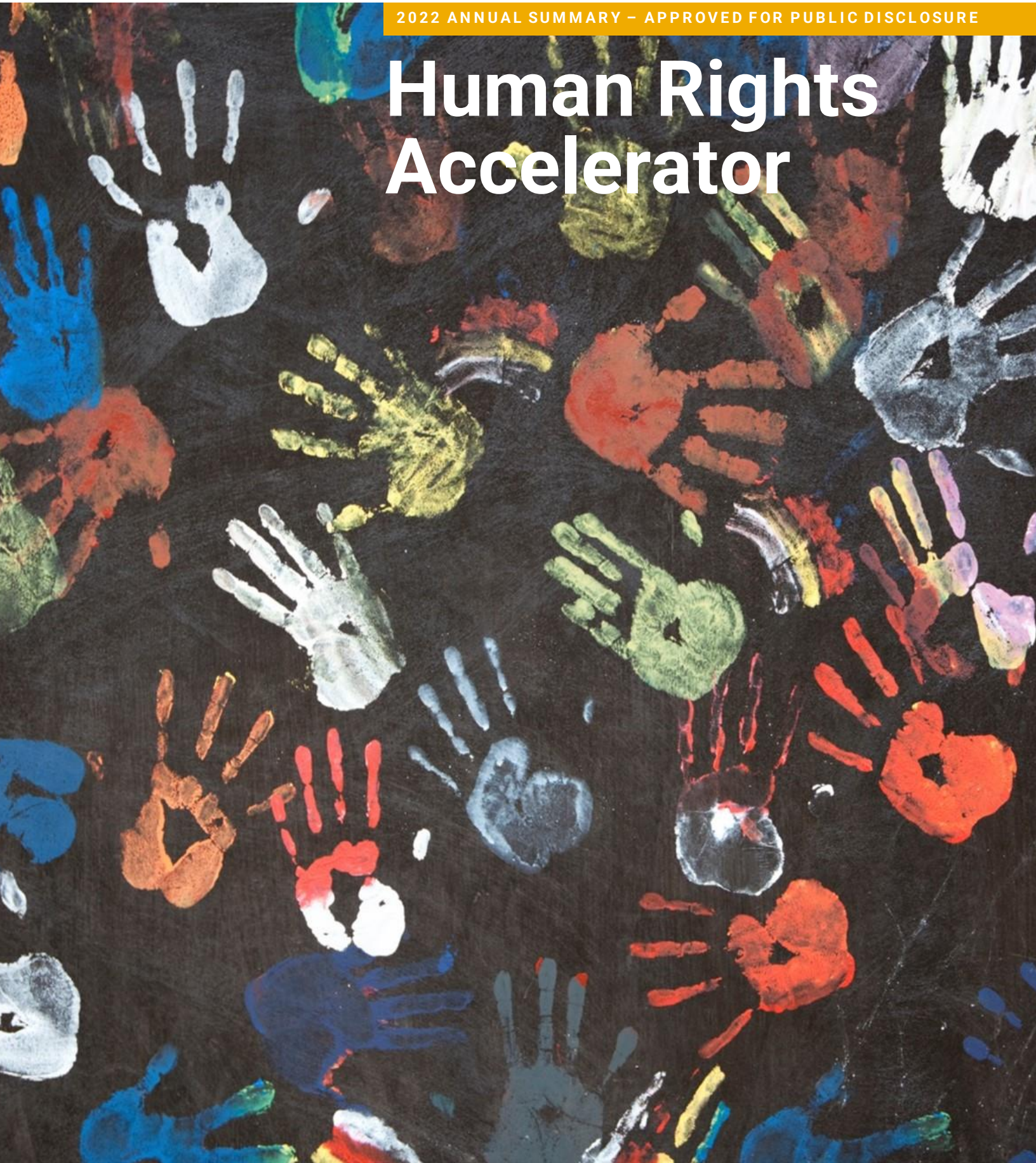


Human Rights Accelerator



Human Rights Accelerator Thematic Engagement

The main goal of the Human Rights Accelerator thematic engagement (**HRA**) is to accelerate companies' adoption, implementation, and integration of the United Nations Guiding Principles on Business and Human Rights (**UNGPs**). To achieve this goal, the HRA aims to establish dialogue with 20 companies in the mining, electronics, and cocoa sectors to meaningfully support the second decade of the UNGPs and to discuss sector specific issues such as child labour, livelihood, living income and living wages and community rights. April 2023 will mark the first full year of this three-year thematic engagement.

