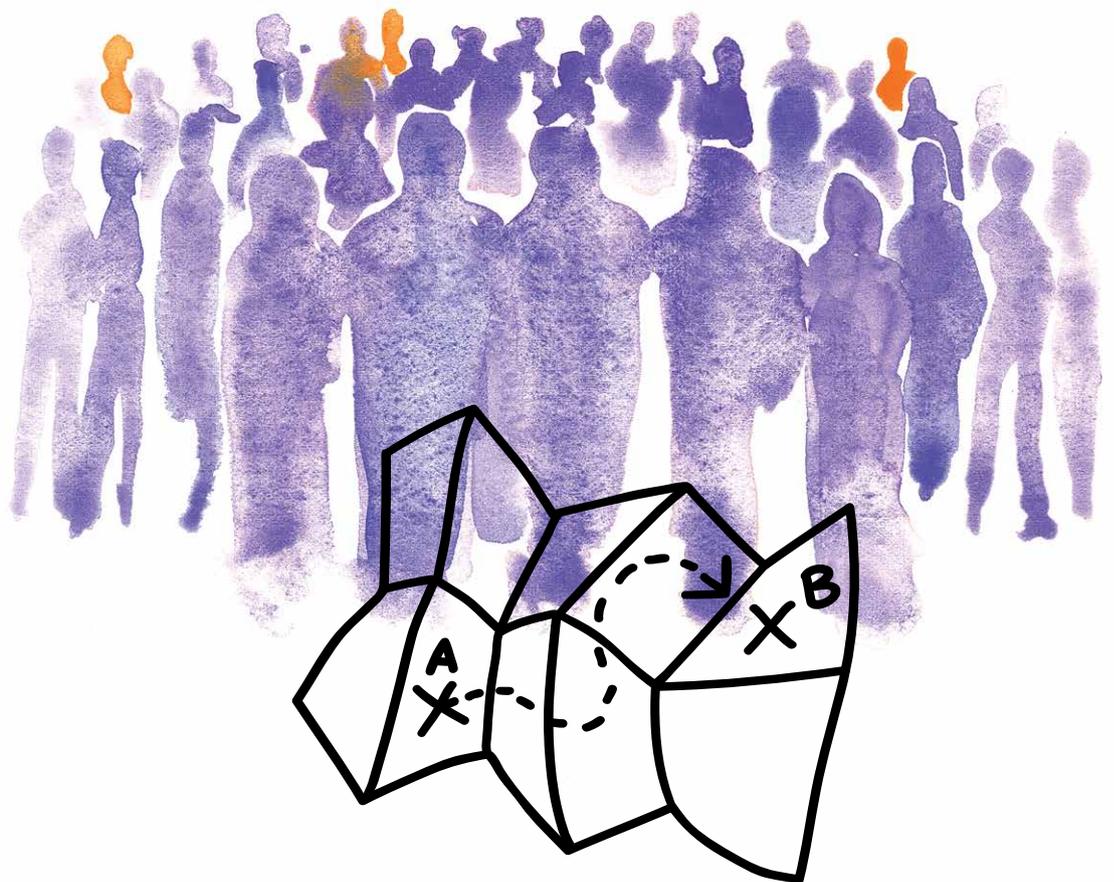


Investment Guidance paper on Human Rights

Supporting document to implement the RI Policy Framework

July 2016



Contents

1. Introduction	3
1.1 Background guidance papers	3
1.2 NN Group and human rights	3
2. Human rights and the role of companies	4
2.1 International framework	4
2.2 Companies and human rights	4
3. Human rights risk assessment	5
4. Sub-themes and emerging trends	7
5. Concluding remarks	10
Annex 1: Standards and guidelines	11

1. Introduction

At NN Group, we strive to conduct our business in a manner that is environmentally and socially responsible. This includes the respect of human rights. This guidance paper focuses on our approach to human rights in our role as an investor. It provides background on human rights and illustrates due diligence processes we apply. It further highlights relevant standards and principles to promote best practices of companies in which we invest.

