



Fédération internationale des ligues des droits de l'Homme

International federation of human rights

Federacion internacional de los derechos humanos

الفدرالية الدولية لحقوق الانسان

LIBERTES & SOLIDARITE MUTUAL FUND [SICAV]

MEMO ON METHODOLOGY

October 2010

Presentation of the SICAV Libertés et solidarité:

Libertés et Solidarité is the ethical and philanthropic SICAV (mutual fund) of FIDH. Ethical, because the values that compose it – the bonds (around 75%) as much as the shares (25%) – are selected on the basis of the States' respect for human rights or that of the issuing corporations. Philanthropic, because 50% of the revenues generated by the fund return as a donation to FIDH. These revenues are a precious resource for FIDH and allow it to lead actions to protect and promote human rights.

Libertés et Solidarité acquired in 2006 the FINANSOL label. In September 2010, Libertés et Solidarité acquired an SRI (socially responsible investment) label from NOVETHIC, which was renewed in 2011 .¹

ETHICAL CRITERIA

The criteria of FIDH focus on human rights. They vary according to whether bonds or shares are at issue. For bonds, FIDH criteria rest on the evaluation of the country's human rights policy. For shares, the criteria are based on evaluations of the integration, by the corporations of a given industry, of international norms of human rights in their politics and their activities.

I. BONDS

The bonds are issued solely by the European States. For the moment, FIDH has concentrated its study on EU countries in the interests of comparing available data. In its evaluation of States, FIDH adopts a positive, incentive approach, rather than a punitive or negative one: it is a question of encouraging the States that actively promote human rights, whether within the State's own territory or in foreign countries.

This evaluation gives rise to a ranking which FIDH reserves the right to update according to national or international events, as well as the further analysis of its methodology.¹

The first study carried out by FIDH was developed in 2001 and updated in 2003 and 2005. The criteria used followed the 50 articles of the Charter of Fundamental Rights of the European Union. Due to the lack of

¹ Novethic established 4 main requirements : 1/ the fund management relies on an environmental, social and governance analysis covering at least 90% of the portfolio, these three aspects are systematically taken into account when granting the label. 2/ the SRI management process is clearly and publicly presented by the funds manager; 3/ the funds manager regularly gives information on the shares' SRI characteristics. 4/ the composition of the portfolio is regularly publicized. <http://www.novethic.fr/novethic/v3/fonds-isr.jsp?id=98344>

available data, FIDH had developed two ranking systems, one for the 15 former EU States, the other for the new entrants. In 2007, FIDH decided to revisit the methodology in order to concentrate on a more limited number of quantifiable and available criteria for all countries (27) of the European Union.

The complete study is available on FIDH website : www.fidh.org/spip.php?article5276

The most recent ranking available at the conclusion of this memo (May 2010) was the following:

1. Sweden	16. France
2. Denmark	17. Malta
3. Finland	18. Slovakia
4. Austria	19. Italy
5. Ireland	20. Spain
6. The Netherlands	21. Bulgaria
7. Germany	22. Hungary
8. Lithuania	23. Luxembourg
9. Slovenia	24. Portugal
10. Belgium	25. Poland
11. Estonia	26. Greece
12. United Kingdom	27. Romania
13. Czech Republic	
14. Latvia	
15. Cyprus	

FIDH does not claim scientific exactitude for this ranking. However the study allows for classification of EU States into 4 decisive groups for the choice of bonds by SICAV management.

- countries ranked from 1 to 5: represent 50% of SICAV bonds
- countries ranked from 6 to 10: represent 30% of the bonds
- countries ranked from 11 to 15: represent 20% of the bonds
- countries ranked from 16 to 27: are not selected for bonds

II. GUIDELINES FOR THE SELECTION OF SHARES

The criteria of FIDH for the choice of shares are based on human rights (see below). Human rights include not only the fundamental rights to work, gender equality, non-discrimination, etc. - which are rights that the corporation must respect in governing its employees - but also other rights like the right to health and cultural rights (rights of indigenous populations). Upon revising its methodology in 2007, FIDH decided to include notably environmental criteria to be sure that corporations included in the investment universe are not harmful to human rights in the long run.

