Who’s responsible?

Pension funds and respect for workers’ rights

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International Transport
Workers’ Federation (ITF)

Executive summary

Built up over decades, European pension funds represent an enormous pool of capital intended to provide a decent retirement for working people across the continent. The International Transport Workers' Federation (ITF) believes that pension funds should support us while we are at work, as well as in our retirement, by adopting responsible investment (RI) policies that protect and promote workers' rights.

To find out if our pension funds do back workers' rights, we looked at the RI policies of 100 of the largest funds in Europe. We found that practice is good in places, but there are some obvious gaps.

Most pension fund policies in many countries – such as the Netherlands, Sweden and Denmark – do refer to international standards that include labour rights such as ILO (International Labour Organization) core conventions and the UN Global Compact. These funds represent EUR 2.68 trillion in assets, or 63 percent of the total.

However, almost a third of funds, representing nearly EUR 900 billion, make no reference to international standards. The UK is the clear outsider, accounting for two thirds of the funds in this group by number, and four fifths by assets (EUR 684 billion). This is particularly worrying given that the UK has the largest pool of retirement assets in Europe, and the second largest in the OECD.

Where pension funds take active steps to avoid companies that have been accused of not respecting workers' rights the result can be a major 'capital strike'. Almost a quarter of the funds in the sample, representing just over EUR 2 trillion, refuse to invest in Wal-Mart. Six funds, representing EUR 287 billion, have Ryanair on their exclusions list.

The ITF's reports shows that many pension funds do have policy in place, therefore for these funds a focus on implementation is key, and unions should share information with them about problem companies. In countries like the UK, where pension funds do not typically refer to labour issues at all, a more immediate issue is introducing policies that support workers' rights. The ITF will work with our colleagues in the labour movement on both of these challenges.

Introduction

In the past 10 to 15 years, considerable progress has been made in the incorporation of environmental, social and governance (ESG) factors into the policies and practices of institutional investors.

Where once some within the investment industry would have argued that taking account of ESG factors was a breach of fiduciary duty, now, increasingly, the argument is made in the opposite direction. If a company's long-term success depends on the effective management of ESG issues, then it is in investors' financial self-interest to properly consider them.

In addition, there has also been an emerging discussion of the extent to which investors are responsible for the upholding of international standards. In particular there have been some important developments regarding the role of investors in relation to the OECD Guidelines for Multinational Enterprises.

However, despite the positive progress that has taken place, unions are concerned that more attention appears to be paid to environmental and governance issues than to social issues. The rights and economic position of workers often seem to be forgotten, or are seen as something that is only an issue in supply chains. In the wake of recent political upheavals in developed economies, there is a pressing need to investigate whether investors based in these countries are paying sufficient attention to the conditions of the working people whose capital they manage.

In addition, in large part the exercise of investor influence over companies, and the ESG priorities that are adopted in doing so, is left in the hands of asset management intermediaries. It may be that the underlying investors, pension funds and their beneficiaries, have views that are more supportive of the interests of working people.

Therefore, to better understand ESG priorities adopted in the investment market, the ITF (International Transport Workers' Federation) undertook a review of the responsible investment (RI) policies of the 100 largest European pension funds and providers.

Headline findings

The research covers the 100 largest European pension funds and providers with total assets of approximately EUR4.27 trillion. This list was taken from IPE's (Investment & Pensions Europe's) ranking of the top 1000 pension funds in Europe.[1]

Of these funds 44 have responsible investment policies that draw on internationally recognised standards that include commitments to labour rights, such as ILO core conventions and the UN Global Compact. These funds represent EUR2.68 trillion in assets, or 63 percent of the total. Four funds have policies that refer to labour or human rights, or international standards, but do not specify particular standards. These funds have assets of EUR163 billion (3.8 percent of the total).

In contrast almost a third (30) by number have responsible investment policies or statements that make no specific reference to labour issues or international standards that embed labour rights. These funds represent a total of EUR872bn, over a fifth (20.4 percent) of the total assets of funds analysed.

In the case of a further 22 funds representing EUR544bn is assets it was not possible to access a publicly available responsible investment policy. It is likely that a large number of these funds do not refer to labour issues or international standards in their investment policies.

Of the 30 funds with investment policies that do not refer to labour issues, those from the UK represented the large majority by number (21) and assets (EUR684bn, 78 percent). The UK was followed by Switzerland with five funds in this category (EUR108bn, 12 percent). The UK and Germany have the largest number of funds (eight and seven respectively) where a policy statement on responsible investment was not publicly available.

In total, 42 funds were found to have a policy to exclude stocks if they fail to comply with the fund's policy or are unresponsive to engagement. Almost one quarter (24) of the funds were found to have excluded either Wal-Mart or Ryanair because of labour-related concerns. Of these 17 excluded just Wal-Mart, one excluded just Ryanair and six excluded both.

In total 23 funds from Denmark, the Netherlands, Norway, Sweden and Luxembourg with assets of just over EUR2 trillion exclude Wal-Mart. The six funds from Denmark and one from Sweden that excluded Ryanair represent assets of EUR287bn. This is a huge pool of capital unavailable to these businesses because of their approach to labour issues.

