GLOBAL CHILD FORUM IS INITIATED BY
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SEPTEMBER 2015

INVESTOR PERSPECTIVES ON CHILDREN’S RIGHTS

IN COLLABORATION WITH:

G・E・S®
GLOBAL CHILD FORUM

Global Child Forum is an independent, global multi-stakeholder platform for informed dialogue and thought leadership on how to advance children’s rights in support of the UN Convention on the Rights of the Child. Global Child Forum aims at gathering leaders from business, governments, academia and civil society in a joint effort to implement children’s rights. Global Child Forum is a non-profit foundation initiated by H.M. the King and H.M. the Queen of Sweden in 2009.

GES

GES is Europe’s leading provider of engagement services focusing on supporting asset owners and asset managers develop and implement integrated investment strategies with environmental, social and governance (ESG) considerations. Our due diligence of companies’ non-financial business conduct aims at identifying financially material improvement objectives that can deliver increased shareholder value with the highest degree of stakeholder relevance and external credibility. We act as an owner advocate and add proven value to 1 trillion of investments worldwide by assessing and engaging with clients’ portfolio companies. GES is a privately held company founded in 1992 with over 60 employees globally. We have offices in Sweden, Denmark, Poland, Switzerland and the UK with engagement professionals based in Europe, North and South America.
INTRODUCTION

Global Child Forum is an independent, global multi-stakeholder platform for informed dialogue and thought leadership on how to advance children’s rights in support of the UN Convention on the Rights of the Child. This report is part of Global Child Forum’s objective to initiate and share research, raise crucial global awareness, new thinking and cross-sector dialogue regarding children’s rights. Global Child Forum worked with GES to survey how investors integrate children’s rights in their responsible investment policies and practices. Responsible investment is an investment approach that acknowledges the relevance and potential impact of environmental, social and governance (ESG) factors in a long-term perspective. It means integrating ESG considerations into investment decision-making, management processes and active ownership practices such as risk analysis, corporate dialogues, proxy voting and exclusions.

Investors have been a driver for the development of good corporate governance and practices regarding ESG issues. Through their responsible investment strategies, investors have successfully promoted responsible corporate behaviour in relation to topics such as the environment, water scarcity, community development, consumer protection, and human rights. To some extent, children’s rights related issues – for example child labour and responsible marketing – have also been included in these efforts. While there is some transparency around how investors address ESG issues, we believe that better understanding regarding investor perceptions and practices on business and children’s rights specifically will help move this issue forward.

This is the second report on investor perspectives on children’s rights. Global Child Forum and GES plan to continue repeating the survey on an annual basis to measure progress and track developments.

EXECUTIVE SUMMARY

This report presents the results from a survey on how 280 institutional investors integrate children’s rights in their responsible investment policies and practices. The findings in the report will be presented and discussed at the Global Child Forum in the fall of 2015. The Investor Perspectives on Children’s Rights 2015 is a follow-up of the inaugural survey presented and discussed at the Global Child Forum in Stockholm in April 2014.

The survey is based on a questionnaire developed by GES and Global Child Forum regarding investor expectations and achievements related to children’s rights. We invited 280 asset owner signatories to the Principles for Responsible Investment (PRI) worldwide to participate in the survey. Thirty-one investors responded.

The main findings can be summarized as follows:

- 27 of the responding investors have human rights considerations in their responsible investment policies, eight of these make a reference to children’s rights.

- The children’s rights issue investors most typically address is child labour.

- 29 of the 31 investors who answered the questionnaire replied that children’s rights have a potentially material impact to their investments.

- 10 of the respondents reported they have or are developing a procedure for integrating children’s rights into their investment decision-making process.

- Most respondents believe that a link between children’s rights and materiality and financial risk is difficult to make.

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1. http://globalchildforum.org/resources/

when we invited 280 asset owner signatories to the Principles for Responsible Investment (PRI) worldwide to participate in the survey.

PER CENT OF RESPONDENTS WHO CONSIDER THE FOLLOWING GUIDELINES TO HAVE DIRECT RELEVANCE FOR INVESTORS

- Children’s Rights and Business Principles: 77%
- The ILO Conventions: 93%
- UN Global Compact Principle No 5: 93%
- The UN Convention on the Rights of the Child: 63%
- UNCRC General Comment No 16: 33%

8 of the responding investors make a reference to children’s rights in their responsible investment policies, while 27 have human rights considerations included.

29 of the 31 investors who answered the questionnaire replied that children’s rights have a potentially material impact to their investments.

