



INVESTOR TOOLKIT ON HUMAN RIGHTS



**INVESTOR ALLIANCE
FOR HUMAN RIGHTS**
AN INITIATIVE OF ICCR

EXECUTIVE SUMMARY

ABOUT THE INVESTOR ALLIANCE FOR HUMAN RIGHTS

The [Investor Alliance for Human Rights](#) is a collective action platform for responsible investment that is grounded in respect for people's fundamental rights. It is a membership-based, non-profit initiative focusing on the [investor responsibility](#) to respect human rights, [corporate engagements](#) that drive responsible business conduct, and [standard-setting activities](#) that push for robust business and human rights policies. The Investor Alliance for Human Rights is an initiative of the Interfaith Center on Corporate Responsibility (ICCR).

The Investor Alliance's membership is currently comprised of over 170 institutional investors, including asset management firms, trade union funds, public pension funds, foundations, endowments, faith-based organizations, and family funds. Members currently represent a total of over US\$4 trillion in assets under management and 19 countries. Along with civil society allies, [our team](#) equips the investment community with expertise and opportunities to invest responsibly so as to avoid risk to both investments and the individuals and communities affected by them.

Visit our [website](#), and follow us on [Twitter](#) and [LinkedIn](#).

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AUTHORS

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Disclaimers: The Investor Alliance for Human Rights does not endorse the various case studies highlighted throughout the Toolkit. Rather, it offers these examples as illustrative of promising practice in the area of investor respect for human rights. The Investor Alliance is also aware that responsible investment is a rapidly growing field and that a plethora of initiatives and guidance materials already exist in this space. This Toolkit incorporates many of these existing efforts and resources so as to avoid duplication. However, unintended gaps and overlaps are certain to remain. The Investor Alliance offers this Toolkit as a starting point upon which further guidance, tools, and case studies can be further developed.



1. INTRODUCTION: A CALL TO ACTION

Among countless severe consequences, the current international COVID-19 emergency has created a global financial crisis of a scale rarely encountered in modern history. Systemic economic and social inequalities across societies are being laid bare and exacerbated, and the precarious foundation that recent financial markets have relied upon is evident now more than ever. While business models and corporate cultures have in many ways contributed to the vulnerability of societies in responding to unprecedented situations such as the current pandemic, responsible companies are already experiencing the positive effects of putting people first.

In this globally challenging time, financial actors have a tremendous opportunity to support recovery and positively contribute to new systems that embed respect for human rights – what every individual is entitled to in order to live a life of fundamental welfare, dignity, and equality.

THE ROLE OF INSTITUTIONAL INVESTORS

By fueling economies, institutional investors in particular have a systemic influence over financial markets and the behavior of companies within them. Recognizing this, governments around the world are increasingly seeking to activate the resources and unique leverage of investors to drive sustainable economic development, calling on the investment system to help achieve the ambitious vision laid out by the [2030 Sustainable Development Agenda](#).

THE REGULATORY LANDSCAPE

The current situation comes as a new era of socially responsible and sustainable business has taken shape and continues to build momentum. **A wave of legal requirements and normative expectations is impacting financial markets across the world, with responsible business regulations already in place or quickly coming down the pike.**

In particular, the European Union (EU) has taken on a global leadership role in [redefining the roles and responsibilities of institutional investors as financial actors](#) by seeking to embed environmental, social, and governance (ESG) considerations at the heart of the region's financial system. In 2019, the European Parliament and Council adopted a [new set of rules requiring European investors to disclose the steps they have taken to address the adverse impact of their investment decisions on people and the planet](#). Under this regulation, which entered into force in December of 2019, EU member states will have until May 2021 to fully implement these rules, which will apply to all investment advisors who sell products in Europe and thereby cover all large investment advisors worldwide. Moreover, as of March 2020, the minimum safeguards under the [EU Taxonomy](#) – which set performance thresholds under new legal obligations for European financial market participants – are based in internationally recognized human rights standards.

