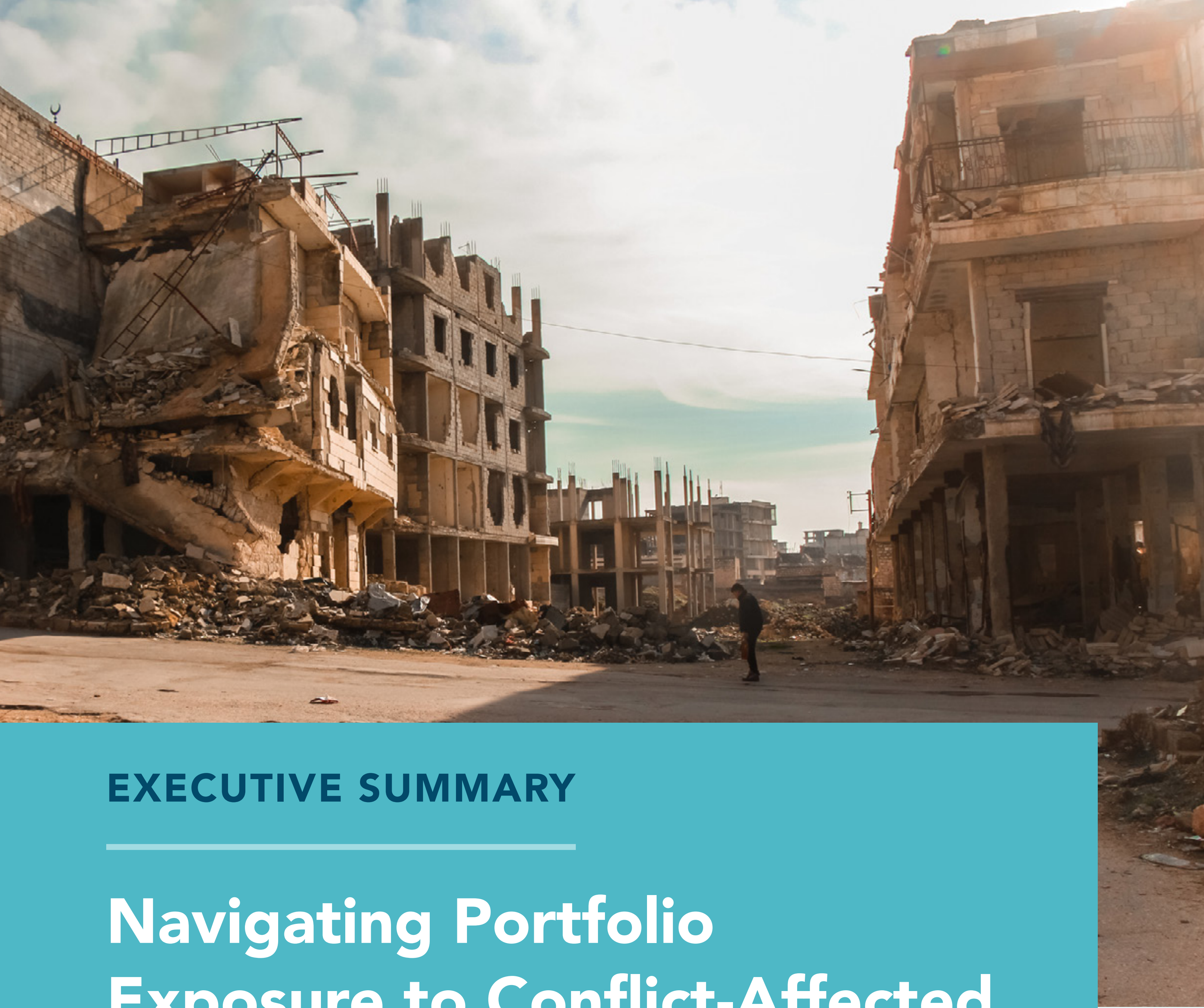

EXECUTIVE SUMMARY

Navigating Portfolio Exposure to Conflict-Affected and High-Risk Areas

PRACTICAL GUIDANCE FOR INVESTOR ENGAGEMENT WITH COMPANIES

APRIL 2025

INVESTOR ALLIANCE FOR HUMAN RIGHTS
AN INITIATIVE OF ICCR

HEARTLAND INITIATIVE

PeaceNexus Foundation

EXECUTIVE SUMMARY

Conflict and fragility are on the rise globally, exacting an increasingly heavy price from rightsholders. There are now more armed conflicts (56) than at any time since World War II with 92 countries involved in conflict beyond their borders and 162,000 battle-related deaths in 2023. Further, 130 out of 167 countries experienced a democratic decline—a historic low—according to the global Democracy Index and nearly forty percent of the world's population live under authoritarian rule. These trends are also having material impacts on shareholders, as the global economic costs of conflict and violence reached an estimated $19.1 trillion (or 13.5 percent of global GDP) in 2023.

Against this backdrop, investors have human rights responsibilities, legal obligations, and fiduciary duties to identify, assess, and address the heightened risks associated with their portfolio companies' activities and relationships in these conflict-affected and high-risk areas (CAHRA). The United Nations Guiding Principles on Business & Human Rights (UNGPs) make it clear that companies and investors are to conduct heightened human rights due diligence (hHRDD), while evolving legislation in the European Union (EU) and some of its member states codify a version of this requirement under their respective legal frameworks. Relatedly, the International Finance Corporation notes that companies operating in CAHRA "face business risks that are much greater than those in other emerging markets," necessitating increased risk prevention and mitigation by investors and companies as prudent fiduciaries.

EXECUTIVE SUMMARY

The Investor Engagement on CAHRA Pilot Project (Project) was designed with a two-fold purpose: 1) to build the capacity of participating institutional investors to more effectively engage portfolio companies on how they address the human rights and conflict risks associated with their direct and value chain activities in CAHRA, and 2) to identify evolving best practice related to CAHRA risk mitigation in the technology and renewable energy sectors. The findings contained in this report are based on a series of investor-led company dialogues conducted between May 2024 and February 2025 with three participating tech companies and one renewable energy company under Chatham House Rule. Twenty-two institutional investors—asset owners and managers headquartered in ten different countries—participated in the Pilot Project as lead and support investors.