A/ METHODOLOGY FOR THE SELECTION OF SHARES

To feature in the fund's investment universe, a corporation must fulfill two criteria. First, it must not fall under a criteria of exclusion (see below). Secondly, it must not only respect human rights, but protect and promote them in its sphere of influence. FIDH intends to implement this criteria by grounding itself in all the information available, whether that information is gathered by it, by its partners as part of the fund, or by trustworthy exterior sources; and it rests on a collection of indicators the usage of which may vary according to the data specific to each industry.

In order to be able to guarantee that the corporations selected by the fund truly satisfy the aforementioned criteria, FIDH decided to include around 50 corporations in its investment universe. This investment universe is thus limited. The fact that a corporation is not included does not mean that it does not fulfill the two criteria stated

above, even if said corporation belongs to an industry that has been the object of a FIDH study. On the other hand, the fact that a corporation is accepted into the investment universe signifies that the criteria of selection were applied to it. A corporation may be withdrawn from the investment universe when it appears that it no longer satisfies the two criteria stated, whether in taking into account information provided to FIDH, or during the biennial assessment of corporations which FIDH performs.

Independent Ethics Committee

An independent ethics committee participates in the reflection on ethical criteria, in the analysis of sectors of activity and in the decisions to select or exclude corporations in disputed cases. The role of the ethics committee is advisory and the decision to select a corporation or not ultimately belongs to FIDH. However, if FIDH can decide to reject a corporation contrary to the recommendation of the Committee, FIDH does not go back on a Committee recommendation to exclude a corporation. The Committee meets three times a year. The recommendations of the committee are adopted with a majority of members taking part in the decision.

The members of the ethics committee sit in an individual capacity and formulate opinions in total independence. They do not represent their organizations of origin. Their appointment to the committee is done in function of their expertise in the fields of human rights, corporate social responsibility, fundamental labor rights, or environmental protection.

1. Study of industries and Evaluation of Corporations with a View to their Inclusion in the Investment Universe

La Banque Postale Asset Management Company (LBPAM) proposes to FIDH certain industries into which the investment universe could expand. On the basis of the proposals made to it, FIDH will study 5 to 7 industries per year. The study of a sector aims to identify the specific risks that this sector presents and, as a function of these risks, the criteria based on which it will be suitable to determine if the corporations being evaluated respect human rights within the framework of their activities, and have taken positive measures toward their realization, with verifiable impact.

The study of a specified sector unfolds in three stages. **The first stage is the study by sector.** FIDH asks the ethical investment research service EIRIS to send its analysis of the sector. FIDH then drafts a memo on the risks of that industry. If necessary, it consults the ethics committee to determine whether the investment universe can extend to the corporations within a specified industry, taking into account the risks that have been identified.

The second stage is the description of criteria proper to each industry. If, at the end of this first assessment, FIDH deems there to be no obstacle to investment in this sector, it defines the criteria to be taken into account during the assessment of corporations.

Finally, **the third stage is the selection of corporations with a view to their inclusion in the investment universe.** FIDH requests information from EIRIS on these corporations on the basis of the ethical criteria defined below. If necessary, it also asks for specific information to be gathered according to issues relevant to a particular industry (for example, the pharmaceutical industry's policy of access to medications in poor countries).

EIRIS provides to FIDH the information required that is available to it and carries out supplementary research corresponding to the criteria proper to FIDH. EIRIS submits to FIDH within 1 month the files pertaining to the corporations obtaining the best scores for a given industry (5 to 10 corporations)

2. Supplementary Research and Decision of FIDH

FIDH examines the information of EIRIS, and gathers, when it seems necessary, information via other sources. In this regard, FIDH hopes to be able to benefit from research carried out by LBPAM. FIDH can invite all stakeholders, in particular international organizations, union organizations, organizations for the defense of

human rights, and organizations for environmental protection, to bring it information. On the basis of information available to it, FIDH selects the corporations conforming to its criteria. In case of doubt, FIDH submits the question to the Ethics Committee that addresses its motivated recommendation to FIDH. The Ethics Committee adopts an opinion within one month, with a majority of the members taking part in the decision; in between meetings, the committee deliberates electronically.

