

Operationalising Heightened Human Rights Due Diligence

An Investor Companion Guide

Translating the UNDP - UN Working Group on Business and Human Rights Heightened Human Rights Due Diligence Guide

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If You Read Only One Thing ...

Why Heightened Human Rights Due Diligence For Investors?

Capital as a pathway to severe negative human rights and conflict impact

Investor responsibility under the UNGPs

Financial and legal implications of severe impacts

Where Investors Must Conduct Heightened Hrdd

High-risk geographies

High-risk sectors and counterparties

High-risk projects and transactions

What Is Specific About Heightened Hrdd For Investors

Indirect leverage and limited operational control

Portfolio construction constraints

Capital allocation as a decision lever

Differences across asset classes

What Investors Must Do

Identify severe risks across portfolios

Understand capital pathways to negative human rights and conflict impact

Set conditions for investment or continued holding

Use leverage through engagement, escalation, or exit

When Investors Must Act

At entry

During holding periods

At rebalancing or refinancing

At exit or divestment

I Introduction

1. THE RESPONSIBILITIES OF INVESTORS IN CONFLICT-AFFECTED CONTEXTS

The negative impact of business operations on human rights and conflicts is not only a concern for companies connected to conflict-affected contexts; it is equally relevant to investors¹ whose capital enables, sustains, or influences those operations. Under the UN Guiding Principles on Business and Human Rights (UNGPs), investors—like all business actors—have a responsibility to respect human rights, which includes conducting heightened human rights due diligence (HHRDD) to identify, prevent, mitigate, and account for how they may be linked to negative impacts on human rights and conflict.²

1.1 WHY THIS INVESTOR COMPANION GUIDE?

Aligned with the UNGPs, the Heightened Human Rights Due Diligence Guide developed by UNDP and the UN Working Group on Business and Human Rights (the HHRDD Guide)³ details how this responsibility must be adapted in conflict-affected environments,⁴ where ordinary business activities can interact with volatile political, security, and institutional dynamics.

However, most of the HHRDD Guide is written from the perspective of operating companies. Investors are exposed to the same heightened risks, but through different pathways. Unlike operating companies in conflict-affected contexts, investors' primary interface with human rights impacts is not through direct operations, but through capital allocation, financing structures, and portfolio decisions. Despite being at least one step removed from direct operations, for investors HHRDD is not an abstract do-good or look-good exercise. In conflict-affected contexts, negative human rights and conflict impacts frequently translate into catastrophic downside risk. Projects may be halted, licences revoked,

¹ For simplicity, this guide refers to “investors” as the institutional actors responsible for capital allocation decisions. In practice, this includes investors, deal teams, credit officers, investment committees, and stewardship teams, depending on the strategy.

² A human rights impact should be understood, in line with the UN Guiding Principles on Business and Human Rights, as any actual or potential adverse effect on people, with potential impacts commonly referred to as human rights risks.

³ UNDP & UN Working Group on Business and Human Rights. Heightened Human Rights Due Diligence for Business in Conflict-Affected Contexts: A Guide. 2022 at <https://www.undp.org/publications/heightened-human-rights-due-diligence-business-conflict-affected-contexts-guide>

⁴ As highlighted in the HHRDD Guide, there is no universally agreed definition of the term “conflict-affected area”. For example, the European Union Conflict Minerals Regulation uses the term “conflict-affected and high-risk areas” (defined as regions in a state of armed conflict, fragile post-conflict, as well as areas witnessing weak or non-existing governance and security, such as failed states, and widespread and systematic violations of international law, including human rights abuses”; this definition has also subsequently been used by the EU Corporate Sustainability Due Diligence Directive).

This Companion Guide like the HHRDD Guide uses the term to describe a broad range of contexts characterised by sustained or elevated levels of violence and instability. This includes, but is not limited to, geographic areas, regions, or countries experiencing armed conflict (international or non-international), civil war, armed insurrection, violent extremism, or other forms of organised violence. It may also encompass situations where violence is more localised—such as inter-community clashes—but nonetheless persistent, widespread, or structurally embedded. In post-conflict or fragile transition settings, the term may refer to contexts marked by a risk of relapse into violence, systemic human rights violations, or significant political and social instability. See also Report of the Working Group, Towards Heightened Action, UN doc A/75/212, 21 July 2020.

As mentioned in the HHRDD Guide, the lack of a formal definition of contexts affected by armed conflicts and other situations of widespread violence should not constitute a major obstacle for investors wishing to act responsibly. The fundamental message of the Guiding Principles is that due diligence and heightened due diligence are operational concepts which should be read “in terms of their objective of enhancing standards and practices with regard to business and human rights so as to achieve tangible results for affected individuals and communities.”

counterparties sanctioned, or assets rendered stranded. Exit can become legally or politically infeasible, while litigation and regulatory scrutiny may spread across portfolios and undermine future investment opportunities.

In such environments, failing to identify and escalate severe human rights and conflict risks is not a competing obligation with fiduciary duty—it is a failure of it. Heightened human rights due diligence should therefore be understood as a core element of prudent investment practice, protecting both affected people and the long-term value and defensibility of the investment.

In this context, this Companion Guide translates the framework on heightened human rights due diligence into a practical, decision-oriented approach for investors. It provides investment teams with a structured method to identify, assess, and act on severe human rights and conflict-related risks across different asset classes. Building on the UNGPs, it adapts core concepts - such as severity, connection, and leverage - to the realities of investment decision-making, including portfolio construction, deal screening, stewardship, and capital allocation. The Investor Companion Guide is designed to be operational rather than theoretical: it focuses on how to prioritise high-risk exposures, engage effectively with investee companies, integrate findings into investment processes, and take proportionate action where impacts are identified. In doing so, it enables investors to move from general commitments to consistent, defensible practices aligned with international standards.

1.2 HOW TO USE THIS GUIDE

This guide is not an additional compliance layer. It is a practical decision tool, intended to help investors make consistent, documented, and defensible investment decisions in the contexts where the human stakes are highest. It provides a structured lens to ensure that impacts to people are systematically considered alongside financial, legal, and strategic factors in conflict-affected contexts. Each step is designed to help investors

- know where high-risk exposures sit, understand the pathways through which negative human rights and conflict impact may occur, assess their connection to those negative human rights and conflict impacts, and
- show that they use their leverage responsibly and that their investment decisions are defensible in light of the severity of the risks and their responsibilities as investors.

This Guide should be read as an operational companion to the HHRDD Guide. It does not establish a new normative framework. Rather, it translates the core concepts, risk logic, and structure of the UNGP human rights due diligence cycle and the HRDD Guide into the specific context of investment decision-making, portfolio oversight, and capital allocation. Where the foundational Guide sets out the overarching principles and methodology applicable to all business actors, this version adapts those steps to reflect investors' distinct roles, leverage dynamics, governance structures, and risk pathways. Step numbering corresponds directly to the UNDP/UNWG HHRDD Guide structure to ensure conceptual continuity. Investors seeking deeper methodological grounding may refer back to the main Guide; however, this document is designed to function as a self-contained operational tool tailored to financial actors.

1.3 THE KEY STEPS OF THE HRDD PROCESS FOR INVESTORS

The core logic of the HHRDD process set out in the HHRDD Guide remains the same for investors as for any other business:



The Investor Companion Guide operationalises this approach through a structured nine-step HHRDD process structured around a simple three-part operational logic:

1. triage exposures;
2. conduct targeted deep dives where risks are elevated; and
3. take decisions based on severity, leverage, and responsibility.

This logic mirrors the way investment decisions are already made. Investors screen opportunities, escalate complex cases, and decide whether to invest, engage, reduce exposure, or exit. The HHRDD process does not replace existing investment workflows. It provides a structured lens to ensure that severe risks to people are systematically considered alongside financial, legal, and strategic factors.

Most institutional investors already operate a complex architecture of controls, including anti-money laundering (AML) procedures, know-your-customer (KYC) checks, sanctions screening, ESG assessments, credit risk reviews, and legal compliance processes. These systems address a wide range of regulatory, financial, and reputational risks, and they form the backbone of institutional investment governance. The HHRDD process presented in this guide is designed precisely to avoid creating parallel processes or additional bureaucratic layers. Instead, it builds on what already exists, using current workflows, data sources, and decision structures to identify and manage severe human rights risks in conflict-affected contexts. Triage can rely on country risk lists, sanctions alerts, and ESG controversy signals. Deep-dive analysis can build on credit memos, legal due diligence, and engagement findings. Investment committee decisions can integrate severity and leverage assessments alongside financial and strategic considerations.

In short, the HHRDD process presented in this guide is designed to help investors answer **three core decision questions**:

- 1) Are we exposed to human rights or conflict-related negative human rights and conflict impacts?
- 2) What leverage do we have to prevent, mitigate, or remediate those negative human rights and conflict impacts?

- 3) Given that leverage, is continued investment defensible?

1.4 APPLICABLE STANDARDS

The standards investors need to consider under heightened human rights due diligence are the same as other business actors and include, in addition to human rights, international humanitarian law (IHL) in situations of armed conflict.

For investors, although they do not typically operate assets directly, the relevance of international humanitarian law arises through their financing, investment structures, and ownership interests, which may enable, sustain, or be directly linked to activities connected to armed conflict, military occupation, or contested territorial control.

As mentioned in the HHRDD Guide, international humanitarian law provides relatively concrete descriptions of prohibited conduct and illicit situations, which can assist investors — as with other business actors — in identifying high-risk activities in conflict-affected contexts. Unlike broader human rights standards, IHL specifies categories of conduct linked to armed conflict, such as unlawful seizure of property, exploitation of resources in occupied territory without benefit to the local population, population transfer, or destruction of civilian infrastructure absent military necessity. These concrete prohibitions serve as practical risk indicators. For investors, they offer a structured reference point to assess whether investee activities may intersect with serious violations and therefore warrant enhanced scrutiny, strengthened oversight, or reconsideration of exposure under heightened human rights due diligence. At the same time, investors should also remain aware that serious IHL violations may give rise to criminal or civil liability for individuals and, in some jurisdictions, legal persons, including through theories of complicity or aiding and abetting.

2. INVESTOR EXPOSURE TO NEGATIVE HUMAN RIGHTS AND CONFLICT IMPACTS

To apply heightened human rights due diligence in practice, investors must first understand how their capital can become connected to severe negative human rights and conflict impacts. In conflict-affected contexts, even routine investment activities can interact with violence, repression, or other serious human rights abuses.

The central issue is not investor intent, but exposure. Capital, governance roles, and financial structures operate within environments shaped by political instability, weak institutions, security forces, or armed actors. As a result, otherwise lawful business activities may become linked to severe negative human rights and conflict impacts through the surrounding conflict dynamics. For example, in such settings, business operations are often intertwined with security arrangements, contested land, fragile governance structures, or conflict economies. Capital injections can strengthen rights-violating authorities, infrastructure projects can alter local power balances, and supply chains can intersect with areas affected by violence or repression. Understanding these dynamics is a prerequisite for credible heightened due diligence.

