Planet for Profit

2 Prison REITs Poised To Profit

Desarrollos inmobiliarios y el ataque hacia los pueblos y barrios originarios urbanos

Ante el desarrollo de la industria inmobiliaria, pueblos y barrios originarios urbanos, encuentran una latente amenaza, tanto por los desplazamientos como la falta de agua.

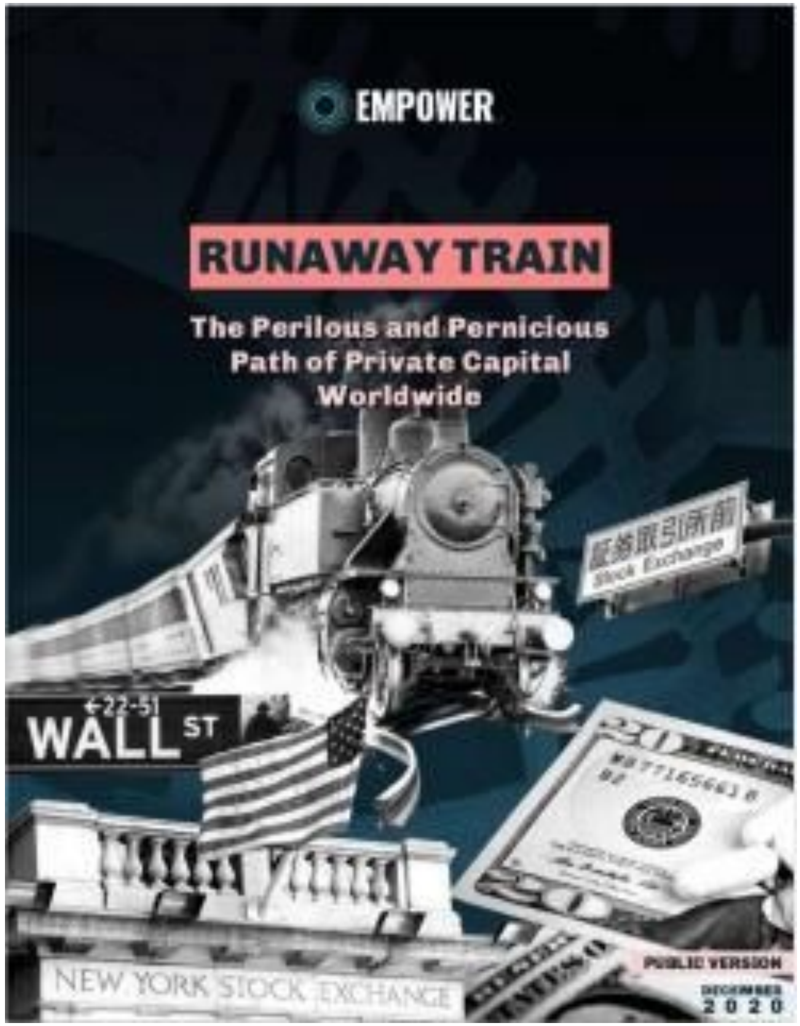
A Hedge Fund Bailout Highlights How Regulators Ignored Big Risks

The Dodd-Frank financial law succeeded at making banks safer, but empowered shadowy corners of finance that nearly wrecked the system in March.

A $140bn asset sale: the investors cashing in on Big Oil's push to net zero

The pressure on listed oil majors could have unintended consequences if production passes to private or state-owned companies

WHY PRIVATE CAPITAL IS A PROBLEM?



- Lack of **disclosure** (transparency), **regulation** (accountability), and **taxation** (public good)
- **Undermines the public good**: The presence and increase of private capital are clear, particularly over the past decade. However, what is less apparent is the **shift (and, arguably, acceleration) of capital away from public markets, regulation, and scrutiny**.
- “**Extractive**” model emphasizes short-termism, profit-optimization, and huge debt levels, while further enriching the wealthy and deepening inequality
- Totally **disconnected** from human rights and environmental impacts
- **Pale, male, and stale**: C-suite lack of gender and racial diversity

CHALLENGES FOR CORPORATE ACCOUNTABILITY

- Until now, as civil society, our campaigns have **largely focused on public-facing businesses.**
- These have been **sensitive to reputational risk.**
- They adhere to some internationally recognized **environmental or human rights standards.**

- But now, a key challenge to corporate accountability is the **profound lack of transparency** from private capital.
- There is an almost **total opacity about its beneficial owners.**

- Private capital targeted by campaigners is **constantly on the move**, whether through successive acquisitions or legal jurisdictions.
- In addition, fund partners and their interests **benefit from the revolving door** with the public sector. In other words, the **corporate capture of the State.**

OVERALL RECOMMENDATIONS

Work with grassroots and advocacy organizations to **demystify private capital**

Push public policy reforms and strategic litigation to bring transparency and accountability to private capital

Expose and harness role of **pension funds, DFIs, and other institutional investors and LPs**

CHOICE RECOMMENDATIONS PER STAKEHOLDER

For institutional investors: Dump private capital and exit responsibly; use Investor Toolkit on Human Rights

For pension funds: Dump private capital and lead new investments in economic sovereignty and public markets; new organizing by pensioners

For civil society: Strengthen shared understanding and strategies; ramp-up campaigns, including joint campaigns with shared targets

For researchers: Expand inquiry across the investment chain of private capital; zoom in on specific contexts to support advocacy; corporate power mapping of the largest private capital firms

THANK YOU!