[1] *IPE Top 1000: European pension assets grow by 9%,* IPE September 2016

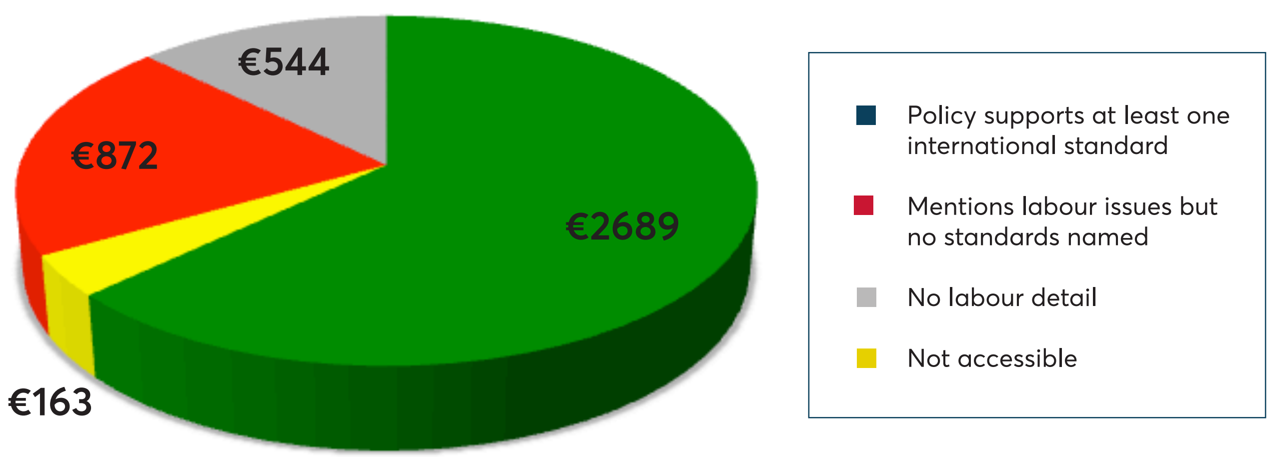
Assessment of responsible investment policies

To assess the extent to which labour issues are taken into account by pension funds, the ITF sought to access online the policies covering the responsible investment (RI) for all of the 100 largest funds in Europe. These funds were identified in IPE's ranking of the top 1000 funds.[2]

The ITF has significant experience of reviewing institutional investors' online disclosures. Despite this, in the case of 22 funds, representing EUR544bn of assets, it was not possible to access an RI policy online. The UK and Germany have the largest number of funds (eight and seven respectively) where a policy statement on responsible investment was not publicly available.

Where a policy covering RI was available online, this was reviewed to assess if it specifically mentioned labour issues and, if so, whether any international standards were referenced in the policy. This is important because, while some investors claim to assess investee companies' in respect of employment issues, this might not necessarily include commitments to fundamental rights, such as freedom of association.