Across different contexts, several recurring pathways link investments to severe negative human rights and conflict impacts. These pathways do not necessarily arise from bad intent and typically arise from the interaction between business activity and a volatile or abusive environment, rather than from deliberate wrongdoing. Common patterns include:

- Security-related abuses around project sites, logistics corridors, or operational facilities, including excessive use of force, arbitrary detention, or intimidation by state or private security actors.
- Forced displacement or coercive land acquisition linked to infrastructure, extractive projects, or industrial zones, particularly where land rights are unclear or institutions are weak.

- Extraction or commercial activity in contested or occupied territories, where business operations may entrench unlawful control or benefit from coercive conditions.
- Technology or services that enable surveillance, repression, or targeting, especially where they are supplied to security forces or abusive state institutions.
- Financing that strengthens abusive state entities or armed groups, including through revenue flows, joint ventures, or strategic infrastructure support.

Heightened human rights due diligence therefore begins with a clear understanding of where these pathways may arise, how investments may intersect with them, and which rightsholders may be affected.

3. LEVERAGE, INVESTMENT CYCLES, AND STRATEGY

Once potential pathways to severe negative human rights and conflict impact are identified, the next question is what the investor can realistically do about them. Under the UNGPs, responsibility is shaped not only by exposure to negative human rights and conflict impact, but also by the investor's leverage - their ability to influence outcomes.

For investors, leverage is determined by two structural factors:

- where the investment sits in the investment cycle (timing), and
- how the investment is structured (strategy or asset class).

Together, these factors define the investor's practical decision options.

a. Timing: leverage across the investment cycle

Investments unfold over a sequence of stages - typically pre-investment, holding, portfolio rebalancing, and exit. At each stage, the investor's leverage and decision tools change.

- At the pre-investment stage, investors usually have the strongest leverage: a clear choice to proceed, restructure, or walk away. This is often the only moment where severe risks can be avoided entirely through refusal.
- During the holding phase, capital is already deployed. Leverage lies in governance rights, engagement, conditional financing, or escalation measures. The question becomes whether continued exposure remains justified.
- During portfolio rebalancing, investors can increase, reduce, or ring-fence exposure. This is where severity assessments often translate into allocation decisions.
- At exit, the investor must consider not only financial timing, but also the human rights consequences of disengagement. Responsible exit may require sequencing, conditions, or coordination to avoid shifting negative human rights and conflict impact to workers or communities.

Across these stages, the key question is not only whether risks exist, but what decisions are still available. An investor who ignores timing may rely on engagement where refusal was required or exit abruptly where structured disengagement would have been more responsible.

In conflict-affected environments, this timing dimension is especially important. Political shifts, sanctions, armed group activity, or institutional collapse can rapidly transform a previously acceptable investment into a high-risk exposure, highlighting the importance of HHRDD as a continuous process. Leverage may also change over time, requiring escalation, restructuring, or exit.

b. Strategy: leverage across investment models

Investor leverage also depends on how capital is deployed and what influence the investor exercises. Different investment strategies create different forms of leverage and therefore different expectations under the UNGPs.

Three portfolio types concentrate most of the leverage, risk, and accountability for severe human rights impacts:

- Private equity investors typically acquire controlling or influential stakes and shape strategy, governance, and operations. Their leverage sits in entry decisions, governance rights, board control, capital allocation, and exit sequencing. Because they effectively govern the businesses they own, their responsibility to prevent and mitigate severe negative human rights and conflict impacts is correspondingly high.
- Project finance and infrastructure investors fund asset-specific projects with large upfront commitments and limited flexibility after financial close. Their leverage is concentrated at discrete decision points: project selection, structuring, financial close, covenants, and drawdown approvals. In this model, the financing decision often determines whether a project proceeds at all. As a result, leverage is strongest before financial close, and responsibilities are heavily front-loaded.
- Public equities investors influence companies primarily through engagement, voting, and capital allocation rather than operational control. In active strategies, they can screen out high-risk exposures or exit when risks become non-mitigable. In passive strategies, leverage is more constrained by index composition and mandate limits, requiring a focus on engagement, voting, and collective action.

These differences determine:

- what forms of leverage are available,
- when that leverage can be exercised, and
- what decisions are defensible in practice.

Across all strategies and stages, a single principle applies: responsibility correlates with what the investment actually does in the real economy.

Where an investment controls companies, enables projects, or shapes incentives in public markets, it creates corresponding responsibilities. The more an investment decides, enables, or legitimises an activity, the stronger the expectation that the investor will act.

Focusing on both the investment cycle and the investment strategy ensures that HHRDD reflects the real mechanics of investment decision-making. It allows investors to understand what leverage they actually possess and to make decisions that are both practical and defensible.

The nine-step HHRDD process that follows translates this leverage-based logic into a structured sequence of actions, guiding investors from exposure mapping to escalation, monitoring, and final investment decisions.

II The Investor HHRDD Process

1. THE OPERATIONAL ENGINE: TRIAGE, DEEP DIVE, AND DECISION

1.1 OVERVIEW

The investor HHRDD process follows a simple operational logic: triage exposures, conduct targeted deep dives where risk triggers are met, and make decisions based on severity, leverage, and investor responsibility. This reflects how investment decisions are already made. Investors routinely screen opportunities, escalate complex cases, and determine whether to invest, engage, restructure, reduce exposure, or exit. The HHRDD process builds on these existing workflows by ensuring that severe human rights and conflict-related risks are assessed systematically alongside financial, legal, and strategic considerations.

The process is organised as a nine-step decision cycle. It begins with a policy-level definition of scope and escalation thresholds, followed by a portfolio- or deal-level triage. Only cases that meet defined triggers move to deeper conflict and human rights analysis. Based on this analysis, the investor assesses its connection to the negative human rights and conflict impact, evaluates severity, and determines the conditions under which the investment remains justified. The process then moves into engagement, monitoring, and, where necessary, reassessment or exit.

This same analytical logic applies across all investment stages and strategies. Whether the exposure arises at entry, during holding, in rebalancing, or at exit - and whether it sits in private equity, project finance, or public equities - the structure of the assessment remains the same. What changes is the context and the form of leverage available, not the decision framework. In every case, investors must identify risks according to their severity, analyse their connection to those risks, assess what leverage is realistically available, and decide whether to invest, engage, condition exposure, reduce exposure, or exit.

In this way, the HHRDD process aims at strengthening both human rights outcomes and fiduciary, defensibility.

1.2 STRUCTURE

This structure ensures that analytical resources are focused where they matter most. Rather than attempting full human rights impact assessments across entire portfolios, the process uses triage to identify a limited set of high-risk cases and subject them to deeper analysis and decision-making. At each stage, it produces clear, decision-relevant outputs, such as watchlists, severity assessments, engagement conditions, escalation triggers, and documented investment decisions.

The nine-step process is designed as an integrated decision framework, not as a separate compliance track. It can be embedded within existing investment processes, including initial screening and deal selection, investment committee analysis, post-investment monitoring and stewardship, and rebalancing or exit decisions.

For every step, the guidance is organised around five core components:

REALITY CHECK

HHRDD is not about gathering more information. It is about making better decisions even under uncertainty.

1. **Why this step matters:** Sets out the purpose of the step and the core logic behind it. It clarifies the key question being addressed and how it fits within the overall HHRDD process, with a focus on severity, rightsholder impact, and investor responsibility under the UNGPs.
2. **What to do:** Describes the concrete actions expected from the investor or analyst. It translates the analytical logic into practical tasks—such as tagging exposures, mapping negative impact pathways, assessing connection, or defining engagement—aligned with existing investment workflows.
3. **What to rely on:** Identifies the main sources of information to support the analysis. These include company disclosures, ESG and controversy data, NGO and UN reports, sanctions⁵ and regulatory signals, and internal research. The emphasis is on using accessible and credible inputs in all instances where possible, rather than bespoke investigations.
4. **What this delivers:** Defines the expected output of the step. Outputs are concise, decision-relevant, and designed for integration into investment materials, such as watchlists, pathway notes, risk classifications, engagement plans, or investment committee memos.
5. **What to avoid:** Highlights common implementation pitfalls and how to address them. The focus is on practical risks—such as over-reliance on company narratives, delayed escalation, or misjudging leverage—and simple ways to mitigate them.

1.3 ITERATION

As with human rights due diligence more broadly, this process should be iterative. New information, shifting conflict dynamics, or changes in company behaviour may require investors to revisit earlier steps and reassess whether their exposure remains defensible.⁶ These developments may lead to different decisions over time. For example, a deterioration in the security environment may transform a previously acceptable infrastructure project into a high-risk exposure; credible allegations against a portfolio company may require enhanced engagement or governance changes; or failed mitigation efforts may trigger escalation, a reduction in exposure, or a responsible exit.

2. THE NINE-STEP PROCESS

Step	Step Title	Objective	Outputs
Policy Commitment			
1	Set the Rules	Define the purpose, scope, severity thresholds, and governance logic of the HHRDD process, and clarify which investment decisions it informs.	<ul style="list-style-type: none"> • Scope & policy note (portfolio coverage, decision use, thresholds, escalation logic) • Clear decision rules aligned with UNGPs

⁵ As noted in the HHRDD Guide, international sanctions may serve as a relevant information for heightened due diligence. However, sanctions—particularly unilateral measures—are political and diplomatic tools adopted for foreign policy objectives. They do not constitute a comprehensive assessment of human rights or conflict-related risks and can never replace independent, context-specific due diligence.

⁶ Defensibility refers to the ability of an investor to demonstrate that its decisions regarding adverse human rights impacts are grounded in a severity-based assessment, informed by credible evidence, aligned with its responsibility to respect human rights, proportionate to its connection and leverage, and appropriately documented. A defensible decision is therefore one that can be explained and justified in light of these principles, even where outcomes cannot be guaranteed.

Step	Step Title	Objective	Outputs
Assessing Impacts			
2	Triage the Portfolio: Identify What Matters Most	Rapidly screen the portfolio to identify exposures with potential severe human rights or conflict impacts requiring deeper analysis.	<ul style="list-style-type: none"> • Tagged exposure map (by geography, sector, counterparties) • Prioritised watchlist of high-risk exposures • Short rationale for escalation decisions
3	Deep-Dive Conflict and Human Rights Risk Assessment	Analyse specific negative impact pathways, affected rightsholders, and company role through a structured, evidence-based assessment.	<ul style="list-style-type: none"> • Pathway note (how activities link to impacts) • Identification of severe impacts & rightsholders • Identification of sources • Company role (cause/contribute/linked) • Initial assessment of company systems
4	Test the Evidence	Validate deep-dive findings through triangulation: company input, external sources, and stakeholder perspectives.	<ul style="list-style-type: none"> • Evidence-tested and refined risk assessment • Confirmation or adjustment of negative impact pathways • Assessment of company credibility and gaps
5	Assess Investor Connection and Leverage	Determine how the investor is connected to impacts (cause, contribute, linked to) and identify available leverage to influence outcomes.	<ul style="list-style-type: none"> • Connection classification (with rationale) • Leverage map (governance, contractual, market-based) • Basis for engagement and action decisions
Integrating Findings and Taking Action			
6	Act on Findings	Translate analysis into capital allocation decisions and structured engagement aligned with investor responsibility.	<ul style="list-style-type: none"> • Decision note (proceed / escalate / exit) • Engagement plan with milestones and triggers • Defined capital actions (conditions, suspension, restructuring)
Tracking Performance			
7	Track Effectiveness	Verify whether company actions and investor leverage are producing real-world improvements and reducing impacts over time.	<ul style="list-style-type: none"> • Updated risk assessments and monitoring notes • Evidence on mitigation effectiveness • Inputs for reassessment or escalation • Institutional learning insights

Step	Step Title	Objective	Outputs
Communicating			
8	Communicate and Account	Ensure transparency and accountability by communicating how risks are identified, managed, and addressed.	<ul style="list-style-type: none"> Public disclosures (reports, statements) Stakeholder-facing communication (direct or via company) Documented rationale for decisions and actions
9	Monitor Exposures and Triggers	Detect changes in context, company behaviour, or risk profile that may require reassessment or escalation.	<ul style="list-style-type: none"> Trigger-based reassessment notes Updated watchlists / dashboards Escalation or loop-back decisions (to Step 2 or 3) Integration into portfolio oversight

2.1 STEP 1 — SET THE RULES

2.1.1 WHY THIS STEP

The objective of Step 1 is to clarify why the heightened due diligence process is being undertaken and which investment decisions it is intended to inform. In doing so, it also fulfils a core expectation under the UNGPs: that business enterprises adopt a policy commitment to respect human rights and embed it into their governance and decision-making processes.

