

Investment Guidance paper on Labour Rights

Supporting document to implement the RI Policy Framework

April 2024



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Important legal information

Nothing in this document expressed or implied, is intended to or shall create or grant any right of any cause of action to, by or for any person (other than NN Group N.V.)

1. Introduction

At NN Group, we aim to conduct our business in a sustainable manner, which includes responsible labour practices. In this guidance paper we focus on our investment approach with regards to labour rights. The guidance provides background information on labour rights and explains the due diligence processes that we apply. It also describes what relevant standards and principles currently exist to promote best practices, and to avoid negative impact of companies in which we invest.

Background Guidance Papers

NN Group adopted the Responsible Investment Policy Framework in 2014. We define Responsible Investment (RI) as the systematic integration of Environmental, Social, and Governance (ESG) factors into investment decision-making and active ownership practices. Our Responsible Investment Policy Framework reflects our commitment to various international and sector-specific standards and initiatives. A key part of our approach to Responsible Investing is that, where possible and feasible, we aim to mitigate the negative impacts of our investments on sustainability factors. These negative impacts are also called adverse impacts, whereby the most significant adverse impacts are referred to as principal adverse impacts (PAIs). Principal adverse impacts can occur in different areas, such as related to environmental, social and employee matters, human rights, corruption, and bribery.

NN is developing guidance papers which are intended to be a basis for discussion between NN Group and our stakeholders. They are living documents that will regularly be reviewed by NN Group to ensure that they reflect evolving risks and best practices, as well as solidify our ongoing education on these topics. The guidance papers also help our external asset managers in evaluating investments from a topic-specific perspective. By publishing these papers externally, we aim to express our position and use it to leverage change in the sphere of our investment activities.

NN Group and labour rights

The basis of our approach to labour rights is embedded in the NN statement of Living our Values and the NN Group Human Rights Statement, which provides the foundation on which we do business. We avoid or responsibly manage any negative impact our business activities may have on people or the environment and seek positive change in society.

When investing in companies, there is a potential that we become linked to challenging labour related situations.

Implementing a due diligence process to systematically incorporate ESG considerations in investment analyses and active ownership practices, will help us to identify, prevent and mitigate sustainability-related risks, including those related to labour practices. In addition, we believe such a process will support us in making better informed business decisions and in identifying sound and beneficial opportunities.

This paper begins with an introduction to the international frameworks and principles that are the foundation of labour rights. This is followed by an explanation of how companies and industries are exposed to labour rights risks, illustrated with a risk assessment that we performed. Further, it provides examples of sub-themes which we believe are important in relation to labour standards.

2. Labour and the role of companies

International legal and regulatory frameworks

Understanding the international regulatory frameworks and principles that serve as the foundation of labour rights is essential to grasp the role of companies in promoting labour rights. Corporate labour rights standards and frameworks worldwide are nested within a set of international agreements. The International Labour Organisation (ILO) is the primary international body responsible for establishing international labour standards. Its Declaration on Fundamental Principles and Rights at Work (ILO Declaration) encompasses ten conventions on topics such as discrimination, freedom of association, forced labour, child labour and a safe and healthy work environment. This declaration sets the framework for international labour regulations. Although universally applicable, the declaration mentions in particular groups with special needs such as unemployed and migrant workers.

The ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) provides guidance to companies on social policy and inclusive and sustainable workplace practices, and applies to multinational corporations, governments, employers, and workers organisations.

There are also labour laws and regulations that refer to specific issues such as child labour, forced labour, and working hours. A relevant example is the UK Modern Slavery Act, which requires businesses to publish the steps they have taken to ensure that

slavery and human trafficking is not taking place within their organisations, with a special focus on their supply chains.

Following the launch of the Sustainable Development Goals (SDGs) in 2015, investors and multinational companies established the Workforce Disclosure Initiative, in an attempt to improve working conditions both for own employees, as well as within the supply chain.

