
HOW CAN HUMAN RIGHTS ASPECTS BE INCORPORATED IN THE INVESTMENT PROCESS

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AGENDA

INTRODUCTION TO ESG

What is ESG? | History | Key Figures

HUMAN RIGHTS

Approaches and Definition

ESG APPLICATION IN INVESTMENTS

Introduction to MSCI and ISS ESG-Ratings |
Comparative Human rights Framework |
Drawbacks

APPLICATION PROPOSAL

Group Proposal



ENVIRONMENTAL



SOCIAL



GOVERNANCE

WHAT IS ESG?

INVESTMENT STRATEGY

- ESG investing means to invest in companies which care about sustainability and aim to change the world for the better
- To help an investor to find good investing options ratings and scores are made by research firms
- scores vary among firms
- especially younger investors are concerned about social and ecological issues and prefer often ESG investments
- basic expectation of investment remains profit

PRI- PRINCIPLES FOR RESPONSIBLE INVESTMENT

- Originates from the UN Secretary Kofi Annan in 2006
- One of the biggest ESG network corporations
- Initial goal: investors want to face social and environmental problems

1

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

2

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

3

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

5

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

6

Principle 6: We will each report on our activities and progress towards implementing the Principles.

DEVELOPMENTS ON ESG INVESTMENT

THE BOOM

Today, sustainable investing is an unstoppable force, with total assets more than doubling over the past seven years

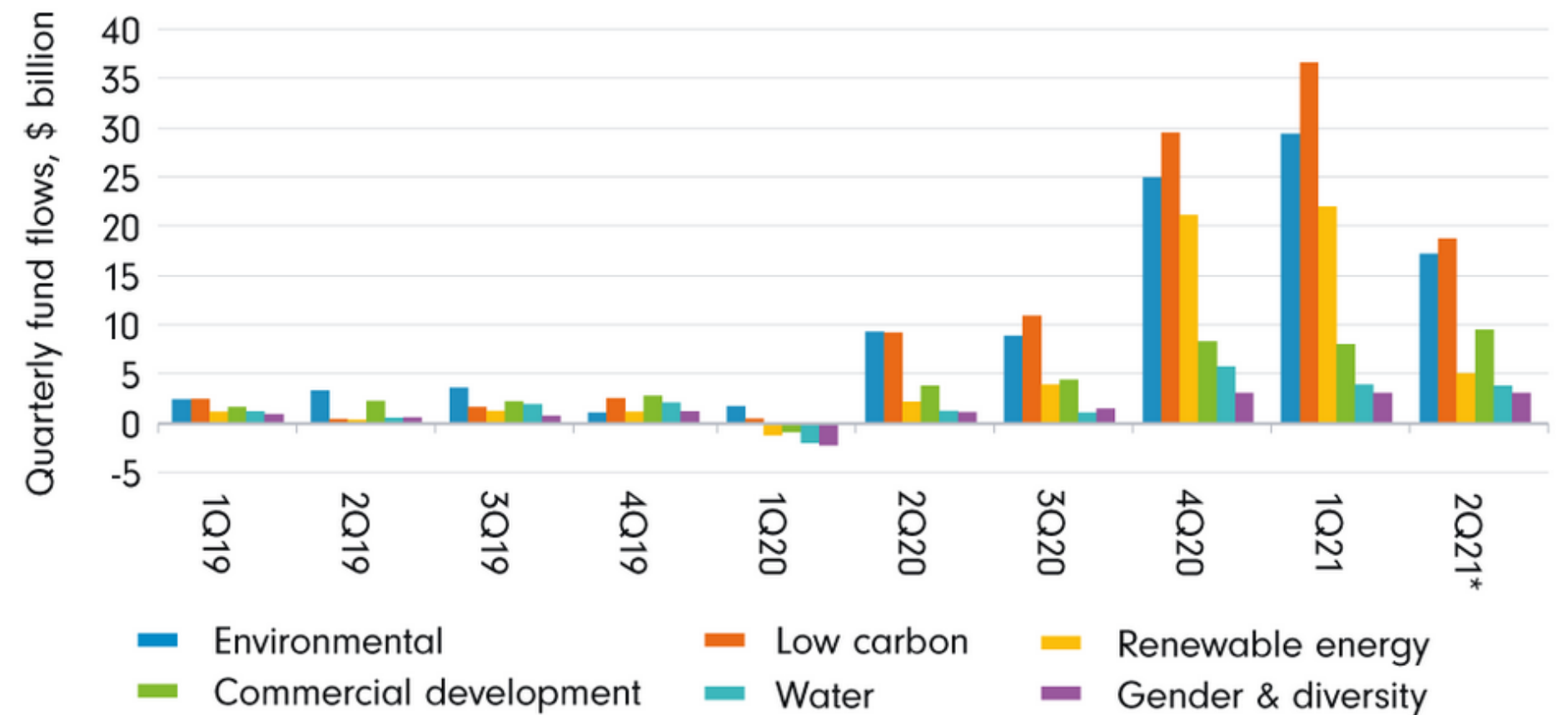


(Ghosh, 2020: <https://www.visualcapitalist.com/rise-of-sustainable-investing/>)