1.1 Background guidance papers

NN Group adopted the [Responsible Investment Policy Framework](#) in 2014. This policy sets out the measures we take to responsibly invest our own assets, as well the assets that our customers entrust to us. We define Responsible Investment (RI) as the systematic integration of Environmental, Social, and Governance (ESG) factors into the investment decision-making and active ownership practices.

The RI Policy Framework states that we expect companies in which we invest to meet internationally recognised standards or industry best practices. An important guideline that we use to evaluate the social or environmental policies of the companies in which we (may) invest is the United Nations Global Compact. This is a set of ten principles for responsible corporate behaviour in four areas:

- Human rights
- Labour relations
- Environment
- Anti-corruption

For each of these areas, NN is developing papers, with the objective of providing internal guidance to our asset managers. These papers are also intended to be a basis for discussion between NN Group and our stakeholders. They are living documents that will be reviewed by NN Group regularly to ensure that they reflect evolving risks and best practices, as well as solidify our ongoing education on these topics.

1.2 NN Group and human rights

The basis of our approach to human rights is embedded in the [NN statement of Living our Values](#), which provides the foundation on which we do business. It states that we respect human rights, advocate equal opportunities and encourage diversity of thinking. It also states we avoid or responsibly manage any negative impact our business activities may have on people or the environment, and seek positive change in society.

When investing in companies, there is the potential that we are indirectly linked to challenging human rights situations. Implementing a process to systematically incorporate ESG considerations in investment analysis and active ownership practices will help us to identify, prevent and mitigate sustainability-related risks, including human rights risks. In addition, we believe such a process will support us in making better informed business decisions and in identifying sound and beneficial opportunities.

This paper starts by introducing the international framework and principles that are the foundation of human rights. This is followed by an explanation of how human rights risks relate to companies, sectors and industries and illustrates a human rights risk assessment that we performed. It further provides examples of sub-themes which we believe are important in relation to human rights.

2. Human rights and the role of companies

2.1 International framework

Human rights are rights inherent to all human beings, regardless their nationality, place of residence, sex, national or ethnic origin, colour, religion, language, or any other status. We are all equally entitled to our human rights without discrimination. These rights are all interrelated, interdependent and indivisible.

Human rights were first recognised internationally by the Universal Declaration of Human Rights (UDHR) adopted in 1948 by the United Nations. They are often expressed and guaranteed by law, in the form of treaties, general principles and other sources of international or national law. A key instrument of international human rights law is the International Bill of Human Rights.

The International Bill of Human Rights

The International Bill of Human Rights consists of generally recognised human rights which are set out in the Universal Declaration of Human Rights (1948) and its two legally binding documents:

The (1966) **International Covenant on Civil and Political Rights** (with its two optional protocols) (a.o. right to life, freedom from slavery and forced labour, non-discrimination, freedom of expression and association)

The (1966) **International Covenant on Economic, Social and Cultural Rights** (a.o. right to work, fair wages, safe and healthy conditions, join labour unions, health, education)

In addition to the International Bill of Human Rights, there are also standards developed by the International Labour Organisation (ILO), which are part of the international framework of human rights. This includes the eight core ILO conventions which are listed in Annex 1.

Along with the aforementioned declarations, there are many other standards and principles that refer to the protection of human rights of specific vulnerable groups such as children, women, disabled persons, indigenous people, and migrant workers; some of which are listed in Annex 1.

2.2 Companies and human rights

The primary responsibility to protect human rights lies with governments. However, there is a growing acceptance that companies have an important role to play as well. Companies can impact human rights in significant ways, both positively and negatively. They can promote human rights and raise standards for people across the globe by virtue of their business activities. However, they can also

have a negative impact when they are associated with human rights abuses committed by others, including state actors.

