International Labour Organization

PRI Principles for Responsible Investment

Imagine workers behind your investments or investees —

How can institutional investors contribute to workers across the world for their brighter future?

A Guide to "Business and Human Rights" for Institutional Investors

What Why How to address human rights through investment practices

Abridged Version

Purpose and expected behavioural change from this Guide

This Guide aims to inform Japanese institutional investors operating around the world with regard to trends in the field of "Business and Human Rights".

Specifically, it intends to raise the awareness of institutional investors, including asset owners and investment managers, to achieve responsible business conduct within investee companies.

Key target audience*1 and expected behavioural changes

1 Asset owners

(For example, public pension funds, corporate pension funds and insurance companies)

Asset owners should understand and support investment managers' efforts to respect human rights through their activities, as they are the first link in the investment chain.

2 Investment managers

(For example, mutual funds, investment advisers, GPs of PE and VCs*2)

Investment managers should understand the significance of addressing human rights through investment, and understand and encourage more effective and improved efforts by investee companies.

3 Investee companies

Investee companies are in a position to affect wide-ranging rights holders*3 through their value chains. As such, they should work to minimise adverse impacts on human rights and achieve corporate value growth through respect for human rights.

This Guide was compiled by the International Labour Organization (ILO) with the rightsholders' perspectives in mind, with the cooperation of institutional investors as the target audience.

This Guide intends to establish and encourage responsible investor conduct, focusing on human rights, which include those stipulated in the ILO Declaration on Fundamental Principles and Rights at Work (FPRW).

Under the leadership of the ILO, this Guide was compiled with individual rightsholders in mind and informed by expert insight. It was created in cooperation with the Working Group for Developing Awareness Raising Materials on Business and Human Rights for Institutional Investors, consisting of institutional investors that are this Guide's main target audience (see page 35).

Starting with examples of workers' rights, this Guide intends to facilitate an understanding of approaches to respecting broader human rights and encourage concrete action.

"Case Study" and "Questions" are included throughout this Guide to aid further action.

As fiduciaries entrusted with individual workers' assets that will build their future*4

Institutional investors manage assets in various ways; in particular, they manage a proportion of the remuneration of workers including company employees, temporary workers and freelancers. They manage assets deposited for their future through public pension funds, corporate pension funds and life insurance companies.*5

Workers are individuals who simultaneously play different roles in society, such as consumers and citizens.

By addressing human rights issues to encourage the sustainable growth of the investee companies, you not only fulfil a fiduciary duty but also help build the future of the trustors, including these workers.

*1 The main target of this Guide is institutional investors; however, it will also serve as a useful reference for their key stakeholders, including service providers such as securities companies, data vendors, ESG data providers, as well as those involved in financing and insurance underwriting.

*2 For example, General Partners (GP)s of private equity (PE) funds and investors who have shares in listed companies have different levels of influence on specific companies and approaches. However, this Guide summarises the common features of those actors.

*3 "Various rightsholders" refers to consumers, workers (for example, employees of the company, freelancers, employees of suppliers) and local residents, among others.

*4 For details of the sustainable growth of investee companies and fiduciary duties, refer to Principles for Responsible Institutional Investors «Japan's Stewardship Code» of 2014, as amended on 29 May 2017.

*5 Perspectives related to workers' capital in this Guide are based on the "Japan Decent Work 8 Index" compiled by RENGO-RIALS and Quick.

Business conduct and investment that transform risks to respect for human rights

Institutional investors can do the following:

1. Address human rights risks that can cause damage to corporate value.
2. Make efforts to respect human rights, potentially enhancing corporate value.
3. Encourage responsible corporate activities through investment, helping to create a sustainable investment value chain.

