

# Human Rights and Transition Stewardship Programme

## Introduction

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The world is undergoing rapid transformation. As we seek to transition to a more sustainable economic status quo, it is imperative for human rights to be inextricable from this effort. Business, as the key driver of economic activities globally, have a significant role to play in ensuring that this transition considers and respects rights-holders.

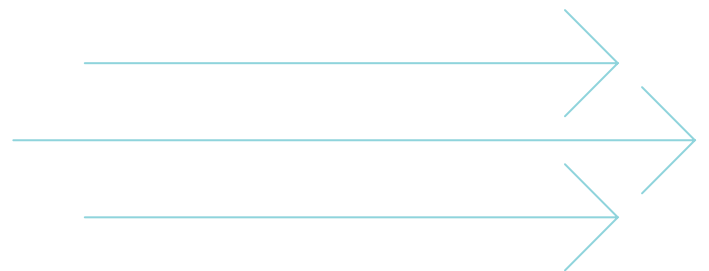
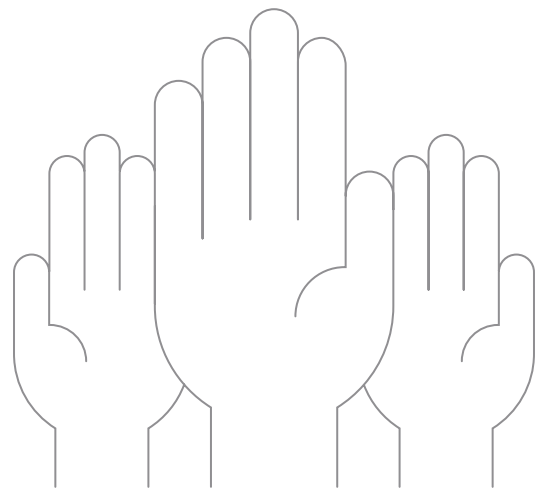
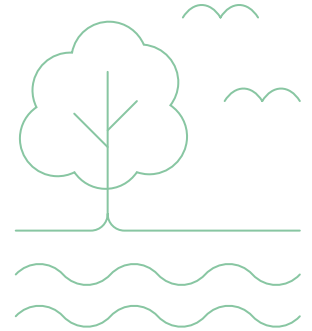
Unless properly managed, risks to human rights may become magnified as business and society respond to new ways of working in the face of global shifts. Successful and effective transition requires businesses to strengthen their resilience, ensuring focused and coherent responses to the changing risk landscape. Such resilience building encourages strong business performance alongside the protection and promotion of long-term enterprise value.

Through the consistent and effective identification of emerging human rights-related risks, companies can develop practical strategies to disclose and mitigate risks with meaningful transparency.

## A Sustainable Future Built on Human Rights

The risk of negative human rights impacts from business activities are well recorded.<sup>1</sup> However, the implementation of measures to ensure respect for rights-holders is far less progressed.<sup>2</sup> The human rights risk landscape is rapidly changing and this is being driven by three main factors: the sustainable economic transition, investor-facing regulations, and shifting stakeholder expectations.

The respect for human rights is important to enable an effective transitioning economy and avoid potential financial losses and impacts to a cohesive society. Generally accepted frameworks such as the UN Guiding Principles on Business and Human Rights establish a globally recognized means to identify and address human rights risks within business operations and investments. Sustainalytics is well positioned to advocate and support companies to develop comprehensive and meaningful approaches to delivering the UNGPs and thereby reduce the impact of human rights risks in a transitioning economy. Through these actions, the economic opportunities of the transitioning economy can be fully realized, with value being created across business and societal dimensions.



<sup>1</sup> See for example: Business & Human Rights Resource Centre. <https://www.business-humanrights.org/en/> Accessed online 19 November, 2024.

<sup>2</sup> See for example: The Working Group on the issue of human rights and transnational corporations and other business enterprises. 'Guiding Principles on Business and Human Rights at 10: taking stock of the first decade.' UN Working Group on the issue of human rights and transnational corporations and other business enterprises (2021). <https://documents.un.org/doc/undoc/gen/g21/093/82/pdf/g2109382.pdf>

## Introducing Morningstar Sustainalytics' Human Rights and Transition Stewardship Programme

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The Human Rights and Transition Stewardship Programme works with issuers critical to the global economic transition to strengthen their human rights governance and strategy, as well as their approach to human rights due diligence and remediation. By building more resilient companies, the transition to a sustainable economic status quo will be stronger and faster.