1. INTRODUCTION: A CALL TO ACTION

THE BUSINESS CASE

Respect for human rights is strongly associated with value chain resilience and a stable business operating environment. In parallel, investors are increasingly aware of and concerned about the significant operational, financial, legal, and reputational risks portfolio companies might face when they fail to manage human rights risks. These business risks include potential project delays and cancellations, lawsuits and other legal risks such as noncompliance with emerging human rights-related regulations, scrutiny from national-level grievance mechanisms such as OECD National Contact Points (NCPs), significant fines, productivity and recruitment challenges, and negative press coverage. Investors also have increasingly recognized fiduciary duties to assess and act upon longer-term risks such as human rights risks in making and managing investments.

At the same time, investors are now more exposed to human rights risks than ever. This is a result of, for example, the rapid expansion of investment capital and shareholder corporate ownership structures in recent decades, the increasing globalization of business and investment accompanied by the expansion of investment value chains to contexts far from where investors are headquartered, and the rapid development of technology exposing individuals and societies to new and previously unforeseen risks.

THE CAPACITY CHALLENGE

In the midst of this context, a growing number of institutional investors are aiming to integrate environmental, social, and governance (ESG) factors into how they make and manage their investments across asset classes. Despite rapidly growing activity in the world of ESG investing, however, **most investors do not have a mature understanding of how human rights are a necessary component of any responsible and financially sustainable investment strategy.**

THE HUMAN RIGHTS FRAMEWORK

Institutional investors, as business actors, have a responsibility to respect human rights in line with the UN Guiding Principles on Business in Human Rights. Unanimously endorsed by the United Nations (UN) Human Rights Council in 2011, the UN Guiding Principles represent the authoritative global framework for addressing business impacts on human rights. The framework clarifies the respective duties and responsibilities of governments and businesses in tackling human rights risks related to business activities.

The responsibility to respect means that business enterprises are expected to formally commit to respect human rights, have in place human rights due diligence processes, and, where appropriate, ensure that victims of human rights abuses have access to remedy. This responsibility exists independently of whether or not governments fulfill their human rights obligations. Businesses should comply with national laws while at the same time seeking to honor the principles of internationally recognized human rights when faced with conflicting requirements.

The scope of this business responsibility extends to all internationally recognized human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the core conventions set out by the International Labor Organization (ILO).

1. INTRODUCTION: A CALL TO ACTION

Since their adoption, the UN Guiding Principles have been integrated into global standards and initiatives relevant to business and human rights, including the [OECD Guidelines for Multinational Enterprises](#). In 2017, the OECD provided additional relevant guidance in [Responsible Business Conduct for Institutional Investors](#).

Institutional investors, even those with minority shares in a company, may be connected to adverse impacts on human rights caused by, contributed to, or linked to portfolio companies as a result of their ownership or management of stakes in those companies. Investors therefore need to know the risks to people connected with their investment activities and show how they take action to manage those risks.

A distinctive characteristic of institutional investors is that they often hold investments in a wide and diverse range of entities and asset types, often across many sectors and different regions. This increases the possibility that they may be connected to a wide range of human rights risks and impacts. In addition, as government-supported investors, [public pension funds](#) such as the [California Public Employees Retirement System \(CalPERS\)](#) and the [Government Pension Investment Fund \(GPIF\) of Japan](#) have a heightened duty to ensure portfolio companies respect human rights, in line with UN Guiding Principle 4 on the “State-business nexus.”

While investors, in most cases, are not responsible for directly addressing adverse impacts that portfolio companies are involved with, they are expected to consider risks throughout the investment lifecycle, including prior to investment decision-making, during investment decision-making, and throughout investment stewardship. They are also expected to use and maximize their leverage to facilitate and incentivize portfolio companies and other influential actors to prevent, mitigate, and where appropriate address harms.

THE CALL TO ACTION

Respect for human rights is no longer a ‘nice-to-have’ proposition for institutional investors. This is the moment that investors need to get the ‘people part’ of ESG right or risk missing the mark with disastrous consequences for people, sustainable development, and the sustainable finance movement as a whole.

The *Investor Toolkit on Human Rights* aims to increase investor capacity in meeting this call to action. Written for asset managers and asset owners, it guides investors in making and managing their investments in alignment with the [UN Guiding Principles on Business and Human Rights](#) – the globally agreed-upon minimum standard for all business actors, including investors, when it comes to integrating respect for human rights into business practices.

