

Final Report | March 2024

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# Considering Social Factors in Pension Scheme Investments: Guide on effective stewardship, investment and advice services

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# Taskforce on Social Factors: Guide on effective stewardship, investment and advice services

## Trustee oversight of use of data by managers and service providers

### Oversight:

#### Asset managers

Asking questions about how scheme's asset managers and investment consultants use and understand data on social issues, and the underlying inputs into this data, can help trustees gain deeper insights into their managers' approaches to managing financially material social issues. In particular, probing managers further on their use of datasets can help trustees understand:

- How proactive a manager is and the level of resource they are dedicating to financially material social issues – do they passively accept the information sources available, or are they doing their best to either find alternative sources or improve the status quo on information disclosure more generally?
- The priority sub-issues and jurisdictions that managers' data-gathering is focused on – do these priorities match the trustees' own assessment of what should be prioritised and is most material? Do they ultimately align with the trustees' own investment objectives?

#### Investment consultants

Similarly, asking investment consultants how they consider a manager's approach to social issues (and use of data) in their evaluations and recommendations can help trustees understand to what extent your consultants truly understand and are on top of not just the 'S' of ESG, but also responsible investment and stewardship more broadly. This in turn can be taken as an indicator of the extent to which the consultancy firm is truly keeping abreast of important regulatory and investment developments – and upskilling its team accordingly.

#### Use of data

Finally, asking more granular questions around the quality, type and use of data can signal to both external managers and consultants that you are willing to more than 'skin-deep' on social issues. Trustees should not be afraid to challenge their managers on unsatisfactory responses regarding data that has been provided on specific issues – nor to challenge their advisers where they do not feel a sufficiently detailed answer has been provided. Where necessary, follow-up questions should always be posed to ensure that trustees are able to gain a deeper insight into manager and consultant processes to ensure accordance with the scheme's requirements.

#### Guidance for trustees

To help these conversations, we have provided a list of example questions to ask asset managers and consultants. While trustees will be best placed to understand the specificities of their own investment arrangements and engagement histories with their managers and consultants, we here offer some practical suggestions regarding:

- How to evaluate the voting and engagement summaries provided by managers – how to cut through the growing amount of glossy sustainable investment reporting to better understand the thoughtfulness of managers' approaches
- How to assess whether scheme trustees might benefit from setting their own voting policy.

Trustees can look to identify outliers in relation to social factors above or below a baseline level, both in terms of portfolios and individual assets. Being able to identify outliers provides a starting point for challenging fund managers (and stewardship providers where these are used) on their approach. This can include discussion of individual investment case studies to test how ESG systems and stewardship work in practice.

To complement individual case studies presented by asset managers trustees may also undertake thematic portfolio 'deep dives' to find individual instances of poor performance across their asset managers' portfolios.

If a company were showing poor practice in a social area, it would be reasonable for pension trustees to expect their asset managers to recognise the risks, hold management to account against those expectations, evaluate the company's response, and bring influence to bear to address the concerns.

## What does a 'good' answer look like from managers and consultants?

As more trustee meetings are taking place face-to-face again, we would generally recommend asking your managers and consultants to attend sessions in person for questions: an ability to scrutinise your service providers' body language is a fundamental ingredient in forming an assessment as to the quality of their understanding of an issue. However, trustees will have many other items on their agenda, so need to strike an appropriate balance between the activities required to improve investment returns over the long-term and effectively govern the scheme.

Good answers to questions include:

- A thorough grasp of the details – particularly in response to follow-up questions. Or, if they are unable to answer in the meeting itself, a rapid response and follow-up after the meeting which includes an account as to why they did not know the information when asked and what steps they are taking to ensure they rectify this gap in knowledge;
- A clear understanding of the trustees' priorities on social issues;
- Evidence that the service provider is being proactive on social issues – this goes equally for both managers and consultants – such as participating in policy debates if the quality of data on a particular social issue needs improvement, or seeking corroboration of data from other sources; and
- Honesty about where the gaps are in either the data or their own understanding, what lessons they have learnt from their exploration of an issue and the available datasets thus far, and the timescales by which they expect to improve the situation.

