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Incorporating ESG criteria in human rights risk management in the finance sector – the case of Banco Montepio (Montepio Bank)

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Master's in Applied Management

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With the end of this chapter, I can only wish that my thesis will be useful to Banco Montepio, as to any financial institutions that want to create better criteria for themselves, to make a more sustainable world.

Incorporating ESG criteria in human rights risk management in the finance sector

Abstract

Over the last 15 years, the finance sector witnessed an exponential emergence and adoption of ESG criteria – a proxy term for considering sustainability-related factors - under the remit of sustainable finance and fuelled by initiates such as the UN Global Compact (UNGC) and the UN-backed Principles for Responsible Investment (PRI), which led to a spill over effect to other sectors and industries. Not only large corporations and investors have widely adopted corporate reporting on ESG factors and issues under frameworks such as the Global Reporting Initiative (GRI), the International Integrated Reporting Initiative (IIRC) and the Sustainability Accounting Standard Board (SASB), but ESG criteria have been associated with enhanced market performance in addressing corporate risks and strategies in investment decisions and it is estimated to be worth approximately US$D 20 trillion in assets. Yet, while ESG criteria are relevant for US and UK-based financial companies, it is not clear how in other countries, including European countries, such criteria are taken into consideration by banks, particularly in human rights risk management practices. Through a real case study, this research aims to understand how a Portuguese bank, Montepio, currently incorporates ESG criteria in human rights risk management practices when compared to some of the largest financial institutions in the world. Findings will shed light on some of the key gaps in the adoption of ESG criteria and assessment of human rights issues and modern slavery for managing risk in investment decisions, with practical policy recommendations.

Keywords: CSR, ESG, human rights, investment funds, risk management, sustainability.

JEL Classification System:

D81 Criteria for Decision-Making under Risk and Uncertainty

G32 Financing Policy • Financial Risk and Risk Management • Capital and Ownership Structure • Value of Firms • Goodwill

Resumo

No decorrer dos últimos 15 anos, o sector financeiro testemunhou uma emergência e adoção exponencial dos critérios ESG - um termo representativo da consideração dos fatores de sustentabilidade - sob a alçada do financiamento sustentável e estimulado por iniciativas tais como o Pacto Global das Nações Unidas (UNGC) e os Princípios para o Investimento Responsável (PRI), apoiados pelas Nações Unidas, o que conduziu a um efeito de alargamento a outros sectores e indústrias. Não só os relatórios corporativos sobre fatores e questões de ESG foram amplamente adotados por grandes empresas e investidores em quadros como a Global Reporting Initiative (GRI), a International Integrated Reporting Initiative (IIRC) e o Sustainability Accounting Standard Board(SASB), como também os critérios de ESG foram associados a um melhor desempenho do mercado na abordagem dos riscos corporativos e estratégias nas decisões de investimento e, estima-se que ascenda a cerca de 20 triliões de dólares em ativos. Contudo, embora os critérios ESG sejam relevantes para as empresas financeiras sediadas nos EUA e no Reino Unido, não está claro de que forma noutros países, incluindo países europeus, tais critérios são tidos em consideração pelos bancos, particularmente nas práticas de gestão de risco dos direitos humanos. Através de um estudo de caso real, esta pesquisa pretende compreender como um banco português, o Banco Montepio, incorpora atualmente critérios de ESG nas práticas de gestão de risco de direitos humanos quando comparado com algumas das maiores instituições financeiras do mundo. As conclusões irão esclarecer algumas das principais lacunas na adoção dos critérios de ESG e na avaliação das questões de direitos humanos e da escravatura moderna, para a gestão do risco nas decisões de investimento, com recomendações políticas práticas.

Palavras-chave: RSE, ESG, direitos humanos, fundos de investimento, gestão de risco, sustentabilidade.

Códigos de classificação JEL:

D81 Criteria for Decision-Making under Risk and Uncertainty

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Glossary of Terms

EBA - European Banking Authority
ECCJ - European Coalition for Corporate Justice
ESBG - European Savings Banks Group
ESG - Environment, Social and Governance
FAST - Finance Against Slavery and Trafficking
GIPS - Global Investment Performance
GRI - Global Reporting Initiative
IAST - Investors Against Slavery and Trafficking
IIRC - International Integrated Reporting Initiative
IMF - International Monetary Fund
mHRDD - Human Rights Due Diligence
MSCI - Morgan Stanley Capital International
PRI - Principles for Responsible Investment
SASB - Sustainability Accounting Standard Board
SRI - Socially Responsible Investment
SDGs - Sustainable Development Goals
UNGC - UN Global Compact
UNGPs - United Nations Guiding Principles on Business and Human Rights

Incorporating ESG criteria in human rights risk management in the finance sector

1. Introduction

More than ever, sustainability is permeating the centre of decision-making for the private sector, particularly for financial institutions. Over the last 15 years, the finance sector witnessed an exponential emergence and adoption of Environmental, Social and Government (ESG) criteria – a proxy term for considering sustainability-related factors - under the remit of sustainable finance initiates such as the UN Global Compact (UNGC) and the UN-backed Principles for Responsible Investment (PRI), which led to a spill over effect to other sectors and industries, such as the agriculture, technological and manufacturing industries.

The emergence of ESG criteria is the result of the convergence of the private sector with the United Nations given the undeniable impact of peace, security and development for the prosperity and growth of financial markets and the materiality of global social and environmental issues stemming from the ties between trade and investment, and people, societies and companies (UN Global Compact, Federal Department of Foreign Affairs Switzerland and International Finance Corporation, 2005).

Yet, while 15 years ago this relationship relied on a moral duty for companies and investors to care for ESG issues within the Socially Responsible Investment (SRI) movement, back when the term ESG was coined (UN Global Compact, Federal Department of Foreign Affairs Switzerland and International Finance Corporation, 2005), it has evolved into a symbiotic relationship as financial sector companies require ESG criteria, tied to the UN 2030 Agenda towards achieving the Sustainable Development Goals (SDGs), for reasons of growing compliance, employer branding and reputation, risk mitigation, and optimal market performance. Not only corporate reporting on ESG factors and issues has been widely adopted by large corporations and investors under frameworks such as the Global Reporting Initiative (GRI), the International Integrated Reporting Initiative (IIRC) and the Sustainability Accounting Standard Board (SASB), but ESG criteria have been associated with enhanced market performance in addressing corporate risks and strategies in investment decisions and it is estimated to be worth approximately US$D 20 trillion in assets, particularly in the US and in the UK (Kell, 2018).

1.1. Research Objectives

However, it is not clear how in other countries, including European countries, such criteria are taken into consideration by banks, particularly in risk management practices, which is the gap that this research aims to address. Through a case study combined with a documentary survey, this exploratory research aims to understand how Portuguese banks incorporates ESG criteria in risk management practices regarding human rights issues when compared to some of the largest financial institutions in the world. This research serves two purposes: the first, in expanding existing knowledge on current ESG criteria adoption in Portugal towards human rights risk management, particularly due diligence strategies; and the second, in shedding light on best practice and key gaps through an overview of how international and national institutions compare in this matter, contributing towards greater awareness and integration of ESG criteria in the activities and strategies of Portuguese banks. The research will then focus on Banco Montepio for an in-dept case study analysis, the oldest financial institution in Portugal, as it is also one of the banks most committed to sustainable investing and finance in the country.

This research report will first present a current discussion of the literature and evidence on ESG adoption particularly regarding human rights issues, including proponents and critics of the phenomenon, existing regulations and legislations in the context of mandatory human rights due diligence and responsible investment, funnelling down to the application of ESG for the Portuguese context. Afterwards, this report will introduce the research approach, case study selection, data collection, and analysis, introducing the forty-eight companies in the scope of the project, as well as the metrics & variables used for analysis. Findings will shed light on some of the key gaps in the adoption of ESG criteria and assessment of human rights issues in investment decisions, followed by a discussion on the implementation of practical policy recommendations for Banco Montepio resulting from this research.

2. Background

This section will examine the global rise of ESG criteria and in particular human rights issues and modern slavery risks by the finance sector over the last 15 years in context with the current debates around its adoption, potential, criticism, and limitations, followed by a discussion of sustainable finance adoption in the EU and particularly in Portugal.

2.1. Sustainable finance and ESG criteria

The adoption of Environment, Social and Governance (ESG) criteria is a key term that, although not exclusive to the finance sector, when referring to sustainable finance, means being aligned with the United Nations 2030 agenda towards achieving the sustainable development goals. According to van Duuren et al., "ESG investing is an approach that focuses on several non-financial dimensions of a stock's performance, including the impact of the company on the environment, a social dimension, and governance". (Van Duuren et al., 2016, p. 526).

2.1.1. The rise of ESG

There have been two key moments in the emergence of the ESG. The first moment was when the term was coined in 2005, immortalised by the initiative and homologue report *Who Cares Wins*, which introduced the idea that, "In this world, developing and integrating environmental, social and governance("ESG") issues in investment is inevitably becoming an obligation for mainstream analysts and decisions makers" (UN Global Compact, Federal Department of Foreign Affairs Switzerland and International Finance Corporation, 2005, p. iii).

The second was the United Nations Guiding Principles on Business and Human Rights (UNGPs), which put forward the *Protect, Respect and Remedy: A Framework for Business and Human Rights* or Ruggie Framework, in 2008 (Ruggie, Rees and Davis, 2021). These initiatives were followed by growing momentum of responsible investment regulations and policy interventions, as shown by Figure 2.1.

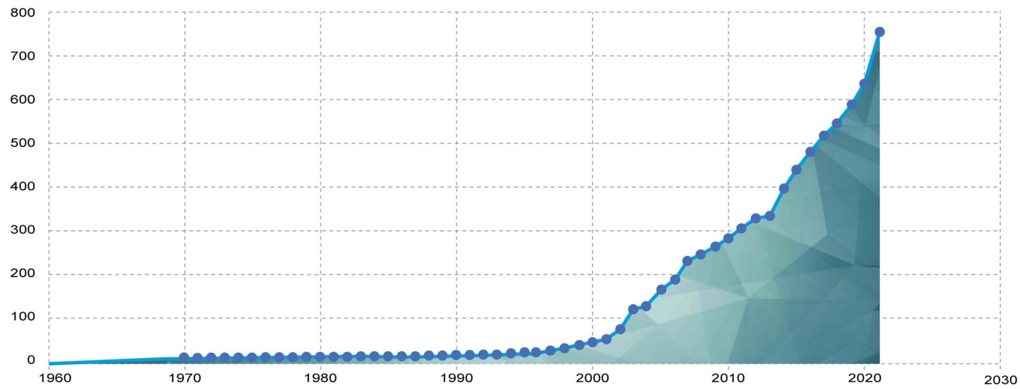

Figure 2.1 The growth in responsible investment regulations and policy interventions. Source: PRI responsible investment regulation database *(*Regulation database | Policy*, 2021, fig. Cumulative number of policy interventions)*.

Nowadays, there are many frameworks that report on ESG issues, such as international frameworks, regional frameworks particularly European, industry-driven frameworks, whose overlaps the European Banking Authority identified in Table 2.1.