The UN Guiding Principles for Business and Human Rights, endorsed by the international community in 2011, are considered the global standard that sets out what companies should do to respect human rights. These principles rest on the three pillars of the UN 'Protect, Respect and Remedy' framework that Professor John Ruggie (the former UN Secretary-General's Special Representative on business & human rights) proposed to the Human Rights Council in 2008. These three pillars are:

- The State duty to protect human rights against abuse by third parties, including business, through appropriate policies, legislation, regulations and adjudication
- The corporate responsibility to respect human rights
- Greater access by victims to effective remedy, both judicial and non-judicial

To meet the responsibility to respect human rights, as set out in the second pillar, the Guiding Principles make clear that companies should have in place:

- A policy commitment to respect human rights
- Due diligence processes to identify, mitigate and account for human rights impacts
- Processes to enable the remediation of any adverse human rights impact

The Guiding Principles have played a key role in the development of similar standards and guidelines by other international organisations such as the OECD Guidelines for Multinational Enterprises and the UN Global Compact. They have also been incorporated in sector specific standards, such as the Equator Principles in the finance sector.

NN Group supports these views on the human rights responsibilities of companies and other entities as described by the Guiding Principles. We expect the same of the companies in which we invest. This means that we expect companies to adopt and implement appropriate policies and practices in their operations and supply chain to ensure that they meet internationally recognised human rights standards. Key actions will include, amongst others:

- have a policy commitment on human rights
- implement a due diligence process on human rights impacts, including remediation mechanisms
- integrate human rights criteria, where relevant, into the procurement process and in contracts with suppliers and contractors

3. Human rights risk assessment

A good understanding of the human rights risks will allow investors to identify investment risks and opportunities, and focus dialogue and engagement on the topics that are relevant to the companies in which we invest. While all companies are exposed to human rights risks, the type of risks that companies face, and severity of these risks, will differ depending on the sector and operational circumstances.

As a first step in assessing human rights risks, we looked at the human rights risks faced by key sectors, as summarised in Table 1. This analysis is based on an assessment of serious and systematic controversies using principles 1 and 2 of the UN Global Compact Principles as a guide:

- **Principle 1:** Companies should support and respect the protection of human rights; this principle is focused on direct violations and impacts, for example, related to their own workforce.
- **Principle 2:** Companies should make sure they are not complicit in human rights abuses; this principle is focused on issues arising from associations with human rights abuses that another company, government, individual or other group is causing.

As this analysis shows, the sectors at highest risk of human rights issues include the energy, materials, and industrial sectors. Most of these are issues related to:

- Health and safety issues
- Society and community incidents (e.g. complicity with the security forces, land grabbing and indigenous peoples' rights)
- Operations in high risk countries
- Social and environmental impact of products (e.g. incidents in palm oil plantations)
- Involvement in controversial weapons

This sector matrix, as prepared by the ESG research and data provider Sustainalytics, is not static as it is based on a holistic assessment of human rights impacts in dynamic environments. Furthermore, differences in scope and assessment methodologies may lead to other outcomes. Nevertheless, it shows that not all sectors are exposed to human rights risks to the same extent.

Table 1: Human Rights Sector Matrix

Sector	Human Rights Risks	
	Principle 1	Principle 2
Consumer Discretionary	Low	Low
Consumer Staples	Low	Low
Energy	High	High
Financials	Low	Low
Health Care	Low	Low
Industrials	Low	High
Information Technology	Low	Low
Materials	High	High
Telecommunication Services	Low	Low
Utilities	Low	Low

Notes: (i) This sector breakdown is based on the Global Industry Classification Standard (GICS). (ii) A darker colour indicates higher risk.

To further identify the human rights risks across the sectors and companies we invest in, we developed an internal tool, the 'Consolidated Human Rights Matrix'. This matrix contains various human rights dimensions mapping low, medium and high risks for 42 industry groups. This matrix was developed with input from the equity sector analysts from NN Investment Partners. In preparation of a workshop on human rights, they identified key human rights exposure risks based on Sustainalytics data on systemic and structural issues at the companies covered in these industries. Table 2 shows examples of the main human rights-related risks for several industry groups. We also identified examples of human rights opportunities.