The Project Partners and investors jointly identified leaders in human rights due diligence (HRDD) from the tech and renewable energy sectors with operations and relationships in multiple CAHRA for a series of three dialogues. Together they developed company risk profiles, agendas for the calls, and, based on those dialogues and a review of publicly disclosed company materials, highlighted emerging areas of good practice policy commitments, due diligence processes, and governance as well as ongoing challenges for companies seeking to manage these heightened risks.

Part One of the report outlines the background of the Project, including the geopolitical landscape and relevant international legal and normative frameworks, the partners' and investors' goals and objectives, the methodology used to analyze corporate risk in CAHRA, and the approach to investor capacity building.

Part Two of the report offers practical guidance for investors to identify, assess, and address CAHRA risks in their portfolios, including recommendations to enable more effective investor-company interactions on these topics. This section first seeks to provide resource-constrained investors with tools to understand the most salient human rights risks within their portfolios. Next, the section relays best practice in securing company buy-in, initiating engagement, and guiding conversations that move beyond policy discussions to operational risks in CAHRA.

Part Three of the report details the Project's findings, highlighting the good practices, ongoing challenges, and recommendations for improving companies' hHRDD, which is a significant gap in the current business and human rights discourse. While the findings are anonymized, this section aims to foster greater insights regarding industry standards for hHRDD and their alignment with expectations outlined in authoritative business and human rights frameworks, as well as ways in which companies can build on these good practices.

Below are the highlights of the key findings, leading practices, and recommendations related to CAHRA risk prevention and mitigation through evolving policies, practices, and governance measures:

→ **Policy:** While the participating companies had documented and publicly available human rights commitments largely aligned with the UNGPs, none of the participating tech or renewable energy companies had a stand-alone policy describing a hHRDD process to identify and address CAHRA risks and impacts in their own operations or their upstream and downstream value chains. Leading practices included specifically referencing 15 salient human rights risks (based on scale, scope, remediability, and likelihood) identified across the company's value chain and consideration of CAHRA as an independent risk impacting specific groups of rightsholders.