Companies and labour relations

Companies have an important role to play in managing their own labour relations and improving labour standards worldwide. There are widely accepted principles and standards outlining labour rights responsibilities for companies. These principles and standards translate international frameworks into responsibilities that companies should take on if they want to follow the international standards. The main voluntary initiatives promoting responsible business practices are the UN Guiding Principles on Business and Human Rights (UN GPs), UN Global Compact (UN GC), and the OECD Guidelines for Multinational Enterprises. The UN GPs specify that business enterprises have a responsibility to uphold the principles concerning fundamental rights set out in the ILO Declaration. Similarly, the UN GC's ten principles, which are derived from, among others, the ILO Declaration, include four labour-related principles that address the freedom of association, collective bargaining, forced labour, child labour, and discrimination. The OECD Guidelines for Multinational Enterprises provide principles and standards of good practice consistent with applicable laws and internationally

Overview of several international labour-related regulations

European Union

The EU Labour Law (article 153(1) in the (2007) Treaty on the Functioning of the European Union) focuses on the following:

- working and employment conditions: working hours, part-time and fixed-term work, discrimination, and freedom of association;
- employee information and consultation on collective lay-offs or transfer of companies;
- EU countries apply their own labour laws and guidelines when it comes to labour practices.

United Kingdom

In the UK there are several laws that are relevant for labour practices. Many of the laws look to outline and protect UK workers' rights and employees' rights. Employment rights in the UK are integrated in various acts, regulations and laws.

United States

The Fair Labor Standards Act, also referred to as the Wage and Hours Bill. Covered by this law are issues such as working hours, the national minimum wage, overtime, and child labour.

Japan

The role of the Labour Standards Act is to ensure that 'working conditions shall be those which should meet the needs of workers who live lives worthy of human beings'.

recognised standards. The guideline's chapter on Employment and Industrial Relations echoes the relevant provisions of the ILO Declaration and MNE Declaration. By implementing the guidelines, companies can help avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

Labour rights in NN's investment process

NN Group is committed to responsibly invest our assets. We incorporate environmental, social and governance (ESG) risks and opportunities factors into the investment process, including both ESG-related financial risks (sustainability risks) and adverse impacts on ESG factors of our investment decisions. Our Responsible Investment Framework Policy explains how we incorporate ESG factors into our investment process.

To ensure that we adhere to our Responsible Investment Framework Policy, we have developed norm-based RI criteria that reflect relevant laws, our values, and internationally recognised standards such as the UN GC, the UN GPs, and the OECD Guidelines for Multinational Enterprises.

One crucial aspect of our norm-based RI criteria is our expectation that companies in which we invest adopt and implement appropriate policies and practices to ensure that they meet internationally recognised labour rights standards. Based on international guidance and regulations, there are several criteria that we can analyse to assess whether a company has properly established its labour rights policies and commitments:

- Publicly disclose a Code of Conduct, referencing ILO conventions that indicate the company's commitment to improving labour conditions for both its employees and suppliers.
- Implement appropriate due diligence processes, strategy, disclosure, engagement, accountability, and other measures to deal with labour rights issues that may arise. This should include an individual in the board with oversight and training on labour aspects.
- Ensure clear oversight of the approach to labour rights as part of a long-term strategy for value creation, including

talent management, succession planning, workforce retention, and training in alignment with the company's (gender) diversity, equity, and inclusion policy. The company should comply with legal requirements such as workforce health and safety and human rights. Companies should disclose their labour policies, which should clarify objectives, measurable goals, and key performance indicators annually.

- Implement a company-wide employee diversity programme to reduce gender inequalities and report on workforce Key Performance Indicators (KPIs), such as age and gender to promote women in senior positions.
- Regularly monitor employee turnover rates and establish retention strategies.
- Establish an independent, confidential mechanism whereby a worker, supplier, shareholder, or relevant stakeholder can raise concerns about potential or suspected breaches of a company's code of ethics or local law without fear of retribution. A whistle-blower mechanism is recommended.
- Develop human capital development plans, provide training opportunities, establish career paths, and conduct regular employee satisfaction surveys.
- Contribute to partnerships or initiatives that enhance labour relations awareness and protection, particularly in the supply chain. The Fair Labour Association (FLA), Workforce Disclosure Initiative (WDI) and Ethical Trading Initiative (ETI) are considered leaders in this field.

Furthermore, we expect companies to publicly report on their labour relations management and performance. For the sake of convergence towards a globally consistent sustainability reporting practice, companies are encouraged to apply the widely adopted guidelines of the Global Reporting Initiative (GRI), as well as to integrate material sustainability indicators in their financial reporting by making use of the tools of the IFRS Foundation, which include the standards developed by the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB). It is also important to note that new regulatory initiatives, such as the Corporate Sustainability Reporting Directive (CSRD) in the EU, will impact companies' sustainability reporting requirements and should be considered as part of their reporting practices.