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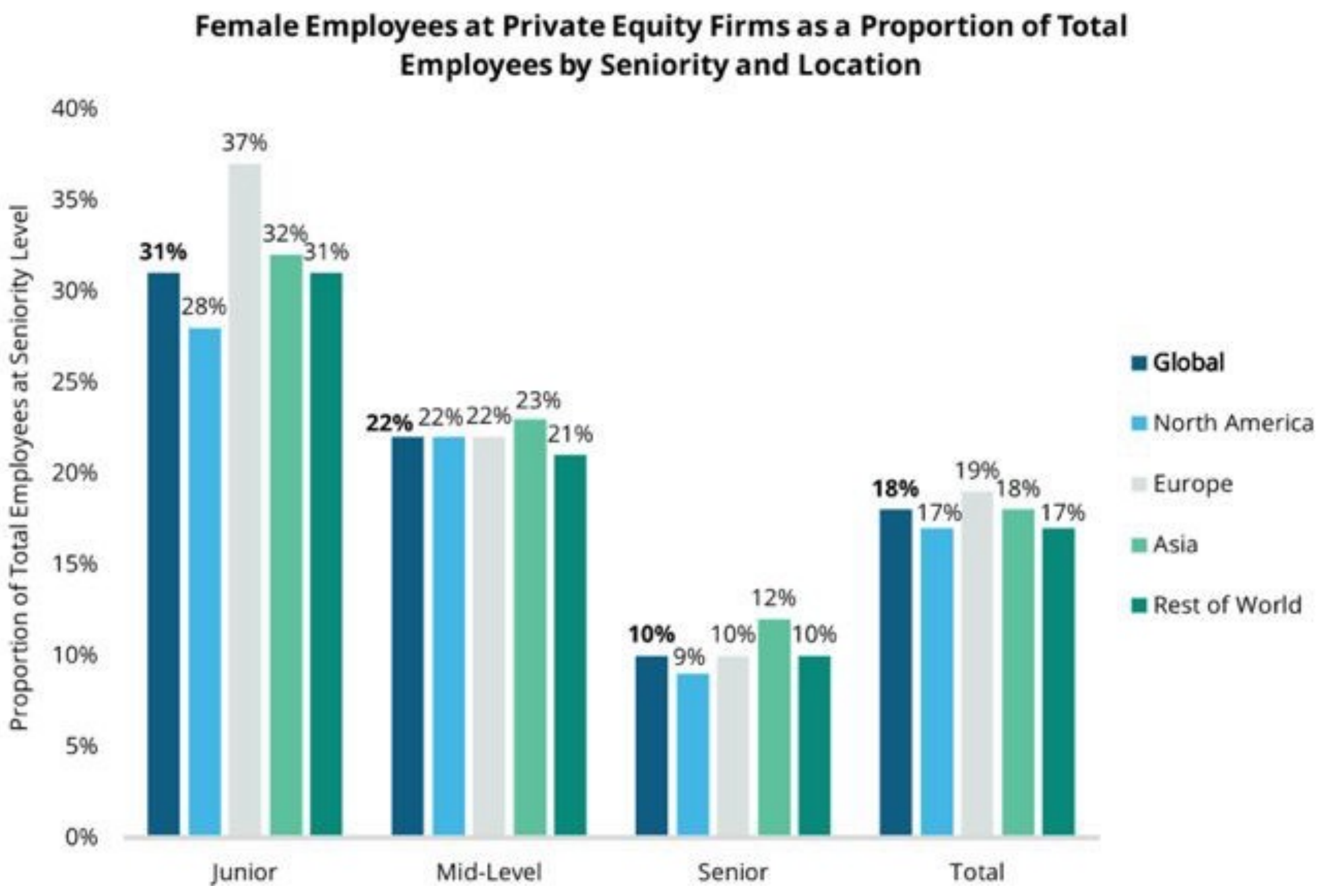
ADDITIONAL SLIDES
(if time allows)