For investors, this policy commitment must be operational. It should define the scope of the process, the severity thresholds that will trigger escalation, and the governance logic that will guide investment decisions. This ensures that all teams operate under a consistent framework and that the investor's human rights responsibilities are translated into concrete decision rules.

At its core, the scope must be defined around the most severe risks to affected rightsholders, with particular attention to vulnerable or marginalised groups, and with a clear understanding of whether and how remedy could be achieved if negative human rights and conflict impact occurs. The policy logic and the due diligence logic therefore reinforce each other: the policy sets the direction, and the process ensures it is applied in practice.

Step 1 is not a technical or procedural formality. It is the moment where the investor defines what kinds of risks will trigger escalation, what level of severity is considered unacceptable, and what decisions the process is expected to influence. Without this clarity, subsequent steps risk becoming inconsistent or disconnected from actual investment choices.

2.1.2 WHAT TO DO

In practical terms, this step requires the investment team to confirm three basic parameters:

- which parts of the portfolio or pipeline are covered,
- what types of decisions the process will influence, and

- how often the assessment will be revisited.

Some investors may apply the process only to conflict-affected geographies or high-risk sectors; others may apply it across the entire portfolio with escalation triggers for specific contexts. Ideally, the scope should focus on geographies and sectors where red flags indicate that investment activities are most likely to intersect with dynamics of conflict or widespread violence. This may include countries experiencing active armed conflict, regions under sanctions or occupation, or sectors with strong links to security forces and high risks sectors such as extractive activities, or critical infrastructure.

The investor must also define which decisions will be informed by this analysis, such as investment approvals, covenant triggers, engagement mandates, or exit thresholds. For example, an investor may adopt a policy that investments in certain conflict-affected regions automatically trigger enhanced due diligence or require investment committee approval.

2.1.3 WHAT TO RELY ON

The main sources for this step are internal: portfolio holdings, pipeline data, investment policies, stewardship guidelines, and any exclusion or sanctions rules already in place. These materials often contain implicit thresholds and decision triggers. Step 1 makes them explicit and aligns them with a severity-based human rights logic.

2.1.4 WHAT THIS STEP PRODUCES

The output of this step is a short, practical scope and policy note—typically no more than a page—that defines:

- the portfolio coverage,
- the decisions influenced by the process,
- the severity thresholds, and
- the escalation logic.

This document acts as a reference point for all subsequent steps and ensures that analysts, investors, and investment committees operate under the same assumptions. It also serves as the operational expression of the investor's human rights policy commitment under the UNGPs.

2.1.5 APPLICATION ACROSS INVESTMENT STRATEGIES

While the core logic of Step 1 is the same across all asset classes, its practical application varies with the investment model.

- **Private equity:** In private equity, the scope is typically defined at the deal or portfolio-company level. It must cover both pre-investment screening and post-investment monitoring, and should clarify the role of the investment committee, operating partners, and board representatives. For example, a private equity fund investing in logistics assets in a fragile state may adopt a policy that any exposure to forced displacement or security-force abuses constitutes a red-line risk requiring either deal restructuring or withdrawal.
- **Project finance and infrastructure:** In project finance and infrastructure, the scope is usually project-specific and must cover the entire project lifecycle, including construction, operation, and decommissioning. It should align with lender standards such as the IFC Performance Standards or the Equator Principles. For instance, a lender may adopt a policy that projects reliant on coercive

resettlement or military-provided site security automatically trigger escalation or suspension of financing.

- **Public equities (active and passive):** In public equities, the scope is typically portfolio-wide. Investors must clarify how the process interacts with stewardship policies, engagement strategies, and divestment rules, as well as any constraints imposed by index-tracking mandates. An active equity manager may adopt a policy that severe, non-mitigable risks in conflict-affected environments trigger divestment, while a passive manager may define escalation pathways through engagement, voting, and public statements where exit is constrained.

2.1.6 KEY TAKEAWAY

Across all asset classes, the purpose of Step 1 is to translate the investor's policy commitment under the UNGPs into clear decision boundaries. By defining scope, severity thresholds, and governance logic at the outset, investors ensure that subsequent steps remain focused, consistent, and directly linked to real investment decisions.

2.2 STEP 2 – TRIAGE THE PORTFOLIO: IDENTIFY WHAT MATTERS MOST

2.2.1 WHY THIS STEP

For most investors, the main practical concern is scale. Public equities portfolios may contain hundreds or thousands of issuers, and credit or multi-asset strategies may have even broader universes. A triage process that requires deep analysis of every position would quickly become unmanageable and would not reflect the risk-based logic of the UNGPs.

The purpose of triage is precisely to reduce the portfolio to a manageable subset of high-risk exposures, so that analytical resources are focused where the risk to people is most severe.

This step is therefore a rapid severity filter. It identifies which exposures may involve severe or conflict-related negative human rights and conflict impacts and therefore require deeper analysis. It is not a full human rights assessment, but a structured screening designed to ensure that high-risk cases are not overlooked.

INSIGHT FROM PRACTICE

The real risk at triage is missing a severe issue— not over-escalating one. When in doubt, escalate.

- Triage is based on severity to affected people, not financial materiality.
- It is a screening tool, not a full assessment.
- The objective is to decide which cases must be escalated for deeper analysis.

2.2.2 WHAT TO DO

In practice, triage should be embedded into existing portfolio screening, deal pipelines, or periodic portfolio reviews. The process can usually be completed through a short tagging exercise supported by existing data tools.

1. Break the investment into its main business lines, projects, or revenue segments
2. Tag each segment using three basic attributes:
 - Geography: country of operation or primary revenue exposure
 - Sector: core business activity

- State or security linkage: presence of military, police, or state-security customers
3. Apply simple escalation triggers to a deeper analysis if any of the following are present:
- Credible allegations of severe human rights abuses.
 - Presence of armed conflict, whether international or non-international.
 - Operations in occupied or disputed territories.
 - Evidence of systematic repression or severe restrictions on civic space.
 - Widespread or institutionalised violence against civilian populations.
 - Counterparties linked to any of the above, including military, intelligence, or state-security structures.
 - Red flags pointing to the future possibility of armed conflict and widespread violence.⁷

a. **Breaking the Investment**

Breaking an investment into its main business lines, projects, or revenue segments is usually much easier in practice than investors initially expect. The step does not require reconstructing the company's full operational footprint or conducting new research. The objective is not to create an exhaustive operational map or assess every jurisdiction where a company has a presence. Instead, the aim is to identify the main value-generating activities and the principal contexts in which they operate. In most cases, three to five segments and their core geographies are sufficient to identify where severe negative human rights and conflict impact pathways may arise. It relies on information already used in standard investment analysis, such as segment reporting, deal materials, or project descriptions. In most cases, the analyst simply extracts the same high-level business breakdown that underpins valuation models, credit analysis, or investment committee papers.

- For listed companies, the exercise is typically straightforward. Annual reports, investor presentations, and financial data platforms already show revenue by segment and often by region. An analyst can usually identify the company's three to five main business lines and their principal operating geographies within a relatively short period of time as this initial mapping exercise provides a proportionate starting point for assessing exposure and determining whether more in-depth due diligence is warranted. For example, an engineering group may report revenue from transport infrastructure, defence systems, and industrial automation. From an HHRDD perspective, the analysis would focus on the defence segment and the countries where those activities are concentrated, rather than mapping every minor sales market.

⁷ Early warning indicators ("red flags") of armed conflict or mass violence include: significant amassing of weapons, particularly by non-state armed groups; weakening or suspension of state institutions, including emergency laws or extraordinary security measures that marginalise vulnerable groups; patterns of serious violations of international human rights or humanitarian law; escalating inflammatory rhetoric or hate speech targeting specific communities; visible recruitment or mobilisation of militias or paramilitary actors; securitisation measures directed at particular groups; severe restrictions on communication channels, media freedom, internet access, or the dissemination of reliable information; expulsion of non-governmental organisations, international actors, or independent media; situations in which identifiable groups are placed under the authority of actors who perceive them as adversaries; widespread failure to protect individuals from violence; inability of populations to meet basic needs due to insecurity; and the presence of internally displaced or forcibly displaced persons.

- In private equity, segmentation is often even clearer because it sits at the core of the investment thesis. Deal materials, management presentations, and commercial due-diligence reports normally describe the company's main products, assets, customer groups, and strategic markets. The HHRDD step simply reuses that structure, identifying the core business lines already highlighted in the deal documentation and assessing where those activities take place and whether they intersect with high-risk contexts.
- In project finance or infrastructure investments, the step is simpler still. The exposure is usually a single asset or a small number of defined projects, so the "business line" is effectively the project itself. The analysis starts with a few factual questions: what the project does, where it is located, and which counterparties are involved. This information is already central to the credit or technical assessment.

In short, this requires to:

- Identify the main business lines, projects, or revenue segments using existing investment materials.
- Note the principal operating geography for each segment.
- Flag any segments involving security forces, state entities, land-intensive projects, or sensitive technologies.
- Prepare a short segment overview to feed directly into the tagging and escalation steps that follow.

b. Geographic Risk Rating

Once the main business lines or projects have been identified, the next step is to assess the risk profile of the geographies in which those activities take place. The objective is not to produce a detailed country analysis, but to apply a small set of reliable, comparable indicators that signal exposure to conflict, fragility, sanctions, or severe human rights concerns.

This geographic rating provides a first severity signal. It helps investors determine whether a segment operates in a context that should automatically trigger deeper conflict and human rights analysis.

The assessment can be carried out using publicly available, widely recognised datasets. Investors do not need to reconcile all sources into a single composite score. Instead, the indicators should be used as practical flags to classify each location into a simple risk category. In this guidance, the geographic rating does not determine the investment decision. It is a triage signal, not a red-line rule. A medium- or high-risk country simply indicates that the exposure may require a closer look. The key question remains whether the specific activity is linked to severe or irremediable negative human rights and conflict impact. If no such pathway exists, the exposure does not escalate, even in a higher-risk context.

The rating is designed to be practical. It relies on simple, widely used external indicators—such as conflict databases, sanctions lists, or governance indices—rather than bespoke geopolitical analysis. Investors are not expected to interpret complex political situations; they apply recognised reference sources as objective triggers.