Source	**Environmental**	**Social**	**Governance**
International frameworks	• GHG emissions • Energy consumption and efficiency • Air pollutants • Water usage and recycling • Waste production and management (water, solid, hazardous) • Impact and dependence on biodiversity • Impact and dependence on ecosystems • Innovation in environmentally	• Workforce freedom of association • Child labour • Forced and compulsory labour • Workplace health and safety • Customer health and safety • Discrimination, diversity and equal opportunity • Poverty and community impact • Supply chain management • Training and education • Customer privacy • Community impacts	• Codes of conduct and business principles • Accountability • Transparency and disclosure • Executive pay • Board diversity and structure • Bribery and corruption • Stakeholder engagement • Shareholder rights

	friendly products and services		
European frameworks	• GHG emissions • Energy consumption and efficiency • Exposure to fossil fuels • Water, air, soil pollutants • Water usage, recycling and management • Land degradation, desertification, soil sealing • Waste production and management • Raw materials consumption • Biodiversity and protection of healthy ecosystems	• Implementation of fundamental ILO Conventions • Violation of UN Global Compact Principles • Inclusiveness/ Inequality • Exposure to controversial weapons • Discrimination • Insufficient whistle-blower protection • Rate of accidents and number of days lost to injuries, accidents, fatalities or illness • Human rights policy • Investment in human capital and communities	• Anti-corruption and anti-bribery policies • Excessive CEO pay • Diversity (unadjusted gender pay gap and board gender diversity)

	• Deforestation	• Trafficking in human beings	
Industry	• Consumption of materials, energy and water • Production of GHG emissions, other emissions to air and water • Production and management of waste and wastewater • Protection of biodiversity • Research and development in low-carbon and other environmental technologies	• Quality and innovation in customer relations, rights of customers to gain information about environmental issues • Human rights • Labour practices: human resource management and employee relations, diversity issues, gender equality, workplace health and safety considerations • Access to credit and financial inclusion • Personal data security	• Set of rules or principles defining rights, responsibilities and expectations between different stakeholders in the governance of the entity/sovereign • Executive pay • Board of Directors independence • Board composition and structure • Shareholder rights • Internal audit • Compensation • Bribery and corruption • Integrity in corporate

			conduct/conduct frameworks
Common areas	• Water usage and consumption • Waste management and production • Energy consumption • Pollution • Biodiversity • GHG emissions	• Labour and workforce considerations • Human rights • Inequality • Discrimination • Gender equality	• Rights and responsibilities of directors • Remuneration • Bribery and corruption

Table 2.1. ESG factors included in the most common frameworks. Source: European Banking Authority (2021, pp. 26–27).

Despite the challenges in effectively measuring social issues and particularly human rights issues, and how its respect and prevention can affect financial returns, evidence from over 2,000 empirical studies demonstrated that there is a positive correlation between ESG performance and financial resilience (Friede, Busch and Bassen, 2015) – see Figure 2.2. In addition, others have found that good governance within ESG investing can predict stock returns (Khan, 2019; Maiti, 2021) since “good governance brings long-run economic discipline to capital allocation decisions so that capital is preserved and grows for long-run sustainability, which benefits all stakeholders in a company”, adding that “The ESG materiality framework looks for investment value in ESG performance by focusing on ESG issues that are important to shareholders and other stakeholders” (Khan, 2019, p. 120).

Recent studies demonstrated the relevance of ESG investing at times of crises, such as the COVID-19 pandemic (Ferriani and Natoli, 2021; Wynn, Roberts and Uhlhorn, 2021). One of them proves that, thanks to ESG factors, investors were able to make low risk decisions in investment portfolios early in the COVID-19 pandemic, which demonstrates the importance of ESG materiality for the finance sector particularly on social issues affecting workforce, geographies and communities (Ferriani and Natoli, 2021). The other study discusses that identifying, assessing and addressing social risks, potentially exacerbated and/or emerged from disrupted supply chains during the pandemic, will be critical for building back better and redefining the "new normal", as aspects such as employee wellbeing and impact on local communities become topics of relevance (Wynn, Roberts and Uhlhorn, 2021)

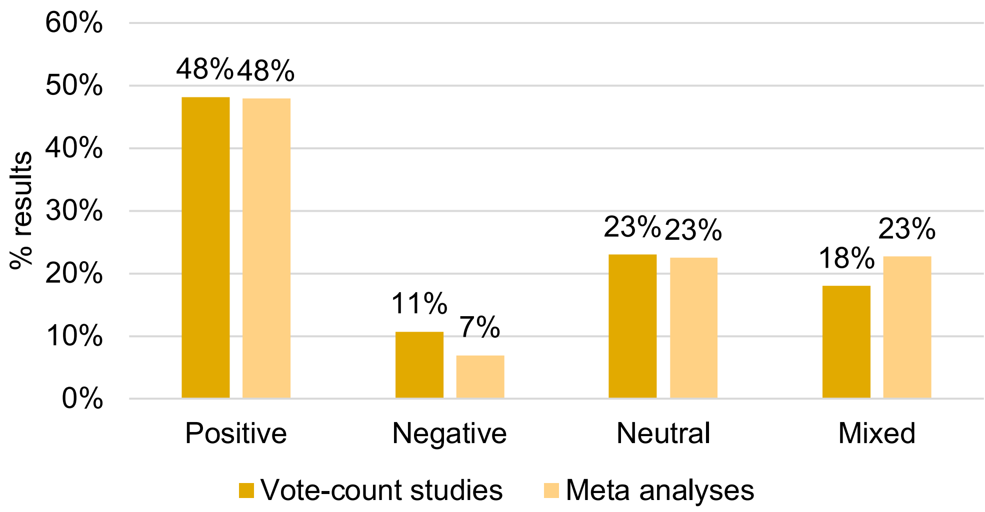

Figure 2.2. ESG Performance - evidence from more than 2,000 empirical studies. Source: Friede et al. (2015, p. 218).

Evidence also shows a positive link between corporate sustainability performance scores and financial returns fuelled by public sentiment. ESG ratings, and subsequent company value, are highly associated with public sentiment, meaning that positive or negative public sentiment generates momentum that influences investor decisions (Serafeim, 2020). This is further demonstrated by the overwhelming support from the public, consumers and civil society, in the EU's upcoming human right and environmental due diligence legislation, since a recent YouGov survey conducted in nine European countries found that 87% people believe that companies should have a legal responsibility to ensure they are not involved in any human rights violations (e.g. forced labour or illegal land grabbing) in countries that they operate in outside of the EU and 86% agree that companies should be legally liable for any human rights violations or environmental crimes that they cause or contribute to around the world (European Coalition for Corporate Justice, 2021).

2.1.2. The Materiality of Human Rights Risks for the Finance Sector

In 2019, the UK financial services sector contributed £132 billion to the UK economy, representing 6.9% of its GDP (Shalchi, Rhodes and Hutton, 2021). Despite traditionally been viewed as a low-risk sector for human rights issues due to its highly skilled professional workforce (KPMG, 2019), the financial sector faces enormous exposure to modern slavery risk through its complex supply chains and business relationships. In developed economies, all sectors invariably intersect with the financial sector, whether through risk services, lending, insurance, or retail banking. An estimated USD $150 billion is generated annually from the stolen labour of victims of modern slavery; a significant portion of these illicit funds will pass through the global financial system, which is why it is necessary to have active engagement from the financial sector to address human rights issues and modern slavery risks across supply chains (Webb and Keatinge, 2018; United Nations, University Centre for Policy Research and Liechtenstein Initiative, 2019).

Alongside the importance of respecting human rights under international law, such as the Universal Declaration of Human Rights, the UNGPs form the basis of the financial sector's responsibility to prevent and address human rights violations.[1] The UNGPs consist of 31 principles implementing the UN 'Protect, Respect and Remedy Framework' – or Ruggie Framework - outlining the approach that businesses should take in preventing and remedying adverse human rights outcomes.[2]

There are several ways in which financial actors can be connected to human rights violations within their own business or through their business relationships at any point in the supply chain (United Nations, University Centre for Policy Research and Liechtenstein Initiative, 2019; Bryant *et al.*, 2021). First, through direct business and controlled entities, financial sector businesses could engage their own in-house IT, cleaning or food service staff that could be subjected to modern slavery conditions. This risk is prevalent in the operations of offshore controlled entities, or in work performed by contractors, for which the parent company is still liable under several non-financial reporting legislations, such as the UK and Australian Modern Slavery Acts (Bryant *et al.*, 2021). The risk is also heightened where businesses rely on agency staff or outsourcing, due to supply chain opacity (United Nations, University Centre for Policy Research and Liechtenstein Initiative, 2019). A financial institution could also violate its obligations by providing credit on terms amounting to debt bondage. Second, through ancillary supply chains where risks flow, on one hand, downstream from the production of non-financial goods, such as computers and clothing, and on the other hand, upstream, from the extraction of minerals and harvesting of cotton to make such products (Bryant *et al.*, 2021). Third, through financial supply chains, meaning trading in financial goods and services and investment decisions, in which financial institutions can be complicit in value chains that rely on human rights violations (United Nations, University Centre for Policy Research and Liechtenstein Initiative, 2019). Lastly, through financial crime transactions. Given that a significant share of the profits generated by human rights violations are laundered

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[1] United Nations Office of the High Commissioner, *Guiding Principles on Business and Human Rights,* UN Doc
HR/PUB/11/04 (2011).

[2] United Nations Human Rights Council, *Protect, Respect and Remedy: a Framework for Business and Human Rights, Report of the Special Representative of the Secretary-General on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises, John Ruggie*, UN Doc A/HRC/8/5 (7 April 2008).

through legitimate financial channels, this results in the inadvertent contribution to, or facilitation of, such criminal activities, which are deemed very profitable (Internationales Arbeitsamt, 2014).

Not addressing these risks perpetuates a culture of impunity for modern slavery crimes and result in financial or reputational damages if left unaddressed (Bryant *et al.*, 2021). The UNGP are clear on the responsibility and fiduciary duty of the financial sector to prevent and address human rights issues interlinked with their operations, investments, and services (Ruggie, Rees and Davis, 2021). Investors have yet to realise the opportunity to connect social impact with shareholder value and improve their returns, a missed opportunity for investors (Porter, Serafeim and Kramer, 2019).

Commercial entities also risk legal liability under an increasing number of regulatory frameworks that require businesses to prevent human rights harms, as well as reputational and financial damage that may compel its investors to respond, as seen in the recent case of the fashion brand, Boohoo, who lost its largest investor amid labour exploitation allegations in facility of a UK supplier (Mair, 2020). This case demonstrates the importance of investors' fiduciary duty in incorporating ESG criteria into investment decisions to ensure long-term sustainability and financial growth over short-term profits (PRI and UNEP FI, no date).

While more work must be done to raise awareness that social considerations such as human and labour rights are financially material, increasing engagement on social issues presents an opportunity for investors to achieve greater financial returns for shareholders while also helping to eliminate modern slavery from the global market (Porter, Serafeim and Kramer, 2019).

Addressing human rights violations across global supply chains is only possible through the active engagement of businesses and investors, considering their influence over global business. Lack of understanding of human rights issues and modern slavery risks is also no longer an excuse given the growing momentum within the sector as shown by initiatives such as the Finance Against Slavery and Trafficking (FAST) initiative, the UN Principles for Responsible Investment (PRI), SASB, CCLA's "Find It, Fix It, Prevent It" initiative, and KnowTheChain (Bryant *et al.*, 2021). Although there is some overlap between these initiatives, they have distinct advocacy points. For instance, while the UN PRI is a membership-based organisation that advocates for members pledging to incorporate ESG factors into investment decisions, SASB believes in the convergence of ESG reporting, or non-financial reporting, and financial disclosure by leveraging what is understood as materiality for financial reporting (Jebe, 2019).

It is therefore essential that financial institutions use of their leverage to promote sustainable business practices that contribute to tackling and remediating human rights violations across their business relationships, industry collaborations, and investments. To do this, effective non-financial reporting – which can be found on Table 2 - is cornerstone towards greater corporate transparency and accountability.

Country/State/Region	Year	Main Title	Status
Brazil	2004	Lista Suja ("Dirty List")	In force
California (US)	2010	Transparency In Supply Chains	In force
US	2015	Trade Facilitation and Trade Enforcement Act	In force
United Kingdom	2015	Modern Slavery Act	In force
EU	2015	EU Directive 2014/95	In force
France	2017	Duty of Vigilance Law	In force
Australia	2018	Modern Slavery Act	In force
Germany	2021	Supply Chain Law	Adopted but not yet in force
Norway	Forthcoming	Transparency Law	Adopted but not yet in force
Austria	Forthcoming	Supply Chain Bill	Under development
Canada	Forthcoming	Modern Slavery Act	Under development
EU	Forthcoming	Human rights and environmental due diligence law	Under development
Belgium	Forthcoming	Duty of Vigilance Bill	Under development

Table 2.2. Corporate human rights accountability legislation. Source: adapted from ECCJ (2021).