While most evidently relevant to the ‘S’ in ESG, the UN Guiding Principles provide a management system approach, replicated by the OECD, that can assist investors with systematically assessing and addressing a broad range of ESG risks and impacts. This approach allows investors to more appropriately focus on credible processes and outcomes rather than often impractical and inefficient ‘issue-by-issue’ or ‘sector-by-sector’ approaches.

1. INTRODUCTION: A CALL TO ACTION

By threading the UN Guiding Principles throughout ESG practices, investors are able to:

- Ground ESG practices in a globally authoritative and credible reference point;
- Facilitate comparability between investments based on consistent standards and benchmarks;
- Scale up responsible business conduct globally; and
- Enable proactive, rather than only reactive, approaches to managing human rights risks.

THE SCOPE OF THE INVESTOR TOOLKIT ON HUMAN RIGHTS

This Toolkit provides practical guidance for institutional investors in applying the UN Guiding Principles throughout their risk management systems to assess and address risks to people involved with their business, with a primary focus on investment activities. In doing so, the Toolkit breaks down each step in this human rights risk management approach, providing tools and case studies along the way. All tools are provided in the 'Toolkit Annex' for ease of reference.

The Toolkit targets two main audiences:

- **Asset owners**, who have the legal ownership of assets, such as pension funds (for private, public, and third sector employees), insurance funds, sovereign wealth funds, churches, charities, foundations, family offices, multi-family offices, and providers; and
- **Asset managers**, who act as investment agents on behalf of asset owner clients.

In order to focus its scope, the Toolkit is further tailored for ownership investments as opposed to lending investments. Ownership investment in a company entails investors owning a share or stake in a company, which is expected to increase in value over time but is not guaranteed, while company or project lending involves loan repayments and consequences for non-repayment. **The scope of the Toolkit covers equity ownership investments in both public and private companies, as well as both active and passive investment strategies.**

The Toolkit is primarily focused on minority shareholders with investments in public equities and limited partners (LPs) in private equities. At the same time, majority shareholders in public companies and general partners (GPs) in private companies will also benefit from much of the guidance, resources, and tools in the Toolkit.