The system also avoids dependence on a single classification. Multiple credible sources are used, and where they diverge, the higher risk category applies. This keeps the process simple and avoids debates about political labels.

Finally, the geographic rating is not meant to replace existing country-risk tools. Those models focus on financial or sovereign risk. The HHRDD rating adds a different lens: it highlights contexts where severe adverse human rights and conflict impact to people is more likely. It therefore acts as a simple early-warning filter, with final decisions taken only after deeper analysis of the activity, severity pathways, leverage, and mitigation options.

Risk level	Typical characteristics	Practical indicators (any may apply) ⁸	Typical examples
Low risk	Stable institutions; no armed conflict in, or by, the country; open civic space; no major sanctions	<ul style="list-style-type: none"> • No active conflict in WarWatch (ex RULAC), UCDP, or ACLED • Governance indicators above 50th percentile • Freedom House: “Free” or strong “Partly Free” • No UN, EU, or OFAC country-level sanctions 	OECD countries with strong rule of law; stable middle-income democracies
Medium risk	Political instability, repression, or localised violence; fragile governance; restricted civic space; targeted sanctions	<ul style="list-style-type: none"> • No active armed conflict, but: <ul style="list-style-type: none"> – Freedom House: lower “Partly Free” or “Not Free” – CIVICUS: “Obstructed” or “Narrowed” • Governance indicators between 25th–50th percentile • Localised unrest or sporadic violent incidents • Targeted or sector-specific sanctions 	Authoritarian or hybrid regimes without active war; fragile states
High risk	Active conflict, occupation, or sustained violence; severe repression; humanitarian crisis; comprehensive sanctions	<ul style="list-style-type: none"> • Active conflict in RULAC or UCDP • High event intensity in ACLED • Governance indicators below 25th percentile • Freedom House: “Not Free” with severe repression • CIVICUS: “Repressed” or “Closed” • UN-declared humanitarian emergency • Comprehensive UN, EU, or OFAC sanctions • UN-recognised occupation or major conflict zone 	Conflict-affected states; occupied territories; comprehensively sanctioned countries

⁸ WarWatch (ex RULAC – Rule of Law in Armed Conflicts Project), Geneva Academy (<https://www.warwatch.ch>); UCDP – Uppsala Conflict Data Program, Uppsala University (<https://ucdp.uu.se>); ACLED – Armed Conflict Location & Event Data Project (<https://acleddata.com>); WGI – Worldwide Governance Indicators, World Bank (<https://info.worldbank.org/governance/wgi>); Freedom House – Freedom in the World Index (<https://freedomhouse.org>); CIVICUS Monitor – CIVICUS Civic Space Monitor (<https://monitor.civicus.org>); UN – United Nations, including Security Council Sanctions Regimes (<https://www.un.org/securitycouncil/sanctions>); EU – European Union Sanctions Map (<https://www.sanctionsmap.eu>); OFAC – Office of Foreign Assets Control, U.S. Department of the Treasury (<https://ofac.treasury.gov>); OCHA – United Nations Office for the Coordination of Humanitarian Affairs (<https://www.unocha.org>).

Table Conflict Reference Tools

Tool	Purpose	Use Case
Rule of Law in Armed Conflicts Project (Geneva Academy)	Classifies and analyses situations of armed conflict under international humanitarian law	Determine whether a situation qualifies as an armed conflict
Uppsala Conflict Data Program (Uppsala University)	Provides structured data on organised violence and armed conflict	Monitor conflict escalation and conflict intensity trends
Armed Conflict Location & Event Data Project	Tracks real-time violent events and political disorder	Assess localised violence patterns and operational risk exposure
Freedom House – Freedom in the World	Assesses political rights and civil liberties globally	Screen for repression, democratic backsliding, and systemic rights restrictions
CIVICUS Monitor (Civic Space Tracker)	Evaluates the state of civic space and freedom of association, assembly, and expression	Identify shrinking civic space and heightened repression risk
Sanctions regimes		
United Nations Security Council Consolidated List	Consolidated list of all individuals and entities subject to UN sanctions measures across regimes	Counterparty screening and global sanctions compliance
EU Global Human Rights Sanctions Regime	Thematic EU sanctions targeting individuals and entities responsible for serious human rights violations worldwide	Human rights-related counterparty and reputational risk screening
European Union Sanctions Map	Consolidated overview of EU country and thematic sanctions regimes	Jurisdictional and sanctions exposure screening
U.S. Global Magnitsky Sanctions	Thematic U.S. sanctions targeting foreign persons responsible for serious human rights abuse and corruption	Enhanced sanctions and corruption-linked human rights risk screening
U.S. OFAC Sanctions Lists	U.S. country-based and thematic sanctions lists, including terrorism, proliferation, narcotics and human rights designations	Legal compliance and counterparty risk screening
UK Global Human Rights Sanctions	UK autonomous sanctions targeting individuals and entities involved in serious human rights violations	UK jurisdictional compliance and human rights exposure screening
Canada Justice for Victims of Corrupt Foreign Officials Act (Magnitsky Law)	Canadian sanctions regime targeting foreign nationals responsible for gross human rights violations and significant corruption	Canadian compliance and human rights risk screening

Australia Autonomous Sanctions Act 2011 & Magnitsky-style amendments

Australian autonomous sanctions including thematic human rights and corruption measures

Australian sanctions compliance screening

c. Sectors Risk Rating

The purpose of this step is to identify sectors whose core activities are more likely to interact with conflict dynamics, particularly in fragile or conflict-affected contexts. The objective is not to produce a detailed sector study, but to flag activities that, by their nature, tend to influence resource control, security arrangements, or political power balances.

From a conflict-sensitivity perspective, the focus is on the structural interaction between the activity and the conflict environment, not on ESG scores or disclosure quality. Certain sectors repeatedly appear in conflict-related incidents because their operations involve land, natural resources, security forces, or sensitive technologies. These features can alter local power dynamics, create incentives for coercion, or become entangled with armed actors or abusive state institutions.

In practice, investors should apply a simple test: does the sector's core activity typically involve one or more of the following conflict-sensitive features?

- Control over land, minerals, water, or other strategic resources.
- Large infrastructure or extractive projects that reshape local economies or power balances.
- Direct interaction with security forces, armed groups, or protection units.
- Contracts with governments, military, or state-owned entities in fragile contexts.
- Technologies that could enable surveillance, repression, or targeting.

Where one or more of these features are present, the sector should be flagged for potential escalation.

This assessment can rely on information already used in standard investment workflows. Relevant sources include company filings, segment disclosures, ESG and controversy databases, the Business & Human Rights Resource Centre, OECD National Contact Point cases, sanctions lists, and media searches. The aim is not to generate a precise score, but to identify sectors with recurrent interaction with conflict dynamics.

In operational terms, sectors can be grouped into three broad categories:

Sector risk level	Conflict-sensitivity characteristics	Examples
High conflict sensitivity	Activities frequently linked to resource control, security force interaction, or military and strategic functions	Extractives, defence and arms production, private security, surveillance and dual-use technology
Elevated conflict sensitivity	Activities that regularly affect land, labour, or local power dynamics, especially in fragile contexts	Construction and infrastructure, agribusiness
Context-dependent sensitivity	Activities where conflict exposure depends mainly on location or counterparties rather than the core activity	Manufacturing, consumer goods, services

This classification is indicative and should be applied pragmatically. A conflict-sensitive sector does not automatically require exclusion. It signals that the activity is more likely to interact with conflict dynamics and should therefore be examined more closely, particularly in medium- or high-risk geographies.

Where a conflict-sensitive sector is identified, the analysis should focus on the typical pathways through which the activity may influence conflict dynamics. For example:

- Extractives: competition over resource revenues, security deployments, and community tensions around project sites.
- Defence and arms production: supply of equipment used by conflict parties or abusive state forces.
- Construction and infrastructure: land disputes, resettlement tensions, or infrastructure that alters local power balances.
- Surveillance or dual-use technology: enabling repression, political targeting, or control of civilian populations.
- Private security: direct use of force or involvement in coercive practices.
- Agribusiness: land conflicts, displacement, or disputes over water and livelihoods.

The purpose of this sector screen is to ensure that activities most likely to interact with conflict dynamics are not overlooked. Together with the geographic risk rating, it forms the core of the triage process, helping investors determine which exposures require deeper analysis.

d. Rating Counterparties Linked to Military, Intelligence, or State Security Structures risks

Identifying links to state security or military counterparties is usually straightforward in practice. The step does not require a detailed political analysis or a full mapping of the security landscape in each country. The objective is not to determine the nature of the regime or to make geopolitical judgments. Instead, the aim is simply to identify whether the investment is structurally connected to institutions that exercise coercive power, such as armed forces, police, intelligence agencies, or state-controlled security companies.

In most cases, this information is already visible in standard investment materials. Annual reports, segment disclosures, deal presentations, and due-diligence memoranda typically identify major customers, contractual partners, and ownership structures. AML, KYC, and sanctions screens also provide signals about politically exposed persons, state ownership, or links to security institutions. The analyst is therefore not conducting a new or specialised investigation but drawing on the same sources already used for credit, legal, and compliance checks.

The goal is to identify clear structural relationships—such as reliance on defence contracts, ownership by a security-linked state entity, or revenue from police or intelligence agencies. In most cases, a small number of major counterparties or ownership links is sufficient to determine whether the exposure should be escalated for deeper analysis.

In practice, investors should apply a simple test: does the exposure involve a counterparty that is part of, controlled by, or closely associated with military, intelligence, police, internal security structures, politically exposed persons (PEPs), or armed non-state actors (NSAs)?

Common indicators include:

- Direct contracts with ministries of defence, interior, or intelligence agencies.
- State-owned enterprises operating under security or military control.
- Security forces deployed to protect company assets or projects.
- End-users that include military units, intelligence services, or sanctioned security bodies.
- Joint ventures or financing structures involving security-linked state entities.
- Ownership or control by politically exposed persons (PEPs) with strong ties to ruling elites or security institutions.
- Counterparties linked to armed non-state actors (NSAs), militias, or groups operating in contested territories.

Counterparty risk level	Security linkage characteristics	Examples
High security linkage	Direct relationship with military, intelligence, police, armed groups, or PEP-controlled security or state entities	Ministries of defence, intelligence agencies, military-owned companies, sanctioned security units, militia-controlled entities
Elevated security linkage	State-owned or PEP-linked entities in security-sensitive sectors or under strong political influence	National oil companies, state infrastructure agencies, politically connected conglomerates
Context-dependent linkage	Public or private entities with no direct security role, but operating in high-risk contexts or supplying sensitive goods or services	Civilian ministries, utilities, or contractors without direct security functions

2.2.3 ANTICIPATING RISKS AND IMPACTS

As mentioned in the HHRDD Guide, the most severe conflict-related and human rights risks do not arise suddenly. Severe conflict-related and human rights risks rarely emerge without warning. Large-scale violence, repression, or systemic abuses typically develop through identifiable shifts in political, security, or institutional dynamics. Within the triage step, investors are not expected to forecast geopolitical developments, but they are expected to recognise credible warning signs that may materially change the severity of negative human rights and conflict impact pathways linked to an investment.

