

2014: Superannuation. Beyond the Fringe

Ensuring Investments Comply with United Nations' Human Rights Standards

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Agenda

- What are human rights and core international human rights standards?
- Why are human rights relevant for business?
- Introducing the UN Guiding Principles on Business and Human Rights and human rights due diligence
- What do the UN Guiding Principles mean for investors and their advisors?
- The Australian context

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A recent human rights shareholder proposal

PROPOSAL NO. 6.

ADVISORY VOTE ON A SHAREHOLDER PROPOSAL REQUESTING A HUMAN RIGHTS REPORT

The American Federation of State, County and Municipal Employees Pension Plan (Plan) advised the Company that it intends to present the following shareholder proposal at the Annual Shareholders' Meeting. The Plan owns 7,538 shares of the Company's common stock. There was one co-filer for this proposal.

Shareholder Proposal

RESOLVED, that shareholders of McDonald's Corporation ("McDonald's") urge the Board of Directors to report to shareholders, at reasonable cost and omitting proprietary information, on McDonald's process for identifying and analyzing potential and actual human rights risks of McDonald's operations (including restaurants owned and operated by franchisees) and supply chain (referred to herein as a "human rights risk assessment") addressing the following:

- Human rights principles used to frame the assessment
- Frequency of assessment
- Methodology used to track and measure performance

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The company's response

The Board's Statement in Opposition

The Board recommends voting AGAINST the advisory proposal requesting a human rights report.

The Board has carefully considered the proposal and, for the reasons described below, believes that the report is unnecessary in light of the Company's demonstrated commitment to human rights, including an expectation that McDonald's independent owner-operators and suppliers do the same. We further believe that the proposal represents the potential for a diversion of resources with no corresponding benefit to the Company, our customers or our shareholders.

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The result

Proposal 6. Advisory Vote on a Shareholder Proposal Requesting a Human Rights Report

	For	Against	Abstain
Number of Shares Voted	180,216,838	341,295,875	114,581,514
% of Shares Voted	28.33%	53.65%	18.01%

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Business and human rights landscape

1. All internationally recognised human rights
2. All sectors
3. All types of business
4. Developing and developed countries
5. Challenges and opportunities



What are human rights?



- Basic rights and freedoms enjoyed by all human beings, individually and in some cases collectively
- Applicable regardless of nationality, place of residence, sex, national or ethnic origin, colour, religion, or any other status
- Enshrined in core international instruments drafted by States for States in the aftermath of WWII
- Civil and political rights: e.g. right to life; freedom from torture, freedom against slavery; freedom of expression
- Economic, social and cultural rights: e.g. right to just and favourable working conditions; right to an adequate standard of living; right to take part in cultural life
- Universal, inalienable and indivisible

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Why are Human Rights relevant for Business?

- Responsibility to respect human rights – to do no harm
- May also help realise rights
- Consequences of negative impacts:
 - criminal prosecutions
 - civil law suits
 - public campaigns
 - investor concern including divestment
 - operational delays
 - employee dissatisfaction
 - lost funding opportunities

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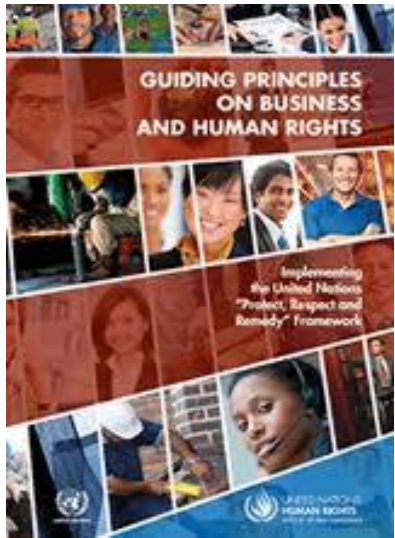
The UN Protect, Respect and Remedy Framework