DEVELOPMENTS ON ESG INVESTMENT

THE BOOM

Chart 1. Sustainable investing is developing fast, with huge growth in environmental fund flows



Source: Morningstar, Goldman Sachs Global Investment Research, April 2021. *Only through April 2021.

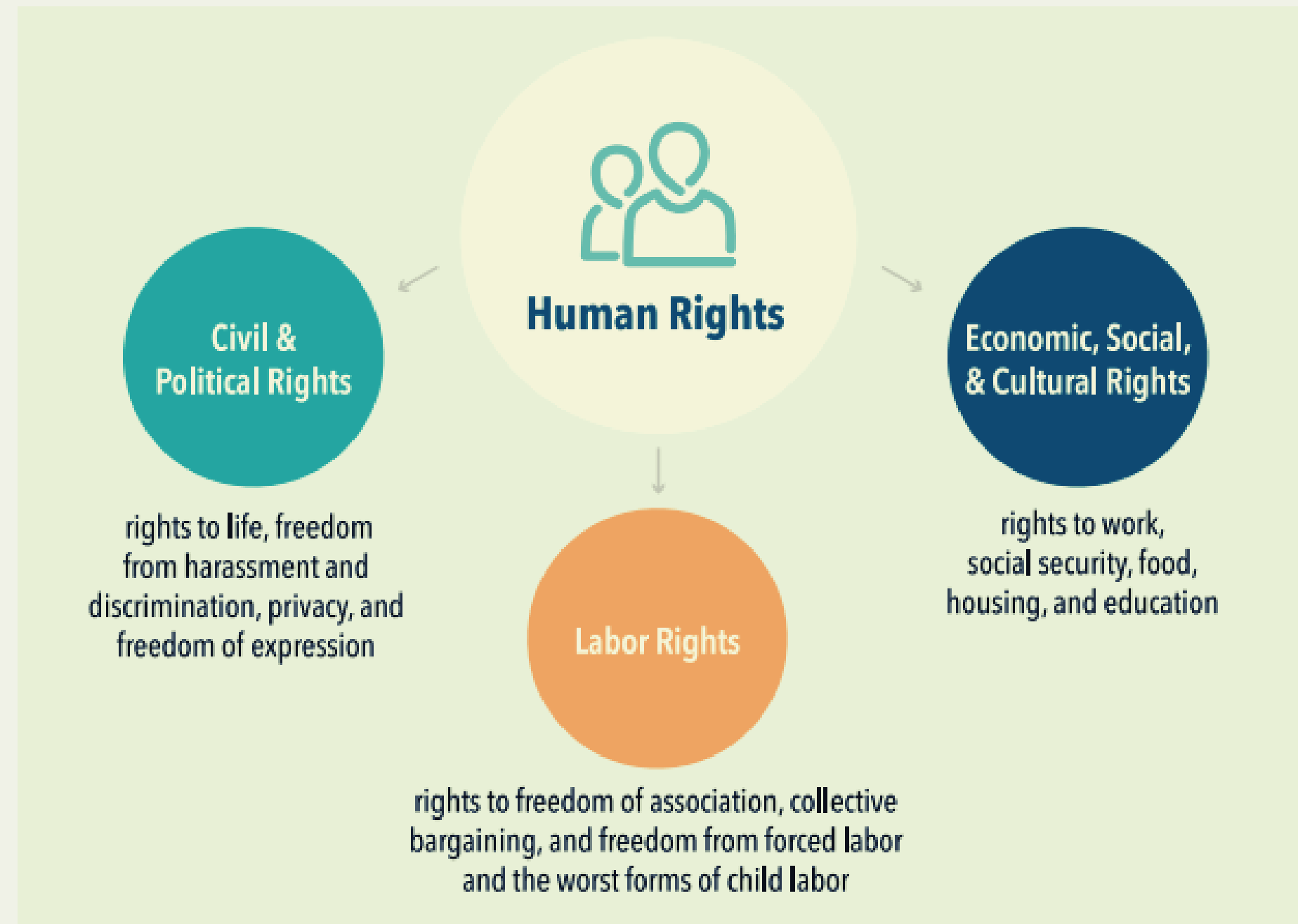
(Fidelity Institutional, 2021: <https://www.fidelityinstitutional.com/de-de/Pages/sustainable-investing-report-2021-introduction-time-to-step-up-1a59ea>)