### Scope

Initially the programme will focus on value chains central to the global sustainability transition, more specifically renewable energy value chains delivering solar and wind power. It will leverage underlying human rights mandates including the UN Guiding Principles to springboard issuers to be more resilient and have better long-term preparedness for the forthcoming shifts that could materially affect their enterprises.

### How Will We Achieve This?

Our focus will be on reaching companies whose operations and value chains are integral to the global sustainable transition. We will engage key companies to help them improve how they can effectively and consistently identify and respond to both existing and emerging human rights risks and impacts through the lens of this societal transformation. This includes:

#### ENGAGING

with 50+ companies across different sectors and geographies;

#### COLLABORATING

with NGOs and thought leader networks to share ideas, learnings, and best practices;

#### PARTICIPATING

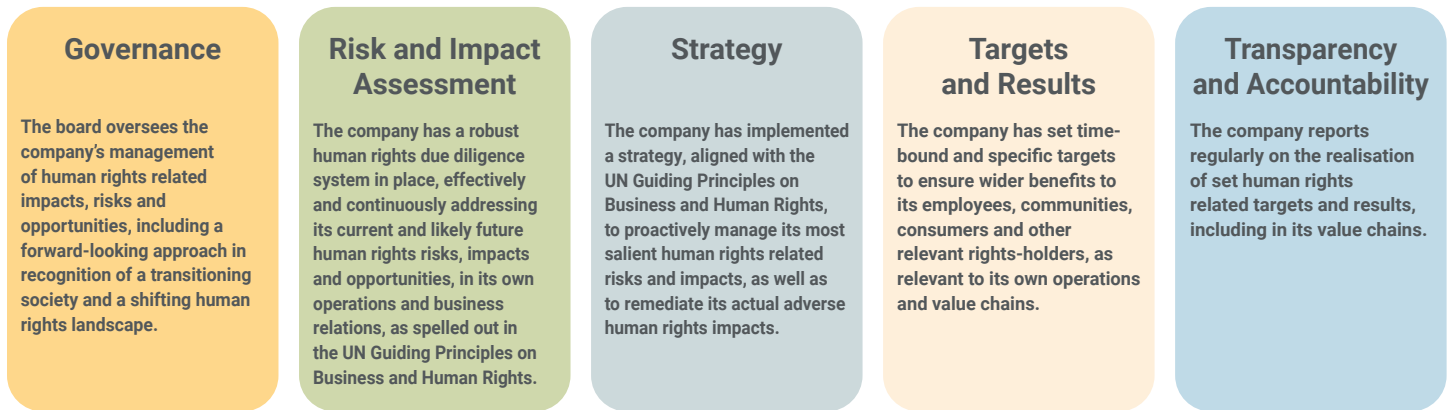
in and supporting investor-led coalition and alliances, and

#### ESCALATION

integrated into our engagement approach.

## What We Expect from Companies?

To set the strategic direction of the programme, we will employ a Theory of Change to achieve key outcomes for companies to transition towards an economic paradigm that considers human rights as central to the transition. With each engaged company, we will consider five outcome areas, namely: governance, risk and impact assessment, strategy, targets and results, and transparency and accountability. These are driven by key factors such as:



**Figure 2:** The Key Outcomes of the Human Rights and Transition Stewardship Programme

## Our Engagement Approach

### Theory of Change

Theory of Change (ToC) is a comprehensive description and illustration of how and why the desired change is expected to happen in a particular context. Employing a ToC framework provides Sustainalytics with a blueprint to evaluate measurable indicators of success. Applied in Morningstar Sustainalytics' Human Rights and Transition Stewardship Programme, the ToC will be oriented towards conducting collaborative and change-focused engagement activities to deliver tangible outcomes among companies and other relevant stakeholders. The ultimate, long-term outcome being to support investors' efforts to generate long-term impact.

