storebrand

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Response to BHRRC on report commissioned by Fair Finance on investments in Qatar

We welcome the report from Fair Finance and recognize the important issues they highlight. Investors are in part dependent on these reports to better access information on companies, especially in high-risk countries such as Qatar, and to further calibrate how they prioritise risks in their investments.

Storebrand has been aware of the condition of workers and especially migrant workers in Qatar and other Gulf countries for several years and has taken measures to avoid and mitigate our exposure to salient risks in line with the UNGPs, although this is not reflected adequately in the report.

We appreciate the report's acknowledgement of our policies and due diligence procedures covering these issues. Our policies not only cover these issues, but also show how we as investors conduct human rights due diligence to identify, assess, address, and mitigate human rights risk in our portfolios by referencing the UN Guiding Principles for Business and Human Rights, OECD Guidelines for Institutional investors, Norwegian law and EU regulation requiring human right risk assessments.

How we work

We identify, manage and mitigate actual and potential adverse impacts by using several methods. These are the main ones:

1. Continuously monitoring our investments for controversies in breach of the Storebrand Standard (minimum requirements to companies to be invested in), conducting reactive engagements and excluding companies where the breach does not cease after engagement efforts. Please see full list of exclusions covering human rights in general (labour rights, gender equality or indigenous rights to name a few) but also war and conflict zones, such as occupied territories.

2. Assessing specific Principal Adverse Impacts within our investments as required by the EU Sustainable Finance Disclosure Regulation. Covering 16 Principal and voluntary adverse impacts. Mitigating these via engagement with companies, sale of assets, or exclusions.

3. Mapping portfolios to identify industries with largest investment exposure against salient human rights risks inherent to these industries and prioritisation of engagement to mitigate the risk.

The rationale is to avoid or prevent investments in companies involved in serious breaches of human rights, but also to lift industry human rights standards by using individual or collective leverage engaging with companies, and therefore mitigate human rights risks related to our investments.

We use data from our sustainability data providers as one source of input into our assessment of country risk, industry risk and company risk. This information is further used to map and identify industries that are exposed to higher human rights, as well as countries that present a higher likelihood of human rights violations. This, together with an ESG risk analysis at a company level, mapping of our exposure to risks, identifying salient risks, and evaluating as to where we have ability to influence companies via engagement, are all factors that guide us in prioritising proactive human rights engagement themes. Please see also our engagement principles and Focus themes here.

How we have addressed Qatar

Storebrand scores poorly in this report due to lack of engagement with 8 international companies Storebrand is invested in, of a total of 16 identified with operations in Qatar by the report.

As mentioned above, Storebrand has been aware of the condition of workers and especially migrant workers in Qatar and other Gulf countries for several years as reported by Amnesty International, Human Rights Watch, the Business and Human Rights Research Center and other local organisations. Indeed, the issue of poor labour and working conditions in Qatar is a serious one, which is not merely isolated to the hospitality and construction sectors. It is a systemic issue within Qatar as well as across the Gulf region in general, enabled by government-established frameworks that facilitate these practices. Therefore, during our human rights diligence of our portfolios connected to country risk, Qatar and other Gulf Countries were flagged as high risk.

Considering the 'state-institutionalised risk' for human rights abuses in Gulf countries, Storebrand has decided so far, to withhold investing in these countries' sovereign bonds, state-owned companies or domiciled companies, in order to mitigate the risk of contributing to severe human rights abuses. This is also the case for Qatar, as we saw the root cause of the abuses based on relatively liberal entry, restricted rights and limited duration of employment contracts and visas also known as the Kafala system considered by ILO as conducive to the exaction of forced labour. See ILO on Gulf Countries.

As reflected in the report, Qatari companies play an important role for example in the construction sector. Qatari companies and state-owned companies because of their proximity to the Qatari government are at high-risk or even higher risk of being involved in the very same severe human rights abuses as international companies. However, these Qatari and state-owned companies are not the focus of this report and thus investors are not assessed for their investments in them. Investors are only assessed for their engagement efforts with 18 foreign companies and thus their contributions to severe human rights violations through their investments in them.

In addition, the report also considers investing in Qatari sovereign bonds as a risk to contributing to severe human rights abuses. Although directly investing in the Qatari government is assessed as a risk factor in the report and it shows in tables some investors' holdings in sovereign bonds, the report does not consider this as an element when scoring the investors.

For Storebrand, following the UNGP and OECD in the prioritisation of our actions to mitigate based on where we are most exposed to risk, it was essential to first address where we understood the root of the risk to be, i.e. the system that allows for these violations to appear in such a systematic way across many sectors and to avoid direct investments in it via investments in sovereign bonds, state-owned and Qatari companies.

