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Considering Social Factors in Pension Scheme Investments:

Guide from the Taskforce on Social Factors

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Acknowledgements

Taskforce for Social Factors (TSF)
DWP - appointed members

Hilkka Komulainen	Aegon
Ben Howarth	Association of British Insurers
Stephen Barrie	Church of England Pensions Board
Luba Nikulina	IFM Investors
Maria Nazarova-Doyle	IFM Investors
Joe Dharampal-Hornby	UKSIF
James Alexander	UKSIF
Doug McMurdo	Local Authority Pension Fund Forum
Sarah Wilson	Minerva Analytics
Joe Dabrowski	PLSA
Daniel Jarman	PPF
Caroline Escott	RailPen
Paul Lee	Redington
Rachel Haworth	ShareAction
Valeria Piani	The Phoenix Group

Government / Regulators members

Michael Ashby	BEIS
Daniel Makevic	BEIS
Alison Jeffrey	DCMS
William Ixer	DCMS
Emma Walmsley	DWP Policy Group Private Pensions
Mark Rogers	DWP Policy Group Private Pensions
Tori Watson	DWP Policy Group Private Pensions
Goze Dogu	FCA
Dunvel Delias	FCA
Neha Prasad	FCA
Alicia Pearce	FCA
Sarah Woodroffe	FCA
Andrew Gartside	FCDO
Kate Cooper	FCDO
Paolo Giua	FRC
Andrea Tweedie	FRC
David Styles	FRC
Joshua Osborne	HM Treasury
Gareth Norcott	TPR
Alexander Buckthorn	TPR

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Rob Yuille	ABI
Maria Busca	ABI
Vera Apedo	AON
Clare Richards	Church of England Pensions Board
Amanda Latham	IFM Investors
Sapna Patel	LCP
Paul Hunter	Local Authority Pension Fund Forum
Fergus Moffatt	ShareAction
Mary-Alice Thornhill	ShareAction
Shayne Halfpenny-Ray	The Phoenix Group
Elena Espinoza	The Phoenix Group
Oscar Warwick Thompson	UKSIF
Heidi Douglas-Osborn	UKSIF
Abigail Hall	Scottish Widows
Bella Landymore	Impact Investing Institute
Michael Jones	Eversheds Sutherland

Summary

The Taskforce on Social Factors is a body established following the Department for Work and Pensions' (DWP) consultation on Consideration of social risks and opportunities by occupational pension schemes.[1] With representation from pensions schemes, asset owners, asset managers, investment consultants, data providers, cross-industry groups and civil society, the Taskforce's aims to support pension scheme trustees and the wider pensions industry with managing social factors.

The guide is intended to provide pension trustees with the tools to identify and monitor social risks and opportunities and develop consensus in approaching these across the pension investment landscape. This supports pension trustees in embedding social factors within schemes' investment decisions and stewardship policies in three sections:

- **Social factors and pension funds** explores why material social factors are important from an investment perspective, and how taking these into consideration aligns with pension trustees' fiduciary duties.
- **Social factor data** discusses data trustees can use to manage social factors in investment, along with a materiality assessment framework to help prioritise areas for action.
- **Addressing social factors in pension portfolios** sets out a framework for addressing social factors in pension schemes, providing baseline, good and leading practice indicators, with a deep dive into the issue of modern slavery and how trustees can approach this social factor in their investments.

Appendices contain additional supporting materials, targeted at pension trustees, with a directory of data sources, guidance for effective stewardship and case study examples.

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1091035/government-response-to-dwp-social-call-for-evidence.pdf

1. Social factors and pension funds

This section explores why material social factors are important from an investment perspective, and why taking these into consideration aligns with pension trustees' fiduciary duties.

Social factors are inseparable from business and investments. Businesses both cause and are affected by social impacts; for example, workforce conditions, remuneration practices, bribery, health and safety, and modern slavery Social factors impact all organisations, irrespective of their industry and geographical footprint. This means they are important for investors: considering material social factors – along with reputational, operational and legal risks - can help increase the resilience, impact and value creation of investments. Taking account of social factors, along with environmental and governance (ESG) risks and opportunities as part of a pension trustees' investment decisions and stewardship policies can, thereby creating positive value and helping secure long-term risk adjusted returns for pension scheme members[2].

Social issues can be:

- material to individual companies and industries, and
- systemically relevant to entire portfolios and economies.

Social issues not only impact the potential performance of investments, they impact people. For pension savers, social factors will influence the world into which they will retire.

In 2021, the UK Government consulted on pension trustees' consideration of social factors when making investment decisions. It identified several lenses through which it is useful to view social factors:

- practices within a company,
- practices within a company's supply chain,
- company products and selling practices, and
- a company's impact on the community.

Social Factors and Pension Regulation

Most occupational pension scheme trustees are required to set out how they take account of financially material considerations and stewardship when making their investment decisions in their Statement of Investment Principles (SIP). These include environmental, social and governance (ESG) factors.

Both Defined Benefit and Defined Contribution pension schemes must publish annual Implementation Statements, setting out their actions relating to these aspects of the SIP, as well as relevant outcomes. From 2022, the Pensions Regulator plans to assess the extent to which SIPs and Implementation Statements deliver on expectations.

See: Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance - GOV.UK (www.gov.uk)

A company (and its investors) may reap some short-term benefit while causing, contributing to or ignoring adverse social impacts. But there is likely to be a longer-term cost, companies risk losing their social license to operate if they are associated with social related failures. Pension funds too may be vulnerable to 'social license' concerns, which could potentially impact scheme covenants, for defined benefit pension schemes, or reputational damage. Social impacts can also spill over into other businesses or even sectors, thereby creating systemic risk. For example, poor industrial relations may cause strike action, which can cause wider impacts on a range of businesses. Finally, there may be reputational damage on pension schemes for investing in companies causing social harm or failing to contribute to social progress.

Historically, though there are some notable exceptions like engagement with banks in the era of apartheid South Africa, and restrictions on investing in weapons of mass destruction, many pension funds and trustees have shied away from engaging on social issues due to a lack of clarity on how to gauge materiality and a lack of knowledge or confidence to raise issues with investee companies.

Events like the 2020-2023 Covid pandemic however demonstrate in real-time the multiplying effect of social issues interacting. (such as lack of access to healthcare and social support networks). It underlined that greater attention, understanding and engagement is needed across a range of social issues.

Equally, there is increasing awareness among investors and policymakers that the costs of climate inaction are falling on the shoulders of particular segments of global society. Achieving an orderly and just transition to net zero requires extensive stakeholder engagement, including on issues such as low pay, poor health, and social inequalities that leave individuals and communities more vulnerable to climate change and other social shocks.

As a result, the scope of social factor analysis should not be too narrowly constrained to matters in the direct or immediate control of a business, and should extend along the value chain. Analysis on corporate performance on social factors can also be used as a proxy indicator of poor management, indicating risk control and stakeholder management failures in the company.

Trustees' influence over social factor stewardship

Pension trustees typically make decisions at portfolio or mandate level, rather than in relation to specific companies (though some have company-specific restriction lists or some level of in house investment capabilities).). Many pension trustees also invest through discretionary mandates, pooled funds or in funds of funds managed by a third party. So it is trustees' stewardship approach and their oversight of their appointed advisers and fund managers that are the levers available to them for managing social risk and opportunities.

There are also key opportunities for trustees to influence the fund managers and investment consultants they work with. These include before appointment and during formal reviews which enable trustees to gain confidence in the manager's and consultant's approach to integrating social factors into their stewardship, investment and advice approaches, and to use these review points to leverage change where that is seen to be needed. Appendix 2 provides more detail on oversight of asset managers, consultants and data providers, including questions to ask, what good answers look like and things to include in mandates and side letters.

Currently, there is insufficient consistent and comparable information on how companies approach the full breadth of these issues, limiting the scope for investor scrutiny and challenge. But, the investment community, especially asset owners, are gradually demanding more, and better, information. Stewardship policies of many investors cover engagements on social factors and shareholder proposals have been increasing at publicly listed companies.[3]

What are social factors?

Social factors include a wide range of topics from payment terms for suppliers, anti-microbial resistance, links to armed conflict, and vaccine fairness and to the just transition, health impacts on consumers and communities (mental and physical) and inequality.

Social factors can manifest at the company level (e.g. a social controversy may impair an individual stock price), and can also represent systemic risks. For example, social unrest due to inequality or geopolitical stress can affect entire markets, and the systemic effects of unchecked anti-microbial resistance could have global reach. These systemic risks cannot be mitigated through diversifying an investment portfolio, nor easily through stewarding/influencing individual companies. For more on systemic risks, see page 6.

Fiduciary and other duties of pension trustees

Pension scheme trustees are called on by their statutory duty to integrate all financially material factors, including social factors, into investment decision-making, in line with their fiduciary duty to act in the best financial interests of members. This means that all actors and intermediaries in the pension investment chains are potentially impacted by these duties. Proactive consideration of relevant ESG issues (both risks and opportunities) is increasingly recognised as a driver of long-term economic value, risk management, and sustainability. This is aided by improving ESG analysis, which increasingly focuses on financial performance.

In 2015, the PRI, UNEP FI, UNEP Inquiry, and UN Global Compact published their *Fiduciary Duty in the 21st Century* report, which stated that a "failure to consider all long-term investment value drivers, including ESG issues, is a failure of fiduciary duty". It cautioned that investors not incorporating ESG issues into their investment processes and activities could increasingly be likely to face legal challenges, presenting a new focus on the importance of ESG factors in complying with trustee fiduciary duties in the UK.

Pension Investment Regulations

In 2018, the DWP updated the Occupational Pension Schemes (Investment) Regulations 2005 to make clear that trustees should consider financially material ESG factors in their investments and to require new disclosures by Defined Benefit and Defined Contribution pension schemes.

The changes expanded and clarified the factors trustees may consider to encompass social and environmental factors.

In the UK, trustees must invest scheme assets in the best interests of beneficiaries and exercise their powers of investment to ensure the security, quality, liquidity, profitability and diversification of their portfolio. Trustees have broad and wide-ranging powers of investment to integrate financially material ESG factors into their decisions and seek the best possible risk-adjusted returns for the duration of their investments.

As part of the Green Finance Strategy 2023, the UK government has committed to engaging with stakeholders on how the government can continue to clarify fiduciary duty through a series of roundtables and a working group of the Financial Markets Law Committee. So for trustees keen to ensure they stay on the right side of pensions law it may be helpful to think about fiduciary duty in the following terms, which broadly reflect the *Fiduciary Duty in the 21st Century* report:

1. Incorporate financially material ESG factors into your investment decision making, consistent with the timeframe of the obligation. Trustees can and should take into account social factors as part of their consideration of financially material ESG factors.
2. Understand and consider incorporating the sustainability preferences of beneficiaries into your decision-making, taking into account the Law Commission's two-step test for trustees.
3. Understand and recognise that certain ESG factors (and in particular social factors) may become financial factors over time and it is important to take a long-term view of investments to reflect your scheme obligations to beneficiaries.
4. Be active owners by encouraging high standards of ESG performance and management in the companies or other entities in which you are invested.
5. Support the stability and resilience of the financial system.
6. Disclose trustee's investment approach in a clear and understandable manner, including how preferences are incorporated into the scheme's investment approach.

When considering and balancing investment risks and returns to achieve the best outcomes for beneficiaries, investors including pension schemes can consider how their investment activities will facilitate a smooth, orderly and fair transition to a net zero economy and in doing so, consider the impacts of the climate transition on companies and the communities and society in which they operate.

3 Social-related shareholder proposals have increased since 2018, from 62 to 101 in 2021 (with 22 and 39 passed respectively), according to a survey of Russell 3000 companies https://www.conference-board.org/publications/pdf/index.cfm?brandingURL=human-capital-management-proposals-brief-2

Systemic risks and Universal Ownership

Systemic risks such as climate change and the just transition to net zero, rising inequalities, health and nature degradation have a profound effect on societies, economies and markets, affecting investment values. The nature of systemic risks means they cannot be avoided or mitigated by diversifying an investment portfolio away from them. They will impact across economies as a whole, wherever and however investors choose to invest. So asset owners need to seek to address these systemic risks directly and it is increasingly recognised that market participants can influence systemic issues.

Asset owners like pension trustees invest on behalf of their beneficiaries/clients/governments over a multi-year/multi-decade horizon, meaning they have a greater exposure to the long-term risks posed by the transition, and subsequently need to act appropriately to protect themselves, and benefit from opportunities.

The political environment

ESG factors (and other investment considerations) are shaped to a certain extent by the political environment and political decisions. This means the way that investors approach ESG considerations may have political implications, especially when related to high-profile activities and issues where trade-offs are required. This can occur, for example, when a company is seeking to deliver a new project which has political support because it will create jobs and growth, but may come at environmental or social costs which present investment risks. The transition to net zero is another example, which, alongside creating new jobs, could also lead to the loss of employment for workers in other communities.

Given the inherent investment implications of not addressing ESG issues, investors need to navigate the risks of politicisation carefully. As part of addressing social issues, investors should, where possible, engage a wide range of stakeholders, including pension scheme members, to understand different perspectives on the issues and risks. That way, investors can be confident in the positions they take on social factors and seek to address them with investee companies.