Fund content by assets, EUR billions

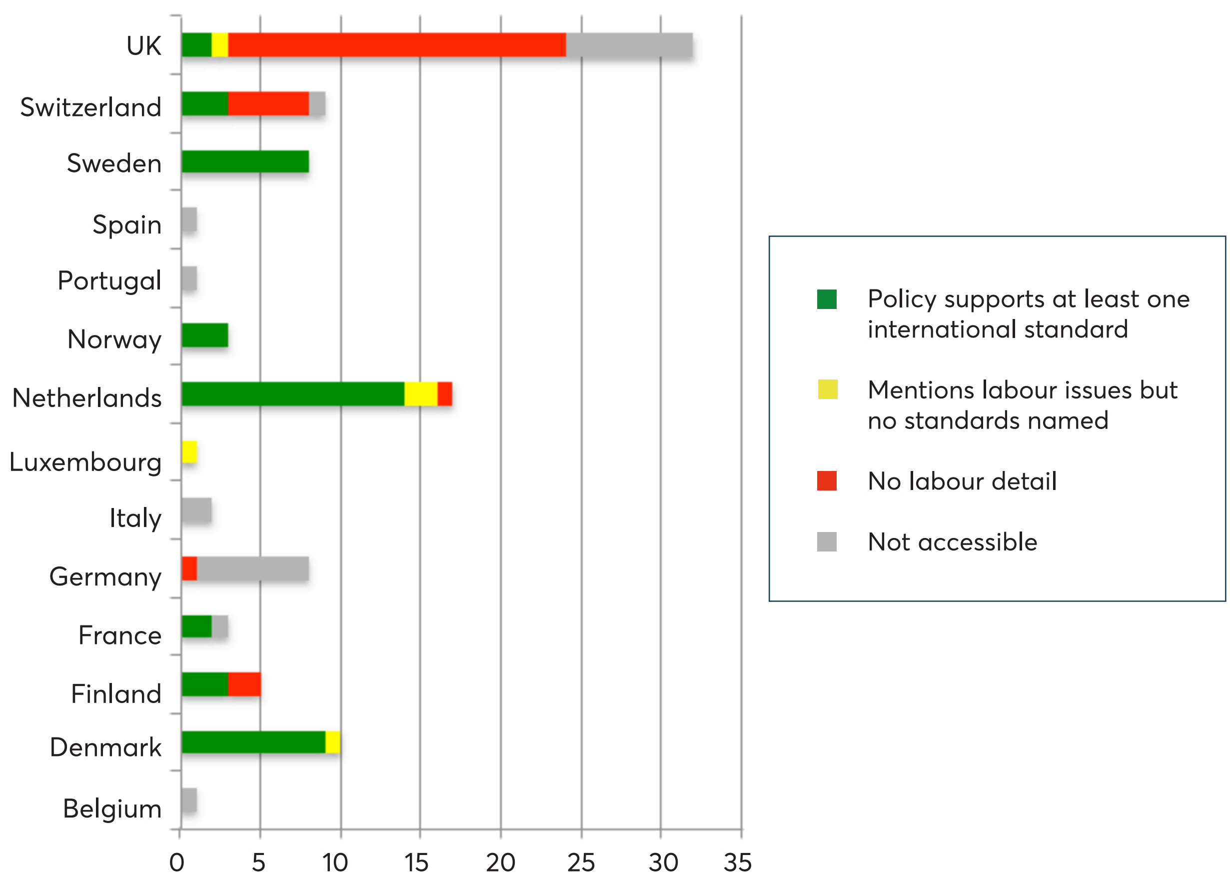


Specifically, policies were reviewed for support for ILO core conventions, the UN Global Compact and OECD Guidelines on Multinational Enterprises. Although there is overlap in the content of these standards they were chosen as they are both familiar to investors, and so more likely to be used in a policy, and embed core labour rights. In addition, the ITF sought to identify examples of fund policies that included comprehensive content on labour issues.

[2] Top 1000 European Pension Funds, IPE, 2016 https://www.ipe.com/Uploads/v/a/k/Top-1000-European-Pension-Funds.pdf

Encouragingly, of those funds where a policy could be accessed, 44 funds explicitly draw on one or more internationally recognised standards that include commitments to labour rights. These funds represent EUR2.68 trillion in assets, or 63 percent of the total. Four funds have policies that refer to labour or human rights, or international standards, but do not specify particular standards. These funds have assets of EUR163 billion (3.8 percent of the total).

Number of funds that mention labour issues in their RI policies



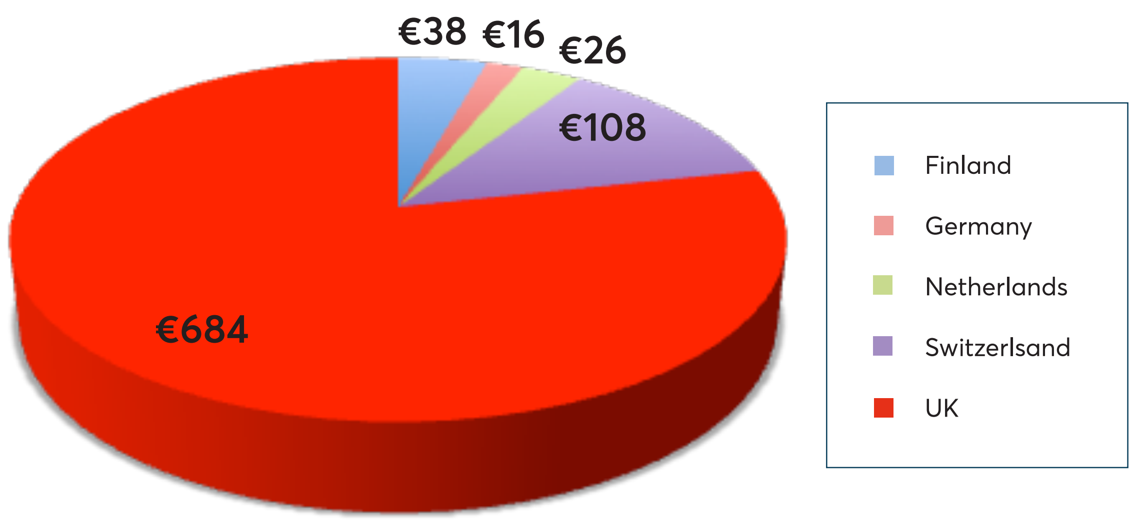
Swedish, Norwegian, Danish and Dutch funds have the most consistent performance. All eight Swedish funds in the top 100 have a policy that refers to international standards, in the case of several of the AP Funds this is via the Ethical Council. All three Norwegian investors are also in this category. Of the 10 Danish funds reviewed, nine have policies that refer to international standards and one refers to labour rights but does not name specific standards. Of the 17 Dutch funds featured, 14 have policies that refer to international standards and two refer to labour rights but do not name specific standards. One does not make any reference to labour issues.

In the case of the three French funds featured, a policy could not be accessed for one, but the other two have policies that endorse named standards and are strongly pro-labour.

Funds that do not refer to labour issues

In contrast almost a third (30) by number have responsible investment policies or statements that make no specific reference to labour issues or international standards that embed labour rights. These funds represent a total of EUR872bn, over a fifth (20.4 percent) of the total assets of funds analysed. Here there is an obvious national outlier. Of the 31 funds with investment policies that do not refer to labour issues, those from the UK represented the large majority by number (21) and assets (EUR684bn, 78 percent). The UK was followed by Switzerland with five funds in this category (EUR108bn, 12 percent).