- The **State duty to protect** against human rights abuses by third parties, including business, through appropriate policies, regulation and adjudication
- The **corporate responsibility to respect human rights**, which means that business enterprises should act with due diligence to avoid infringing on the rights of others and to address adverse impacts with which they are involved
- Greater access by victims to **effective remedy**, judicial and non-judicial

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Status of UN Guiding Principles on Business and Human Rights



- UNGPs **are**: a global reference point for preventing and addressing the risk of adverse impacts on human rights linked to business
- UNGPs **are**: being incorporated into other key CSR initiatives and there are examples of uptake by all stakeholder groups
- UNGPs **are not**: binding international law.
- UNGPs **are not**: an off the shelf handbook, must be tailored to each company, each government

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The Corporate Responsibility to Respect

- Foundational Principles
- Policy Commitment
- Human Rights Due Diligence
- Remediation
- Issues of Context



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Human Rights Due Diligence

- **Identifying and assessing** the actual and potential adverse human rights impacts of company activities and associated relationships
- **Integrating** the findings from human rights impact assessments across relevant internal functions and processes
- **Tracking** company human rights performance to verify whether adverse human rights impacts are being effectively addressed
- **Communicating** publicly, where appropriate, on company responses to actual and potential human rights impacts



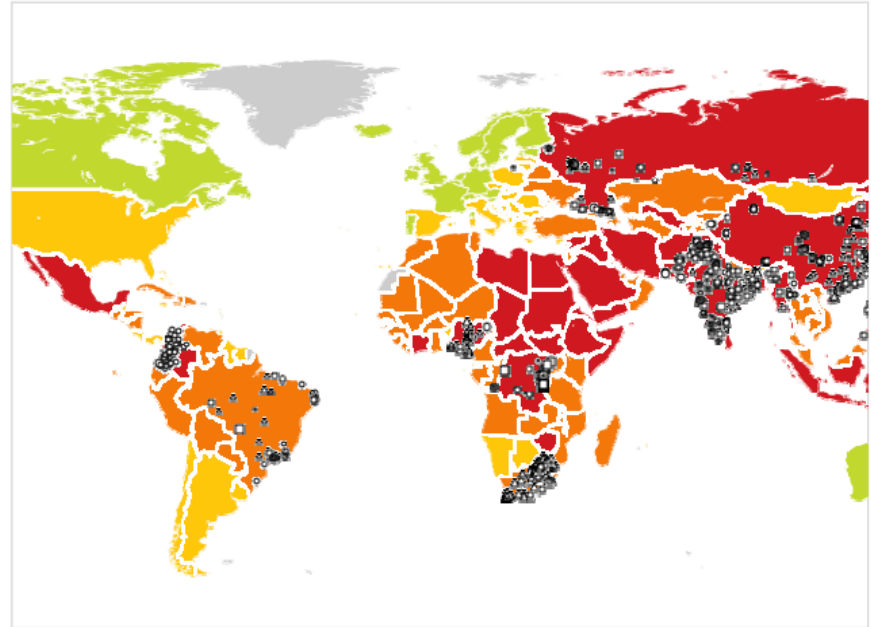
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Human Rights Due Diligence and Business Relationships

- Responsibility to respect entails preventing and addressing **involvement** in human rights harm, including through business relationships
- All business relationships including e.g. security providers and other contractors, suppliers, joint venture partners, mergers and acquisitions, franchise partners, customers and investor relationships etc
- Identify general areas where risk of adverse human rights impacts most significant and prioritise these for human rights due diligence
- Look at business partner's operating context, particular operations, products or services or other relevant considerations i.e. industry
- Appropriate action to fulfil responsibility to respect will depend on level of involvement and leverage




Human Rights Risk Index



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What the UNGPs mean for investors?