## Trustee oversight of stewardship: what does good reporting look like?

Managers will seek to demonstrate the quality of their stewardship, both engagement and voting, to their clients. The following comments are suggestions to help frame trustee consideration of the quality and sufficiency of the disclosures that they receive from managers:

- **Timely.** Stewardship reporting should be appropriately frequent and provided within a reasonable period, certainly hitting any reasonable deadline that the trustees have set.
- **Tailored.** Trustees should expect stewardship reporting that is tailored and specific to their portfolios and to the themes that they have designated as important to them. This implies that case studies should include ones on issues that align with a scheme's social priorities and at least one or two of the scheme's top 10 largest holdings. Similarly, any 'significant' votes identified by managers should be aligned with the scheme's chosen stewardship themes, and should be in numbers that are meaningful and manageable. Any rationales for significant voting decisions should be specific rather than standard-form, and demonstrate a clear link between engagement and voting activity.
- **Robust and consistent process.** Trustees should expect stewardship reporting that demonstrates a robust and consistently applied process, delivered with proactivity by the manager. This implies: prioritisation of a company or an issue; a tailored engagement approach (using all relevant and appropriate stewardship tools); outcome so far; lessons learned and next steps (not least considering escalation, including any voting sanction, as appropriate and on an ongoing basis). Significant vote decisions should be set in the context of wider engagement, and where significant other vote-related actions (such as asking a question at an AGM, pre-declaration, or filing a resolution) should have been actively considered. Managers should also evidence that they have considered escalation of issues raised in significant votes. Where appropriate, managers should demonstrate a process that links engagement outcomes with investment decision-making.
- **Sufficient resourcing.** Trustees should expect managers to demonstrate through their stewardship reporting that they deploy sufficient and appropriate resources to the effective delivery of stewardship activities. Trustees should expect to receive clarity about how any specialist stewardship resource sits and works alongside the investment team, and who takes leadership in interactions with investment assets and in stewardship decision-making. The manager should be able to clearly articulate how this resource is split (by issue, category of issue, jurisdiction, sector or other) and offer a sensible rationale for their chosen approach. Resourcing is likely also to encompass IT systems used to track and monitor the quality and progress of stewardship activity, as well as to facilitate and mechanise stewardship reporting that is tailored to client portfolios and themes.

- **Honest and fair.** Trustees should expect stewardship reporting to be honest, fair, balanced and understandable. In particular, managers should not seek to take excess credit for delivering an outcome, and should acknowledge the likely efforts of other investors. Mere membership of a collective vehicle or collaborative engagement does not in itself mean managers can claim credit for outcomes; managers should be consistently clear about the level of involvement in collaborations, and if disclosing outcomes from collaborative engagements they should demonstrate that they were active and leading participants.
- **Responsive to feedback.** Trustees should expect managers to welcome, and respond to, client feedback on the format and quality of their stewardship reporting.

Trustees may also find it helpful to read the PLSA/Investor Forum 2020 report *Engaging the Engagers* which provides more insights and suggested questions (link provided in the footnote to the Questions).

## Questions<sup>1</sup>

The following offers some sample high level, issue-agnostic questions to help trustees gain a deeper understanding of their managers' and consultants' approach.

### Questions for asset managers at RFP stage

#### General

##### What is a trustee looking for?

*Alignment between the approach of the manager and the trustee's own thinking on social factors.*

##### What might good look like?

*Managers should be able to demonstrate a clarity of thought on social factors, an understanding of what the trustees' beliefs are regarding such factors, and a perspective on them that reflects the trustees' own position - or at least a flexibility to respond to differing client perspectives.*

1. Which social issues for engagement are key priorities to you? What is your assessment as to how well these issues align with the Trustees' own priorities and assessment of what is financially material?
2. To what extent are you engaged with public policy and best practice debates and discussions on social factors? Which industry groupings active on social issues are you a member of? Please describe the level of your participation in these groups.