Geographic split of funds with no labour policy by EUR billions



The position of the UK is significant. It has the largest pool of retirement assets in Europe, and the second largest in the OECD.[3] In addition, in contrast to many other European nations[4], it does not provide board-level representation for workers. So neither does the governance structure for its public companies provide a formal role for workers, nor do the vehicles of UK workers' retirement savings formally promote their interests. This looks to be an area where significant improvement can be made.

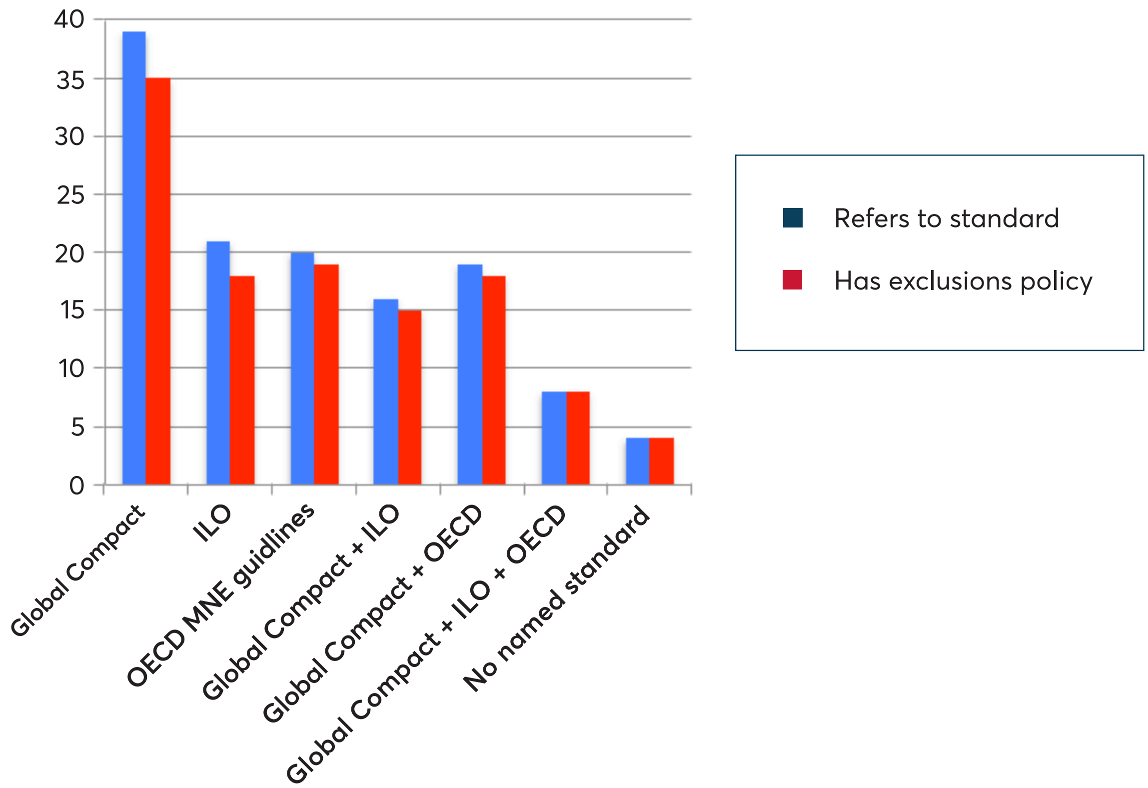
[3] *Pension Funds in Figures, OECD, May 2015 www.oecd.org/pensions/Pension-funds-pre-data-2015.pdf*
[4] *www.etuc.org/IMG/pdf/2011_ETUI_Report___Board_level_employee_representation_rights_in_Europe.pdf*

Detail of RI policies

Going further into the detail of funds' responsible investment policies, the ITF also recorded which international standards were referenced, and whether exclusions formed part of the funds' approaches.

The inclusion of international standards within RI provides an objective framework for assessing whether companies respect workers' rights. In the case of ILO conventions, these have been agreed jointly by unions, employers and governments. This means that funds do not need to develop their own standards and guidelines for assessing company behaviour. International standards can also underpin a framework for deciding whether further action is required. If an investee company fails to respect international standards, and is not responsive to engagement, they are by definition not supporting labour rights.

Standards named and exclusions policy by number of funds



The ITF does not advocate screening or divesting from companies over labour rights violations as a first response. The ITF believes that investor engagement with companies can be a powerful force for change. However there may be instances where engagement is unsuccessful and it may better suit the fund to divest, either because of its policy stance or because poor management practices may threaten returns.

When looking at funds' RI policies, references to the UN Global Compact, the OECD Guidelines for Multinational Enterprises and ILO conventions were recorded. It should be noted that the depth of policies varied considerably. Most RI policies are set at a general level and do not provide a great deal of detail even when standards that include labour standards are mentioned. For example, some funds might simply state that their policy supported the Global Compact, while others set out its elements, including commitments on labour rights. A handful of funds have separate sections in their RI policies that cover labour issues and set out specific expectations and/or standards that are supported.