3. Understanding labour-related risk and impacts

A strong understanding of labour-related risks allows us to identify investment risks and opportunities and to focus dialogue and engagement on the topics that are relevant to the companies in which we invest. While all companies are exposed to some degree of labour risks, the types of risks companies face, and severity and likelihood of occurrence of these risks will vary depending on their sector, operational and supply chain circumstances.

NN's Responsible Investment team conducted an assessment based on labour-related incidents and controversies related to companies' activities. This assessment is based on data points retrieved from our external ESG data provider Sustainalytics, who base their research on public information. The analysis has not been limited to NN Group's investment universe. Instead, we assessed the entire investment universe that was made available to us, we therefore note that not all sectors and issues are fully covered. The data points provided relate to the involvement (both through direct operations and their supply chains) of companies in incidents and controversies across the following labour rights-related topics:

- Forced and compulsory labour
- Child labour
- Freedom of association and bargaining
- Discrimination and harassment
- Occupational health and safety
- Other Labour relations
- Other employee-related human rights violations

NN has made an assessment based on the number of companies involved in incidents related to the above topics. This assessment involved an analysis of the severity of the impact of incidents on society and the environment, as well as the level of financial risk posed to the company. Additionally, we evaluated the probability of a company within a specific industry getting involved in a severe incident. For each topic, the above metrics for company's own operations and its supply chain, as well as for company's adverse impacts and risk exposure was taken into account in a calculation.

Table 1: Labour Rights Sector Matrix

GICS SECTOR	OWN OPERATIONS	SUPPLY CHAIN
Consumer Discretionary	High	High
Consumer Staples	High	High
Energy	High	Medium
Financials	Low	Low
Healthcare	Low	Medium
Industrials	Medium	Medium
Information Technology	Low	High
Materials	High	High
Real Estate	Low	Low
Telecommunication Services	Medium	Medium
Utilities	Medium	Low

Note: This sector breakdown is based on the Global Industry Classification Standard (GICS).

The assessment shows that companies operating in the Consumer Discretionary, Consumer Staples, Energy, Information Technology and Materials sectors have a high risk of labour-related impacts or risks through their own operations and/or supply chain. Conducting a thorough analysis of these risks and impacts during the due diligence process is important when considering investment in these sectors. Furthermore, an effective due diligence process ideally also includes stakeholder engagement as it provides valuable insights into the risks to and impacts on people.

It should be kept in mind that these assessments are based on public incidents and controversies data, as well as historical data at a specific point in time (April 2023), so it is important to update the analysis regularly as new incidents emerge and are resolved.

The box on the next page contains examples of the labour-related risks, opportunities and impacts for several industry groups. However, it is essential to keep in mind that the labour relations performance profile will vary from company to company. An analysis of a company's labour rights performance should therefore always be carried out at the individual company level.

Examples of key risks

Consumer Discretionary: Companies face a range of labour-related risks, including wage and hour violations, workplace safety hazards, high employee turnover rates, and discrimination and harassment claims. Additionally, companies that outsource production to countries with weak labour laws may be exposed to reputational risks due to poor working conditions.

Consumer Staples: Companies are often vulnerable to supply chain disruptions caused by labour disputes, as well as worker exploitation in the production of raw materials and safety hazards in manufacturing facilities. There is also a risk that companies may be directly or indirectly involved in using forced or child labour in their supply chains, which can lead to significant reputational damage.

Materials: Companies face a variety of labour-related risks, including worker exposure to hazardous materials, workplace safety hazards, and supply chain disruptions due to labour disputes. There is also a risk that suppliers may be involved in worker exploitation or environmental violations, which can have serious consequences for companies' reputations.

Telecommunication Services: Companies commonly face risks such as wage and hour violations, workplace safety hazards, and discrimination and harassment claims. In addition, there is a risk that suppliers may be engaged in worker exploitation or the violation of human rights, which can lead to significant reputational damage for companies.

4. Important labour topics and trends

In this chapter, we discuss several labour related issues which we believe are important for companies to address, as well as certain trends that have developed over the years and will play a crucial role in tackling human capital development. We acknowledge that some of the issues are related to labour as well as human rights. In such cases, we discuss these issues in this Guidance Paper, as well as the complementary NN Investment Guidance Paper on Human Rights, respectively.