10 of the respondents reported they have or are developing a procedure for integrating children’s rights into their investment decision-making process.
METHODOLOGY

We invited 280 investors who are PRI’s asset owner signatories to participate in a questionnaire-based survey. This is the second time we conducted this investor survey. While the first study focused on US and European asset owners, this assessment is based on a larger sample size with worldwide coverage and includes all PRI asset owner signatories.

In line with the 2014 study, we focused on asset owners as they are in a position to set standards and push for change in the investment value chain and issue directions to their asset managers.

The response rate was 11 per cent. Forty per cent of the respondents represented government pension funds, 35 per cent private pension funds, 15 per cent foundations, and 10 per cent insurance companies. Seventeen of the 31 respondents had more than 10 billion USD in assets under management.

Our ambition is to replicate the study to track progress and identify developments. The methodology is developed to be easily replicable, but may over time be modified to capture relevant issues and developments.

Another difference compared to the previous study is that this second report does not cover the non-responding companies’ publicly available information. The 2014 study also included a systematic assessment, using the questionnaire as a research framework, of the 173 non-responsive investors’ public disclosure.
RESULTS

The response rate on the questionnaire was lower than expected; 11 per cent. This is in line with the response rate we received for the 2014 survey. In comparison with the 2014 study, this second assessment is based on a larger sample size with worldwide coverage and includes all PRI asset owner signatories. The majority of the 31 investors who answered the questionnaire were from the Nordic countries. See Figure 1 above.

The responsibility for children applies to private actors and all business enterprises as is formulated in a number of international and national norms, standards, policies and voluntary codes. One purpose of the study is to understand to what extent investors are aware of this responsibility. In the group of investors participating in the survey, both the awareness and the perceived relevance of the UN Convention on the Rights of the Child and the Children’s Rights and Business Principles is relatively high. This is in line with our 2014 results and may reflect the fact that investors who are aware of and pay attention to children’s rights are more inclined to respond to our survey. The International Labour Organization (ILO) conventions together with the UN Global Compact, which includes child labour as principle No. 5, received highest recognition, as evidenced in Figure 2 below.

THE SCOPE OF CHILDREN’S RIGHTS

In the survey, 27 of the 31 respondents answered that human rights considerations are included in their responsible investment policies, but only within eight of these are children’s rights specifically mentioned. This corresponds to the results we reported on last year. A majority of the survey respondents – 77 per cent – perceive children’s rights not as a separate area, but as part of human rights.

We also found that although some of the investors suggest that broadening the scope of children’s rights beyond child labour is called for, most respondents do equate these two. This result is in line with a study carried out by the Boston Consulting Group and Global Child Forum in 2014, entitled “Setting a Benchmark on Children’s Rights for the Corporate Sector”, which focused on how over 1000 companies address children’s rights issues in their business strategy and operations. These studies showed clearly that most companies have a narrow focus on children’s rights. Nevertheless, in addition to child labour, the following children’s rights issues were included in the formentioned studies: product safety, responsible marketing, environmental impact, sexual exploitation, and community displacement or security arrangements in conflict areas.

FIG. 2: WHICH OF THE GUIDELINES DO YOU CONSIDER TO HAVE DIRECT RELEVANCE FOR INVESTORS?

<table>
<thead>
<tr>
<th>Children's Rights and Business Principles</th>
<th>The ILO conventions</th>
</tr>
</thead>
<tbody>
<tr>
<td>UN Global Compact Principle No 5</td>
<td>The UN Convention on the Rights of the Child</td>
</tr>
<tr>
<td>UNCRC General Comment No 16</td>
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% 0 10 20 30 40 50 60 70 80 90 100

Global and MENA studies, Setting a Benchmark on Children’s Rights for the Corporate Sector, is a collaboration between The Global Child Forum and The Boston Consulting Group. The report is available on www.globalchildforum.org. The study will be repeated on an annual basis.
One area in this investor questionnaire was whether children’s rights had a potential material impact on investments. This relates to the fact that companies and investors increasingly focus and report on social and environmental issues in terms of materiality. Materiality aspects are those that reflect an organisation’s significant economic, environmental and social impacts both in the short term and the long term. According to the Global Reporting Initiative, material issues include “those topics that have a direct or indirect impact on an organisation’s ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.”

As depicted in Figure 3 above, in this investor survey, 29 out of the 31 respondents consider children’s rights as having a potential material impact on investments. Last year, 20 out of 22 asset owners believed that children’s rights are material. Both studies show, however, that investors are unsure how to measure such materiality and translate this acknowledgment into financial risk and practical measures beyond reputational risk.