HUMAN RIGHTS

DEFINITION

"rights inherent to all human beings regardless of race, sex, nationality, ethnicity, language, religion, or any other status"

(UN, 2022)



<https://www.unpri.org/download?ac=11953>



MUNICH RE

VOLUNTARY COMMITMENTS

- UN Global Compact
- Principles for Sustainable Insurance (PSI)
- Principles for Responsible Investment (PRI)
- Diversity Charter

- Promoting and observing the protection of internationally recognised human rights
- Making sure that the Group is not complicit in human rights abuses such as human trafficking
- Upholding the freedom of association and the effective recognition of the right to collective bargaining
- Advocating the elimination of all types of forced labour
- Championing the abolition of child labour
- Helping put an end to discrimination in hiring and employment

HOW CAN INVESTORS BE INVOLVED WITH HUMAN RIGHTS IMPACTS?

- Causing an adverse human rights impact through its own actions or omissions
- Contributing to an adverse human rights impact through its own activities, either alongside other entities or through external entities, such as clients or customers
- Being directly linked to an adverse human rights impact through its operations, products, or services via a business relationship, such as a portfolio company

ESG APPLICATION IN INVESTMENTS

Overview on MSCI & ISS

MSCI

Morgan Stanley Capital International
US american financial service provider

provider of critical decision support tools and
services for the global investment community

(MSCI, 2022)

ISS

Institutional Shareholder Services group of
companies

leading provider of corporate governance
and responsible investment solutions

(ISS, 2022)