Many pension funds have grown in size and significance and have started to think of themselves and behave like Universal Owners. Universal Owners (UOs) have large, diversified portfolios of investments that effectively represent a slice of the global economy. As UOs own part of the economy, there is “nowhere to hide” from systemic issues as they will all materialise in their portfolios if not managed well.

The rise of pension funds to over $60trln in assets globally versus the global market cap of c.$100trln means that not only are they now able to influence economy-wide systemic risks, thus affecting systemic risks applicable to their portfolios, but also this becomes an important part of their role in managing portfolios. Managing such well-diversified portfolios becomes closely interlinked with managing the market beta – you can think about it as “the rising tide lifts all boats”. If the market at large does well, so will UOs. With the advancement of passive investment strategies, it can be argued that smaller pension funds are also UO-like and that it’s not just the largest schemes that are affected, but all schemes. It follows that pension funds have a direct economic interest in influencing systemic issues.

Social systemic risks and opportunities examples

How businesses can best attract and retain their human capital and staff, including through re-training programmes, enforcing workforce protections, and taking care of employees’ physical and mental wellbeing, will be crucial to almost every company’s long-term success. The US Securities and Exchange Commission has stated that human capital is a key, material resource for companies. Promoting a more inclusive, fair and diverse work environment is a key social factor that can promote long-term value across all sectors of the economy, and there are clear opportunities from active consideration of social issues.

The concept of the ‘Just Transition’ is another example of how social factors may directly matter to pension schemes’ investment strategies. In recent years, climate risk has become central to many investment decisions made by pension funds. The ‘Just Transition’ recognises that there will be social barriers to necessary decarbonisation of our economies if the interests of affected workforces are not actively taken into account. The pensions industry has grasped that climate risk is highly significant, but has yet to respond sufficiently to this associated social imperative. An unsuccessful net-zero transition is a clear systemic risk. Pension funds can assist in managing this risk by insisting that more attention is paid to these social factors.

See: https://www.lse.ac.uk/granthaminstitute/financing-a-just-transition/

Institutional investors should take into account a wide range of social factors in their investment activities, such as human rights under pillar 2 of the United Nations Guiding Principles on Business and Human Rights (UNGPs), which complement environmental and other ESG factors. Investors can be involved in potentially negative human rights outcomes and social impacts through their own business activities and operations or through their business relationships and investment activities that induce or facilitate such negative outcomes, which ultimately may impact the long-term sustainability and viability of investments.

Investors, as well as the companies they invest in, are responsible for managing actual and potential negative human rights outcomes, typically in their broader supply chains. Companies will primarily be the ones causing or contributing to negative outcomes (directly or indirectly) and be responsible for providing remediation. Nevertheless, institutional investors should use their leverage (through engagement and wider stewardship activity), alone or jointly with other stakeholders, to ensure the companies they invest in manage these risks appropriately to ensure harm is prevented.

While the UNGPs are not legally binding, they have been incorporated into the OECD Guidelines for Multinational Enterprises and they are considered international legal instruments and the UK has created an action plan for implementing them which has, amongst other things, resulted in the Modern Slavery Act.

It is not only companies that risk losing their social licence to operate if they are associated with social-related failures. Pension funds investing in these companies may be vulnerable to challenge too. Recent NGO campaigning, and even legal action (which has to date focused on climate change) demonstrate increasing levels of scrutiny.

Materiality and salience of social factors

To effectively analyse social factors, trustees should understand and consider both salience and materiality. **Material risks** are those that have the strong potential to effect tangible, negative impacts on an investee company. **Salient risks** take risks to people as the starting point. The difference between material and salient impacts is not the same as the difference between financial and non-financial ESG considerations.

Salient and material risks can be interlinked. For example, remediation from salient human rights issue may not even account for a rounding error on a company's balance sheet, but could have knock on material impact on the company's reputation and staff retention, or may raise litigation and regulatory risk. Other risks might be salient but not necessarily material because mechanisms to make them material are not (yet) in place. For example, telecommunications firms may recognise the right to privacy as a salient risk, but because there are no privacy regulations currently in place to impact their business model the risk is not material. The same is true of artificial intelligence in the tech industry. Trustees should consider paying attention to both materiality and saliency, and not focus on current materiality alone given the interdependencies and interactions with salience and evolving regulation.

A way for investors to identify and prioritise the most salient social issues is to consider the severity of the issue. Severity can be assessed using the following parameters:

- Scope – number of individuals affected;
- Scale – how serious would the adverse impact be for the affected stakeholder(s);
- Remediability – any limits on the ability to restore those affected to a situation at least equivalent to their previous situation;
- Within this assessment, investors can also consider the likelihood of whether the risk will occur.

Even where the -scale of a pension scheme's financial exposure to modern slavery risk is relatively low, those risks may still potentially cause significant harm to the people impacted.

Positive and negative social impacts

Investors can be connected to negative social impacts in different ways, so understanding this connection can also clarify the type and level of action to take to mitigate or remediate the impact.

All investments have real world impacts that can be positive or negative on workers, communities, Indigenous people and other social impacts – trade-offs are involved in making investment decisions as well as within management of assets and projects on the ground. While integrating financially material social factors into investment decision-making and implementation is expected of all investors, some asset owners, including pension trustees, are also looking to generate positive social outcomes through the scheme's investments – this is known as social impact investment.

Social impact investments are made with the intention of generating a positive, measurable social impact alongside a financial return. Investments can be in any asset class or sector, with investors targeting various social outcomes and then measuring the direct impact of investments with quantifiable metrics.[4]

In 2020, the Impact Investing Institute published a legal paper, attested by five leading law firms, that explains how fiduciary duties and impact investing are compatible. The Institute has also published case study examples of pension funds that have benefited from successful integration of impact by their investment managers into investment decisions to help others do the same. When it comes to a greater focus on social factors, impact investing can play a significant role.[5]

Cause	Contribute to	Directly linked
Direct connection between the impact and the investors own business activities	Investment activities induce, facilitate or incentivise other actors to have adverse impacts on human rights or social issues	Linked to adverse impacts through the activities, products or services of an investee company
Responsibility to cease and prevent impact and provide remedy	Responsibility to cease or prevent contribution to impact and cooperate to provide remedy	Responsibility to use leverage to influence responsible entity to cease and prevent impact and provide remedy

4 Home | Impact Investing Institute
5 Impact-investing-by-pension-funds-Fiduciary-duty—the-legal-context.pdf (impactinvest.org.uk)

2. Social factor data

This section discusses data trustees can use to manage social factors in investment, along with a materiality assessment framework to help prioritise areas for action.

We recognise that trustees will be unlikely to need to understand social data in depth, however a basic understanding will be fundamental to ensure that trustees can appropriately engage with – and hold to account – their asset managers, investment and actuarial consultants on how best to consider material social risks.

Modelling, data and metrics

The economy-wide nature of many systemic social risks means that these can be hard to quantify and can struggle to fit naturally into investor analysis models, although there are efforts underway to model the effects of social risks and in particular, social tipping points.[6] The most widespread approach of pension scheme investment strategies currently is based on asset and liability modelling, with the process focussing on the more 'traditional' factors to determine financial materiality and the expected outcomes of a decision. Systemic issues, and a lot of social factors in particular, do not lend themselves to straightforward modelling that factors like volatility and expected returns enjoy. There are models to show the impacts on a portfolio from an interest rate or inflation change, for example, but not for the impact on employees of investee companies not earning a real living wage.[7]

The impact of social factors, such as the living wage, is no less real: decreasing employees' wellbeing and satisfaction combined with widening inequalities and further stratification in society can cause a fall in corporate profitability as consumers reduce purchasing, and so slowing economic growth. But it is, thus far, impossible to model. However, the fact that we cannot start to put numbers on these real risks does not mean we should simply ignore their reality. As owners of capital and with responsibilities to members and beneficiaries, many of whom will be low-paid employees of UK companies, managers of pension schemes should consider those social issues which they believe will most materially impact financial outcomes and savers' returns.

To substitute for the absence of these modelled numbers we might seek to apply approaches such as scenario analysis and stress testing, with work on social tipping points a growing area of research. Alternatively, perhaps we need simply to accept that qualitative assessments of systemic risks would serve as strong a justification for action as a basis-point modelled difference in expected returns.

There are, however, a multitude of data sources, frameworks, benchmarks, portals, platforms and initiatives that can support understanding and evaluation of social factors from an investment perspective. In the majority of cases, for data to be useful, if has to be analysed – usually by the investment manager. Understanding which issues are important to an investor through a materiality and saliency mapping exercise will provide a starting point for individual topic analysis. This can provide a framework for understanding the relevance of social factors on financial returns and their impact on people.

There are many data providers. Some provide free data which is open to source, while others will charge. It is important to understand the lens applied by each data supplier: free is not necessarily better and commercial datasets are not necessarily comprehensive.

Some providers can also provide a rating or score for a company's performance either across the spectrum of ESG issues or on a single issue. These ratings will vary based on a number of factors including:

- the underlying weightings given to specific data points in the model
- the ratings framework aims to assess different things (eg, impact vs management of risk/opportunities)
- providers using different sets of attributes
- providers using different data points to assess the same attribute.

Social factor metrics

Measurement, which is so important in identifying problems, opportunities and tracking change, presents specific challenges for social factors. Consistent measurement across different investments is difficult because there are many areas of social impact that lack commonality and can be hard to quantifying and compare (for example, there is no single measure like carbon dioxide equivalent (CO2E) that is used for understanding carbon emissions and climate impact). Currently, the 17 SDGs are the most commonly used impact performance measurement tool, with investors looking at impact to one or more of the goals, like promoting inclusive economic growth or gender equality.

Some metrics relevant to social issues could be standardised and compared across investment portfolios if they were disclosed consistently and regularly. These include:

- number of full-time equivalent employee roles [total]; proportion of those who are paid a living wage [%]; employee turnover [mean and median]; proportion of workforce on '0' hours contracts [%].
- gender pay gap data [mean and median]; ethnic pay gap data [mean and median]
- accident incidence rate [mean and median]; fatality incidence rate [mean and median]
- maximum supplier payment term [mean and median]; frequency with which those terms are exceeded [mean and median]

Aggregated statistics could be supplemented by red flags regarding issues such as the absence of policies on modern slavery, and failure to recognise trade unions. If this data can be captured consistently and with confidence, the amount of investments, or proportion of total assets, subject to such red flags could be aggregated across funds and so be assessed by pension trustees. This will allow for poor performance to be recognised and potentially addressed.

6 A social tipping point is a point in time when a group—or many group members—rapidly and dramatically changes its behaviour by widely adopting a previously rare or proscribed practice. Examples include extending the right to vote in some places to include women, black and Indigenous peoples throughout the 20th Century.
7 Calculation is made according to the cost of living, based on a basket of household goods and services, one basket for UK ex. London and one basket for London.

Social factors are often combined with environmental and governance factors into a single ESG score, and this score may be aggregated at fund level. These layers of aggregation can pose challenges , because:

a) poor performance in one area can be offset against good performance in another (e.g. good scoring on pay practices might cancel out poor human rights scores), and

b) if a significant concern only applies to one company that constitutes a small fraction of a fund, the overall assessment may be positive, while the impact on people and the investment risk from that company is not reduced or mitigated.

Asset managers may also have access to social data as part of reporting services. For example, the Investment Consultants Sustainability Working Group (ICSWG) developed a standard set of ESG metrics that investment managers should be able to report to clients for listed equity and credit mandates, including metrics on gender board diversity, labour and human rights violations.

Social factor data, like any other investment decision data, has to be of good quality to be useful for investors. Trustees should consider – or ask their investment consultants to help them ask their asset managers to consider:

- How accurate is the data?
- Can the data be independently and objectively verified?
- How frequently is it updated?
- What is missing or how is it different between asset types?
- How is it reviewed – by experts or junior staff?
- Who controls the production of the data? Is it objective or subjective?
- Can the data be easily incorporated into larger data sets?

To be more helpful, data can be arranged and manipulated into decision-making friendly information, which leads decisionmakers to develop deep knowledge of an issue, leading eventually to insights. Appendix 1 outlines a number of useful data resources that are available to trustees at the time of publication.

ISSB Sustainability Reporting Standards – global reporting standardisation

In June 2023, the International Sustainability Standards Board (ISSB) released its first two standards: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. ISSB standards aim to act as a comprehensive global baseline of sustainability-related disclosure by companies. ISSB's potential areas for research, which may lead to future standard-setting, include human rights issues and human capital.

The UK Government has indicated support for ISSB and its standards and is assessing whether and how the organisation's standards should become the UK benchmark. This would be unlikely to occur before 2025. Other countries will go through their own assessments.

ISSB consulted in 2023 on an agenda for future work (on biodiversity and human rights and human capital). ISSB's IFRS S1 already requires disclosure of material information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or its cost of capital over the short, medium or long term. And IFRS S1 sets out relevant sources of guidance. However, developing additional IFRS Sustainability Disclosure Standards to consider the specific matters related to each key category of sustainability-related risks and opportunities will assist entities in making their disclosures.