To better understand the potential impact of children’s rights on investments, we also asked the investors how their investments had been affected by the investee companies’ approaches to child-related issues. While 17 respondents replied that their investments had been negatively impacted due to a failure on the part of investee companies to mitigate children’s rights-related risk, only eight investors answered that good management of these issues had impacted investments in a positive way, as shown in Figure 4 below.

The respondents listed a number of challenges in relation to the integration of children’s rights in the ESG management at investee companies. Generally, establishing a clear business case for children’s rights was perceived as problematic. The challenge with monitoring supply chains, especially in high risk sectors and emerging markets, was also mentioned several times. This latter problem is related primarily to the specific issue area of child labour; some investors underlined that there is a need to take a broader approach to children’s rights.

Some opportunities also emerged from this year’s survey responses. For instance, good management of children’s rights can be a proxy for overall good corporate management and may also mean stronger reputation, as well as strengthening a company’s license to operate.
INTEGRATION OF CHILDREN’S RIGHTS INTO INVESTMENT DECISION-MAKING

Similar to the 2014 survey results, this current assessment shows that integrating children’s rights into the investment decision-making process is perceived as a challenge. Ten of 31 respondents had developed a procedure to address this issue, as depicted in Figure 5 below.

As mentioned above, one challenge with integrating children’s rights into investment strategies that was mentioned by several respondents is the difficulty to identify how children’s rights issues can have a financial impact. More research on this specific question is needed.

A number of respondents also pointed to the problem of the lack of an exact and relevant definition of children’s rights and how to separate them from human rights. Among other challenges identified was both companies’ and fund managers’ lack of awareness, attention and understanding of children’s rights issues generally.

Nevertheless, the responses included some opportunities linked to the integration of children’s rights. One investor suggested that integrating children’s rights into investment decision-making could serve as a form of investor protection against reputational and financial risk, while another pointed out that in some sectors, opportunities exist to develop products that are beneficial for children and their welfare. Support from decision makers and government support at local levels, along with the need for promotion and information regarding General Comment 16, were also mentioned.

FIG. 5:
HAVE YOU DEVELOPED, OR ARE PLANNING TO DEVELOP, A PROCEDURE FOR INTEGRATING CHILDREN’S RIGHTS INTO YOUR INVESTMENT DECISION-MAKING PROCESS?

INVESTOR ENGAGEMENT ON CHILDREN’S RIGHTS

Dialogue with companies is a commonly used active ownership tool and a method for investors to interact with investee companies on issues of concern. It can be carried out by the investors themselves, or through an external engagement service provider. In some cases investors engage collaboratively.

In contrast with last year’s study, most respondents in this year’s survey gave exact figures regarding the number of dialogues with investee companies that included children’s rights issues. While one investor answered that they had had as many as 40 dialogues on children’s rights in the past 24 months, and another one counted 30 dialogues, ten investors said they had not had any dialogues on this particular issue. However, most investors reported between one and 15 dialogues on children’s rights, often as part of human rights discussions. This again shows that for various reasons children’s rights is not on the top of the agenda for most investors. Similarly to last year’s survey, the most common issues reported as having been raised with companies were child labour in the supply chain (for example within cocoa and cotton production, and Bangladeshi garment industry). Other issues mentioned were marketing in relation to children, children’s rights online and in the media, children’s rights to family and education in the context of migrant workers, as well as land grabbing.
EXCLUSIONS BASED ON CHILDREN’S RIGHTS CONCERNS

Another ownership tool, which is typically used when a dialogue with a company is deemed as unsuccessful or not progressing, is divesting from that company or excluding it from the universe of possible investments of any particular fund. Some funds also exclude companies for breaching an international standard or ethical guideline.

Our survey showed that seven investors had divested or excluded companies from their investment universe due to corporate misbehavior in relation to children’s rights. This is the same number as we found in the 2014 survey results. Some owners provided further information regarding their divestments and the underlying reasons included bad treatment of communities and children in Orissa, India, for example, and the unacceptable labour risks related to Uzbek cotton.

CONCLUDING REMARKS

A number of points have emerged from this study that each merit further discussion and research among investors and readers of this study. The key considerations include:

- Children’s rights need to be even more clearly defined and communicated.
- The potential of children’s rights issues to have a direct or indirect material impact should be demonstrated.
- There is a need for guidance on integrating children’s rights into investment analysis and decision-making.
- There is a need to develop methods of monitoring supply chains that ensure children’s rights are addressed throughout the full value chain.
www.globalchildforum.org