<sup>1</sup> Acknowledgement of sources on which some of these questions were based:

- *Engaging the Engagers*, a practical toolkit for schemes to achieve effective stewardship through their managers, PLSA & Investor Forum, July 2020
- *The Rule of Law and investor approaches to ESG: Discussion paper*, Bingham Centre for the Rule of Law, September 2022



## Metrics and systems

### What is a trustee looking for?

*These questions seek to understand what systems and processes your managers have in place regarding social factors, and how robustly and consistently are those systems and processes applied.*

### What might good look like?

*Managers showing leading practice will have in place systems and processes to monitor investments across the range of social factors, and particularly over those which the trustee has identified as key themes. They will have systems to help assist the integration of these factors into investment decision-making, and to track the progress of stewardship activity over time. They will be able to demonstrate that they work as relevant towards consistency of application of their understanding of social factors across investment and analyst teams, and across asset classes.*

1. What social metrics does your firm monitor, or portfolio managers routinely consider when assessing an investment, and how are they measured?
2. Which datasets do you use and why? How confident are you in the quality of the social issues data you are using to make decision? How do you test the accuracy of the data?
3. What information is often missing from datasets and how do you proxy this information?
4. Where are you unhappy with the data? What steps have you taken to try to improve it?
5. What systems does your firm have in place to capture and integrate data on social factors and ensure that they are available to portfolio managers so that they can be effectively integrated in investment decisions? How do you use the data to identify outliers in your portfolios to test the quality of your investment decision-making? How do you ensure that any significant changes in social data are flagged to portfolio managers so that they can reflect on their investment decisions?
6. What systems does your firm have in place to capture and track stewardship activity on social issues? How do you ensure that progress is considered and assessed on a regular basis, and escalation is taken where necessary? What do those systems reveal about the characteristics of successful and less successful engagements?
7. How do you ensure that you enjoy the benefit of a consistent quality of analysis of social factors across your analyst team? How is your understanding of an entity's or a sector's social factor risks and opportunities shared across your teams investing in different asset classes? How does the firm approach stewardship activity to ensure consistency where multiple investment teams have investment exposure to the same company or asset?

## Effective integration

### What is a trustee looking for?

*These questions seek to understand that social factors are appropriately and effectively integrated into investment decision-making, and how this is done.*

### What might good look like?

*Managers showing leading practice will be able to provide examples against each of these requests and high-level explanations (and if the trustee wishes, more detailed descriptions) of the reasoning that led to the decision(s) in question.*

1. What role do social issues play in driving a financial assessment of a company?
2. Please provide an example of a buy or sell decision over the last 12 months that was significantly affected by your analysis of a social factor.
3. Please provide an example of where your understanding of social factors has reinforced your comfort in maintaining a particular investment in the portfolio.
4. Please provide an example of stewardship actions with regard to a social factor relevant to the portfolio over the last 2 years and any relevant outcomes. Can the firm demonstrate progress against the engagement objective? How is ongoing progress assessed?
5. Please identify the holding in the portfolio with the greatest exposures to social risk factors. Please explain why despite these risks you remain confident in maintaining the investment.

## Human rights due diligence

### What is a trustee looking for?

*These questions seek to understand how fund managers apply human rights due diligence best practices to their own business and processes.*

### What might good look like?

*Managers showing leading practice will be able to demonstrate how they have robustly considered their own potential exposures to human rights risks, and how they have deployed good practice to mitigate these risks.*

1. Please describe the human rights due diligence process(es) in place at your firm, including
  - a) where responsibility for the process(es) rests;
  - b) processes for obtaining information on impacts on people associated with the portfolio (including any engagement with external stakeholders), and;
  - c) examples of how the process(es) were applied to your firm's investees, clients, and own operations.
2. Please describe the due diligence process(es) you carry out to understand the 'direct linkages' your firm might have to serious human rights violations (as understood using the UN Guiding Principles for Business and Human Rights), and please confirm the extent of any such 'direct linkages'.
3. Please describe the due diligence process(es) you carry out to assess the human rights record of clients, including among other things considerations of whether there is a risk of them becoming subject to sanctions or other investment constraints.
4. Which countries, if any, would you avoid investing in because of Rule of Law concerns? If none, why not? Why do you believe that you have sufficient protection for your investments in the absence of confidence in the Rule of Law?
5. How do you integrate Rule of Law considerations into your investment decision-making? What characteristics of a company or of the markets in which it operates (or which form part of its supply chain) would give you greatest concern from a Rule of Law perspective?