Addressing and mitigating risk under the UNGP and OECD guidelines involves often difficult choices of prioritization based on many factors, such as the level of risk to human rights violations, our exposure to the risk through our specific investments, the links of our investments (investee companies) to the violations, and the actual level of influence we can apply towards mitigating the risks.

In this prioritization, we must weigh several factors and make an exceedingly difficult determination as to both where and how to focus our efforts as an investor, for maximum impact and avoiding the most salient risks. These determinations are made across the totality of our investment portfolio, over 5000 companies, and a much larger investable universe.

We assessed the most salient human rights risks to be linked to the state, state-owned and domicile companies. This risk was mitigated in Gulf countries, including Qatar, by avoiding investing directly in these countries, and their state-owned or domicile companies. We also assessed our human risk exposure in Qatar via international companies in comparison to our total exposure in other countries and sectors for severe human rights violations. However, this does not mean that we did not see a risk of international companies also being exposed to these risks, but we assessed it as lower, at least for their own core operations, not at suppliers or sub-contractors from Qatar. (We do not provide loans or underwritings for construction projects.)

We therefore chose to mitigate our risk through avoiding investments in the state of Qatar, its state-owned and Qatar-domiciled companies, and rather prioritise our proactive engagement with companies where we have larger holdings in other sectors also exposed to similar issues such as forced labour, poor working and wages conditions. In these proactive engagements we could collaborate with other investors for more leverage in other geographical regions and over longer periods of time to increase the possibilities for more positive impact.

<u>Examples on proactive engagements on forced labour, working conditions and wages</u>

Regarding forced labour, we have, for example been focusing on sectors where we have larger holdings and can engage companies together with other investors for more leverage. At the Investor Alliance, we have been engaging together with 52 investors with over 60 companies across 9 sectors for the last 2 years. The main focus lately has been on forced labour in Xinjiang. Regarding wages and in order to have more leverage we joined the Platform for Living Wages Financial last year where we have been co-chair for two sectors.

The platform assesses over 55 companies within the textile, agrifood and food retail sectors through a thorough methodology on their journey to paying living wages to their own workers and ensuring their suppliers do the same--and other issues enabling this goal such as freedom of association, other workers' rights as well as remedy and grievance mechanisms. We have also prioritised our efforts on pressing human rights issues involving human rights in war and conflict zones, such as Myanmar and occupied territories.

That said, we have engaged with some of the companies highlighted in the report on human rights issues, but not specifically on Qatar as an issue.

Another factor that did not trigger a reactive (rather than proactive) dialogue with the companies from our side is that fact that our ESG data providers did not qualify the severity of human rights controversies associated with the selected companies as high enough to trigger any engagement or exclusion process. We have discussed this with our two providers monitoring our investment universe for controversies. Both providers confirm the ratings given to the companies and stand by their assessments. The main reason given for low or no controversy ratings in this case is that the reports written on the situation of migrant workers in Qatar have been too general and do not provide concrete enough information connecting poor working conditions to specific companies. Thus, although the sectors are exposed to high risk of human rights abuses, the lack of concrete examples linked to specific companies makes it difficult for them to flag it as a controversy for the companies and therefore as a risk for investors. However, they are reviewing this report and based on the information provided are considering eventual updates to the company ratings.

Conclusion and further steps

It is useful to see how we compare to our peers focusing on engagement as one form of mitigation within two industries with operations in Qatar. However, it would be even more useful if we could see how we compare giving the full picture of investments in Qatar: sovereign bonds, state owned companies, Qatari companies and in general investments in Gulf countries across sectors facing the same issues as well as other types of mitigation actions. Giving a full picture of how well investors are mitigating their risk in proportion to their total risk of contributing to human rights abuses in Qatar would be in alignment with UNGP and OECD guidelines and show to what extent investors are living up to these requirements.

That said, we take this report very seriously, and have contacted our data providers so they can be better informed, update their ratings and thus alert other investors that might not have seen the report.

We have also contacted all 8 companies and started preliminary dialogue about labour rights in Qatar with a special focus on the Employer Pays Principle that recruitment costs should be borne by the employer, and workers' unrestricted access to their passports, among others.

We have also reviewed our policies and procedures, which covered several conventions related to issues of forced labour and wages, but which now also incorporate reference to ILO No. 97 and 143 Migration for Employment covering migrant workers more specifically.

We will revisit Qatar and the Gulf countries in our next country risk assessments and thus may take a different approach and prioritise accordingly, with more focus on international companies going forward.

In sum, we applaud Fair Finance efforts for bringing the issue to the attention of the financial sector in Germany and Norway. However, we also caution drawing direct conclusions on the quality of a financial institutions human rights due diligence approach, narrowing it on the lens of engagement with international companies in these two sectors, without looking at the totality of the decisions made in prioritising and mitigating salient risks in the country in line with the UNGPs and expectations for institutional investors.