Employee diversity

Ensuring workforce diversity and gender equality has been on the agenda of international organisations for decades. A study conducted by McKinsey in 2020 found that companies with higher gender diversity were 25% more likely to outperform their competitors, while those with greater ethnic diversity were 36% more likely to do so. Additionally, companies with higher levels of both gender and ethnic diversity were found to be the most likely to achieve above-average performance. The study also highlighted the importance of leadership diversity, with companies in the top quartile for executive team diversity being 33% more likely to outperform their peers. These findings emphasise the value of prioritising diversity and inclusion initiatives in the workplace as a means to drive success.

Women represent approximately half of the world population, and therefore half of its current and future workforce. As of 2021, the gender pay gap in the EU was at 12.7%, with only minimal changes observed over the last decade. This translates to women earning an average of 13% less per hour than men. Prioritising gender equality within a company through policies and programs can enhance its ability to attract and retain employees. While gender equality is often associated with enhancing women's rights at work, it's important to note that men may not always benefit from the same family-oriented policies such as parental leave or flexible working arrangements. Strong anti-discrimination policies and equal opportunity employment practices can help to reduce a company's exposure to reputational risks that may arise from employee class-action lawsuits for discrimination and harassment.

Companies that prioritise these aspects are better equipped to manage labour risks and discover new opportunities, ultimately creating and preserving shareholder value. Closing the gender gap in boardrooms and top management has become a recurring topic for both companies and governments. Several countries have implemented quota targets for listed company boards, with the EU requiring that 40% of non-executive director posts or 33%

of all director posts be occupied by the under-represented sex by the end of June 2026. As of 2021, only 30.6% of board members in the EU's largest publicly listed companies were women, with significant differences observed among member states (ranging from 45.3% in France to 8.5% in Cyprus)¹. Despite increases in board representation, fewer than 1 in 10 of the largest listed companies in EU countries have a woman chair or CEO in 2022, and the situation is similar for women in lower management positions. Women are often placed in entry-level or middle management positions, with few making it to the C-suite.

Case: Using our voting rights to address diversity concerns

At the AGMs in 2022 and 2023 of Swiss company Datwyler, we voted against the (re)election of several members of the board of directors due to diversity concerns. We believe in boards drawing on a wide range of relevant skills, backgrounds, and perspectives, and we expect companies to adhere to any quotas that have been adopted in national legislation or national best practice codes. If the percentage of female directors on the board is less than best practice levels of 30%, NN Group will vote against the (re)appointment of the chair of the board of directors and the nomination committee chair. Only two women are active on the board of directors of the company, which is 25% of the board. There is an ongoing dialogue with the company in which we have raised this issue, and we will continue to engage with the company on their diversity policy. More information can be found in our [voting policy](#).

¹ Parliament approves landmark rules to boost gender equality on corporate boards | News | European Parliament (europa.eu)

Diversity & Inclusion within NN

Equal representation

NN supports the appointment, visibility, and development of women within NN Group through, for example, talent development, balanced succession planning and appointments for senior management positions. In 2022 we reached our target of 40% women in senior management positions, but our work does not stop there. As of 2022, we expanded this target to at least 40% of all senior managerial positions reporting to a CEO of a business unit, in addition to the Management Board and managerial positions reporting directly to the Management Board. We aim to achieve this through a combination of gender-balanced candidate shortlists, talent management programmes and succession planning.

Inclusive leave

NN understands that people's needs can be different and wants to give colleagues the support and freedom of choice they need. In our society we see families becoming more diverse, and we believe that all caretakers have the right to have time to bond and connect with their children, regardless of their family structure. In 2021, we made our parental leave structures inclusive for all NN colleagues in the Netherlands. In Turkey, we extended maternity leave to 24 weeks, from the legal requirement of 16 weeks, and paternity leave to 3 weeks from 1 week. We extended our inclusive leave policies in 2022 with the addition of 'You matter' leave for all colleagues in the Netherlands. In the event of exceptional personal circumstances, colleagues may feel a need to take some time off. The reason could vary from grieving the loss of a loved one to having a gender transition treatment.

Accessible workplace

Our dedicated recruiter works with trusted partners like ITvitae and Randstad Participatie to find new colleagues who are neuro- or physically diverse. In 2022, we hired 12 people who identify as such in our Dutch business units. In support of this, we reviewed our vacancy texts tools such as Textmetrics and Brandchart to ensure they are accessible and inclusive, as well as using B1 language and an equal amount of masculine and feminine words.

For more information about NN's work on the topic, please visit our [website](#).