These warning signs function as escalation triggers. They do not determine the investment outcome; they indicate that a structured deep-dive assessment may be required.

Relevant red flags include:

- Mobilisation or visible arming of state or non-state armed actors.
- Emergency laws, suspension of institutional checks and balances, or consolidation of power within security structures.

- Documented patterns of serious human rights or international humanitarian law violations.
- Escalating inflammatory rhetoric or targeting of specific groups.
- Expansion of militia or paramilitary activity.
- Severe restrictions on civic space, media shutdowns, or information blackouts.
- Expulsion of NGOs, international organisations, or independent media.
- Large-scale displacement or widespread inability of populations to meet basic needs due to insecurity.

In this way, triage operates as an early-warning filter—ensuring that context shifts are identified in time and that heightened due diligence is activated before severe risks crystallise into entrenched negative human rights and conflict impact or defensibility challenges.

2.2.4 APPLICATION ACROSS INVESTMENT STRATEGIES

The core triage logic is the same across all investment strategies: break the exposure into its main business lines or projects, tag each segment using a small set of attributes, and escalate cases where conflict or severe negative human rights and conflict impact triggers are present. The analytical steps do not change. What differs is when the triage is performed, where the information comes from, and how the results feed into the next stage of deeper analysis.

In private equity, triage is usually conducted at the deal-sourcing or investment committee stage and revisited during ownership. The segmentation is drawn directly from the investment thesis and due-diligence materials, which already identify core business lines, markets, and customers.

In project finance and infrastructure, the exposure is typically a single asset or a small number of clearly defined projects, so segmentation is simpler. The analysis focuses on the project location, activity, and counterparties, using information already present in technical and legal documentation.

In public equities, triage is usually a portfolio-wide screening exercise conducted periodically or when material events occur. Segmentation is based on publicly available disclosures, such as annual reports and ESG data platforms.

Table: Indicative Examples of Red Flags and Escalation Thresholds

Red Flag	Required Immediate Action	Escalation Level
Active armed conflict (RULAC/UCDP)	Deep dive	High
Credible allegation of IHL violation	Deep dive	High
Military/security counterparty linkage	Deep dive : Enhanced connection analysis	Medium–High
Severe civic space restrictions	Enhanced monitoring	Medium
Minor controversy	Record and monitor	Low

REALITY CHECK
Most major impacts were visible early—they were simply not escalated or acted upon.

The outputs of this triage phase—identified adverse human rights and conflict impact pathways, preliminary severity assessment, and exposure categorisation—form the analytical foundation for Step 3. The deep dive does not reopen screening, but tests, refines, and evidences the negative human rights and conflict impact pathways identified here. Triage findings should therefore be documented clearly, as they become the starting hypotheses for deeper assessment.

2.2.5 WHAT TO RELY ON

Triage should rely on existing, readily available information rather than bespoke research. The objective is to identify likely high-risk exposures efficiently, using signals already embedded in investment workflows.

In practice, investors should draw on a combination of internal and external sources. Internal sources include portfolio holdings data, deal pipelines, sector classifications, geographic exposure, and prior ESG or credit assessments. External sources include country risk indices, sanctions lists, ESG controversy databases, NGO and UN reporting, and media alerts. These provide early indications of conflict exposure, repression, or severe human rights risks.

AML/KYC systems can also play a supporting role by flagging sanctions exposure, ownership structures, or links to high-risk counterparties. While not designed for human rights analysis, these tools can provide useful alerts where financial and human rights risks intersect.

The aim is not to confirm impacts at this stage, but to identify credible risk signals that justify deeper analysis.

2.2.6 WHAT THIS STEP PRODUCES

The output of triage is a clear and prioritised exposure map that distinguishes between low-risk exposures and those requiring further analysis.

In practice, this should result in:

- A tagged list of holdings or transactions, identifying which exposures are flagged for heightened due diligence;
- A short rationale for each flagged exposure, based on geography, sector, activity, or credible allegations;
- A prioritised watchlist, focusing on exposures where severe impacts are most plausible.

Outputs should be concise and decision-oriented. They are not intended to provide a full assessment, but to ensure that high-risk exposures are systematically identified and escalated to Step 3.

This output should be easily integrated into portfolio dashboards, pipeline reviews, or investment committee materials, allowing teams to see clearly where deeper analysis is required and why.

2.2.7 WHAT TO AVOID

A common pitfall is treating triage as a box-ticking exercise or relying too heavily on generic ESG scores or country risk ratings. These tools can help identify broad risk patterns, but they often fail to capture specific negative impact pathways linked to particular activities or counterparties.

Another risk is over-filtering, where only the most obvious high-risk contexts are flagged. Severe impacts can arise in less visible settings, including high- and middle-income countries or through specific business relationships. Triage should remain sensitive to both context and activity-based risks.

Conversely, over-inclusion can dilute the process. If too many exposures are flagged without prioritisation, the deep-dive stage becomes unmanageable. Triage should therefore focus on credible severity signals, not theoretical risks.

Finally, triage should not be treated as a one-off exercise. Conflict dynamics, allegations, and company activities evolve. Failure to update the exposure map in response to new information can result in missed escalation points and delayed action.

In practice, effective triage requires discipline and judgement: flag what matters, document why, and ensure that high-risk exposures are consistently carried forward into deeper analysis.

2.3 STEP 3 — DEEP-DIVE CONFLICT AND HUMAN RIGHTS RISK ASSESSMENT

2.3.1 WHY THIS STEP

Step 3 moves from the rapid screening of triage to a structured, evidence-based assessment of the specific negative human rights and conflict impact pathways associated with the investment. The objective is to understand how the activity interacts with conflict dynamics or severe human rights risks, which rightsholders may be affected, and what role the company plays in those impacts. The purpose is not to generate new risks from scratch, but to test whether the preliminary exposure assessment remains valid once contextual, operational, and stakeholder-specific factors are examined in detail.

If Step 3 confirms severe or systemic negative human rights and conflict impacts, the exposure moves automatically to Step 4 (connection and leverage analysis). If Step 3 reduces severity, the exposure may return to monitoring.

This step follows the same core logic as the general HHRDD Guide for companies: understanding the conflict context, identifying how business activities interact with that context, and determining responsibility for any adverse impacts. The analytical questions, severity thresholds, and focus on rightsholder negative human rights and conflict impact remain the same. The key difference lies in the investor's vantage point. Rather than assessing its own operations, the investor evaluates the investee's activities, relationships, and risk management systems, and examines whether the company recognises and responds adequately to conflict-related human rights risks. The investor must therefore conduct a dual assessment: first, analysing the conflict and negative human rights and conflict impact pathways associated with the underlying activity; and second, evaluating the company's awareness, due diligence processes, mitigation measures, and capacity to provide remedy. This ensures that the analysis not only identifies potential impacts, but also establishes a clear foundation for the subsequent steps on investor connection, leverage, engagement, and decision-making.

As set out in the HHRDD Guide, identifying the relationship between business activities and conflict requires three steps: (a) understanding the conflict, (b) identifying how business activities interact with it, and (c) determining responsibility.

A key difference from a company's own assessment is that the investor must also evaluate (d) whether the investee is aware of these risks and how it is responding to them, including the adequacy of its human rights due diligence, mitigation, and remedy processes.

At this stage, the investor is not yet determining its own responsibility or leverage. That analysis follows in the next steps. Step 4 will assess how the investor is connected to those impacts under the UNGPs (cause, contribute, or directly linked). Step 5 will evaluate what leverage the investor has to prevent, mitigate, or remediate the negative human rights and conflict impact. Subsequent steps will translate those findings into engagement conditions, escalation measures, or exit decisions.

In this way, the deep-dive assessment acts as the analytical bridge between triage and final investment decisions, ensuring that subsequent actions are grounded in a clear understanding of severity, pathways, and company role.

2.3.2 WHAT TO DO

The deep-dive review will be focused on the investment segments flagged in the previous step. It should follow a series of concrete actions that can be done either by the analysts or with the support of external expertise.

1. Understand the conflict and human rights context
2. Assess the company's role in those pathways
3. Engage the company for targeted information
4. Triangulate with external sources and engage with external stakeholders

Requesting external support should be considered when the deep-dive assessment reveals complexity, severity, or political sensitivity that goes beyond the team's internal expertise or capacity. This typically includes situations involving active armed conflict, occupation or disputed territories, allegations of international humanitarian law violations, credible links to military or non-state armed actors, large-scale displacement, or patterns of systematic repression. External expertise may also be warranted where potential negative human rights and conflict impact pathways are severe but difficult to verify through public sources, or where engagement with affected stakeholders requires local knowledge, language skills, or protection-sensitive approaches. In practice, this may involve commissioning conflict analysts, human rights specialists, forensic auditors, or local civil society consultants to validate assumptions, assess company practices, or provide independent risk perspectives. Seeking external support is not a sign of weakness in the process; it is a proportionate response where the severity of potential negative human rights and conflict impact and the limits of internal capacity require deeper, independent scrutiny to support defensible investment decisions.

a. Analyse the conflict and human rights context

In practice, this part of the analysis centres on a similar small set of core questions detailed in the HHRDD Guide. In short, the first question is to look at what is the broader context shaping the conflict? The investor should look at whether there is a history of violence or repression, where it has occurred, who has been targeted, and what forms the violence has taken. It is also important to understand the institutional and structural drivers of the situation: political systems, governance quality, economic inequalities, demographic pressures, social divisions, or the role of natural resources and business activity.

Second, who are the main actors influencing the conflict? This typically includes state armed forces, police or intelligence services, leaders of non-state armed groups, criminal networks, political or religious leaders, and influential business actors. The investor should try to understand their interests, motivations, and incentives. This includes questions such as who benefits from the conflict economy, who stands to lose from peace, and which actors have the capacity to escalate violence or destabilise institutions.

It is also useful to consider the balance of power between these actors, their relationships, and the overall trajectory of the conflict. Are alliances shifting? Are armed groups gaining strength? Is the state consolidating power or losing territorial control?

Third, what are the causes of the conflict? These may be structural—such as political exclusion, unequal land distribution, weak governance, or entrenched impunity—or more immediate triggers, such as arms proliferation, the emergence of armed groups, spillovers from neighbouring conflicts, or new natural resource discoveries.

Fourth, what are the current dynamics and trends? The investor should look at whether violence is increasing or decreasing, whether it is shifting geographically, and what events could trigger escalation. Typical triggers include elections, coups, economic shocks, environmental crises, or major corruption scandals. It is also useful to think in scenarios: what would a best-case stabilisation path look like, and what would a worst-case escalation scenario involve?

Finally, social media and digital narratives can provide early warning signals. In many conflict-affected contexts, political actors, armed groups, and civil society use online platforms to shape narratives. Investors—or the teams supporting them—should pay attention to whether online discourse reflects rising hate speech, disinformation, calls for violence, or coordinated propaganda campaigns targeting specific groups.

The output of this first stage is a short, practical snapshot of the conflict environment: its main actors, drivers, dynamics, and likely future trajectories.

b. Understand how the company's activities interact with the conflict

Once the conflict context is clear, the investor must examine how the investee company's activities intersect with that environment. The question is not whether the company is “good” or “bad,” but how its operations, products, or relationships could affect the conflict dynamics.

As reflected in the HHRDD Guide, this requires analysing a few core issues.