2.1.3. ESG limitations and criticism

Despite the growth of the ESG industry and its direction towards greater maturity, there is also growing criticism of this phenomenon. A recent study that pointed at four main factors that fuel criticism of ESG, showcasing its key limitations, those reporting fatigue, lack of overlap of ESG initiatives, low quality of reporting, and overall lack of transparency in the industry (Mooij, 2017). Mooij (2017) argues that not only the volume of initiatives and frameworks is problematic, such as GRI, IIRC and SASB, but also the inconsistency of these initiatives that have little overlap in the way they measure ESG issues despite the widespread use of similar data sources such as the Morgan Stanley Capital International (MSCI) and Bloomberg. This issue makes it difficult to compare the ESG performance of companies, forcing them to overreport across different frameworks, which leads to reporting fatigue. The study, which investigates 218 different ESG initiatives, also concludes that corporate reporting on sustainability related factors, such as human rights issues, does not necessarily translate into transparency as often corporate disclosures are of poor quality (Mooij, 2017). Further, another issue can be raised within the ESG industry, which is the role and intentions of the intermediaries between companies and investors, that some argue are purely profit-driven and might oversee the due diligence necessary to effectively assess the materiality of social and environmental risks.

Further, Porter et al. (2019, para. 4) claim that there is a flawed logic in assuming that "companies that score higher on rankings aggregating a myriad of ESG metrics, with little consideration of their financial materiality and its relation to the competitive strategy of a company, will deliver better shareholder returns."

2.2. Sustainable finance in the Portuguese context

The demand for sustainability reporting has increased ten times since 1992 (wbcsd, 2019). It is of companies' own benefit to report on ESG factors, providing a picture of what sustainability looks like across their supply chains, which became even more critical following the United Nations' 2030 agenda towards achieving the sustainable development goal (SDG) target 12.6 in encouraging large and transnational companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle, which goes hand in hand with the increase in transparency regulations and especially human rights due diligence legislation (wbcsd, 2019). Portugal has witnessed a steady rise in their ESG reporting since 2003, though, in comparison with other European countries and the rest of the world, it is still very much far behind as seen in Figure 2.3. (wbcsd, 2019).

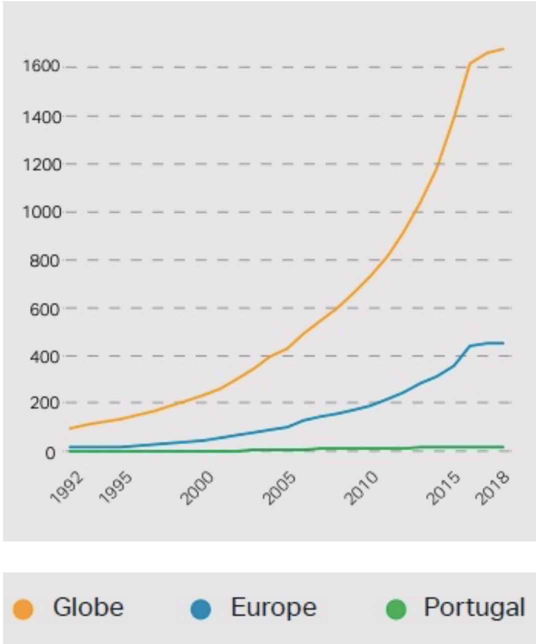

Figure 2.3 Number of ESG related reporting provisions in Portugal (green line), Europe (blue line) and globally (yellow line) from 1992 to 2018. Source: wbcsd (2019, p. 1)

Although its growth is not on par with the rest of the world, the Portuguese government has taken matters into its own hands when they approved the *Decree-Law No. 89/2017*. This new legislation requires all companies with over 500 employees to produce non-financial statements in ESG matters and how these factors contribute to the analysis of the company's performance as well as their impact within society.[3] There have been other policies, such as the *Portuguese Commercial Act* - which requires companies to disclosure their financial statements and annual reports; the *Accounting Directive No. 29* - requests disclosures on environmental risks; and the *Portuguese Corporate Code* - requests disclosures on corporate governance structures and practices; all of which further advances the ESG agenda.

Despite these new policies being in place, there is still a lot of room for improvement, as first, there still are not enough companies who report on ESG even when considering those that have started to report voluntarily (wbcsd, 2019). Second, studies have shown that corporate reporting on social responsibility and human rights issues continues to be a blind spot of ESG strategies that mostly focus on environmental issues, particularly climate change or waste management, and governance, such as salaries and risk management linked to environmental issues (Wynn, Roberts and Uhlhorn, 2021). This is surprising given that early trends pointed at companies putting greater emphasis on social and governance issues although with little or no attention to human rights issues (Roberts and Koeplin, 2007).

[3] https://dre.pt/home/-/dre/107773645/details/maximized

Figure 2.4. ESG scope of Portuguese reporting provisions, in which the larger circles represent significance and frequency. Source: wbcsd (2019, p. 2).

According to a recent article, "*Portugal Forum: Sustentabilidade das empresas e reporte de ESG é uma viagem sem retorno,*" a 2021 Forum joined the CEOs of Brisa[4], SAP[5] Portugal, Cellnex Portugal[6] and Altice[7], where ESG reporting within Portugal was discussed (ECO, 2021). Luís Carrasqueira, general manager of SAP Portugal, defined the evolution of ESG as a "journey with no return". To Carrasqueira, implementing ESG reporting is a work in progress which currently finds itself in its early stages but will foresee exponential growth in the near future as it will soon be everyone's priority when the market starts demanding such criteria. Much like Carrasqueira, Alexandre Fonseca, Altice's CEO, believes that it will take Portugal a couple of years to reach this objective. He defended that reporting should be voluntary as well there should be some level of transparency when it comes to it. António Pires de Lima, CEO of Brisa, focused more on the social aspects of ESG, as to how he wishes to see more women at the top of the industry. Lastly, Nuno Carvalhosa, CEO of Cellnex Portugal, mentioned the need for greater professionalism in terms of management in governance.

Portugal's interest in ESG funds has been growing progressively. There has been a change when it comes to society and organisations' concerns regarding environmental issues

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[4] Brisa is the largest private road operator in Portugal and stands out at both national and international levels. Available at https://www.brisa.pt/en/.

[5] SAP is the market leader organisation in enterprise application software globally, considered the top software company in Dow Jones Sustainability Index for 14 years. Available at https://www.sap.com/sea/index.html.

[6] Cellnex is Europe's leading operator of wireless telecommunications and broadcasting infrastructures in Europe.
Available at https://www.cellnextelecom.pt/.

[7] Altice is a large provider of fiber networks, mobile broadband, and enterprise digital solutions to millions of business customers. Available at https://www.telecom.pt/en-us.

with limited concerns over social issues and human rights abuses. Filipe Garcia, economist at IMF states that ESG funds in Portugal are still in their initial stages, with regards to supply and demand. Further, while most of Portugal's current ESG criteria stems from international or European influence, there is room for one day shifting focus to national funds (Ataíde, 2021).

Regardless of the bright future that many may see ahead, there are still current issues that need to be addressed. According to KPMG's research, 70% of Portuguese CEOs don't believe that their salaries should be affected by their companies' ESG reporting, while international CEOs believe that their remuneration should be dependent on such factors in their business (Green Savers, 2021).

3. Methods

In order to understand the use of ESG criteria by financial institutions for responsible investment, this research will employ a mix-methods approach combining a case study methodology with a documentary survey, where quantitative data will be used to first understand how the world's largest banks use ESG practices in their risk management strategies compared to Montepio[8]. Qualitative data will provide greater nuance on the case of Montepio, identifying key gaps and practices for implementation.

3.1. Documentary survey

Documentary survey is a method that relies on the use of online, physical, visual or written documents as source materials, often used by social researchers (Scott, 2006). One of the main considerations for this method is the quality of the source data.

3.1.1. Sampling method

This research employed a non-probability sampling method suitable for an exploratory survey with a qualitative element with a simple research design as recommended by Kumar (2018) and Wolf et al. (2016). Probabilistic sampling would have been incompatible with the current research approach not only due to time limitations and cost considerations, but also with the lack of feasibility of random sampling given the general lack of available data, which helped to inform the sample selection.

For the documentary survey, the sample consisted of 48 asset managers benchmarked under five key metrics on ESG risk management with a human rights focus. The sample included the 40 largest international asset managers by Assets Under Management (AUM) reporting under corporate accountability legislation ranging from USD$0.5B to USD$7.5T in assets, as seen in Table 3. This would allow understanding how the largest investors with reporting obligations in this topic would respond to disclosures linked to existing investment policies, portfolio screening, investee engagement and industry collaboration. A quote sampling technique was used to achieve a spread across the target population, word's largest asset managers, under a quota of international 40 companies for reasons of feasibility, which was determined by assembling a list of the top 100 asset managers by AUM and selecting the first 40 ones.

Additionally, the sample included 6 Portuguese banks with significant AUM, in order to demonstrate how the metrics developed would apply to the Portuguese context, and to compare the benchmarking exercise across international and national companies. Given the

[8] When we refer to Montepio we mean the Montepio Group which includes the following independent entities and subsidiaries including but not limited to: Banco Montepio, Montepio Gestao de Ativos, etc.

small size of the country and the weight of its financial services when compared to the UK or US economies, the ideal sample size for Portuguese companies would have been 10 using a convenience sampling technique, where the research elements in a sample are selected based on their availability. However, due to the lack of available information from most Portuguese financial institutions, only 6 asset managers were selected.

International asset managers	**AUM in millions (USD) (2020)**
1. BlackRock	7,429,633
2. Charles Schwab	6,690,000
3. Vanguard Asset Management Limited	6,200,000
4. Apax Partners LLP	3,973,052
5. State Street Global Advisors	3,150,000
6. Eurizon	2,583,403
7. Bank of New York Mellon	2,200,000
8. Sumitomo Mitsui Financial	2,103,172
9. Amundi	1,974,518
10. Prudential	1,551,000
11. Legal & General Group	1,535,305
12. Northern Trust	1,200,000
13. Invesco	1,195,300
14. Wellington Management Company	1,000,000
15. Principal Global Investors	843,391
16. Berkshire Hathaway	817,729
17. Pictet Group (Pictet Asset Management)	807,000
18. Dimensional Fund Advisors LP	781,000
19. Metlife	740,463
20. Legg Mason	730,800
21. Standard Life Aberdeen plc	699,103
22. Franklin Templeton Investment Management Limited	692,600
23. Schroders	674,969
24. PGIM (formerly Pramerica Investment Management)	638,381
25. Mitsubishi UFJ Financial	587,000
26. Federated Hermes Inc	575,900
27. Blackstone Group	571,000
28. SEI Investments Company	555,600

29. Macquarie Group	554,900
30. Morgan Stanley	552,000
31. MFS Investment Management	527,400
32. HSBC Holdings	517,100
33. Baillie Gifford & Co	445,300
34. Nomura Asset Management UK Limited	425,500
35. Nomura European Investment Limited	425,500
36. Nomura International plc	425,500
37. Russell Investment Management LLC	413,000
38. M&G plc	412,068
39. Janus Henderson Investors	374,800
40. DekaBank Group	357,903

Table 3.1. Top 40 international asset managers by AUM reporting under transparency legislation. Source: publicly available lists and annual reports through WikiRate (no date).

Portuguese asset managers	**AUM in millions (USD) (2020)**
41. **Banco Montepio**	484.21
42. **Crédito Agrícola**	1,409.23
43. **BPI**	8,252.09
44. **Caixa Geral de Depósitos**	18,611.29
45. **Millennium Bcp**	7,006.17
46. **Banco Santander Totta**	2,921.24
47. **Novo Banco**	11,420.00
48. **Banco BIG**	5,367.40

Table 3.2. Portuguese asset managers. Banks excluded from sample: Banco Popular Portugal and Banco Internacional of Funchal due to liquidation, and merge with and acquisition by other banks. Source: author adapted from publicly available lists (Garcia, 2019; CFI Education, no date).

In order to measure how finance sector institutions incorporate ESG criteria in human rights risk management, this research entailed the development of key metrics, used to assess whether investor disclosure demonstrates meaningful action to identify and address social, human rights or modern slavery risks, covering the following themes: policies in place, concrete due diligence prior to investment and during business relation; cascading of compliance and obligations to investees; and collaboration with the sector to learn from and influence others.

