

HUMAN RIGHTS

Why We Engage

CPPIB believes that no company can endure if it fails to respect human rights. As such, as an investor, we carefully consider a company's track record in dealing with human rights. Those firms that do not respect human rights face above-average operational turmoil, higher legal risk, lack of community support and impaired brand value resulting from reputational damage.

What We Seek

- > Enhanced reporting on identifying, managing and mitigating human rights-related risks
- > Improved human rights practices, including those specific to supply-chain management

We believe strong human rights practices contribute to sustaining long-term value. Working with companies in our portfolio on this topic is key to our mandate to maximize long-term returns, without undue risk of loss. Companies with strong human rights policies and practices are less likely to face operational disruptions from legal and regulatory risk, protests, workforce action and other activities. They are also less likely to suffer reputational damage due to human rights-related controversies.

We also assess human rights risks within company supply chains, primarily considering poor working conditions and labour issues (such as child labour). We are currently focusing on supply chain management in the information technology sector.



Engagement

COLLABORATIVE ENGAGEMENTS

Since 2016, we have participated with over 20 global investors in a collaborative engagement related to child labour and other human rights concerns in the cobalt mining industry in the Democratic Republic of the Congo. It is the world's largest producer of cobalt, a key ingredient of lithium-ion batteries that power products ranging from smartphones and laptops to electric vehicles.

Child labour and poor safety practices, concerns often associated with cobalt mining, could expose companies and investors to operational, regulatory and reputational risks. This collaborative engagement originally aimed to encourage 13 electronics, automotive and battery manufacturing companies to improve supply chain management systems. Specifically, it sought to get them to identify and mitigate human rights risks in the procurement of cobalt. As of 2019, this effort has expanded to almost 20 companies, involves more than 35 investors, and is now supported by the Principles for Responsible Investment (PRI). The group has had numerous interactions with global industry associations, which have since instituted initiatives related to cobalt. These include:

- the Responsible Business Alliance's Responsible Minerals Initiative,
- the Chinese Chamber of Commerce for Metals, Minerals & Chemicals' Responsible Cobalt Initiative, and
- the World Economic Forum's Global Battery Alliance.

We are encouraged by the increase in disclosure and mitigation practices to date and expect more positive steps related to cobalt sourcing as the topic gains momentum and more relevant resources and tools become available.

WHAT DO WE MEAN BY HUMAN RIGHTS?

We consider human rights broadly and are guided by definitions set out in the United Nations Universal Declaration of Human Rights. For companies, this can take the form of forced, slave or child labour; may involve impacts from bribery and corruption; and can result from poor working conditions (including health and safety practices), poor relations with local populations and indigenous peoples or poor security practices. Any of these can also be relevant matters within company supply chains.

HERMES EOS ENGAGEMENTS

Human rights has long been a priority theme for engagements conducted by Hermes EOS, particularly with respect to supply chain risk management. Hermes EOS engages on topics such as child labour, indigenous rights, protection of basic rights and human rights reporting. Companies are also encouraged to adhere to, or align with, initiatives such as the United Nations Guiding Principles on Business and Human Rights (UNGPs) and the Responsible Business Alliance (formerly the Electronic Industry Citizenship Coalition).

PROXY VOTING

This year, we continued to see a focus on human rights-related proposals on the agendas of portfolio companies. Over the reporting period, CPPIB supported shareholder proposals at Macy's, Inc. and Saputo Inc. requesting more disclosure of human rights risks in direct operations and supply chains.