The TSF supports an agenda that advances of the development of thematic standards on social factors, leveraging existing advanced thinking and best practice.

Materiality assessment framework

There are plenty of data sources and a number of materiality assessment approaches available to trustees and their consultants and other advisers. In this section we have prepared an example of an approach that helps evaluate investment portfolio exposure to social factor risks, coupled with relevant data sources to support the assessment. We envisage that trustees, with the support of their appointed investment consultants where required, conduct a top-down review of their portfolio. This would start with country level risks, moving on to sectors and then further narrowing risks down to company-level analysis. The review would help identify problem areas within the portfolio that require additional attention from the trustees and which they can focus on in their meetings with asset managers.

When analysing companies, it is useful to consider four key areas to understand where particular social factors come to the fore: direct workforce, supply chains, affected communities, and consumers or end users. Some social issues will apply to more than one category but many will be unique to each category. The factors we have shown in each category are not exhaustive but provide a strong starting point for the assessment.

The breakdown featured in the framework for reporting environmental and social information from the Climate Disclosure Standards Board (which became part of the IFRS Foundation) and aligns with the European Sustainability Reporting Standards' approach to social factor reporting. The lists of resources are not exhaustive, trustees may find other useful sources of information.

<table>
<tr><th colspan="4">STEP 1: Country assessment</th></tr>
<tr><td colspan="4">Country level Data Sources: ILO Global Estimates of Modern Slavery; US Department of Labor ILAB Around the World | U.S. Department of Labor (dol.gov); Walk Free Global Slavery Index; Ranking Digital Rights' (RDR)); Human Rights Watch (for more sources see Appendix 1)</td></tr>
<tr><th colspan="4">STEP 2: Sector assessment</th></tr>
<tr><td colspan="4">Sector Level Data Sources: Producers of Cluster Munitions – Stop Explosive Investments; Access to Medicine Index; Regulatory judgements - GOV.UK (www.gov.uk); WBA Financials; WBA: Seafood; SASB Materiality Maps.</td></tr>
<tr><th colspan="4">STEP 3: Corporate assessment</th></tr>
<tr><th>Category 1: Workforce</th><th>Category 2: Supply chain workers</th><th>Category 3: Affected communities</th><th>Category 4: Consumers and end users</th></tr>
<tr><td>• Fair pay/living wage/pay gaps
• Workforce composition and Diversity, Equity & Inclusion
• Collective bargaining agreements
• Mortality/ Injury data
• Employee engagement
• Modern slavery</td><td>• Modern slavery
• Health and safety
• Social protections
• Fair pay/living wage/pay gaps
• Supply chain mapping</td><td>• Bribery and corruption
• Collaboration and community engagement policies
• Water/land related issues
• Harm to livelihoods
• Violence against human rights defenders</td><td>• Data privacy
• Product quality and safety
• Ethical marketing
• Accessibility of products
• Cybersecurity / IA policies</td></tr>
<tr><th colspan="4">Sources</th></tr>
<tr><td>• WBA
• The Times Top 50 Employers for Women
• Racial Justice Scorecard
• CCLA Mental Health Benchmark
• AsYouSow – 100 Most Overpaid CEOs
• Fair Reward Framework (launching Dec 2023)</td><td>• WBA
• Know the Chain Benchmark
• International unions reports
• Good Business Pays - Late and Slow Payers List</td><td>• WBA
• NGO reports from e.g. Oxfam, Global Witness, Human Rights Watch, etc.
• Business and Human Rights Resource Centre
• 2022 Corruption Perceptions Index</td><td>• WBA
• Access to Medicine benchmark
• Access to Nutrition benchmark
• Ranking Digital Rights' (RDR) Corporate Accountability Index
• GDPR Enforcement Tracker</td></tr>
<tr><th colspan="4">Broad ESG Data Providers (offer a range of country, sector and company level information)</th></tr>
<tr><th colspan="4">MSCI, ISS, Sustainalytics, S&P, RepRisk</th></tr>
<tr><td colspan="4">Companies' own reporting
e.g. their Annual Reports and Accounts, any standalone Sustainability or DEI reports.</td></tr>
</table>

3. Addressing social factors in pension portfolios

This section provides a framework for addressing social factors in pension schemes, providing baseline, good and best practice indications, with a deep dive into the issue of modern slavery and how trustees can approach this social factor in their investments.

Framework for addressing social factors in pension schemes

A coherent approach to addressing social factors in pension schemes can help manage portfolio risk and broader systemic risks. This section of the guide recommends a framework by which trustees may include social considerations into their policies and practices. The framework has been developed by the Taskforce to encourage ambition across the sector, however we acknowledge where the current size, type and resource constraints of schemes might impact its application. The framework serves as a guide for trustees and is divided into three tiers: baseline practice, good practice and leading practice. Each tier comprises a series of recommended actions, complete with examples. Scheme trustees can advance through the tiers of the framework to achieve a progressive approach to managing financially material social risks and to benefit from opportunities.

The framework has been designed to encourage efforts towards the progressive improvement of trustees' practices by giving them an understanding of what could be considered as best practice and encouraging them to adopt the practices that are achievable for their circumstances.

Baseline practice

Trustees should create at least a high-level investment and stewardship policy covering social factors, drawing out those specific themes that are key for the scheme, including systemic risks and a commitment to respect human rights.

Trustees should ask their investment consultants how social factors are integrated into their advice on asset allocation and fund research and selection.

Trustees should include social factors-related questions/requirements into their selection, appointment and monitoring, including review meetings, of investment managers.

Trustees should increase their knowledge and understanding of social factors, including via teach-in and training sessions.

Good practice

Trustees meet all baseline practice.

Trustees demonstrating good practice would carry out a materiality assessment of the scheme's key risks and opportunities for social factors, with due regard to the type of investment via asset classes and geographies (for example, using a materiality assessment framework presented in this report).

Following the materiality analysis, trustees would prioritise the most relevant social factors and highlight these as stewardship policy priorities, integrate into voting guidelines and share with managers as Expression of Wish (or execute their own proxy voting).

Trustees would integrate social considerations into manager appointments and ongoing oversight – looking at investment strategies (including risks and opportunities) and managers' stewardship approaches, as well as their firm-level organisational credentials – engaging managers on the findings of ongoing monitoring and the scheme's materiality analysis and risk assessments.

Good practice continued

Ongoing reporting from the trustee's investment consultant and asset managers to trustees on integration of social factors should include:

- quantitative metrics for investment funds;
- reporting on engagement on social themes;
- vote reporting related to key social issues identified by the scheme as priorities.

Trustees would also engage with other schemes to improve their understanding and help bolster industry's stewardship of social factors, for example via membership of Occupational Pensions Stewardship Council (OPSC)[8] and signing up to the Asset Owner Diversity Charter.[9]

Trustees would also engage with their scheme members to understand their priorities when it comes to addressing social factors, and take these into consideration where appropriate.

Trustees in this category would consider taking part in collective stewardship efforts on Social initiatives, eg UNPRI Advance.

Trustees of DB schemes looking for buy-in/buy-out would assess the receiving insurer's portfolio Social (and other stewardship related) credentials.

For insured scheme/schemes using a platform, trustees might send an Expression of Wish to their platform provider.

Trustees would have policies covering social factors within their own operations i.e. gender and ethnic diversity, financial inclusion, supply chains focussed etc.

Leading practice

Trustees meet all baseline and good practice.

Trustees have a clear voting policy on social factors, that is publicly accessible and holds directors to account – market leading practice in this area also includes direct communication with companies either in advance of the AGM or in relation to votes cast.

Trustees consider allocating to non-concessionary social impact investment strategies, often in the form of direct investments eg in social housing, education etc.

Trustees (or their executive representatives) may lead social issues-related initiatives as founding investors and / or participate in relevant working groups.

Trustees would carry out engagements on social factors with top portfolio companies – either directly or via collaborative initiatives to ensure the asset owner voice is heard by investee companies.

Trustees could also encourage other market participants to align and improve, including data providers, ratings agencies, asset managers and investment consultants – by clearly outlining asset owners' needs.

Schemes demonstrating leadership would be signatories to the FRC's UK Stewardship Code[10] and provide regular external reporting on progress on social factors in investment and stewardship.

Trustees would undertake demonstrable policy advocacy and work with regulators and the government to improve practices around social factors.

8 https://www.gov.uk/government/groups/occupational-pensions-stewardship-council
9 Asset Owner Diversity Charter - Diversity Project
10 2020_Corporate_Stewardship_Code.pdf (frc.org.uk)

Addressing social factors: modern slavery considerations for pension investors

Modern slavery occurs in every region of the world. Each day, more than 27 million people across the globe are likely to be subject to a form of modern slavery, and around 12% of these are children[11]. These numbers have *increased* from around 25 million since 2016[12].

There are increasing regulatory expectations on companies and investors globally to address any issues relating to modern slavery. This means trustees should consider how their investments are exposed exposure to modern slavery.

What is modern slavery?

- Modern slavery is described by the Independent Anti-Slavery Commissioner as an "umbrella term" that comprises a range of offences covered by the Modern Slavery Act 2015 - slavery, servitude, forced or compulsory labour and human trafficking.
- People experiencing modern slavery are subject to exploitation and face threats, punishment, violence, coercion and deception. They are unable to leave their situation.
- Occurs in every region of the world and driven by structural inequality. Each day, more than 27 million people across the globe are likely to be subject to a form of forced labour.
- Which renders certain communities or workers particularly vulnerable to exploitation. Many goods and services are linked to modern slavery - the highest risk global sectors are currently services (32% of worldwide cases of modern slavery), manufacturing (19%), construction (16%), agriculture (12%) and mining/quarrying (8%).

In the UK, sectors considered to be high risk for modern slavery, include agriculture, construction, fashion and textiles, hand carwashes and care, affecting both UK nationals and migrant workers.

Why should trustees consider modern slavery?

The UK Modern Slavery Act (MSA) sets an expectation that businesses, including some pension providers, act to address this issue. Pension trustees also need to consider the risks associated with modern slavery in relation to investee companies. Businesses with modern slavery in their supply chains, whether intentionally or not, could suffer in many ways which would impact their financial performance. These include:

- criminal sanction or legal challenge
- loss of market access, such as import bans
- loss of access to capital (de-listing from stock exchanges)
- loss of government procurement contracts and other opportunities
- financial sanctions and asset freezing or confiscation
- disruption and delay in supply chains where modern slavery has been discovered
- reputational damage
- failure to attract and retain customers.

These impacts can result in unanticipated loss of shareholder value, particularly where addressing issues increases costs, for example, where a company can no longer rely on low-cost suppliers.

Modern slavery contributes to economy-wide risks. For example, there is often a link between modern slavery and organised crime, including money laundering. It is important to consider the saliency of these risks - a pension scheme's financial exposure to modern slavery risk may be relatively low but the risks may cause significant harm to the people impacted.

Savers can also prioritise human rights issues, such as modern slavery, when considering how their money is invested. The sustainability of pension options is already one of the top four benefits people look for when choosing a new employer.[13] Trustees need to be aware of members' preferences with regards to addressing modern slavery risk and take these views into account when making investment decisions.

Legal and regulatory landscape

Regulatory regimes covering modern slavery are expected to develop further in the coming years. Some recent developments include:

- Under the UK Modern Slavery Act (MSA), businesses with an annual turnover of more than £36m must produce an annual modern slavery statement, setting out a risk assessment and the actions being taken to prevent modern slavery across supply chains. However, there has been some criticism on the quality of MSA disclosure by companies, and in the financial services sector in particular.
- Also in the UK, any financial services provider found to be holding the proceeds of modern slavery may potentially be liable under anti-money laundering legislation.
- Australia and Canada have also adopted their own modern slavery legislation.
- The US has imposed import bans on disposable gloves associated with allegations of forced labour, and other countries have introduced, or are considering introducing, bans on imports associated with modern slavery.
- In 2022, the EU began the process of implementing a Corporate Sustainability due diligence directive. The aim of this directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance.

11 Global Estimates of Modern Slavery, September 2022 – p.2
12 Global Estimates of Modern Slavery, September 2022 – p.21
13 Green Pensions Report – 2022, Scottish Widows – p.4

Addressing modern slavery in pension investments

Investor practices to understand and address modern slavery in portfolios are still developing. Some examples of good practice are highlighted in the appendix. More work is required for more investors to meaningfully address the investment risks of modern slavery and to support its eradication. When implementing the guidance this report sets out with a modern slavery lens, trustees should take note of the following:

- **Data availability.** There is a gap in the market on meaningful and outcomes-based data for investors to use in assessing modern slavery risk and how companies manage it. Identifying modern slavery risk in the portfolio therefore relies heavily on identifying high risk geographies, sectors and business models.
- **Identifying risk to people.** Investors may need to shift their focus from their largest holdings to the areas with highest risk to people when seeking to identify modern slavery and other human rights risks, remembering that simply removing investment from some industries or regions could result in greater poverty, and possibly displacement, with the potential unintended consequence of increasing the risk of modern slavery.
- **Modern slavery is difficult to detect.** The reputational risk of modern slavery, and the difficulty of detecting it leads to a reluctance by companies to detect and disclose instances of modern slavery. Investors' engagement with companies can also both seek to reduce the stigma of modern slavery risk and encourage companies to disclose cases they have identified, how they have remedied the situation and victims, and what measures are being implemented to avoid reoccurrence.
- **Remedy.** Providing survivors of slavery with access to remedy is a key pillar of the UN Guiding Principles on Business and Human Rights, but many victims receive little to no remediation for abuse.