## Questions for asset manager monitoring

### Metrics and Systems

#### What is a trustee looking for?

*These questions seek clear insights, tailored to the portfolio in question over the relevant reporting period, into key social metrics, and how they have been applied in practice.*

#### What might good look like?

*By challenging managers on portfolio-specific matters, trustees enable them to show leading practice through details on the approach and processes as applied in practice to key social metrics, covering both stewardship and investment integration. Better managers will have more convincing and consistent explanations on their processes and thinking, providing better assurance that there is genuine and thoughtful integration in practice.*

1. With regard to asset AA, please provide your analysis of the social risks the investment faces, and demonstrate how your analysis of the key social factors has changed over time.
2. Who in the team sets engagement objectives? What is the oversight process to ensure that these objectives are robust and material, and consistently so across the organisation?
3. How is progress against objectives assessed? How does the manager gain confidence that material change has indeed been delivered?
4. Asset BB is a significant holding and faces some key risks. Can the manager demonstrate objectives that are in place for engagement with the investment, what actions have been taken to deliver those objectives and what progress has been made in delivery?

### Effective integration

#### What is a trustee looking for?

*These questions seek clear insights, tailored to the portfolio in question over the relevant reporting period, into how the manager has in practice integrated key social factors into their investment decision-making.*

#### What might good look like?

*By challenging managers on portfolio-specific matters, trustees enable them to show leading practice through details on how social factors have been integrated into investment processes. Better managers will demonstrate coherent processes across the portfolio and over time, and clear associations between emerging understandings of investments' risk exposures and their attractions as an investment.*

1. How are the manager's holdings in CC and DD consistent with its approach to stewardship and long-term investment? Aren't there clear risks associated with these businesses? How have investment teams factored those risks into their decision-making?
2. The manager has had lengthy dialogue and engagement with EE. What impact has that had on the investment decision and the relative weighting within portfolios?
3. We note your increased exposure over the period to investments in [country FF]. What due diligence have you done to be confident that the Rule of Law is sufficiently in place in that country for you to be assured of the returns you hope for from those investments?
4. The manager has sold out of asset GG over the period. Can it outline the engagement experience with its

management over the last two years? What would have needed to change for the manager to be comfortable continuing to hold the asset?

5. What are you doing to help ensure a fair playing field for companies that are seeking to maintain high social standards across their activities and supply chains, so that they are not undercut by less scrupulous competitors? How do you avoid investing in those less scrupulous competitors?

### Engagement focus and escalation

#### What is a trustee looking for?

*These questions seek clear insights, tailored to the portfolio in question over the relevant reporting period, into how the manager has in practice integrated key social factors into their stewardship actions.*

#### What might good look like?

*By challenging managers on portfolio-specific matters, trustees enable them to show leading practice through details on how social factors have been integrated into stewardship activities. Better managers will demonstrate coherent processes across the portfolio and over time, and consistent processes and internal challenge with regard to delivering against engagement goals. This will include consistent and thoughtful approaches to escalation of engagement - and any decisions to divest an asset following engagement.*