Fair recruitment practices

One way to achieve employee diversity is to adopt fair recruitment practices. Be it with the end objective of achieving employee diversity, or otherwise, fair recruitment practices 'should take place in a way that respects, protects and fulfils internationally recognised human rights, including those expressed in international labour rights'. As highlighted in the NN Investment Guidance Paper on Human Rights, when companies discriminate in hiring practices, such as by not employing people of a certain (ethnic) minority, they violate human rights and miss out on the benefits of having a diverse and inclusive workforce. This is becoming increasingly important as more workers look for jobs outside their home country. Without appropriate regulatory frameworks, workers may be mistreated by employment agencies and other intermediaries.

As an equal opportunity employer, we believe that the companies we invest in should hold themselves to the same standard. They should give priority to fair recruitment practices in their approach to labour rights. This includes having special attention for respecting the rights of women, especially to prevent discrimination and to improve gender equality, but also applies to other minorities, such as migrant workers. On this journey, companies can leverage the principles and guidelines provided by the ILO through its Fair Recruitment Initiative, which was launched in 2014. Irrespective of local laws and context, companies can take actions to eliminate unfair treatment and discriminatory practices both within and beyond the workplace.

Working conditions: wages and working hours

Unequal pay occurs across all employee diversity characteristics and across the whole of company's value chain. Companies should investigate a wage gap, and reward employees who have similar job functions with comparably equal pay, regardless of their gender, race, ethnicity, or other status. It is in the mandate of national governments to address the issue of minimum wages; companies have long benefited from providing low wages paid to their employees and suppliers. The ILO's most recent Global Wage Report (2022-23) indicates that labour productivity has risen twice as fast as real wages since 2000. This means that companies have not invested their profits in increasing workers' wages in line with productivity. While the EU and the UK have rather strong policies in place to address this issue, the U.S. has the same federal minimum wage of USD 7.25 per hour in place since 2009. Several States in the US have increased the minimum wages, nevertheless raising the federal minimum wage to USD 15 per hour would affect 56 million workers and would lift many people out of poverty.

The concept of 'fair living wage' has been put forward to tackle the issues of low wages both in companies' own operations as well as the supply chain. Such a wage is to be earned in a standard working week and designed to cover a person's basic needs in terms of food, accommodation, healthcare, clothing,

transportation, education, and savings. By paying a living wage, companies can improve their workers' lives, strengthen their supply chains, and contribute to the stability of the countries they source from.

Another important aspect of working conditions is working hours. The International Labour Organization (ILO) Hours of Work (Industry) Convention, 1919 (No. 1) provides guidance to companies and sets a maximum of 48 hours per week or 8 hours per 6 day workweek. NN adheres to this standard as an employer, and we expect our investee companies to do the same by applying a maximum limit on working hours per week or per day. However, some companies may use zero-hour contracts to increase profits, which can potentially exploit employees by making them work extra hours without compensation. To protect workers, many countries have laws in place that mandate payment for overtime work and limit the number of hours that can be worked per day or per week.

Companies that fail to implement programmes to set a clear benchmark for living wages or have clear standards in place for addressing employee working hours, may face both operational (strikes and factory closure), as well as reputational risk (public scrutiny). Our view is that companies should take the matters of living wage and working hours seriously, as those that improve management of these issues are best placed to take advantage of related opportunities, such as healthy workforce, improved productivity, and strong employee retention.

Case: Platform Living Wage Financials

In 2023 NN Group joined Platform Living Wage Financials (PLWF). PLWF is a collaboration of 20 financial institutions with over EUR 6.9 trillion of assets under management and advice, that encourages and monitors investee companies to enable living wages and incomes for workers in their global supply chains.

Individual companies cannot solve a systemic issue such as living wage and income on their own, which is why PLWF takes a sector-wide approach. Engagement takes place with more than 30 listed garment and footwear brands and over 20 food production and food retail companies. NN is participating in the engagements with food companies.

By guiding and assessing companies on living wages and incomes in their direct operations or supply chains and building a 'benchmark' to determine which companies have been leading on the issue and which need to do more, the platform aims to motivate companies to follow better-performing peers. Investee companies become aware of the issue and put it on their corporate agenda.