An overview of resources schemes and trustees can use, or request that their appointed investment managers and consultants use, to begin identify and address modern slavery can be found in Appendix 1, p.21.

4. Recommendations from the Taskforce

Pension schemes operate within a financial and regulatory ecosystem, with many stakeholders who can, and should, play a part in addressing social factors in pension investments. There are a number of opportunities for improvement of social factor integration throughout the pension and investment industry.

While the DWP, which convened the TSF, does not have powers over some of the targets of these recommendations, the Taskforce have set out what good looks like to improve to social factor integration – to help develop strong data flows, good social factor frameworks, robust disclosures and supportive regulations, working together to improve practices on social factors in the economy.

Pension Trustees

Pension trustees are already required by law to develop and maintain an investment policy which includes social factors. This can be either a standalone social factors policy (as part of a suite of individual thematic policies) or integrated into the wider Statement of Investment Principles (SIP) or ESG policy.

The taskforce recommends:

1. Trustees to have a good understanding of the way their investment consultants approach social factors (and wider ESG factors) and set them objectives related to these factors. To help facilitate better alignment and understanding, example questions to ask investment consultants are in Appendix 2, p.22.
2. When appointing asset managers, trustees to ensure the manager considers social factors, and that these are integrated into the investment strategy and stewardship of investments. Examples of Request for Proposal (RFP) questions and mandate terms are in Appendix 2, p.23.
3. Trustees to make sure their asset managers have a strong engagement track record, appropriate exclusion policies and display responsible behaviour as businesses. Trustees should also ensure proxy voting policies of asset managers aligns with the trustees' policies and investment beliefs. Trustees should set clear expectations of managers on social factors, with a focus on desired outcomes.
4. Trustees to consider their own practices in relation to social considerations, including paying fair wages, inclusion and diversity, consultation with stakeholders, vetting of procurement/supply chain (including in relation to modern slavery).
5. Trustees to consider social impact investment opportunities where financial outcomes align with desired social outcomes.
6. Trustees to improve their understanding of key areas of social factors, like human rights and modern slavery.

Regulators

Regulators set expectations for desired behaviours and practices in the pensions and investment industries. Establishing this Taskforce, and the actions that have come out of it, is a good example of DWP prioritising social factors. Likewise, the FCA's proposals for sustainable disclosure requirements are a step towards enhancing consumer trust in sustainable investment products.

The taskforce recommends:

7. DWP to consider formally setting out expectations on addressing social factors for pension funds, to then be overseen by The Pensions Regulator.
8. FCA, to aid further progress, to consider setting out social factor reporting expectations by asset managers alongside those already required for environmental factors as in DP 21/4.
9. FCA and the FRC to reiterate their expectations for trustees' stewardship and engagement with companies on social factors, to continue to build momentum on the back of the work of this Taskforce. We welcome the FCA's focus on systemic stewardship in their DP 23/1.
10. TPR need to consider ways to raise awareness of social issues among pension trustees to help them integrate these factors into their investments. TPR to consider doing this alongside their climate change strategy.
11. UK regulators to signpost the relevant learning materials developed by the Impact Investing Institute and its partners, to strengthen impact investing knowledge and adoption amongst trustees of pension schemes.

Government

UK Government need to consider ways to address social factor data availability and gaps.

The taskforce recommends:

12. Government to continue facilitating a supportive policy environment for action on social (not just environmental and governance) issues and ensure implementation and effective enforcement of regulation.
13. Government to continue work on introducing enhanced economy-wide disclosures and encouraging global standards-setters, such as ISSB, to incorporate social factors. For example, making ethnicity pay gap reporting mandatory would provide a flow of information for investors. The Taskforce also supports developing a social taxonomy in addition to the work already undertaken on the UK green taxonomy.
14. When requirements related to social factors are relaxed for various policy reasons, it is important that this is temporary and that the Government continues to enforce existing regulations to tackle social issues (for example, suspending gender pay gap reporting during Covid).

Asset Managers

Asset managers need to be making continued progress on taking account of social issues in their investment strategies. This includes integrating social factors into active investment strategies, using exclusions selectively and considering optimised benchmark indices for passive strategies.

The taskforce recommends:

15. Asset managers to operate clearly articulated stewardship, engagement and voting policies covering social issues, resulting in considered, structured engagement activity. This includes appropriate escalation strategies, like co-filing relevant shareholder resolutions related to social factors.
16. Asset managers to be able to demonstrate that they have influenced social outcomes through transparent reporting on engagement, voting and investment outcomes, including any social investment metrics.
17. Asset managers to support clients with gap analysis on stewardship and voting policies and activity to help increase alignment and understanding between them.
18. Asset managers to actively participate in engagement collaborations, developing and inputting to public policy and best practice debates.
19. Asset managers to conduct due diligence on human rights and modern slavery in their investment portfolio and disclose the results.

Data providers and proxy voting agencies

Data providers have an important role to play in gathering and improving the quality of corporate disclosures on social factors. This goes beyond a norms-based breach or minimum safeguard approach to assess quality of disclosures as well.

The taskforce recommends:

20. Where scoring methodologies focus on controversies or disclosures, data providers to consider strong mark-downs of ratings for absence of key data to encourage enhanced disclosures from issuers.
21. ESG data and service providers need to work closely with investors and other groups to find common ground on methodologies and metrics for social factors.
22. Data providers to play a more active role in channelling market demand for data from investors and become more active in their engagement with corporates, given their access.
23. Service providers to consider how to scale up data on business' supply chains provided to investors, beyond those in 'high-risk' sectors.
24. Proxy voting advisers to include more social factors (for example human rights) in their analysis and help identify laggards.

Investment Consultants

Investment consultants are a key adviser for many trustees and need to integrate social factor considerations into their investment advice. They can also support managers of pension schemes with materiality mapping of their investment portfolios and help them develop strong stewardship and voting policies.

The taskforce recommends:

25. Advice on social factors to be included in investment advice as standard, not as an additional expense.
26. Investment consultants to support pension trustees to integrate social factors into asset manager selection and monitoring, both at strategy and at firm level, using tools like the Asset Owners Diversity Charter questionnaire[14].
27. Investment consultants to undertake continuous learning and upskilling to effectively deliver advice on social factors for their clients. It is particularly important that knowledge and skills are developed for use in the day-to-day work of all consultants to maximise adoption of responsible investment practices across the consulting firm's client base, rather than siloed in an 'ESG team' or similar.

Legal advisers

Legal advisers play an important role when it comes to pension schemes adopting more focussed ESG practices, including considering social factors. Trustees receiving legal advice confirming that ESG integration is in line with fiduciary duties (and the absence of considering ESG factors constituting a breach of their duties) helps to establish more robust investment practices in the UK pensions industry. It is important that advice continues to support trustees as they progress their ESG implementation in line with their legal duties, with reference to developing market practices, products, regulations and member expectations.

The taskforce recommends:

28. Legal advisers to stay up to date with developments to enable them to support trustees integrating social factors into investments.
29. Legal advisers to adequately equip themselves to support trustees looking to invest in social impact investment strategies.
30. Legal advisers to offer more support to stewardship teams, helping them carry out effective stewardship across multiple jurisdictions. This can be complicated given differences in anti-trust laws, shareholder rights and voting rules, to name but a few. Law firms can also join investor collaborations and collective engagement initiatives to help the industry work towards the shared goal of improving the sustainability and resilience of the global economy.

14 Asset Owner Diversity Charter - Diversity Project

Civil society/Non-governmental organisations (NGOs)

As institutions and individuals with subject matter expertise, civil society represents an important collaborative partner to support effective stewardship through subject matter expertise and development of relevant social related data, analysis, and insight. Civil society can play an important advocacy role, highlighting gaps not covered by traditional ESG analysis. NGOs can provide guidance on best practice, horizon scanning, and evolving expectations on social factors.

The taskforce recommends:

31. Civil society (including people affected by social factors, indigenous communities and unions) and NGOs need to be part of the conversation, helping trustees of pension funds to understand the impacts of their investments in a way that is distinct from but complementary to corporate reporting and ESG data.
32. Civil society and NGOs to help develop outcomes-based reporting standards for companies on social factors. Data and reporting available from companies, when available, relates to a great extent to labour or human rights-related policies rather than the implementation and outcomes of the policies as a measure of risk to investors and people. Encouraging wider and more effective disclosures from companies requires improved reporting standards.
33. Pension schemes, NGOs and academics to form productive collaborations to develop and improve consideration of social factors in investment.

Businesses and employers

Businesses already have obligations relating to social factors, with some key requirements stemming from the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

The taskforce recommends:

34. Company boards to establish appropriate policies, due diligence and access to remedy processes to deal with human rights issues which may arise in connection to their workforce and operations. Companies should also proactively identify modern slavery risks and incidences across their supply chains and report on any actions taken to mitigate them.
35. Companies to provide clear, full and timely disclosures on social factors to support investors, who rely heavily on data provided by businesses to assess social risks and opportunities. In addition to existing mandatory reporting, like the gender pay gap, businesses should voluntarily report on:

- ethnicity pay gaps;
- internal pay ratios;
- human capital management key performance indicators, including composition of the workforce, workplace safety and standards, employee turnover, absenteeism rates, skills and capabilities, employee engagement, gender diversity and other useful indicators that help investors assess companies’ human capital management practices.

Companies to also engage with leading reporting initiatives like the Workforce Disclosure Initiative.

APPENDIX 1: Data sources

This list is not exhaustive but should provide guidance as to how to classify and use reports/data sources.

Contextual sources

Useful to understand what social issues are and to provide overall context for trustees around social issues

Organisation	Coverage/Focus	Topic(s)	Nature of Source	Useful for	Source
Isio Group Limited	Broad introduction to social factors	Multiple social factors	Thematic thought piece	Asset owners	the-social-dilemma_an-introduction-for-investors.pdf (isio.com)
Impact Invest	Legislative Framework and Market Practice on Social Reporting in the UK	Multiple social factors	Detailed legislative overview of social factors in the UK	Asset owners	New research shines a light on existing social sustainability metrics that can spearhead further policy and industry action | Impact Investing Institute
World Bank	Social development indicators (countries)	ESG Data	Development progress	Asset owners & asset managers	Environment Social and Governance (ESG) Data | DataBank (worldbank.org) The World Bank: Worldwide Governance Indicators The World Bank: Poverty and Inequality Indicators
Business and Human Rights Resource Centre	Minerals sector (companies)	Transition minerals	Sectoral data	Asset owners & asset managers	Business and Human Rights Resource Centre's Transition Minerals Tracker
Business and Human Rights Resource Centre	Human rights violations & lawsuits (companies)	Human rights	News portal	Asset owners & asset managers	Business & Human Rights Resource Centre (business-humanrights.org)
Human Rights Watch	Human rights violations & lawsuits (companies)	Human rights		Asset owners & asset managers	Human Rights Watch
International Bill of Human Rights	Comprising the Universal Declaration of Human Rights; the International Covenant on Economic, Social and Cultural Rights; the International Covenant on Civil and Political Rights and its two Optional Protocols	Human rights			
International Labour Organization's (ILO's) Fundamental Principles	ILO's Declaration on Fundamental Principles and Rights at Work and the eight core conventions	Human rights			
Legislative framework and market practice in Social reporting in the UK	Equality Act, Human Rights Act, etc.	Multiple social factors			
Country analysis	Reports developed by multilateral agencies that provide context to social risks at country/regional level				
Sector/issue analysis	Reports and research from multilateral agencies, NGO's, thinktanks and academia that provide context to sector-by-sector exposure to different social risks or provides deep dives into a specific social issue				

Frameworks and standards

Useful to provide a structure for assessing and understanding social impacts in the context of sectors and individual businesses.

