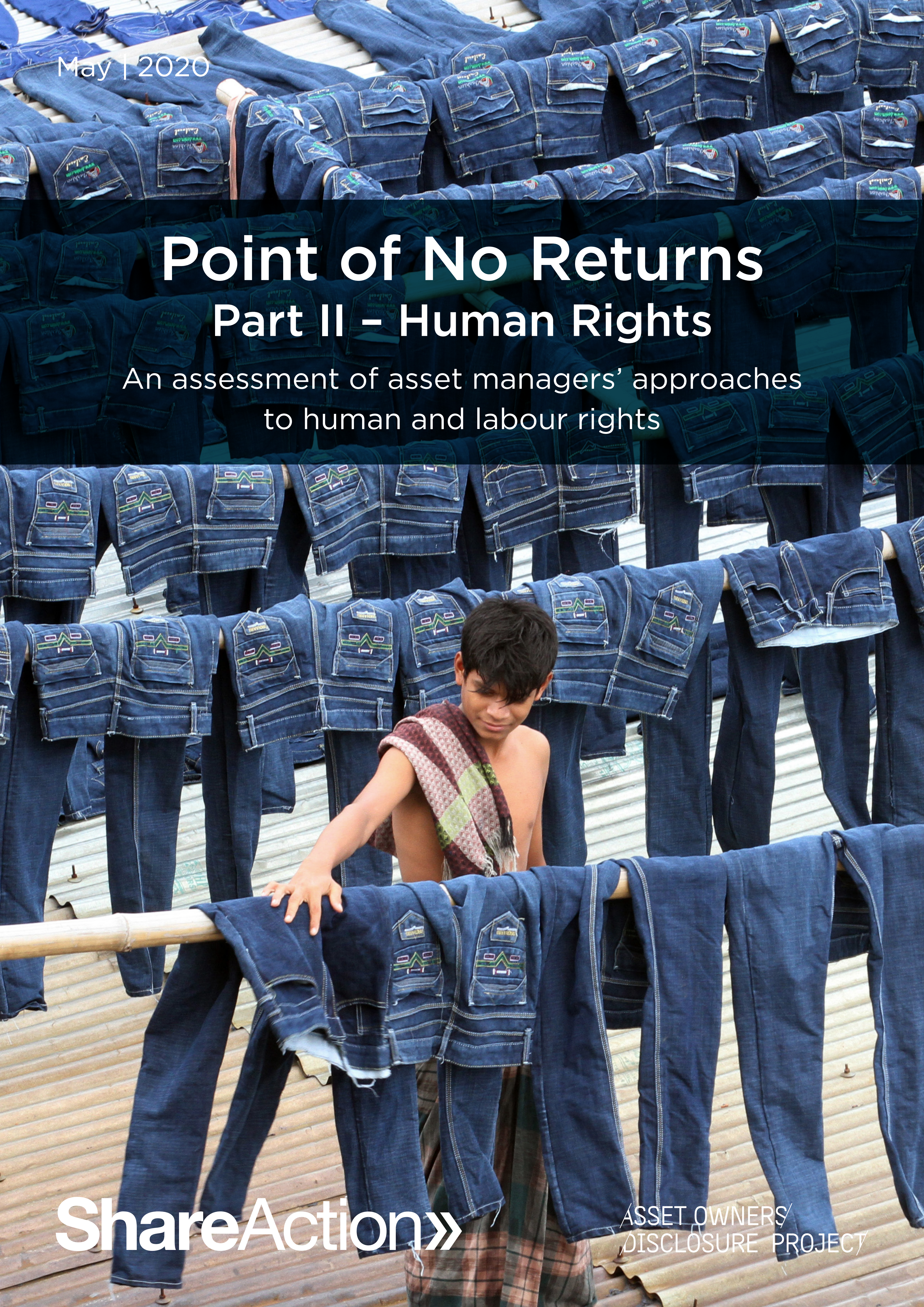
May | 2020



Point of No Returns

Part II – Human Rights

An assessment of asset managers' approaches to human and labour rights

ShareAction»

ASSET OWNERS DISCLOSURE PROJECT

Acknowledgements

ShareAction gratefully acknowledges the financial support of the KR Foundation for the ShareAction/AODP project. The views expressed are those of ShareAction alone.

We would like to thank the experts who gave their time for consultation on the development of this work. We also gratefully acknowledge the efforts made, and time given, by those who supplied information on behalf of their companies in this assessment. We would also like to thank the consultants and asset owners who encouraged asset managers to complete our assessment.

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About ShareAction

ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

Visit shareaction.org or follow us @ShareAction to find out more.

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Executive Summary

Overview

The number of modern slavery victims in global supply chains today is believed to stand at around 16 million[1], roughly the same number of enslaved people as during the transatlantic slave trade in the 18th century[2]. While this statistic alone is suggestive of a dire reality, it does not include other human and labour rights abuses experienced by many around the world: child labour, exploitative and unsafe work conditions, poverty due to poor wages and suppression of unionisation.

In 2015, governments from around the world came together to set a roadmap of what a sustainable future looks like in the form of UN Sustainable Development Goals (SDGs). As part of the ambition for 2030, the goals make a commitment to protect human rights. For example, the ambition agreed under Goal 8 includes ending modern slavery and ensuring the protection of labour rights and safe conditions for all workers, whilst one of the targets for Goal 16 includes significantly reducing all forms of violence[3].