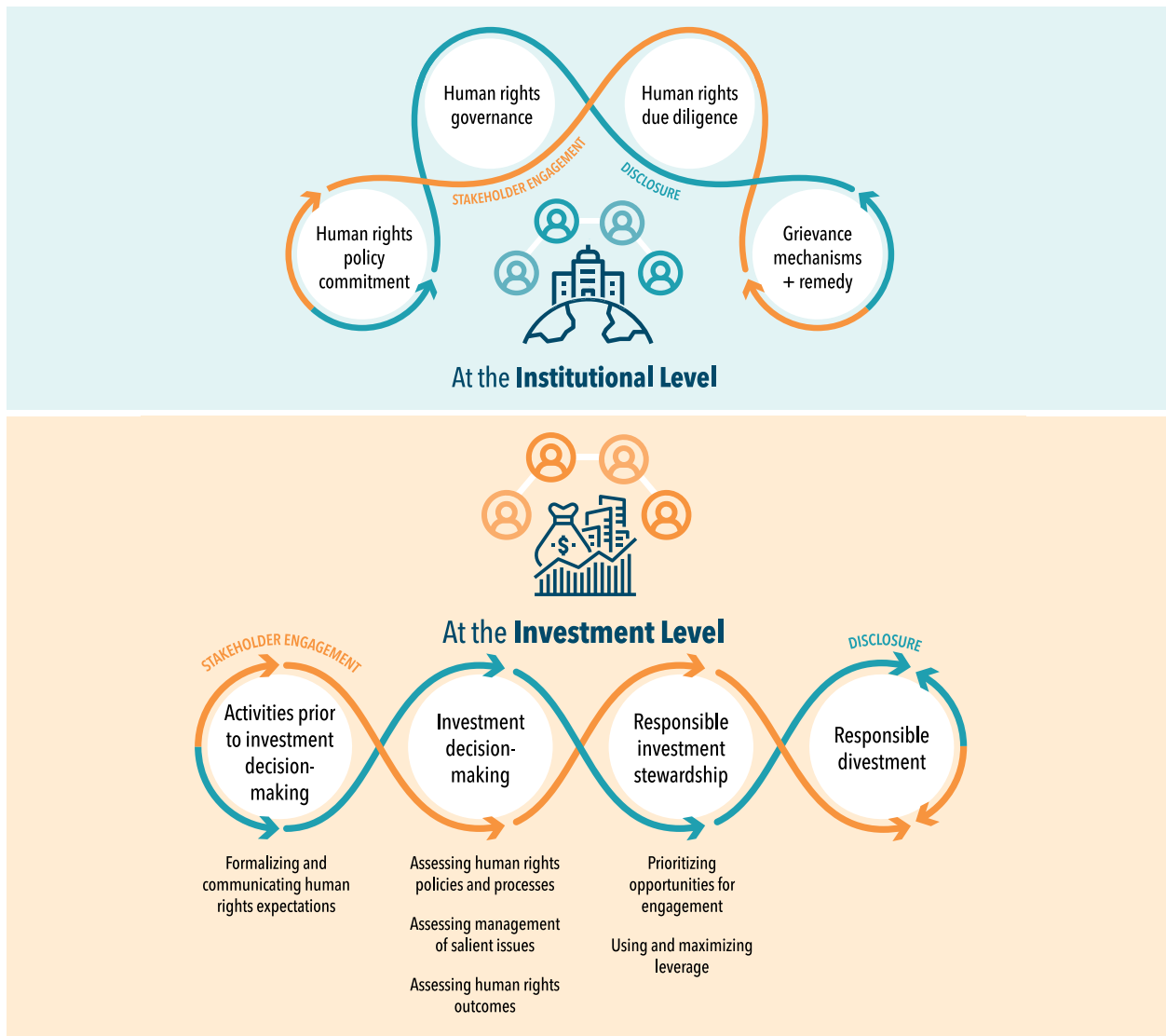
Minority shareholdings represent the largest proportion of assets under management by institutional investors. In most cases, minority shareholders do not cause or contribute to human rights abuses, but rather are directly linked to actual or potential harms through investments. As such, the Toolkit focuses on situations where shareholders are directly linked to human rights risks through investment activities.



2. PUTTING THE INVESTOR RESPONSIBILITY INTO PRACTICE: A ROADMAP FOR ACTION

This Toolkit sets out the below framework to guide investor action on human rights at (1) the institutional level and (2) the investment level. The following sections and corresponding case studies and tools in the Toolkit Annex provide a menu of resources for institutional investors to engage with at each recommended step under these two overarching areas. The Toolkit aims to be comprehensive rather than prescriptive, meaning that investors should focus on where they might most practically advance their human rights work in the short-, medium-, and long-term rather than attempting to operationalize the entirety of the Toolkit at once.

PUTTING THE INVESTOR RESPONSIBILITY INTO PRACTICE



AT THE INSTITUTIONAL LEVEL

The UN Guiding Principles provide the basic elements of a proactive and credible human rights risk management process for asset owners and managers' operations and business relationships.

To meet their human rights expectations, all institutional investors should have in place:

- A policy commitment to respect all internationally recognized human rights;
- Human rights governance structures;
- Human rights due diligence processes;
- Effective grievance mechanisms enabling remediation of adverse impacts caused or contributed to; and
- Comprehensive and meaningful human rights disclosure.



WHO'S INVOLVED?