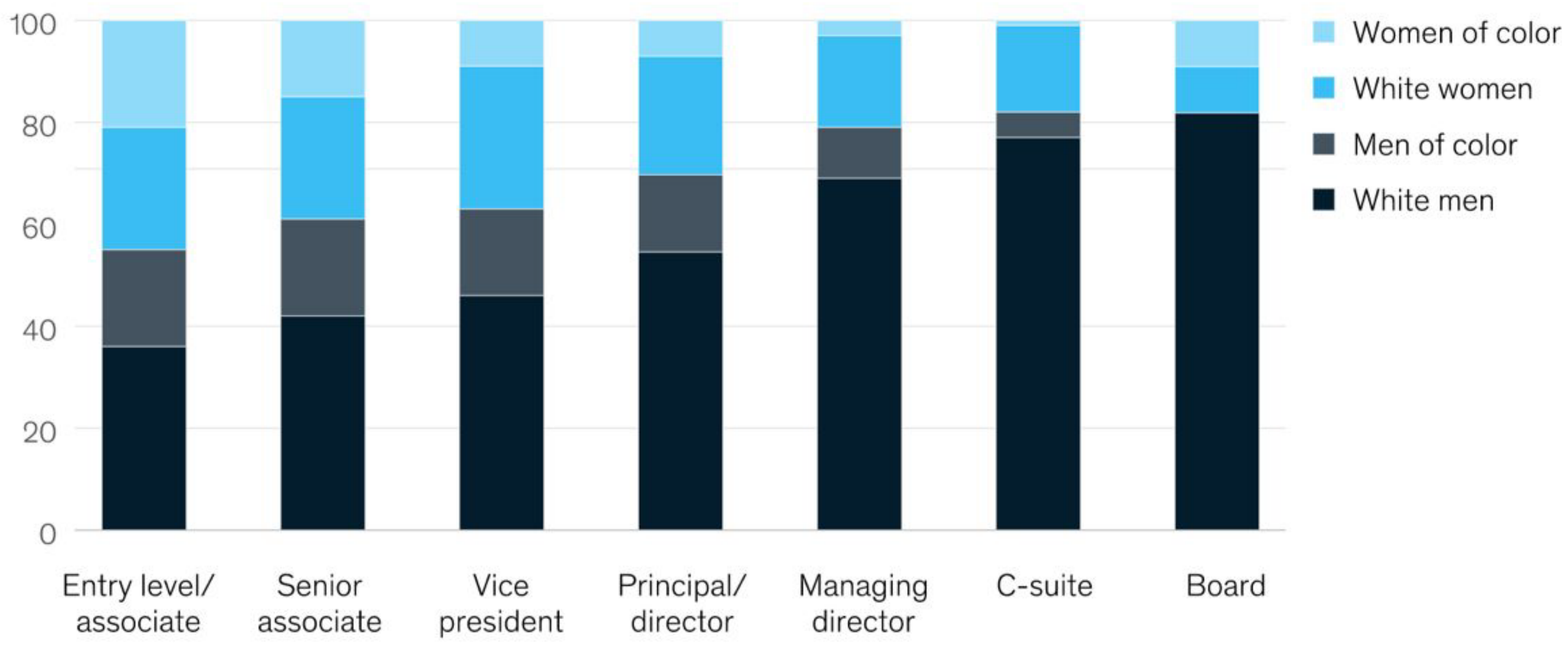
IMPLICATIONS FOR PEOPLE AND PLANET



Source: Preqin

Gender and racial diversity in North American private equity decrease with career advancement.

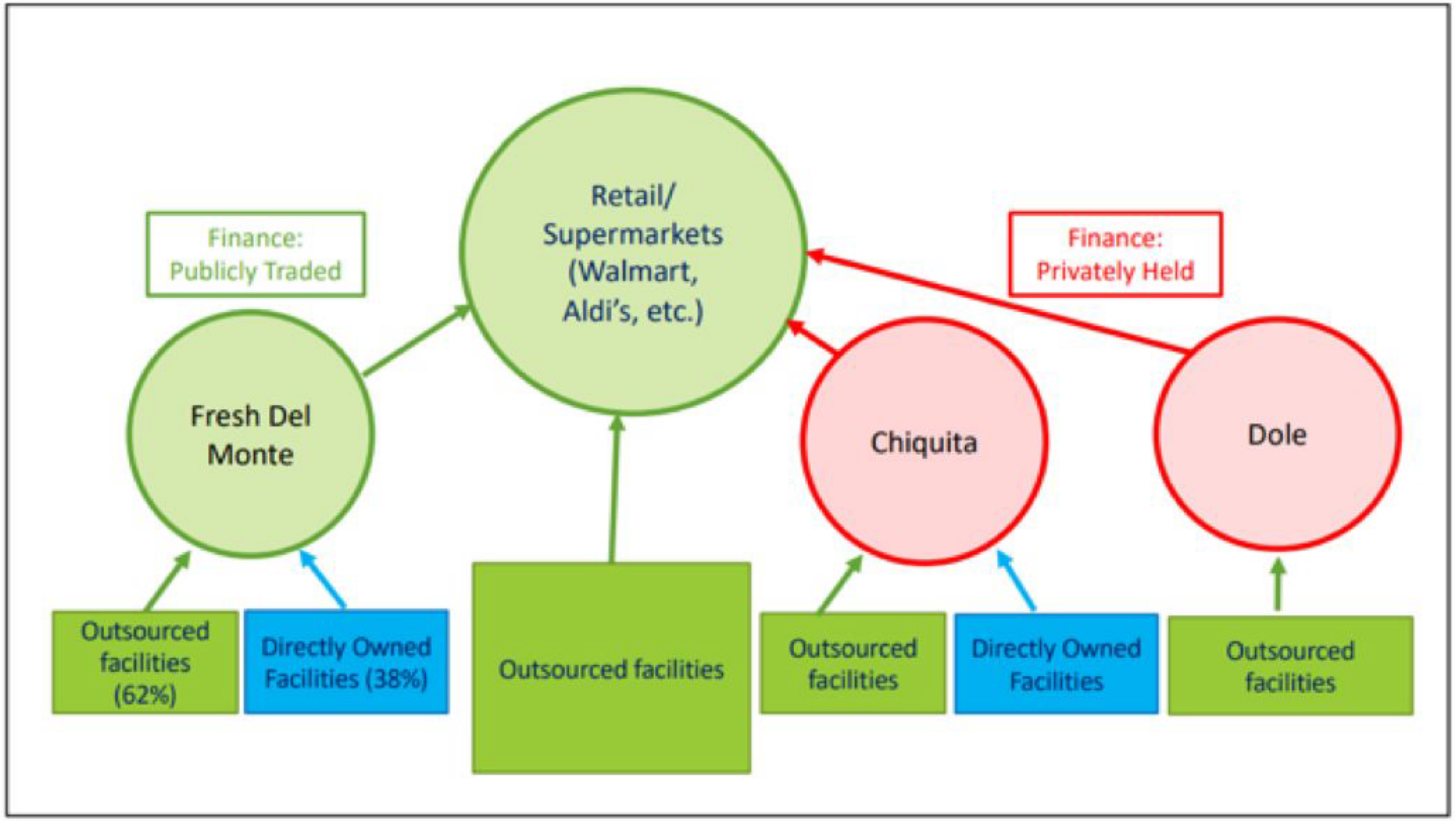
Private equity[1] employees by level, 2019, %