Organisation	Description	Audience and Scope
UN Principles for Responsible Investment (PRI)	UN-supported international network of investors where signatories work collaboratively towards understanding the implication of ESG factors for investment, ownership decisions and ownership practices. Six voluntary principles that provide overarching guidance on actions members can take to incorporate ESG issues into the investment process PRI's offer guidance to investors on why and how investors should act on human rights and investors will need to report on human rights through PRI's Reporting Framework.	Investors Some sector specific guidance
Global Reporting Initiative (GRI)	Publishes the GRI Standards, which provide guidance on disclosure and reports across environmental, social and economic factors for all stakeholders. Globally recognised best practice, the standard for the UN Global Compact (UNGC) for how organizations communicate and demonstrate accountability for their impacts on the environment, economy and people that has integrated the UN Guiding Principles (UNGP) into its reporting requirements.	Stakeholders, incl. investors Some sector specific guidance
United Nations Global Compact (UNGC)	Collaboration between leading companies and the UN. Signatories adhere to the 10 principles derived from broader global standards such as the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. 10 principles cover areas of human rights, labour, environment and anti-corruption.	Companies Investors
UN Sustainable Development Goals (SDGs)	UN's blueprint to tackling key global challenges such as poverty, climate change, inequality, health, biodiversity and world peace 17 goals agreed by all UN members in 2015 in replacement of the UN Millennial Goals	Aimed at governments Provides a signal to investors
International Labour Organisation (ILO)	UN agency that brings together governments, employers and works of 187 member states to set labour standards and promote decent work for all. The eight fundamental standards include concepts such as freedom of association, abolition of forced labour and equal pay.	Investors Companies
UN Guiding Principles	The authoritative standard on corporate conduct on human rights. They are widely supported and adopted by states, regional institutions and multilateral organisations.	Investors Companies
OECD Guidelines	The Guidelines reflect the expectation from governments to businesses on how to act responsibly. They bring together all thematic areas of business responsibility, including human and labour rights.	Companies
Taskforce on Inequality-related Disclosure (TIFD)	Similar to Taskforce on Climate related Financial Disclosures (TCFD) and Taskforce on Nature related Financial Disclosure(TNFD), TIFD is conceived as an explicit systemic risk management framework that can reduce inequality created by the private sector. A collaboration among a broad range of stakeholders, TIFD will provide guidance, thresholds, targets, and metrics for companies and investors to measure and manage their impacts on inequality, as well as inequality's impacts on company and investor performance.	Investors Companies
ISSB	Organisation developing standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.	Investors Companies
UK and EU legislation related to social factors reporting	Example: the Modern Slavery Act, Gender Pay Gap reporting, the EU Regulation on sustainability-related disclosures in the financial services sector, among others.	Investors Companies

Issuer information

Useful to assess and understand performance at issuer level

Note: the PRI has created an overview of human rights benchmarks for investors. This is an important resource to help trustees understand a specific topic on a company level basis. It is worth noting here that the range of coverage for each benchmark varies greatly and depending on your holdings, there may be companies that are not covered. However, the benchmarks listed on specific topics are best in class and should be considered in understanding the depth of information available.

Organisation	Coverage/Focus	Topic(s)	Nature of Source	Useful for	Source
Council on Foreign Relations	Conflict (countries)	Conflicts	Data portal & infographic	Asset owners & asset managers	Global Conflict Tracker I Council on Foreign Relations (cfr.org)
CCLA	Mental Health in UK and Global Companies	Mental Health	Benchmark	Asset owners & asset managers	CCLA Mental Health
World Benchmarking Alliance	Gender diversity (select apparel companies)	Gender diversity	Benchmark	Asset owners & asset managers	Gender Benchmark | World Benchmarking Alliance
World Benchmarking Alliance	Human rights (select food and agricultural products, ICT and automotive manufacturing companies)	Human rights	Benchmark	Asset owners & asset managers	Corporate Human Rights Benchmark | WBA (worldbenchmarking-alliance.org)
World Benchmarking Alliance	Just transition (select oil, gas, utilities and automotive manufacturing companies)	Just transition	Benchmark	Asset owners & asset managers	2021 Just Transition Assessment | World Benchmarking Alliance
Clarity AI	Social metrics aligned with SDG & EU SFDR frameworks, social scores & ESG ratings, & social controversies (countries & companies)	ESG Data	ESG Data Provider	Asset owners & asset managers	AI Sustainability Tech Kit | Clarity AI
ISS	Social metrics aligned with SDG & EU SFDR frameworks, social scores & ESG ratings, & social controversies (countries & companies)	ESG Data	ESG Data Provider	Asset owners & asset managers	ISS ESG Solutions (issgovernance.com)
LSEG (FTSE)	Social metrics aligned with SDG & EU SFDR frameworks, social scores & ESG ratings, & social controversies (countries & companies)	ESG Data	ESG Data Provider	Asset owners & asset managers	ESG data and scores | London Stock Exchange
Minerva Analytics	Social metrics aligned with SDG & EU SFDR frameworks, social scores & ESG ratings, & social controversies (countries & companies)	ESG Data	ESG Data Provider	Asset owners & asset managers	Minerva Analytics
MSCI	Social metrics aligned with SDG & EU SFDR frameworks, social scores & ESG ratings, & social controversies (countries & companies)	ESG Data	ESG Data Provider	Asset owners & asset managers	ESG Data and Solutions - MSCI

Organisation	Coverage/Focus	Topic(s)	Nature of Source	Useful for	Source
PIRC	Social metrics aligned with SDG & EU SFDR frameworks, social scores & ESG ratings, & social controversies (countries & companies)	ESG Data	ESG Data Provider	Asset owners & asset managers	PIRC Solutions
Reprisk	Social metrics aligned with SDG & EU SFDR frameworks, social scores & ESG ratings, & social controversies (countries & companies)	ESG Data	ESG Data Provider	Asset owners & asset managers	RepRisk | Solutions
Sustainalytics	Social metrics aligned with SDG & EU SFDR frameworks, social scores & ESG ratings, & social controversies (countries & companies)	ESG Data	ESG Data Provider	Asset owners & asset managers	Global Access (sustainalytics.com)
S&P	Social metrics aligned with SDG & EU SFDR frameworks, social scores & ESG ratings, & social controversies (countries & companies)	ESG Data	ESG Data Provider	Asset owners & asset managers	Sustainability for corporations | S&P Global Market Intelligence (spglobal.com)
NGO company reports (various).	Reports on specific allegations against companies in different sectors, that provide a third-party assessment of issues that can help validate or challenge companies' own reporting.	ESG Insights	Reporting	Asset owners & asset managers	Investors can review reports from organsations such as: Business and Human Rights Resource Centre; Shift; Oxfam; WikiRate; Human Rights Watch; Western Sahara Resource Watch etc.
Unions	Global, regional and local union organisations can also provide pertinent information related to labour rights in different geographies and sectors. Investors can review information provided by the Committee on Workers' Capital (CWC), United Nations University (UNU), International Transport Workers Federation (ITF), and any local or company unions.	ESG Insights	Market	Asset owners & asset managers	
Companies' own reporting	Example: Companies' sustainability report, annual report and standalone social/human rights reporting.	ESG Data	Reporting	Asset owners & asset managers	Sustainability for corporations | S&P Global Market Intelligence (spglobal.com)

Modern Slavery specific resources

Organisation	Description	Audience and Scope
US State Department Trafficking in Persons Report	Annual review of governmental anti-trafficking efforts by country.	Country
US DOL List of Goods Produced by Child Labour	List of goods and their source countries which it has reason to believe are produced by child labour or forced labour in violation of international standards.	Product
US DOL Findings on the Worst Forms of Child Labour	The annual Findings on the Worst Forms of Child Labour focuses on the efforts of certain U.S. trade beneficiary countries and territories to eliminate the worst forms of child labour through legislation, enforcement mechanisms, policies and social programs.	Country and sector
Walk Free	A bank of resources dedicated to modern slavery, including investor and business action to tackle it.	Country and sector, product
Sweat and Toil app	Resource on country, product type and sector information on modern slavery implications.	Country and sector
The Global Slavery Index	Outlines high risk import and export industries by country.	Country and sector
Corporate Human Rights Benchmark	Assessment of human rights at a company level.	Company
As You Sow	Provides some examples of relevant shareholder resolutions.	Company
Know the Chain	Benchmark of corporate labour practices across sectors.	Company
Votes against Slavery Coalition	Coalition of investors seeking to improve modern slavery practices and disclosures for 44 FTSE 350 companies whose modern slavery reporting failed to meet the requirements of the UK Modern Slavery Act.	Company
Modern Slavery Guidance for listed companies in Thailand	Guidance for listed That companies focusing on high-risk sectors developed by Walk Free-FAST-Thai Stock Exchange. The indicators and information can be helpful for investors.	Company

APPENDIX 2: Stewardship, investment and advice services

Trustee oversight of use of data by managers and service providers

Oversight:

Asset managers

Asking questions about how scheme's asset managers and investment consultants use and understand data on social issues, and the underlying inputs into this data, can help trustees gain deeper insights into their managers' approaches to managing financially material social issues. In particular, probing managers further on their use of datasets can help trustees understand:

- How proactive a manager is and the level of resource they are dedicating to financially material social issues – do they passively accept the information sources available, or are they doing their best to either find alternative sources or improve the status quo on information disclosure more generally?
- The priority sub-issues and jurisdictions that managers' data-gathering is focused on – do these priorities match the trustees' own assessment of what should be prioritised and is most material? Do they ultimately align with the trustees' own investment objectives?

Investment consultants

Similarly, asking investment consultants how they consider a manager's approach to social issues (and use of data) in their evaluations and recommendations can help trustees understand to what extent your consultants truly understand and are on top of not just the 'S' of ESG, but also responsible investment and stewardship more broadly. This in turn can be taken as an indicator of the extent to which the consultancy firm is truly keeping abreast of important regulatory and investment developments – and upskilling its team accordingly.

Use of data

Finally, asking more granular questions around the quality, type and use of data can signal to both external managers and consultants that you are willing to more than 'skin-deep' on social issues. Trustees should not be afraid to challenge their managers on unsatisfactory responses regarding data that has been provided on specific issues – nor to challenge their advisers where they do not feel a sufficiently detailed answer has been provided. Where necessary, follow-up questions should always be posed to ensure that trustees are able to gain a deeper insight into manager and consultant processes to ensure accordance with the scheme's requirements.

Guidance for trustees

To help these conversations, we have provided a list of example questions to ask asset managers and consultants. While trustees will be best placed to understand the specificities of their own investment arrangements and engagement histories with their managers and consultants, we here offer some practical suggestions regarding:

- How to evaluate the voting and engagement summaries provided by managers – how to cut through the growing amount of glossy sustainable investment reporting to better understand the thoughtfulness of managers' approaches
- How to assess whether scheme trustees might benefit from setting their own voting policy.

Trustees can look to identify outliers in relation to social factors above or below a baseline level, both in terms of portfolios and individual assets. Being able to identify outliers provides a starting point for challenging fund managers (and stewardship providers where these are used) on their approach. This can include discussion of individual investment case studies to test how ESG systems and stewardship work in practice.
To complement individual case studies presented by asset managers trustees may also undertake thematic portfolio 'deep dives' to find individual instances of poor performance across their asset managers' portfolios.

If a company were showing poor practice in a social area, it would be reasonable for pension trustees to expect their asset managers to recognise the risks, hold management to account against those expectations, evaluate the company's response, and bring influence to bear to address the concerns.

What does a 'good' answer look like from managers and consultants?

As more trustee meetings are taking place face-to-face again, we would generally recommend asking your managers and consultants to attend sessions in person for questions: an ability to scrutinise your service providers' body language is a fundamental ingredient in forming an assessment as to the quality of their understanding of an issue. However, trustees will have many other items on their agenda, so need to strike an appropriate balance between the activities required to improve investment returns over the long-term and effectively govern the scheme.

Good answers to questions include:

- A thorough grasp of the details – particularly in response to follow-up questions. Or, if they are unable to answer in the meeting itself, a rapid response and follow-up after the meeting which includes an account as to why they did not know the information when asked and what steps they are taking to ensure they rectify this gap in knowledge;
- A clear understanding of the trustees' priorities on social issues;
- Evidence that the service provider is being proactive on social issues – this goes equally for both managers and consultants – such as participating in policy debates if the quality of data on a particular social issue needs improvement, or seeking corroboration of data from other sources; and
- Honesty about where the gaps are in either the data or their own understanding, what lessons they have learnt from their exploration of an issue and the available datasets thus far, and the timescales by which they expect to improve the situation.

Trustee oversight of stewardship: what does good reporting look like?

Managers will seek to demonstrate the quality of their stewardship, both engagement and voting, to their clients. The following comments are suggestions to help frame trustee consideration of the quality and sufficiency of the disclosures that they receive from managers:

- **Timely.** Stewardship reporting should be appropriately frequent and provided within a reasonable period, certainly hitting any reasonable deadline that the trustees have set.
- **Tailored.** Trustees should expect stewardship reporting that is tailored and specific to their portfolios and to the themes that they have designated as important to them. This implies that case studies should include ones on issues that align with a scheme's social priorities and at least one or two of the scheme's top 10 largest holdings. Similarly, any 'significant' votes identified by managers should be aligned with the scheme's chosen stewardship themes, and should be in numbers that are meaningful and manageable. Any rationales for significant voting decisions should be specific rather than standard-form, and demonstrate a clear link between engagement and voting activity.
- **Robust and consistent process.** Trustees should expect stewardship reporting that demonstrates a robust and consistently applied process, delivered with proactivity by the manager. This implies: prioritisation of a company or an issue; a tailored engagement approach (using all relevant and appropriate stewardship tools); outcome so far; lessons learned and next steps (not least considering escalation, including any voting sanction, as appropriate and on an ongoing basis). Significant vote decisions should be set in the context of wider engagement, and where significant other vote-related actions (such as asking a question at an AGM, pre-declaration, or filing a resolution) should have been actively considered. Managers should also evidence that they have considered escalation of issues raised in significant votes. Where appropriate, managers should demonstrate a process that links engagement outcomes with investment decision-making.
- **Sufficient resourcing.** Trustees should expect managers to demonstrate through their stewardship reporting that they deploy sufficient and appropriate resources to the effective delivery of stewardship activities. Trustees should expect to receive clarity about how any specialist stewardship resource sits and works alongside the investment team, and who takes leadership in interactions with investment assets and in stewardship decision-making. The manager should be able to clearly articulate how this resource is split (by issue, category of issue, jurisdiction, sector or other) and offer a sensible rationale for their chosen approach. Resourcing is likely also to encompass IT systems used to track and monitor the quality and progress of stewardship activity, as well as to facilitate and mechanise stewardship reporting that is tailored to client portfolios and themes.
- **Honest and fair.** Trustees should expect stewardship reporting to be honest, fair, balanced and understandable. In particular, managers should not seek to take excess credit for delivering an outcome, and should acknowledge the likely efforts of other investors. Mere membership of a collective vehicle or collaborative engagement does not in itself mean managers can claim credit for outcomes; managers should be consistently clear about the level of involvement in collaborations, and if disclosing outcomes from collaborative engagements they should demonstrate that they were active and leading participants.
- **Responsive to feedback.** Trustees should expect managers to welcome, and respond to, client feedback on the format and quality of their stewardship reporting.