With only 10 years left to achieve the SDGs, it is more pressing than ever that companies in all sectors take the necessary urgent action. The asset management industry has a vital role to play in meeting these goals. The industry holds a huge amount of influence over corporate behaviour. The three biggest asset management firms in the world, BlackRock, Vanguard, and State Street, together constitute the largest shareholders in 88 per cent of the S&P 500 firms[4]. The 75 asset managers in this assessment manage more money than the GDP of the US, China and the European Union combined. Through their policies, investment decisions, and stewardship practices, they have the ability to change companies' behaviour and therefore their impact on human and labour rights.

ShareAction's assessment looks at 75 of the world's largest asset managers and their performance on responsible investment, with one of the three areas of focus being on human rights (alongside climate change and biodiversity). You can view the ranking of the 75 managers featured in Part I of this report series here. Our assessment finds that the industry's money is overwhelmingly being used in a way that at best neglects human and labour rights abuses and at worst contributes to them.

While the majority of asset managers' policies broadly refer to human and labour rights, relatively few make firm and specific policy commitments. Particularly alarming is the number of asset managers' policies without commitments to influence corporate behaviour on salient human rights impacts (the most severe impacts a business has the potential to cause) in line with international frameworks. Only 28 per cent of asset managers surveyed have made a commitment to engage or exclude companies who fail to act in line with United Nations (UN) or International Labour Organisation (ILO) frameworks. At the same time, 47 per cent of the world's largest asset managers, with over US$45 trillion in assets under management, lack policies to exclude controversial weapons companies from their investments, essentially bypassing international treaties to allow them to invest in weapons that cause excessive and indiscriminate harm.

In conjunction with poor policy commitments, few managers have adequate approaches to engagement with companies on salient human rights impacts.

The majority of asset managers only conduct basic reactive engagement where human rights abuses have already occurred, in order to minimise financial risk to the portfolio, as opposed to proactively engaging to strengthen due diligence and reporting on salient human rights issues.

There are positive signs that the industry is beginning to show progress. Leading asset managers are developing robust policy commitments, as well as having strong integration of human rights into investment decisions and stewardship practices. However, if the industry as a whole is to rise to the challenge of the SDGs, it will require a firm commitment to end its contribution to human rights abuses and take responsibility for its impacts on environment and society.

Summary findings

FINDING 1 – Despite three quarters of asset managers stating they have human rights policies covering all assets under management, relatively few make firm human rights commitments.

1.1 76 per cent of assessed asset managers state they have a policy on human rights covering all assets under management.

1.2 Over 70 per cent of asset managers make no commitment to exclude or engage with companies in line with international human and labour rights frameworks.

1.3 84 per cent of asset managers do not have a policy to exclude sovereign bonds issued by countries under international sanctions for human rights abuses.

1.4 47 per cent of the world's largest asset managers with over US$45 trillion in assets under management lack policy commitments prohibiting investments in controversial weapons banned by international arms treaties.

1.5 US asset managers lag far behind the rest of the world on human rights policy commitments.

FINDING 2 – Asset managers are addressing human rights issues only where they have identified financial risk, while failing to account for salient human rights impacts.

2.1 Asset managers most frequently identify reputational and operational human and labour rights risks, while human capital management is the most commonly identified opportunity.

2.2 Asset managers show a very limited ability to identify salient human rights impacts of their investments.

2.3 Asset managers' accounting for positive social impacts remains largely limited to specific impact funds.

FINDING 3 – The majority of asset managers treat human rights-related engagement as a reactive exercise, with few having proactive approaches to engaging on salient human rights issues.

3.1 61 per cent of asset managers have a weak or non-existent approach to engagement on human rights, while an additional 20 per cent only have a reactive approach to engagement.

3.2 Supply chain due diligence is the most common human rights-related engagement topic.

FINDING 4 – The majority of asset managers lack commitments on human rights in their voting policies.

4.1 The majority of asset managers' voting policies lack commitments on human rights due diligence, remuneration structures and non-discrimination.

FINDING 5 – Asset managers generally rely on third party data providers, with few adopting indicators for proprietary assessment.

5.1 70 per cent of asset managers rely on external data providers for ESG data.

5.2 Only six asset managers show evidence of conducting proprietary assessment of investee companies on specific indicators relating to human and labour rights.

Methodology

The selection of asset managers was based on size of assets under management (AUM) with adjustment for regional coverage:

- 40 from Europe
- 25 from the Americas
- 9 from Asia Pacific
- 1 from Africa

- Asset managers were invited to fill in a survey to inform the ranking (92 per cent response rate)
- Those who declined to respond (eight per cent) were assessed based on publicly available information
- Analysis in this report is based on answer options selected and commentary provided in their survey responses. The questionnaire and thematic reports follow the structure of the TCFD recommendations
- Information was collected between July and October 2019

The full methodology, which was published in Part I of the report series, can be viewed here.

