



INVESTOR ALLIANCE
FOR HUMAN RIGHTS
AN INITIATIVE OF ICCR

The Role of Investors in Contributing Proactively to the Protection of Human Rights

CEE&CA Summer Academy on Human Rights & Business
September 29, 2024

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Investor Alliance for Human Rights

A collective action platform for responsible investment that is grounded in respect for people's fundamental rights



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- Initiative of ICCR established in 2018 focusing on the **investor responsibility** to respect human rights, **corporate engagements** that drive responsible business conduct, and **standard-setting and policy-making activities** that push for robust business and human rights standards and regulation.
- Coalition of 240+ institutional investors representing 21 countries, over US\$14 trillion in assets
- Work is informed by and in collaboration with various stakeholders, such as CSOs, rightsholders, academics, and human rights experts
- At our core we embrace:
 - ✓ **AGILITY:** Enable investors to maximize their collective impact on urgent and emergent human rights issues
 - ✓ **GROUND-TRUTHING:** Engagements are informed by the perspectives of impacted rights-holders and their representatives
 - ✓ **RIGOR:** Hold to international frameworks, including the UNGPs and OECD Guidelines to drive business & investor conduct

Today's Topics



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- Who are institutional investors?
- Human rights expectations of institutional investors under international business and human rights frameworks
- Putting the investor responsibility to respect human rights into practice
- ESG versus Human Rights
- How well are investors doing in implementing their responsibility to respect human rights?

Who are Institutional Investors?

Traditionally: Individuals made up 92% of investors with individual company holdings

Today: Institutions account for 90% of investors with diversified holdings

INSTITUTIONAL INVESTORS

Asset Owner

- Retirement plans
 - Public / Government
 - Private / Corporate
 - Union Pensions
- Insurance Companies
- Endowments/Foundations
- Sovereign Funds / Government Treasury Funds
- Corporations

Asset Managers

- Investment Professionals hired by AO to increase wealth over time by trading investments and mitigating risks based on AO's risks appetite
- Fiduciary Duty owed to AO
- Large AM and Investment Banks e.g. BlackRock, JP Morgan, Amundi
- Portfolio Managers
- Financial Advisers e.g. Morningstar / Sustainalytics

Investment Risks

- Long term v Short term
- High Risk v Low Risk
- Active v Passive
- Diversified v Single
- Universal Owners
- Standard v ESG v Anti-ESG

UNGPs Expectations for the Financial Sector



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RESPONSIBLE BUSINESS CONDUCT

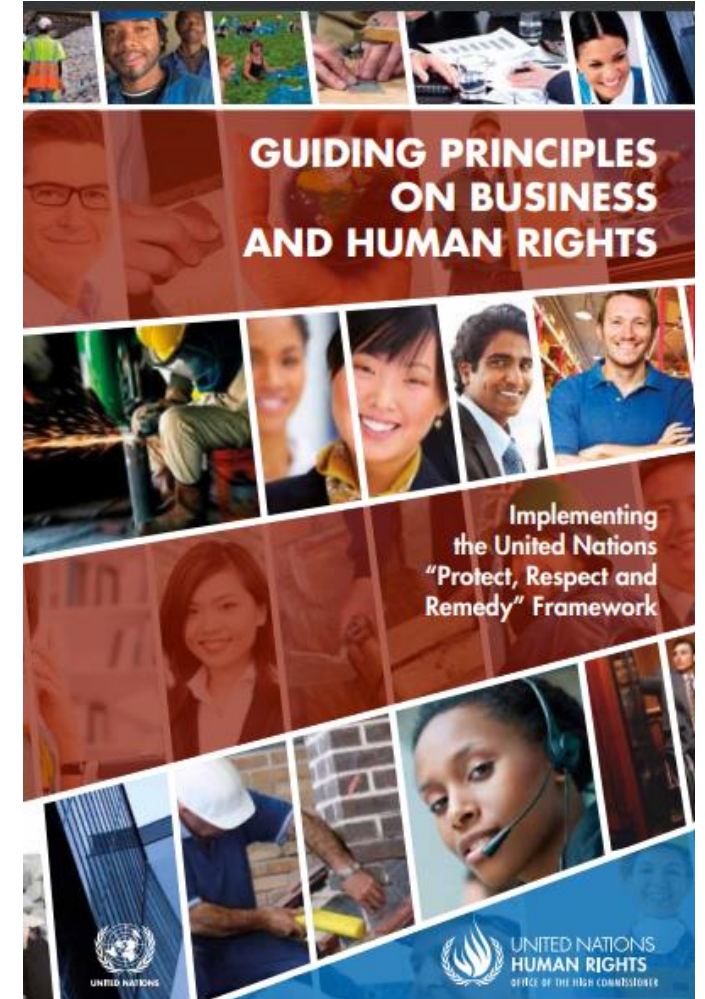


Responsible business conduct for institutional investors

Key considerations for due diligence under the
OECD Guidelines for Multinational Enterprises



- All business enterprises, including financial actors, expected to respect human rights, undertake HRDD, and provide remedy under the UNGPs
- While investors are generally **directly linked** to human rights abuses via their holdings of portfolio companies, they may **also cause or contribute** to harms
 - *“There is a continuum between contribution and linkage” John Ruggie*
- The leverage investors have to affect change in an entity causing harm will vary by asset class.