There is no a priori limit to the number of corporations able to be selected for a given industry. The list of corporations selected is public and can be consulted on demand but is not the object of a public communication: in fact, due to the small number of corporations studied, FIDH does not claim that the corporations selected are the most ethical, they are only the most ethical of the industries studied and in the pertinent geographic zones.

3. Intelligence About Corporations in the Investment Universe

FIDH benefits from the alerting service of NOVETHIC on the corporations in the investment universe of Libertés et solidarité. FIDH also subscribes to EIRIS Corporate Ethics Overview, a monthly newsletter on the controversies concerning the corporations in the investment universe. Furthermore, FIDH receives information from NGOs and other actors, which can be taken into account when it is trustworthy and can be verified and confirmed.

4. Regular Reevaluation of the Corporations Included in the Fund

In the absence of alerts regarding the corporations of the investment universe, the corporations are reevaluated every two years on the basis of new information provided by EIRIS.

5. Suspension and exclusion

When on the basis of information from the alert service, trustworthy information, or in the course of regular reassessment of a corporation, the question arises of the exclusion from the fund of a corporation, because it wouldn't respect the criteria held back by FIDH, namely respect for human rights, but also the promotion and the protection of human rights within their sphere of influence. FIDH consults the ethics committee, which informs on its recommendations within one month.

FIDH, on the basis of these recommendations, notifies to the concerned corporation by all necessary means the reasons for which it envisages its exclusion. The corporation in question has then two months from this notification to challenge the decision and convey its observations to FIDH.

FIDH passes on these observations to the Ethics Committee, which delivers a second recommendation within fifteen days. On the basis of the company's observations and of the second recommendation of the Ethics Committee, FIDH decides to exclude or not this corporation. If the exclusion is decided, FIDH notifies its decision to the corporation, and indicates that if there is no compliance with FIDH's criteria of respect, promotion and protection of human rights within three months from this notification, the exclusion will be effective. The corporation in question may, within these three months; convey to FIDH any information on steps taken to ensure compliance, which will have to be checked by the EIRIS.

B/ STOCK SELECTION CRITERIA

1. Exclusion criteria

FIDH has established three exclusion criteria:

- a) Excluded from the investment universe are all companies operating in the **arms sector**
- c) Excluded from the investment universe are companies operating in the **nuclear sector**.

c) Excluded from the investment universe are **companies established in Myanmar/Burma** and companies that have trade relations with suppliers or sub-contractors in that country. While FIDH considers that the question of the applicability of economic sanctions against countries guilty of human rights violations should be assessed on a case-by-case basis, the situation in Myanmar/Burma is specific in many respects: the ILO's International Labour Conference appealed to ILO members to re-examine their relations with Myanmar/Burma to make sure they are not supporting the forced labour that is widely practised in this country; in view of the Burmese junta's stranglehold on the national economy as a whole, it is impossible to invest in Myanmar/Burma without automatically providing support for its leaders; finally the civilian population, largely employed in the agricultural sector, does not benefit from foreign investment and is not negatively affected by the sanctions that have been adopted.

FIDH excludes companies in this country on an absolute basis: there is no threshold (in terms of turnover) below which a company establishing itself in Burma, or an arms manufacturing business, or operating in the nuclear sector would be acceptable.

2. The presence of a company in countries that have little respect for human rights

FIDH will be particularly vigilant with regard to companies operating in countries that infringe human rights: in certain sectors, locating in a sensitive or very sensitive country can put the company at risk of becoming a party to human rights violations and fundamental labour rights violations. The intention is not to sanction companies investing in sensitive countries: investments can have positive consequences for local populations. However it is necessary to assess the policies implemented by the company to avoid its being guilty of, or a party to, human rights violations in a high-risk context.