MSCI



ESG RATING

ESG CONTROVERSIES

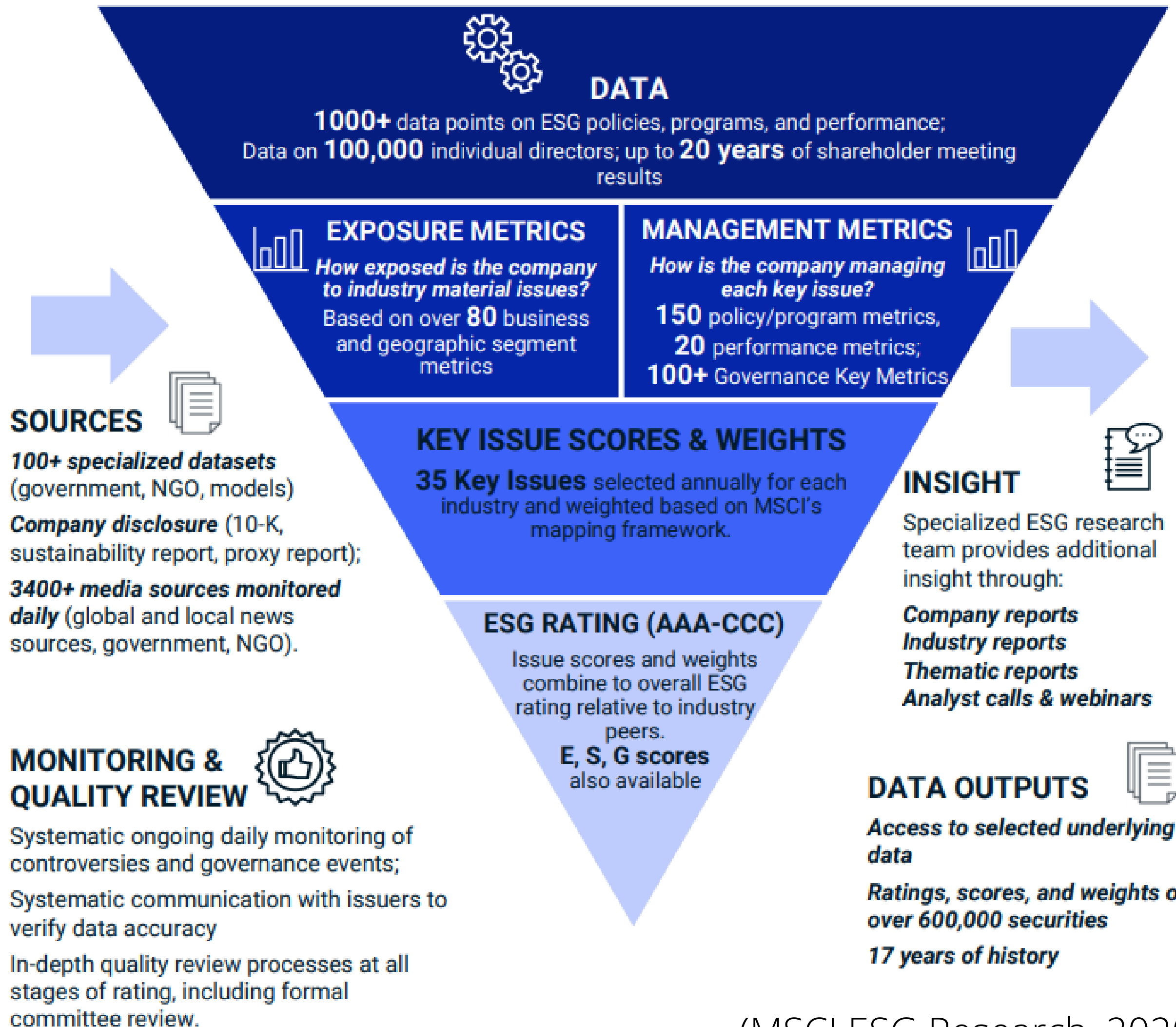
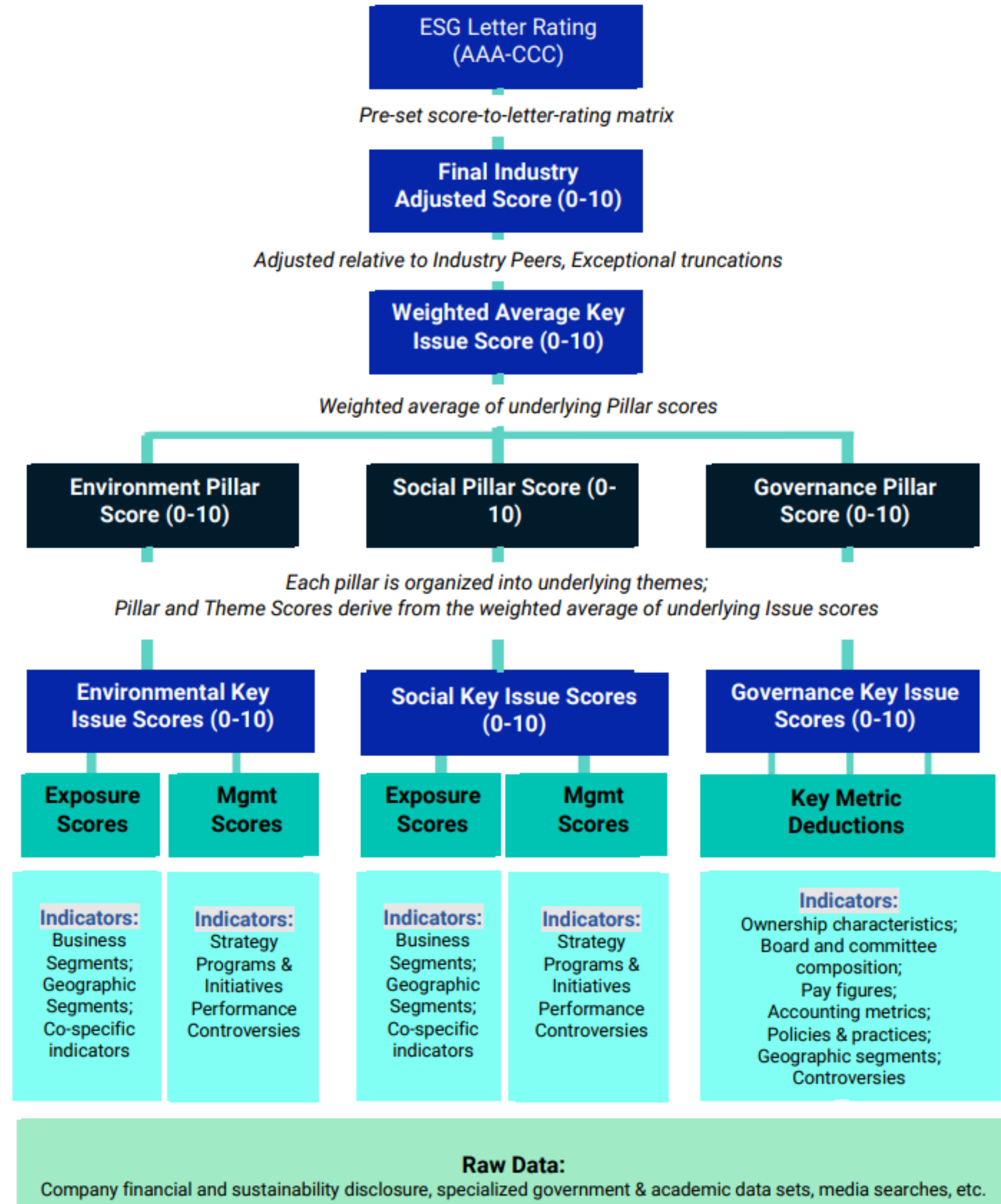