Companies & Investors: Public v. Private Equity



Investments	Public Company	Private Company
Access to Capital	Capital Markets	Relationship-based (GP & LP)
Shareholdings	Many investors with minority stakes (< 5%)	Fewer partners often with substantial stakes
Liability	None	GP (Unlimited) & LP (Limited)
Liquidity	Freely tradeable – Easy to Exit	Captive – Limited to No Exit Options
Disclosure / Transparency	Public & Regulated	Limited, Minimal public disclosure
Management Relationship	Separate from Management	Significant ownership secures management roles
Risk / Return	Lower Risk / Steady	Higher Risk

Putting the Investor Responsibility into Practice



Investor Leverage



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**Pre-Investment
Screenings – Excluded
Categories /
Companies / Regions**

**ESG Investing – Impact
Investing**

**Active Stewardship:
Direct Engagements
with Portfolio
Companies and Asset
Managers**

**Collective Investor
Engagement –
Collaboration with
Stakeholders**

**Filing Shareholder
Proposals at
Shareholder Meetings**

**Proxy Voting
Strategies, e.g. no
votes on Board –
Publish / Communicate
Rationale**

**Divestment /
Responsible Exit –
Publish / Communicate**

**Advocating for Rights
Respecting Standards
and Regulations**

ICCR's 2024 Proxy Season

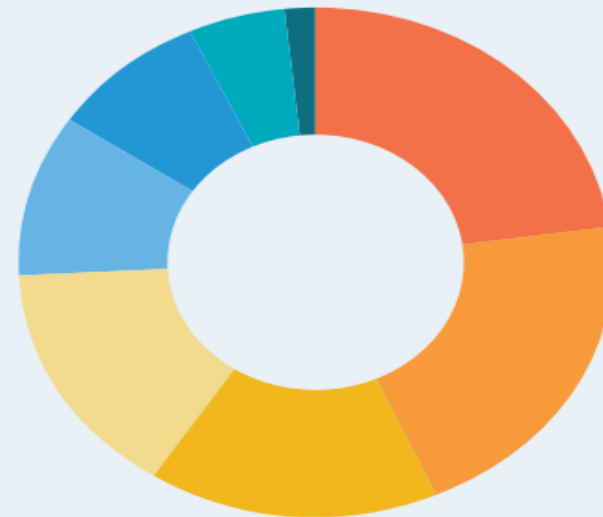


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2024 PROPOSALS BY ISSUE

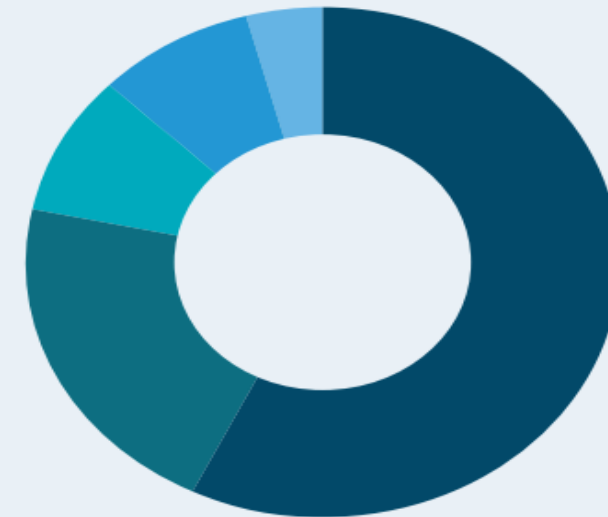
Given mounting concerns over the climate crisis, proposals addressing climate change were the most numerous for ICCR members for the third year in a row with 91 proposals filed this proxy season. Human/worker rights proposals and racial justice/DEI proposals totaled 83 and 63 proposals respectively. Of the 83 human rights proposals, 44 centered on worker rights concerns, a 16% increase versus one year ago.

2024 PROPOSALS BY ISSUE



Climate Change (91)	Governance (40)
Human Rights & Worker Rights: (83)	Environment (35)
DEI/Racial Justice (63)	Health (21)
Lobbying/Polit. Spending (60)	Food (6)

2024 PROPOSALS BY OUTCOME



Voted (229)
Withdrawn for agreement (84)
Omitted (36)
Withdrawn Other (34)
Awaiting Result (16)

While fewer proposals were filed overall, notable exceptions include proposals addressing human/worker rights, lobbying/political spending, and environmental proposals. The results of 16 proposals are still pending, 57% of all proposals went to a vote and 21% were withdrawn for agreement so far this season.