Asset owners

- Senior leadership
- Investment decision-makers
- Engagement specialists
- Asset manager relations
- Communications
- In-house portfolio management teams (where applicable)

Asset managers

- Senior leadership
- Portfolio managers
- ESG risk management
- Engagement specialists
- Client relations
- Communications

ACTION	TOOLS	EXAMPLES
HUMAN RIGHTS POLICY COMMITMENT	Tool #1: Checklist for investor human rights policy commitment See Toolkit Annex, pp. 36-37	AP2's Human Rights Policy Statement
HUMAN RIGHTS GOVERNANCE	Tool #2: Checklist for investor human rights governance See Toolkit Annex, p. 38	
HUMAN RIGHTS DUE DILIGENCE	Doing Business with Respect for Human Rights European Commission's guide on human rights for small and medium enterprises (SMEs)	See below for investment-level due diligence examples
GRIEVANCE MECHANISMS	Doing Business with Respect for Human Rights	Not applicable given the scope of the Investor Toolkit
HUMAN RIGHTS DISCLOSURE	UN Guiding Principles Reporting Framework	AP2's Human Rights Report ABN AMRO's Human Rights Report

AT THE INVESTMENT LEVEL

In most cases, portfolio companies know their business contexts, relationships, and activities best. The role and responsibility of institutional investors is therefore to assess whether portfolio companies have robust and effective human rights policies, due diligence processes, and grievance mechanisms in place and take meaningful action based on those assessments.

Investors should embed this approach across the whole of the investment lifecycle, including in their activities prior to investment decision-making, in their investment

decision-making, and throughout investment stewardship. The graphic on p. 7 illustrates the key steps in this human rights risk management system.

The following sections provide guidance, tools, and case studies to assist asset owners and managers in operationalizing their human rights commitments across their investments in both public and private companies, and across their active and passive investment strategies.



WHO'S INVOLVED?

Asset owners

- Investment decision-makers
- Engagement specialists
- Asset manager relations
- In-house portfolio management teams (where applicable)

Asset managers

- Portfolio managers
- ESG risk management
- Research analysts
- Engagement specialists
- Client relations

ACTIVITIES PRIOR TO INVESTMENT DECISION-MAKING

Investors should formally communicate their human rights expectations among all business relationships, including to potential portfolio companies, between asset owners and managers, and to other business relationships.

Asset owners and managers should publicly communicate their expectation that companies respect human rights and implement the UN Guiding Principles. For example, this can be done by communicating these expectations on institutional websites and during public speaking. Whenever possible, investor expectations should also be shared directly with companies, for example, at investor meetings where companies promote their shares.

Both asset owners and managers should put forward human rights expectations grounded in the UN Guiding Principles framework as the basis for responsible investment. In particular, asset owners should require from managers that assets are managed in line with the UN Guiding Principles and set out these requirements in relevant investment guidelines and policy statements, as outlined above. In reverse, asset managers should share with asset owners the expectations that they put forward to portfolio companies and incentivize positive collaboration with asset owners on implementation of the UN Guiding Principles. This may include communication from asset managers to asset owners in quarterly meetings about human rights criteria used in making and managing investments.

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2. PUTTING THE INVESTOR RESPONSIBILITY INTO PRACTICE: A ROADMAP FOR ACTION

A code of conduct can be used to supplement the above tools in order to further communicate an investor’s human rights expectations to its other business relationships, such as ratings and rankings agencies, index fund providers (in the context of passive investment), from LPs to GPs (in the context of private equity), placement firms (in the context of private equity), research firms, consultants, and other service providers.

ACTION	TOOLS	EXAMPLES
FORMALIZING AND COMMUNICATING HUMAN RIGHTS EXPECTATIONS	Tool #3: Asset owner questions for asset managers See Toolkit Annex, p. 39	Norges Bank Investment Management (NBIM)’s Human Rights Expectations Towards Companies Polaris Management A/S’s Private Equity Corporate Social Responsibility Policy Unitarian Universalist Association (UUA)’s Investment Information Memorandum

INVESTMENT DECISION-MAKING

Human rights criteria should also be considered holistically throughout the investment decision-making process. This includes, but is not limited to, when an investor is deciding whether or not to invest in a company.

For asset owners, decisions around which asset managers and other business partners (such as research firms or consultants) to work with is part of the investment decision-making process and should therefore also incorporate human rights considerations. The same is true for asset managers in determining which business partners to work with, as well as in deciding which type of asset classes and fund structures to work with or design, and whether respect for human rights can be adequately incorporated into those investments.

While screening companies in sectors with known human rights risks or for companies operating in high-risk contexts may help ensure portfolios are free from some severe human rights harms, companies of all sectors and sizes and in all operating contexts may be connected to severe human rights impacts.