Figure 1 MSCI ESG Key Issue Hierarchy

3 Pillars	10 Themes	35 ESG Key Issues	
Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Capital	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green	Opportunities in Renewable Energy
Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing Community Relations	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opportunities in Nutrition & Health
Governance*	Corporate Governance	Ownership & Control Board	Pay Accounting
	Corporate Behavior	Business Ethics Tax Transparency	

* The Governance Pillar carries weight in the ESG Rating model for all companies.

Figure 7 Hierarchy of ESG Scores



Letter Rating	Final Industry-Adjusted Company Score
AAA	8.571* - 10.0
AA	7.143 – 8.571
A	5.714 – 7.143
BBB	4.286 – 5.714
BB	2.857 – 4.286
B	1.429 – 2.857
CCC	0.0 – 1.429

(MSCI ESG Research, 2020b)

MSCI ESG CONTROVERSIES

- assessments involving publicly traded companies and fixed income issuers
- analysts identify new controversy cases and update existing cases
 - company public documents
 - media sources
 - nongovernmental organization (NGO) publications
- regarding the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact.

MSCI ESG ANALYSTS DETERMINE

- The appropriate KPI (Key Performance Indicator) and sub-pillar that covers the controversy
- The severity of the case
- The status of the case
- The type of case
- Narrative for cases

ENVIRONMENT PILLAR	SOCIAL PILLAR			GOVERNANCE PILLAR
ENVIRONMENT	HUMAN RIGHTS AND COMMUNITY IMPACT	LABOR RIGHTS & SUPPLY CHAIN	CUSTOMERS	GOVERNANCE
Biodiversity & Land Use	Impact on Local Communities	Child Labor	Product Safety & Quality	Bribery & Fraud
Energy & Climate Change	Human Rights Concerns	Collective Bargaining & Unions	Anticompetitive Practices	Controversial Investments
Supply Chain Management	Civil Liberties	Discrimination & Workforce Diversity	Customer Relations	Governance Structures
Water Stress	Other	Labor Management Relations	Marketing & Advertising	Other
Toxic Emissions & Waste		Supply Chain Labor Standards	Privacy & Data Security	
Operational Waste (Non Hazardous)		Health & Safety	Other	
Other		Other		

(MSCI ESG Research LLC, 2020)

Figure 2: Controversy Assessment Framework



SEVERITY OF CONTROVERSIES

CONTROVERSY STATUS AND TYPE

type: structural or non structural

status: Concluded or Ongoing

SCORE FLAG



SCORE	SEVERITY	TYPE	STATUS
0	Very Severe	Non-Structural	Concluded
	Very Severe	Non-Structural	Ongoing
	Very Severe	Structural	Concluded
	Very Severe	Structural	Ongoing
1	Severe	Structural	Ongoing
2	Severe	Structural	Concluded
	Severe	Non-Structural	Ongoing
3	Severe	Non-Structural	Concluded
4	Moderate	Structural	Ongoing
5	Moderate	Structural	Concluded
	Moderate	Non-Structural	Ongoing
6	Moderate	Non-Structural	Concluded
7	Minor	Structural	Ongoing
8	Minor	Structural	Concluded
	Minor	Non-Structural	Ongoing
9	Minor	Non-Structural	Concluded
10	None	NA	NA

ENVIRONMENT PILLAR	SOCIAL PILLAR			GOVERNANCE PILLAR
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Other		Other		

(MSCI ESG Research LLC, 2020)

ISS ESG 


**"WE EMPOWER
INVESTORS AND
COMPANIES TO BUILD
FOR LONG-TERM AND
SUSTAINABLE GROWTH
BY PROVIDING HIGH-
QUALITY DATA,
ANALYTICS, AND
INSIGHT."**

ISS NORM-BASED RESEARCH

Research identifies corporate controversies and assesses how companies manage these controversies



KEY PILLARS OF ISS ESG'S NORM-BASED RESEARCH METHODOLOGY

- 
- A verification process that involves key stakeholder engagement
 - Qualitative insights that are garnered throughout the research process
 - Dynamic updating of assessments as developments occur