Table 2: Examples of the Consolidated Human Rights Sector Matrix

Industries	Main human rights risks and opportunities
Oil & Gas producers	<ul style="list-style-type: none"> • Working conditions, particularly health and safety, both own operations and supply chain • Conflicts with local communities (land rights, indigenous and cultural rights, social risks related to environmental impacts such as pollution and water stress) • Complicity in human rights violations (e.g. through relationships with entities such as national and private security forces that may violate human rights) <p>Positive impacts: contribute to improving standard of living of local community (infrastructure, health, education, employment, etc.)</p>
Diversified metals	<ul style="list-style-type: none"> • Working conditions, particularly health and safety, both own operations and supply chain, and use of forced and child labour • Conflicts with local communities (land rights, indigenous and cultural rights, social risks related to environmental impacts such as pollution and water stress) • Complicity in human rights violations (e.g. through relationships with entities such as security forces that may violate human rights) <p>Positive impacts: contribute to improving the standard of living of local communities (infrastructure, health, education, employment, etc.)</p>
Food products	<ul style="list-style-type: none"> • Workers' treatment, particularly in the supply chain (unsafe conditions, low wages and long working hours, forced and child labour) • Impact on local communities: conflicts over land/ water rights, environmental impact of manufacturing processes which can lead to e.g. water stress • Product quality and safety for consumers <p>Positive impacts: contribute to tackling global nutrition challenges by e.g. producing healthier foods, ensure affordable pricing, and marketing and labelling products responsibly</p>
Pharmaceuticals	<ul style="list-style-type: none"> • Product quality and safety (consequences of product recalls for consumers), and false or deceptive marketing practices • Social impact of products (e.g. pricing concerns/access to healthcare) • Data privacy and security of supplier and consumer-information <p>Positive impacts: advancing research and science to improve global health, and contribute to access to medicine in developing countries</p>
Software & services	<ul style="list-style-type: none"> • Data privacy and security of end-user-information, call for more transparency on government surveillance • Working conditions, both in own operations and in the supply chain (unsafe conditions, low wages and long working hours and use of forced and child labour) • Product quality and safety for consumers and in the supply chain <p>Positive impacts: reducing the 'digital divide'</p>

Whilst the above analysis provides an overall materiality assessment on a sector and industry level, the ultimate human rights risks and opportunity profile will vary from company to company. Further analysis of human rights performance therefore needs to shift to the company level.

4. Sub-themes and emerging trends

In this chapter, we discuss several sub-themes which we believe are important in relation to human rights. These examples are based on gathered feedback, human rights standards, and sectoral guidelines.

There is not a sharp distinction between human rights and labour rights. For one, labour rights are often incorporated in human rights documents. We have chosen to discuss the issues of child and forced labour, amongst other, in a future paper on Labour Relations. Topics such as health and safety are approached in this paper more from the perspective of the impact on communities/society.

Health and safety

The consequences of work-related accidents, occupational health impacts and diseases are generally well understood and broadly considered to be a material social issue for many industries. Our internal analysis also indicated 'health and safety' as the most frequently mentioned human rights risk across industries. However, companies must be aware of these issues beyond their own workforce. They need to be aware of the risks and take a precautionary approach in protecting the safety and security of their products or operations in a matter that is consistent with human rights and remediate adverse impacts. Companies that fail to include a broader perspective may incur high (operational) costs, regulatory actions and law suits resulting in reputational damage. For example, when they are faced with a deterioration of the health of nearby communities of production locations, or when product safety and quality related accidents occur violating health and safety laws. The OECD Guidelines for Multinational Enterprises offers recommendations and practical guidance for companies on health and safety matters. We encourage companies to protect health and safety standards as broad as possible and also consider include the community rights concerning health, safety and security topics.

Children's rights

Children traditionally have been discussed in the corporate world mainly in relation to child labour, but the recognition

of companies' broader role in respecting and supporting children's rights has started to gain ground in recent years. One important catalyst for this was the Children's Rights and Business Principles released in 2012. These are a set of ten principles on how companies can positively impact the workplace, marketplace and community to respect and support children's rights. They are the result of collaboration between UNICEF, the UN Global Compact and Save the Children. NN Group welcomes these principles as they give us a clear idea of where and how businesses might impact children. Our view is that this is an area where companies will face increasing public scrutiny. In addition, companies that support children's rights integration into business can also stand to benefit from opportunities. It is therefore important for us in our investments to pay attention to this topic.