Unions and freedom of association

Unions can provide workers with more bargaining power and a stronger voice in the workplace, which can result in better wages, benefits, and working conditions. Despite the benefits, union membership has been declining in the United States and Europe due to several factors. Firstly, unions have historically been stronger in the manufacturing sector, but with the shift of jobs to the service sector or other countries, union membership has decreased. Secondly, the rise of non-standard employment, such as flex contracts, temporary and part-time work, which is often not covered by collective bargaining agreements, has contributed to this decline. Additionally, some countries have implemented labour market reforms that have weakened unions. For example, France passed a labour reform law in 2017 that made it easier for employers to bypass unions and negotiate directly with workers.

Moreover, some workers may be hesitant to join a union because they doubt its ability to improve their wages or working conditions, or because they are reluctant to pay union dues. In some cases, unions have also used methods to unionise employees, which may not be aligned? with the best interests of the workers. Employers may also oppose unions viewing them as a threat to their profits and use tactics to prevent workers from unionising. In regions with weak labour regulations, it can be difficult to establish a union due to fear of retaliation from factory owners and limited support from local governments.

Despite the challenges, companies are encouraged to support their workers' right to organise and engage in collective bargaining. This can be achieved by implementing policies that protect workers' freedom of association and by promoting a culture of open communication and collaboration. For instance, companies can establish joint committees with worker representatives to discuss workplace issues and negotiate collective bargaining agreements. Additionally, companies can provide training and education to workers on their rights and how to effectively engage in collective bargaining. By taking these steps, companies can create a more inclusive and collaborative workplace that benefits both workers and the business.

NN's approach to Consultation and Collective Bargaining

NN's commitment to upholding the right to freedom of association and collective bargaining is reflected in our [Human Rights Statement](#). We believe that these rights are fundamental and universal for our workforce and are critical components of our commitment to being a fair employer that respects human rights, promotes equal opportunities, advocates for equal remuneration, and encourages diversity of thinking.

The way in which we consult employees depends on local legislation and culture. We have collective bargaining agreements in place in most of our business units. In some countries, employee consultation is a legal requirement. In many European countries, it is arranged via works councils. In addition to local works councils, NN Group has established a European Works Council to promote communication and consultation. Furthermore, NN has set up an Ombudsman programme in the Netherlands to provide dispute resolution in cases where issues cannot be resolved with an employee's immediate manager. More countries will follow this example in the coming years.

For more information about NN's work on the topic, please visit our [website](#).

Health, wellbeing, and safety

Wages, working hours, stress levels, access to paid or unpaid sick leave, interactions with co-workers, and health-enhancing work environments are all job-related factors that impact the well-being of workers, their families, and their communities. Research has shown that risk factors in the workplace contribute to health problems that were previously thought to be unrelated to work, including cardiovascular disease, sleep disorders, obesity, and depression. An inadequate work-life balance negatively affects employee well-being, performance, and organisational performance. Therefore, companies that recognise these risk factors and proactively address them benefit from the opportunity to maintain and improve productivity, performance, as well as retain and attract a talented and motivated workforce. Organisations can make use of policies and management practices that aim to improve workers' well-being, such as flexible working hours or employee assistance programmes. NN disapproves of any form of inappropriate behaviour which includes, but is not limited to, intimidation, (sexual) harassment, discrimination, bullying, as well as acts or threats of violence, and expects from companies a zero-tolerance policy.

In addition, the consequences of work-related accidents, occupational health impacts, and diseases are well understood and are considered a material social issue for many industries. Companies should protect the safety and security of their products and operations while respecting labour rights and remediating adverse impacts. Failure to include a broader perspective may incur high operational costs, regulatory actions,

and lawsuits, resulting in reputational damage. Therefore, it is essential for companies to implement strong health and safety measures to avoid the noted risks and take advantage of associated opportunities, including improved productivity. By doing so, companies can prioritise the well-being of their employees and communities, leading to a more sustainable future.

Human capital development

Human capital is one of the success elements of every business. In an era defined by technology and rapid progress, companies must not only adapt from a technological perspective, but also develop their human capital management strategies. According to a recent report by Deloitte (2023), the most important aspects of human capital development are establishing an organisation that can balance existing gaps between technologies, employees, businesses models, and public policy, by focusing on careers and learning opportunities and fine tune its talent acquisition process to meet ever-changing requirements.

The traditional approach of employees staying in the same job or within the same company for their entire career, is fading and companies must find new and innovative ways to retain talent. To ensure success and avoid high turnover rates or employee dissatisfaction, companies should focus on employee engagement and promote an open feedback culture, without fear of retaliation. This supports the adaptability of Human Resources policies to adjust to the needs of employees.