FIDH is asking EIRIS to keep it informed of the presence of companies in risk-related countries and to describe the policies and procedures implemented by companies operating in such countries, these countries being graded in three categories ('high risk', 'very sensitive' or 'sensitive'). In line with the methodology applied by EIRIS, FIDH takes into account the presence of business operations when 20% or more of a company's global assets are in that country. For the extractive industries (mining, oil and gas) this threshold starts at 5%.

To carry out this assessment, FIDH publishes a list of sensitive or very sensitive countries. This list takes into account several criteria, and is based on established indexes and an assessment of the general human rights situation.

The indicators used are:

- **Corruption** (source: Transparency International, World Bank indexes)
- **Presence of armed conflict** (source: Ploughshare project, Peace and Conflict Research Center Database, World Bank political instability index)
- Respect of the **ILO Fundamental Conventions** (source: Cingranelli and Richards (CIRI) Human Rights Dataset, and the annual report of the International Trade Unions Confederation)
- **Rule of law** (source: rule of law index in the World Bank governance indexes)
- **Civil liberties and political freedom** (source: Freedom House index)
- **Repression of human rights defenders** (source: FIDH Observatory for the Protection of Human Rights Defenders)

This list is periodically reviewed.

In September 2007, at the completion of this methodological outline, the list of risk-related countries was as

follows:

High-risk countries

Afghanistan, Angola, Belarus, Chad, Democratic Popular Republic of Korea, Democratic Republic of the Congo, Equatorial Guinea, Iraq, Israel, Myanmar/Burma (excluded), Nigeria, Somalia, Sudan, Turkmenistan, Uzbekistan, Zimbabwe

Very sensitive countries

Algeria, Azerbaijan, Bangladesh, Cambodia, Central African Republic, China, Colombia, Congo, Côte d'Ivoire, Cuba, Djibouti, Eritrea, Ethiopia, Guatemala, Guinea, Haiti, Iran, Laos, Libya, Pakistan, Syrian Arab Republic, Russian Federation, Saudi Arabia, United Arab Emirates, Vietnam

Sensitive countries

Bhutan, Burundi, Cameroon, Gabon, Gambia, Kazakhstan, Kyrgyzstan, Kuwait, Liberia, Maldives, Nepal, Nicaragua, Oman, Philippines, Qatar, Rwanda, El Salvador, Sierra Leone, Sri Lanka, Swaziland, Tajikistan, Thailand, Timor-Leste, Togo, Venezuela, Yemen

3. Indicators used for assessing the company

The indicators used by FIDH for assessment purposes are mainly those used by EIRIS. However for certain indicators, FIDH requests additional research to be made. Moreover, the indicators mentioned below are adapted, for each sector concerned, in accordance with the risks and parameters specific to the sector (see reference to the sector studies above).

3.1. Human rights and fundamental labour rights

a) General corporate policy on human rights

Does the company have a policy on human rights?

- Reference to the Universal Declaration of Human Rights
- Reference to United Nations Standards on the responsibility of transnational companies and other companies regarding human rights
- Membership in the Global Compact
- Reference to the ILO Fundamental Conventions
- Reference to the OECD Guidelines for Multinational Enterprises
- Reference to the Global Sullivan Principles
- Reference to the Voluntary Principles on Security and Human Rights

b) Human rights-related procedures within the company

Are there procedures for monitoring the policy on human rights within the company?

- A person responsible for supervising human rights policy
- The presence of an independent system for verifying commitments on human rights
- Remedial procedures in cases of non-compliance with human rights

Does the company include human rights in its risk analyses?

c) Transparency, reporting and dialogue regarding human rights

Does the company maintain a dialogue with independent NGOs?

- Cooperation with independent NGO(s)

– Member of global or sectorial multipartite initiatives: SA 8000, ETI, FLA, etc.

Does the company publish a human rights performance report?