These metrics were drawn from the literature review findings, several key documents from the financial sector– see **Appendix 1 –** and expert validation. The documents also provided practical guidance on language and terminology.

#	ESG Category	Metric	Variable name
1	Social	Does the investor disclose it has a human rights investment policy covering any portfolios under management?	policy
2	Social and Governance	Does the investor disclose it requires investee companies to meet their reporting obligations under mandatory human rights due diligence legislation or transparency legislation?	obligations
3	Social	Does the investor disclose it assesses investee companies prior to investment to identify potential human rights issues / modern slavery risk areas?	assessment
4	Social and Governance	Does the investor disclose active engagement, either directly or through intermediaries, with investee companies on human rights issues / modern slavery/ labour exploitation/ human trafficking risks in value chains and business relationships?	engagement
5	Social and Governance	Does the investor disclose it collaborates with industry and non-industry stakeholders to learn from experts and peers on and/or lift the industry standard for preventing, identifying, and mitigating human rights issues, modern slavery, labour exploitation and human trafficking risks, and enabling effective remedy for harms caused or contributed to?	collaboration

Table 3.3. Metrics developed to assess investors' consideration of ESG and in particularly human rights criteria with variable names. Source: author.

3.1.2. Data collection and analysis approaches

For the data collection, the sources considered were sustainability reports and corporate disclosures under non-financial reporting publicly available through the companies' websites, subsidiaries, or parent group companies, or found through Google searches on associated pages. For international asset managers, the sources used were mostly reports produced under human rights due diligence legislation, such as the company's most recent modern slavery statement produced under the UK Modern Slavery Act 2015 between the years 2018-2020. This information was complemented with information from sustainability reports produced by the companies. For Portuguese asset managers, given the few corporate reporting regimes in human rights due diligence that apply to companies operating in Portugal compared to international asset managers with operations in the UK, US and France, sustainability reports were considered as sources especially those that referred to other reporting frameworks such as GRI. Data was collected for each company across the 5 metrics by searching key words on the source (document, report, webpage) in two languages, Portuguese and English, using a binary system of Yes /No for each metric to assess the company – please consult **Appendix 2**. This was done systematically for all companies.

For the documentary survey, the data analysis techniques consisted of running descriptive analysis, such as frequencies and dispersion measures, and inferential analysis, such as variable correlation and regression, across all variables, which can be found in Table 5. AUM was also added as a variable to explore whether it can have an impact on the other variables.

3.2. Case study

This research focused on the finance sector not only because of its relevance in the origin of ESG criteria but due to its unique role in leveraging its importance since, according to the FAST Initiative, "Finance is a lever by which the entire global economy can be moved" (United Nations, University Centre for Policy Research and Liechtenstein Initiative, 2019), which is a more sophisticated way to say that "money makes the world go round". Given that the growth of the ESG industry is attributed to the adoption of ESG criteria by the finance sector, this research is focusing on financial institutions, in particular asset managers. It aims to assess the level of maturity in which the sector refers to social issues more broadly and human rights issues more specifically. The sample for the quantitative analysis will first include the top 40 asset managers with non-financial reporting obligations under the UK legislation given its primacy and pioneering role in establishing some form of corporate accountability legislation with a focus on human rights issues and/or modern slavery risks, followed by top Portuguese banks to compare the national investor due diligence landscape with the international one.

3.2.1. Data collection and analysis approaches

For the data collection, the sources considered were the same collected for the documentary survey, further complemented by information provided by the financial institution selected as the case study upon request. This information was not necessarily publicly available information although no sensitive information was provided.

For the case study, the data analysis technique consisted of an iterative process where new data was collected while being compared with the literature review and the documentary survey findings, then being described, divided into key themes, and interpreted, which can be found in Figure 3.1..

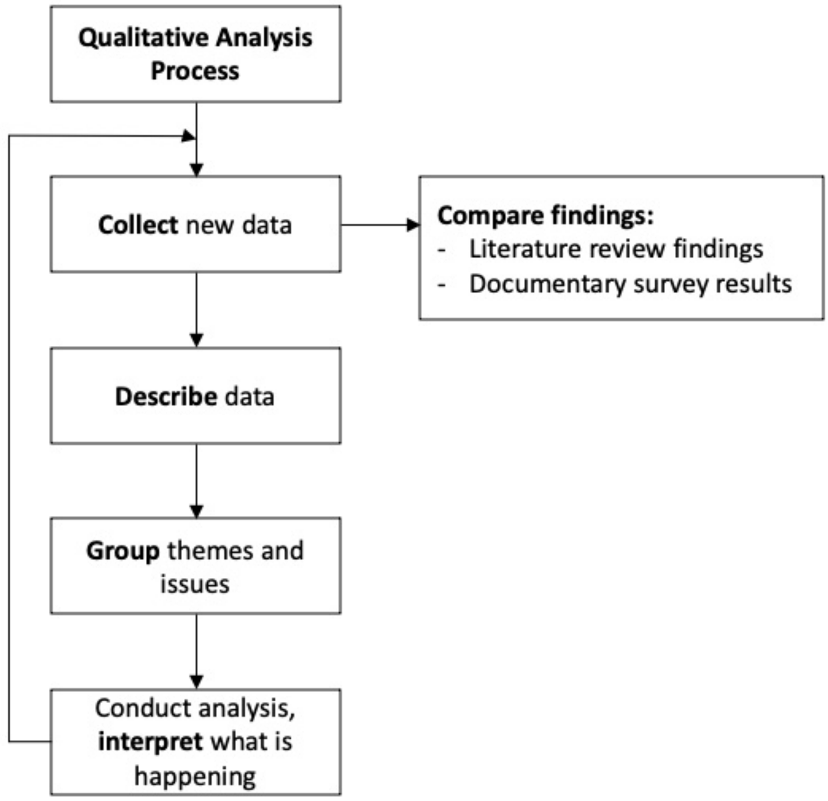

Figure 3.1. Process of qualitative data analysis applied to the case study method. Source: author adapted from Biggam (2018).

4. Findings

This section is divided into the findings from the documentary survey involving 48 asset managers benchmarked across five metrics and the case study of Montepio.

4.1. Documentary Survey

This subsection discusses the results of the research organised by key findings. Findings were synthesised by the author in the summary sentences numbered a, b, c, d and e.

a. *When it comes to human rights due diligence, the size of assets does not matter.*

It is commonly believed that the more assets a company has under management, the greater the human rights due diligence they conduct given the resources needed to do so, such as having a dedicated team, implementing additional internal mechanisms and taking more time in engaging with external partners. The initial part of the documentary survey, considering 40 international asset managers, consisted of understanding how some of the world's largest investors consider human rights risks in their investment decisions and engagement.

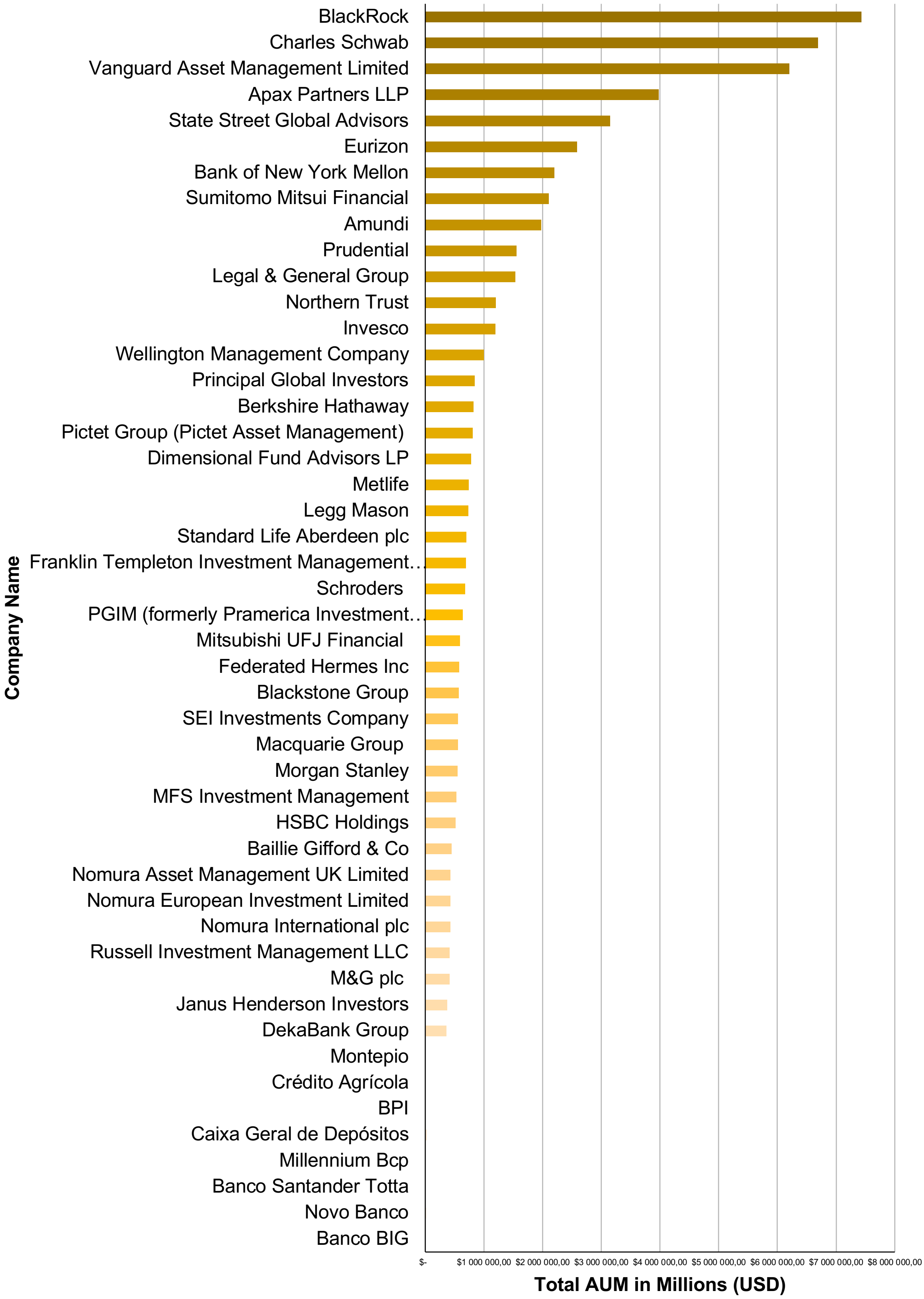

Figure 4.1. List of companies by AUM. Source: author.

Yet, this research showed that this is not always the case as the size of the AUM is not positively or negatively correlated with considering human rights risks in investment decisions as there seems to be no correlation between both variables ($r^2 = 0.0551$). As such, the opposite was not proved either, that smaller investors might conduct greater human rights due diligence given the lack of correlation and therefore causation.

