

OPPRESSIVE REGIMES



This Expert Briefing outlines our new approach to what we call “Oppressive Regimes” – one of our negative screens for the Amity Funds. We last wrote on Oppressive Regimes back in 2013, and our thinking has evolved markedly in the intervening years. This Briefing details both the methodology behind our Oppressive Regimes classification, and the instances in which the negative screen would be triggered.

THE CHARACTERISTICS OF OPPRESSIVE REGIMES

Our concern over Oppressive Regimes is intrinsically linked to human rights. From a human rights perspective, below are some of the characteristics which are likely to be prevalent in countries on our ‘Oppressive Regimes’ list:

- Authoritarian (single-party, tribal or Monarchic government); or totalitarian (military or civilian dictatorship)
- Absence of the rule of law; arbitrary detention; disappearances; extra-judicial executions
- Persecutions of sections of society, possibly including ‘ethnic cleansing’, genocide, persecution of religious and ethnic minorities
- Torture used as part of the judicial or extra-judicial process
- Suppression of civil society institutions
- Restrictions on freedom of expression; persecution of human rights advocates, trades unions
- Restrictions on freedom of movement; forced deportation
- Restrictions on media, including censorship, surveillance, and persecution
- State-sanctioned slave- or bonded- labour; systemic child labour
- State-sponsored persecution or discrimination of women and girls by virtue of gender (e.g. FGM)
- Occupation of disputed territories

Human rights risks are therefore more acute for companies operating in – or with exposure to – countries with Oppressive Regimes. Identification of these countries helps us decide how exposed a company may be to potential human rights abuses, and how complicit it may be in any abuses.

CONSTRUCTING OUR OPPRESSIVE REGIMES LIST

Our Oppressive Regimes list is based on the assessments of Freedom House (“Freedom in the World”¹), Transparency International (“Corruption Perceptions Index”²), and the World Economic Forum (“Gender Gap assessment”³).

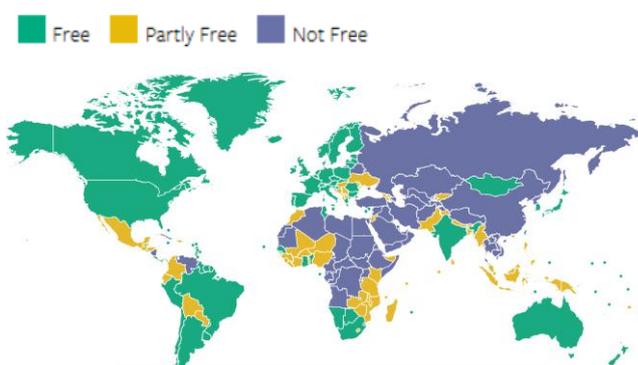


Figure 1. Freedom House’s ‘Freedom in the World’ Map, 2019. Source: <https://freedomhouse.org/report/freedom-world/freedom-world-2019/map>

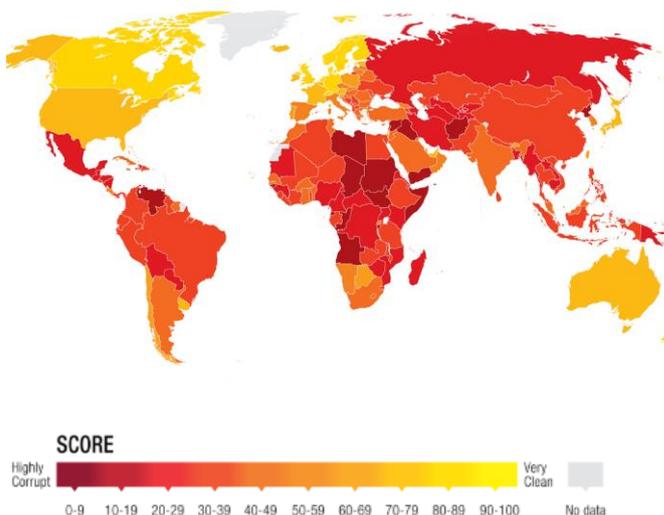


Figure 2. Transparency International’s ‘Corruption Perceptions Index’ Map, 2018. Source: <https://www.transparency.org/cpi2018>

¹ <https://freedomhouse.org/report/countries-world-freedom-2019>

² <https://www.transparency.org/cpi2018>

³ http://www3.weforum.org/docs/WEF_GGGR_2018.pdf

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Each of these organizations considers different criteria when determining a country's score, which usually runs from 0 (worst) to 100 (best). Freedom House, for instance, assesses and records human rights standards across a range of indicators, including freedom of belief and political expression, use of torture, and civil liberties. Based on the relevance of each organization's criteria to our own needs, we have developed a weighted average – strongly skewed towards the Freedom House score – for every country's regime. For our purposes, countries which fall under a certain threshold are considered to have an Oppressive Regime.

Our list contains Freedom House's 'Worst of the Worst' (Syria, South Sudan, Eritrea, Turkmenistan, North Korea, Equatorial Guinea, Saudi Arabia, Somalia, Sudan, Tajikistan, Uzbekistan, Central African Republic, and Libya)⁴, as well as, for instance, China, Egypt, Russia, and a number of the Gulf States.

IDENTIFYING CORPORATE COMPLICITY IN HUMAN RIGHTS VIOLATIONS IN OPPRESSIVE REGIMES

If a company simply operates in these countries, either directly or indirectly, this is not sufficient to trigger the negative screen. Indeed, we acknowledge that business can sometimes be a 'force for good' in these countries, introducing better labour standards and applying international human rights norms where they may otherwise be lacking. Our negative screen therefore only captures a very specific set of corporate activities, where that activity overlaps with government policies and practices, and can lead to human rights violations.

