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A PIRC REPORT
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ENDOWING LABOUR: USING FOUNDATION SECTOR CAPITAL TO IMPROVE THE RIGHTS OF WORKERS

PIRC

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Pensions & Investment Research Consultants Ltd (PIRC) is Europe's largest independent corporate governance and shareholder advisory consultancy with over 25 years of experience in providing proxy research services to institutional investors on governance and other ESG issues. Since its creation by pension funds in 1986, PIRC has been a pioneer and champion of good corporate governance in the UK and has grown into a globally recognised expert in the field. PIRC is independently owned believing that any commercial relationship with the companies it analyses would present a fundamental conflict of interest. As a result PIRC is able to take a robust, independent view of the companies in which our clients invest: http://www.pirc.co.uk/

Alex Ferry Foundation was created in 2019 from the assets of a trust fund established in 1989 by the Confederation of Shipbuilding and Engineering Unions (CSEU) to provide financial support to workers who were then engaged in a campaign for a 35-hour working week. It is a unique charity, never before has such a sum of money been collected from donations from worker's used for improving the lives of their communities. Grants are made today to support research into economic and social change that supports wellbeing and working lives, as well as through direct community grant-making in post-industrial areas of the UK: https://www.ferryfoundation.org.uk/

FOREWORD
FROM KEIRAN GODDARD, ALEX FERRY FOUNDATION

Foundations in the UK give £3 billion a year in grants, making a vital and varied contribution to civil society. In the face of ongoing government cuts, this money is essential in sustaining a diverse and thriving charitable ecosystem. But beyond their grant making, foundations also have other leavers they can pull in the service of their charitable mission; convening, advocacy, and perhaps most crucially of all, how they utilise their assets. At over £67 billion, the foundation sector's collective asset base is significant, meaning that how, where and in what way they invest has the potential to be as socially influential as the grants that they make. Awareness of this has grown over the past decade or so, and practice has shifted accordingly. It is thankfully rare these days to hear a foundation say something along the lines of 'it doesn't matter how we generate our money, just maximise our returns at all costs'.

Instead, we have seen the sector increasingly embrace divestment of various types, alongside shareholder activism and demands for more robust ESG-led policies and products. But while progress has undoubtedly been made in some areas, this report will hopefully begin the conversation on an issue that we fear might be something of a lacuna at the heart of foundation investment practice – namely, labour and labour rights.

How confident are we that those that invest our capital are making pro-worker decisions, resisting precarious employment practices, low wages, union-busting and work intensification? As pro-social actors, all foundations should care about these issues regardless of their specific charitable mission. After all, there is little point inadvertently capitalising an economic paradigm which denies dignity, agency, voice and democracy in the very arena where most people spend the bulk of their time – namely, the workplace. To move the needle on this issue, we first need a clear picture of what is actually happening, it is only then that we can begin to collectively have the knotty, difficult and necessary conversations needed in order to make a positive change at scale.

As a foundation established by, and directly accountable to, an organised base of working people, the Alex Ferry Foundation is actively trying to think through ways in which the model of foundation investment can become less entangled in the exploitation and extraction of labour. There are paradoxes at every turn, of course, but that shouldn't mean that nothing can be done. As a starter for ten, we hope that this paper might mark the starting point for a wider discussion about how the foundation sector can work generatively with the contradictions inherent in its dual roles as institutional investors at scale and as agents of progressive social change.

INTRODUCTION

In March of this year the shambolic initial public offering (IPO) of gig economy giant Deliveroo saw a string of global asset managers, representing over £2.5 trillion in combined assets, boycott the listing. Alongside citing concerns about Deliveroo's business prospects and its governance, the asset managers involved highlighted the company's employment model as a key reason for withholding their capital. The share price plummeted on the first day of trading earning Deliveroo the title among City analysts as being the worst IPO in the history of the London Stock Exchange.

The move by asset managers (including Aviva, Aberdeen Standard, BMO Global, M&G, CCLA and Legal & General – the UK's largest fund manager) to foreground labour rights issues in their investment decision breaks new ground in the UK. The largest of these financial actors are major suppliers of capital to markets globally and are shareholders in most large publicly listed companies. Their rejection of a company on labour rights grounds is not business as usual.

In a similar vein, this year Schroders has removed Amazon from its "ESG" (environmental, social, governance) responsible investment fund on the grounds that it does not meet their criteria of being of being a socially sustainable company. This was a move encouraged by three UK foundation sector asset owners: Friends Provident Foundation, Joffe Trust and Blagrave Trust who combined their assets and made the case to their manager, Cazenove Capital (an arm of Schroders) that a company like Amazon with such a poor track record on labour rights has no place in a sustainable fund.

A third notable case was the decision taken last year by Aberdeen Standard, a global investment firm headquartered in Edinburgh, to divest from online retailer Boohoo following the revelation that their Leicester-based suppliers were using sweatshop labour.

Whilst these cases may seem like a drop in the ocean in an investment industry that capitalises all manner of global companies who have dubious records on labour-related standards, they are nonetheless significant. They demonstrate the role that asset owners and their managers can play in setting off a chain of activity within capital markets, and specifically, that this can be deployed in support of progress on labour rights. They are the seeds of a long overdue challenge to the status quo where the "S" in ESG is overlooked by responsible investors.