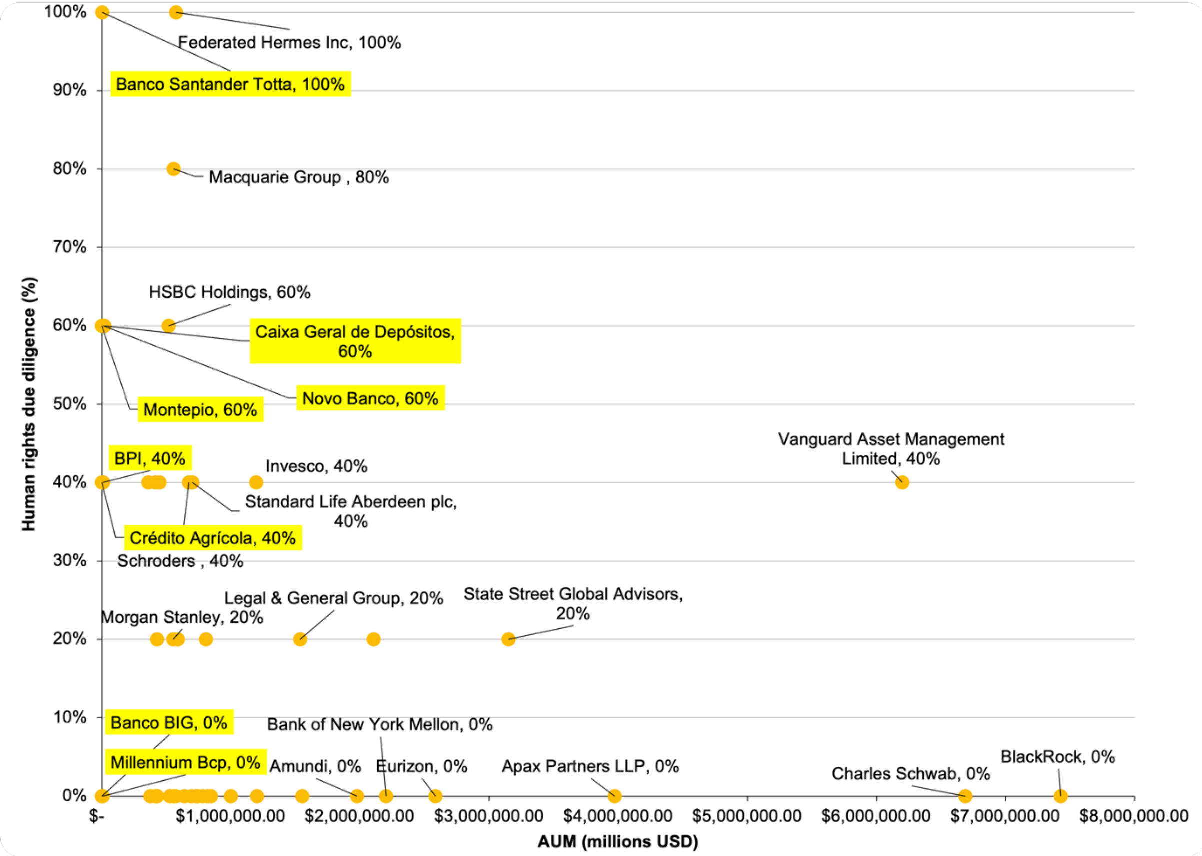

Figure 4.2. Correlation between human rights due diligence and AUM. $R^2 = 0.0551$. Source: author.

On average, 17% of investors conducted any human rights due diligence regarding investment decisions. Yet, when considering the 0% mean and mode, we understand that the results are biased due to some investors meeting all criteria set, such as Federated Hermes (100%), Macquarie Group (80%) and HSBC Holdings (60%).

b. *It is more common for investors to have human rights investment polices than to conduct active engagement or due diligence with investees.*

Findings shed some light on the expectation of policy vs practice, demonstrating that there is a need for investors to move from commitment to concrete action. Having an investment policy either specific to human rights issues / risks or that covers these issues in part, does not necessarily translate into effective due diligence, specifically in using ESG criteria relating to human rights risks prior to investment decisions in screening for portfolios, and while engaging with investees for identifying, remediating and/or mitigating human rights issues through training, social audits, self-assessment reviews or supporting shareholder resolutions.

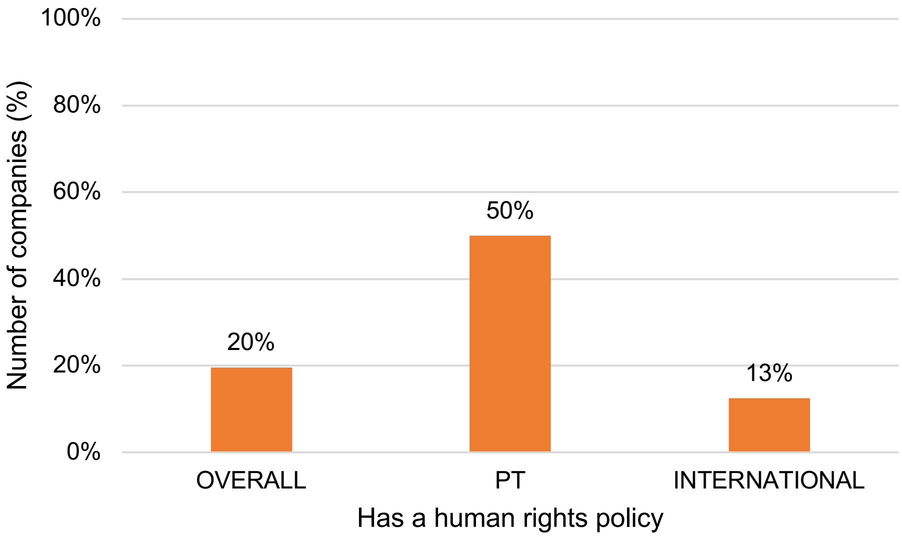

Figure 4.3. Human rights due diligence: policy vs practice. Source: author.

While 20% of asset managers reported having a human rights investment policy, most policies were focused on broader human rights or labour rights issues, with very few mentioning modern slavery which includes human trafficking and forced labour. This perpetuates the idea that the finance sector is not concerned with extreme forms of exploitation due to the false perception that its low materiality is not conducive to or complicit with exploitative behaviour when material risks are indeed present.

c. *More and more asset managers are involved in responsible investment industry collaboration and initiates linked to human rights due diligence.*

One of the key metrics was focused on collaboration given that importance that shared learning and incentives for a race to the top can have in mobilising companies to make commitments and allocate resources towards human rights actions, such as policies and programmes. While this study showed that only approx. 1 in every 3 asset managers take part in an industry or non-industry initiative or collaboration, including being a member of initiatives such as the UNGC, UN PRI and SASB, there is still much improvement. This was mostly verified among Portuguese asset managers who seem to be less engaged with international initiatives and given the lack of significant sustainable finance initiatives in Portugal.

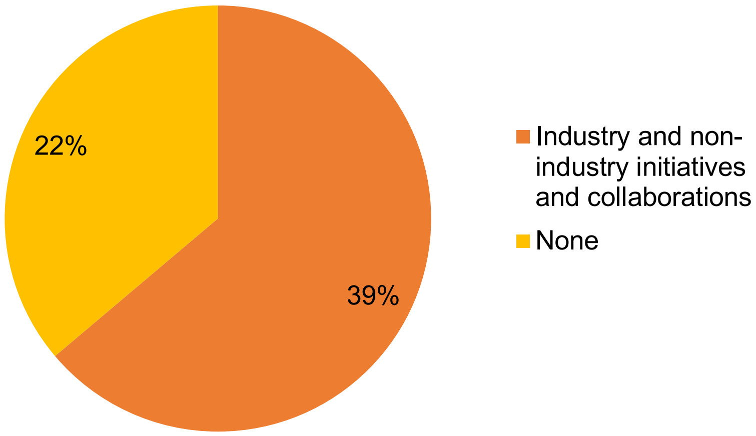

Figure 4.4. Investors that engage in industry collaborations and initiatives. Source: author.

d. *In a compliance heavy /driven sector, few investors disclose setting clear expectations for investees on human rights risk assessment.*

The finance sector is often driven by compliance, which can lead to a false sense of transparency particularly when it comes to non-financial reporting. Surprisingly, only 3 out of 48 disclosed cascading non-financial reporting obligations to investee companies. This shows that asset managers are not fulfilling of their fiduciary duty when they have a key role in ensuring compliance with relevant legislation and regulations.

e. *When compared to international investors in terms of human rights criteria in investment decisions, Portuguese asset managers are in the right track.*

Findings showed that Portuguese asset managers are more likely to disclose having a human rights investment policy and taking part in industry initiatives and collaborations than international companies. This might be linked to the fact that many companies in the sample are US-based companies that might not be under the scope of European responsible investment and high levels of financial report as European-based companies are. Yet, Portuguese asset managers do not disclose any type of engagement of companies they invest in, which is critical to support investees addressing human rights violations and modern slavery risks across portfolios and supply chains. As a result, these companies are less active in mitigating risks that might affect reputation and market performance, compared to international asset managers.

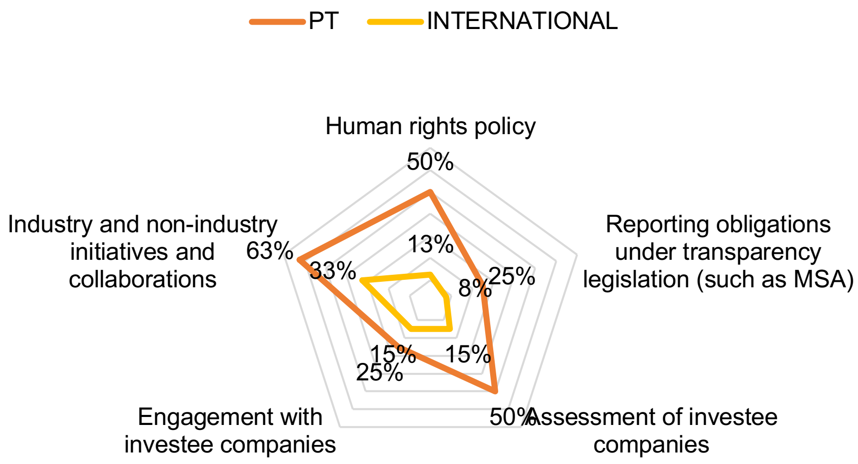

Figure 4.5. ESG criteria and human rights due diligence comparing international asset managers (n=40) and Portuguese banks (n=8). Source: author.

4.2. Case study: Montepio

Montepio was selected as the case study for this research as it is not only the oldest financial institution in Portugal but it is the main one that operates under the remit of sustainability, CSR, social economy and solidarity. These principles, along with the bank's social sustainability and responsibility strategy, provides interesting ground for a case study of the use ESG criteria for managing human rights risks in investment decisions. Further, the bank has provided access to materials and data for analysis that would not otherwise be accessible to the general public, allowing for a more nuanced and in-dept analysis.

Initially, when comparing Montepio with other asset managers in this study, findings demonstrated how the bank generally employs ESG criteria for human rights risk management above the average for international asset managers and Portuguese financial institutions, as illustrated by Figures 4.6. and 4.7..

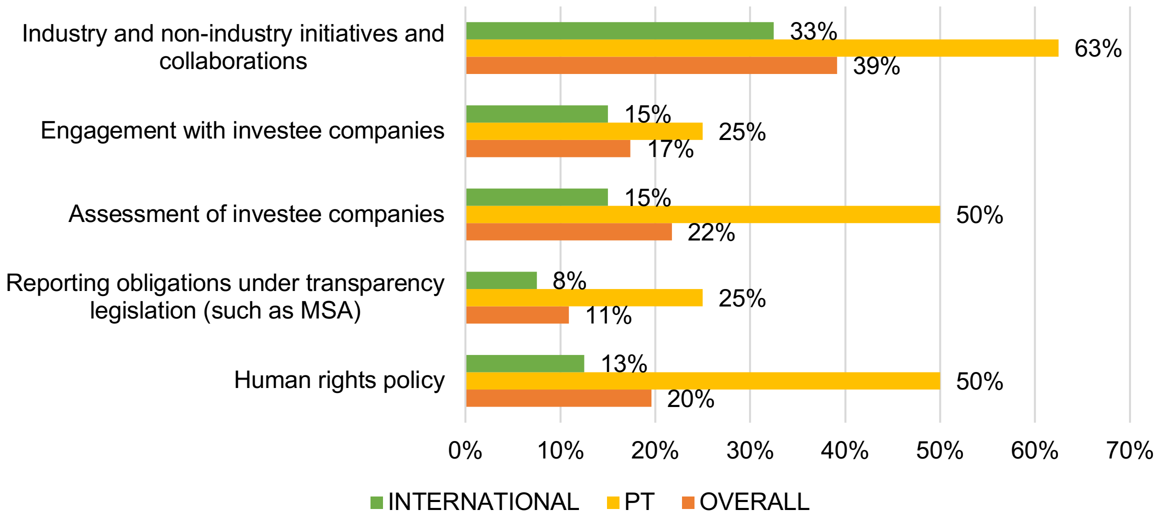

Figure 4.6. Human rights due diligence compared to Portuguese banks (n=8), international asset managers (n=40) and full sample (n=48) across the 5 metrics. Source: author.