As per the UNGPs, companies have a responsibility to respect human rights, and to do so they must put in place management systems that prevent, mitigate and/or remediate these impacts. Not adequately addressing them can become operational, financial, legal, and/or reputational risks to companies and their investors, including delays, decreased productivity, order cancellations, lawsuits, fines, recruitment and retention challenges, limited access to capital, to name a few. In addition, investors have increasingly recognized fiduciary duties to assess and act upon longer-term risks such as human rights risks in making and managing investments. While there may be a "business case" for companies to respect human rights, many are moving beyond this narrative, positing that perhaps the fact that respecting human rights is the right thing to do is enough for companies to act.

Developments in 2022

The Russian invasion of Ukraine has been front of mind in 2022 for many companies for various reasons (presence in Russia, energy crisis etc.) and has brought to light how important it is for companies to have human rights due diligence processes and rights-based decision-making processes in place to be able to react with confidence and timeliness when quick decisions are necessary.

Companies are continuing to grapple with increased regulatory pressure on human rights in general, and requirements on disclosure in particular. Most prominent new and/or upcoming legislations include the [Uyghurs Forced Labour Prevention Act](#) in the US and the European Union's proposed [ban](#) on goods made with forced labour and [Corporate Sustainability Reporting Directive](#), and the [German Supply Chain Act](#). While companies overwhelmingly welcome the new regulations, with some communicating that regulatory changes mean more money being made available to deliver on their human rights commitments, companies have also indicated three unintended consequences:

- The conversation is increasingly moving to the legal team. This has meant a tightening of the flow of information a company is willing to report/share externally for fear of litigation.
- The approach to a company's responsibility to respect human rights is becoming more and more compliance driven, focused on risks and not impacts.
- The reporting burden itself is potentially taking resources away from "the actual work."

These developments have meant that some companies are genuinely interested to engage via the HRA to understand investors' expectations and to challenge their own current approach to human rights.

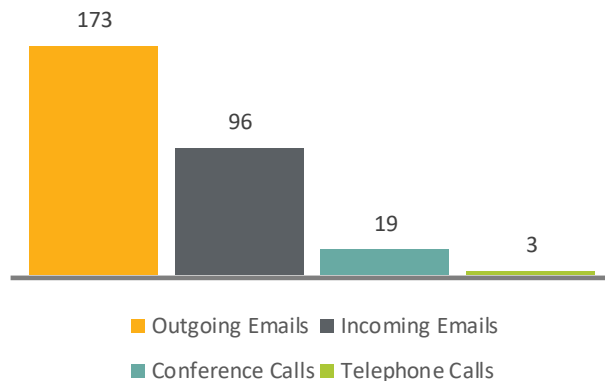
The year 2022 was also busy for the HRA with many external engagements to advance business and human rights topics beyond individual company dialogues. In February 2022, we joined the Informal Expert Group to support the OECD Centre for Responsible Conduct in developing guidance to business on living incomes and living wages in global supply chains. Being part of the working group allow us to share knowledge and good practices on two of HRA's Key Performance Indicators (**KPIs**). In March 2022, Sustainalytics coordinated a letter of endorsement by a large group of investors, with assets under management (AUM) of EUR 6.3 trillion, calling on companies to develop a roadmap on living income and living wages. In June 2022, Sustainalytics presented at the Living Income Summit, organized by IDH, to discuss new ways of collaboration to effectively close the gap to a living income and spoke on a panel at the University of Amsterdam Law School to discuss the anticipated impact of future human rights due diligence laws on corporate conduct. In November 2022, we organised an engagement event in Paris with the International Federation for Human Rights and the Forum for Responsible Investment (FIR) to discuss how to bring rights-holders at the centre of investors' engagement with companies. In December 2022, Sustainalytics spoke on a panel at the living wage summit, organized by IDH, on the role of investors and their influence through engagement.