Underpinning any decision by an asset manager to step up their game on matters of social responsibility, are the expectations and investment policies set by their clients – namely institutional asset owners such as pension funds, sovereign wealth funds and foundation sector investors. The latter group are the focus of this paper.

Charitable foundations are mission-driven institutions, and though generally smaller than other institutional asset owners they have the potential to punch above their weight in terms of influencing the trajectory of investment practices more broadly. They are less regulated than pension fund asset owners and as such have more autonomy over how they invest.

Sector analysts estimate that around two thirds of foundations have policies that guide their investments according to ESG related performance. Our study of a sample of these has however revealed that less than two thirds set out social standards for their investee firms, while fewer than a quarter make any positive reference to expectations on labour rights. This compares with over two thirds of policies that set out expectations on environmental standards.

The discrepancy between attention given to environmental and labour rights is stark but unsurprising. Whilst there has been well-organised efforts among institutional shareowners to align their portfolios with carbon reduction imperatives in recent years, social standards, particularly in relation to labour rights, have been a relative blind spot.

There is an inescapable and uncomfortable truth underpinning this fact: **that even the most responsible company shareholders are in an extractive relationship with labour by the virtue of the fact they are deriving income off the back of other people's work. But this trait of the economic system in which we all operate should not be a source of inertia among shareowners who want to use their assets for good.**

The wider context of the Covid-19 health crisis provides an opportunity to take stock of the impacts of and contradictions within the responsible investment industry.

The pandemic has shown that income from labour is more precarious than income from capital. Whilst people working in insecure and low paid contracts have faced financial destitution over the last year, investors have been able to diversify to minimise their risk, and even profit from emerging opportunities, such as online retail, remote working technology, and PPE provision. During this period we've seen many cases of companies with questionable workforce practices generate substantial returns for shareholders.

As we build out of the twinned economic and health crises, institutional shareowners have a strong impetus to review whether their assets are invested in ways that progress social and labour-related standards, or inhibit them; both within their investee firms and in the economy more broadly.

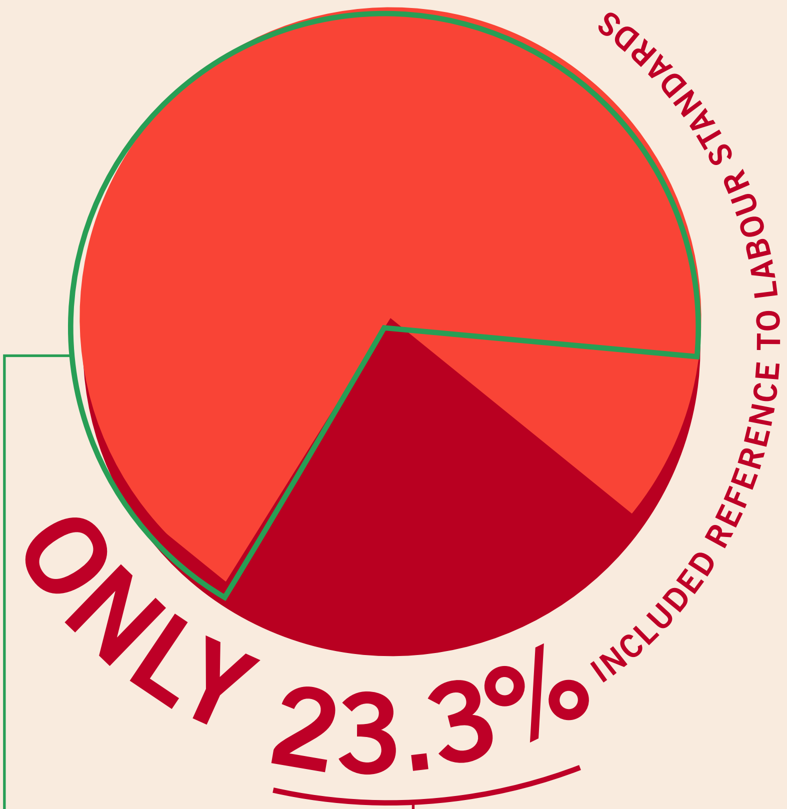
In this paper we explore some of the barriers faced by asset owners such as foundations who want to improve their investment practices. Barriers include the role of the asset manager economy, heavily dominated by a handful of large firms, who set the tone across the investment world for what constitutes responsible investing.

We hope the findings are of interest to those working in the foundation sector, their asset managers, and other interested parties such as trade unions, pension funds and policy makers.

INTRODUCTION

KEY FINDINGS

43 FOUNDATION SECTOR INVESTMENT POLICIES



67.4%
included reference to environmental standards

Among the quarter of policies that did reference labour standards, the vast majority made only passing or insubstantial statements

A review of voting by asset managers, to whom shareowners entrust their assets, shows little consistent support for pro-labour resolutions. Some asset managers are routinely voting down company resolutions that support progress on labour rights.

ONLY...

1
policy out of the 43 includes a robust investment position on labour standards

7%
of policies reviewed referenced international labour standards, such as those established by the International Labour Organisation (ILO)

5%
of policies included a specific mention of freedom of association, trade unions and/or collective bargaining rights

10%
are screening out on the basis of labour rights. Whilst 50% were screening on grounds of other social factors (for example tobacco industry involvement)

PART 1: WHAT IS THE STATUS QUO? A REVIEW OF FOUNDATION POLICIES AND THEIR TREATMENT OF LABOUR RIGHTS

PART 1

There are an estimated 12,700 charitable foundations operating in the UK with combined assets of over £67 billion among the top 300 grant makers.[1] Foundations invest these assets primarily to achieve a financial return to fund grant-making in line with their charitable aims. Traditionally this would have meant investments made with the sole purpose of achieving the best financial return within a risk level that the foundation feels comfortable with.