Banks	Human rights policy	**Human rights risk management metrics** Reporting obligations under transparency legislation	Assessment of investee companies	Engagement with investee companies	Industry and non-industry initiatives and collaborations	
Montepio	Yes	No	Yes	No	Yes	60%
Crédito Agrícola	No	No	No	No	No	0%
BPI	Yes	No	No	No	Yes	40%
Caixa Geral de Depósitos	No	No	Yes	Yes	Yes	60%
Millennium Bcp	No	No	No	No	Yes	20%
Banco Santander Totta	Yes	Yes	Yes	Yes	Yes	100%
Novo Banco	Yes	Yes	Yes	No	No	60%
Banco BIG	No	No	No	No	No	0%

Figure 4.7. Montepio's human rights due diligence compared to other Portuguese banks (n=8) across the 5 metrics. Source: author.

Upon further analysis, such as the review of further documentation, which was only possible due to additional information being provided by the bank, other themes were identified beyond the original metrics through data triangulation to complement how the bank integrates ESG and particularly human rights concerns into their investment decisions and relations as a risk management strategy.

From this case study analysis, four main themes were identified, building on the initial metrics developed for this study: first, human rights policies; second, human rights due diligence; third, sector and cross-sector collaboration; and fourth, governance structures of human rights issues.

4.2.1. Human rights policies

The documentary survey demonstrated that Montepio ranks within the companies in scope of this study that has some form of human rights investment policy, which refers to 39% of asset managers.

Upon further analysis, it was found that Montepio's sustainability policy towards asset management only mentions the weight of human rights on two occasions: first, when referring to the identification of the key negative impacts to consider per sustainability factor in investment decisions; and second, in their exclusionary policy (Banco Montepio, 2021, pp. 6–7).

With regards to the first instance, the policy broadly considers human rights issues such as forced labour and child labour from a list of many issues as an ESG objective within social sustainability. There is no further information on how these specific issues are measured and taken into consideration in investment decisions. Further, this particular section only refers to the "Identification and definition of priorities regarding the main negative sustainability impacts and indicators"[9] (Banco Montepio, 2021, p. 6), which underlines the consideration of human rights for risk management as a negative discriminatory criteria, not as a positive indicator.

This means that the bank might be overlooking the value of portfolios with positive human rights developments and actions if the only way these criteria are considered is for negative impacts, which are the ones who best provide mechanisms for risk prevention and management. It is a flawed logic to assume that, simply because a prospective investee does not demonstrate any initial risks, this does not guarantee they have the mechanisms to identify and mitigate such risks. And given the many ways in which organisations can be linked to human rights issues – direct and ancillary supply chains for instance (Internationales Arbeitsamt, 2014; United Nations, University Centre for Policy Research and Liechtenstein Initiative, 2019; Bryant *et al.*, 2021), it is likely that almost every company in the world would be more direct or indirectly complicit with such abuses.

Second, there is a human rights consideration in the company's exclusionary section of the sustainability policy towards investment, where the company "avoids investing in any entity or company whose principal commercial activity offers or involves the promotion, production, distribution or marketing of products or services related to: (…) Forced labor and child labor (…) Violation of human rights"[10] (Banco Montepio, 2021, p. 7). Although this tends to be

[9] Translated from the original (Portuguese):
"a. Identificação e definição de prioridades no que se refere aos principais impactos negativos e indicadores em matéria de sustentabilidade" (Banco Montepio, 2021, p. 6).

[10] Translated from the original (Portuguese):
"A Sociedade Gestora evita investir em qualquer entidade ou empresa cuja principal atividade comercial ofereça ou envolva a promoção, produção, distribuição ou comercialização de produtos ou serviços relacionados com (...) Trabalho forçado e trabalho infantil (...) Violação de direitos humanos" (Banco Montepio, 2021, p. 7).

considered a good practice, there is an argument to be made regarding excluding portfolios with human rights risks and/or divestment policies. If asset managers seek to lead in using their leverage to achieve positive impact, investing can be considered engaging in order to address these risks. Withdrawing from contractual relationship with a high-risk supplier won't necessarily result in improvement of the human rights situation in that geography, sector, context or supplier, and evidence has shown that it can end up aggravating the socioeconomic conditions in that region and increase proneness to human rights abuses and vulnerability to labour exploitation. Similarly, divestment has not been very effective in dealing with human rights violations by companies and does not lead to a change of behaviour (Ismayilov, 2017).

Additionally, the policy leaves out whether the asset manager requires investees to adopt the same requirements in the current policy or to fulfil potential non-financial reporting obligations and compliance under local, national and international legislations, regulations.

Similarly, in the organisation's most recent sustainability report, which refers to all companies within the parent group organisation, including the Banco Montepio, the Banco Montepio Foundation, Futuro, and Lusitania, it is made clear that any expectations in the code of conduct for Montepio's Asset Management is "aimed at all its workers, as well as social organs"[11] (Grupo Banco Montepio, 2018, p. 51)., leaving out investees, suppliers and other external partners.

4.2.2. Human rights due diligence

a. Risk assessment

With regards to human rights risk assessment, the policy is very broad in explaining how ESG risks are integrated into their asset investment risk matrix, as it only mentions:

> "in defining, approving, and implementing the policies, procedures and risk management mechanisms related to its activity, the Management Company takes due account of events or conditions of an environmental, social or governance nature that may occur. complacently impact the value of the financial assets that are part of your portfolio at any given time./This circumstance demands the forecast in the implementation of the investment policy, throughout the investment cycle: whether in investment decisions, whether in asset valuation, or even in divestment decisions."[12] (Banco Montepio, 2021, p. 9).

[11] Translated from the original (Portuguese):
"*O Código de Conduta do Banco Montepio Gestão de Activos é dirigido a todos os seus colaboradores, assim como aos órgãos sociais*" (Grupo Banco Montepio, 2018, p. 51).
[12] Translated from the original (Portuguese):
"*na definição, aprovação, e implementação das políticas, procedimentos e mecanismos de gestão dos riscos relacionados com a sua atividade, a Sociedade Gestora toma em devida consideração os eventuais acontecimentos ou condições de natureza ambiental, social ou de governação cuja*

When assessing Montepio's most recent sustainability report for complementing the analysis on risk assessment of ESG factors particularly of human rights issues, the information found on evaluation criteria was not only limited, but it was also aimed at suppliers, not investees or other business partners. The policy read, "The termination of commercial relations with suppliers that do not comply with Human Rights or do not respect ethics and environmental issues is foreseen"[13] (Grupo Montepio, 2018, p. 26).

b. Risk identification and management

Regarding how ESG risks are identified and managed, very few information was found, with no mention on how human rights issues are identified and what remediation is done besides divestment. The bank's policy mentions that "(…) internal and external risk management reports include the analysis of risks relating to any event or condition of an environmental, social or governance nature with an impact on the investments made"[14] (Banco Montepio, 2021, p. 10). Further, the sustainability report does not mention any salient human right issues identified when conducting due diligence with investees or even suppliers or what risk management strategies it has in place to deal when such issues arise with partner organisations, suppliers, or investees.

4.2.3. Sector and cross-sector collaboration

Initial findings showed that Montepio engaged with at least one industry initiative to enable learning and knowledge sharing of human rights due diligence practices.

Upon further analysis of the organisation's sustainability report and sustainability investment policy, the following initiatives with some social sustainability scope were mentioned: in 2017, the organisation signed the Portuguese Letter for Diversity; in 2015, it became a member of SDGs Alliance Portugal ("Aliança ODS Portugal"), a UN Global Compact Network Portugal's initiative; in 2017, it signed the Responsible Business Letter ("Carta para Negócios Responsáveis") as a member of the European Savings Banks Group (ESBG); Montepio has

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ocorrência possa impactar significativamente o valor dos ativos financeiros que em cada momento integram a sua carteira.
Esta circunstância cobra implicações na concretização da política de investimentos, em todo o ciclo de investimento: seja nas decisões de investimento, seja na avaliação de ativos, seja ainda nas decisões de desinvestimento" (Banco Montepio, 2021, p. 9).

[13] Translated from the original (Portuguese):
"*Está prevista a cessação de relações comerciais com fornecedores que não cumpram os Direitos Humanos ou não respeitem a ética e as questões ambientais*" (Grupo Montepio, 2018, p. 26).

[14] Translated from the original (Portuguese):
"*Os relatórios internos e externos relativos à gestão de riscos da Sociedade Gestora incluem a análise dos riscos relativos a qualquer acontecimento ou condição de natureza ambiental, social ou de governação com impacto nos investimentos realizados*" (Banco Montepio, 2021, p. 10).

a Global Investment Performance (GIPS) certification; and it is committed to adopt the recomenations from OECD's Due Diligence Guide towards a Responsible Business Conduct (Montepio, 2018; Banco Montepio, 2021).

Although these are relevant initiatives, apart from the SDGs Alliance Portugal from the UNGC, there was no mention of specific initiatives, programmes or collaborative work on human rights due diligence or human rights issues such as forced labour and child labour.

4.2.4. Governance structures

Montepio's discloses that its governance responsibilities fall onto the Board of Directors, although it mentions an encompassing governance system which is not reported on or explained. The investment policy states that "In terms of governance, the sustainability policy towards investment decisions is the responsibility of the Board of Director./In this way, the Management Company ensures the full integration of this Policy into the governance system"[15] (Banco Montepio, 2021, p. 8). Regardless of what this structure or governance mechanisms look like, they are critical to ensure there is effective monitoring of human rights risk management in investment decisions, such as identification, remediation and prevention of such issues.

In regards to how Montepio monitors ESG performance, it seems that most Key Performance Indicators (KPIs) defined are not directly linked to human rights issues as reporting does not go beyond the GRI requirements (Grupo Banco Montepio, 2018, p. 26). Without disclosure of effective monitoring of performance, it is not possible to understand how the organisation ensures they are meeting targets and progress set on this particular issue given its growing relevance for large financial institutions nationally and internationally.

[15] Translated from the original (Portuguese):
"*6. IMPACTO NA GOVERNAÇÃO EM GERAL*
a. Aprovação pelo Conselho de Administração
A competência para a aprovação e revisão da presente Política é do Conselho de Administração.
Deste modo, a Sociedade Gestora assegura a plena integração da presente Política no sistema de governação.
b. A integração dos riscos em matéria de sustentabilidade no processo de tomada de decisões de investimento" (Banco Montepio, 2021, p. 8).

5. Implementation

Drawing from the findings presented, this section provides key recommendations for the company under the scope of this research, Montepio, with further information on how to adopt the recommendations with effective solutions and clear examples.

5.1. Developing human rights policies

5.1.1. Human rights investment policy

Montepio should review its sustainability policy, considering the possibility of integrating an area on Human Rights in its investment selection policy.

Reflecting on the weaknesses identified above, this policy should, first, detail how the bank assesses human rights issues in its potential investees and how these issues are considered in the decision-making process. Second, it should include an analysis of the potential investee's mechanisms to identify, prevent, mitigate and monitor human rights-related issues. Third, it should define a set of obligations in the area of Human Rights which the client must comply with after the bank's investment, as well as a frequency of reassessment of the fulfilment of obligations and compliance with the bank's policies. Additionally, it should include investors, suppliers and other external partners in Montepio's code of conduct and therefore create its human rights statement. Some examples that are considered best practices are: the **ING Bank**, which developed an Environmental and Social Risk (ESR) Policy Framework[16] that is available online, as well as its ESG and Human Rights Report;[17] and **ABN AMRO:** it is also a reference regarding to its compromise with Human Rights. It has also available online its frameworks to measure the sustainability risk.[18]

- Suggest developing a dedicated human rights investment policy

Many companies believe that respecting human rights gives them a competitive advantage over competitors that overlook that area.