[1]Survey covered companies in Canada and the United States. Eleven PE firms participated in the survey.
Source: *Women in the Workplace 2020* dataset

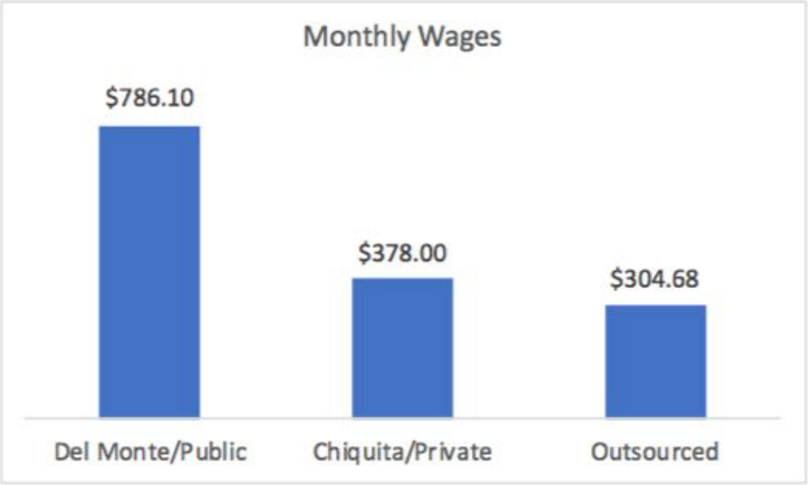
Workers' rights

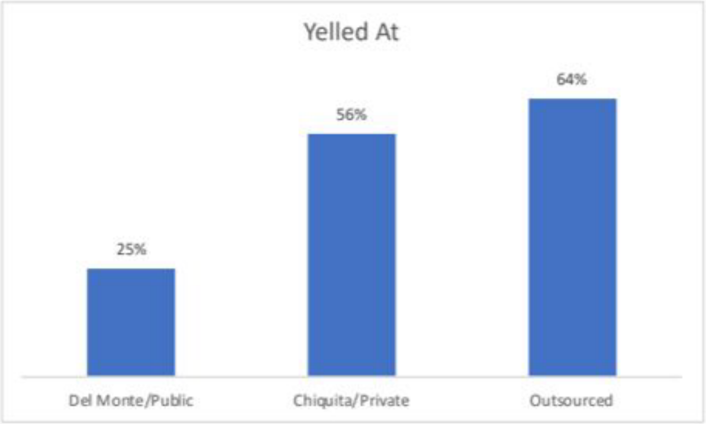
Banana workers' rights in Guatemala

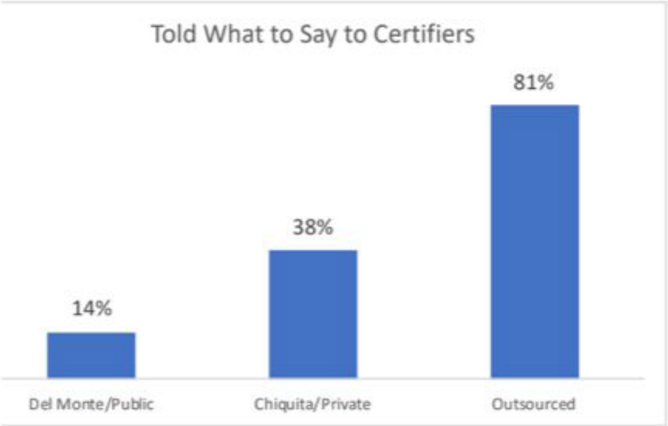


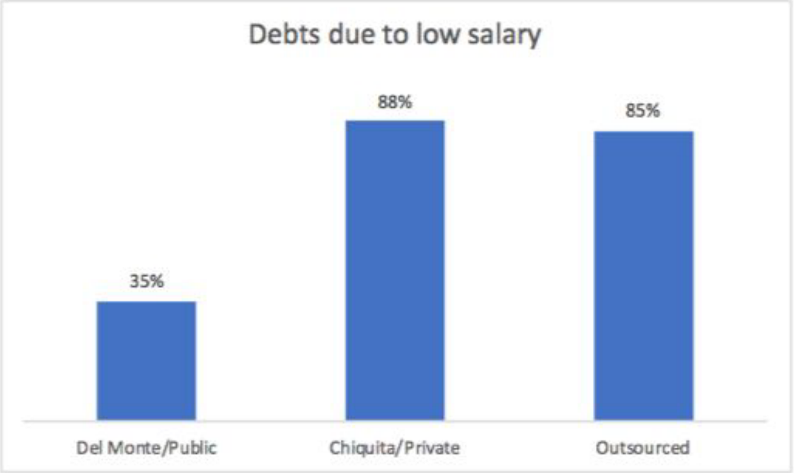
Source: Solidarity Center

“The minute they go private you can find some information in the financial press but then after that they are changing. New money is coming in and other money is leaving. You talk to the unionists in Guatemala and they don’t know who they are bargaining with.”









Source: Mark Anner / PSU

Climate


The Big Read Oil & Gas industry
+ Add to myFT
A $140bn asset sale: the investors cashing in on Big Oil's push to net zero
The pressure on listed oil majors could have unintended consequences if production passes to private or state-owned companies

Deforestation

Private equity firm **Blackstone Group** contributes to deforestation and climate risks in the Amazon through two if its investee companies in **Brazil** – Hidrovias do Brasil and Pátria Investimentos, which cleared hundreds of miles of forestland to modernize a controversial highway that leads to a company-owned export terminal. Indirectly, the highway further escalated deforestation by increasing demand for exports such as grains.

Vulture funds & Sovereign debt

VULTURE FUNDS STAND TO MAKE MILLIONS IN WAKE OF HURRICANE MARIA

Vulture funds scooped up hundreds of millions of dollars worth of Puerto Rican debt after Hurricane Maria hit.

Tech and surveillance

Equity investment in artificial intelligence technology and startups has been steadily rising from **venture capital funds and institutional investors**. According to an OECD study, AI start-ups attracted close to 12% of all worldwide private equity investment in the first half of 2018.

The use of AI and big data analytics in security has significant ramifications, especially when issues of public concern, such as development and migration, are increasingly framed as matters of national security.

Housing

Health

In June 2020, **Vaxart**, a small San Francisco company, made a big announcement that it had been selected by Operation Warp Speed to advance a **coronavirus vaccine**.

Armistice Capital, the hedge fund that partially controlled Vaxart, took this moment to exercise rights to buy 21 million additional shares under an agreement with Vaxart that it had modified just weeks before announcing the work with Warp Speed.