- Understanding the human rights risk management approach of businesses in which they invest.
 - Understanding human rights risks through their own activities.
 - Raising human rights awareness amongst investors.
 - Highlighting the information needs of investors.
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- Informal dialogue
 - Shareholder proposals
 - Divestment
 - Public advocacy
 - Benchmarking and ranking
 - Tools development
 - Internal policy development

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2013 US Shareholder Proposals

Human Rights Proposals			
Company	Proposal	Proponent	Meeting/ Status
Aqua America	Adopt policy on human right to water	NorthStar Asset Mgt.	May
Caterpillar	Adopt/expand human rights policy	Presbyterian Church (USA)	June
Caterpillar	Report on human rights	Jewish Voice for Peace	June*
Caterpillar	Report on human rights risks	AFSCME	June*
Chevron	Report on country selection/assessment	Teamsters	May
Choice Hotels Intl.	Report on human rights policy	Mercy Investment	Withdrawn
Deere	Adopt/expand human rights policy	Episcopal Church	Omitted ¹⁻¹⁰
Expedia	Adopt policy on human trafficking	Mercy Investment	Withdrawn
Franklin Resources	End investments in genocide-connected companies	William Rosenfeld	March 13
General Dynamics	Adopt/expand human rights policy	Srs. of Loretto	May
GEO Group	Report on human rights policy	Brethren Benefit Trust	May
Goldman Sachs	Establish executive human rights committee	Jing Zhao	May*
Halliburton	Report on human rights policy	AFSCME	May
Hewlett-Packard	Adopt/expand human rights policy	Presbyterian Church (USA)	March 20
Hewlett-Packard	Establish executive human rights committee	Jing Zhao	March 20
JPMorgan Chase	End investments in genocide-connected companies	Investors Against Genocide	May
Kroger	Report on human trafficking policy	Srs. of St. Francis	June
Marathon Oil	Report on human rights policy	Episcopal Church	Withdrawn
McDonald's	Report on human rights policy	AFSCME	May
Northrop Grumman	Adopt/expand human rights policy	Srs. of St. Francis	May
Yahoo!	Report on human rights	Jing Zhao	June

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An example of benchmarking

Table 2
Due Diligence Requirements – Company compliance as evidenced by public reporting

Company	Initiated prior to new activity or relationship	Consultation with potentially affected groups	Is on-going, recognizing that HR risks may change over time	Covers adverse HR impacts caused by own or partners activities	Draws on internal and/or independent external HR expertise
Anglo American	✓	✓	No evidence	No evidence	✓
Antofagasta	No evidence	No evidence	No evidence	No evidence	No evidence
BG Group	✓	✓	No evidence	No evidence	No evidence
BHP Billiton	✓	✓	No evidence	No evidence	✓
BP	No evidence	No evidence	No evidence	No evidence	No evidence
Cairn Energy	Piloted	Piloted	No evidence	No evidence	No evidence
ENI	Piloted	Piloted	No evidence	No evidence	✓
OMV	Piloted	Piloted	No evidence	No evidence	✓
Randgold Resources	No evidence	No evidence	No evidence	No evidence	No evidence
Repsol YPF	Piloted	Piloted	No evidence	No evidence	✓
Rio Tinto	No evidence	No evidence	No evidence	No evidence	No evidence
Royal Dutch Shell	No evidence	No evidence	No evidence	No evidence	No evidence
Statoil	✓	No evidence	No evidence	No evidence	No evidence
Total	No evidence	No evidence	No evidence	No evidence	✓
Tullow Oil	No evidence	No evidence	No evidence	No evidence	No evidence
Xstrata	✓	✓	✓	No evidence	✓



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Why do the UNGPs matter to internal and external legal advisors?

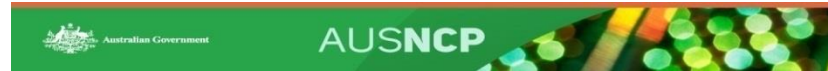


- UNGPs assist funds to fulfil UNPRI commitments
- Increasing mainstream references to UNGPs and human rights due diligence mean human rights diligence may be expected as part of professional trustee test
- Ability of human rights risk to impact share price means not considering human rights risk could breach duty to act in best financial interests
- Funds will seek guidance on voting around human rights related shareholder resolutions

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Key Australian developments

- Government
- Business
- Civil Society
- Investors
- Academia



Global Compact Network
Australia