However, over the last two decades, foundations, like other institutional investors, have become concerned with investing their assets in ways that align with or further their charitable aims (and in some cases wider social and environmental aims), whilst also achieving a satisfactory financial return.

As such today an estimated two thirds of UK foundations now have a responsible investment policy.[2] Whilst for many this will tend to comprise of fairly high level ESG commitments, there is a growing appetite and skillset emerging from the sector to adopt a more bespoke and deliberate approach to investment practices. At a minimum this might mean ensuring investments don't undermine the foundation's own charitable aims. For example a foundation making grants to promote health equalities might have a policy excluding investments in alcohol or tobacco industries. However, others are going further to look at mission-led investments, governed by social and environmental standards, that every party along the investment chain – from the foundation trustees, to their asset managers and the investee companies – can be held accountable. In this way foundations are increasingly using their assets in support of major shared goals such as social and economic equity, and climate justice.[3]

In this section we explore the extent to which a sample of foundations, many of whom reject the idea of a trade-off between their grant-making objectives and their investment practices, are likely to still be inadvertently capitalising from problematic labour practices in their investee firms. In subsequent sections we explore some of the barriers and opportunities that exist for foundations wanting to seek a change of course.

Sample study of foundation investment policies

Methodology

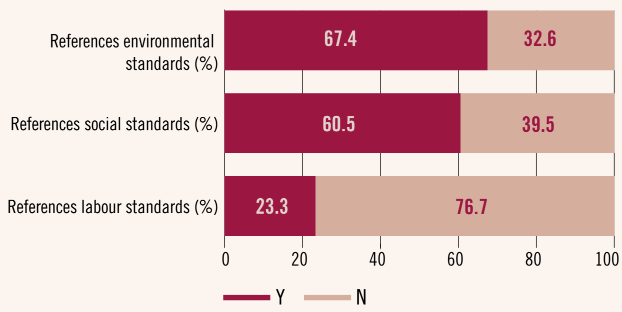
To take a measure of the issues foundations are currently prioritising through their investment strategies, we have reviewed a sample of 43 investment policies from across a mixture of small, medium sized and large foundations. The sample was compiled from a combination of directly shared policies, published policies and a survey. Unlike pension funds which are required by regulation to publish their investment strategies and approach to ESG issues, foundations are under no such obligation to do so, and as such our sample is limited by the availability of data. It is worth noting that the foundations which do publish their investment policies, or have taken part in the survey, are likely to have more of an interest in responsible investment and ESG issues than the institutions which the study has not reached. For this reason, we believe the findings present a "best case" illustration of the extent to which foundation strategies are aligned with ESG standards. To ensure our findings provide a reliable picture from within these limitations, we have supplemented the study of policies with a small number of interviews with investment managers and other specialists from within the foundation sector.

Results

We reviewed 43 investment policies of foundations representing over £31.4 billion in assets.[4] Whilst the majority of the foundations included in the study have incorporated environmental standards in their investment policies, social standards and in particular labour rights, lag behind.

Two thirds of policies take a stance on environmental standards, but less than a quarter take a stance on labour standards

Fig.1



Among the 23% that do include a mention of labour rights, this tended to be a passing reference, for example stating that investee companies should have "productive and healthy workforces" or should refrain from using child labour. Whilst any statement on labour standards should be read as a positive as it demonstrates workforce matters are in the consciousness of the investor, without more substance these inclusions do little to demonstrate how the investor can play a role in ensuring the standards are not breached.

In many cases the reference to labour rights comprised of a mention of specific legal minimum standards on labour issues, such as ensuring there is a policy against modern slavery in supply chains. By limiting the focus in this way there is a missed opportunity to take a stand on some of the more prevalent forms of poor labour practices that exist in international supply chains as well as closer to home; practices that might be legal but are nonetheless problematic. These include the use of insecure and agency contracts in place of secure employment, anti-union management regimes, lack of rights, surveillance and monitoring, low pay and risks to worker safety.

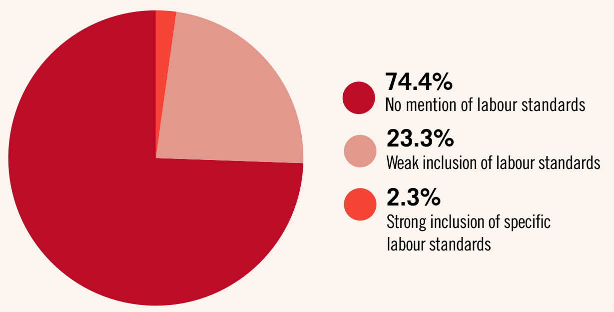
As Figure 2 shows, of the policies that did include labour rights topics, we found only one policy (2.3% of the sample) that laid out detailed and actionable positions for their investee companies and as such was recorded as having a strong inclusion of labour standards. commitments made are weak

[1] Association of Charitable Foundations (ACF), Foundation Giving Trends, 2019; and Paula D. Johnson, Global Philanthropy Report, 2018: https://cpl.hks.harvard.edu/files/cpl/files/global_philanthropy_report_final_april_2018.pdf p13
[2] PIRC analysis of sample of policies; and Brewin Dolphin Survey, Investment: What Matters Most? 2017
[3] ACF, Stronger Foundations, 2020 https://www.acf.org.uk/downloads/ACF_investment_pillars_FINALv3.pdf
[4] This figure is skewed by a large foundation in the study. If excluded, the total assets of the foundations in the study is £7.4 billion.