1. What form of engagement has had the greatest focus in the last period, and required the majority of the firm's engagement resource? Why? How has the manager measured the effectiveness of this use of resources?
2. You continue to hold asset HH. How has your stewardship approach to the company changed over the period in the light of the emergence of allegations regarding [social risk factor]? At what level of decision-making have you held active dialogue with HH? What did you learn? Was HH receptive to input and investor concerns? What do you believe will change as a result, and by when?
3. How has your engagement with asset II, particularly with regard to social risk factor ZZ, developed over the last [3] years? What were the goals of the engagement set at the start of the process, how have you measured progress against those over the life of the engagement so far, and what are the next steps for delivering change at II? What is your prognosis on the likelihood of engagement success, and what is your estimate of the future timeline?
4. When will you take action to escalate the engagement with asset JJ? What are the likely next escalations? What might cause you to decide to exit this investment and when might any such decision be taken?
5. How does the manager decide to escalate an engagement if it has not been effective initially? What is the decision-making process and how do teams decide between different forms of escalation (such as collaborative engagement or going public with concerns)?
6. Please identify an example of a vote over the reporting period that you deem significant because of a link to social issues. Explain your decision-making on the resolution, the voting outcome and any implications - and explain why this is a significant vote in your view.
7. If the firm has made substantial public statements in the last period, how do these get translated to concrete actions on the ground? How have the dialogues with individual investments changed as a result?



## Questions for investment consultants

### What is a trustee looking for?

*Investment consultants should be able to demonstrate an understanding of, and a degree of skill with regard to, social risk factors and how they affect stewardship and investment decision-making.*

### What might good look like?

*Investment consultants should be able to demonstrate a clarity of thought on social factors, an understanding of what the trustees' beliefs are regarding such factors, and a perspective on them that reflects the trustees' own position - or at least a flexibility to respond to differing client perspectives. Further, consultants should be able to articulate clearly how social factors are considered in their assessments of fund manager investment integration approaches. They should also be able to offer tools to enable clients to assess the delivery of stewardship activities on social factors, and where these are unsatisfactory, how they can help clients to engage for better delivery.*

1. How can you help us to determine which social issues most matter to us and to our beneficiaries?
2. How can we do more in relation to X social issue, which we have identified as significant to us?
3. How do you feed X social issue into your due diligence of investment managers before making any recommendation to us?
4. How do you gain comfort from the managers that they are taking a thoughtful and focused approach to data use regarding social issues?
5. What information do you use to assess managers on their approach to social issues?
6. How do you consider the investment managers' human rights assessments in your due diligence processes? In particular, how do you assess the way in which they mount human rights assessments of their other clients which we may be investing alongside?
7. How can you help us to assess the quality of systems and processes that investment managers deploy to support their investment integration and stewardship on X social issue?
8. How can you help us to assess the quality delivery of investment integration and stewardship on X social issue by our investment managers? What does good practice look like regarding voting/engagement/stewardship on social issues from the managers you assess?
9. How can you help us to assess the effectiveness of the approaches by our investment managers to engaging on policy and regulation, including quality disclosures by investments, on X social issue?
10. How can you help us to engage with our investment managers to encourage them to enhance the delivery of integration and stewardship on X social issue?
11. What is a significant red flag for a manager regarding their approach to social issues?
12. To what extent are you engaged with public policy and best practice debates and discussions on social factors?

## Potential items in mandates/side letters

### What is a trustee looking for?

*These draft clauses offer trustees confidence that their expectations in relation to the investment integration of social risk factors, and their inclusion in stewardship activities, will be delivered in practice.*

### What might good look like?

*These clauses themselves may not be agreed to be included within investment management mandates - nor even within side letters (which carry somewhat less legal weight). But the response of managers to requests to include them, and the negotiations leading to a different form of clause, will provide trustees with real insights into the mindset and approach of their managers and the degree of confidence that they should have about manager delivery.*