Trustees may also find it helpful to read the PLSA/Investor Forum 2020 report *Engaging the Engagers* which provides more insights and suggested questions (link provided in the footnote to the Questions).

Questions[15]

The following offers some sample high level, issue-agnostic questions to help trustees gain a deeper understanding of their managers' and consultants' approach.

Questions for asset managers at RFP stage

General

What is a trustee looking for?

Alignment between the approach of the manager and the trustee's own thinking on social factors.

What might good look like?

Managers should be able to demonstrate a clarity of thought on social factors, an understanding of what the trustees' beliefs are regarding such factors, and a perspective on them that reflects the trustees' own position - or at least a flexibility to respond to differing client perspectives.

1. Which social issues for engagement are key priorities to you? What is your assessment as to how well these issues align with the Trustees' own priorities and assessment of what is financially material?
2. To what extent are you engaged with public policy and best practice debates and discussions on social factors? Which industry groupings active on social issues are you a member of? Please describe the level of your participation in these groups.

15 Acknowledgement of sources on which some of these questions were based:
- Engaging the Engagers, a practical toolkit for schemes to achieve effective stewardship through their managers, PLSA & Investor Forum, July 2020
- The Rule of Law and investor approaches to ESG: Discussion paper, Bingham Centre for the Rule of Law, September 2022

Metrics and systems

What is a trustee looking for?

These questions seek to understand what systems and processes your managers have in place regarding social factors, and how robustly and consistently are those systems and processes applied.

What might good look like?

Managers showing leading practice will have in place systems and processes to monitor investments across the range of social factors, and particularly over those which the trustee has identified as key themes. They will have systems to help assist the integration of these factors into investment decision-making, and to track the progress of stewardship activity over time. They will be able to demonstrate that they work as relevant towards consistency of application of their understanding of social factors across investment and analyst teams, and across asset classes.

1. What social metrics does your firm monitor, or portfolio managers routinely consider when assessing an investment, and how are they measured?
2. Which datasets do you use and why? How confident are you in the quality of the social issues data you are using to make decision? How do you test the accuracy of the data?
3. What information is often missing from datasets and how do you proxy this information?
4. Where are you unhappy with the data? What steps have you taken to try to improve it?
5. What systems does your firm have in place to capture and integrate data on social factors and ensure that they are available to portfolio managers so that they can be effectively integrated in investment decisions? How do you use the data to identify outliers in your portfolios to test the quality of your investment decision-making? How do you ensure that any significant changes in social data are flagged to portfolio managers so that they can reflect on their investment decisions?
6. What systems does your firm have in place to capture and track stewardship activity on social issues? How do you ensure that progress is considered and assessed on a regular basis, and escalation is taken where necessary? What do those systems reveal about the characteristics of successful and less successful engagements?
7. How do you ensure that you enjoy the benefit of a consistent quality of analysis of social factors across your analyst team? How is your understanding of an entity's or a sector's social factor risks and opportunities shared across your teams investing in different asset classes? How does the firm approach stewardship activity to ensure consistency where multiple investment teams have investment exposure to the same company or asset?

Effective integration

What is a trustee looking for?

These questions seek to understand that social factors are appropriately and effectively integrated into investment decision-making, and how this is done.

What might good look like?

Managers showing leading practice will be able to provide examples against each of these requests and high-level explanations (and if the trustee wishes, more detailed descriptions) of the reasoning that led to the decision(s) in question.

1. What role do social issues play in driving a financial assessment of a company?
2. Please provide an example of a buy or sell decision over the last 12 months that was significantly affected by your analysis of a social factor.
3. Please provide an example of where your understanding of social factors has reinforced your comfort in maintaining a particular investment in the portfolio.
4. Please provide an example of stewardship actions with regard to a social factor relevant to the portfolio over the last 2 years and any relevant outcomes. Can the firm demonstrate progress against the engagement objective? How is ongoing progress assessed?
5. Please identify the holding in the portfolio with the greatest exposures to social risk factors. Please explain why despite these risks you remain confident in maintaining the investment.

Human rights due diligence

What is a trustee looking for?

These questions seek to understand how fund managers apply human rights due diligence best practices to their own business and processes.

What might good look like?

Managers showing leading practice will be able to demonstrate how they have robustly considered their own potential exposures to human rights risks, and how they have deployed good practice to mitigate these risks.

1. Please describe the human rights due diligence process(es) in place at your firm, including
   a) where responsibility for the process(es) rests;
   b) processes for obtaining information on impacts on people associated with the portfolio (including any engagement with external stakeholders), and;
   c) examples of how the process(es) were applied to your firm's investees, clients, and own operations.
2. Please describe the due diligence process(es) you carry out to understand the 'direct linkages' your firm might have to serious human rights violations (as understood using the UN Guiding Principles for Business and Human Rights), and please confirm the extent of any such 'direct linkages'.
3. Please describe the due diligence process(es) you carry out to assess the human rights record of clients, including among other things considerations of whether there is a risk of them becoming subject to sanctions or other investment constraints.
4. Which countries, if any, would you avoid investing in because of Rule of Law concerns? If none, why not? Why do you believe that you have sufficient protection for your investments in the absence of confidence in the Rule of Law?
5. How do you integrate Rule of Law considerations into your investment decision-making? What characteristics of a company or of the markets in which it operates (or which form part of its supply chain) would give you greatest concern from a Rule of Law perspective?

Questions for asset manager monitoring

Metrics and Systems

What is a trustee looking for?

These questions seek clear insights, tailored to the portfolio in question over the relevant reporting period, into key social metrics, and how they have been applied in practice.

What might good look like?

By challenging managers on portfolio-specific matters, trustees enable them to show leading practice through details on the approach and processes as applied in practice to key social metrics, covering both stewardship and investment integration. Better managers will have more convincing and consistent explanations on their processes and thinking, providing better assurance that there is genuine and thoughtful integration in practice.

1. With regard to asset AA, please provide your analysis of the social risks the investment faces, and demonstrate how your analysis of the key social factors has changed over time.
2. Who in the team sets engagement objectives? What is the oversight process to ensure that these objectives are robust and material, and consistently so across the organisation?
3. How is progress against objectives assessed? How does the manager gain confidence that material change has indeed been delivered?
4. Asset BB is a significant holding and faces some key risks. Can the manager demonstrate objectives that are in place for engagement with the investment, what actions have been taken to deliver those objectives and what progress has been made in delivery?

Effective integration

What is a trustee looking for?

These questions seek clear insights, tailored to the portfolio in question over the relevant reporting period, into how the manager has in practice integrated key social factors into their investment decision-making.

What might good look like?

By challenging managers on portfolio-specific matters, trustees enable them to show leading practice through details on how social factors have been integrated into investment processes. Better managers will demonstrate coherent processes across the portfolio and over time, and clear associations between emerging understandings of investments' risk exposures and their attractions as an investment.

1. How are the manager's holdings in CC and DD consistent with its approach to stewardship and long-term investment? Aren't there clear risks associated with these businesses? How have investment teams factored those risks into their decision-making?
2. The manager has had lengthy dialogue and engagement with EE. What impact has that had on the investment decision and the relative weighting within portfolios?
3. We note your increased exposure over the period to investments in [country FF]. What due diligence have you done to be confident that the Rule of Law is sufficiently in place in that country for you to be assured of the returns you hope for from those investments?
4. The manager has sold out of asset GG over the period. Can it outline the engagement experience with its management over the last two years? What would have needed to change for the manager to be comfortable continuing to hold the asset?
5. What are you doing to help ensure a fair playing field for companies that are seeking to maintain high social standards across their activities and supply chains, so that they are not undercut by less scrupulous competitors? How do you avoid investing in those less scrupulous competitors?

Engagement focus and escalation

What is a trustee looking for?

These questions seek clear insights, tailored to the portfolio in question over the relevant reporting period, into how the manager has in practice integrated key social factors into their stewardship actions.

What might good look like?

By challenging managers on portfolio-specific matters, trustees enable them to show leading practice through details on how social factors have been integrated into stewardship activities. Better managers will demonstrate coherent processes across the portfolio and over time, and consistent processes and internal challenge with regard to delivering against engagement goals. This will include consistent and thoughtful approaches to escalation of engagement - and any decisions to divest an asset following engagement.

1. What form of engagement has had the greatest focus in the last period, and required the majority of the firm's engagement resource? Why? How has the manager measured the effectiveness of this use of resources?
2. You continue to hold asset HH. How has your stewardship approach to the company changed over the period in the light of the emergence of allegations regarding [social risk factor]? At what level of decision-making have you held active dialogue with HH? What did you learn? Was HH receptive to input and investor concerns? What do you believe will change as a result, and by when?
3. How has your engagement with asset II, particularly with regard to social risk factor ZZ, developed over the last [3] years? What were the goals of the engagement set at the start of the process, how have you measured progress against those over the life of the engagement so far, and what are the next steps for delivering change at II? What is you prognosis on the likelihood of engagement success, and what is your estimate of the future timeline?
4. When will you take action to escalate the engagement with asset JJ? What are the likely next escalations? What might cause you to decide to exit this investment and when might any such decision be taken?
5. How does the manager decide to escalate an engagement if it has not been effective initially? What is the decision-making process and how do teams decide between different forms of escalation {such as collaborative engagement or going public with concerns)?
6. Please identify an example of a vote over the reporting period that you deem significant because of a link to social issues. Explain your decision-making on the resolution, the voting outcome and any implications - and explain why this is a significant vote in your view.
7. If the firm has made substantial public statements in the last period, how do these get translated to concrete actions on the ground? How have the dialogues with individual investments changed as a result?

Questions for investment consultants

What is a trustee looking for?

Investment consultants should be able to demonstrate an understanding of, and a degree of skill with regard to, social risk factors and how they affect stewardship and investment decision-making.

What might good look like?

Investment consultants should be able to demonstrate a clarity of thought on social factors, an understanding of what the trustees' beliefs are regarding such factors, and a perspective on them that reflects the trustees' own position - or at least a flexibility to respond to differing client perspectives. Further, consultants should be able to articulate clearly how social factors are considered in their assessments of fund manager investment integration approaches. They should also be able to offer tools to enable clients to assess the delivery of stewardship activities on social factors, and where these are unsatisfactory, how they can help clients to engage for better delivery.

1. How can you help us to determine which social issues most matter to us and to our beneficiaries?
2. How can we do more in relation to X social issue, which we have identified as significant to us?
3. How do you feed x social issue into your due diligence of investment managers before making any recommendation to us?
4. How do you gain comfort from the managers that they are taking a thoughtful and focused approach to data use regarding social issues?
5. What information do you use to assess managers on their approach to social issues?
6. How do you consider the investment managers' human rights assessments in your due diligence processes? In particular, how do you assess the way in which they mount human rights assessments of their other clients which we may be investing alongside?
7. How can you help us to assess the quality of systems and processes that investment managers deploy to support their investment integration and stewardship on X social issue?
8. How can you help us to assess the quality delivery of investment integration and stewardship on X social issue by our investment managers? What does good practice look like regarding voting/engagement/stewardship on social issues from the managers you assess?
9. How can you help us to assess the effectiveness of the approaches by our investment managers to engaging on policy and regulation, including quality disclosures by investments, on X social issue?
10. How can you help us to engage with our investment managers to encourage them to enhance the delivery of integration and stewardship on X social issue?
11. What is a significant red flag for a manager regarding their approach to social issues?
12. To what extent are you engaged with public policy and best practice debates and discussions on social factors?

Potential items in mandates/side letters

What is a trustee looking for?

These draft clauses offer trustees confidence that their expectations in relation to the investment integration of social risk factors, and their inclusion in stewardship activities, will be delivered in practice.

What might good look like?

These clauses themselves may not be agreed to be included within investment management mandates - nor even within side letters (which carry somewhat less legal weight). But the response of managers to requests to include them, and the negotiations leading to a different form of clause, will provide trustees with real insights into the mindset and approach of their managers and the degree of confidence that they should have about manager delivery.