PART 1

The vast majority of policies had either no mention of labour standards, or a weak mention

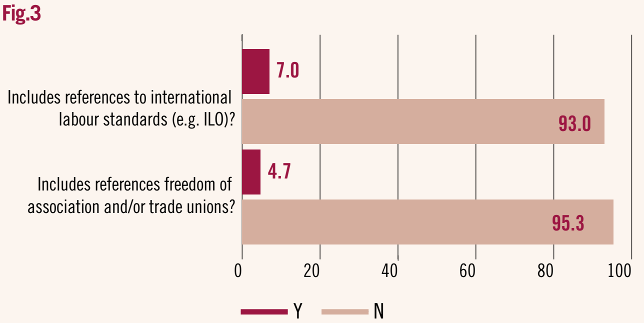
Fig.2



We looked specifically at whether policies took a stance in support of the collective voice of workforces, as a counterbalance to the interests of company managers and shareholders. For this we looked for the inclusion of internationally recognised standards of labour rights, such as the ILO Core Labour Standards (CLS). Again, only a handful of policies made reference to these and even fewer made reference to the rights of workers to freely associate and collectively bargain as part of a trade union.

Fewer than 1 in 10 policies take a stance on the collective voice of workers in their investee companies

Fig.3

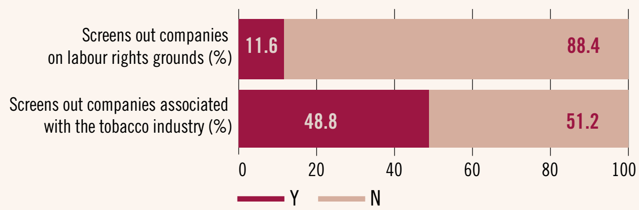


Finally, we looked at the extent to which foundations are able to put their money where their mouth is on labour standards by including policies to screen out or divest from companies with bad employment practices.

As Figure 4 shows, whilst there were several policies which laid out intentions to screen out companies from investment portfolios that did not perform well against certain social standards, these were usually not in reference to labour standards. Statements about screening tended to focus on withholding funds from companies affiliated to arms manufacturing, tobacco, gambling and pornography. Whilst half of foundations were withholding capital on the basis of some sort of social standard in this way, only 1 in 10 reported doing so in relation to expectations on labour standards.

Half of policies screen out companies on the basis of a negative social impact, (e.g. associations with tobacco industry), but only 1 in 10 do so on the basis of labour rights

Fig.4



Whilst it is widely recognised that screening out is only one way to effect change through investment practices, it is a useful measure for the robustness of policies and how they translate into investment practice.

In summary, the sample study of foundation sector investment policies has shown that whilst there are clear efforts to include standards of environmental, social and governance performance within investment strategies, labour standards are being overlooked by most. To some degree this mirrors the practices of other asset owners.

As a comparator, UK-based pension funds have also largely failed to make specific commitments on labour standards, although practice is changing. This compares with the more robust inclusion of internationally recognised labour standards in the investment policies of institutional shareowners based in other European countries.[5] Across all asset owners there is significant room for improvement.

In the next sections we explore what opportunities and barriers there are to support or hinder change in this area.

[5] ITF, Whose Responsible? 2017 https://www.itfglobal.org/en/news/research-probes-responsible-investment

PART 2: WHY HAVE LABOUR RIGHTS BEEN AN INVESTMENT BLIND SPOT?

SHORTCOMINGS FOR THE "S" IN ESG AND THE ROLE OF THE ASSET MANAGER ECONOMY

PART 2

There is no escaping the fact that capital owners are in extractive relationship to the workforces in their investee companies. However, whilst it would be wrong to suggest that responsible investment practices can overcome this reality of our economic system, investors do have the capacity to allocate capital and align their financial interests in ways that support the rights and collective agency of workforces. On the whole this capacity is not being well used.

There are barriers which prohibit institutional asset owners such as foundations from taking a more active stance through their investments. In this section we briefly explore limitations specific to the foundation sector and also more broadly across the responsible investment sector.

Barriers faced by foundation sector asset owners to taking an active investment stance

Small institutional asset owners such as foundations are required to take strong positive action through their investment strategies if they want to wield influence over the practices of their investee companies. But within the foundation sector there are cultural and sector specific norms and perceived barriers to them doing so, some of which limit the focus on social factors in particular. These include:

- **Historically there has been a perceived tension between responsible investment and grant-making.** Trustees responsible for the investment of assets have traditionally seen their primary duty as getting the best possible returns to fund grant-making. The assets of foundations have often been donated by founders and for many form the principal source of income. Any fall in investment value results in a tightening of belts for grant making. For trustees who have a strong commitment to a specific set of beneficiaries defined in their grant-making mission statement, there is often little appetite to seek broader societal change via investment portfolios – and a perception that doing so could be risky. Whilst this perception is changing, it remains a barrier for some foundation investors.