- First, how might the company's activities affect the balance of power between conflict actors? For example, does the company control or finance access to land, natural resources, infrastructure, or critical services? Could its operations strengthen certain actors over others, or alter local economic or political dynamics?
 - Second, does the company have business relationships with any of the identified conflict actors? Under the UN Guiding Principles, this includes not only direct partners, but also entities in the value chain, customers, subcontractors, joint-venture partners, and state or non-state actors linked to the company's operations. These links may be indirect and may sit beyond the first tier of the supply chain.
 - Third, how might the company's activities influence the underlying causes of the conflict? For example, could land acquisition worsen grievances between communities, could employment practices exacerbate social divisions, or could resource extraction intensify competition between armed actors?
 - Fourth, how might the company's activities interact with the current dynamics of the conflict? Could they accelerate certain trends, stabilise others, or create new triggers for violence?

INSIGHT FROM PRACTICE

Context risk is often treated as background noise. In practice, it is the primary driver of severe outcomes, especially in fragile and conflict-affected settings.

In practice, this analysis can be supported by a simple actor-mapping exercise. The investor or analyst can map the main conflict actors, their relative power, and their relationships, then locate the company within that map. This provides a visual or conceptual snapshot of how the investment sits within the conflict system. As mentioned earlier, AML and KYC processes help investors understand how an investee's activities may interact with conflict by revealing who the company is really doing business with and under what ownership or control structures. In the HHRDD process, AML/KYC therefore acts as a structural lens: it helps map relationships, power links, and financial flows that may not be visible in standard ESG or public disclosures, allowing the investor to better understand how the business is positioned within the conflict context.

c. Assessing the company's responsibility

Once the conflict and the company's interaction with it are understood, the next step is to assess the company's responsibility for any adverse impacts. From an investor perspective, this is a crucial bridge to the next stages of the HHRDD process.

Following the approach set out in the HHRDD Guide, a practical way to do this is to apply three core questions derived from the OECD due diligence framework:

- Is there an actual or potential adverse impact on human rights or conflict dynamics connected to the company's activities, products, or services?
- Do the company's activities increase the risk of that impact?
- Would the company's activities, on their own, be sufficient to result in that impact?

If the answer to all three questions is yes, the company is likely causing, or may cause, the impact. In such cases, it is expected to cease the negative human rights and conflict impactful activity, prevent further negative human rights and conflict impact, and provide remedy. An example would be a private security provider directly committing abuses in a conflict-affected area.

If the answer to the first two questions is yes, but the third is no, the company is likely contributing to the impact. It should then take steps to cease or prevent its contribution and use its leverage to mitigate the remaining negative human rights and conflict impact. For instance, a platform that allows hate speech calling for violence, or a company that allows military forces to use its facilities and those forces commit abuses, may fall into this category.

If only the first question is answered yes, the company may be directly linked to the negative human rights and conflict impact through its business relationships. In that case, it should use its leverage to mitigate the impact as far as possible. An example would be a company extracting resources from a territory where the population was forcibly displaced by another actor.

In practice, investors should treat a "maybe" as a signal for further investigation. Where there is credible uncertainty about the company's role, the case should be escalated for deeper analysis or engagement.

From the investor's standpoint, this step also includes assessing whether the company itself recognises these risks and how it is responding. This involves reviewing the company's human rights due diligence systems, its mitigation measures, and the availability of remedy for affected people. A company that is unaware of obvious conflict-related risks, or that lacks credible mitigation processes, represents a fundamentally different risk profile from one that is actively managing those issues.

The result of this analysis feeds directly into the next steps of the investor HHRDD process, where the investor's own connection to the negative human rights and conflict impact and its available leverage will determine the appropriate course of action.

2.3.3 WHAT TO RELY ON

The deep-dive should build on the outputs of triage, using them as the entry point for targeted analysis, and should combine company information with independent external sources.

In practice, investors should rely on three main categories of inputs.

- First, company-provided information: disclosures, policies, impact assessments, audit reports, and engagement discussions with management. These provide insight into how the company understands and manages risks.
- Second, independent and public sources: reports from UN bodies, NGOs, national human rights institutions, investigative media, and specialised databases. These help validate or challenge company narratives and identify issues not captured in corporate disclosures.
- Third, transaction and relationship data: ownership structures, key counterparties, supply chain relationships, and financing arrangements. These are critical to understanding how the company interacts with the conflict or human rights context and where negative impact pathways may arise.

Where risk is elevated, the investor may also rely on independent expert input, including human rights or conflict-sensitivity assessments, particularly where local dynamics are complex or contested.

2.3.4 WHAT THIS STEP PRODUCES

The output of the deep-dive is a concise, structured assessment of the main negative impact pathways associated with the investment.

In practice, this should result in:

- A short pathway note describing how the company's activities interact with the conflict or human rights context;
- Identification of the most severe potential or actual impacts, including affected stakeholders;
- A clear articulation of the company's role in those pathways (cause, contribute, or directly linked);
- An initial view on the credibility of the company's systems and response.

This output should remain focused and decision-oriented. It is not a full country or sector study, but a targeted assessment of how and where negative impact may occur, and why it matters.

2.3.5 WHAT TO AVOID

A frequent pitfall is over-reliance on company narratives. Companies may underestimate risks, lack full visibility, or present incomplete accounts. Without triangulation, the analysis risks reproducing these blind spots.

Another common issue is drifting into generic context analysis. While understanding the broader conflict environment is important, the deep-dive must remain focused on specific pathways linked to the company's activities. The objective is not to describe the conflict, but to understand how the investment interacts with it.

There is also a risk of over-complexity. Attempting to map every possible scenario or stakeholder can dilute the analysis. The focus should remain on severe and plausible negative impact pathways, prioritised based on scale, scope, and irremediability.

Conversely, under-analysis can occur where the deep-dive simply restates triage findings without adding depth. Step 3 must move beyond identification to explanation and evidence.

Finally, failing to assess the company's own awareness and response is a critical gap. The deep-dive is not only about identifying risks, but also about evaluating whether the company recognises and manages them credibly.

In practice, effective deep-dive analysis requires focus, triangulation, and discipline: identify the key negative impact pathways, test them against evidence, and produce a clear, defensible assessment that can support investor decision-making.

2.4 STEP 4 — TEST THE EVIDENCE

2.4.1 WHY THIS STEP

Step 4 moves the analysis from an internal assessment to a triangulated, evidence-based view of the risks. Following the deep dive, the investor has identified the main negative human rights and conflict impact pathways and formed an initial view of the company's role. This step tests those findings against external inputs.

The objective is to validate whether the identified risks are credible, whether the company recognises them, and whether its systems and responses are proportionate to their severity.

This requires combining three perspectives:

- the company's own understanding and disclosures,
- independent external sources, and
- affected stakeholder inputs.

By triangulating these sources, the investor develops a balanced and defensible understanding of the situation. This forms the evidentiary basis for the next steps: assessing investor connection, determining leverage, and deciding on appropriate action.

2.4.2 WHAT TO DO

At this stage, the investor should focus on testing the robustness of the deep-dive findings through targeted engagement and external validation.

a. Engage the company for targeted information

Engagement serves two functions in the HHRDD process: first, to gather and clarify information, and second, at a later stage, to exercise leverage.

At Step 4, the purpose is strictly informational. The objective is to verify whether the company understands and manages the risks identified, not yet to impose conditions or escalate.

In practice, engagement should be focused and targeted. The investor should seek clarification on:

- the company's human rights policies and due diligence systems, including the existence and quality of stakeholder engagement,
- whether conflict-related or severe human rights risks have been identified as salient,
- the mitigation and remediation measures in place,
- the existence and effectiveness of grievance and remedy mechanisms, drawing from UNGP effectiveness criteria (legitimate, accessible, predictable, equitable, transparent, rights-compatible), and

- specific operational interfaces such as security arrangements, land acquisition, labour practices, or subcontractor oversight, where relevant.

Supporting documentation should be requested where necessary, including:

- internal policies,
- human rights or conflict-sensitivity assessments,
- audit findings,
- incident reports, and
- corrective action plans.

The aim is to confirm whether the company has identified the same risk pathways and whether its response is credible, proportionate, and implemented in practice.

The depth and format of engagement will depend on the investor's strategy:

- Controlling investors (e.g. private equity) typically have direct access to detailed internal information, including operational practices, incident data, and board-level discussions. Engagement can be granular and verification-oriented.
- Project finance and infrastructure investors rely on contractual reporting. Engagement focuses on reviewing environmental and social impact assessments, monitoring reports, and compliance documentation required under financing agreements.

INSIGHT FROM PRACTICE

The most common mistake is to classify risks as indirect because they are complex or uncomfortable. If you can trace the relationship and identify leverage, it is direct linkage.

- Active public equity investors engage through management and board dialogue, supported by disclosures and third-party sources. The focus is on testing whether risks are recognised and systems are credible.
- Passive investors rely primarily on public disclosures, stewardship dialogue, and collaborative initiatives. The emphasis is on transparency and adequacy of systems.

Across all strategies, the logic is consistent: test whether the company's understanding and systems align with the identified risk pathways. What differs is the level of access and the channels available.

b. Use targeted questions to structure engagement

Engagement should be structured around three core issues:

- How the company understands the main risk pathways,
- How it understands its own connection to them, and
- Whether it has credible systems to manage them.

Area	Focus	Key Questions
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Risk pathways	Identification and prioritisation of severe risks	Has the company formally identified its main human rights and conflict-related risks? Which pathways are considered most severe (e.g. security abuses, land disputes, labour exploitation, repression)? How were these risks identified (assessments, incidents, stakeholder input)? Are high-risk contexts subject to heightened due diligence?
Company connection	Understanding of role in negative impact pathways	Does the company assess whether it causes, contributes to, or is directly linked to these risks? How does it analyse its role and that of its partners or customers? Has it reviewed past allegations or incidents? Has it ever modified or exited activities due to these risks?
Governance	Oversight and accountability	Who at senior management or board level oversees these risks? How are these risks integrated into business decision-making?
Operational due diligence	Implementation of risk management systems	Are there functioning due diligence processes in place? What concrete measures address the identified pathways? How are suppliers, contractors, and partners screened and monitored? How are stakeholders engaged?
Grievance and remedy	Access to remedy and responsiveness	Are grievance mechanisms accessible and effective? How are complaints recorded, investigated, and resolved? Can the company provide examples of outcomes?
Incident response and monitoring	Reaction and continuous oversight	How does the company respond to serious allegations? Are there clear escalation procedures? How is the effectiveness of mitigation tracked? Are independent assessments or audits conducted?

c. Triangulate with external sources

Company input should be systematically tested against independent sources. In practice, the investor should rely on a focused set of credible sources, including:

- UN and multilateral reports,
- NGO publications,
- investigative media and specialised databases,
- legal or regulatory findings, and
- academic or policy research.

The objective is to identify consistent patterns across sources and assess whether they confirm or contradict the company's account.

d. Integrate stakeholder perspectives

Triangulation should include input, direct or indirect, from affected stakeholders. Their perspectives help investors test company narratives, identify blind spots, and assess whether mitigation measures are credible. Because investors typically operate at a distance from day-to-day activities and from affected communities, stakeholder input will most often be obtained indirectly.