Overall, the UN Global Compact was the most commonly referred to standard, and is mentioned in the RI policies of 39 funds in total. ILO conventions were named (in varying detail) by 21 funds and the OECD Guidelines for Multinational Enterprises by 20 funds. Broadly, most funds referencing the ILO or OECD also mention the UN Global Compact. Eight funds reference all three.

It is perhaps not surprising that those funds that refer to one or more international standards are also likely to have a policy of potentially excluding or divesting from companies that are deemed to not meet the policy requirements. In total 42 funds, representing EUR2.63 trillion in assets, state that their RI policy encompasses exclusions or divestments, of which only four do not explicitly name any international standards in their RI policy. No funds which make no reference to labour rights or international standards in their policy make provision for screening or divestment.

As we might expect, the more extensive a fund's RI policy, the more likely they are to make provision for screening. Where funds reference more than one standard, almost all also potentially exclude or divest from problem companies.

Pro-labour policies

During the research, the ITF also sought to record examples of fund policies that included comprehensive content, such as a specific section on labour rights (as opposed to being one or two sentences within a broader policy). Below we highlight four funds as examples of strong and/or extensive policies on labour issues.

ERAFP (France)

ERAFP has adopted an RI charter that is built on five core areas. Of these, three directly promote workers' interests: rule of law and human rights; social progress; and democratic labour relations. The section on Democratic Labour Relations is listed below.

ERAFP shall assess the way in which issuers respect the rights of employees and other workers, and shall give priority to those who score positively on the following principles:

1. Respect for the rights of trade unions and promotion of social dialogue:

- *respect for the right to strike, freedom of affiliation and the allocation of resources for staff representatives;*
- *respect for employee representatives, provision of information, consultation and collective bargaining;*
- *the existence and role of participatory or advisory bodies (works councils, group councils, joint technical committees or their equivalents, etc.) in particular as regards the verification of economic, corporate and environmental information provided by the issuer;*
- *the ability of such bodies to make proposals and the extent to which these are taken into account;*
- *the issuer's internal practices when entering into agreements or contracts.*

2. Improvement of health and safety conditions:

- *putting in place systems to prevent accidents and occupational diseases and more generally ongoing improvement of health and safety in the workplace;*
- *resources allocated to the health and safety committee, or its equivalent, and the extent to which its opinions are followed.*

FRR (France)

FRR's website sets out its overall RI strategy and sets out principles to be applied in externally awarded mandates. In the initial commentary on its strategy, FRR sets out its support for the Global Compact and specifically highlighting ILO conventions.

In its principles for socially responsible investment applicable to external mandates, the first principle is 'Respect basic human and worker rights' which includes the following guidance:

- *Promote and ensure compliance with fundamental principles and rights at work:*
  - *– Freedom of association and recognition of the right to collective bargaining;*
  - *– Elimination of all forms of forced labor and human slavery;*
  - *– Elimination of child labor;*
  - *– Elimination of discrimination in employment and career.*

Its second principle is 'Develop employment by improving the quality of human resource management' which includes the following guidance:

- *Promote human resource management policy that favors disclosure, dialogue and the active participation of employees in their workplace and business.*
- *Define and conduct of human resource management policy whose focus is long term and whose language is consistent with the organization's business development strategy. In particular, such policy favors negotiation and consultation with personnel representatives (both at the local and corporate level, where applicable), and actively promotes employment and the durable involvement of employees in the workplace and the business, particularly by providing:*
  - *– Continuing education opportunities for employees throughout their career;*
  - *– Tools and resources that help employees cope with economic change and, in particular, that foster the creation of new businesses and activities;*
  - *– Profit-sharing programs for employees.*
- *Implement policies and procedures aimed at obtaining ongoing improvements in working conditions, in particular those that relate to worker health and safety, both physical and mental.*

Industriens Pension (Denmark)

Industriens Pension has an extensive RI policy, within which it has adopted five principles relating directly to labour rights (all of which it states are based on ILO conventions). These are:

- Freedom of association and organisation
- Eradication of forced labor
- Elimination of child Labour
- Elimination of discrimination
- Health and safety in workplaces

The principle on freedom of association is listed below.

1. *Industry Pension guidelines relating to freedom of association and organizing are based on Principle 3 of the UN Global Compact, the UN's Universal Declaration of Human Rights of 1948 and ILO Conventions:*

Companies must not violate freedom of association and shall recognize the right to collective bargaining. Freedom of association and organisation can for example be understood as the right to form or join organizations or associations of their choice without prior authorization and without action damaging to the worker and the right to allowing voluntary negotiations aimed at regulating working conditions through collective agreements.

Sampension (Denmark)

Sampension is unusual in that much of the content of its responsible investment policy comprises specific ILO conventions.