1. Manager will work with investments to encourage the capture and disclosure of data relevant to an investor's understanding of social factors, both at the business itself and in forms that are capable of being aggregated at portfolio level.
2. Manager will facilitate the sharing of relevant and aggregable data regarding material social factors disclosed by investments, including, where appropriate, consideration of supply chains risks for high risk or controversial investments. Where investments face rules limiting the sharing of non-public information, they should be encouraged to make data fully public; private entities and all those not subject to public markets disclosure requirements should also make disclosures, either in public or through the manager.
3. Manager will demonstrate that relevant insights from available data and reporting on social factors will be considered within its investment decision-making.
4. Manager will demonstrate that relevant insights from available data and reporting on social factors will be considered within its approach to stewardship and as part of its stewardship activities.
5. Manager will facilitate access to its systems for recording investment integration and stewardship such that Client will be able to test the robustness and effectiveness of data flows and record-keeping, to enable full confidence in the consistency of processes and accuracy of reporting.
6. Manager acknowledges that the risks that Client faces are not solely related to deviations from market benchmark. Manager acknowledges its need to consider long-term and systemic risk factors in order to manage risks which are relevant on Client's long-term investment horizon and to Client's fiduciary responsibilities. Manager will collaborate as appropriate with other investors to help address such systemic risks, and report on these activities to Client.
7. Manager will manage social factors within its own operations. Among other things, it will actively work to mitigate the risks of mistreatment of workers in its supply chain (contractors included), including but not limited to risks of modern slavery. Where it becomes aware of a breach of standards, it will report this without delay to Client.

APPENDIX 3: Assessing asset manager practices on modern slavery

This overview provides trustees with a way of assessing the maturity of asset managers' practices on addressing modern slavery risk in portfolios and set expectations around this.

Modern slavery: specific considerations

- **Data availability.** Investors have a range of data sources and identifying modern slavery risk in a portfolio relies heavily on identifying high risk geographies, sectors and business models. A key role that investors can play is to encourage companies to disclose further data on their suppliers' labour practices to facilitate further action to tackle slavery.
- **Identifying risk to people**. Considering the risks of modern slavery and discharging their responsibilities to respect human rights may require investors to shift their focus from their largest holdings to the areas with highest risk to people. As per the FAST risk-mapping tool, it's helpful for investors to identify high risk sectors/industries (via GEMS report), high-risk countries (via Global Slavery Index) and high-risk populations (GSI, FAST, Workforce Disclosure Initiative, and others). Risk factors include businesses with short turnarounds (where suppliers may not have capacity to deliver to expected timeframes and resort to contracting with limited labour due diligence), use of low-skilled or migrant labour, or far-removed operations (such as fisheries at sea).
- **The reputational risk of modern slavery, and the difficulty of detecting it leads to a reluctance by companies to detect and disclose instances of modern slavery.** Modern slavery may take place deep within company supply chains, and both companies and investors may lack both the requisite competence and capacity to identify it. Where possible, investors should leverage multiple inputs in their due diligence, including local civil society to ensure risks are properly understood and mitigated[16]. Investors' engagement can also both seek to reduce the stigma of modern slavery risk and encourage companies to disclose cases they have identified, how they have remedied the situation and victims, and what measures are being implemented to avoid reoccurrence.
- **Remedy.** Providing survivors of slavery with access to effective remedy is a key pillar of the UN Guiding Principles on Business and Human Rights, but many victims receive little to no remediation for abuse. As far as possible, instead of exiting on the occurrence of slavery in investee companies, investors should encourage proper, time-bound remediation adapted to the circumstances of the incident, and mitigation of future risks to be put in place in partnership with local civil society and considering community grievance mechanisms and communicate on this transparently[17].
- **Considering lived experience.** To tackle modern slavery, it is important to have some understanding of how it impacts those who have experienced it and seek to involve them in the process. However, modern slavery is often found in opaque and layered supply chains, so that, even at the company level, those affected are usually at least a step removed. There are at least one (or two) additional layers at the investment manager and asset owner level. Also, modern slavery is not one issue, but many different issues, played out differently depending on the sector and location. However, asset owners and/or investment managers should encourage companies to directly engage with subject experts, such as FAST, Unseen and MSPEC, as well as charities and other civil society organisations working with those affected when addressing modern slavery risks.

16 Investors can leverage worker voice tools to understand grievances, engaging with local initiatives (notable examples are the Fair Cobalt Initiative, or the Bangladesh Accord), local civil society, worker-driven models, and technology companies employing AI and blockchain to improve supply chain transparency and traceability.

17 Types of grievance processes include direct negotiation, facilitation, conciliation, mediation, investigation, adjudication and arbitration.

Asset manager practice	Level of practice		
	Base level	Good practice	Leading practice
Corporate commitment to addressing modern slavery issue on the institution-wide level.	✔	✔	✔
Provide examples of targets and KPIs related to modern slavery issues, that are currently in place for your management executives.	✖	✖	✔
Availability of the institution-wide modern slavery policy that covers modern slavery risks and mitigation in relation to investment activities, either stand-alone or incorporated into investment guidelines.	✔	✔	✔
Availability of an established framework the manager uses to identify modern slavery risks in their portfolio.	✔	✔	✔
Providing education and training to staff and clients on:			
• General social issues considerations;	✔	✔	✔
• Modern slavery considerations and the effects of the issue on the risk return characteristics of the client's portfolio.	✖	✖	✔
Providing investment solutions targeting social themes (modern slavery in particular).	✖	✖	✔
Availability of an engagement programme with the underlying companies/issuers/sovereigns that covers:			
• General consideration of modern slavery risks;	✔	✔	✔
• Provision of guidance/expertise/advice for portfolio companies on managing modern slavery risks;	✖	✔	✔
• Ongoing engagements with the portfolio companies on the modern slavery issues.	✖	✔	✔
Availability of the voting policy on the modern slavery issues, for equity managers.	✔	✔	✔
Presence of reporting transparency on metrics, targets and engagements associated with modern slavery issues.	✖	✔	✔
Have a robust escalation process with the portfolio companies/issuers/ sovereigns which would complement the overall fund's investment strategy.	✖	✔	✔
Advocating and collaborating with industry participants to encourage greater industry progress and effective regulation.	✖	✔	✔
Publish modern slavery thematic leadership and blogs.	✖	✖	✔

Manager due diligence questions on modern slavery

Topic	Questions	Practice level
Policy and governance		
Policy	Does the firm have an institution-wide modern slavery policy commitment that covers modern slavery risks and mitigation in relation to investment activities, either stand-alone or incorporated into investment guidelines or other relevant policies?	Base level
Policy	Does the firm set out an expectation that its underlying investees tackle modern slavery in alignment with the UN Guiding Principles? How does the firm communicate and follow up on this expectation?	Base level
Oversight	Who is responsible at the senior management and Board level for firm-wide execution and oversight of the firm's modern slavery commitment?	Base level
Oversight	Where applicable, please provide examples of targets and KPIs related to modern slavery issues, that are currently in place for your management executives.	Leading practice
Resourcing	Does the firm have internal or external modern slavery expertise informing due diligence processes, both on the corporate level and within the investment process?	Base level
Resourcing	Who within your firm is responsible for day-to-day identification and execution of addressing modern slavery risk both on the corporate level and within the investment process? What is the individual's engagement with the investment team and at what stage of the investment lifecycle is modern slavery risk being identified and addressed?	Base level
Industry initiatives	Are you signatory to industry led initiatives relating to supply chain risks and/ or modern slavery?	Base level
Resourcing	What is the role of portfolio managers and analysts in assessing underlying investees' modern slavery processes and outcomes? How is their performance measured and, where appropriate, linked to compensation?	Good practice
Stakeholder input	Does the firm have accessible channels for stakeholders to inform its modern slavery risk management practices? (I.e., hotlines and other channels to raise issues/ concerns)	Good practice
Strategy	How is modern slavery incorporated into the firm's strategic planning, at both the operational and investment level? What are the firms KPIs when it comes to modern slavery?	Leading practice
Due diligence processes		
HRDD	Does the firm assess modern slavery risks in its investments and their impact on people? If so, what research tools does the firm use in doing so? What engagement with external stakeholders does the firm carry out? How does this feed into investment decision-making?	Base level
Risk mitigation	How do you address the risks identified? Does the firm for example incorporate modern slavery risk into its engagement with underlying investees and assets? Private equity? Does the firm in other ways incorporate modern slavery in its engagement?	Base level
Engagement	Can you provide us with a history of your engagements with underlying investees with regards to modern slavery and human trafficking? How many investees have you engaged with regarding this issue in the past year? What were the outcomes of the engagement?	Base level
Engagement	How do you prioritise engagement with investees and issuers on modern slavery?	Good practice
Engagement	Does the firm provide guidance/expertise/advice for portfolio underlying investees on managing modern slavery risks?	Leading practice
Voting	Does the firm report its voting record on any modern slavery related resolutions? How are underlying investees otherwise held accountable for their activity to tackle modern slavery?	Good practice
Incidents and access to remedy		
Process	Do you have a process in place to address incidents where modern slavery is detected? Can you provide a case study/ example to demonstrate how you have tackled instances of modern slavery in your portfolio including remediation and 'prevent' measures.	Base level
Tracking and resolution	How you do you track, manage and report incidents, including to ensure incidents are monitored until they are resolved?	Base level
Review		
	How do you monitor, assess and enhance the effectiveness of your approach to modern slavery?	Good practice

Deep dive questions on a social issue: modern slavery

Topic	Questions	Practice level
Policy and governance		
Policy	Does the firm have an institution-wide modern slavery policy commitment that covers modern slavery risks and mitigation in relation to investment activities, either stand-alone or incorporated into investment guidelines or other relevant policies?	Base level
Policy	Does the firm set out an expectation that its portfolio companies tackle modern slavery in alignment with the UNGuiding Principles? How does the firm communicate and follow up on this expectation?	Base level
Oversight	Who is responsible at the senior management and Board level for firm-wide execution and oversight of the firm's modern slavery commitment?	Base level
Resourcing	Does the firm have internal or external modern slavery expertise informing due diligence processes?	Base level
Resourcing	Who within your firm is responsible for day-to-day execution of addressing modern slavery risk?	Base level
Industry initiatives	Are you signatory to industry led initiatives relating to supply chain risks and/ or modern slavery?	Base level
Resourcing	What is the role of portfolio managers and analysts in assessing portfolio companies' modern slavery processes and outcomes? How is their performance measured and, where appropriate, linked to compensation?	Good practice
Stakeholder input	Does the firm have accessible channels for stakeholders to inform its modern slavery risk management practices?	Good practice
Strategy	How are modern slavery incorporated into the firm's strategic planning, at both the operational and investment level? What are the firms KPIs when it comes to modern slavery?	Leading practice
Due diligence and risk assessment		
HRDD	Does the firm assess modern slavery risks in its investments and their impact on people? If so, what research tools does the firm use in doing so? How does this feed into investment decision-making?	Base level
Risk mitigation	How do you address the risks identified? Does the firm for example incorporate modern slavery risk into its engagement with companies and assets? Private equity? Does the firm in other ways incorporate modern slavery in its engagement?	Base level
Engagement	Can you provide us with a history of your engagements with companies with regards to modern slavery and human trafficking? How many companies have you engaged with regarding this issue in the past year?	Base level
Engagement	How do you prioritise engagement with companies and issuers on modern slavery?	Good practice
Voting	Does the firm report its voting record on any modern slavery related resolutions? How are portfolio companies otherwise held accountable for their activity to tackle modern slavery?	Good practice
Engagement	Does the firm provide guidance/expertise/advice for portfolio companies on managing modern slavery risks?	Leading practice
Incidents and access to remedy		
Process	Do you have a process in place to address incidents where modern slavery is detected? Can you provide a case study/ example to demonstrate how you have tackled instances of modern slavery in your portfolio.	Base level
Tracking and resolution	How you do you track, manage and report incidents, including to ensure incidents are monitored until they are resolved?	Base level
Review		
Monitoring	How do you monitor, assess and enhance the effectiveness of your approach to modern slavery?	Good practice

APPENDIX 4: Case studies

CASE STUDY 1

ENGAGING ON SOCIAL ISSUES IN 2023 PROXY VOTING SEASON

Objective:

Shareholder engagement and voting provides an important accountability mechanism for investors to support and challenge investee companies. Aegon expect our appointed asset managers to support greater transparency and progress by companies on human rights and diversity and inclusion when engaging and voting on our behalf.

Action:

For the 2023 AGM season, as part of our ‘expression of wish’ (EOW) approach, we called on our principal appointed asset managers to support select shareholder proposals on social topics, relevant to our most material company holdings and priority themes. The managers are assessed on their voting alignment, which becomes an input for our overall assessment of manager alignment and performance on responsible investment. We seek to engage with managers whose voting is inconsistent with our EOW.