Point of No Returns report series

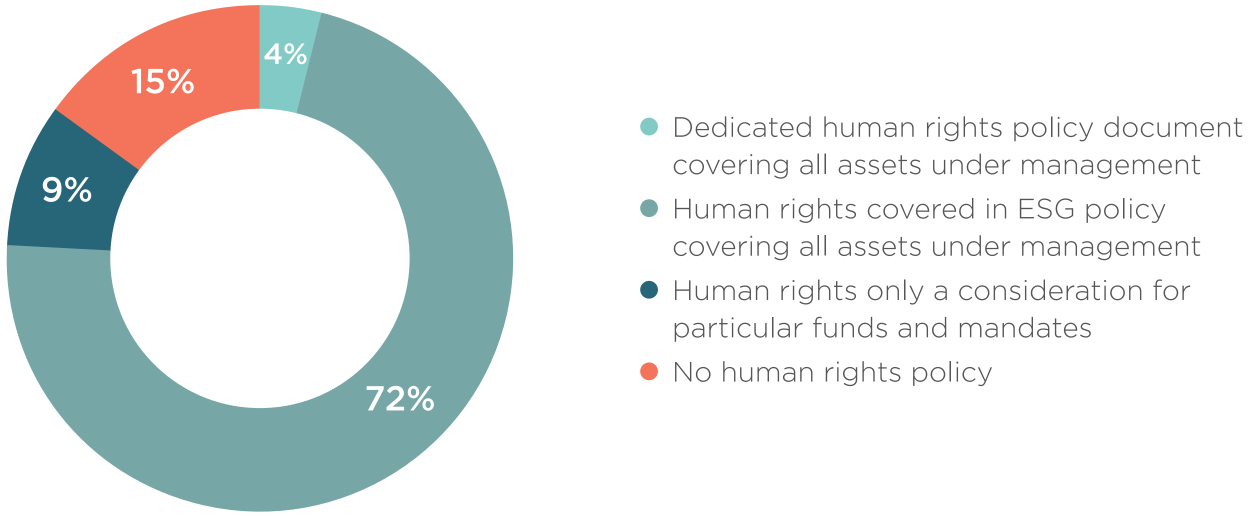
This report is the second instalment of a four-part report series assessing the global asset management industry's approach to responsible investment. Our reports assess 75 of the world's largest asset managers, analysing their performance in four key areas: responsible investment governance, human rights, climate change, and biodiversity.

- Part I features a ranking of the 75 asset managers on their performance across these key areas, as well as an analysis of performance across regions, managers' stewardship practices, and approaches to governance.
- Part II focuses on asset managers' approaches on human and labour rights.
- Part III and part IV will be published in June 2020 and will analyse asset managers' performance on climate change and on biodiversity. To get updates on our upcoming releases, sign up to our mailing list here.

Strategy

FINDING 1 – Despite three quarters of asset managers stating they have human rights policies covering all assets under management, relatively few make firm human rights commitments.

Figure 1 – Human rights policies of asset managers



1.1 – 76 per cent of assessed asset managers state they have a policy on human rights covering all assets under management.

76 per cent of the world's largest asset managers state they have a commitment to human rights in their policy documents covering all assets under management, with four per cent having dedicated policy documents on human rights and 72 per cent broadly covering human rights in their ESG policies. Many asset managers are taking a very limited approach to human rights commitments: nine per cent of asset managers only cover human rights issues for specific funds and mandates, such as those labelled ESG, and 15 per cent have no human rights-related policies at all.

While there are examples of asset managers having robust human rights-related commitments embedded into ESG or responsible investment policies, asset managers with standalone human rights policy documents demonstrate the strongest performance on human rights, and on responsible investment more generally. All the managers with standalone human rights policies come in the AAA – B bands in our ranking of the 75 managers in part I of this report series.

1.2 – Over 70 per cent of asset managers make no commitment to exclude or engage with companies in line with international human and labour rights frameworks.

Frameworks such as the United Nations Guiding Principles on Business and Human Rights (UNGPs), the International Labour Organisation (ILO) conventions, the United Nations Global Compact (UNGC), and the OECD guidelines for Multinational Enterprises, provide authoritative global standards on human and labour rights for states and businesses.

As outlined in the box on page 10, asset managers ought to be utilising these frameworks as a means of integrating human rights into company assessments, stewardship activities and investment decisions.

However, our assessment finds only 28 per cent of asset managers have made a policy commitment to engage with investee companies on either the UNGPs or ILO conventions, while only 24 per cent of asset managers have a commitment to exclude companies that breach the UNGC.

Even among those companies that have made policy commitments on these frameworks, a qualitative assessment of commitments reveals significantly different thresholds at which companies are engaged with and excluded. The majority of asset managers note that they will engage with companies only after severe and repeated breaches of the UNGC, while only a handful clearly state they set timebound engagement objectives with a timeframe for excluding non-compliant companies.

At the same time, a lack of sufficient reporting from asset managers leaves their clients unclear on the degree to which policy commitments are translating into action. Only 17 per cent of assessed asset managers publicly disclose a comprehensive record of ESG-related engagement, while only 12 per cent of managers publicly disclose the names of excluded companies.

Human and labour rights frameworks

United Nations Guiding Principles on Business and Human Rights (UNGPs)

The UNGPs are a set of guidelines for states and companies to prevent, address and remedy human rights abuses committed in business operations[5].

> **Asset managers** can engage with investee companies on their due diligence processes and reporting in line with these principles, for example through the UNGP reporting framework. The reporting framework is supported by an investor coalition representing US$5.3 trillion, which asset managers can join.

International Labour Organisation (ILO) standards

International labour standards set out basic principles and rights at work. The conventions (of which there are eight) are legally binding international treaties that may be ratified ILO by member states. In addition to the conventions, there are recommendations which serve as non-binding guidelines, often to supplement a convention by providing more detailed guidelines on how it could be applied[6].

> **Asset managers** can engage with companies to ensure they are upholding these conventions and recommendations where relevant.

United Nations Global Compact (UNGC)

The UNGC is comprised of 10 social and environmental principles (six of which refer specifically to human and labour rights) aimed at mobilising companies to participate and report in line with progress on these principles[7].