WHERE NEXT?

STATE OF THE FIELD (WHO'S DOING WHAT)

Examples

Workers/Pensions:

- Committee on Workers' Capital
- SEIU

Universities:

- Columbia University
- KU Leuven
- New York University
- Oxford

Research/Journalism:

- ACRE
- Anti-Corruption Data Collective
- Empower
- The Intercept

Campaigners:

- GRAIN
- Human Rights Watch
- Oxfam America
- Sunrise Project
- Local groups in cities, regions

PRIVATE CAPITAL ACCOUNTABILITY LANDSCAPE

Development Finance:

- Bretton Woods Project
- Inclusive Development Intl.

Policy Advocacy:

- Americans for Financial Reform
- Private Equity Stakeholder Project
- Tax Justice Network
- The Shift (On Right to Housing)

Think Tanks:

- Bargaining for the Common Good
- Economic Policy Institute
- Investing in a Just Transition
- Roosevelt Institute

Insiders/Reformers:

- BSR
- Predistribution Initiative
- UN PRI

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Michael Kleinman

Director of Amnesty International's Silicon Valley Initiative

Risky Business

How Leading VC Firms Ignore Human Rights When Investing in Tech

Introduction to Amnesty

Amnesty International is an independent, Nobel Peace-Prize winning, global movement of millions of people demanding human rights for all people - no matter who they are or where they are. We are the world's largest grassroots human rights organization.

Why Focus on VC Firms

VC firms help shape the future of technology, and with it the future of our economies, politics and societies.

If we want to understand, much less influence, the future of technology, we need to understand how VC firms decide which start-ups and new technologies to support

The Problem

As our report *Risky Business* shows, venture capitalists today operate with little to no consideration of the broader human rights impact of their investment decisions

Human Rights Responsibilities of VC Firms

As set forth in the UN Guiding Principles on Business and Human Rights, companies and investors have a responsibility to respect all human rights wherever they operate in the world and throughout their operations.

Investors– including VCs – must undertake human rights due diligence. This means they must take proactive and ongoing steps to identify, prevent, mitigate and account for the human rights impacts of their investments.

Lack of Human Rights Due Diligence by VC Firms

For this report, Amnesty surveyed 53 of the world’s largest VC firms and startup accelerators, supplemented by desk research into these firms’ due diligence policies and practices.