1 From human rights risks potentially harming corporate value

Human rights risks*6 emerge as business (management) risks, having an adverse impact on human rights (human rights violations), thereby potentially damaging corporate value.

see page 14

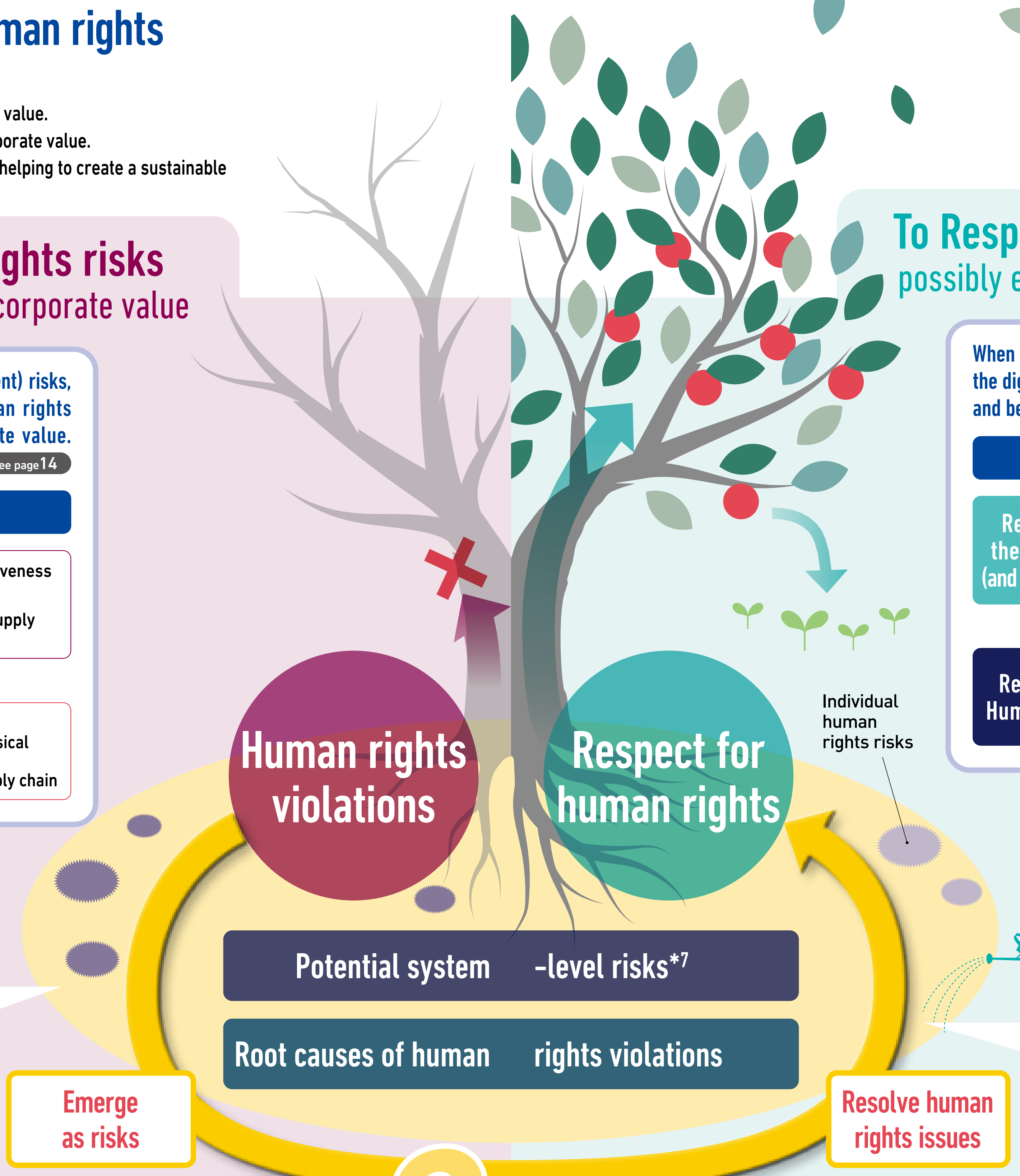
(Examples) **Workers**

Business risks	Loss of labour productivity and attractiveness as a workplace Labour–management disputes in the supply chain and suspension of operation
Human rights risks	For example, adverse impacts on the mental and physical health of workers due to workplace discrimination and overwork in the supply chain

If the underlying environment is left to deteriorate ...

Unless the root causes (see page 15) of human rights violations are addressed, the risk remains even if individual cases are resolved.

If the underlying environment allows repeated occurrence of such violations, they are likely to cause system-level risks for the entire market and society beyond individual cases.