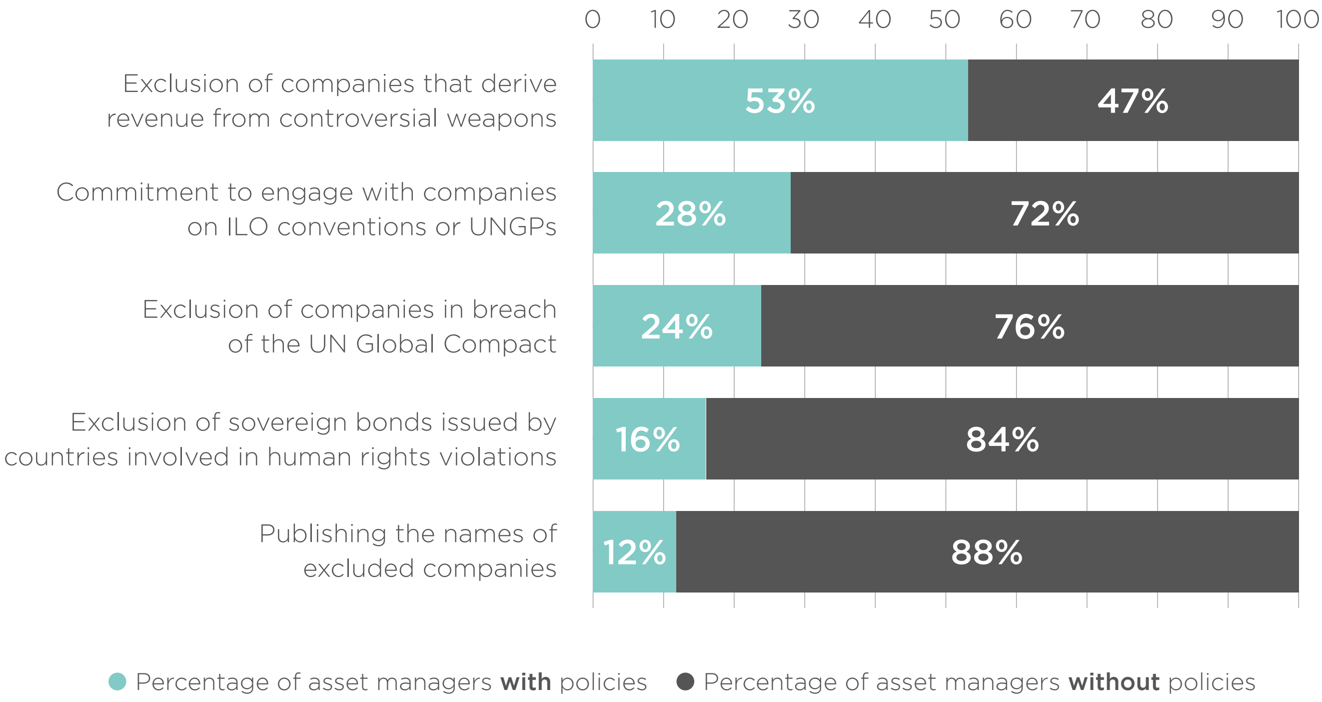
> **Asset managers** can integrate the UNGC by using data providers' (such as MSCI and Sustainalytics) UNGC scores to engage and exclude companies based on breaches. Asset managers can also apply exclusions of delisted participants who have failed to report progress on the UNGC, and companies that are not eligible to join due to the nature of their core business activities (such as tobacco companies, and companies involved in anti-personnel mines and cluster bombs).

OECD Guidelines for Multinational Enterprises and Responsible Business Conduct for Institutional Investors

The OECD Guidelines for Multinational Enterprises cover a range of responsible business thematic areas. They provide non-binding principles and standards for responsible business conduct for multinational corporations, including investors, operating in or from countries adhering to the Declaration on International Investment and Multinational Enterprises[8,9].

> **Asset managers** can integrate these guidelines using the Responsible Business Conduct for Institutional Investors guidance, which provides key considerations for investor due diligence in line with the OECD Guidelines for Multinational Enterprises[10]. Asset managers should also be aware that non-compliance with OECD guidelines could lead to grievances being filed against them, as was done in the recent case of ING[11].

Figure 2: Most frequent human rights policy commitments that cover all portfolios under management



1.3 - 84 per cent of asset managers do not have a policy to exclude sovereign bonds issued by countries under international sanctions for human rights abuses.

Despite trade restrictions being imposed upon countries under international sanctions, for example by the United Nations or European Union, many investors continue to finance the governments of these countries through purchasing their sovereign bonds. 84 per cent of assessed managers lack a policy to exclude sovereign bonds from countries under sanction.

It is concerning to note the large number of managers with a predominantly fixed income focus that lack policies in this area. Of the 13 fixed income managers in our assessment[i], eight have no policy to exclude sovereign bonds issued by countries involved in human rights violations.

1.4 - 47 per cent of the world's largest asset managers, with over US$45 trillion in assets under management, lack policy commitments prohibiting investments in controversial weapons banned by international arms treaties.

Controversial weapons include weapons of mass destruction such as nuclear, chemical and biological weapons, and weapons that cause indiscriminate or excessive harm, such as cluster munitions and anti-personnel mines. The international conventions on these weapons do not explicitly prohibit investors based in countries that have ratified the treaty from investing in arms companies operating in states which have not ratified the relevant treaty. While some countries have enacted legislation to extend the remit of the conventions to explicitly cover investment in weapons, in most jurisdictions this is not the case.

i Defined here as holding over 60 per cent of AUM in fixed income.