### Toolbox

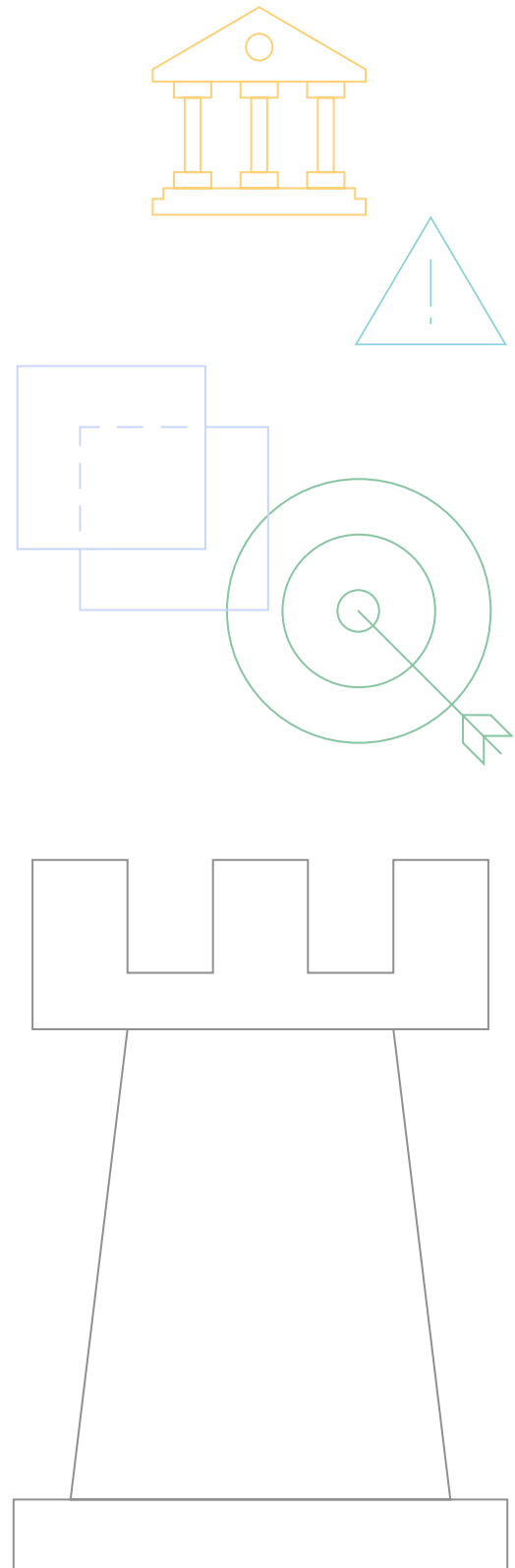
Morningstar Sustainalytics' Human Rights and Transition Stewardship Programme will engage in constructive dialogue with issuers to listen and gain an understanding of the company's approach, forming relationships and building trust. This leads to effective communication of investors' perspectives and advocacy of sustainable transformations of companies through fact-finding questions, encouraging best practices, providing suggested actions and opportunities for positive impact. Our toolbox approach is constantly innovating and includes many activities, such as field trips, roundtables, and webinars to influence change.

### Escalation

Constructive dialogue is our first and always preferred engagement tool. Still, if an issuer is unresponsive to dialogue or is not making significant progress, the Sustainalytics team can escalate the engagement. This approach aims to raise investor concerns via a series of steps to encourage action. Persistent unwillingness to engage will result in a status update to inform investors of the stalled engagement.

## Standards Supporting Investor Engagement on the Human Rights and Transition Stewardship Programme

Morningstar Sustainalytics will align programme activities where possible to a variety of voluntary disclosure regimes, legislation, and investor activities. Voluntary reporting regimes including the **UNGPs** are instrumental in the design and implementation of the programme. Relatedly, the **Global Reporting Initiative (GRI)** and The **Taskforce on Inequality and Social-related Financial Disclosures (TISFD)** serve as inputs to the overall approach through which the programme is conducted. Legislation is also considered in the design and uptake of the programme, including **CSRD** and the **Non-Financial Reporting Directive (NFRD)**, with the latter requiring public interest companies with more than 500 employees to report on how they address issues like environmental pollution, social responsibility, and human rights. Industry initiatives focused on the transitioning economy are also referenced, including the **International Council on Metals and Mining (ICMM)**, **Global Battery Alliance (GBA)**, **Solar Stewardship Initiative**, **Responsible Minerals Initiative**, and **World Benchmarking Alliance**. We will monitor and engage with investor initiatives like **PRI Advance**, **The Global Investor Commission on Mining 2030**, and **Just Transition Finance Lab** to track key developments and investor-led activities.



## About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG data, research, and ratings firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider material sustainability factors in policies, practices, and capital projects. Morningstar Sustainalytics has analysts around the world with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).



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