Land rights conflicts

Companies are investing in land as global demand for food, fuel, forests, and minerals continues to grow. Land rights are crucial to ensuring access to productive resources, which in turn is crucial for the realisation of the right to food. However, as the pressure for land resources continues to intensify, the human rights of vulnerable populations (such as small scale farmers or indigenous communities) may come at risk. In particular their fundamental right to property and effective remedy when violations occur. NN Group expects companies to prevent conflicts over land rights. When acquiring natural resources, companies should engage in meaningful consultation with local communities and obtain free, prior and informed consent (FPIC) of the land-users involved. FPIC refers to a process whereby affected people should be properly informed of the risks of a commercial development and have an opportunity to express a willingness to accept such risks, or not.

Indigenous people's rights

Indigenous people are so-called because they were living on their lands when settlers came from elsewhere. Indigenous people have often suffered as a result of business developments. There is now a widespread

Case: Engaging with extractive companies

Our asset manager, NN Investment Partners, currently participates in a working group of the Principles for Responsible Investments (PRI) on Human Rights in the Extractive Sectors (mining and oil and gas companies). Based on research by the working group, around twenty companies have been identified that have operations in countries where human rights are being violated or that could provide more transparency in their reporting about human rights policies and practices. The focus of this engagement is to encourage companies to improve the implementation of the UN Guiding Principles on Business and Human Rights and to improve the level of disclosure of human rights policies and processes. Topics addressed are focused towards gaining a better understanding of the companies' commitment to human rights, how human rights-related risks are being assessed, and how the company engages with local communities. Many extractive companies have operations in sensitive areas, which makes it even more important to thoroughly embed respect for local communities and human rights in the business processes.

international recognition that indigenous peoples have distinct rights and interests, and a growing expectation that these need to be respected by companies. The rights of indigenous people have been a particular focus in international standards, such as the UN Declaration on the Rights of Indigenous Peoples (2007). The principle contained therein on FPIC (refer to the issue 'land rights conflicts') is also of particular importance to respecting the human rights of this stakeholder group.

We expect companies to implement FPIC and grievance mechanisms when developing new projects affecting indigenous people.

Livelihood & standard of living

Business activity can enhance local communities' livelihoodⁱ and standard of living but can also have negative impacts. For example, concerns over water access and quality are one of the leading causes for community conflict. According to UN estimates, water scarcity affects more than 40 percent of the global population and is projected to rise.ⁱⁱ This poses significant challenges for water-intensive industries, for instance agriculture and mining. As such, companies that compete with local communities for the use of increasingly scarce water resources may suffer from operational risks and reputational damage over excessive water use or pollution. Those companies that are improving their management of water resources in their operations and throughout their supply chain will be best placed to mitigate related risks.

Security practices

It can be challenging for companies that operate in certain countries to maintain the safety and security of their employees and sites whilst ensuring respect for human rights. When companies make use of (public or private) security forces, they can unwittingly become involved in human rights abuses when these security forces use violence against local communities. There are various industry standards and practices that help companies to assess the human rights risks in these situations. The Voluntary Principles on Security and Human Rights (2000), for instance, offers guidelines to companies in extractives industries (oil, gas and mining) with respect to, amongst

others, their security practices. NN Group encourages companies in the extractives industries to adopt these principles, whenever they employ security forces.

Equal opportunity and non-discrimination

Companies have an impact on creating equal opportunities, for instance by paying particular attention to vulnerable and marginalised individuals and groups, as well as gender aspects. When companies discriminate in hiring practices, such as by not employing persons of a particular (ethnic) minority or any other status, they violate human rights and also forgo creating a society that supports diversity and inclusion. At NN Group, we believe that equality and diversity are vital factors for a sustainable and resilient society. This implies that everyone is able to participate in economic life across all sectors and throughout all levels of economic activity.