Although it was found to be the most common human rights-related policy commitment in our assessment, it is still alarming to note that 47 per cent of the world's largest asset managers, with over US$45 trillion in assets under management, have no portfolio-wide policy to prohibit investment in controversial weapons.

Among the asset managers with policies on controversial weapons, a qualitative assessment reveals a large variation in ambition. The term 'controversial weapons' includes a range of weapons covered by a number of international agreements, as outlined below. Many asset managers that state they have controversial weapons exclusions in fact only cover cluster munitions and anti-personnel mines, while weapons of mass destruction (chemical, biological and nuclear weapons) appear far less frequently.

Leading practice exclusions on controversial weapons cover companies involved in the production of whole weapons systems, delivery platforms, parent companies and investors in these companies across all portfolios under management. Policies ought to cover the weapons outlined in the following conventions as a minimum:

- The 1968 Treaty on the Non-Proliferation of Nuclear Weapons[ii]
- The 1972 Biological Weapons Convention
- The 1981 Convention on Certain Conventional Weapons (covers incendiary weapons, weapons utilising non-detectable fragments, and blinding laser weapons)
- The 1997 Chemical Weapons Convention
- The 1997 Ottawa Treaty (covers anti-personnel mines)
- The 2008 Convention on Cluster Munitions
- The 2014 Arms Trade Treaty[iii]

Our analysis further suggests that many asset managers with policies covering their active strategies are failing to exclude controversial weapons in their passive investments due to reliance on mainstream indices that fail to apply controversial weapons screens, even for managers with predominantly passive strategies.

There are however indications that many asset managers are engaging with index providers to screen out these companies. In 2019, institutional investors managing US$6.8 trillion wrote an open letter to global index providers to exclude controversial weapons from mainstream indices. Nine of the managers included in this assessment signed the letter as part of a coalition of over 140 institutional investors[iv]. However, notably absent are the three largest asset managers in the world: BlackRock, State Street and Vanguard, all of whom are predominantly passive investors.

ii Strong policies cover all nuclear weapons, weak policies only exclude nuclear weapons producers from certain countries.

iii Though not strictly covering controversial weapons, this has been included given that it covers trade in weapons with states involved in human rights abuses.

iv Asset managers in our assessment that were signatory to letter: Credit Suisse Asset Management, Bank J. Safra Sarasin, BNP Paribas, DWS Group, Legal & General Investment Management, NN Investment Partners, UBS Asset Management, Pictet Asset Management, Swisscanto (Zürcher Kantonalbank).

v Asset managers in out assessment that are signatory to the letter as of 29/04/20: Aberdeen Standard Investors, Aviva Investors, BMO Global Asset Management, Legal & General Investment Management, Robeco.

Investment in cluster munitions

Research by the NGO PAX reveals that 88 financial institutions together invested almost US$9 billion in seven cluster munitions producers on the NGO's 'Red Flag List'[12] in 2018.

The asset managers in this assessment were found to be investing a total of US$288 million in these companies. Those named in the 'Hall of Shame' list can be found here. While this assessment only covers seven specific cluster munitions companies, and as such the figures do not represent an exhaustive account of the sector's investment in controversial weapons, they serve to show that asset managers lacking robust policies in this area may be investing in companies involved in the production of weapons causing excessive and indiscriminate harm.

1.5 - US asset managers lag far behind the rest of the world on human rights policy commitments.

US asset managers lag far behind managers from Europe and Asia Pacific on human rights policy commitments. Only 15 per cent of the assessed US managers have policy commitments across all portfolios under management, compared to 78 per cent of European asset managers and 33 per cent of managers from Asia Pacific.

These findings reflect a broader trend outlined in Part I of this report series. 80 per cent of US asset managers were ranked as having D and E ratings. This makes the US the region with the highest proportion of poor performing asset managers (in the Asia Pacific region, 66 per cent of the assessed managers were rated D and E). The scale of inaction by these US managers is particularly concerning given that the US accounts for 58 per cent of total assets under management covered in this assessment, representing US$33 trillion.

Regulation on human and labour rights

Recent years have seen a surge in legislation on mandatory corporate reporting on human rights, predominantly in Europe. A number of jurisdictions have enacted legislation to this effect, such as the UK's 2015 Modern Slavery Act, the Dutch Child Labour Due Diligence Law, the French 2017 Duty of Vigilance Law, the California Transparency in Supply Chains Act and the EU Non-Financial Reporting Directive.

However, while this legislation centre on reporting, there remains an absence of concrete legislation on mandatory due diligence on human rights. Many jurisdictions still lack legislation even on reporting.

The Investor Alliance for Human Rights has coordinated an investor backed letter, representing $US5 trillion in assets under management, calling on governments to develop, implement, and enforce mandatory human rights due diligence requirements for all companies headquartered or operating within their own jurisdictions[V].

Asset managers can sign on to this letter to support calls for mandatory human rights due diligence and reporting.

Risk and impact management

FINDING 2 – Asset managers are addressing human rights issues only where they have identified financial risk, while failing to account for salient human rights impacts.

2.1 – Asset managers most frequently identify reputational and operational human and labour rights risks, while human capital management is the most commonly identified opportunity.

Figure 3 - Most commonly identified material human rights risks and opportunities

Risks	Opportunities	Percentage of asset managers identifying risk/opportunity
Reputational	Human capital management	<50%
Operational		
Legal/regulatory		>15%

→ Darker colours indicate greater frequency of identification – risks in red, opportunities in blue

We asked the 75 assessed asset managers to describe which human rights-related risks and opportunities they have identified to their investments. 48 per cent of assessed managers were able to appropriately identify human rights-related risks, while 43 per cent identified human rights-related opportunities.