Exercising human rights due diligence can help companies attract investment. Investment that favours good environmental, social and corporate governance is expanding[19] and becoming increasingly mainstream, with asset managers like BlackRock, AXA Investment Manager, Calvert and HSBC all now offering funds with such criteria, some covering human

[16] See: https://www.ing.com/Sustainability/Sustainable-business/Environmental-and-social-risk-policies.htm

[17] See: https://www.ing.com/Sustainability/The-world-around-us-1/Reporting.htm

[18] See: https://www.abnamro.com/uk/en/product/sustainability-policy

[19] Over 1300 institutional investors have also signed up to the United Nations-backed Principles for Responsible Investment and together account for more than US$ 45 trillion worth of assets under management in over 36 countries.

rights. Indices like the FTSE4Good and Dow Jones Sustainability Index include human rights criteria in their performance indicators.[20] Some US-based state pension funds and major public sector funds also screen on labour and human rights, e.g., the United States teachers' and researchers' pension fund TIAA-CREF (US$ 523 billion) and the Norwegian Government Pension Fund (US$ 893 billion).

In recent years soft law in human rights became a greater focus for consumers and who they choose to do business with. Many recent NGO campaigns have focussed on consumer concerns about, for example, improving respect for human rights in supply chains or the human rights elements of environmental impacts. The effective venue for enforcing the corporate responsibility to respect human rights is not the courtroom but the boardroom. As such, there has been a proliferation of ranking initiatives, such as the Access to Medicine Index[21],Behind the Brands' Scorecard[22],the forthcoming Corporate Human Rights Benchmark[23],which will rank companies on their human rights performance, and the Ranking Digital Rights initiative, which will rank the world's major Information and Communication Technology (ICT) companies on how they respect users' rights to free expression and privacy.[24]

5.1.2. Exclusionary policy

A Human Rights policy in the banking scenario fulfils the purpose of mitigating risks and contributing to positive change. In other words, when analysing a potential investee, as well as looking at whether the client has a human rights' policy and whether it has a negative impact on human rights, the investor should also analyse how the potential client identifies, prevents, mitigates and manages the risks of human rights violations. It is also the bank's responsibility to engage its clients on the importance of integrating ESG criteria in their business models. In this sense, if the client presents a high impact risk of Human Rights violation, this is also an opportunity for the bank to empower the client to adopt internal Human Rights policies and good practices, thus positively contributing to a reduction of Human Rights violation risks in the business sector at stake. In these cases, the risk of non-investment may be higher than the risk of investment, as it is possible to engage the client and influence him to comply with the bank's obligations and policies, thus reducing the risk of Human Rights violation.

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[20] FTSE4Good has incorporated principles from the UN Guiding Principles into its assessment criteria. Companies assessed to meet certain risk exposure are asked whether they have a statement of support for international human rights standards and a commitment to apply the UN Guiding Principles.

[21] See: http://www.accesstomedicineindex.org/.

[22] See: http://www.behindthebrands.org/en-us/scorecard.

[23] See: http://www.ihrb.org/es/our-work/corporate-human-rights-benchmark.html

[24] See: https://rankingdigitalrights.org/

- Must be more extensive and reflect on consequences of divestment

Divestment is the imposition of a blanket policy to eliminate any investment in companies engaged in specific controversial activities. Divestment decisions reflect asset owners' desires to limit exposure to contentious activities in line with their beliefs, avoid profiting from specific industries, or is often the simplest response to stakeholder and/or public pressure. There is no escaping the conclusion that divestment is the only logical response to the second motive and often the easiest response to the third. However, if asset owners intend to use the power their capital provides to force change in companies' underlying activities, the picture is more complicated. Divestment has been important in raising public awareness and stigmatising companies, particularly in financial institutions. One major example is in the public equity market, divesting means selling shares in fossil fuel companies. The nature of the market means that when you divest, you sell your shares to a willing buyer. In this way, divestment does not actually impact the operations of fossil fuel companies, especially if there are profit-seeking investors who are willing to purchase those divested stocks. A study published in 2016 suggested that divestment announcements have a statistically significant negative impact on the share price of fossil fuel companies (Dordi, 2016). The study investigated whether abnormal returns of companies in the Carbon Underground 200 on the day of a divestment announcement or event compared to the expected return of the market (MSCI ACWI)[25]. Although the market returns were not affected by the announcements, the study concluded that there was a negative impact on fossil fuel companies for half of the events examined between 2012 and 2015, mainly for divestment events that occurred during 2014. The most significant impact was found to be less than 0.01%. With such a small impact on returns, it's difficult to conclude that the divestment announcements alone have had a material impact on the share prices of fossil fuel companies (Dimson, Marsh and Staunton, 2020). Consistent with this, tobacco and alcoholic beverage companies have generated superior returns over the last 120 years. Alternatively, the performance of low-ESG companies may reflect their underlying risk exposures. ESG investors in financial institutions may/ can choose between using voice (engagement) and exit (screening out unacceptable companies). If many investors exclude a company or sector, this may exert downward stock-price pressure, in which case one can expect an enhanced return from holding the stock.

[25] Expected returns were calculated using the Capital Asset Pricing Model, using the MSCI All Country World Index as the market return and the 1 year US Treasury price as the risk free rate.

5.1.3. Ensuring that compliance and transparency requirements and obligations cascades to investees

In the sequence of the last point, 5.1.2., when investee companies don't meet requirements for purposes of corporate transparency it is an opportunity for the bank use their influence to encourage voluntary reporting compliance and transparency as well as bank obligations and to promote ethics and human rights standards. The bank can set conditions to improve the ESG performance of the investee and monitor it.

The NFRD is currently under revision and a proposal should come early 2021 (launch of Commission's proposal). Following legislative negotiations, the changes agreed in the legislative process would need to be transposed by Member States (in case the Directive is retained) or authorities would need time to prepare for application of the new rules (in case the legislation is transformed in a Regulation). The new rules would therefore start to apply in 2024 earliest[26] (assuming legislative agreement in 2022). The current NFRD (Directive 2014/95/EU), is applicable as from 2017 in the Member States. The first main characteristic is the concept of materiality[27]: "materiality is a concept already commonly used by preparers, auditors and users of financial information. A company's thorough understanding of the key components of its value chain helps identify key issues, and assess what makes information material". In the process of preparation of the non-financial statement, preparers should apply a double materiality process where the following two dimensions of materiality have to be taken into account: (a) impacts on people and planet: '(...) containing information to the extent necessary for an understanding of the group's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters (...)' and (b) Sustainability risks to the company: 'the principal risks related to those matters linked to the group's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the group manages those risks.

(*Compliance and requirements under non-financial reporting regulations must be met by portfolios under management and encourage voluntary reporting when investee companies do not meet requirements for purposes of corporate transparency.)*

5.2. Improving human rights due diligence

Regarding how to conduct effective human rights due diligence in portfolios.

[26] This is an assumption based on the regular legislative processes at EU level.
[27] See: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en

5.2.1. Pre-screening of portfolios

It is fundamental that the screening criteria is clear and transparent to any potential investee.

The human rights due diligence should include the actions to both identify (risk determination and risk assessment) and act (risk mitigation and risk monitoring) upon actual and potential human rights risks. Some suggestions to implement the screening of portfolios are: first, classify each risk level (low, medium and high); second, screen the client and client´s activities to identify sustainability risk based on the sector and operations countries; third, assess whether the client meets the bank´s sustainability policies and statement; fourth, in case of high risk guarantee that the investee is willing to be able to meet bank´s requirements and policies and set conditions; and lastly, monitor the compliance of the investee.

5.2.2. Proactive engagement with investees beyond the traditional methods.

Some suggestions include developing human rights due diligence training for investees and their suppliers and implementing a leverage policy with specific goals and impacts that the bank wants to achieve through its engagement. Examples of training programmes and leverage policies to promote Human Rights are Risk Awareness training,[28] Code of conduct and Due diligence training or Health and Safety training.

5.2.3. Improving the identification of salient human rights risks in portfolios under management

As well as having a responsibility to remediate human rights impacts that the business itself identifies it has caused or contributed to, businesses have a responsibility to allow those who feel their rights have been impacted to raise their own grievances and seek remediation. This includes for grievances the business has caused or contributed to, as well as those to which it is directly linked, as a grievance must first be raised before the relationship of the business to the impact can be established (Brightwell and Geelen, 2019).

In the banking sector there are a lack of effective grievance mechanisms and , because of that BankTrack and Oxfam Australia published a paper providing suggestions and recommendations for how banks can develop and implement effective grievance mechanisms that will be legitimate, trusted and meet their responsibilities under the Guiding Principles (‘Developing Effective Grievance Mechanisms in the Banking Sector’, 2018).

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28 See: https://www.nab.com.au/content/dam/nabrwd/documents/reports/corporate/sustainability-report-2018.pdf

A good example of a Grievance Mechanism is the one implemented by the National Australia Bank, which apply these mechanisms as part of their existing complaint/dispute resolution processes, and include employee dispute processes, NAB/MLC/BNZ Resolve functions, independent customer advocate functions and their Whistleblower program.[29]

Drawing on this example, when grievances or concerns are raised, the National Australia Bank investigate and address them by engaging with customers and other stakeholders, for example. Human rights grievances related to their employees are generally received through the Employee Complaints Procedure or FairCall Whistleblower service. Among the concerns are allegations of workplace bullying, harassment, (including sexual harassment) or discrimination based on a protected ground or attribute.[30]These concerns are then carefully reviewed and is determined an appropriate approach that involves an investigation by NAB's Employee Relations team or by external investigators. Human rights concerns or grievances related to NAB's customers' operations and suppliers are also received from external parties, and to deal with these cases the bank takes steps to understand the concern and take a suitable action which may involve mentioning the matter to the appropriate authorities (for example in the case of allegations of modern slavery) or engaging with the customer about areas of the organisation that they finance.[31]

5.3. Promoting sector and cross-sector collaboration

Ongoing global climate change, growing population and the intensification of economic activities, can be seen as issues that becoming a limiting factor for sustainable economic growth and require a collaborative and interdisciplinary approach, to foster innovative solutions. The global sustainable development agenda—as formulated in the Sustainable Development Goals (SDGs)—makes explicit reference to the importance of cross-sector collaboration in addressing the SDGs in SDG 17, 'partnerships for the goals'. Cross-sector partnerships (CSPs) have emerged as a promising means for addressing complex sustainability challenges—or "grand challenges" (Ferraro, Etzion and Gehman, 2015) - that fall between the capability and responsibility of different societal sectors of business, government, and/or civil society. Despite their promise and potential, the last two decades of research on CSPs have also emphasized the manifold challenges associated with such collaborations, for example, the difficulty to align different interests, inequality between organisations related to an unequal share of resources or misallocation of costs and benefits, which can lead to

[29] See: https://www.nab.com.au/content/dam/nabrwd/documents/reports/corporate/sustainability-report-2018.pdf

[30] [30] See: https://www.nab.com.au/content/dam/nabrwd/documents/reports/corporate/sustainability-report-2018.pdf

[31] [31] See: https://www.nab.com.au/content/dam/nabrwd/documents/reports/corporate/sustainability-report-2018.pdf

struggles over power and influence, or cultural differences involving communication problems and/or lack of trust. Financial institutions such as Montepio could not be an exception and regarding Montepio's strategy this CPS approach is truly relevant.

5.3.1. International – follow best practices

Some suggestions that Montepio could become signatory: (1) UN Principles for Responsible Banking, (2), UN Global Compact, (3) United Nations Guiding Principles on Business and Human Rights (UNGP) and the one that is highly recommended to institutions as Montepio's (4) United Nations-backed Principles for Responsible Investment (UN PRI). This manifest and commitment was launched in April 2006 by former UN Secretary General Kofi Annan,[32] this initiative consists of a set of voluntary principles for asset owners and investment professionals. The six principles are not prescriptive, but instead provide a framework to incorporate environmental, social and governance issues into mainstream investment decision-making and ownership practices. Approximately 600 financial institutions have signed the UNPRI, representing a total of over US$18 trillion in assets under management as of December 2009. The six Principles are: (1) we will incorporate ESG issues into investment analysis and decision-making processes; (2)we will be active owners and incorporate ESG issues into our ownership policies and practices; (3) we will seek appropriate disclosure on ESG issues by the entities in which we invest; (4) we will promote acceptance and implementation of the Principles within the investment industry, (5) we will work together to enhance our effectiveness in implementing the Principles, and (6) we will each report on our activities and progress towards implementing the Principles.