1. Social investment policy of SAMPENSION

SAMPENSION invests in companies:

That do not employ child labour;

- *Article 32 of the UN Convention on the Rights of the Child (1989)*
- *ILO Convention (No. 138) concerning Minimum Age (1973) and ILO Convention (No. 182) concerning the Worst Forms of Child Labour (1999)*

That respect equal rights regardless of sex, race and religion;

- *Articles 2 and 23(2) of the Universal Declaration of Human Rights (1948)*
- *ILO Convention (No. 111) concerning Discrimination in Respect of Employment and Occupation (1958) and ILO Convention (No. 100) concerning Equal Remuneration (1951)*

That respect the individual's right to form and to join a lawful trade union;

- *Article 23(4) of the Universal Declaration of Human Rights (1948)*
- *ILO Convention (No. 87) concerning Freedom of Association and Protection of the Right to Organise (1948), ILO Convention (No. 98) concerning the Right to Organise and Collective Bargaining ((1949) and ILO Convention (No. 154) concerning Collective Bargaining (1981)*

That do not employ forced labour;

- *ILO Convention (No. 29) concerning Forced Labour (1930) and ILO Convention (No. 105) concerning the Abolition of Forced Labour (1957)*

That counteract corruption;

- *UN Convention against Corruption (58/4), October 2003.*

2. Environmental investment policy of SAMPENSION

SAMPENSION invests in companies:

That observe the national environmental law, including the working environment law, in each country of activity;

That observe all ILO Conventions concerning health and safety in the work environment. At present there are more than 25 conventions in this field concerning health and safety, hours of work, sweatshops, etc.;

That strive to reduce their environmental impact.

These policies are useful examples of what funds can put in place to ensure that the capital of working people is used in their interests. Because these funds use international standards to inform their policies, this provides clarity to all parties and unambiguous support for workers' rights. The ITF believes that more funds could take this approach.

Implementation of policy

The existence of an RI policy does not by itself ensure that a fund promotes labour rights, the policy also needs to be effectively implemented. The approach that funds take can vary in a number of ways.

First there is the question of coverage. For example, a policy might cover the fund's own investments (where applicable) or it might be applied to externally managed mandates, or both. The fund may also apply a different approach to different asset classes.

Second, the fund needs to consider process of applying the policy. Funds might both screen out companies because of known policy violations and engage with those where it is believed that improvement can be achieved (retaining divestment as an ultimate sanction). In addition, funds might also seek to utilise their shareholder rights to support their policies. In practice, a number of funds do provide some commentary on how they seek to implement policy. Some examples are provided below.

SBB (Switzerland)

Scope of application

1. *Sustainability policy has no influence on the investment strategy or the target allocation.*
2. *PK SBB's sustainability policy is applied to shares and bonds of listed companies.*
3. *When implementing a mandate, investments in individual companies can be excluded.*
4. *If the implementation of sustainability policy is not possible or is associated with high costs, it can be waived.*

Monitoring

1. *The supervision of the companies represented in PK SBB's plants is purchased by a specialized provider of this service.*
2. *Appropriate guidelines and rules are developed with the selected provider in order to follow this policy adequately.*
3. *The selected provider will carry out the defined investments with regard to the defined sustainability criteria and, on the basis of its analyzes, issue reasonable recommendations (dialogue, exclusion).*
4. *On the basis of the analyzes and recommendations, PK SBB independently decides on the further procedure (dialogue, sales) regarding the affected plants. This will control the selected provider and, if necessary, the PK SBB can intervene.*

Influence

1. *The principles of sustainability policy are taken into account when exercising voting rights.*
2. *PK SBB holds only insignificant participations in companies. In order to be able to influence corporate governance more effectively, it is seeking a common approach with other investors in order to promote the sustainable development of companies. A specialized provider to be defined is to be held worldwide with a dialogue with selected companies in order to promote the principles enshrined in this policy.*

Exclusion

1. *PK SBB shall exclude a company from its investment universe if it violates the principles laid down in this sustainability policy in a gross manner.*

PMT (Netherlands)

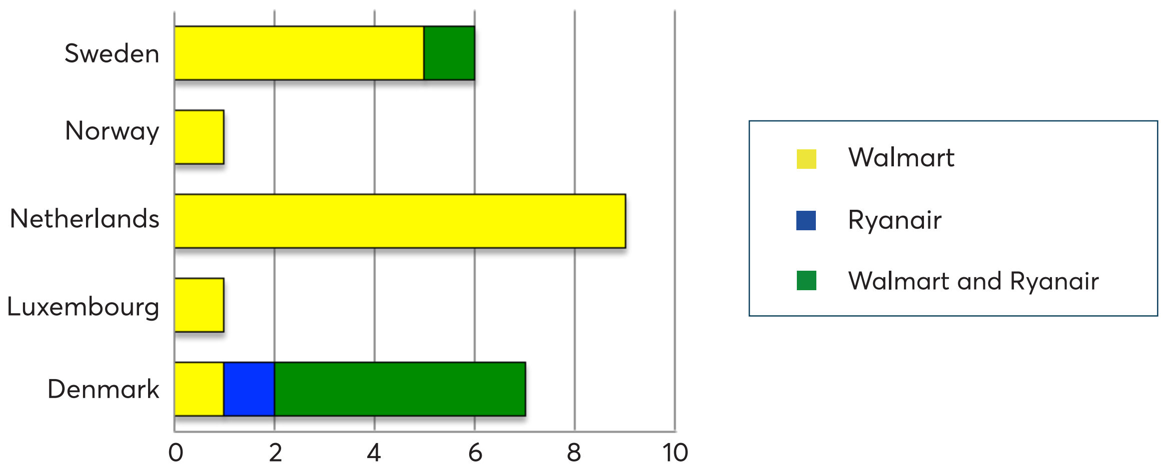
In a dialogue program PMT goes into talks with companies so that ESG factors can be improved. PMT selects the companies that are involved in controversies or in violation of international standards in the field of corporate responsibility. Then we enter into dialogue with the aim to achieve improvements in the area of social responsibility. Commitments are measured during the dialogue program and evaluated. The degree to which a company is willing to cooperate and openness they show are important indicators.