- **Foundation asset owners have high levels of autonomy and divergent approaches.** In line with the Charities Act 2011 and 'Charity Governance Code' it is recommended practice that all foundation trustees have a written investment policy to ensure that charitable funds are being managed in the best interest of donors and beneficiaries. However, beyond the duty of trustees to review this policy regularly, there is nothing governing foundation investment practices. Unlike pension funds who have well-defined fiduciary duties and rules around transparency, foundation asset owners are not required to publish their policies (though many are increasingly doing so). This high level of autonomy means that investment approaches of foundations vary wildly; they tend to be set by cultural and professional norms within that foundation and are rarely held to account by any interested party.

- **The rise of social impact investing.** Over the last decade, "social impact" investment has risen in prominence among foundations as a separate pursuit to both market investments and ESG focussed responsible investments. This practice involves investing in small-scale projects that promise a defined social return (for example community owned housing or co-operative business), with financial returns expected to be much lower and generated over a longer time period. In practice this social impact investing tends to come hand in hand with a foundation having strong principles governing their wider investments, however given limited resource and capacity of any one foundation, a focus on this understanding of social impact investment may limit scope to also include action on other specific social measures, such as labour rights, as a priority in their wider investments.

- **The perceived trade-off between environmental and labour rights.** It is no secret that the imperative to reduce carbon emissions has gained enormous traction within capital markets over the last decade. A catalyse for this has been the efforts of some institutional investors to de-carbonise their portfolios and use their shareholdings to influence corporate practices on climate. The same cannot be said for social factors and labour rights. This discrepancy is in no way reducible to foundation sector investors, but it is none the less an observable trend among them. The discrepancy can in part be attributed to an approach to climate policy that fails to recognise its distributional impacts, meaning that the possible negative impacts of reducing carbon emissions on working-class populations are not taken into account. These impacts include the threat of significant job losses in areas where local economies are already suffering as a result of industrial decline. It also includes the creation of poor quality "green jobs" that have inferior terms and conditions to jobs lost. The "just transition" agenda which is growing in influence in the responsible investment sector seeks to rectify this separation of environmental and social / labour-related needs and puts an emphasis on empowering workers and wider working-class communities by protecting them from the fall-out of a rapid transition away from carbon-heavy industries. The UK just transition roadmap laid out by the Friends Provident Foundation aims to overcome the environment/social trade off in investment strategies and provide best practice guidance for investors in terms of shareholder engagement, capital reallocation and policy reform: https://www.friendsprovidentfoundation.org/grants/projects/investing-in-a-just-transition-london-school-of-economics/

The role of the asset manager economy

Beyond these specific constraints, the omission of standards on labour rights from investment practices is a symptom of a wider problem whereby the mediating role played by asset managers in providing advice and management to asset owners is increasingly dictating investment practices.

Whilst historically many asset owners had managed their

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own investments, over time outsourcing to asset managers has become the dominant approach. More recently a combination of disappointment with returns from active stock-picking and a greater focus on costs and charges has led to a greater proportion of assets being run on a passive basis. This in turn has resulted in assets being channelled to an ever-smaller subset of managers.

The result has been the rise of the "asset manager economy", characterised by a concentration of power, shifting away from individuals and asset owners, such as pension funds and foundations, towards a shrinking group of large asset management companies.[6] Today just three asset managers, Vanguard, BlackRock, and State Street Global Advisors – all of which manage a substantial proportion of assets passively and collectively hold on average more than 20 per cent of the shares of large multinational companies.[7] After them come dozens of other asset managers who together dominate investment chain, wielding much more power over investment decisions collectively than the asset owners whose funds are being invested.

It is clear that this model applies in the foundation sector. The vast majority of foundations entrust an asset manager to invest their assets. In many cases this also means outsourcing practices such as shareholder voting and corporate engagement to them. Whilst this practice is entirely common among institutional asset owners and can wield many benefits in terms of expertise and reach, when combined with the lack of regulation governing foundation investment practices, the result is a particularly high level of influence entrusted in the hands of asset managers to determine the investment approach of foundation assets.

As one foundation sector interviewee put it, if we take our role as engaged investors seriously, foundations should "only be dealing with the best in class of asset managers". But for non-expert trustees it is not always easy to navigate what is a crowded and lucrative asset manager market, where they must balance the foundation's intentions to be an engaged and responsible investor, with the desired investment return.

The delegation of authority does have real-world implications. On a day-to-day basis both asset managers and the companies whose shares are held will consider it is the manager, not the asset owner who is the 'shareholder', despite it not being their capital at risk. Boards and investor relations departments are focused overwhelmingly on the views of managers.

This is not to say that asset owners have no influence, or that asset managers are not responsive to client demand, As responsible asset owners care increasingly about where their money ends up, particularly, as we have seen, in relation to the climate agenda, asset managers have sought new ways to market their products and services – including through the creation of ESG focussed funds. The popularity of these has seen asset managers further grow their market power.

However this means that currently the extent to which asset owners' capital supports good labour practices is determined by the weight that asset managers put on S issues. Unfortunately the culture in the asset management industry is not one that is obviously aligned with the interests of organised labour, and as our findings below demonstrate, this non-alignment is born out in voting practices. Therefore unless asset owners adopt and implement policies that actively promote the interests of labour we should not be surprised if there is a gap between the expectations of foundations and the activities of asset managers.