Investors should therefore go beyond traditional screening approaches to making investment decisions based on assessments of:

- The quality of potential portfolio companies’ human rights risk management policies and processes;
- The quality of potential portfolio companies’ management of salient and geographic risks; and
- Potential portfolio companies’ human rights outcomes.

2. PUTTING THE INVESTOR RESPONSIBILITY INTO PRACTICE: A ROADMAP FOR ACTION

ACTION	TOOLS	EXAMPLES
ASSESS HUMAN RIGHTS POLICIES AND PROCESSES	<p>UN Guiding Principles Reporting Framework</p> <p>UN Guiding Principles Reporting Database</p> <p>Corporate Human Rights Benchmark (CHRB)</p> <p>World Benchmarking Alliance</p> <p>Behind the Barcodes</p> <p>Behind the Brands</p> <p>BankTrack's Human Rights Benchmark</p>	<p><i>Amundi's Human rights and Businesses: How Can One Assess the Corporate Responsibility to Protect Human Rights?</i></p> <p>Investor Alliance letter to 95 major multi-national companies asking them to improve their performance on the CHRB</p> <p>SDG Invest's 2019 Impact Report</p>
ASSESS MANAGEMENT OF SALIENT ISSUES	<p>Investor Alliance ICT salient issue briefings</p> <p>Business & Human Rights Resource Centre's investor briefing on renewable energy</p> <p>PRI's investor briefing on the apparel industry</p> <p>KnowTheChain</p> <p>Ranking Digital Rights</p> <p>Business & Human Rights Resource Centre's renewable energy benchmark</p> <p>Business & Human Rights Resource Centre's country portal</p>	
ASSESS HUMAN RIGHTS OUTCOMES	<p>Shift's Valuing Respect Project</p> <p>Business and Human Rights Resource Centre's website and Weekly Update</p>	

RESPONSIBLE INVESTMENT STEWARDSHIP

Once invested, an institutional investor should embed respect for human rights throughout the stewardship stage of the investment lifecycle. This includes:

- **Prioritizing opportunities for engagement based on a human rights-based approach; and**
- **Using and maximizing investor leverage to facilitate and incentivize respect for human rights.**

Assessing and prioritizing risks in investment portfolios is therefore necessary and should be guided by the following considerations:

- Publicly available information suggests that there are significant gaps in the company's human rights policy and broader implementation of the UN Guiding Principles in corporate governance and risk management systems;
- The company's business model, including its value proposition, value chain, and/or revenue model, poses heightened human rights risks;
- The company has a known history of severe negative impacts on human rights which have a potential for recurring. Assessing severity is based on how grave the impact would be (scale), how widespread the impact would be (scope), and how hard it would be to put right the resulting harm (remediability);
- Respect for people's dignity and fundamental rights is not reflected in corporate culture;
- Company operations and/or the operations of business relationships are located in high-risk contexts, including countries with weak rule of law and conflict-affected areas; and
- Stakeholder input from civil society, trade union representatives, human rights defenders, and affected rights-holders suggests that there are significant gaps in the company's human rights performance.

Once invested, investors should build and use their leverage to ensure portfolio companies fulfill their human rights expectations. Leverage is considered to exist where the investor has the ability to affect change in the behavior of a portfolio company connected to a harm. **The responsibility of investors to effectively use leverage should not be seen as limited to screenings or direct engagement with portfolio companies.**

The ability of an investor to effectively use its leverage to create change among portfolio companies is affected by a number of factors, including corporate ownership structures (e.g., whether a company is publicly held, privately owned, or primarily state-owned) and corporate governance rules. At the same time, large money managers and GPs in private equity are in especially strong positions to change business practices. Yet, seemingly simple uses of leverage such as influencing and working with peer investors, as well as posing meaningful questions to portfolio companies as a minority shareholder, can have powerful ripple effects across company functions, including senior leadership. **Investors are therefore encouraged to resist underestimating their own leverage as this can pose a real risk to scaling respect for human rights.**