1. Manager will work with investments to encourage the capture and disclosure of data relevant to an investor's understanding of social factors, both at the business itself and in forms that are capable of being aggregated at portfolio level.
2. Manager will facilitate the sharing of relevant data regarding material social factors disclosed by investments, including, where appropriate, consideration of supply chains risks for high risk or controversial investments. Private entities and all those not subject to public markets disclosure requirements should also make disclosures, either in public or through the manager.
3. Manager will demonstrate that relevant insights from available data and reporting on social factors will be considered within its investment decision-making.
4. Manager will demonstrate that relevant insights from available data and reporting on social factors will be considered within its approach to stewardship and as part of its stewardship activities.
5. Manager will facilitate access to its systems for recording investment integration and stewardship such that Client will be able to test the robustness and effectiveness of data flows and record-keeping, to enable full confidence in the consistency of processes and accuracy of reporting.
6. Manager acknowledges that the risks that Client faces are not solely related to deviations from market benchmark. Manager acknowledges its need to consider long-term and systemic risk factors in order to manage risks which are relevant on Client's long-term investment horizon and to Client's fiduciary responsibilities. Manager will collaborate as appropriate with other investors to help address such systemic risks, and report on these activities to Client.
7. Manager will manage social factors within its own operations. Among other things, it will actively work to mitigate the risks of mistreatment of workers in its supply chain (contractors included), including but not limited to risks of modern slavery. Where it becomes aware of a breach of standards, it will report this without delay to Client.

# Assessing practices on modern slavery

This overview provides trustees with a way of assessing the maturity of asset managers' practices on addressing modern slavery risk in portfolios and set expectations around this.

## Modern slavery: specific considerations

- **Data availability.** Investors have a range of data sources and identifying modern slavery risk in a portfolio relies heavily on identifying high risk geographies, sectors and business models. A key role that investors can play is to encourage companies to disclose further data on their suppliers' labour practices to facilitate further action to tackle slavery.
- **Identifying risk to people.** Considering the risks of modern slavery and discharging their responsibilities to respect human rights may require investors to shift their focus from their largest holdings to the areas with highest risk to people. As per the FAST risk-mapping tool, it's helpful for investors to identify high risk sectors/industries (via GEMS report), high-risk countries (via Global Slavery Index) and high-risk populations (GSI, FAST, Workforce Disclosure Initiative, and others). Risk factors include businesses with short turnarounds (where suppliers may not have capacity to deliver to expected timeframes and resort to contracting with limited labour due diligence), use of low-skilled or migrant labour, or far-removed operations (such as fisheries at sea).
- **The reputational risk of modern slavery, and the difficulty of detecting it leads to a reluctance by companies to detect and disclose instances of modern slavery.** Modern slavery may take place deep within company supply chains, and both companies and investors may lack both the requisite competence and capacity to identify it. Where possible, investors should leverage multiple inputs in their due diligence, including local civil society to ensure risks are properly understood and mitigated<sup>2</sup>. Investors' engagement can also both seek to reduce the stigma of modern slavery risk and encourage companies to disclose cases they have identified, how they have remedied the situation and victims, and what measures are being implemented to avoid reoccurrence.
- **Remedy.** Providing survivors of slavery with access to effective remedy is a key pillar of the UN Guiding Principles on Business and Human Rights, but many victims receive little to no remediation for abuse. As far as possible, instead of exiting on the occurrence of slavery in investee companies, investors should encourage proper, time- bound remediation adapted to the circumstances of the incident, and mitigation of future risks to be put in place in partnership with local civil society and considering community grievance mechanisms and communicate on this transparently<sup>3</sup>.
- **Considering lived experience.** To tackle modern slavery, it is important to have some understanding of how it impacts those who have experienced it and seek to involve them in the process. However, modern slavery is often found in opaque and layered supply chains, so that, even at the company level, those affected are usually at least a step removed. There are at least one (or two) additional layers at the investment manager and asset owner level. Also, modern slavery is not one issue, but many different issues, played out differently depending on the sector and location. However, asset owners and/or investment managers should encourage companies to directly engage with subject experts, such as FAST, Unseen and MSPEC, as well as charities and other civil society organisations working with those affected when addressing modern slavery risks.

2 Investors can leverage worker voice tools to understand grievances, engaging with local initiatives (notable examples are the Fair Cobalt Initiative, or the Bangladesh Accord), local civil society, worker-driven models, and technology companies employing AI and blockchain to improve supply chain transparency and traceability.

3 Types of grievance processes include direct negotiation, facilitation, conciliation, mediation, investigation, adjudication and arbitration.

