



# Social approach of DPAM

Implementing the UN Guiding Principles on Business  
and Human Rights

## 0. Overview of approach

### ESG integration in sustainable and responsible investment strategies

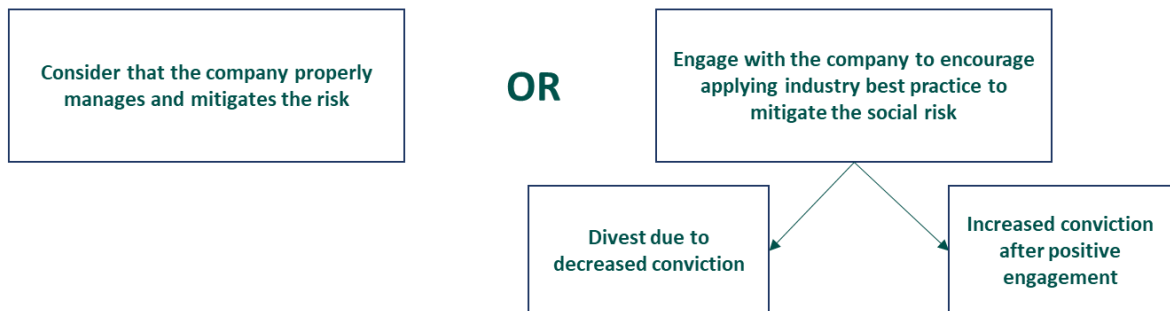
#### Identify high-risk sector prone to human rights infringements

Mining & extractives	Agriculture & food retail and production	Infrastructure & construction	Textile & garment production and retail	Digital platforms & telecommunication companies
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#### Identify at risk companies for each high-risk sector

Social controversy level above 2	<b>OR</b> Bottom 40% of the World Benchmarking Alliance human rights benchmark	<b>OR</b> Bottom 20% of a specific industry ranking
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#### Deep dive analysis of at-risk companies



## 1. Current due diligence approach: Identification

In any due diligence process identifying risks is crucial. While some DPAM processes already include risk identification, it is important to pay closer attention to companies that are highly susceptible to severe human rights infringements. Before delving into DPAM's specific human rights approach to identifying ex ante human rights infringements, let's outline the following steps that are already engrained in DPAM's procedures. The steps enumerated below come on top of the specific human rights approach described below:

- **Normative screening in sustainable funds:** These funds cannot invest in companies that violate the Global Standards, among which the ten principles of the UN Global Compact.
- **Controversies review for sustainable funds and article 8 funds:** This review prevents investment in companies that face significant controversies related to social issues (level 5 and exclusion decisions from the Responsible Investment Steering Group - RISG). Moreover, controversies level 4 and 3 with a negative outlook are being discussed.
- **Positive screening in sustainable funds:** These funds ensure that companies with poor disclosure on human rights will become ineligible if such risks are deemed material for the company. Material risks include human resource management, health and safety, forced labor, and child labor.
- **Quarterly quick analysis:** This analysis, presented to the risk department, employs an ex-post analysis to identify potential strong human rights infringements across all of DPAM's investments.
- **Principal Adverse Impact Statement:** DPAM provides reports on specific Principle Adverse Indicators for a subset of social risks. These indicators include violations of the UN Global Compact principles and OECD Guidelines for Multinational Enterprises, lack of processes and compliance mechanisms to monitor compliance with these principles and guidelines, unadjusted gender pay gap, board gender diversity, exposure to controversial weapons (such as anti-personnel mines, cluster munitions, chemical weapons, and biological weapons), and the number of days lost to injuries, accidents, fatalities, or illness.
- **Ad-hoc presentation:** During the RISG, specific human rights issues, such as the link to portfolio companies involved with opioids, are presented to provide further context and potential engagement or exclusion decisions.

## 2. New approach to anticipate human rights infringement across all DPAM's investments: Identification

### 2.1. Identifying high risk sectors (top down)

To enhance and bolster our assessment of social risks, DPAM has established a social approach to identify sectors with high-risk factors. There is no consensus or official mapping regarding the sectors, industries, or activities that are most impacted by human rights issues. However, it is possible to consult different sources to identify these key sectors. The FRA, the OECD, the US department of international labor affairs and the UN office of human rights highlight the industries or sectors that are particularly vulnerable to human rights infringements, namely:

- Extractives and natural resources
- Agriculture and food production
- Infrastructure and construction
- Textile and garment

A focus on these industries will therefore be the starting point of any due diligence exercise on human rights infringements. Nevertheless, at DPAM, we decided to also look at potential human rights infringements on a forward-looking basis, anticipating breaches in human rights due to technological advances. That is the reason why we also include digital rights as a key focus for DPAM. Therefore, the list of industries is subsequently broadened with following industry:

- Digital platforms and telecommunication companies

Below we provide the overview of the GICS sectors to identify the high-risk industries

	Relevant GICS sub-industry classification to be linked to the at-risk sectors.							
<b>Mining</b>	O&G exploration	Aluminum	Diversified metals & mining	Steel				
	10102020	15104010	15104020	15104050				
<b>Infra</b>	Airport services	Highways & railroads	Railroads	Construction & engineering	Real estate development			
	20305010	20305020	20304010	20103010	60102030			
<b>Textile</b>	Apparel accessories & lux goods	Footwear	Apparel retail					
	25203010	25203020	25504010					
<b>Agri</b>	Department stores	General merchandise stores	Food distributors	Food retail	Hypermarkets & super centers	Agricultural products	Packaged foods & meats	Restaurants
	25503010	25503020	30101020	30101030	30101040	30202010	30202030	25301040
<b>Digital</b>	IT consulting & other services	Data processing & outsourcing services	Interactive home entertainment	Application software	Systems software	Integrated telecommunication services	Interactive media & services	Internet & direct marketing retail
	45102010	45102020		45103010	45103020			

## 2.2. Waterfall system for company identification (bottom-up)

To identify companies within these sectors that might be prone to human rights infringements, we have established a waterfall system. This system identifies potential severe human rights breaches through an ex-post analysis (after a human right infringement has taken place), as well as companies that do not prioritize human rights in their own due diligence through an ex-ante analysis (when a company is likely to face a human right infringement due to lacking management practices).