Of the 50 VC firms and 3 startup accelerators analyzed by Amnesty, we that a single firm (Atomico) potentially had adequate human rights due diligence policies in place

Lack of Human Rights Due Diligence by VC Firms

An additional eight VC firms and accelerators (15%) stated that they conduct some level of human rights due diligence, though not to the level required by the Guiding Principles

Overall, for 44 of the 53 (83%) VC firm and accelerators surveyed by Amnesty, we were not able to find evidence that they conduct any human rights due diligence whatsoever

Failure to carry out adequate due diligence is a failure of the corporate responsibility to respect human rights.

Consequences of VC Failure to Respect Human Rights

1. VC firms invest in companies whose products and services have been implicated in ongoing human rights abuses (e.g. investments in Chinese facial recognition / surveillance companies that support the Chinese Government’s repression of the Uyghur population in Xinjiang)

2. VCs invest in companies whose business models have a significant negative impact on human rights (e.g. surveillance capitalism and privacy, gig economy and labor rights, etc.)

Consequences of VC Failure to Respect Human Rights

3. Lack of human rights due diligence increases the risk that VCs support new technologies and new applications of technology that have a significant negative impact on human rights (e.g. application of artificial intelligence / machine learning tools across a wide range of sectors risks amplifying existing racial and gender biases and discrimination)

VCs Stunning Lack of Diversity

Potential negative impacts of VC firms' lack of human rights due diligence are magnified by these firms own lack of gender and racial diversity

Women comprise 23% of VC investment staff / 16% of VC investment partners

4% of VC investment staff are Black (and only 3% of VC investment partners)

4% of VC investment staff are Latinx (and only 4% of VC investment partners)

VC Funding Goes Primarily to White Men

This lack of diversity is mirrored in the gender and racial composition of founders who receive VC funding

All-female founding teams received just 2.2% of all US-based VC funding. Founding teams with both male and female founders received only 15% of VC funding

Black and Latinx founders received less than 2.3% of all US-based VC funding in 2019

Panelists

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Sharmeen Contractor

Senior Advisor, Market Systems and Investors at Oxfam

Creating A resilient food system

October 21, 2021

OXFAM

Food for Thought: Investing in a Sustainable Food Systems

Findings include:

- Poor working conditions in sugar supply chains
- Low wages earned by seafood workers
- Forced labor in the coffee sector
- Child labor in the cocoa sector
- Poor safety standards among migrant workers
- Violation of community rights to source commodities

Food for Thought: Investing in a Sustainable Food Systems

Women bore the brunt of the pandemic

- Women faced increased childcare demands
- Women were more likely to be exposed to unsafe working conditions
- More women in the food sector lost their jobs than men

Role of private investment

Private Equity in Peru

- A few big companies control the market
- Community consultation is minimal to nil
- Land seizures are common
- Local laws are circumvented
- Environmental certifications are illegally obtained

Role of private investment

Private Equity – a key driver of land inequality

- Large scale land acquisitions perpetuate land inequality
- Land is treated as an asset class
- This economic model that assumes big is efficient comes with big externalities

Role of private investment

Private Equity – an enabler of climate change

- Indigenous and traditional communities are critical in the fight against climate change. Land on indigenous communities:
  - Are an important carbon sink
  - Are better managed
  - Offer more cost-effective solutions to combat climate change
- Critical for ensuring food security of millions of people

What role can investors play in creating a resilient food system?

- Align investment policies and practices with international human rights standards
- Ensure human rights is a priority across investment portfolios and a key factor in investment decision making
- Restructure the way private sector assesses human rights

OXFAM

Oxfam Publications:

- Shining a Spotlight: A critical assessment of food and beverage companies' delivery of sustainability commitments; March 2021
- Not in this Together: How supermarkets became pandemic winners while women workers are losing out; June 2021
- Tightening the Net: Net Zero climate targets – implications for land and food equity; August 2021
- Food for Thought: Investing in a Sustainable Food System; September 2021
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Hannah Leach

Partner at Houghton Street Ventures, Co-Founder of VentureESG

VentureESG

Driving the ESG agenda within global venture

October 2021

Venture has been late to ESG

In large part, VCs to date have been primarily focused on maximising shareholder value and growth and there has been very little to no pressure to act differently - however, this is now changing.

- Small industry
- Lack of standards & guidelines
- Lack of early stage data (and not everything can be quantified)

WHY

NOW

- A transfer of wealth to younger generations
- New and increasing regulation
- Greater pressure from LPs
- Various public fall-outs in big tech
- Growing agency and voice amongst employees
- Greater interest and scrutiny from customers
- Founders keen to find value-aligned investors