2 To Respecting human rights possibly enhancing corporate value

When you respect human rights enhancing the dignity of individuals, it can lead to higher corporate value and better returns to society.

see page 16

(Examples) **Workers**

Returns to the company (and their value)	Enhancement of psychological security and labour productivity Bolstering of recruitment capability and creation of high-quality jobs
Respecting Human Rights	For example, promotion of diversity Dialogue for health, safety, and empowerment at work

If respect for human rights is encouraged with an understanding of the underlying environment

By understanding the root causes of individual human rights risks and encouraging human rights efforts based on the underlying work environment, you can avert system-level risks, enhancing the value brought in by individual workers essential to corporate activities and adding to corporate value and, eventually, to social sustainability.

3

By analysing the underlying environment, where the root causes of human rights violations are hidden, institutional investors can change the trajectory from human rights risks to respect for human rights and corporate value enhancement.

*6 "Human rights risks" refers to the "business enterprise's potential adverse human rights impacts" ("Commentary" to principle 17 of the Guiding Principles on Business and Human Rights). When assessing the risks, we need to consider the perspectives of rightsholders.

*7 For a definition of "system-level risks", refer to PRI et al., "A Legal Framework for Impact: JAPAN (Integrating sustainability goals across the investment industry)".

What, Why and How
for institutional investors addressing human rights

In order to bring about behavioural changes conducive to the enriching growth of companies and society, institutional investors need to understand What, Why and How to address human rights.

What? is "Business and Human Rights"?

The duty to protect universal human rights rests with the state, but companies are also required to fulfil their responsibility to respect human rights as they wield great influence on people through corporate activities.

They need to identify, prevent, mitigate and address issues to avoid an adverse impact on the human rights of workers, citizens and consumers.

The international community expects much from institutional investors in this regard. They have a big role to play, as institutional investors have not only a human rights responsibility as a company itself but also a strong influence on other companies through investment.

Why? should institutional investors address human rights?

While institutional investors are required to fulfil their responsibility to respect human rights, they also benefit from addressing this issue proactively.

1. **They can prevent and mitigate business risks from human rights violations in the investee companies, such as skilled labour flight and consumer boycotts, avoiding damage to corporate value.**
2. **Trust in the investee companies and customers' willingness to purchase their products will increase, and workers' human capital will be created. Such improvements may thereby enhance their corporate value.**
3. **Compliance with related laws and regulations in each country will increase the international competitiveness of the entire value chain of investee companies and institutional investors.**

How? should institutional investors address human rights?

Institutional investors are expected to take the lead in addressing the human rights issue and conduct investment and information disclosure with full consideration of human rights, leveraging insights obtained from their efforts to protect their employees' human rights at their organizations.

In the choices they make, institutional investors are expected to have human rights considerations tailored to each investment approach and take specific actions, such as utilising information and initiatives of third-party organizations and holding dialogues to understand the efforts of investees and encourage their further action.

Also, it can be beneficial to approach data providers, policymakers and other related parties to improve the enabling environment to facilitate human rights efforts.

Specific Actions

1. Top management commitment to establishing the framework to address human rights
2. Liaising between your own human rights efforts and investment
3. Investment informed by human rights considerations
4. Advocating for a better enabling environment to address human rights
5. Investor disclosure on human rights initiatives

Approach 3-3-a

Investment informed by human rights considerations

Effective questions to assess how companies address human rights

Dialogue using effective questioning is essential to assess and encourage investee companies to address human rights.

You may review their efforts on the three actions indicated by the Guiding Principles*27 as necessary for fulfilling corporate responsibilities towards human rights.

Below are examples of questions*28,*29 to put to your investees, focusing on the management structure and activities needed to address the three actions.

Human rights policy development and commitment

- Q How do the CEO and executive officers explain the importance of addressing human rights?
- Q Has the company assigned senior management and allocated budgets so that human rights issues can be addressed in a cross-departmental manner?
- Q How does your human rights policy encourage actions within the company?
- Q How do you inform related parties, such as group companies and suppliers, of your human rights policy? For example, have you translated the policy into other languages or conducted training seminars?
- Q Do you provide training programmes to deepen employees' knowledge of human rights issues?
- Q Do you allocate time to review past controversies and legal violations that you faced from a human rights perspective?
- Q Do you have any process for collecting and learning from case studies on human rights issues that typically arise in your sector?