As can be seen in Figure 3, among asset managers who identified human and labour rights risks, reputational and operational risks were the most commonly identified.

Reputational risks materialise where investee companies are involved in human rights violations, thereby impacting a company's reputation or licence to operate. Asset managers noted these most frequently arise due to poor employment practices in the supply chain and poor wages.

Operational risks materialise where human and labour rights issues impact a company's ability to operate. Managers noted that these most frequently arise from staff unrest due to poor labour practices, poor staff retention, and poor productivity. Asset managers also identified regulatory risk, where legal non-compliance or regulatory change poses financial risk, most commonly in health and safety.

On the opportunities side, asset managers identified human capital management as the main human rights-related investment opportunity. Common examples include companies investing in strong staff engagement and employee welfare, which can lead to increased worker productivity, staff retention and improved reputation.

2.2 – Asset managers show a very limited ability to identify salient human rights impacts of their investments.

Salient and material human rights issues

The United Nations Guiding Principles on Business and Human Rights indicate that companies' human rights due diligence processes should be broader than just an assessment of material human rights risks and should focus on salient human rights impacts[13]. The UNGPs define salient issues as the most severe human rights impacts that a business has the potential to cause. A materiality lens looks only at human rights violations insofar as they may cause financial detriment to a business, which may result in neglect of severe human rights abuses caused by business operations. Approaching human rights impacts from a saliency perspective, however, puts impact on people at its centre, whilst acknowledging that, where risks to people are greatest, there is also a strong risk to business.

While the UNGPs indicate businesses should conduct due diligence on salient human rights impacts throughout their value chain, these principles apply equally to investors in how they carry out human rights due diligence in companies they invest in across their entire portfolio. The OECD guidelines for institutional investors, for example, equally refer to salient human rights impacts as 'adverse impacts' and explicitly state that 'investors are expected to carry out due diligence to identify, prevent or mitigate adverse impacts and account for how adverse impacts are addressed'. The OECD guidelines also provide due diligence guidelines for institutional investors, which can be viewed here.

In addition to asking asset managers which risks and opportunities were most commonly identified, we also asked managers to identify the human rights-related positive and negative impacts of their investments.

It is clear from our assessment that asset managers lack sufficient due diligence processes to appropriately identify salient negative human rights impacts. Only seven (nine per cent) asset managers were able to identify negative impacts that may be a result of their investments.

Negative impacts identified by asset managers most frequently involve high-risk sectors or practices, notably the extractives sector, due to its impact on the displacement of rural communities in remote and poorly regulated regions, as well as hazardous working conditions for labourers. Other salient negative impacts were identified in supply chains of investee companies, such as child labour in the food and agricultural supply chains, conflict minerals in supply chains, and labour issues in the garment sector. Asset managers also identified impacts in investee companies' direct operations, such as precarious work, restructuring, and employee wages.

Leading asset managers are seeking to carry out due diligence on salient human rights impacts by assessing the risk profile of investee companies based on the features of their operations, their sector, or their region. For example, companies whose value chain operates in countries or areas where there is a high risk of human rights abuses, such as child labour, modern slavery, or displacement of communities; or sectors that utilise high-risk materials, for example conflict minerals, can be flagged for assessment. Similarly, sectors utilising large amounts of unskilled labour can also pose higher human rights-related risks. Leading managers show not only that they have robust processes in place for identifying negative impacts, but also how this identification process feeds into concrete actions in terms of investment stewardship or company exclusions.

2.3 – Asset managers' accounting for positive social impacts remains largely limited to specific impact funds.

The majority of asset managers were unable to identify positive social impacts of their investments. 16 per cent of managers provide some description of how they are having a positive impact, however, this was almost always limited to particular ESG funds or mandates, such as positive impact fund options, not across all mainstream assets.

The main sectors in which positive impacts were identified include housing, healthcare, education and sustainable infrastructure.

While there may be instances where asset managers are having positive social impact in mainstream funds, it is clear from our assessment that positive social impact is not being measured across managers' mainstream assets.

FINDING 3 – The majority of asset managers treat human rights-related engagement as a reactive exercise with few having proactive approaches to engaging on salient human rights issues.

3.1 – 61 per cent of asset managers have a weak or non-existent approach to engagement on human rights, while an additional 20 per cent only have a reactive approach to engagement.

Our assessment of asset managers' human rights-related engagement reveals that the majority of managers have an inadequate approach to engaging with investee companies on human rights issues.

Asset managers take two distinct but not mutually exclusive approaches to engagement on human rights: proactive and reactive.

Reactive engagement involves engaging where human rights abuses have already occurred at investee companies to manage material human rights risks. While it is important for asset managers to have strong processes for reactive engagement in place, it is not sufficient to rely on a reactive approach. Firstly, reactive engagement takes places after an abuse has already occurred and in doing so is too late to mitigate the abuse. Instead it can only seek to remedy past abuse or mitigate future abuses. Secondly, given that human rights abuses are often under-reported, relying on reactive engagement can lead to engaging with an incomplete understanding of the real scale of abuse that has taken place.

Proactive engagement, on the other hand, involves carrying out human rights due diligence to identify companies where there may be salient human rights impacts, and engaging with them to seek to prevent or mitigate any adverse impacts caused by the company's operations.
A strong approach to human rights engagement consists of both proactive and reactive engagement.