Asset managers do not have a good record on labour rights

In practice positive rhetorical commitments on ESG topics by asset managers don't always translate into action.

To test this theory in relation to the S of ESG, and specifically, labour rights, we have reviewed asset manager voting on a sample of employment-related resolutions filed at companies over 2019 and 2020.

Finding 1: Some asset managers are routinely voting down pro-labour resolutions at company AGMs

Among the sample asset managers reviewed, we found that few are consistently supporting 'pro-labour' resolutions – defined broadly as resolutions that make demands for progress on employment conditions and workers' rights. These are resolutions filed by shareholders, sometimes with support from NGOs or representative bodies such as trade unions, at the annual general meetings (AGMs) of investee companies.

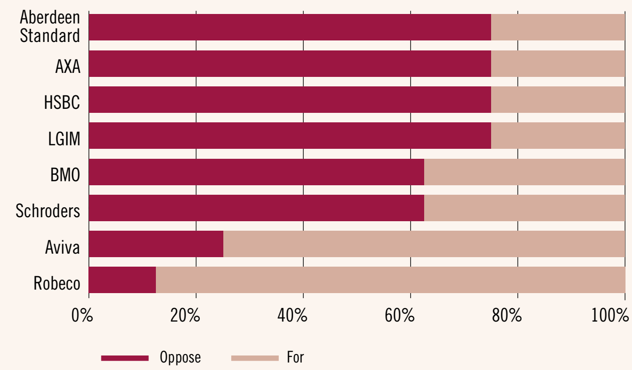
We have analysed voting data from 8 resolutions filed in US, UK, Canadian and Australian listed companies on employment-related matters from a range of sectors in 2019 and 2020. As shown in the table below we found that the majority of the pro-labour resolutions were not backed by asset managers, with the exception of the 2019 resolution at Amazon to end inequitable employment practices that was supported by all 8 managers in our study.

A 2019 resolution to adopt a Living Wage at Canadian retail chain Dollarama was voted down by 6 out of 8 managers. The same managers voted against a resolution at Australian retailer Coles for the increased involvement of workforces in auditing processes across the supply chain. See Table 1: Asset manager voting on employment-related resolutions, page 12.

Figure 5 shows that there is significant variation in the level of support for the pro-labour resolutions reviewed.

Spread of opposition for employment-related resolutions reviewed

Fig.5



[6] Benjamin Braun, Asset Manager Capitalism as a Corporate Governance Regime, March 2021 https://osf.io/preprints/socarxiv/v6gue
[7] (Backus et al. 2020: 19).
[8] PIRC, Asset Managers and Employee Voice, 2021.

PART 2

Another pro-labour demand being pursued through resolutions at several companies over the last two years is for employee representation at board level. As is reflected in Table 1 where resolutions filed at Microsoft and Alphabet on this topic were opposed by 6 out of 8 managers, we have found strong opposition to this proposal among asset managers.

In a wider review of asset manager voting on worker voice in the boardroom, we found 16 major asset managers opposed these resolutions every time they came up.[8] Whilst this finding is consistent with the dominant shareholder primacy model of corporate governance that exists in the UK market and internationally, it jars with the growing rhetorical support among asset managers for an approach that includes workforces as key stakeholders. This sentiment is perhaps best observed in the recent positioning of BlackRock's Larry Fink in his 2021 letter to company CEOs cautioning them to 'ignore stakeholders at their peril'. [9]

To test whether this verbal support for stakeholder capitalism has any bearing on practice, we analysed votes by asset managers on two resolutions filed in companies by workforces directly. Yet again, we found little asset manager support for these resolutions.

Finding 2: Asset managers do not vote in line with resolutions filed by workforces

We analysed the voting results for two company resolutions that were filed by employees in 2020, with support from a union. These were:

1) A resolution filed at HSBC by employees supported by Unite the union requesting that employee pensions are protected from the claw back of funds, a practice that penalises the lowest paid, mostly female workforce
2) A resolution filed with support from employees at US industrials company Dupont De Nemours requesting the provision of a board seat for regular employees

As shown in Figure 6, both resolutions faced strong opposition from the 15 managers reviewed. All managers voted down the HSBC resolution and only 2 voted in support of the resolution at Dupont De Nemours.

It should be noted that whilst many of the asset managers in the analysis are used routinely by foundation sector investors, there are also a number of smaller, specialist asset managers who target foundation sector funds whose voting we have not analysed due to availability of data.

Asset manager votes on two resolutions filed directly by employees

Fig.6

Table 1: Asset manager voting on employment-related resolutions

Company	Country	Sector	Year	Proposal	Aberdeen Standard	Aviva	AXA	BMO	HSBC	LGIM	Robeco	Schroders
					ASSET MANAGER VOTING							
Coles Group	AU	Retail	2019	Worker driven social responsbility in supply chain practices	Oppose	For	Oppose	Oppose	Oppose	Oppose	For	Oppose
Dollarama Inc	CA	Retail	2019	Adoption of a Living Wage Policy	Oppose	For	Oppose	Oppose	Oppose	Oppose	For	Oppose
Alphabet	US	Tech	2019	End inequitable employment practices	Oppose	For	For	For	For	For	For	For
Amazon	US	Tech	2019	End inequitable employment practices	For	For	For	For	For	For	For	For
HSBC	UK	Financials	2020	Remove pension clawback	Oppose	Oppose	Oppose	Oppose	Oppose	Oppose	Oppose	Oppose
Alimentation Couch-Tard	CA	Retail	2020	Adoption of a Living Wage Policy	For	For	Oppose	For	Oppose	Oppose	For	For
Microsoft	US	Tech	2020	Elect an employee representative to the board	Oppose	Oppose	Oppose	Oppose	Oppose	Oppose	For	Oppose
Alphabet	US	Tech	2020	Elect an employee representative to the board	Oppose	For	Oppose	Oppose	Oppose	Oppose	For	Oppose