In practice, indirect stakeholders' perspectives will be collected through company-led engagement processes, such as consultations, worker dialogue, grievance mechanisms, and complaint systems, assessing their inclusiveness, safety, and influence on decisions; and independent sources, including NGO and trade union reports, media investigations, and multilateral assessments, which often reflect stakeholder perspectives and lived realities.

e. Direct Engagement with Stakeholders

The primary responsibility for meaningful stakeholder engagement rests with the investee company. Investors are not generally expected to replace or duplicate these functions. However, in certain circumstances engagement with affected stakeholders may be appropriate as part of heightened human rights due diligence.

The scope and expectation of such engagement differ depending on whether the investor has caused or contributed to negative impact, or is directly linked to negative impact through a business relationship.

Where an investor has caused or contributed to an adverse impact, for example, through financing structures, governance decisions, restructuring pressures, exit strategies, or other actions that played a role in creating or exacerbating adverse impact, the investor should engage directly with affected stakeholders as any other company to:

- understand the full nature and extent of the impact;
- inform appropriate remediation measures;
- ensure that responses reflect the perspectives and needs of those affected;
- support or contribute to effective remedy.

In the most common situation where the investor is directly linked to impact through a portfolio company but has not caused or contributed to it, the primary responsibility for engagement and remedy remains with the investee. In these cases, investors should:

- assess whether the investee's stakeholder engagement processes are meaningful, inclusive, and protection-sensitive;
- evaluate the effectiveness and accessibility of grievance mechanisms;
- use leverage to strengthen these processes where necessary.

Direct engagement with stakeholders should also be considered when:

- the impact may be severe or irremediable,
- the investor has significant leverage,
- company disclosures conflict with credible evidence, or
- major decisions (e.g. escalation or exit) are being considered.

Where direct engagement is contemplated, investors should also assess and manage the risk of retaliation. In conflict-affected or repressive environments, human rights defenders, community leaders, and civil society actors may face harassment, violence, or other forms of reprisal. Investors should therefore conduct a basic retaliation-risk assessment, avoid disclosing sensitive inputs without consent, rely on anonymised or aggregated information where appropriate, and use trusted intermediaries or diaspora channels when local engagement may be unsafe.

In all cases, investors should remain open to engaging with stakeholders. Even where they have not caused or contributed to negative impact, reliance on a formal “direct linkage” classification should not justify avoidance of meaningful dialogue.

2.4.3 WHAT TO RELY ON

This step relies on a combination of company, external, and stakeholder-derived information. Core inputs include company disclosures, policies, and internal documentation, engagement discussions with management and boards, ESG, controversy, and legal databases, UN, NGO, and media reporting, and evidence from stakeholder engagement channels, whether direct or indirect.

The objective is not to expand research indefinitely, but to build a credible, cross-checked evidence base sufficient to confirm or challenge the initial assessment.

2.4.4 WHAT THIS STEP PRODUCES

The output of this step is a validated and evidence-tested view of the risk exposure.

In practice, this includes a confirmation or refinement of the identified negative impact pathways, a clearer view of the company’s understanding and role, an assessment of the credibility of its systems and responses, and identification of any gaps, inconsistencies, or contested issues.

2.4.5 WHAT TO AVOID

A frequent pitfall is relying uncritically on company disclosures. Company information is necessary but rarely sufficient, particularly in conflict-affected contexts.

Another risk is over-expanding the scope of analysis. The objective is not to conduct a full investigation, but to test the specific negative impact pathways identified in the deep dive.

Investors should also avoid treating stakeholder engagement as a formal requirement rather than a source of insight. The focus should be on whether stakeholder perspectives are meaningfully reflected, not simply whether engagement exists.

There is a further risk of misinterpreting limited access as absence of risk, particularly in public markets. Limited disclosure often increases, rather than reduces, uncertainty.

Finally, investors should avoid ignoring inconsistencies between sources. Divergences between company narratives and external evidence are not anomalies to be dismissed, but signals requiring closer scrutiny.

In practice, Step 4 requires disciplined triangulation: testing, not expanding; validating, not assuming; and grounding the analysis in credible, cross-checked evidence before moving to decisions.

2.5 STEP 5 — ASSESS INVESTOR CONNECTION AND LEVERAGE

2.5.1 WHY THIS STEP — CORE LOGIC

By Step 4, the triage and deep-dive stages identified a limited number of exposures where severe human rights or conflict-related negative human rights and conflict impacts are plausibly linked to the investment. The analysis should have clarified the main negative human rights and conflict impact pathways, the rightsholders affected, and the investee’s role in those pathways.

Step 5 shifts the analysis from the investee to the investor. Its purpose is to determine how the investor is connected to the identified impacts under the UNGP framework and what leverage exists to influence outcomes.

At its core, the assessment addresses two questions:

- Is the investor causing, contributing to, or directly linked to the adverse impact?
- What practical leverage exists to prevent, mitigate, or remediate the negative human rights and conflict impact?

The analysis should remain practical and decision-oriented. The objective is not a formal legal assessment, but a structured application of the UNGP logic to the negative human rights and conflict impact pathways already identified in the deep dive.

a. *Determining the investor’s connection to adverse human rights and conflict impact*

Under the UNGP framework, an investor’s responsibility is shaped by its own actions—such as how it structures financing, exercises governance rights, or responds to risks, but it arises first and foremost from the activities of the investee company. The starting point is therefore always the company’s conduct followed by an assessment of the investor’s role in light of that underlying activity: whether it has enabled, influenced, or merely been linked to it through the investment relationship.

i. **Starting Point: The Investee’s Conduct**

In that case, the investor’s responsibility follows a simple logic:

- Where the company causes negative human rights and conflict impact, it is expected to cease the conduct and provide or cooperate in remedy. The investor must use its leverage to ensure that this happens, and escalate if it does not.

INSIGHT FROM PRACTICE

Investors tend to prioritise what is measurable, not what is severe. The most serious risks are often low probability, high impact, and poorly quantified.

- Where the company contributes to negative human rights and conflict impact, it must cease its contribution and participate in remediation. The investor must ensure that the company recognises and addresses this role.

- Where the company is directly linked to negative human rights and conflict impact, it must use its leverage to prevent or mitigate the impact. The investor must assess whether that leverage is being exercised credibly and proportionately.

Across all three categories, the governing principle is simple: responsibility follows the company’s connection to negative human rights and conflict impact, and the investor must use its own leverage to ensure an appropriate response.

ii. **Secondary Analysis: The Investor’s Enabling or Linking Role**

Once the company’s role is clear, the assessment turns to the investor. The question is how the investor’s capital, decisions, or influence relate to the identified negative human rights and conflict impact pathway. The investor may be causing, contributing to, or directly linked to the impact through the investment relationship. This second step calibrates the investor’s responsibility and determines what forms of leverage should be used to prevent, mitigate, or remediate the negative human rights and conflict impact.

In practice, how an investor is connected to a negative human rights and conflict impact depends not only on the negative human rights and conflict impact pathway, but also on the investment strategy and level of influence. The

UNGP categories remain the same across strategies, but how they arise differs significantly between private markets, lending structures, and public equities.

Causing the negative human rights and conflict impact typically requires a high degree of operational control. For most investors, this category is rare. It may arise where a controlling private equity investor directs a portfolio company to pursue a course of action that leads to negative human rights and conflict impact—for example, accelerating extraction in a disputed territory despite known displacement risks. In project finance or public equities, causing scenarios are exceptional and would require direct control over operational decisions.

Contributing to the negative human rights and conflict impact is more common. It may arise where the investor's capital or decisions materially enable or accelerate a negative human rights and conflict impactful activity. In private equity, this may occur where an investor finances and drives rapid expansion into fragile or conflict-affected areas without adequate safeguards. In project finance, lenders may contribute where their financing is essential for a high-risk project to proceed and where severe negative human rights and conflict impact pathways were foreseeable.

In public markets, contribution may arise where an investor participates in a capital increase or refinancing that enables expansion into activities linked to repression, surveillance misuse, or abusive security practices. The key factor is materiality: whether the capital or decision significantly enables the negative human rights and conflict impactful activity.

Direct linkage is the most frequent category for diversified portfolio investors, particularly in public equity strategies. Here, negative human rights and conflict impact occurs through the investee's operations or relationships, but the investor has neither caused nor materially contributed to it. For example, an index fund holding shares in a company operating in a conflict-affected region will typically be directly linked to any negative human rights and conflict impact arising from those operations.

For investors, the task is not to apply labels mechanically, but to assess realistically whether the investment enables, shapes, or merely connects the investor to the identified negative human rights and conflict impact pathway.

iii. Contribution test

Where contribution appears plausible, the investor should apply a short, practical contribution test. Three indicators are particularly relevant:

- Capital dependence: Would the activity likely proceed without the investor's capital?
- Timing and structure: Does the investment accelerate, enable, or scale up the risky activity?
- Counterfactual analysis: What would likely happen if the investor did not participate?

If the activity would not proceed, or would proceed in a materially less negative human rights and conflict impactful form, the risk of contribution increases.

b. Mapping available leverage

Once the connection has been assessed, the investor should identify the leverage available to influence outcomes. Under the UNGPs, leverage refers to the ability to effect change in the behaviour of the investee company or other relevant actors.

The form and strength of leverage vary depending on the investment strategy and structure of the relationship.

- Governance leverage is typically strongest in private equity or other controlling or significant minority positions. Investors may hold board seats, appoint senior management, or exercise rights under

shareholder agreements. This allows direct influence over strategy, operational policies, and risk management systems. For example, a controlling investor in a mining company may use its board position to require a human rights impact assessment or delay expansion until land disputes are resolved.

- Contractual leverage is most common in project finance, infrastructure lending, and other credit-based strategies. Here, investors influence behaviour through covenants, conditions precedent, disbursement controls, or reporting obligations. For instance, a project finance lender may require an independent resettlement audit before releasing the next tranche of financing, or suspend drawdowns until labour abuses are addressed.
- Market-based leverage is the primary tool in public equities, particularly where the investor lacks control. Influence is exercised through structured engagement, voting, participation in investor coalitions, and stewardship activities. An active equity investor may vote against directors or press for independent reviews, while a passive asset manager may join collaborative initiatives to push for supply-chain reforms.

In practice, many investors use a combination of these forms of leverage across different exposures. The key question is not whether leverage exists in theory, but whether it can be used in practice to influence the specific negative human rights and conflict impact pathway identified in the deep dive.

Table: Connection Categories Across Investment Strategies

Strategy	Causing (Rare)	Contributing (Plausible)	Directly Linked (Common)
Private Equity	Directing negative human rights and conflict impactful operational decisions	Financing and driving expansion into fragile contexts	JV partner misconduct
Project Finance	Structuring conditions that directly lead to negative human rights and conflict impact	Essential financing for high-risk project	Minority participation in syndicated loan
Active Public Equity	Dominant control directing company actions	Participating in capital raise enabling negative human rights and conflict impactful expansion	Standard diversified holding
Passive	Exceptional	Rare (index inclusion decisions)	Most frequent exposure category

2.5.2 WHAT TO RELY ON

This step does not require a new layer of research. Instead, it draws on and consolidates the information already generated in the previous stages of the process., the internal analysis complemented by the evidence gathered through the testing stage. Company disclosures and engagement responses provide insight into how the investee understands and manages the risks, while external sources—such as NGO and UN reporting, investigative media, and stakeholder-informed assessments—help validate or challenge that account. Together, these inputs form a triangulated view of the situation that is sufficiently robust to support a connection assessment.