Figure 4 shows asset managers by their human rights engagement approaches. It is notable that of the seven asset managers who demonstrate a strong proactive and reactive approach to human rights engagement, five are the leaders in our ranking of 75 managers appearing in the AAA – A bands and in the top five of the ranking overall.

Figure 4 – Asset managers' approaches to human rights engagement

Number of asset managers	Percentage of asset managers*	Approach	Description
7	9%	**Strong approach**	Strong proactive approach covering a range of salient human rights issues, as well as strong processes in place for identifying areas for reactive engagement. Engagement strategy looks to address salient human rights impacts, maximise positive impacts, as well as considering material financial human rights risks and opportunities.
7	9%	**Good approach**	Some examples of proactive engagement, as well as strong processes for identifying opportunities for reactive engagement. Focusing to some degree on salient human rights impacts as well as material financial human rights risks and opportunities.
15	20%	**Reactive approach only**	Have processes in place for identifying areas for reactive human rights related engagements. Focusing on managing human rights related risks to investment portfolio, little consideration of salient human rights impacts.
46	61%	**Weak / no approach**	Little evidence of structured engagement on human rights. Engagement on human rights limited to responding to severe and repeated breaches of human rights violations at investee companies where financially material.

* Percentage breakdown sums to 99 per cent due to rounding

3.2 – Supply chain due diligence is the most common human rights-related engagement topic.

Figure 5 – Asset managers' most common engagement priorities

Engagement priorities	Percentage of asset managers identifying engagement priority
Supply chain due diligence	<25%
Gender	
Workforce conditions (safety/overtime)	
Wages	
Improving human rights-related disclosures	
Microfinance, social entrepreneurship	
Privacy rights	
Governance of human rights risks	>1%

→ Darker colours indicate greater frequency of engagement theme among asset managers

As can be seen in Figure 5, asset managers identified a number of different engagement priorities. The most frequent is supply chain due diligence, with 19 asset managers identifying this as a human rights-related engagement priority.

It is positive to note that five out of the seven managers in the strong approach category outlined in finding 3.1. identified supply chain due diligence as an engagement priority highlighting that some managers are carrying out supply chain due diligence on investee companies proactively.

FINDING 4 – The majority of asset managers lack commitments on human rights in their voting policies.

4.1 - The majority of asset managers' voting policies lack commitments on human rights due diligence, remuneration structures and non-discrimination.

In Part I of this report series, we analysed asset managers' proxy voting policies. The full findings can be viewed in chapter 2 of the report, including a voting case study on a human rights resolution at Tyson Foods. Below are some key points relating to human rights from that section of the report.

While 53 per cent of the surveyed asset managers report that their voting policy covers human and labour rights, few make specific voting commitments in this area.

Only around 12 per cent of asset managers' voting policies include an acknowledgement of investee companies' responsibility for upholding human rights and a commitment to vote for resolutions calling for improvement of due diligence in this area.

Metrics, assessment and integration

FINDING 5 – Asset managers generally rely on third party data providers, with few adopting indicators for proprietary assessment.

5.1 – 70 per cent of asset managers rely on external data providers for ESG data.

Figure 6 – Assessment tools being used by asset managers

The majority of assessed asset managers rely on external data providers for human rights data for integrating human and labour rights into investment decision-making and stewardship practice, while 15 managers have a proprietary methodology or platform which integrates data from third parties.

Leading asset managers are integrating third party data in proprietary platforms and assessing impact in line with goals and frameworks, such as the SDGs. Leaders in this area are also working to tackle data limitations by supporting reporting initiatives such as the Corporate Human Rights Benchmark, Investor Alliance on Human Rights, the UNGP Reporting Framework, and the Workforce Disclosure Initiative, and, where possible, integrating data into proprietary assessment tools.

5.2– Only six asset managers show evidence of conducting proprietary assessment of investee companies on specific indicators relating to human and labour rights.

Figure 7 - Human and labour rights indicators

Labour issues	Common indicators
Collective bargaining	Workforce unionisation
Diversity	Workforce diversity
	Gender pay gap data
Human capital	Staff training hours
	Staff turnover
Occupational health and safety	Workplace injuries/fatalities

Asset managers are collecting data on specific human and labour rights indicators, either through in-house research or in collaboration with external partners to inform their assessment of investee companies' performance on human and labour rights issues. The indicators identified by the six asset managers who reported them can be seen in Figure 7.

Recommendations

The recommendations in this section cover the human rights-related topics covered in this report. In Part I of this report series, we made recommendations covering asset managers' general approach to responsible investment. The report can be viewed here.

In Part III and Part IV of this report series, we will make recommendations specific to climate change and biodiversity. To keep up to date with our research, sign up to our mailing list here.

For asset managers

Recommendations in the context of this report:

The findings of this report show that overall the asset management industry has an inadequate approach to managing human rights-related risks and impacts. While there are pockets of leadership with some asset managers taking steps to address the human rights impact of their investments, the majority of asset managers appear to address human rights in an ad-hoc and reactive fashion, and only where they consider it to be financially material.

In the coming months, we will seek to work with asset managers to provide resources and tailored recommendations to aid improvement in this area.