Introducing VentureESG

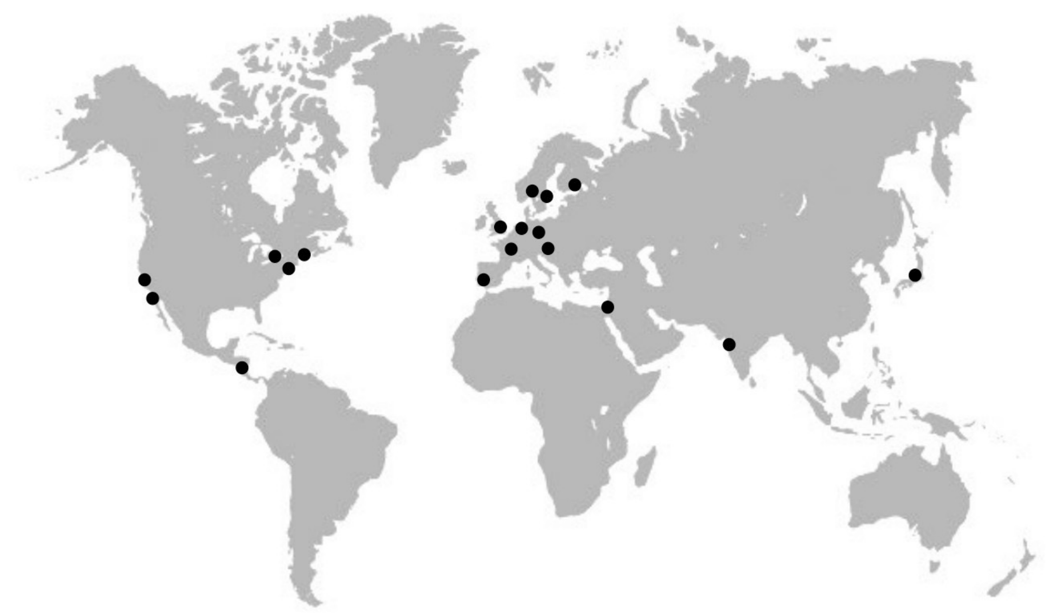
We came together as a team of London-based VCs and an academic committed to driving adoption of ESG within the VC world. Our original goal was to create value through operational best practice for our portfolios and our own funds.

We looked at existing frameworks/ standards and realised they were not fit for *our* purpose - they were not designed or adapted for early-stage companies, nor the types of risks or strategic opportunities they are presented with (e.g. ever-evolving business models, new technologies, rapid product development, fast-growing teams etc).

The aim of the initiative is to help the VC sector recognise the importance of ESG and to provide resources and guidance to make ESG a standard part of diligence, portfolio management and fund management.

We are seeking to provide an open and collaborative forum that enables:

- community engagement for learning, knowledge sharing, and trouble-shooting
- practical guidance for funds and their teams around design and implementation of ESG processes
- access to ongoing research, resources and expertise



180 VC Funds · 60 Limited Partners

SAN FRANCISCO - NYC - WASHINGTON DC - LONDON - OXFORD - PARIS - BERLIN - MUNICH - TEL AVIV - DENMARK - HELSINKI - TOKYO STOCKHOLM - LISBON - ZURICH - AMSTERDAM - VIENNA - TORONTO - MUMBAI - MEXICO CITY - PRAGUE

VentureESG

The Eight Key Issue Areas

Diversity, Equity, Inclusion

Integrating diverse and inclusive practices across all areas of the business

Team & Working Environment

Building a strong culture & being a conscientious employer

Environmental Impact

Being conscious of the environmental footprint across the business

Supply Chain

Working towards an ethical and environmentally resilient supply chain

Data Privacy & Security

Instilling a strong culture of trust, responsibility and best practice around data

Responsible Product Design

Designing and building products with consideration of the ethical and human implications on the end-user and society

Legal & Regulatory

Being on top of and aligned to latest regulations

Governance

Having appropriate governance structures in place by stage

It’s never too early

- The later a company starts, the harder it is to change and introduce new practices, and this applies across the board
- Startups can and do grow at a rapid rate - cultures can form quickly, and once a culture is in place, it is hard to re- define and reshape.
- Startups are also not immune to risks - reputational damage can hamper their ability to fundraise, grow their customer base and hire top talent
- Being a responsible corporate citizen can drive customer growth, talent acquisition, new market entry and be a key differentiator
- At the earlier stages, a lot of ESG activity cannot be tackled with score-cards - it’s about finding out about the founder’s approach, their intentionality, blindspots, and having conversations with them to help them understand where they need to improve

The framework has been defined to support founders and CEOs in realising that a commitment to ESG is not simply a tick-box exercise, but of strategic and operational value, that should be owned by the CEO and integrated into the fabric of the company.

VCs Walking The Walk

We recognise the importance of looking internally at our own behaviour, as funds - how can and should we be operating in an ESG-aligned way.

Diversity, Equity, Inclusion

- DEI statement
- DEI goals
- Inclusive and unbiased hiring practices
- Annual reporting of diversity stats amongst team, IC, advisory board and portfolio/ founder base

Team & working environment

- Adherence to relevant labour laws
- Team code of conduct/ handbook
- Professional development program
- Employee benefit package, incl. WFH and shared parental leave policies
- Formal grievance procedure

Environmental impact

- Annual tracking and reporting on scope 1-3 emissions
- Carbon o ! -set programme
- Initiatives to improve environmental impact (e.g cycle-to-work scheme, limits on air travel)

Legal, Reg & Governance

- Adhere to, stay abreast of and implement best practise in every jurisdiction in which the fund and fund manager operate
- Hold regular (at least quarterly) Board and Advisory Board meetings

