

August 2020

## Governments and human rights – our approach for investments

At Aberdeen Standard Investments, we recognise that we have a duty to our clients to understand the ways in which human rights may affect the value of their investments. We also have a duty to respect human rights in our own activities, by fully understanding the ways in which our investments affect the rights of others, including by influencing positive changes through our stewardship activities. This position statement outlines our approach to human rights and governments. We have a separate statement that deals with human rights and business.

### The issue

The atrocities seen during the Second World War brought concerted efforts to establish a system of internationally recognised human rights. The 1948 United Nations (UN) Universal Declaration of Human Rights (UDHR) was a landmark agreement in the international community, adopted unanimously by UN members. Subsequent UN declarations and regional conventions added detail about states' responsibilities, as well as clarity on specific issues such as racial discrimination, torture, children's rights and the rights of people with disabilities.

However, despite significant international discussion on human rights, the individual progress of each country varies – sometimes quite dramatically. Every country faces human-rights challenges, but some regions face additional headwinds such as ongoing conflict, political tension, lack of infrastructure and skills gaps.

Human-rights challenges are often complex and persistent, making them difficult to solve quickly in sustainable ways. While development and economic advancement often help, they do not guarantee that rights are upheld. In many cases, they merely change the nature of the challenges a country faces.

Governments' capacity to protect human rights can impact investments in a number of ways, both positively and negatively. For example, fair employment opportunities and rising living standards enable people to participate more fully in society, which can stimulate productivity and spending that boosts the economy.

Governments that lack focus on human rights or participate in abuses not only miss out on economic opportunities, but can also create social unrest that damages or disrupts the economy. The economic impact of protests and social movements is often overlooked, but can be significant nonetheless. For example, in France, the central bank cut its 2018 growth forecasts in half, in part because of 'yellow vest' protests against economic inequality that slowed industrial production and services activity. Similarly, Bahrain saw its credit rating downgraded following the Arab Spring protests of 2011, as rating agencies grew increasingly concerned about political and civil unrest. The downgrade called its ability to repay debt into question, and many investors withdrew capital.

### Our expectations for investments in government securities

All our investments are exposed to human-rights issues. When investing in government securities specifically, we expect these countries to work to uphold human rights. We expect states to protect the human rights of their people, businesses to respect human rights, and both to take appropriate action to remedy any infringements of human rights.

At Aberdeen Standard Investments, we draw upon a number of international, legal and voluntary agreements for guidance on human-rights responsibilities and compliance. Our primary sources are the International Bill of Rights<sup>1</sup> and the core conventions of the International Labour Organisation (ILO),<sup>2</sup> which form the list of internationally agreed human rights, and the UN Guiding Principles on Business and Human Rights (UNGPs),<sup>3</sup> which clarifies the roles of States and businesses.

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<sup>1</sup> Comprising the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

<sup>2</sup> <https://www.ilo.org/global/standards/lang--en/index.htm>

<sup>3</sup> [https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf)

## Our approach for investments

We draw on political and social research to understand the human-rights risks and opportunities of our investments in government securities. We aim to form a forward-looking view that reflects how countries may be making progress or falling behind. We use these views to inform our analysis of more traditional financial-risk indicators, such as how easy it is for business to operate in certain regions, a country's ability to repay debt and the correct pricing of these risks.

We have developed proprietary tools to support our efforts, including our environmental, social, governance and political (ESGP) framework and our Social Capitalism project.

Our **ESGP framework** enables us to integrate ESGP risks into our emerging-market debt strategies. The framework brings together independently sourced quantitative measures in each risk area to form an overall ESGP score. We then use our analysis and expertise to assign a positive, negative or neutral direction of travel to each country. From a human-rights perspective, this includes an assessment of quality of infrastructure, gender equality and income equality (among others), which enables our teams to understand the risks arising from unequal social outcomes and public repression.

**“Our Social Capitalism project recognises that the most successful societies blend strong economies with healthy environments, inclusive social policies, representative political institutions and fair legal frameworks.”**

Our **Social Capitalism project** recognises that the most successful societies blend strong economies with healthy environments, inclusive social policies, representative political institutions and fair legal frameworks. This research is underpinned by a proprietary environmental, social and governance (ESG) index for 135 countries, which brings together substantial amounts of data to identify countries that are persistently dynamic in both economic and ESG terms. Our ESG index has been further adapted to form a dedicated human-rights index. Our human-rights index combines data on 17 key human-rights areas aligned to the UDHR, including quality of life, education, freedom of expression and access to justice (among others). This work adds significant value to our understanding of the global human-rights environment and reflects the importance we place on human-rights issues.

## Engagement

Governments rely on foreign investors to help finance their development activities. In our public-policy and government-engagement activities, we set out the information required to undertake our risk assessments. We emphasise our expectations for our investments and aim to encourage best practices. These discussions can be challenging given the political nature of some topics; however, our extensive research efforts often provide an objective starting point for engagement.

In the absence of formal sanctions or client-mandated criteria, we do not automatically exclude countries from our investment universe based on human-rights issues. We prefer to take a research-led approach that acknowledges the complexity of such issues and enables us to use our engagement efforts to influence positive change. Where our contacts are unwilling to engage or we see limited progress, we will consider selling our holdings.

### Specific topics of interest

**Controversial weapons:** Please refer to our position statement on our website at [https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf).

**Oppressive regimes:** The term ‘oppressive regimes’ is subjective and not formally defined in international law. It typically refers to countries with systems or authorities that exercise power through malicious or unjust treatment, often in the form of human-rights abuses. At Aberdeen Standard Investments, government human-rights issues are integrated in our investment processes as described above. Our approach regarding corporate investment can be found in our position statement on our website. In the absence of formal sanctions or client-mandated criteria, we do not automatically exclude countries or companies from our investment universe based on their classification or dealings with oppressive regimes.

**The death penalty:** While the death penalty is a contentious issue for many, it remains legal in a number of countries. In the absence of client-mandated criteria, we do not automatically exclude countries or companies from our investment universe based on the use of or participation in the death penalty. We do, however, consider this as part of our broader analysis of human rights.

For more detail and content on human rights and other ESG issues, please visit our website at <https://www.aberdeenstandard.com/docs?editionId=fc0dd666-269a-40f4-a484-d044e4daad3d>.

### Responsible investing at Aberdeen Standard Investments

As a leading global asset manager, we believe that investing responsibly can help generate long-term value for our clients. We offer an extensive and growing range of investment solutions, as well as the very highest levels of service and support.

When investing our clients' capital, ESG considerations are an integral part of our decision-making. By understanding how ESG factors affect our investments, we believe we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes to support this work. A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

For more detail, please visit our [website](#).

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\*(entities as at 25 May 2020)

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121042599 08/20 | DH: GB-260820-127778-2