Asset manager practice	Level of practice		
	Base level	Good practice	Leading practice
Corporate commitment to addressing modern slavery issue on the institution-wide level.	✓	✓	✓
Provide examples of targets and KPIs related to modern slavery issues, that are currently in place for your management executives.	✗	✗	✓
Availability of the institution-wide modern slavery policy that covers modern slavery risks and mitigation in relation to investment activities, either stand-alone or incorporated into investment guidelines.	✓	✓	✓
Availability of an established framework the manager uses to identify modern slavery risks in their portfolio.	✓	✓	✓
Providing education and training to staff and clients on:			
• General social issues considerations;	✓	✓	✓
• Modern slavery considerations and the effects of the issue on the risk return characteristics of the client's portfolio.	✗	✗	✓
Providing investment solutions targeting social themes (modern slavery in particular).	✗	✗	✓
Availability of an engagement programme with the underlying companies/issuers/sovereigns that covers:			
• General consideration of modern slavery risks;	✓	✓	✓
• Provision of guidance/expertise/advice for portfolio companies on managing modern slavery risks;	✗	✓	✓
• Ongoing engagements with the portfolio companies on the modern slavery issues.	✗	✓	✓
Availability of the voting policy on the modern slavery issues, for equity managers.	✓	✓	✓
Presence of reporting transparency on metrics, targets and engagements associated with modern slavery issues.	✗	✓	✓
Have a robust escalation process with the portfolio companies/issuers/sovereigns which would complement the overall fund's investment strategy.	✗	✓	✓
Advocating and collaborating with industry participants to encourage greater industry progress and effective regulation.	✗	✓	✓
Publish modern slavery thematic leadership and blogs.	✗	✗	✓



### 1.1.1 Manager due diligence questions on modern slavery

This table provides trustees with due diligence questions to ask asset managers to understand and assess the managers' practices.

Topic	Questions	Practice level
<b>Policy and governance</b>		
Policy	Does the firm have an institution-wide modern slavery policy commitment that covers modern slavery risks and mitigation in relation to investment activities, either stand-alone or incorporated into investment guidelines or other relevant policies?	Base level
Policy	Does the firm set out an expectation that its underlying investees tackle modern slavery in alignment with the UN Guiding Principles? How does the firm communicate and follow up on this expectation?	Base level
Oversight	Who is responsible at the senior management and Board level for firm-wide execution and oversight of the firm's modern slavery commitment?	Base level
Oversight	Where applicable, please provide examples of targets and KPIs related to modern slavery issues, that are currently in place for your management executives.	Leading practice
Resourcing	Does the firm have internal or external modern slavery expertise informing due diligence processes, both on the corporate level and within the investment process?	Base level
Resourcing	Who within your firm is responsible for day-to-day identification and execution of addressing modern slavery risk both on the corporate level and within the investment process? What is the individual's engagement with the investment team and at what stage of the investment lifecycle is modern slavery risk being identified and addressed?	Base level
Industry initiatives	Are you signatory to industry led initiatives relating to supply chain risks and/ or modern slavery?	Base level
Resourcing	What is the role of portfolio managers and analysts in assessing underlying investees' modern slavery processes and outcomes? How is their performance measured and, where appropriate, linked to compensation?	Good practice
Stakeholder input	Does the firm have accessible channels for stakeholders to inform its modern slavery risk management practices? (I.e., hotlines and other channels to raise issues/ concerns)	Good practice
Strategy	How is modern slavery incorporated into the firm's strategic planning, at both the operational and investment level? What are the firms KPIs when it comes to modern slavery?	Leading practice
<b>Due diligence processes</b>		
HRDD	Does the firm assess modern slavery risks in its investments and their impact on people? If so, what research tools does the firm use in doing so? What engagement with external stakeholders does the firm carry out? How does this feed into investment decision-making?	Base level
Risk mitigation	How do you address the risks identified? Does the firm for example incorporate modern slavery risk into its engagement with underlying investees and assets? Private equity? Does the firm in other ways incorporate modern slavery in its engagement?	Base level
Engagement	Can you provide us with a history of your engagements with underlying investees with regards to modern slavery and human trafficking? How many investees have you engaged with regarding this issue in the past year? What were the outcomes of the engagement?	Base level
Engagement	How do you prioritise engagement with investees and issuers on modern slavery?	Good practice
Engagement	Does the firm provide guidance/expertise/advice for portfolio underlying investees on managing modern slavery risks?	Leading practice
Voting	Does the firm report its voting record on any modern slavery related resolutions? How are underlying investees otherwise held accountable for their activity to tackle modern slavery?	Good practice
<b>Incidents and access to remedy</b>		
Process	Do you have a process in place to address incidents where modern slavery is detected? Can you provide a case study/ example to demonstrate how you have tackled instances of modern slavery in your portfolio including remediation and 'prevent' measures.	Base level
Tracking and resolution	How do you track, manage and report incidents, including to ensure incidents are monitored until they are resolved?	Base level
<b>Review</b>		
	How do you monitor, assess and enhance the effectiveness of your approach to modern slavery?	Good practice