An Integrated Approach

Process repeated when considering follow-on funding

Due Diligence - - - - - **Investment** - - - - - **Portfolio Management** - - - - - **Ongoing Reporting** - -> **Exit**

Due Diligence

Set of questions to assess a founding team's approach/ mentality around ESG:

- Founding team's values/ intentionality around ESG factors
- Extent to which they have considered potential adverse impacts of the business
- Any obvious red flags relating to ESG and the commercial model viability
- Adherence to legislation and regulation

Investment

- ESG-specific clauses to be included in term sheets and the SHA

Portfolio Management

Part 1: ESG included in portfolio onboarding:

- Take the founding team through the framework to identify blindspots, company priorities, based on stage/ sector/ region (from both risk and strategic value perspective)
- Work with team to set goals/ KPIs, timelines and discuss actions and support requirements

Part 2: ESG KPIs included milestone meeting(s):

- Review performance against agreed KPIs (every 6m) or at a point of significant pivot, business model change or new market entry

Ongoing Reporting

- VCs to have their companies report c. 10-15 KPIs every 12m
- Data to be submitted to allow benchmarking of VC fund portfolios and companies by sector and by region

Where to now?

- Building consensus with VC funds as to what issues are important across funds of different stages/ sizes/ regions
- Working with LPs to create ESG guidelines that are specific to venture capital
- Supporting VC funds with building internal ESG capacity - training, toolkits/ guidelines
- Building out case studies/ examples of best practice on both VC fund and company level
- Continuing to grow the community and gather global input
- Bringing in subject-matter experts and convening stakeholders to support ongoing learning
- Introducing a commitment, to drive accountability at a VC level

Thank you

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Q&A Discussion

Resources

INVESTOR ALLIANCE FOR HUMAN RIGHTS

- Empower, Runaway Train: The Perilous and Pernicious Path of Private Capital Worldwide
- Amnesty International, Risky Business: How Leading Venture Capital Firms Ignore Human Rights When Investing in Technology
- Oxfam publications:
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- VentureESG, https://www.ventureesg.com/

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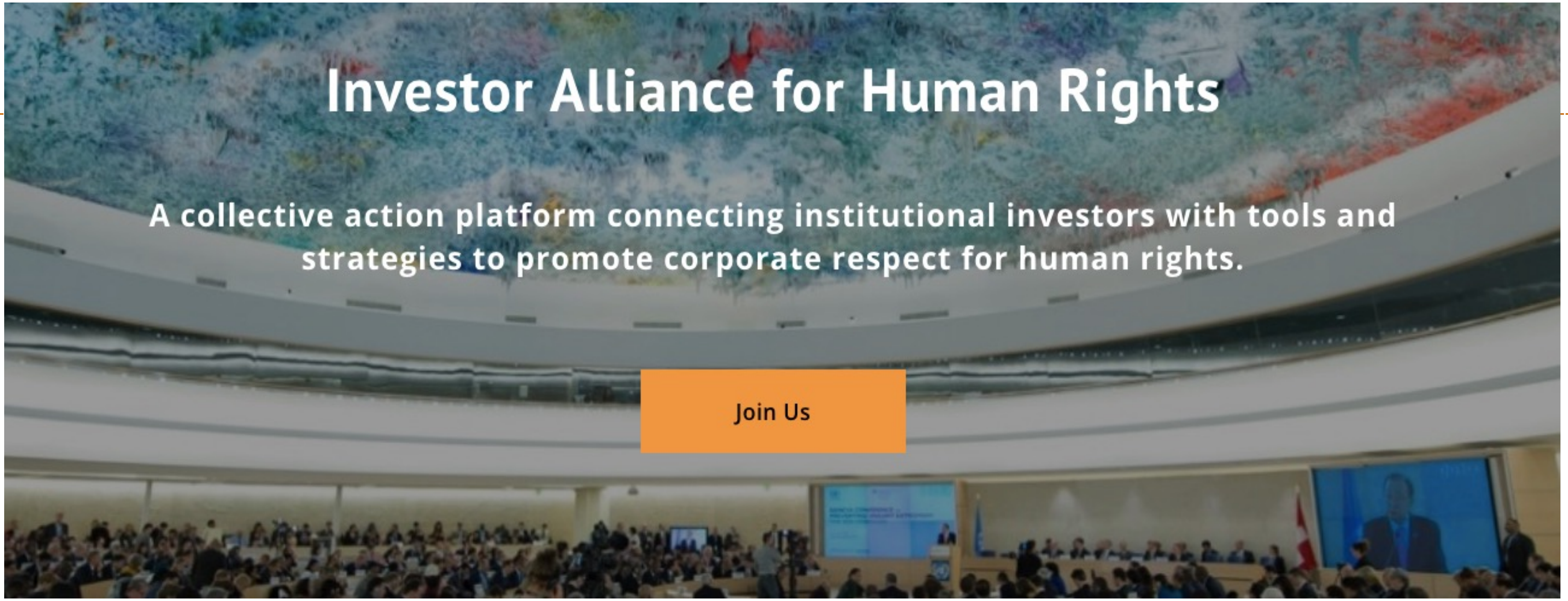
Thank you!



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For more information, contact: adorett@iccr.org