HUMAN RIGHTS FRAMEWORK

NORM AREA	THEMATIC AREAS	THEMES			
 ENVIRONMENT	Environmental protection	Pollution (General, Air, Soil, Water) Environmental impacts	Climate change impacts Opposition to climate change mitigation	Deforestation	Biodiversity
	Climate change	Climate change impacts	Opposition to climate change mitigation	(Deforestation)	(Biodiversity)
 HUMAN RIGHTS	Fundamental human rights	Indigenous rights Living standards Stakeholder consultation	Human rights due diligence Torture/inhumane treatment Military/security supplies	Right to health Right to life Right to privacy	Social discrimination Freedom of expression Self-determination
	Taxes	Taxes			
	Consumer protection	Consumer health & safety Consumer discrimination	Opposition to tobacco control Consumer privacy	Business-to-consumer conduct	
 LABOR RIGHTS	Modern slavery	Human rights due diligence	Torture/inhumane treatment	Forced labor	Child labor
	Child labor	Child labor			
	Forced labor	Forced labor			
	Union rights	Union rights			
	Workplace discrimination	Workplace discrimination			
 CORRUPTION	Labor standards	Working conditions	Workplace health & safety		
	Bribery	Bribery			
	Accounting / disclosure standards	Accounting / disclosure standards			
	Anti-competitive behavior	Anti-competitive behavior			
	Money laundering	Money laundering			

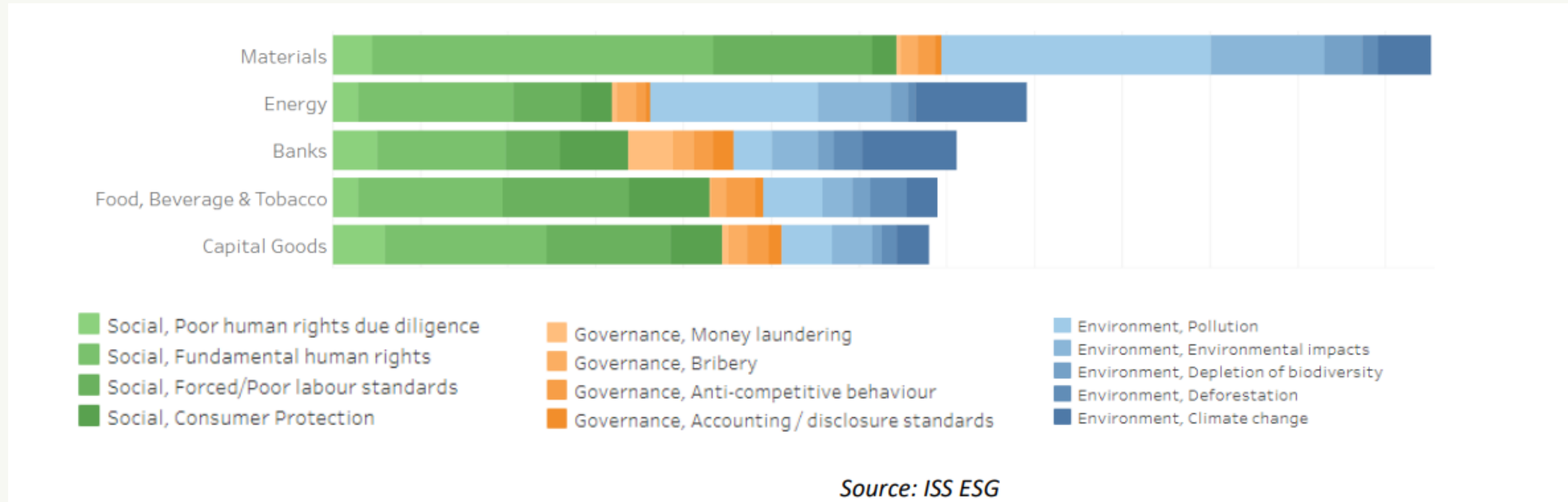
ISS ASSESSMENT SIGNALS & SCORES



ASSESSMENT SIGNAL	SCORE	DESCRIPTION OF ASSESSMENT CATEGORIES
● (Red)	10	Verified failure to respect established norms
● (Amber)	9	Imminent failure to respect established norms
	8	Alleged failure to respect established norms
	7	Verified failure to respect established norms, undergoing remediation
	6	Fragmentary information
● (Green)	5	Under observation
	4	Undergoing remediation
	3	Involvement beyond scope
	2	Past involvement
	1	(No allegation)

2021, ISS ESG

2021 TOP MOST EXPOSED INDUSTRIES



COMPARATIVE HUMAN RIGHTS FRAMEWORK

MUNICH RE

- UN Guiding Principles on Business and Human Rights
- the International Bill of Human Rights
- Declaration on Fundamental Principles and Rights at Work issued by the International Labour Organisation (ILO).