Outcome:

The below presents examples of social-related shareholder resolutions we supported in 2023 proxy season:

Company	Resolution topic	EOW for principal asset managers
Amazon	Report on ethnicity and gender pay gaps	Vote For. We support the resolution’s ask which promotes best practice pay equity reporting. While Amazon reports diversity data including statistically adjusted gaps, it does not provide unadjusted median pay gaps, which enables an assessment of equal opportunity to high paying roles, and therefore may hinder understanding of real progress on D&I.
CVS Health	Adopt paid sick leave (PSL) policy	Vote For. We generally support resolutions which encourage progress on human capital management critical to long-term company performance. We believe PSL may also help reduce inequality given the lack of comprehensive PSL benefit for all employees disproportionately affect low-income communities and communities of colour.

While neither resolution was passed, both received significant support (more than 20%).

CASE STUDY 2

TOBACCO EXCLUSION ON SOCIAL BASIS

Objective:

A large UK asset owner motioned to restrict tobacco investments in its mandated funds in response to downward social trends imposed by the sector and subsequent investment risk. Research supports that risks inherently linked to the tobacco industry pose a great threat to the long-term health and stability of the planet and its people. Specifically, the tobacco industry faces growing social, reputational and regulatory risks through its supply chain and consumption which this asset owner deemed to negate its apparent resilience in turbulent market cycles. The use of tobacco is universally accepted as counter to the goals of the UN, particularly the right to health. Taking into account this fundamental misalignment, the UN Global Compact (UNGC) banned tobacco industries from participating in the initiative in 2017.

Action:

In 2022, the asset owner formally expanded the scope of its exclusion policy to restrict tobacco investments in its mandated funds. The update to the exclusions policy, which had been in effect since 2020, prohibits investment in tobacco companies generating more than 10% of its revenue from tobacco.

Outcome:

The newly introduced 10% threshold would, in effect, eliminate all manufacturers and major distributors - where tobacco is its primary source of revenue. Companies that derive small amounts of revenue from tobacco, such as supermarkets or hotels would inevitably remain. By October 2022, the firm’s appointed investment manager completed the sale of all tobacco holdings in the portfolio. Divestment of the sector along with other revisions to the asset owner’s exclusion policy made in 2022 amounted to £1.5bn.

CASE STUDY 3

MATERIALITY MATRIX – PRIORITISING AND CHOOSING THEMATIC STEWARDSHIP ISSUES

Objective:

Railpen's investment portfolio represents a slice of the global economy and is, therefore, exposed to system-wide environmental, social and governance risks; universal ownership. Using a materiality matrix helps ascertain which of the ever-growing number of ESG issues to prioritise in thematic stewardship work, assessing against (individually weighted) criteria:

- The materiality of the issue to the portfolio
- Alignment with the trustee's investment beliefs
- The potential impact on or importance to members
- Trustee ability to make a difference
- The expertise of the team (including trustees, in-house resource and advisers)
- Discussion on the highest scoring issues helps the trustee to choose priority stewardship themes.

Action:

The below is an example of how this criterion is applied in the case of workforce treatment.

Criterion	Workforce treatment as a possible priority
Materiality of the issue to portfolio	Evidence shows labour issues material to every sector including sectors the portfolio has significant exposure to e.g. tech Workforce treatment more material than ever in light of pandemic
Alignment with the Trustee's investment beliefs and perspectives	Discussions with Trustee indicate workforce a high priority (especially workforce relations/voice) A proportion of the Trustee Board have trade union backgrounds
Potential impact on or importance to members	Highly material issue, so likely significant impact on member outcomes "Fair treatment of workforce" top ESG priority for members in survey "Fair pay" third most important ESG priority in member survey
Ability to make a difference	Opportunities for policy change in key jurisdictions in next 3-5 years (UK Corporate Governance Code review; ISSB next steps; SEC work on human capital disclosure) Key individuals in the internal team have expertise in engaging with companies on workforce issues; working to improve workforce disclosure Key gaps on workforce in industry work e.g. workforce disclosure of variable quality; use of paid medical leave at US firms; use of narrow range of worker voice mechanisms; diversity and inclusion initiatives still focused just on boardroom; remuneration discussions focused on top execs in isolation

Outcome:

After further discussion across organisation and with the Trustee, four priority themes were ultimately chosen: The Climate Transition; Worth of the Workforce; Sustainable Financial Markets; and Responsible Technology. These overarching themes have since guided our thematic stewardship work (and will continue to do so over the next few years), in recognition that real change on system-wide issues takes time. Progress against our objectives for each theme is actively monitored and regularly reviewed by the Sustainable Ownership team, with key findings shared across the wider organisation and with the Trustee.

CASE STUDY 4

QUANTIFYING THE QUALITATIVE – ASSET MANAGER ESG ASSESSMENTS

Objective:

Where quantitative data are not available, qualitative assessments can be conducted on assets, companies or investors. For example, one investment consultancy (Isio Group Ltd) conducts ESG impact assessments on its clients' asset managers, to assess their broad ESG capabilities, and in 2022, began to trial a social score to understand the managers' social capabilities. The assessments have reviewed over 70 managers for their approach to social risks and opportunities.

Action:

The assessment covered some of the following example areas:

- Investment approach: social policy, with presence of social KPIs and/or social allocations
- Risk management: diversity & inclusion, and social metrics in in ESG assessments
- Stewardship: social stewardship priorities, social engagements and collaboration
- Reporting: reporting on social metrics to clients, as well as stewardship reporting

The managers are then categorised according to the following scale. This is used as a basis for identifying engagement priorities to improve their approach moving forward.

Above satisfactory	The manager scores highly on our scorecard and is in line with best practice in terms of social integration.
Satisfies requirements	The manager has scored strongly on some (but not all) of the assessed criteria and social integration is on par with the majority of investors.
Below satisfactory	The managers fails to meet most of the criteria on our scorecard and is significantly behind best practice in terms of social climate integration.

Source: Isio Group Limited

Outcome:

The ESG impact assessment results demonstrate that whilst the consideration of social risks and opportunities is more nascent than other assessed areas (e.g. climate change), a minority of managers already have an above satisfactory approach, In particular, social housing and social infrastructure funds had amongst the highest scores, in aiming to achieve a positive social impact by additional low-cost housing or new health and educational centres. Examples of social integration were however found across the spectrum of assets, including leading index providers who were developing passive indexing approaches, focused on companies demonstrating best practice approaches to social factors in the workplace and supply chain, such as equality, diversity and inclusion, or living wages.

Generally, the expectation is the consideration of social factors by managers will increase over time, across managers and asset classes, particularly in response to forces such as new regulation or rising voluntary disclosure trends. Engaging with managers today on their approach to social risk and opportunities could help to support this positive trend.

CASE STUDY 5

AN APPROACH TO DEALING WITH MODERN SLAVERY

Objective:

The trustees of Railpen consider the practice of employing modern slavery not only undermines fair market practice by unsustainably driving down production costs, but it may also incur corporate costs because of reputational damage, shareholder action, remediation, reduced supply chain resilience and trade sanctions. To manage these risks, the trustee has continued to integrate the theme of modern slavery within investment processes through screening, due diligence, engagement and voting.

Action and Outcome:

Screening

The trustee screens its listed equities portfolio annually to identify companies involved in severe governance and/or conduct controversies, including cases of modern slavery. The Sustainable Ownership team requests engagement with identified companies to discuss ongoing risks and areas for improvement.

Due diligence

The investor is working to incorporate modern slavery factors within due diligence processes for asset classes beyond listed equities. For example, an assessment of these risks was conducted prior to the acquisition of a solar farm asset: the investor noted that the supply chains of solar photovoltaic (PV) panels are highly concentrated and exposed to socio-environmental controversies, rendering them vulnerable to disruption and shortages. This risk had materialised in China, with approximately 54% of Chinese polysilicon processed in the Xinjiang region, where the Uyghur population has been subject to forced labour.

Due to the exposure to modern slavery, the investor engaged with the project's developer and the panel manufacturer to understand their approach to responsible procurement, and reviewed the policies and practices in place to ensure modern slavery risks were appropriately managed within the supply chain. Through dialogue, they gained further transparency around the manufacturer's approach, including auditing, whistleblowing, and employee engagement mechanisms.

Collective engagement and voting

The investor considers that combining expertise and voice with peer investors can enable more effective engagement with portfolio companies. Therefore, the investor joined two investor-led initiatives focused on modern slavery and will incorporate learnings from these initiatives into upcoming screening and engagement cycles.

CASE STUDY 6

COLLABORATIVE INVESTOR ACTION ON MODERN SLAVERY IN DIRECT INVESTMENT PORTFOLIOS

Objective:

Find it, Fix it, Prevent it is an investor-led, multi-stakeholder project. Developed by CCLA and supported by a coalition of investor bodies, academics and non-governmental organisations (NGOs), it is designed to harness the power of the investment community. The overarching aim is to make the corporate response to modern slavery more effective.

Action:

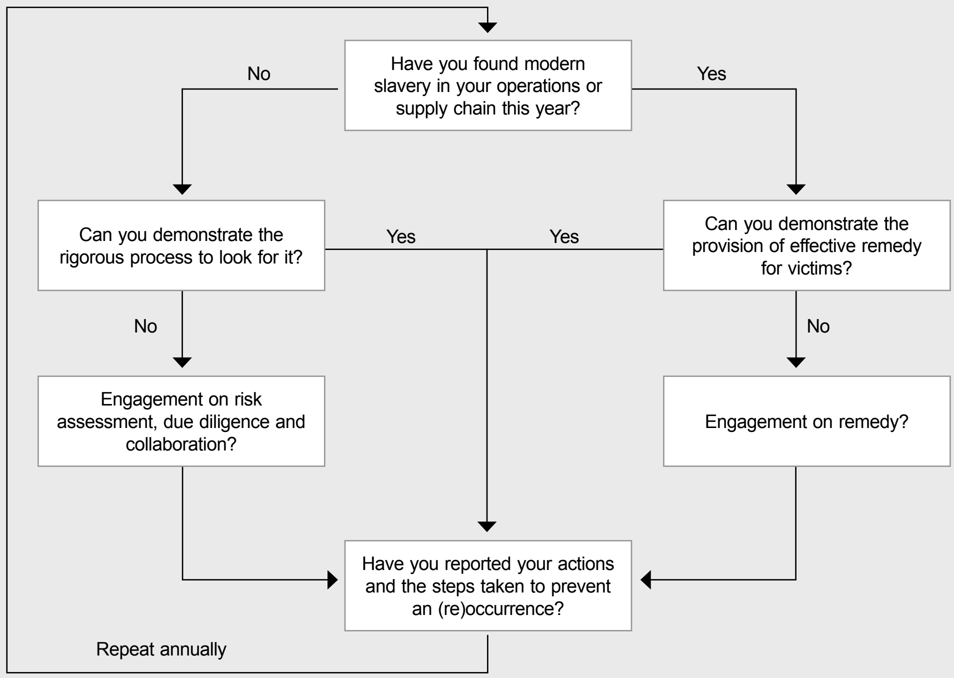
The initiative was launched at the London Stock Exchange in November 2019.

The programme has three complementary workstreams: corporate engagement, public policy and developing better modern slavery data.

Corporate engagement – aiding companies in developing and implementing better processes for finding, fixing and preventing modern slavery and asking companies to:

1. **Find it** – proactively search their supply chain for modern slavery, on the assumption that it exists.
2. **Fix it** – work towards and report on remedy for those affected.
3. **Prevent it** – take meaningful steps to ensure that the situation does not continue.

FIGURE 1: FIND IT, FIX IT, PREVENT IT ENGAGEMENT FRAMEWORK



1. **Public policy** – promoting a meaningful regulatory environment through work with the government, policymakers and regulators
2. **Developing better modern slavery data** – working with data providers, NGOs, and academia to identify and develop better data.

Outcome:

Since its launch, the initiative has grown in both scope and depth. There are currently 65 investors in Find it, Fix it, Prevent it, with a collective asset under management and advisory of £15 trillion.

CASE STUDY 7

ENGAGEMENT ON MODERN SLAVERY

Objective:

One of the key levers investment managers must tackle modern slavery is engagement with companies. An asset manager Alliance Bernstein, has five criteria to use as a collective benchmark for best practices in managing modern slavery risk, or risks to people:

Action:

1. **Governance Framework**

   What steps are the board and senior management taking—through policies and procedures, as well as company culture and values—to align the business with the goal of reducing modern slavery risk?

2. **Risk Identification**

   The criminal and covert nature of modern slavery practices makes this a difficult and delicate task. How well does the company understand the challenge, and how robust are the techniques and processes it uses to identify the risk?

3. **Action Plan to Reduce Risks**

   Is the plan a realistic solution to reduce risk to people within the company and its supply chains? Does the firm appropriately identify the risks and effectively train and empower employees and suppliers to engage with them and reduce them?

4. **Action Plan Effectiveness**

   To what extent have the company's actions reduced risk, and how are the board and senior executives measuring progress? What procedures are in place to ensure that follow-up actions are implemented and monitored?

5. **Future Improvement**

   For many companies, the road to reducing modern slavery risk will be long, through unfamiliar territory. The best companies will be able to evaluate their progress each step of the way and make changes with an eye to continuously improving their performance against each of the criteria.

Outcome:

This framework recognises that best practice is a process of continuous learning and improvement.