

2018 Report on Activities

HUMAN RIGHTS

Why We Engage

Human rights are relevant from an investment perspective because operational disruptions and reputational damage can arise when these matters are not appropriately managed. Effective human rights management is important for companies' enhancement of long-term value.

What We Seek

- › Enhanced reporting on identifying, managing and mitigating human rights-related risks.
- › Improved human rights practices, including those specific to supply chain management.



We believe strong human rights practices contribute to sustaining long-term value. Working with companies in our portfolio on this topic is an important part of our mandate to maximize long-term returns. Companies with strong human rights policies and practices are less likely to face disruptions to operations from legal and regulatory risk, protests, workforce action and other activities. They are also less likely to suffer reputational damage due to human rights-related controversies. We also assess human rights risks within the supply chain of companies, primarily considering poor working conditions and labour issues (such as child labour). We are currently focusing our efforts on supply chain management in the consumer and information technology sectors.

Engagement

Collaborative engagements

We became a member of the Advisory Committee of the United Nations-supported Principles for Responsible Investment's collaborative engagement on Human Rights in the Extractive Sectors (oil and gas and mining companies) in 2014 and participated in the work that followed from 2015 to 2017. The focus was to encourage companies to implement the United Nations Guiding Principles on Business and Human Rights (UNGPs) and to improve disclosure of their human rights policies and processes. It was directed at 32 companies alongside over 50 global investors, with CPPIB leading and participating in a number of the conversations. A few key outcomes identified by the PRI are (the full report can be found here www.unpri.org):

Human rights policy: 100% of the target companies now disclose a human rights policy.

Human rights risk identification and assessment: While only two target companies publicly reported on these indicators in 2015, two thirds now do in their annual disclosure. This signifies a ten-fold increase. 75% of target companies have also incorporated human rights considerations into their risk management processes and evaluate their potential human rights impact from the project development stage through all subsequent stages.

Access to grievance mechanisms and processing grievances: The number of target companies that provide access to grievance mechanisms, both at the corporate and site level and in publicly reporting on the way they process complaints, tripled from 2015 to 2017. However, very few companies provide evidence they meet the effectiveness criteria for non-judicial grievance mechanisms as per the UNGPs.

Monitoring business relationships: The number of target companies monitoring relationships with suppliers and contractors in relation to human rights factors has quadrupled between 2015 and 2017 from five to 20 companies.

Tracking training effectiveness: While 75% of target companies state they conduct human rights-related training for employees and security personnel, only three companies have a mechanism in place to track its effectiveness.

A second phase of this effort is currently being developed and we will consider participation as details become available.

Hermes EOS engagements

Human rights is also a theme for engagements conducted by Hermes EOS. Hermes EOS engages on topics such as child labour, indigenous rights and the protection of basic rights. Companies are also encouraged to adhere to, or align with, initiatives such as the UNGPs and the Responsible Business Alliance (formerly the Electronic Industry Citizenship Coalition).

Proxy voting

Over the reporting period, CPPIB supported shareholder proposals at Domino's Pizza, Inc. and Monster Beverage Corp. requesting more disclosure of human rights risks in supply chains.

What do we mean by human rights?

We consider human rights broadly and are guided by the definitions set out in the United Nations Universal Declaration of Human Rights. For companies, this can take the form of forced, slave or child labour; may involve impacts from bribery and corruption; and can result from poor working conditions (including health and safety practices), poor relations with local populations and indigenous peoples or poor security practices. Any of these can also be relevant matters within the supply chains of companies.

Engaging on human rights in the cobalt industry

Lithium-ion batteries power products ranging from smartphones and laptops to electric vehicles. Increasing consumer demand for such products has resulted in growing demand for cobalt – a key ingredient in these batteries. Cobalt mining has been associated with such concerns as child labour and poor safety practices, which could expose companies and investors to operational, regulatory and reputational risks.

Since 2016, we have participated in a collaborative engagement with over 20 global investors related to child labour and other human rights concerns in the cobalt mining industry in the Democratic Republic of the Congo, the world's largest producer of cobalt. The effort aims to encourage 13 electronics, automotive and battery manufacturing companies to improve their supply chain management systems, particularly related to identifying and mitigating human rights risks in the procurement of cobalt. The group has also had numerous interactions with global industry associations, which have since instituted initiatives related to cobalt. These include:

- › Responsible Business Alliance's (formerly the Electronics Industry Citizenship Coalition) Responsible Minerals Initiative
- › Chinese Chamber of Commerce for Metals, Minerals & Chemicals' Responsible Cobalt Initiative
- › World Economic Forum's Global Battery Alliance

Since work on this began, we have seen the following improvements in target company practices regarding cobalt sourcing:

- › Mapping of supply chains down to the mine level
- › Public disclosure of smelters/refiners
- › The consolidation of cobalt sources for greater control over supply chains
- › Involvement in industry initiatives
- › Partnerships with relevant NGOs
- › Third-party audit expectations for smelters/miners

We are encouraged by the increase in disclosure and practices to date, and expect more positive steps to be taken related to cobalt sourcing in the future as the topic gains momentum and more relevant resources and tools become available.