MSCI

- MSCI ESG rating
 - more differentiated in regards to human rights
 - Focus in general on environmental aspects
 - Total rating just in relation to other companies in the same section
- MSCI ESG controversies
 - norm based analyzing
 - KPIs are very vague formulated

ISS

- norm based research
- more detailed Human Rights Framework
- additional industry-specific topics
- In 2019, half of all reported ESG controversies captured by ISS ESG related to poor human rights due diligence

THE ESG MIRAGE

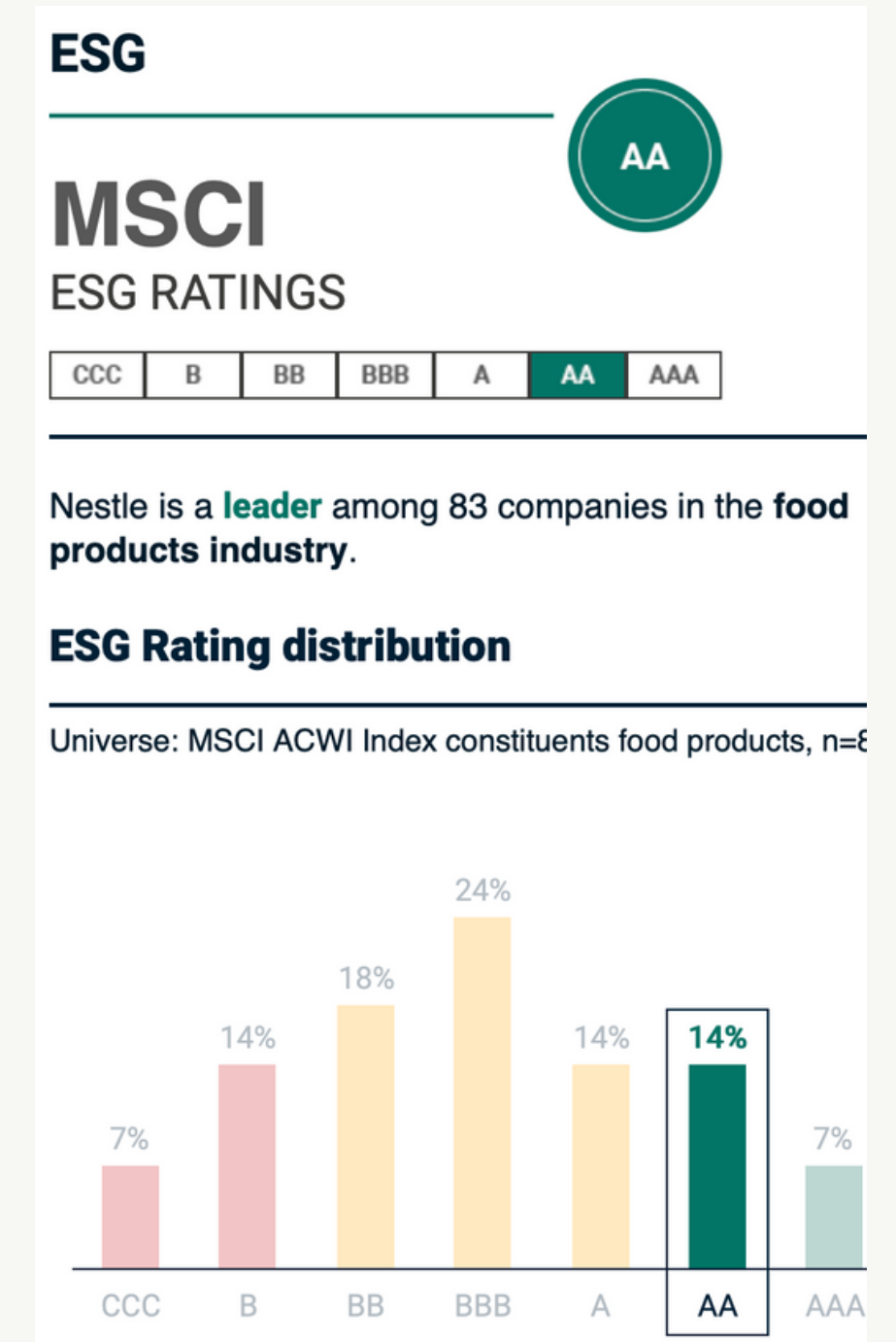
"IT IS 100% A DEFENSE OF THE FREE-ENTERPRISE, CAPITALISTIC SYSTEM AND HAS NOTHING TO DO WITH, YOU KNOW, SOCIALISM OR ZEALOUSNESS OR ANY OF THAT" - COP26, MSCI CEO HENRY FERNANDEZ