5.3.2. National – lead by example

Considering the bank history and influence in the Portuguese context it could a powerful initiative the organisation of a conference about Human Rights topic in the bank sector with the goal to aware and inspire the key stakeholders (businesses from other sectors, government, international organisations, civil society, academia). This could be a conference to share not only the challenges that the bank sector might face but the most important to share

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[32] *"The Principles provide a framework for achieving better long-term investment returns, and more sustainable markets. They offer a path for integrating environmental, social and governance criteria into investment analysis and ownership practices. If implemented, they have tremendous potential to more closely align investment practices with the goals of the United Nations, thereby contributing to a more stable and inclusive global economy".*

Kofi Annan, April 2006

best practices. It could also be the beginning of a dialogue among largest financial institutions in Portugal and with other key stakeholders.

5.4. Governance

5.4.1. Oversight / monitoring body

As it is the objective of Montepio to position itself as a bank that promotes Human Rights internally but also within its clients, it will be important to start by (1) creating a Human Rights Statement, (2) looking at the bank´s strategy and priorities in relation to this topic, (3) defining goals and indicators, (4) reviewing its code of conduct, Human Rights policy and Due diligence, as well as (5) the governance body and consider to have a sustainability department and a Global Head of Sustainability, (6) considering the existence of a Human Rights Steering Committee, and (7) having a Human Rights Report aligned with UN Guiding Principles Reporting Framework Index.

5.4.2. KPIs to monitor action and progress

It will only be possible to understand the progress if there will be a definition of KPIs and goals to achieve. When defining KPIs for human rights due diligence in investment decisions per financial year, it is imperative to (1) draft and update policies, (2) target training for specific job roles, divisions or all employees, (3) implement missing human rights due diligence mechanisms (risk assessment, risk management), (4) pay attention to the number of issues or incidents identified, (5) proactively engage with investees in the number of portfolios or AUM, and (6) to analyse the number of initiatives joined or collaborations. Nevertheless, when defining KPIs for Sustainable Investment it is essential to look for (1) the amount of investment in sustainable finance, and (2) the percentage of clients that agreed a set of conditions to improve its sustainability performance.

6. Conclusion, Limitations and Further Research

The last 15 years have shown that the private sector, in particular financial institutions including companies and investors have come a long way in redefining fiduciary duty to integrate ESG criteria into investment decisions towards long-term profits that can benefit all stakeholders – direct workers, supply chain workers and local communities - and contribute to build a more inclusive and just economy, beyond short-term profits exclusively for shareholders. This approach should be applied to efforts to tackle human rights and modern slavery risks, which can be difficult to measure, to report and to monitor performance on.

Yet, despite such challenges, substantial evidence in the literature suggests that not only there is a positive correlation between ESG performance and financial resilience (Friede, Busch and Bassen, 2015), but good governance within ESG investing can predict stock returns (Khan, 2019; Maiti, 2021). In addition, others have found that ESG ratings, and subsequent company value, are highly associated with public sentiment which influence invest decisions (Serafeim, 2020), which is further supported by a recent survey on public support for greater corporate human rights due diligence (European Coalition for Corporate Justice, 2021). These are some of the evidence that help to make a case for the importance of integrating ESG criteria for human rights risk management among financial institutions.

Expectations for asset managers to integrate ESG considerations, including modern slavery, into their investment decisions and reporting are increasingly clear. This research showed that through corporate accountability reporting, financial institutions can understand the prevalence and vulnerability of human rights issues in their operations, traditional supply chains and financial supply chains and services. By also undertaking efforts to address risk in their portfolios they can use their leverage to improve the efforts of their investee companies to strengthen their own due diligence efforts. Promoting respect for human rights and labour standards is critically important to build a more sustainable and resilient global economy, which is particularly urgent as the world reacts to the COVID-19 pandemic and other global crises.

Yet, this report also demonstrated that although investors are in a unique position to leverage human rights issues in ESG criteria adoption, there is great room for improvement for all investors, regardless of the size of their AUM, HQ, and reporting remit. Joining industry or sector collaborations such as the UN PRI or the UNGC is by far the most common way in which investors consider human rights risks in their sustainability strategy. But while collaboration is key to promote shared learnings, this is not yet translating into effective internal due diligence. For instance, asset managers that conduct some form of engagement with investees is 17%, while 20% reported have joined an industry or sector collaboration.

When it comes to Portugal, this report concludes that financial institutions must follow the good practices set by some of the investors in this report, such as how to engage with investees in promoting respect and providing remediation on human rights issues through social auditing, training or leverage policies. This benchmarking exercise demonstrated that although Portuguese banks are still lacking some of the incentives of regulation to further incorporate ESG criteria, the attitude towards ESG adoption is changing and becoming more material, as it is the case of Montepio.

Further, the research findings informed a series of recommendations for Montepio's implementation of best practices towards human rights risk management by financial institutions across policies, due diligence strategies, training, governance and collaboration.

A limitation of this study was the fact that the data collected referred to information disclosed by companies, not information regarding company actions. Distinguishing between both is important as it is very challenging to, at the moment, validate and ground truth how companies operate internally and use ESG criteria for human rights risk management, while it is far more accessible to measure their disclosures under non-financial reporting legislations. For improving the accuracy of results, greater corporate transparency is needed.

Further, results might be skewed because corporate disclosures under legislation specific for HRDD might be less comprehensive than general sustainability reports. This points to an issue of quality of data sources and the importance of considering sources, reports that have more holistic views of ESG and sustainability. Otherwise, finance sector institutions might disclose a narrower view of their policies and actions to manage human rights risks, whilst these might be embedded in wider strategies. This naturally poses a problem, which is if human rights risk management strategies are to be embedded into wider ESG criteria and strategies they might be perceived as less important than environmental issues as it has happened until now and not receive dedicated attention.

While businesses and investors gain maturity in ESG criteria adoption, particularly in social issues and towards greater human rights due diligence, future research would benefit from identifying further data sources to complement the research to the existing list of companies, which is challenging given the lack of data and poor data quality for existing companies, applying the metrics presented at this study to a larger sample of asset managers, international and Portuguese, or expanding the sample to more investor groups such as pension funds, asset owners, and others.

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8. Appendix

8.1. Appendix A

Report title	Author	Summary
Beyond Compliance in the Finance Sector	Bryant et al. (2021)	A review of modern slavery statements by the largest asset managers in the UK, which implications for modern slavery risks in investment decisions and highlighting best practice.
Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises	OECD 2017, *Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises*. Available from: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf	This OECD paper provides guidance for institutional investors on the implementation of due diligence recommendations from the OECD Guidelines for Multinational Enterprises on how to prevent and address adverse impacts related to human and labour rights, among other things, in investment portfolios.
Modern Slavery Reporting Guide for Investors	Carlsson-Sweeny, Griffiths and McIlwraith (2019)	This document provides a framework for investor reporting and context on matters investors should consider in preparing their Australian Modern Slavery Act statements. We have used the guidance and practical tips for reporting to create metrics.
Financial Services Council submission in response to the	Financial Services Council 2019, *Submission in response to the Modern Slavery Act 2018: Draft guidance for reporting entities*. Available from:	In their response to the Modern Slavery Act 2018 draft guidance for reporting entities, the Financial Services Council

Modern Slavery Act 2018: Draft guidance for reporting entities	https://fsc.org.au/resources-category/submission/1788-fsc-submission-modern-slavery-act-2018-draft-guidance-for-reporting-entities-31-may-2019/file.	(FSC) outlines specific challenges for reporting in the financial sector, such as the exposure to modern slavery risks due to the broad definition of business operations and complex corporate structures. The FSC claims the financial sector would benefit from additional tailored guidance, outlining direct operational, corporate ownership or supply chain-based scenarios.
A Blueprint for Mobilizing Finance Against Slavery and Trafficking (FAST)	United Nations, University Centre for Policy Research and Liechtenstein Initiative (2019)	This blueprint sets out five goals for financial sector actors to work through with individual and collective action. The goals are: compliance with laws against modern slavery and human trafficking, knowing and showing modern slavery and human trafficking risks, using leverage creatively to mitigate and address modern slavery and human trafficking risks, providing and enabling effective remedy for modern slavery and human trafficking harms, and investment for innovation and prevention. Each goal provides measures for action that we have used to develop suggested metrics.

Point of No Returns: A ranking of 75 of the world's asset managers approaches to responsible investment	ShareAction 2020, *Point of No Returns: A ranking of 75 of the world's asset managers approaches to responsible investment.* Available from: https://shareaction.org/research-resources/point-of-no-returns/methodology/.	This report by campaign group ShareAction sent surveys to 75 of the most influential asset management companies worldwide across 17 countries, based on their AUM and balanced regional distribution. The survey included questions on responsible investment governance, climate change, biodiversity and human and labour rights. For the purposes of this paper, the questions regarding human and labour rights informed our metrics.
Accelerating the S in ESG – a roadmap for global progress on social standards	KPMG and IRSG (2021)	
Measuring the 'S' in ESG related to Modern Slavery	The Mekong Club (2019)	
Amplifying the "S" in ESG: Investor Myth Buster	Zeilina and Tóth (2021)	

Appendix A. Sources for investor metrics. Source: author.

8.2. Appendix B

#	Core metrics	Key words
1	Does the investor disclose it has a human rights investment policy covering any portfolios under management? Examples include any form of policy that applies to investment decisions or portfolios under management, such as exclusionary or divestment policies. The policy must refer to human rights, or relevant synonyms such as modern slavery, or labour rights.	Human rights OR investment OR divestment OR exclusionary OR labo*r rights OR modern slavery OR human trafficking OR forced labo*r AND policy
2	Does the investor disclose it requires investee companies to meet their reporting obligations under mandatory human rights due diligence legislation or transparency legislation? Examples include: • UK Modern Slavery Act 2015 • Australian Modern Slavery Act 2018 • Other European legislation	obligations OR expect(s/ations) OR legislation OR regulation OR investee(s) OR portfolios OR Modern Slavery Act OR human rights due diligence
3	Does the investor disclose it assesses investee companies prior to investment to identify potential human rights issues / modern slavery risk areas?	(Pre)Assess(es/ment) OR screen(s/ing) OR due diligence AND investee(s) OR portfolio AND human rights OR labo*r rights OR modern slavery OR human trafficking OR forced labo*r OR social issues

		OR issues OR risks
4	Does the investor disclose active engagement, either directly or through intermediaries, with investee companies on their (investee companies') human rights issues / modern slavery/ labour exploitation/ human trafficking risks in value chains and business relationships? This can be done through social audits, self-assessment reviews, filing or supporting shareholder resolutions, on-site visits, civil society monitoring, training, engagement policy/ leverage policy, or other.	Engage(s/ment) OR social audit(s) OR self-assess(ment) OR review(s) OR shareholder resolutions OR monitor(s/ing) OR training OR leverage policy AND investee(s) OR portfolio AND human rights OR labo*r rights OR modern slavery OR human trafficking OR forced labo*r OR social issues OR issues OR risks
5	Does the investor disclose it collaborates with industry and non-industry stakeholders to learn from experts and peers on and/or lift the industry standard for preventing, identifying, and mitigating human rights issues, modern slavery, labour exploitation and human trafficking risks, and enabling effective remedy for harms caused or contributed to? Examples are PRI, the FAST initiative, ShareAction, The Mekong Club, WBA, the UN Global Compact, CCLA's "Find it, fix it and prevent it", and the Corporate Sustainability Reporting Coalition.	Engage(s/ment) OR collaborat(ion/es/ing) OR learn(ing/es) OR support(s/ing) OR member OR join(ed/ing) OR organi*(ing/ed/es) AND industry OR sector OR financ(e/ial) OR actors OR agents OR organi*ation

		OR initiative OR company OR intermediary OR Principles for Responsible Investment OR PRI OR Finance Against Slavery and Trafficking OR FAST OR ShareAction OR Mekong Club OR World Benchmarking Alliance OR WBA OR Global Compact OR UNGC OR CCLA OR Find it, fix it and prevent it OR Corporate Sustainability Reporting Coalition OR SASB

Appendix B. Key words used to search sources for collecting data on the 5 metrics. Source: Author.