ESG versus Human Rights



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- Investor Alliance approach builds on international HRs frameworks
- Shortcomings of an ESG approach
- Manifestation in policy debates around non-financial corporate disclosures: Financial materiality vs. double/dynamic materiality

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.

How ESG Index Providers Influence Investments



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STEP 1. ESG RESEARCH FIRMS

Research firms collect specific underlying ESG data through company surveys, industry research and/or analyzing and interpreting third-party data.

Sell ESG data

STEP 2. ESG RATINGS FIRMS

ESG ratings firms use thousands of sources to build a singular ESG score for the majority of publicly listed companies.

Sell ESG Ratings & Data

STEP 3. ESG INDEX PROVIDERS

Index providers buy ESG data and build off-the-shelf and customized ESG indexes based upon non-ESG parent indexes.

Sell ESG Indexes for fees

STEP 4. ASSET MANAGERS

Asset Managers buy off-the-shelf or co-develop custom ESG indexes that tell the asset managers (or a computer algorithm) what and how many shares of a company a fund should hold.

Supply passive ESG index funds for a fee

STEP 5. INVESTORS

Investors pay a small fee to asset managers in order to invest their money in the passive ESG index funds and Exchange-Traded Funds. The switch from active to passively managed funds has been driven by their lower fees and on average higher returns.

ESG Backlash: Recent headlines

News & Analysis

BlackRock and Credit Suisse to appeal inclusion on Texas divestment list

Investment Company Institute tells state officials to prioritise Texas families over partisanship as 10 firms and 350 funds are added to divestment list.

Gina Gambetta and Dominic Webb - 25 August 2022

CLIMATEWIRE

SEC climate disclosure rule faces legal gantlet

By Lesley Clark | 03/11/2024 06:08 AM EDT

CLIMATE

ExxonMobil is suing investors who want faster climate action

UPDATED FEBRUARY 29, 2024 · 6:46 PM ET

ESG backlash will spark 'rush' of litigation, says leading lawyer

From government employees and pensioners suing state pension funds to funds themselves litigating against policymakers, there are several ways cases could be brought to state courts.

Gina Gambetta - 16 March 2023

News & Analysis

No mention of ESG as BlackRock's Fink drops long-awaited annual letter

BlackRock chief mounts defence of firm's demands for more disclosures, but argues that managers should not try to engineer economic outcomes.

Dominic Webb - 15 March 2023

How well are investors doing with implementing their responsibility to respect HRs?



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- 2021 UN WG on BHRs undertook a 10 yrs. UNGPs “stocktaking” exercise – an addendum to the report looked at investors UNGPs implementation
- **Key takeaways:**
 - Enabling environments for rights-respecting investment are emerging
 - Examples of both progress and gaps
- UNWGs Roadmap outlined recommendations for the way forward – see esp. Goal 6.1

Goal 6.1 Seize financial sector ESG momentum and align the S in ESG with the UNGPs

Addressing the role of business is essential to tackling key global challenges. Addressing the role of the financial sector is equally critical, given its role in fuelling economies and the behaviour of companies within them. Investors and other financial sector actors are expected to respect human rights by knowing the risks to people connected with their investment activities and showing how they take action to manage those risks. Engaging stakeholders in this process is essential. Progress in how financial sector actors implement their responsibility will also be a key means to speed and scale up business respect for human rights overall. Growing ESG momentum provides an opportunity for faster progress. However, to ensure that this development helps drive better business practices that lead to positive outcomes for people and environment, there is a need to mainstream the understanding that the UNGPs provide the core content of the S in ESG, while the UNGPs are also relevant across ESG considerations.

NEW: UNWG, Investors, ESG & Human Rights



• Report Highlights

- ESG and sustainability approaches vary widely & lack uniform definitions - risk of green and HRs washing
- Regulation is needed to ensure the application of human rights considerations to E, S, and G criteria
- Double materiality approach (financial & impact) could help address human rights concerns in alignment with the UNGPs
- Investors need better decision-useful HRs data
- Risks to people & the planet should be placed at the center of investors' decision-making through ongoing HRDD
- Investors, companies, States and rightsholders should increase collaboration to ensure overall improved human rights frameworks in the investment sphere

• Recommendations to Investors

- Embed human rights in ESG & sustainability policies and strategies – integrate HRs across the E, S & G
- Identify and address key human rights impacts of portfolio companies on an ongoing basis throughout the investment process
- Prioritize meaningful stakeholder engagement
- Use leverage over portfolio companies to ensure respect for human rights
- Undertake hHRDD in CAHRA and divest responsibly when leverage does not lead to meaningful change
- Invest in capacity building and human rights education
- Press for improved & coherent data on human rights from data providers and proxy advisor



Questions? Let's Discuss