## 1.1.2 Deep dive questions on a social issue: modern slavery

This table provides trustees with deep dive questions to further understand their asset managers' practices on modern slavery.

Topic	Questions	Practice level
<b>Policy and governance</b>		
Policy	Does the firm have an institution-wide modern slavery policy commitment that covers modern slavery risks and mitigation in relation to investment activities, either stand-alone or incorporated into investment guidelines or other relevant policies?	Base level
Policy	Does the firm set out an expectation that its portfolio companies tackle modern slavery in alignment with the UNGuiding Principles? How does the firm communicate and follow up on this expectation?	Base level
Oversight	Who is responsible at the senior management and Board level for firm-wide execution and oversight of the firm's modern slavery commitment?	Base level
Resourcing	Does the firm have internal or external modern slavery expertise informing due diligence processes?	Base level
Resourcing	Who within your firm is responsible for day-to-day execution of addressing modern slavery risk?	Base level
Industry initiatives	Are you signatory to industry led initiatives relating to supply chain risks and/ or modern slavery?	Base level
Resourcing	What is the role of portfolio managers and analysts in assessing portfolio companies' modern slavery processes and outcomes? How is their performance measured and, where appropriate, linked to compensation?	Good practice
Stakeholder input	Does the firm have accessible channels for stakeholders to inform its modern slavery risk management practices?	Good practice
Strategy	How are modern slavery incorporated into the firm's strategic planning, at both the operational and investment level?  What are the firms KPIs when it comes to modern slavery?	Leading practice
<b>Due diligence and risk assessment</b>		
HRDD	Does the firm assess modern slavery risks in its investments and their impact on people? If so, what research tools does the firm use in doing so? How does this feed into investment decision-making?	Base level
Risk mitigation	How do you address the risks identified? Does the firm for example incorporate modern slavery risk into its engagement with companies and assets? Private equity? Does the firm in other ways incorporate modern slavery in its engagement?	Base level
Engagement	Can you provide us with a history of your engagements with companies with regards to modern slavery and human trafficking? How many companies have you engaged with regarding this issue in the past year?	Base level
Engagement	How do you prioritise engagement with companies and issuers on modern slavery?	Good practice
Voting	Does the firm report its voting record on any modern slavery related resolutions? How are portfolio companies otherwise held accountable for their activity to tackle modern slavery?	Good practice
Engagement	Does the firm provide guidance/expertise/advice for portfolio companies on managing modern slavery risks?	Leading practice
<b>Incidents and access to remedy</b>		
Process	Do you have a process in place to address incidents where modern slavery is detected? Can you provide a case study/ example to demonstrate how you have tackled instances of modern slavery in your portfolio.	Base level
Tracking and resolution	How you do you track, manage and report incidents, including to ensure incidents are monitored until they are resolved?	Base level
<b>Review</b>		
Monitoring	How do you monitor, assess and enhance the effectiveness of your approach to modern slavery?	Good practice