Below we provide a sum-up of the different steps to identify the companies in the industries mentioned above that warrant a deeper analysis:

- A social controversy on Sustainalytics above 2;
- Ranking in the bottom 40% of the human rights analysis of the World Benchmarking Alliance;

- Ranking in the bottom 20% of an industry-specific ranking.

Additional information on the World Benchmarking Alliance or the industry-specific rankings can be found in the appendix of this note.

It is important to emphasize that controversies for sectors such as Extractives & natural resources, Agriculture & food production, Infrastructure & construction, and Textile and Garment are primarily related to employees, social supply chains, and society. On the other hand, the controversies for companies involved in the Digital platform & telecommunication sector are primarily related to incidents related to customers and society.

### 2.3. Deep dive analysis of companies being flagged through the waterfall system

For all companies being **flagged** by the waterfall system, a **company specific scorecard** can be drafted by the RICC. This scorecard will focus on **two distinct elements**.

**First**, a deep dive on the reason why the company was flagged, be it either a controversy or a lack in disclosure. **Second**, with the help of the **SHIFT red flag methodology (Appendix 4)** and aided with the external rankings, specific scorecards are created to assess if a company effectively handles a controversy case or should improve its business practices on due diligence. The scorecard is set up by the RICC, discussed with the relevant sector analysts, and presented to the Portfolio Managers with an exposure to the companies with a scorecard. After this discussion with the Portfolio Managers the scorecard can result in **3 different outcomes**. The outcomes are being decided together with the relevant analysts or PM's.

- The company's Human Rights risks are **properly managed** by the company
- The company's Human Rights risks are **not properly managed** by the company, an **official engagement** is needed
- The company's Human Rights risks are **not properly managed** by the company and therefore a **divestment is warranted**

## 3. Practical implementation

Each trimester a new high-risk industry is being analyzed and subsequent company specific scorecard drafted. This analysis is first discussed with the individual analysts and or PM's and final recommendations presented in front of the RISG. By means of voting, the RISG decides whether they agree with the proposal to keep the company eligible, excluded or warrants an official engagement.

## Appendix : World Benchmarking Alliance (WBA)

The **World Benchmarking Alliance (WBA)** was launched in 2018 because of a need to be real change in the way that business impact is measured to boost motivation and stimulate action for a sustainable future. The organization’s different benchmarks are grounded in the seven transformations needed to put society, planet and economy on a more sustainable and resilient path to achieve the 2030 Agenda. To achieve this the WBA develops free and publicly available benchmarks that measure and incentivize company contribution towards the SDG’s.

WBA identified seven transformations that need to take place to put society and the worldwide economy on a more sustainable path to achieve the SDGs. To turn these transformations into action, WBA develops in close collaboration with the Alliance a series of benchmarks assessing 2,000 of the world’s most influential companies, ranking and measuring them on their contributions to the SDGs.



Tackling systemic issues requires a systems-based approach. Achieving systems change – the ‘intentional process designed to alter the status quo by shifting and realigning the form and function of a targeted system’ – is highly complex, it requires large-scale and fundamental transformations of the societal systems driving current environmental and social pressures.

Business can play a key role in leading these transformations by creating sustainable, inclusive and innovative solutions. However, businesses managing these deep and long changes require roadmaps that are rooted in the pathways to sustainable futures. Benchmarks developed by the World Benchmarking Alliance provide exactly these roadmaps. Benchmark methodologies translate societal expectations into metrics, providing companies with a clear path forward. Benchmarks and league tables in turn show where industries and individual companies stand in their journey towards a more sustainable future.

In the context of the bottom-up analysis, DPAM will use the Social Transformation Assessment, which is carried out across the different transformations identified by the organization. the Social Transformation Framework sets out the 12 high-level societal expectations that companies should meet in order to leave no one behind, support the SDGs and help create a future that works for everyone. It also outlines how we will incentivise companies to do so. These expectations are grouped into three categories: human rights, decent work and ethical conduct. For the purpose of the bottom-up risk analysis of DPAM’s portfolio’s, it solely uses the category of human rights to gauge if a company is in the bottom 20% of the ranking.



WBA’s methodology and subsequent results are entirely transparent and available on the organization’s website. On human rights aspects, the company looks at the commitment to respect human rights, methods to identify risks and impacts, assessment of human rights risks and impacts, grievance mechanisms, among other elements.

## Appendix: Industry specific rankings

Below we provide the industry-specific rankings per high risk-risk industry. The rankings provided in red still need to be implemented. For some industries no industry-specific ranking has been identified yet.

Mining and extractives	/	/	
Agriculture and food production	<i>Knowthechain</i>	<i>Living wage financials</i>	<i>Globalchildforum</i>
Infrastructure and construction	/	/	
Textile and clothing	<i>Knowthechain</i>	<i>Fashiontransparency index</i>	<i>Globalchildforum</i>
Digital platforms and telecommunication	<i>Ranking Digital Rights</i>		

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