9 Larry Fink's 2021 letter to CEOs https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

PART 2

Wielding influence over asset managers

Our indicative study found that few major asset managers are consistently supporting pro-labour resolutions. Asset managers are not voting in line with ideas raised by employees, as key company stakeholders, nor are they consistently supporting resolutions to support improvements to employment conditions and rights.

These findings suggest that much of the positive rhetorical statements made by asset managers on the importance of stakeholders and positive social performance in investee companies, is yet to translate into action.

To influence this, asset owners need to strengthen their investment policies and engagement with their managers. One step is ensuring that voting practices are subject to scrutiny. For overstretched trustees whose assets are spread across passive tracker funds, this level of scrutiny is however not always possible, particularly when the voting records of asset managers are not always disclosed or accessibly presented.

Foundation sector investors are increasingly aware of this challenge, and the lack of transparency and accountability in the asset manager economy more generally. In response, some have begun taking steps to exercise more influence:

CASE STUDY COMMITTING TO ACTIVE STEWARDSHIP:

Lankelly Chase, a foundation with a £153 million endowment fund invested in shares and bonds is in the process of overhauling its investment strategy to make itself more accountable over the impacts of its capital. The foundation observes that regardless of whether they invest in active, passive, pooled or segregated funds, they have a duty to understand and monitor where this money ends up and how it impacts on wider societal factors. The new strategy acknowledges that whilst are no assets or asset classes that align perfectly with its charitable purpose (to take a systemic approach to improving the quality of life of people most exposed to social harm and deprivation), they can nevertheless prioritise investments with the potential to contribute to a transformed system. Part of this means directing their asset managers to only invest their funds in companies where is there is a plausible opportunity for positive influence and avoid highly extractive assets whose underlying nature cannot be changed. It also means laying out robust and actionable investment standards:

"We think that companies need to understand the purposes of their long-term owners, otherwise they may make assumptions about those purposes which will take them to short-term value extraction. Hence committed and active stewardship is a necessary part of our approach to investment."

CASE STUDY: POOLING ASSETS TO PUSH FOR BETTER INTEGRATION OF THE S OF ESG:

Dissatisfied with the lack of leverage they individually had over their asset managers, poor ESG standards and lack of asset manager transparency in general, in 2020 three foundations combined an investment mandate of £33.5m and invited asset managers to bid for their contract by out-performing one another on social and environmental commitments. The "ESG Investing Olympics" received 60 proposals from managers with combined assets under management of £15 trillion. The three foundations involved, Friends Provident Foundation, Joffe Trust and The Blagrave Trust, were pleased to see that the winning bidder, Cazenove Capital, a subsidiary of Schroders, removed Amazon from its sustainable investment fund having raised their concerns of the company's dubious record on labour rights and tax avoidance. This is a significant step forward. The move will likely have a ripple effect, as we saw with the Deliveroo IPO, meaning more ESG funds become pressured to divest from Amazon, and other companies, on labour rights grounds.

PART 3: TOWARDS A PRO-LABOUR INVESTMENT APPROACH

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RESOURCES

There is guidance published by unions and other labour-friendly organisations internationally on how to ensure investment policies and practices enhance rather than inhibit progress on labour rights. In the table we point to some particularly comprehensive resources that set out methods and metrics which asset owners can use to have influence on this agenda across the investment chain, as well as joint initiatives and collaborative networks.

Whilst it is beyond the scope of this paper to make direct recommendations for foundation sector investors or others who want to improve their investment practices on social and labour rights, PIRC and Alex Ferry Foundation welcome interest from any readers who want to pursue this agenda further together.

Organisation	Summary	Links / resources
Committee on Workers Capital (CWC).	Guidelines are a joint initiative of the International Trade Union Confederation (ITUC), Global Union Federations (GUFs), and the Trade Union Advisory Committee to the OECD (TUAC). A taskforce made up of union representatives set out methods for scrutinising companies based on 10 indicators: 1. Workforce composition 2. Social Dialogue 3. Workforce Participation 4. Supply Chain 5. Occupational Health and Safety 6. Pay Levels 7. Grievance Mechanisms 8. Training and Development 9. Workplace diversity 10. Pension fund contributions for employees.	CWC Guidelines for the Evaluation of Workers' Human Rights and Labour Standards
Trade Union Share Owners (TUSO)	TUSO provides guidelines for trade union share owners, utilised by their network of over 1,000 UK union member trustees. Guidelines reflect a trade union perspective on corporate governance and cover issues such as: • Diversity & work life • Training & development • Employee representation & involvement • Health & safety • Pay levels & increases • Pension provision These translate into voting guidelines. For example TUSO recommends that to address pay inequality, shareowners should vote against remuneration reports where the company has a pay ratio greater than 20:1 (top to average).	Trade Union Voting and Engagement Guidelines (2013)
International Labour Organisation (ILO)	ILO publish reports on incorporating their conventions into investment strategies with a focus on: • freedom of association • non- discrimination • prohibition of child labour • prohibition of forced labour They recommend strategic objectives for companies on labour rights. This includes promoting fundamental principles and rights at work and strengthen tripartism and social dialogue. Emphasis is put on the impact investors can have on corporate behaviour through screening, engagement, and collaborative investor initiatives.	Investing in the workforce: Social investors and international labour standards (2009) Socially responsible investment, decent work and pension funds: Concepts and international experiences (2013)
Pensions and Investment Research Consultants (PIRC)	PIRC publishes annual shareowner voting guidelines for markets internationally setting out views on governance structure and management of social issues. These include a focus on the just transition framework emphasising that environmental targets must be understood in relation to social and	PIRC Annual Shareholder Voting Guidelines (2021)