- All companies, regardless of sector, would benefit from a clear public commitment, either as a stand-alone policy or integrated into existing policies, to undertake systematic and regular hHRDD in CAHRA. Furthermore, the steps of the hHRDD process should be broadly outlined, including when a conflict and international humanitarian law (IHL) analysis should be undertaken, as well as organizational roles and responsibilities for implementation, monitoring, oversight, and accountability. This enables investors to understand the company's commitment and process to manage CAHRA risks, thereby allowing them to better manage the CAHRA risks associated with their portfolios.

→ **Practice:** All of the engaged companies have developed standardized HRDD processes that can be expanded to incorporate hHRDD elements, including identifying, assessing, and addressing human rights and conflict-related risks. Leading practices of the engaged companies included a comprehensive hHRDD process that was embedded in the contracting and project initiation process, steps to engage affected stakeholders, applied responsible security frameworks when necessary, and specific plans for the mitigation of impacts.

- The most prominent lesson learned across all discussions was the lack of distinction between hHRDD and HRDD processes. Standardized HRDD can serve as a foundation that supports a more in-depth review of risks, including hHRDD processes. However, it is also important for companies to have systematic and distinct sets of risk thresholds, standards, or steps for conducting hHRDD when operating in CAHRA. From the investor dialogues, none of the engaged companies effectively communicated this distinction, nor use the term hHRDD consistently.

→ **Governance:** The engaged companies have committee structures at the Board level with various designations, which oversee the implementation of human rights policies and due diligence processes. Identified best practices included embedding CAHRA-risk management across the company to ensure that responses to CAHRA risks and crises are tackled in a cross-functional fashion to ensure all the relevant responsible and expert parties within the organization are included.

- Companies can benefit from ensuring that personnel who are involved in cross-functional CAHRA-risk management activities are equipped with the appropriate competencies and receive regular training to ensure sufficient capacity-building. Roles, responsibilities, and accountabilities for CAHRA-risk management should be clearly delineated. In addition, companies should develop detailed processes and thresholds for determining when crises are escalated to senior management, including to the Board, depending on the severity of the situation.

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AUTHORS

The Investor Engagement on CAHRA Pilot Project was carried out by three Project Partners with the active participation of 22 institutional investors serving on teams of lead and support investors to undertake dialogues with the engaged companies. The Project Partners take sole responsibility for the content of the report.

INVESTOR ALLIANCE FOR HUMAN RIGHTS
AN INITIATIVE OF ICCR

Investor Alliance for Human Rights (Pilot Project Lead Coordinator/Investor Membership Organization), an initiative of the Interfaith Center on Corporate Responsibility, is a collective action platform for responsible investment that is grounded in respect for people's fundamental rights. As an investor membership coalition with over 240 members representing over US$20T in assets and 20 countries, the Investor Alliance focuses on capacity-building in support of the investor responsibility to respect human rights, coordinating corporate engagements that drive responsible business conduct, and participating in standard-setting and policy-making activities that push for robust business and human rights policies.

HEARTLAND INITIATIVE

Heartland Initiative (Technical Expert) is a U.S.-based nonprofit dedicated to transforming how investors advance human rights in an increasingly turbulent world. As investment portfolios span borders and industries, investors face an array of interconnected human rights and material risks. Heartland drives systemic change through peer learning and collaboration among investors, civil society organizations, and policymakers. Heartland's team of experts provides tailored learning services to institutional investors in North America, Europe, and Australasia with more than $600 billion in assets under management and partners with investors representing an additional $7 trillion.

PeaceNexus Foundation

PeaceNexus Foundation (Funder/Investor/Technical Expert) is a Swiss private foundation that strengthens the capacities of and collaboration between organizations to increase their contributions to peace and social cohesion. Based across Switzerland, West Africa, Central Asia, South East Asia and the Western Balkans, our team supports a range of local and international partners to promote conflict-sensitive practices. Our Business Engagement Service provides tailored advisory support to businesses and investors entering, operating in or supplying from fragile and high-risk markets, equipping them with the insights and tools needed to drive responsible, sustainable growth.

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- First Sentier Investors
- Folksam
- Friends Fiduciary Corporation
- Local Authority Pension Fund Forum
- Robeco
- Vancity Investment Management