Process of human rights due diligence

- Q What processes do you have to identify particular risks that you should prioritise?
- Q What difficulties do you face in identifying adverse impacts on human rights?
- Q How do you build relationships with stakeholders (including those facing potential risks of adverse human rights impacts, labour unions and non-governmental organizations) that are necessary for identifying and addressing human rights issues? Do you engage in dialogue with socially vulnerable people?
- Q How do you grasp the whole picture of your organization's value chain, including second-tier suppliers and beyond?
- Q What efforts do you make to build a cooperative relationship with your business partners to identify and address human rights issues throughout the value chain, in addition to conducting the usual surveys?
- Q What measures do you take to eliminate biases, stereotypes and company practices that may unintentionally cause and exacerbate human rights violations?

Reporting system and remedy process

- Q Do you have a designated department or process to respond promptly to human rights violations and issues detected within your organization and through the value chain?
- Q How do you ensure that a whistleblowing and grievance mechanism functions properly and allows easy access to rightsholders (for example, making it available in the local language of the rightsholders, or providing information on the mechanism to rightsholders most likely to need access)?
- Q How do you ensure easy access to such systems for people in vulnerable positions (for example, those who have suffered human rights violations such as harassment and forced labour)?
- Q How do you ensure whistle-blowers are informed of the procedure for processing a report up until the case is closed?
- Q How do you report internally and externally on how many complaints you had and how you dealt with them?

*27 For details of the three actions described in the Guiding Principles, please see Reference 4 on page 33.

*28 In creating the questions listed here, we referred to the OECD's "Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence under the OECD Guidelines for Multinational Enterprises", inputs from institutional investors, mainly from members of the Working Group for Developing Awareness Raising Materials on Business and Human Rights for Institutional Investors, and feedback from experts in the field of Business and Human Rights. For other useful items to develop effective questions, refer to the reference information on pages 30–34.

*29 In addition to the case studies and questions described in this document, refer to the "ILO Helpdesk for Business on International Labour Standards", which provides information on business development that is better aligned with the international labour standards and on the creation of good labour–management relations.

Approach 3-3-b

Investment informed by human rights considerations

Effective questions to analyse how companies assess and address individual human rights issues

Identifying individual and specific human rights issues and taking corrective action to address them are the keys to minimising adverse impacts on human rights.

As explained in CONTEXT 2 in the "What" section, human rights take various specific forms; challenges may materialise in different ways, depending on investees' sectors and regions.

Investee companies, as well as institutional investors for their own employees, are expected to address all the adverse impacts on human rights. If they cannot handle all of them at once, however, they are required to prioritise those areas with the most serious impact (principle 24 of the Guiding Principles).

As part of the human rights due diligence of investees, investors should check if, under their individual circumstances, they have identified human rights issues and causes that should be prioritised and if they are addressing such issues.

To conduct effective questioning, institutional investors themselves need to deepen their understanding and knowledge of individual human rights issues.

Instead of criticising companies whose human rights risks have been detected, investors are expected to assess and encourage such investees companies that have identified potential and actual human rights risks and are taking action to minimise adverse impacts.

Examples of questions for individual human rights issues *30

Q **(Non-discrimination and equal opportunity)**
How do you prevent migrant workers from being subjected to more unfavourable labour conditions and working environments than domestic citizens?

Q **(Remedying excessive and unreasonable working hours)**
How do you track the working hours of subcontractors?

Q **(Living wage guarantee)**
Do you track the dynamics between the actual and living wages in the region of your operations?

Q **(Freedom to choose an occupation)**
Are the actual labour conditions equivalent to those proposed before employment?
How do you monitor them?

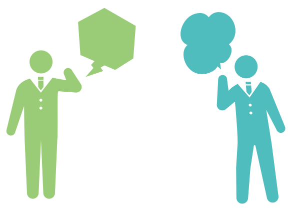
Q **(Occupational safety and health)**
Do you identify operational procedures that affect the safety of employees and inform them of such risk factors?

Q **(Right to social security)**
Are eligible employees guaranteed the coverage for social insurance and industrial accident compensation insurance, regardless of employment status?

Q **(Degrading treatment)**
Do victims and witnesses of degrading treatments (such as harassment) have easy access to consultation services? Further, do you have procedures to provide those affected with desired remedies?

Q **(Children's rights)**
Do you consider the impact on children in the processes of product design and advertising?