2. PUTTING THE INVESTOR RESPONSIBILITY INTO PRACTICE: A ROADMAP FOR ACTION

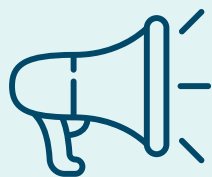
ACTION	TOOLS	EXAMPLES
<p>PRIORITIZING OPPORTUNITIES FOR ENGAGEMENT</p>	<p>Tool #4: Template Business and Human Rights Company Profile</p> <p>See Toolkit Annex, pp. 40-46</p> <p>Business and Human Rights Resource Centre's website and Weekly Update Shift's Valuing Respect Project</p>	
<p>USING AND MAXIMIZING LEVERAGE</p>	<p>Tool #5: Key Human Rights Questions for Companies</p> <p>See Toolkit Annex, pp. 47-49</p> <p>Tool #6: Template human rights resolutions</p> <p>See Toolkit Annex, pp. 50-53</p> <p>OECD guidance on responsible business conduct for institutional investors</p>	<p><i>See full table of leverage examples on pp. 29-32 of Toolkit</i></p> <p>Domini Impact Investments LLC's Proxy Voting Guidelines and Procedures</p> <p>Investor Alliance's series of briefings for investors engaging with Information and Communication Technology (ICT) companies</p> <p>Leverage Practice Matrix of the Lichtenstein Financing against Slavery and Trafficking (FAST) Initiative</p>
<p>RESPONSIBLE DIVESTMENT</p>		
<p>The UN Guiding Principles clarify that, in situations where an enterprise lacks the leverage to prevent or mitigate adverse impacts and is unable to increase its leverage, the enterprise should consider ending the relationship. The OECD elaborates on this point for investors by stating that, while divestment should in most cases be a last resort or reserved only for the most severe adverse impacts, divestment from a company may be an appropriate response after continuous failed attempts at mitigating the harm, where mitigation is unfeasible, or because of the severity of the adverse impact warrants it.</p> <p>The OECD also provides the following factors for investors to consider when deciding if divestment is an appropriate response:</p> <ul style="list-style-type: none"> → Investor's leverage over the company; → How crucial the relationship is to the investor; → The severity of the impact; and → Whether terminating the relationship with the company would result in adverse impacts. <p style="text-align: right;"><i>continued on next page</i></p>		

2. PUTTING THE INVESTOR RESPONSIBILITY INTO PRACTICE: A ROADMAP FOR ACTION

Investors should also take into account and prioritize the desired outcomes of the most adversely affected stakeholders (i.e. affected communities) and what type of investor action they see as most meaningful.

Those who divest from a company are advised to issue a press release explaining why, thereby imposing greater pressure on the company and creating leverage for others who have not divested. This can take place either before or after divestment has been completed.

ACTION	TOOLS	EXAMPLES
RESPONSIBLE DIVESTMENT	OECD guidance on responsible business conduct for institutional investors	Church of England divestment from Vale SA ATP divestment from Grupo Mexico NBIM divestment from Alicorp S.A.A.



3.

CONCLUSION: A TIME TO ACT

Business activities around the world continue to result in severely negative impacts on people's fundamental welfare and dignity every day and in a wide variety of ways. By providing the capital that fuels much of these activities, institutional investors have a critical role to play in changing this reality and fostering business that benefits individuals, communities, and broader societies.

This role for investors in engaging with human rights is no longer a 'nice-to-have' proposition, as authoritative frameworks and standard-setting bodies at international, regional, and national levels have laid out the expectation that all business actors, including institutional investors, have a responsibility to respect human rights throughout their activities. Developments such as those in the European context, where investors will be required to report on how ESG, including human rights, factors are integrated throughout investment decision-making, signal a growing wave of expectations in this arena, and financially prudent investors concerned with sustainable returns will embrace their human rights responsibilities in a proactive way.

This Toolkit provides a roadmap for action to help investors meet these growing expectations and tackle the challenge of cultivating responsible and sustainable economic systems that help, rather than hurt, people. It aims to provide a practical set of ready-to-use tools and illustrative case studies that can be tested by investors and refined along the way. The authors hope that the Toolkit spurs concrete investor action on human rights and stand ready to continue supporting investors and allies in this regard.