We believe that pension funds' approach to policy implementation should be clearly set out. As articulated previously, the ITF believes that funds can most effectively promote the interests of the working people who are their beneficiaries by engaging with companies in the first instance. Therefore we advocate that funds adopt engagement as their principal approach to policy implementation, and we see the use of shareholder voting rights as a critical element of this. However, the ITF also believes that it is sensible for funds to retain the option of divestment where companies are resistant to change. We look at exclusion policies in practice in the following section.

Fund exclusions on labour issues

It is a notable feature of responsible investment in Europe, with the exception of the UK, that screening and divestment are regularly employed. This is the case for major main-stream investors including, for example, Norges Bank, ABP and PFZW. Given the large number of funds that have a provision to exclude or divest from companies as part of their RI policies, information was sought on company exclusions due to labour issues.

Fund exclusions on labour issues



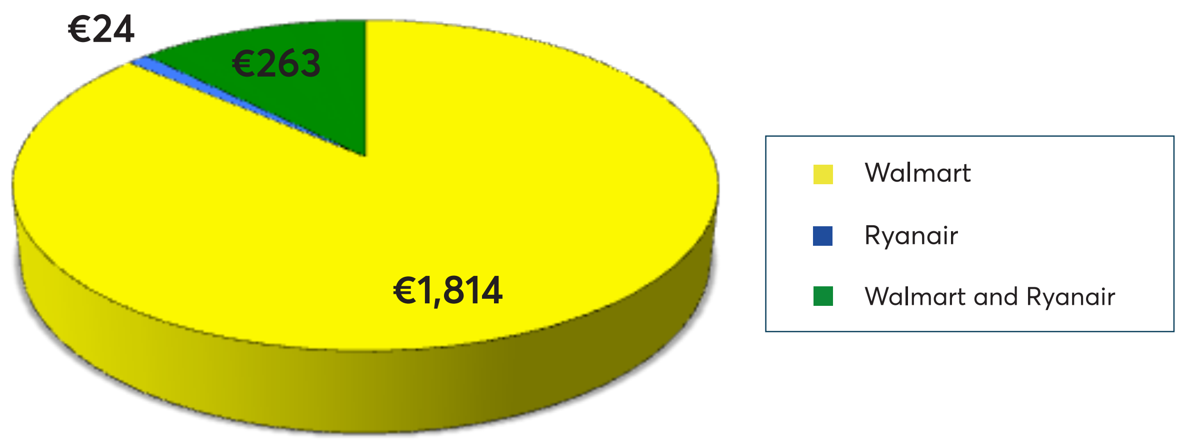
The ITF was aware that during 2015 a number of funds had divested from Ryanair as a result of an industrial dispute at Copenhagen Airport.[5] In addition, the ITF was aware that a number of European funds had divested from Wal-Mart several years previously. This followed high-profile complaints about its approach to trade union rights, and many investors failed to see any change despite their engagement.[6] Therefore funds' lists of excluded companies were reviewed to record cases where either Wal-Mart or Ryanair had been excluded.

[5] *Danish pension funds dump Ryanair shares as labour dispute heats up, IPE, 18 June 2015 https://www.ipe.com/news/esg/danish-pension-funds-dump-ryanair-shares-as-labour-dispute-heats-up/10008573.fullarticle*

[6] *Norway fund defends Wal-Mart divestment despite 'flawed' screening criticism, 8 September 2006 https://www.ipe.com/norway-fund-defends-wal-mart-divestment-despite-flawed-screening-criticism/19491.fullarticle*

Overall almost one quarter (24) of the funds were found to have excluded either Wal-Mart or Ryanair because of labour-related concerns. Of these 17 excluded just Wal-Mart, one excluded just Ryanair and six excluded both.

Fund exclusions on labour issues by EUR billions



There was a very clear geographical split in terms of which funds excluded which stock. Six out of 10 Danish funds excluded Ryanair, while only two excluded Wal-Mart. In contrast, six out of eight Swedish funds were found to exclude Wal-Mart, while only one excluded Ryanair, the only non-Danish fund to do so.

In total 23 funds assets of just over EUR2 trillion exclude Wal-Mart, while seven funds representing assets of EUR287bn exclude Ryanair. This represents a significant pool of capital that is currently unavailable to these companies because of their approach to labour issues.

These findings suggest that the implementation of a divestment policy in relation to labour issues may be influenced by the proximity of the issue to the investor, and its profile.