According to the OECD Guidelines for Multinational Enterprises, companies are expected to offer on-the-job trainings and mentoring programmes that help employees develop and foster

Case: Human rights accelerator engagement

NN is participating in an engagement program led by ESG data provider Sustainalytics (Morningstar), the Human Rights Accelerator. The engagement seeks to ensure that companies respect fundamental human rights and mitigate financially material risks. It aims to implement a human rights framework that identifies and addresses human rights risks and adverse impacts across a company's operations, with a focus on high-risk issues and sectors such as large-scale mining and infrastructure projects, low-paid service jobs, and electronics and food production. The engagement's objective is to build resilient sectors and companies that uphold basic human rights of communities, workers, and producers in a post-pandemic economy.

The three-year engagement targets around 20 companies in metals and mining, infrastructure, electronics, the food industry and services sectors. The engagement will measure progress and engagement impact through a set of KPIs and sub-indicators in areas such as robust human rights due diligence processes, strong human rights remedy mechanisms, and sector-specific risks and impacts.

a healthy work environment. Additionally, human capital be

seen as an opportunity to improve workplace productivity. Studies have confirmed the strong connection between companies engaging their employees and outcomes such as improved productivity, decreased absenteeism, higher quality and performance and decreased turnover, which can significantly reduce costs.

Supply chain transparency and monitoring

Supply chains are at the backbone of most industries and companies rely on their suppliers to source and manufacture their goods. This makes the management of labour relations vital for the success of a company. Both the ILO, through the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), as well as the OECD, through the Due Diligence Guidance Documents provide companies with directions on how to best address issues in their supply chains.

We believe that companies with complex supply chains that develop strong supply chain management systems aimed at addressing labour relations, human rights and working conditions, will be able to reduce exposure to supplier strikes and factory shutdowns, mitigating against operational and reputational risks. Therefore, we believe companies should acknowledge supply chain labour relations as a strategic issue by integrating labour rights in their procurement policies and establishing a supply chain code of conduct as the framework for collaboration.

To further support strong supply chain management, companies can include clauses on compliance with criteria on labour rights in their contracts with subcontractors and suppliers. Additionally, companies should develop a supply chain monitoring and audit system to increase transparency of their operations and limit potential labour rights breaches, such as excessive working hours, low wages, and poor working conditions. Supply chain mapping is also considered best practice, as it provides a broad overview of the company's value chain beyond tier one suppliers, allowing increased visibility of production sites at different stages of the manufacturing process.

This increased transparency helps to build stronger labour relations between companies and their suppliers by enabling them to establish long-term strategic partnerships based on mutual trust and understanding.

Modern slavery and forced labour

Child labour, forced labour, and modern slavery² remain areas of concern despite repeated attempts from international bodies (ILO, UN), national governments and companies to abolish them. It is estimated that more than 1 in 5 children in the world's poorest countries are engaged in child labour. Yet, children are also subjected to child labour even in the most advanced

countries in the world. At the same time, an estimated 27.6 million people were living in forced labour in 2021, and 22 million in forced marriage. As most of the violations of child, forced labour and modern slavery happen down the value chain of companies, traceability and timely mitigation of such cases is particularly challenging to achieve. In recent years, national governments have taken it upon themselves to address this issue and to work together with companies and civil society.

Regulations such as the UK Modern Slavery Act and the U.S. Dodd-Frank Act for Conflict Mineral reporting are two examples of regulation asking companies to strengthen their monitoring and reporting on labour-related matters, both within their own operations and throughout their supply chains. Furthermore, in 2012, Children's Rights and Business Principles were released. It is a set of ten principles defining how companies can positively impact the workplace, marketplace, and community, to respect and support children's rights. They are the result of collaboration between UNICEF, the UN Global Compact and Save the Children.

NN does not tolerate the use of child or forced labour, (modern) slavery or human trafficking in any of its operations and we strongly believe that the companies we invest in should follow suit. Our view is that this is an area where companies will face increasing public scrutiny, should they fail to establish long-term programs and policies to address and mitigate child and forced labour.

Case: Child labour in cocoa

NN has participated in an engagement trajectory on child labour in cocoa that began in 2019. Together with a group of over 30 institutional investors, the focus was on major cocoa and chocolate companies and three areas of engagement: child labour monitoring and remediation, access to education, and a living income for cocoa farmers. More than 40 engagement meetings have taken place. At the baseline assessment in November 2019, the overall KPI fulfilment rate for all companies combined was 43%. By the end of the engagement in August 2022, this had risen to 70%. All three focus areas improved. Nevertheless, there is still much to be done. According to UNICEF and the International Labour Organization (ILO), the number of children in child labour rose in 2021 to 160 million worldwide, most likely caused by Covid-19. We will therefore explore potential new engagement opportunities to continue with this important topic.