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	labour impacts. Indicators on workforce matters include: • health & safety risks (safety hazards & physical conditions in the workplace, pressure & stress, disclosure & management of work-place fatalities) • Freedom of association and collective bargaining in line with ILO Conventions 87 and 98. Emphasis is put on stakeholder engagement, specifically with trade unions, as a key part of responsible capital stewardship. PIRC publishes a newsletter and analysis on labour rights topics for an investor audience.	
Share Action	Share Action's Workforce Disclosure Initiative and Good Work Coalition provide opportunity for investors to share best practice, with a focus recently on the roll out of the Living Wage. Joint initiatives seek to improve company disclosure of workforce data and carryout collaborative engage-ments and campaigning. Additionally, Share Action's Charities Responsible Investment Network (CRIN) provides specific guidelines to aid foundations in developing investment policy that aligns with their charitable principles. This includes through integrating ESG issues into investment decisions that asset managers take up on their behalf – pushing back when managers suggest there's a trade-off between ESG screening and financial returns.	Charities Responsible Investment Network (CRIN) Investing in our future (2019) Fit-for-purpose? The future of the AGM (2021) Workforce Disclosure Initiative
Australasian Centre for Corporate Responsibility (ACCR)	ACCR is a research and shareholder advocacy organisation focussed on corporate Australia. ACCR promotes "worker driven social responsibility" as a challenger to corporate responsibility auditing models that tend to be blind to labour-related issues. They advocate for: • Supplier accreditation and compliance determined through a multi-stakeholder approach, involving workers and representative organisation(s) • Workers receive peer-led labour rights education with the involvement of representative organisation(s) • Grievance procedures led by workers and representative organisation(s)	Worker Driven Social Responsibility
Dutch Association of Investors for Sustainable Development (VBDO).	In a 2018 report VBDO lays out the different approaches pension funds can take in respect to forced labour. They highlight that one of the biggest challenges is a lack of data and suggest that funds use the expertise of trade unions and NGOs to collect quality data. By actively screening companies and participating in engagements on this basis, they argue investors reduce financial, reputational and ethical risks.	Dutch Pension Funds and Forced Labour (2018)

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CONCLUSION

The pandemic has shown us how precariousness and disempowerment in the workplace have become a drag on the ambitions we share as a society to be healthy and economically secure. Covid-19 fatalities have aligned with socio-economic and occupational status – and whilst not many people would dispute the existence of the inequalities that belie this, there is no consensus on how to fix it. One step forward would be to ensure there is a stronger collective voice for workforces that is backed up by the institutional shareholders that earn income from their labour. This means responsible investors and their managers taking action on poor employment practices and the inequalities that arise from them.

In foundation investments in particular, the relationship between workforces and shareholders is strongly mediated by the asset managers in charge of assets. With annual fees set at a percentage of all assets under management, this industry is arguably the biggest beneficiary of foundation sector investment practices. In order for foundation investors to be a force for good in upholding working standards in the companies in which they invest – the first step is setting clear expectations for and wielding adequate leverage over their asset managers – and the asset manager economy more broadly.

Two areas where foundations can therefore make an immediate impact are by enhancing the content of their investment policies and holding their asset managers accountable for their voting on labour-related resolutions. In the former case introducing specific expectations of companies in relation to labour standards, rooted in ILO core conventions, would be an important signal to the market.

In respect of asset manager voting, the experience of pressure on large asset managers over their voting on climate resolutions is instructive. On climate, even the very largest managers have begun to vote more robustly, and companies have in turn felt obliged to respond. As we are now seeing seeds of this type of action on social and labour expectations, engaged asset owners could be pushing on this opening door. Our analysis showed that major asset managers are routinely voting down resolutions on issues such as the living wage, pension equality, workers on boards, and worker voice in supply chain management. Fleshing out investment strategies with concrete expectations on these areas will compel asset managers to get behind them.

Within this agenda, the particular interest of PIRC and the Alex Ferry Foundation is to promote the voice and democratic representation of workforces across the investment chain – from the trustees of institutional funds, to their asset managers and ultimately within the companies in which they invest. Trade unions and employee representatives at board level are two models that provide a voice for labour in company decision-making – and as such are models that engaged investors who want to be on the side of workforces could pro-actively change expectations on. Similarly, having a greater block of institutional shareowners who back up and promote worker-led resolutions as a matter of principle, and push asset managers to do the same, would mark a significant step forward. Foundation investors with a commitment to social and economic justice are obvious allies in this pursuit.

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