- Publication of a human rights report submitted for independent checking
- Publication of information on its website or in its annual report
- Publication of a performance report on social matters

d) Human rights in the supply chain

Does the company get supplies from sensitive countries? (What types of product?)

What procedures have been implemented by the company to ensure the respect of fundamental labour rights in the supply chain?

- The presence of a code of conduct/supplier charter, making reference to all fundamental labour rights including freedom of association (8 ILO conventions); to additional agreements;
- Membership in a multipartite initiative concerning the supply chain;
- Publication of the names of all the group's suppliers;
- Binding nature of the code of conduct;
- Application of the code to all suppliers (all sectors);
- Communication and training for the company's purchasing departments and for suppliers and workers on the code of conduct;
- Incentive policy to encourage suppliers to respect the code;
- The presence of an internal and external verification system (audit company) regarding code of conduct compliance;
- The presence of a verification system by third parties (NGOs, trade unions);
- System for verifying code of conduct compliance among sub-contractors;
- Percentage of suppliers verified;
- Early warning system for code of conduct violations;
- Remedial procedures implemented in cases of code of conduct violation.

e) Allegations of human rights violations made against the company

Have allegations been made against the company for human rights violations (in the broad sense)?

If these allegations concern companies whose inclusion in the investment universe is being envisaged, FIDH would like to receive information on:

- legal proceedings taken against the company (including, if relevant, proceedings that ended in an out-of-court settlement or the rendering of a final judgement, inasmuch as this may inform FIDH on the company's practices and the risks inherent in its inclusion in the investment universe);
- proceedings instituted with national contact points in the context of OECD Guidelines for Multinational Enterprises;
- allegations made by NGOs and trade unions concerning the company, its subsidiaries and companies in which it is an important stakeholder.

f) Negative/positive actions in favour of human rights (defined according to each sector)

- The company's lobbying/marketing policy
- The introduction of significant positive actions in favour of human rights

3.2. Governance and Human Resources

a) Corruption

Does the company have a credible policy on the fight against corruption?

- Policy on bribes and corruption
- Internal communication on this policy
- Verification procedures and remedial procedures in cases of non-compliance
- The existence of allegations of corruption/past or present legal proceedings (Convention Watch)

b) Shareholdings

What shares does the company hold in other companies, particularly in sensitive sectors?

- List of company's shareholdings in other companies.

c) Human resources

Has the company established an equal opportunity policy?

- The presence of a policy against discrimination on the basis of sex, race, ethnic origin, handicap, age, religion or sexual orientation;
- Established procedures for guarding against discrimination: person responsible for promoting equal opportunities, reporting on employee diversity, alerting and remedial procedures in cases of discrimination;
- % of women in management positions (at least 2/5 of the percentage of women in total workforce).

Has the company established a health and safety at work policy?

Does the company maintain a positive social climate?

- Quality of dialogue with trade unions: framework agreements in particular
- Existence of major social conflicts
- Setting up of training for workers
- Company flexibility and employee benefits: sabbatical leave, child-minding services, flexible working hours, improved maternity and paternity leave, shared work time, other social advantages

Does the company make an active effort to create and maintain jobs?

- % of temporary employees
- % of employees with fixed term contracts
- The presence of a restructuring plan even when the company is profitable
- Reclassification in the case of redundancies

3.3. Patronage / dialogue with local communities

Is the company involved in patronage operations?

- Percentage of its turnover devoted to patronage
- Types of operation financed

Does the company have an ongoing dialogue with the local communities where it is established?

- Existing procedures
- Project funding for local communities

3.4. Protection of the environment

For this criterion, FIDH will base its assessment on global data from EIRIS concerning the following factors: Environmental impact, Environmental policy, Environmental management, Environmental reporting, Environmental performance.

FIDH will define for each business sector the indicators concerning the environment that it considers most pertinent (for example, bio-diversity in the agrifood sector; greenhouse gas emissions in the industrial and

transport sectors; chemical products affecting the ozone layer in the petrochemical industries, etc.).