² Refer to Annex 2 for definitions.

Sustainable Development Goals

In September 2015, the United Nations released the Sustainable Development Goals (SDGs), a set of 17 goals with 167 specific targets aimed at fostering sustainable economic development, with a major focus on social and environmental challenges. The private sector, including the financial industry, plays a critical role in contributing to achieve the SDGs.

NN Group sees the SDGs as a business opportunity for companies to enhance economic performance, foster innovation, and process improvements, as well as make a positive social or environmental impact. We are committed to contributing to the achievement of the SDGs as an insurer and asset owner and to integrating the SDGs into our long-term strategy. Some SDGs relate to labour relations (such as gender equality, decent work and economic growth and reduced inequalities), while others focus on the environment (such as taking climate action and protecting life on land and below water). Find more information on NN's contribution to the SDG's in our [2022 Annual Report](#) on pages 58 - 60.

5. Concluding remarks

NN's Responsible Investment Policy Framework highlights the measures we will take to systematically integrate sustainability factors in the investment decision making and active ownership practices. NN has developed norms-based RI criteria, including labour rights, that are a reflection of relevant laws, the organisation's values, and internationally recognised standards such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. In case there are strong indications that an issuer may be in violation of any of NN's norms-based RI criteria, a decision will be taken with regard to whether NN considers this a violation. Subsequently, in case of a violation, a decision will be taken on engagement or restriction.

NN Group will encourage our asset managers to use this paper as guidance to determine risks and opportunities and to engage in a dialogue with companies to address labour-related risks, that could in our view affect the value of investments. Where needed, we will support these processes with additional tools or guidance materials. This may include more detailed theme or sector policies for areas to be identified of high risk. This paper is developed to help our asset managers in evaluating investments from a labour rights perspective. By publishing this paper also externally, we aim to express our position and use it to leverage change in the sphere of our investment activities.

Annex 1: Standards and guidelines

List of international standards, principles, guidance and other sources consulted

International standards and principles

ILO Declarations

Declaration on Fundamental Principles and Rights at Work

ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration)

ILO Conventions

Freedom of Association and Protection of the Right to Organise Convention, 1948, No 87

Right to Organise and Collective Bargaining Convention, 1951, No 98

Forced Labour Convention, 1930, No 29

Abolition of Forced Labour Convention, 1957, No 105

Minimum Age Convention, 1973, No 138

Worst Forms of Child Labour Convention, 1999, No 182

Equal Remuneration Convention, 1951, No 100

Discrimination (Employment and Occupation) Convention, 1958, No 111

Occupational Safety and Health Convention, 1981, No 155

Company guidelines and principles

UN Global Compact principles

OECD Guidelines for Multinational Enterprises

OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector

Management standards

SA8000:

The SA8000 standard measures social performance in eight areas important to social accountability in workplaces. The standard encompasses: child labour, forced labour, health and safety, freedom of association, discrimination, disciplinary practices, working hours, remuneration and management system.

Reporting frameworks

Global Reporting Initiative (GRI)

Integrated Reporting (part of IFRS Foundation)

Annex 2: Definitions of child labour, forced labour and modern slavery

Child labour: According to the International Labour Organization (ILO), child labour is work that deprives children of their childhood, their potential, and their dignity, and that is harmful to physical and mental development. It refers to work that is mentally, physically, socially, or morally dangerous and harmful to children, or that interferes with their schooling. Globally, 160 million children are in child labour accounting for almost 1 in 10 of all children worldwide.

Forced labour: The ILO defines forced labour as work or service that is exacted from any person under the menace of any penalty and for which the person has not offered himself or herself voluntarily. It can include physical or mental coercion, abuse of power or authority, deception, or other forms of compulsion. 49.6 million people were living in modern slavery in 2021, of which 27.6 million were in forced labour and 22 million in forced marriage.

Modern slavery: The ILO defines modern slavery as the recruitment, transportation, transfer, harbouring, or receipt of persons by means of threat, use of force or other forms of coercion, abduction, fraud, deception, abuse of power or vulnerability, or giving or receiving payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation.