Q **(Right to privacy)**
How do you manage consumers' personal data?



*30 In creating the questions listed here, we referred to the OECD's "Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence under the OECD Guidelines for Multinational Enterprises", inputs from institutional investors, mainly from members of the Working Group for Developing Awareness Raising Materials on Business and Human Rights for Institutional Investors, and feedback from experts in the field of Business and Human Rights.
For other useful items to develop effective questions, refer to the reference information on pages 30–34.

To investee companies:
Three key messages from institutional investors

Business enterprises have a very significant role in respecting human rights.

This is because, in the context of Business and Human Rights, companies have the most direct relationship with the stakeholders whose human rights we need to protect.

This Guide delineates the actions expected from investors, highlighting how human rights efforts enhance corporate value from the perspective of institutional investors.

By continuously and practically implementing human rights initiatives and holding dialogues with investors, investees can garner support for further action from investors and create a virtuous cycle in the entire value chain.

Therefore, this Guide sets out three key messages for investee companies from the viewpoint of institutional investors.

1 Opportunities for systemic change in corporate customs, culture and organization

The CEO and top management can make a big difference in a company's action by correctly recognizing human rights issues and communicating this to the entire company.

Conversely, an entrenched corporate custom and culture can sometimes discourage people from speaking up for human rights, conceal adverse impacts and lead the company to lose its self-reforming capabilities.

Investee companies are expected to appropriately allocate business resources, address potential and actual human rights issues and actively disclose their prioritised actions and their effects.

In doing so, they should regard human rights dialogue with investors as an opportunity.

2 Transparent information disclosure, rather than proof of zero risk, is the first step to addressing human rights

Human rights issues such as forced labour or child labour include many cases that are deeply rooted in the structural challenges faced by the local community and are difficult to resolve solely by the efforts of individual companies.

Given this reality, a human rights report that claims a company has no actual or potential human rights violations throughout its operations and supply chain may sound somewhat unconvincing.

Therefore, on the premise that adverse impacts to human rights are likely to occur, investees are expected to identify the most relevant human rights issues through dialogue with stakeholders and fully disclose information on how they address these challenges and their effect.

Such transparent disclosure will enable them to take action to solve the problems, rather than ignoring them.

3 Human rights efforts can lead to corporate value enhancement

If you leave human rights violations unchecked without recognizing their adverse impacts, you may suffer consumer boycotts, skilled labour flight and legal disputes, lowering the company's corporate value.

Conversely, if you address these issues, you will gain loyal supporters in your community, avid fans and loyal customers and a stronger human capital pool within the company and through your suppliers, helping increase your corporate value.

Investee companies are expected to try to minimise human rights risks and engage in business activities with the idea of achieving corporate value enhancement by respecting human rights.

Managing human rights risks may prove difficult at first, but managing actual or potential risks will, over time, require lower costs and resources than trying to manage actual human rights violations.

Afterword

Thank you for reading through this Guide.

Companies' economic activities, which you are involved with as institutional investors, can improve people's standard of living and bring about economic and social progress by providing goods, services and values.

Without proper governance and codes of conduct, however, these activities increase inequality, harm the socially vulnerable and create a gap in society where economic and social resources are concentrated in particular populations at the expense of human rights.

In the business world, you are entrusted with funds from the current generation to be passed on to future generations. You have enough influence to contribute to increasing corporate value and bringing about further social development by respecting human rights and encouraging investees and their supply chains to do so through your investment, thus enabling workers worldwide to engage in meaningful and productive work.

Companies and supply chains that respect human rights through initiatives such as investment in people and diversity, equity and inclusion can create new values.

Furthermore, building on such values by creating a virtuous cycle through their business activities, they can help achieve inclusive social and economic advancement.

Lastly, the purpose of this Guide is to trigger behavioural change.

To achieve behavioural change, first, you need to take a small step in changing your existing mindset and behaviour.

Then, change a little more.

That is how you change the world.

There are always workers behind every investment choice you make.

You are entrusted with their future. As an institutional investor and an employee of a Japanese company, what will be your legacy to workers around the world and your children's generation?

"recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world"
(Preamble to the Universal Declaration of Human Rights)

The ILO Office for Japan is responsible for the wording of this Guide.

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From
the People of Japan

Abridged Version