Strategy

- Develop a human rights policy covering all assets under management in line with international frameworks on human and labour rights, including specific commitments to:
    - Exclude companies involved in human rights breaches in line with international frameworks
    - Exclude controversial weapons in line with international conventions
    - Exclude sovereign bonds issued by countries involved in human rights abuses, such as those under sanction by the UN Security Council and European Union
    - Carry out due diligence on companies' salient human rights impacts

Risk & impact management

- Develop a comprehensive and proactive engagement programme on human rights that aligns with international frameworks, including strong processes for identifying areas for proactive and reactive engagement
- Engage with index providers to screen for controversial weapons companies and other salient human rights impacts
- Strengthen voting policy to include specific guidance on human rights due diligence, remuneration structures and non-discrimination
- Agree investment objectives addressing negative human rights impact with asset owners
- Support initiatives calling for mandatory human rights due diligence, such as the Investor Alliance on Human Rights

Metrics, risk assessment and integration

- Develop processes for assessing investee companies' performance on human rights incorporating relevant indicators and metrics
- Develop processes for integrating human rights into investment decisions and stewardship practices based on company assessments
- Support and collaborate with reporting initiatives on human and labour rights

For asset owners

Given the poor performance overall by asset managers in managing human rights risks and impacts, asset owners should use their influence to ensure their managers are adequately accounting for these concerns in their approach. In part I of this report series we made general responsible investment recommendations which cover human and labour rights.

For policymakers

It is clear that without comprehensive regulation on human rights due diligence and reporting, investors are left in the dark as to their role in addressing negative human rights impacts. More often than not, human rights concerns are therefore overlooked. Asset managers require clear guidance as to what the legislative human rights expectations on them as companies and investors are.

Recommendations in the context of this report:

- Introduce or strengthen legislation for mandatory human rights due diligence and reporting for companies, with a focus on how to make this decision-useful for investors as well as other stakeholders
- Clarify and strengthen investors' legal duties to ensure that they consider the risks and impacts of issues such as human and labour rights
- Introduce or strengthen regulation to close loopholes in permitting investment in controversial weapons companies, and sovereign bonds issued by countries involved in human rights violations

Appendix

Figure 8: Ranking of the world's largest asset managers based on their approach to responsible investment, with a human rights performance heat map (for full ranking see Part I of the report series, available here).

Rank	Asset manager	Rating	Responsible investment governance	Human rights
1	Robeco	A		
2	BNP Paribas Asset Management	A		
3	Legal & General Investment Management	A		
4	APG Asset Management	A		
5	Aviva Investors	A		
6	Aegon Asset Management	BBB		
7	Schroder Investment Management	BBB		
8	NN Investment Partners	BBB		
9	M&G Investments	BBB		
10	PGGM	BBB		
11	AXA Investment Managers	BBB		
12	HSBC Global Asset Management	BBB		
12	Nordea Investment Management	BBB		
14	La Banque Postale Asset Management	BB		
15	Amundi Asset Management	BB		
16	Aberdeen Standard Investments	BB		
17	Bank J. Safra Sarasin	BB		
18	Allianz Global Investors	BB		
19	DWS Group	B		
20	BMO Global Asset Management	B		
21	Nuveen	B		
22	Pictet Asset Management	B		
23	Union Investment	B		
24	PIMCO	B		
24	Alliance Bernstein	B		

Heat-map key: section percentage scores*

- 87.5 > 100
- 75 > 87.5
- 62.5 >75
- 50 > 62.5
- 37.5 >50
- 25 > 37.5
- 12.5 > 25
- 0 >12.5

Rank	Asset manager	Rating	Responsible investment governance	Human rights
26	Columbia Threadneedle Investments	CCC		
27	Asset Management One	CCC		
28	Ostrum Asset Management	CCC		
29	Swisscanto Invest by Zürcher Kantonalbank	CCC		
29	Caisse de dépot et placement du Québec (CDPQ)	CCC		
31	Investec Asset Management	CC		
32	Nomura Asset Management	CC		
33	Generali Investments	CC		
33	UBS Asset Management	CC		
35	Wellington Management	CC		
36	Nikko Asset Management	CC		
37	Manulife Investment Management	C		
38	Eurizon Capital	D		
39	State Street Global Advisors	D		
40	Insight	D		
41	Royal London Asset Management	D		
42	Baillie Gifford	D		
43	Fidelity International	D		
44	RBC Global Asset Management	D		
45	GAM Investments	D		
46	Invesco	D		
47	BlackRock	D		

* Colours on the heatmap correspond with the number of points scored in each section relative to the maximum available number of points for that section.

Rank	Asset manager	Rating	Responsible investment governance	Human rights
48	Sumitomo Mitsui Trust Asset Management	D		
48	Northern Trust Asset Management	D		
50	Mitsubishi UFJ Trust and Banking Corporation	D		
51	MFS Investment Management	D		
52	China Asset Management Company	D		
53	Goldman Sachs Asset Management	D		
54	Lyxor Asset Management	D		
55	Macquarie Asset Management	D		
56	Franklin Templeton Investments	D		
57	Swiss Life Asset Managers	D		
58	Capital Group	D		
59	Deka Investment	D		
60	SEB	D		
61	Janus Henderson Investors	D		
62	PGIM Fixed Income	E		
63	T. Rowe Price	E		
64	Santander Asset Management	E		
65	Eastspring Investments	E		
66	Bradesco Asset Management (BRAM)	E		
67	MEAG	E		
68	Mellon Investments Corporation	E		
69	Vanguard	E		
70	Dimensional Fund Advisors	E		
71	J.P. Morgan Asset Management	E		
72	Credit Suisse Asset Management	E		
73	Fidelity Investments (FMR)	E		
74	MetLife Investment Management	E		
75	E Fund Management	E		

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Any notifications of changes, information or clarification not drawn to ShareAction's attention prior to the deadlines are not included in the report. Asset managers who did not respond were informed of the answer options selected for them by email and were given the opportunity to comment or make additional disclosures.

About ShareAction

ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

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