Activities captured under the Oppressive Regimes negative screen:

- Bonds issued by the government any country identified as having an Oppressive Regime
- Operating in a country where UN sanctions are in place against the regime

⁴https://freedomhouse.org/sites/default/files/Feb2019_FH_FITW_2019_Report_ForWeb-compressed.pdf

* For the purposes of our screen, the disputed territories we have highlighted are Western Sahara / Morocco and Palestine / Israel.

- Activities within disputed territories* which support or legitimise the government of the occupying country, and may lead to complicity in violating human rights
- Continuing operational involvement in projects in countries with Oppressive Regimes which have been shown to have led to egregious violation of human rights
- State-owned enterprises of a government of any country identified as having an Oppressive Regime
- Sale of arms or arms-related products to a government/military of any country identified as having an Oppressive Regime (cf. 'Defence' negative screen)
- Direct complicity in a government's ability to carry out the death penalty (not limited to oppressive regimes list)
- Activities – direct or in supply chains – in any country identified as having an Oppressive Regime, with state-sponsored child or slave labour, where mitigation is effectively impossible

On a case-by-case basis, we will apply these criteria to stock screenings and reviews. There are complexities underlying some of these criteria; for instance, we define a state-owned enterprise of an Oppressive Regime as one which is either (i) 20-50% owned by an Oppressive Regime government investment vehicle with Board seat(s) or; (ii) 50%+ owned by an Oppressive Regimes government investment vehicle. In instances where more than one oppressive regime holds a stake in a company/issuer, we will take the sum of the stakes in aggregate.

ADDITIONAL USE OF THE OPPRESSIVE REGIMES LIST

Maintaining this list of Oppressive Regimes also serves to reinforce the strength of the 'positive'/ESG aspect of our screening process – notably our 'Business Ethics' and 'Human Rights' pillars. By remaining cognizant of those countries in which human rights risks are particularly acute, we know where to apply enhanced due diligence around a company's human rights policy suite and the nature of its in-country operations. We do of course remain mindful that human rights abuses can take place in any jurisdiction and within any sector.

EMERGING ISSUES: FINANCE, TELECOMMS & TECHNOLOGY

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In the course of rearticulating this negative screen, it became apparent that there are some emerging human rights risks associated with certain sectors’ interaction with Oppressive Regimes.

The first is finance. We remain concerned by banks’ direct financing of Oppressive Regimes – particularly governments of those countries on Freedom House’s ‘Worst of the Worst’ list. Due to the exposure of numerous financial institutions to (chiefly) Saudi government debt, we would be uncomfortable with an outright ban on banks which hold Oppressive Regime debt. Instead, exposure will be assessed on a case-by-case basis, and taken into consideration in the Business Ethics pillar of our ESG/responsibility screen. As per the above criteria, however, EdenTree will not directly hold sovereign bonds of any country identified on our Oppressive Regimes list.

A further area of concern is telecoms companies’ complicity in undermining democratic processes in certain countries. This concern arose from a Principles for Responsible Investment (PRI) group call with a global telecoms company; it was noted that governments request that telecoms companies with which they have contracts temporarily shut down network coverage in certain parts of a country, often during politically-sensitive periods (i.e. during or close to elections). The extent of this problem is naturally difficult to gauge, and therefore it does not feature in our rearticulated Oppressive Regimes negative screen, but we are engaging with our telecoms holdings on this matter.

The final issue which we have considered is technology companies’ potential complicity in human rights abuses, principally in China. Our concern has arisen from growing awareness of the persecution of ethnic and religious minority groups, most notably in China’s Xinjiang Province⁵, and the alleged government use of facial recognition and DNA profiling

technologies to facilitate this persecution.⁶ This is another emerging issue within the Oppressive Regimes / human rights arena, but not one which will be part of our negative screen, at least for the moment. Instead, it will be captured in both the Business Ethics and Human Rights ESG/responsibility screens, and may still result in a company being considered unsuitable for inclusion in the Amity Funds.

CONCLUSIONS

Now this newly articulated Oppressive Regimes negative screen is being put into practice, we will maintain a list of countries – based on the above analysis and third-party rankings – in which human rights risks are considered more ubiquitous, severe, or opaque. We will also maintain and review the list of corporate activities which, where they overlap with government policies and practices of oppressive regimes, can trigger the negative screen.

If a company passes the Oppressive Regimes negative screen, but has operations – direct or through supply chains – in any of these countries, this will be noted in the Human Rights and/or Business Ethics positive screens, alongside our (existing) assessment of human rights policies and practices. Based on this ESG/responsibility screening assessment, a company may still be excluded from the Amity Funds.

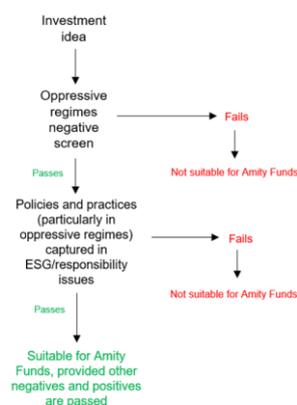


Figure 4. A flow-chart showing how our process works in relation to our Oppressive Regimes screen.

⁵ <https://www.reuters.com/article/us-china-xinjiang-rights-exclusive/exclusive-west-japan-rebuke-china-at-un-for-detention-of-uighurs-idUSKCN1U51E1>

⁶ <https://www.nytimes.com/2019/02/21/business/china-xinjiang-uighur-dna-thermo-fisher.html>

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We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of Amity funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Esmé van Herwijnen and Jon Mowll, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

We hope you enjoy this RI Expert Briefing and find it useful and informative. For any further information please contact us on 0800 011 3821 or at ifa@edentreeim.com