Increasing our visibility in such events is an additional avenue we are deploying to trigger systemic change. Such collaborative efforts also allow us to accelerate change by understanding best practices, to be at the forefront of that change and to enable more effective engagement with companies in the HRA.

Engagement Update

Since its launch in April 2022, Sustainalytics reached out to 23 companies across the mining, electronics, and cocoa sectors. Those companies are geographically spread out across the globe, in terms of HQ locations and/or their reach through operations and/or supply chains. As you can see in our chart, we have had a lot of dialogues in 2022, including two in-person meetings.

Engagement Dialogues 2022



By the end of 2022, 13 companies were considered active in the HRA, of which a handful as part of the collaborative engagement by the PRI, the Advance Initiative. Sustainalytics is an active participant in the latter, selected to participate in both leading and supporting roles for five companies. This is an incredible opportunity for investors (220 in total) to come together to create and deliver engagement strategies to influence more responsible human rights & business practices. Engagement through this initiative is expected to start in Q1 2023.

As for the HRA, we aim to confirm a final list of 20 companies before the theme’s first anniversary in April 2023. The companies are mostly finalized for the mining and cocoa sectors. We will be escalating our engagement with companies in the electronics sector that have been either unresponsive or refused to engage with participating investors on human rights topics. We will use various tools to elicit a positive response and have preselected replacements should it be needed.

Company Performance

The HRA attempts to engage with 20 companies across three sectors. Every company is at a different stage of its journey to align with the UNGPs. We have established a KPI framework to measure each company’s and sector’s continuous improvement throughout the duration of the HRA:

- 3 KPI categories common to all three sectors (Human Rights Due Diligence, Livelihood and Living income, and Joint engagement); and
- sector specific KPIs: Fair Remuneration and Living wages (Electronics), Community Engagement and rights (Mining), Child Labour (Electronics and Cocoa).

As the HRA is in its initial phase, there is no meaningful progress to report yet for each engaged company, but it is expected once we have had more engagement opportunities. However, there are some observations we would like to share.

First, the UNGPs are often not understood well, their application is inconsistent, and companies, even those which have a commitment to align and respect human rights, do not necessarily have a strong sense on how to implement them and/or look to others in their sphere of influence to do the work first, e.g., suppliers. For instance, a company's purchasing practices are often the last frontier of a company's strategy to mitigate risks within its supply chain and there is often strong resistance to speak about purchasing practices being a catalyst for human rights violations down a supply chain. The reticence to discuss business models/purchasing practices/decision-making frameworks weakens the sense of integrity of a company's overall approach to respect human rights. There is an impression, sometimes, that there is an intellectual twisting of how things are done and decided so they fit both within a company's values, its human rights commitment and its growth and business imperatives. In practice, it is rarely effective in avoiding and remediating negative human rights impacts for those most vulnerable. This in turn runs the risk of eroding trust, including disclosures (with a pertinent question mark on what data is not disclosed).

Second, there is a low level of performance when it comes to fully embedding human rights risks/impacts within enterprise risk management frameworks, which signals silos that could impede transformational change.

A final observation relates to companies expressing a lack of resources to engage investors on their responsibility to respect human rights. External and internal stakeholders' consultation and communications is important for companies to demonstrate alignment with the UNGPs and engaging with investors is a good opportunity to better understand investors expectation and demonstrate greater alignment with the principles.

The year ahead

In 2023, we expect to engage with all 20 participating companies either in person or online and to be able to measure performance in a meaningful way across each KPI. Sustainalytics is also looking forward to starting collaborative engagement via the Advance Initiative, with hopefully plenty to report on for the next instalment of the HRA annual report.

About Morningstar Sustainalytics

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