Drawbacks of the ESG ratings in investment:

- **Opaque and ambiguous system** that sometimes rewards the most rudimentary business practices. (e.g. simple sustainability commitments).
- Therefore the ESG ratings made by different companies can wildly differ from each other partly because there is **no standardised ESG** measurements.
- MIT: Little correlation between results of different rating agencies which leads to confusion to investors & companies as well.
- In MSCI's ESG rating system, companies are measured not against universal standards but against their industry peers. As a start an average company in each sector is worthy of a BBB (Middle) rating.
- When it comes to the ESG rating of companies for investors, these measure **financial significance of ESG issues** not the overall sustainability of a company.

MSCI Nestle ESG Rating

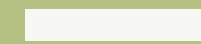


Source: MSCI ESG Ratings & Climate Search Tool 29

Drawbacks of the ESG ratings in investment:

- Environmental and social impacts of the supply chain are often not clearly considered when calculating the ESG ratings.
- **Scope 3** emissions often are ignored (e.g. in the case of MSCI) that constitutes the bulk of their greenhouse gas impact of a lot of global companies. (MCDonalds Scope 3 \approx 40x(Scope 1 + Scope 2))
 - *Scope 1 \approx GHG by the operations of a company (direct - by it's own facilities and operations)*
 - *Scope 2 \approx GHG by energy supply of a company (indirect - electricity)*
 - *Scope 3 \approx GHG by the supply chain (indirect - by suppliers, third party, transport etc.)*
- Besides of commitments of improving worker and human rights across the supply chain are also not taken into consideration, especially if these **don't pose financial risk** to the company.
- **Taxation blind spot:** activities like transfer pricing (Tax Havens) are properly factored in.

PROPOSAL



A SOCIAL TAXONOMY FOR HUMAN RIGHTS



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Proposal: A social taxonomy

- An **EU's Green Taxonomy-like** a regulated/standardised labelling system could be established where engagement in certain economic activities and sectors automatically are deemed "unsustainable" for investors unless there's competent and active management of the risks arising from these.

- Defining high risk economic activities, sectors and technologies in which the engagement is deemed "unsustainable" unless it's properly managed.
- Defining activities that contribute to mitigation and adaptation to climate change. Engagement in this is improving a company's sustainability rating.



- Along similar lines, high-risk sectors are selected that can be classified as socially sustainable provided they exercise a high level of human rights due diligence
- Engaging in activities having a positive social impact (e.g. housing, community building, needed infrastructure) could contribute to better sustainability rating.

Proposal: A social taxonomy



Forced Labour



Child Labour



Lack of Occupational
Health and Safety



Health Risks for
Communities



Land Conflicts



Personal Rights



Gender Discrimination



Sexual Violence



Threat to Food Safety



Impairment of traditional
lifestyles



Facilitating Conflict



Violating Indigenous
Rights



Human Trafficking



Corruption





Money Laundering



Violation of Labour Rights like no
contract, excessive working hours,
denial or obstruction of the right to
organise a trade union, no living wage

Responsibility

-  Human rights violations are a direct responsibility of the business
-  No direct responsibility, but an indirect obligation to thwart human rights violations

Proposal: A social taxonomy

- In order to achieve this the market should be regulated in a way that companies have to adhere to the same rules so that unsustainable economic activities become a competitive disadvantage.
- Acting along the lines of the UN Guiding Principles should be formulated and enforced on companies:
 - Establishing and maintaining a complaint procedure for workers down the line
 - Actively identifying, preventing, mitigating and remedying negative impacts on human rights
 - Adequate and frequent review & monitoring of these activities are required by the company and a supervisory authority
 - Make a difference between direct causality or indirect causality of human right violations via the supply chain but in every case expect the required due diligence.
- In order to make investments into non-sustainable labelled companies unattractive there could be a higher taxes introduced for investing in them. (E.g. Capital gains tax on the return of their stocks once)
- The role of companies and investors wanting to become truly sustainable today should be the advocacy & lobbying for such a system.

CONCLUSION

WHAT WE HAVE HEARD

What is ESG? | ISS and MSCI | Human Rights Framework | Drawbacks | Proposal

GROUP ASSESMENT

Useful concept | improvements must be made

NOW YOU:

Discussion

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Thank you for your attention



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