Also from an investor perspective, internal feedback confirmed that consideration of equal opportunity and diversity is of importance across industries which can improve productivity, help avoiding workplace complaints and customer engagement. Companies that pay more attention to these aspects are seen to be better able to manage human rights risks, but also to innovate and find new opportunities, thereby preserving and generating shareholder value. We therefore encourage companies to give priority to these aspects in their human rights approach. This includes having special attention for respecting the rights of women, especially to prevent discrimination and to improve gender equality, but also applies to other minorities such as migrant workers. Irrespective of local laws and context, companies can take actions to eliminate unfair treatment and discriminatory practices both within and beyond the workplace.

Data privacy and security

In an increasingly digital world, personal data is being collected about individuals at an astonishing rate. The building of enormous databases, also called 'Big Data', offers many opportunities to companies, with consumers benefitting from new services. However, it also brings with it new questions as to who should have access to these

Non-financial reporting on human rights

Companies are increasingly expected to 'know and show' that they respect human rights. This was also confirmed during our internal feedback process. An increasing number of non-financial reporting frameworks are emerging, some of which are mandated by legislation, related to human rights. If implemented, these strengthened disclosure frameworks and regulations have the potential to drive companies towards greater transparency, and better enable investors to identify companies that lag. NN Group therefore encourages companies to apply a reporting framework that addresses different aspects of non-financial performance, such as the Global Reporting Initiative (GRI) G4 Framework (including the sector specific disclosures) or the International <IR> Framework.

New reporting frameworks such as the UN Guiding Principles Reporting Framework provide a welcome addition and complement. This Reporting Framework helps to focus companies' reporting on their salient human rights issues. These are the human rights at risk of the most severe negative impact arising from the company's activities or relationships, such as their supply chain. For a company to identify its salient human rights issues it needs to focus on the risk to the individual rather than the risk to the business. This set of risks to human rights is however expected to converge strongly with risks to the business in the short, medium, and long term. This reporting will therefore also provide investors with a good basis to understand material issues.

databases, and to what extent the individual should have a right to know what information is distributed about them, to whom, and how it is used.

All customer-facing companies are exposed to risks associated with data misuse and privacy breaches. New data protection requirements are progressively being imposed by regulators and legislators. An example of this development is the new EU General Data Protection Regulation. Companies that do not take adequate measures to ensure that personal data is secure and handled appropriately may face operational, regulatory and reputational risks because of privacy breaches. For us as investors, transparency around companies' data management policies and practices is therefore important.

Because of the rapid pace of digitalisation, the business understanding (including our own) of how human rights may be impacted continues to evolve. Because of this complexity, we encourage companies to work together in establishing best practices in data management, for example through participation in multilateral initiatives, such as the 'Global Network Initiative' or the 'Electronics Industry Citizenship Coalition' for the ICT sector. We believe that those companies that understand customers' differing needs and expectations around privacy, and are proactive in empowering customers on controlling their personal information, will be better able to capture the digital opportunities and maintain customers' trust.

Operating in high risk countries or conflict-affected areas

The impact of governments violating human rights of communities in high risk countries or conflict-affected areas is a concern for us as an investor. If companies we invest in associate themselves with governments who are complicit in gross human rights abuses, they may expose themselves to serious reputational and financial threats. There is widespread consensus that companies operating in countries where governance is weak must conduct rigorous due diligence to mitigate their human rights risks. We expect companies to observe internationally recognised human rights standards and legislation. In addition, we expect them to enhance due diligence procedures and management oversight when they operate in or near conflict zones.

Arms and Controversial Weapons

We are concerned that the defence industry producing arms and controversial weapons can, as a global and much diversified industry, give rise to severe human rights violations. This is especially notable when weapons or related systems end up in countries where these can be

used to fuel armed conflict or for the purposes of internal suppression. If companies are selling arms to countries considered to be at high risk of violence against civilians, they risk complicity in human rights abuses.

NN group applies group-wide restrictions on controversial weapons and arms trade. Companies that demonstrably have activities in the trade of arms to central governments or non-state actors that are sanctioned by a UN, EU or US arms embargo are part of an exclusion list. This is also the case for companies that develop, produce, maintain or trade 'controversial weapons'. Weapons that we define as controversial include anti-personnel landmines, cluster munitions, depleted uranium ammunition, biological, chemical and nuclear weapons. More detail on our criteria and how we apply our defence restrictions can be found in our Defence Policy.

