INVESTOR ALLIANCE FOR HUMAN RIGHTS

Making Finance Work for People and Planet

The undersigned investors, representing $1.9 trillion in assets under management, believe that the investment system has the potential to contribute to achieving the ambitious vision laid out by the 2030 Sustainable Development Agenda. Yet, doing so requires that environmental, social and governance (ESG) factors, including human rights, are incorporated throughout the investment lifecycle in order to assess and mitigate the real and potential adverse impacts of investments on people and planet. We therefore call on:

- **Investors to set up and carry out robust due diligence processes to manage risks to people and the environment; and**
- **Governments to support investor due diligence through better regulation of financial systems.**

We are at a point in time where both people and planet face severe challenges, including: catastrophic food and water shortages and displaced populations due to climate change, some 40 million people living in situations of modern slavery,[1] half the world lacking access to essential health services, and technology being weaponized against democracy. Therefore, it is vital that investors are able to identify whether the projects or companies they are investing in might have negative impacts on human rights and sustainable development, and then contribute to preventing and mitigating those impacts.

Responsible investors realize this. For example, in December 2018, more than 70 large Dutch pension funds with combined assets of almost €1.2 trillion signed a covenant with NGOs, trade unions and the Dutch government committing to worldwide cooperation aimed at promoting sustainable investment based on respect for human and labor rights.[2]

Today, ESG investing is estimated at over $20 trillion in AUM, having increased exponentially over the past years, but it still represents only a quarter of all professionally managed assets around the world.[3] This shows that while an ever-increasing group of mainstream investors are integrating ESG criteria into their decision-making, many institutional investors are still far from doing so.

Moreover, human rights risks remain widely neglected or underestimated,[4] even among those that do integrate ESG in their investment process. A 2018 United Nations report found that too many businesses and investors are ignoring their human rights responsibilities, while governments are failing to "regulate and lead by example." To help address this, the United Nations calls on investors to implement human

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[1] With 40 Million Forced into Modern Slavery, Third Committee Expert Urges States to Protect Rights of Women, Girls, Companies Must Remedy Violations, 2018: https://bit.ly/2Oj1McK

[2] More than 70 Dutch schemes back sustainable investment covenant, December 2018: https://bit.ly/2F7o1kV

[3] The Remarkable Rise of ESG, Forbes, 2018: https://bit.ly/2TpzoMu

[4] 2018 Research Report: The state of corporate sustainability disclosure under the EU Non-financial Reporting Directive. Alliance for Corporate Transparency Project (2019). https://bit.ly/2GKe6U7

rights due diligence as part of their own responsibility under the UN Guiding Principles on Business and Human Rights (UNGPs).[5]

Historically, due diligence has been used by businesses to describe a range of investigative processes carried out to identify risks to a company before entering into a business transaction. However, in relation to human rights and ESG risks, the term "due diligence" describes an ongoing risk management process in order to identify, prevent, mitigate and account for how a company addresses its adverse human rights impacts.

Due diligence as outlined by the UNGPs has been integrated as a key feature of the OECD Guidelines on Multinational Enterprises, and a growing number of countries, business associations, companies and NGOs have incorporated this framework into legislation, policy commitments and advocacy efforts.

Specifically for investors we recommend the sector specific process of due diligence as outlined in the OECD guidance document "Responsible Business Conduct for Institutional Investors – Key Considerations for due diligence under the OECD Guidelines for Multinational Enterprises" (2017).[6]

As fiduciaries, we believe that conducting due diligence to identify, assess and address ESG and human rights risks is not only our responsibility, but our duty. It makes good business sense as it helps achieve higher risk-adjusted returns and increases the robustness of risk management .[7]

A robust ESG due diligence framework can also be a valuable reporting and accountability tool that will help the financial community answer increasing demand from beneficiaries to know whether their money is being managed in line with their values.

For all investors to adequately manage and be fully accountable for ESG risks to stakeholders, we believe that a stronger legal framework is required. In this regard, we support the goals of the European Union's (EU) Action Plan on Financing Sustainable Growth, which called for the mainstreaming of sustainability issues (also referred to as ESG issues) in investors' risk management. We also note with enthusiasm recent developments indicating that the European Parliament and Council have reached a provisional political agreement on a new set of rules requiring European investors to carry out due diligence and disclose the steps they take to address the adverse impact of their investment decisions on people and planet.[8]

We call on the EU and all governments worldwide committed to advancing the 2030 Sustainable Development Agenda to take the necessary steps to ensure a sustainable financial sector that minimizes adverse impacts on people and the environment.

We also call on all investors to proactively incorporate ESG factors, including human rights, throughout the investment lifecycle in order to assess and mitigate the real and potential adverse impacts of investments to ensure finance really benefits people and planet.

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[5] Business dragging its feet on human rights and investors are watching, say UN experts, October 2018: https://bit.ly/2pXq1mX

[6] Responsible business conduct for institutional investors, OECD 2017: https://bit.ly/2Qu3c9n

[7] There is an increasingly wide range of research documenting the correlation between corporate attention to ESG and corporate financial performance. A good understanding of ESG risks facing portfolio companies helps manage potential financial impact on investment portfolios and avoid potential contribution to unlawful or unsustainable activities. Ruggie, John G. and Middleton, Emily K. *Money, Millennials and Human Rights — Sustaining "Sustainable Investing*. 2018: https://bit.ly/2NwgkH7; Cracking the ESG Code, Nordea Equity Research 2017: https://bit.ly/2SxXYqa

[8] Global Witness Celebrates Significant Agreement and Shift in Mind-Set from the EU on Investor Due Diligence: https://bit.ly/2HiUdD2; Disclosures relating to sustainable investments and sustainability risks: https://bit.ly/2tBZyx7

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ESG Portfolio Management GmbH

Ethos Foundation

Everence and the Praxis Mutual Funds

Fairepointe Capital

First Peoples Investment Engagement Project

Franciscan Sisters of Perpetual Adoration

Friends Fiduciary Corporation

Grey Nuns of the Sacred Heart

Heartland Initiative

Hermes Investment Management

Ircantec

JLens Investor Network

Newground Social Investment

Nia Impact Capital

NN Investment Partners

Northwest Coalition for Responsible Investment

Oxfam America

Priests of the Sacred Heart, US Province

Rathbone Greenbank Investments

Region VI Coalition for Responsible Investment

Regroupement pour la Responsabilité Sociale des Entreprises (RRSE)

Riverwater Partners

Robeco

School Sisters of Notre Dame Cooperative Investment Fund

School Sisters of St. Francis

Seventh Generation Interfaith Coalition for Responsible Investment

Shareholder Association for Research and Education (SHARE)

Sisters of Charity of St. Vincent de Paul of New York

Sisters of Charity, Halifax

Sisters of Charity Federation

Sisters, Home Visitors of Mary

Sisters of Mary Reparatrix

Sisters of Providence of Saint Mary-of-the-Woods, Indiana

Sisters of St. Francis Dubuque

Sisters of St. Francis Charitable Trust, Dubuque

Sisters of the Good Shepherd

Sisters of the Holy Cross

Sisters of the Holy Names of Jesus and Mary

Socially Responsible Investment Coalition

SRI Committee Racine Dominicans WI

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Sycomore Asset Management

Tri-State Coalition for Responsible Investment

Trillium Asset Management

Triodos Investment Management

United Church Funds

YCG Investments