Transport-related funds

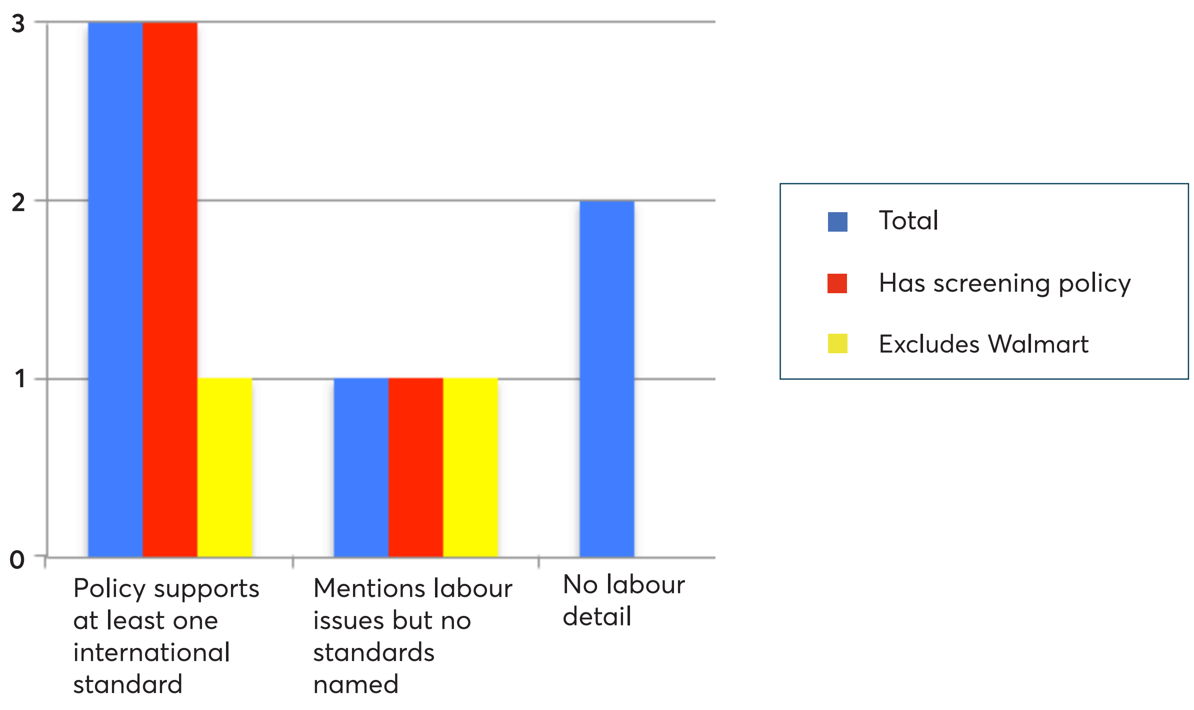
Finally, given the ITF's sectoral presence, transport-related pension funds were analysed as a group in their own right. Within the 100 funds in the sample, six represent the savings of transport workers and have a total of EUR132 billion in assets.

Of these six, three refer to international standards in their RI policy. Of these three, all refer to the UN Global Compact, and one additionally makes reference to the OECD Guidelines for Multinational Enterprises.

One refers to labour standards but does not name specific standards. Two funds make no reference to labour issues.

Four funds have a policy to potentially screen out or divest from companies over ESG issues, and two have excluded Wal-Mart. None of the funds exclude Ryanair.

Transport fund policies and exclusions



Conclusion

Looking at pension funds' responsible investment policies across Europe as a whole, there are reasons to be positive. A large number of the largest funds already make reference to international standards that embed labour standards, with the UN Global Compact the most frequently referred to. In addition, an encouraging number of funds also explicitly refer to ILO conventions, and a small number of funds have adopted comprehensive positions on labour issues.

In contrast, a significant minority of funds by both number and assets make no reference at all to labour issues in their responsible investment policies. As noted previously, the UK is the major outlier here, with most funds in the sample making no mention of labour issues. This is significant given that the UK represents the largest pool of retirement savings in Europe.

These findings are important since they show both that it is entirely possible for funds to adopt policies that promote workers' rights, and that existing fund policies may be shaped more by the country's political and social culture than fiduciary duty or regulation covering pensions and investments.

Looking at implementation of policy, it is striking that screening and/or divestment continues to play an important role in the policies of many funds. Excluding those funds where a policy could not be accessed, more than half the funds in the sample by number and assets make provision for exclusions, including the very largest. In practice, the willingness of investors to divest from a stock over labour issues may depend both on how high profile the dispute is, and how close to home.

Therefore, our overall assessment of the research is twofold. At the policy level, the picture is positive, but there are obvious gaps where practice could be improved. At the level of implementation, funds could provide more detail on processes, and unions could focus more on bringing issues to the attention of funds. Good policies have no value if they are not utilised.

Looking ahead, these findings suggest an outline for what a coherent position on labour issues might look like within a fund's RI policy. In the ITF's view, this should include:

- An overall description of the fund's position on labour issues
- A commitment to support specific international standards
- A description of the fund's approach to implementation – both engagement (including the use of voting rights) and divestment or screening
- A commitment to report outcomes – results of engagement, full voting record, list of investments excluded on ESG grounds and the reasons why

The ITF is working with colleagues in the labour movement to develop ideas about a model fund policy on labour issues.

In addition, the ITF intends to expand the scope of its fund research, both in terms of the number of funds analysed, and the type of information that is captured. We will make our research available to other unions that may find it valuable in respect of their own work.