5. Concluding remarks

NN's Responsible Investment (RI) Policy Framework highlights the measures we will take to systematically integrate Environmental, Social, and Governance factors, amongst which human rights, in the investment decision-making and active ownership practices. NN Group will encourage our asset managers to use this paper as guidance to determine risks and opportunities and to engage in a dialogue with companies to address human rights-related risks that could in our view affect the value of investments. Where needed, we will support these processes with additional tools or guidance materials. This may include more detailed theme or sector policies for areas to be identified of high risk (e.g. the NN Defence Policy).



Best practice materials and tools, such as the Consolidated Human Rights Risk Matrix, are available for download for internal employees in the 'supporting materials' section of the NN Group intranet.

This paper is developed to help our asset managers in evaluating investments from a human rights perspective. By publishing this paper also externally, we aim to express our position and use it to leverage change in the sphere of our investment activities.

Annex 1: Standards and guidelines

List of international standards, principles, guidance and other tools consulted.

International standards and principles

Universal Declaration on Human Rights

The International Bill of Human Rights

International Covenant on Civil and Political Rights

International Covenant on Economic, Social and Cultural Rights

Protect, Respect and Remedy Framework: The UN Framework for Business and Human Rights

The UN Guiding Principles on Business and Human Rights

Convention of the Rights of the Child

Convention on the Elimination of All Forms of Discrimination against Women

UN Global Compact principles

OECD Guidelines for Multinational Enterprises

UN Declaration on the Rights of Indigenous People

The ILO's Declaration on Fundamental Principles and Rights at Work. This declaration highlights a set of **core labour principles**:

- Freedom of Association and Protection of the Right to Organise Convention, 1949 (No 87)
- Right to Organise and Collective Bargaining Convention, 1949 (No 98)
- Forced Labour Convention, 1930 (No 29)
- Abolition of Forced Labour Convention, 1957 (No 105)
- Equal Remuneration Convention, 1951 (No 100)
- Discrimination (Employment and Occupation) Convention, 1958 (No 111)
- Minimum Age Convention, 1973 (No 138)
- Worst Forms of Child Labour Convention, 1999 (No 182)

ILO-Occupational Safety and Health Convention (No 155)

ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy

Children's Rights and Business Principles

Sector specific standards

The **CRO Forum** is a group of professional risk managers from the insurance industry that focuses on developing and promoting industry best practices in risk management. The CRO Forum published a **position paper** on human rights in 2014.

The Thun Group is a multilateral initiative that focuses specifically on human rights within the banking sector.

The group published a **discussion paper** on human rights in 2013.

Equator Principles; this is a set of voluntary guidelines to help financial institutions address the environmental and social risks associated with project finance. The Equator Principles are based on the **IFC Performance Standards**. Reporting frameworks

Reporting Frameworks

UN Guiding Principles Reporting Framework

Global Reporting Initiative (GRI) G4 and relevant sector disclosures:

- Construction and Real Estate
- Electric Utilities
- Financial Services
- Food Processing
- Media
- Mining and Metals
- Oil and gas

International <IR> Framework

Abbreviations

IFC - International Finance Corporation

IFC Performance Standards - The IFC Environmental and Social Performance Standards

ILO - International Labour Organization

International <IR> Framework - the International Integrated Reporting Framework

OECD - Organization for Economic Cooperation and Development

UN - United Nations

Guiding Principles - UN Guiding Principles on Business and Human Rights

Endnotes

- i Livelihood refers to a means of securing basic necessities of life such as food, water, medicine, clothing and housing. It encompasses people's activities to make a living.
- ii Source: Facts and statistics, UN Sustainable Development Goal 6: Water and sanitation, <http://www.un.org/sustainabledevelopment/water-and-sanitation/>

Important legal information

All information, opinions and estimates in this document are those of NN Group. They reflect our knowledge and judgment thereof as of the date indicated and may be superseded by subsequent events or other reasons.

This document is not intended to be relied upon by any third party.
The guidance paper may be subject to change at any time.

© 2016 NN Group N.V.