2.5.3 WHAT THIS STEP PRODUCES

The assessment provides a clear classification of the investor’s connection—whether the investor is causing, contributing to, or directly linked to the impact—supported by a short explanation grounded in the facts of the investment.

2.5.4 WHAT TO AVOID

A number of recurring pitfalls can weaken the quality and usefulness of this step if not addressed explicitly. A common issue is to treat the assessment of connection as a formal or legalistic exercise. The purpose here is not to determine liability, but to apply the UNGP logic in a practical, decision-oriented way. Overly rigid or legal interpretations can obscure the underlying question of responsibility and appropriate action. Another frequent mistake is to assess the investor’s role in isolation from the company’s conduct. The analysis must always begin with what the company is doing and how it is connected to negative impact. The investor’s connection is secondary and derivative of that underlying activity.

There is also a tendency to default to “direct linkage” without adequately testing for contribution. In practice, contribution risk is often underestimated, particularly in capital-intensive or time-sensitive investments where financing may materially enable or accelerate negative impactful activities. Applying a simple contribution test—considering capital dependence, timing, and counterfactual scenarios—can help address this bias.

On the leverage side, investors often overestimate their influence by relying on rights that exist on paper but are difficult to exercise in practice. The assessment should remain grounded in what can realistically be done within the constraints of the investment structure and market context.

Differences across investment strategies must also be taken seriously. Governance leverage in private equity, contractual leverage in lending, and market-based leverage in public equities operate in fundamentally different ways. Applying a one-size-fits-all view of influence risks producing misleading conclusions.

Finally, the outputs of this step are sometimes left disconnected from decision-making. If the assessment of connection and leverage does not directly inform engagement strategies, escalation decisions, or capital allocation, it loses much of its practical value. Equally, failing to document the reasoning behind conclusions can make the analysis difficult to defend under internal or external scrutiny.

2.6 STEP 6 — ACT ON FINDINGS

2.6.1 WHY THIS STEP

This step translates the prior analysis (negative human rights and conflict impact pathways, company connection, investor connection, leverage) into a capital allocation decision.

The key question is whether available responses and leverage can realistically alter outcomes within a defined timeframe, leading to one of four actions:

- Conditional continuation,
- Escalation and intensified intervention,
- Avoidance, suspension, restructuring, or divestment.
- In addition to remediation when appropriate.

INSIGHT FROM PRACTICE

Most investors underestimate their leverage. Capital allocation, syndication, and reputation are powerful tools of influence—even without control.

2.6.2 ALIGN ACTION WITH THE INVESTOR'S IDENTIFIED RESPONSIBILITY — HOW TO OPERATIONALISE IT

Investor action must reflect its UNGP connection category. Where the investor is causing negative human rights and conflict impact, the investor should immediately escalate internally and identify the specific governance or contractual mechanisms available to halt the activity. This may include calling an extraordinary board discussion, activating step-in rights, or freezing relevant operational decisions. A written timeline for cessation and remedy should be agreed internally before approaching the company.

In this case, the investor should provide remediation and expectations are comparable to those applicable to operating companies. The investor should also implement measures to prevent recurrence, including reviewing governance structures, decision-making processes, and oversight mechanisms.

Where the investor is contributing to negative human rights and conflict impact, the investor should conduct a structured review of how its capital, governance decisions, or financing structure may be enabling the activity. This includes examining whether capital deployment accelerated the risk, whether conditionality was insufficient, or whether oversight failed. The investor should identify corrective adjustments — such as revising financing terms, suspending expansion funding, or restructuring oversight arrangements — and define clearly what remediation participation may entail. In addition, the investor should participate in remediation in a manner proportionate to its contribution. This may involve financial participation, supporting corrective action plans, or engaging in structured dialogue with affected stakeholders where appropriate. Internal processes should be reviewed to address the factors that led to the contribution and to prevent recurrence.

Where the investor is directly linked, the operational focus is on documenting how leverage will be exercised. The investor should specify which tools will be used (board intervention, covenant enforcement, voting strategy, coalition engagement), what outcome is expected, and within what timeframe. In such situations, the investor is expected to use leverage to ensure that the investee provides effective and timely remedy.

In all situations, the investor should always keep in mind that remedy is not limited to financial compensation. It should aim to stop the negative impact, repair its consequences, and prevent recurrence.

Depending on the context, remedy may include:

- financial compensation for injury, loss of livelihood, or property damage;
- restitution, such as reinstatement of workers or restoration of land;
- rehabilitation, including medical, psychological, or legal support;
- structural reforms, such as strengthening grievance mechanisms or revising governance safeguards;

- public acknowledgment of negative impact and transparent corrective measures;

Most cases will be focused on the company activities rather than the investor's. Operationally, this involves requesting a structured update from the company tied directly to the identified negative human rights and conflict impact pathway. Rather than broad ESG updates, the investor should request a concise response addressing: actions taken, implementation evidence, timeline, and measurable outcomes.

Implementation evidence should be prioritised over commitments. This may include:

- Verification reports or audit findings;

INSIGHT FROM PRACTICE

Mitigation plans often look credible on paper.

The real test is whether they are implementable at scale, under pressure, and

- Updated operational procedures;
- Evidence of disciplinary action or contract termination;
- Grievance mechanism usage data;
- Confirmation of board-level oversight.

Where feasible, the investor should cross-check company claims with independent sources or stakeholder-informed assessments. If independent verification is not available, the absence of verification should itself be noted in the decision record.

Engagement must be structured, time-bound, and consequence-oriented. In practice, the investor should prepare a written engagement brief setting out:

- The specific negative human rights and conflict impact pathway being addressed;
- The corrective actions required;
- Measurable milestones;
- Review date;
- Escalation trigger if progress is not achieved.

For private equity investors, this may translate into formal board resolutions or revised management mandates. For project finance lenders, it may involve issuing formal notice under relevant covenants or conditioning further disbursements on verified compliance. For public equity investors, it may involve setting clear voting consequences, engaging with other institutional investors, or escalating to public statements where appropriate.

Escalation should follow a defined ladder. If initial engagement does not yield measurable progress, the investor should escalate to higher governance levels, require independent assessments, or suspend capital flows. This sequence should be predetermined rather than improvised.

2.6.3 DETERMINE CAPITAL ALLOCATION CONSEQUENCES

After engagement and any escalation efforts, the investor must make a capital allocation decision:

- If mitigation is credible and effective, continuation may proceed under defined monitoring conditions. Monitoring should include scheduled review dates and explicit triggers for reassessment.
- If mitigation is unclear or incomplete, escalation should intensify. The committee may decide to condition continuation on stricter timelines, suspend expansion capital, or require third-party verification before further exposure.
- If mitigation is ineffective or negative human rights and conflict impact is irremediable, disengagement or restructuring must be seriously considered. Before exit, the investor should conduct a brief exit impact analysis assessing whether withdrawal could worsen outcomes for affected stakeholders and whether transitional safeguards are feasible.

Where cause or contribution has occurred, remediation participation must be addressed before or alongside exit. This may involve financial participation in remediation mechanisms or continued engagement to secure remedy outcomes.

Decision Table

Assessment Outcome	Investor Action	Capital Allocation Decision
Mitigation credible and effective	Conditional continuation + monitoring	Maintain exposure
Mitigation unclear or delayed	Escalate and intensify engagement	Condition exposure
Mitigation ineffective	Restructure or suspend	Reduce exposure
Severe and irremediable impact	Responsible disengagement	Exit / avoid

2.6.4 “CRUCIAL RELATIONSHIP”

Investors may encounter the argument that a particular holding is so “crucial” to portfolio structure or market exposure that exit is effectively impossible, and that, as a result, no further escalation or capital reallocation is required beyond routine engagement.

The UNGPs recognize that a business relationship may in limited circumstances be considered “crucial” to an enterprise because the relationship provides a product or service essential to the enterprise’s operations and for which no reasonable alternative source exists. In such cases, disengagement may raise additional operational or strategic challenges.

In the investor context, a holding may be described as “crucial” where it is considered essential to portfolio construction, mandate design, or diversification objectives, and where exit is constrained by index composition, contractual lock-in, liquidity limits, or market structure. For example, a passive index fund may be required to hold a large market-cap company in the technology, energy, defence, financial services, or telecommunications sectors because it represents a significant weighting in a global benchmark. A private equity investor in the infrastructure, extractives, or logistics sectors may be bound by shareholder agreements or fund lock-up periods limiting immediate divestment. A project finance lender supporting a major transport corridor, energy installation, or mining operation may have committed capital post-financial close under long-term covenants. A sovereign bond investor may face limited liquidity in a high-risk jurisdiction where public debt exposure is embedded in emerging market indices.

While a reality, the existence of a crucial relationship does not provide a blanket exemption for structurally important counterparties and remove responsibility, it introduces nuance, not immunity. In practice, these situations may constrain immediate exit, but they heighten the importance of exercising maximum available leverage within the structure. Similarly, characterising entire sectors as automatically “crucial” whether in technology, energy, defence, infrastructure, or finance should be approached with caution. While certain exposures may be strategically significant, treating them as inherently exempt from meaningful escalation risks weakening the severity-based logic that underpins the UNGPs.

Accordingly, where divestment is constrained by mandate architecture or market structure, this constraint must be transparently recorded in the decision-making process and investors should focus on exercising the full range of stewardship and governance tools available to them in a substantive and demonstrable manner. This includes:

INSIGHT FROM PRACTICE

The hardest decisions are not technical—they are commercial. The real risk is not lack of information, but reluctance to act on it.

- clearly articulating human rights expectations to investees and embedding those expectations into engagement frameworks;

REALITY CHECK

Exit is often treated as failure. In high-risk contexts, it is sometimes the only responsible outcome.

- coordinating or participating in collective investor action where individual leverage is insufficient; exercising voting rights and governance influence in alignment with severity-based risk assessment;
- deploying contractual, financing, or covenant-based leverage where available;
- and escalating concerns through regulatory, legal, or public channels where mitigation proves inadequate.

Such actions should not be formalistic or routine, but reflect a genuine and proportionate effort to influence outcomes. Where severe and irremediable impacts persist despite sustained and documented efforts, investors should undertake a structured reassessment of whether continued exposure remains compatible with their mandate, strategy, and human rights responsibilities.

2.6.5 WHAT TO RELY ON

This step relies primarily on the outputs of the previous stages, rather than new analysis, including company responses, corrective action plans, and evidence of implementation. As well as independent verification—such as audit reports, third-party reports and so on.

2.6.6 WHAT THIS STEP PRODUCES

The output of this step is a clear, documented, and decision-oriented conclusion on the investment. At a minimum, this should take the form of a short decision note or committee input that sets out the severity of the impact, the company and investor connection, the status of mitigation, the leverage exercised or available, and the resulting decision—whether to proceed, escalate, or reduce or exit exposure. This output should also define the conditions attached to the decision, including any engagement objectives, monitoring requirements, review timelines, and escalation triggers. Where relevant, it should specify any adjustments to capital allocation, such as suspension of funding, revised exposure limits, or restructuring measures.

Crucially, the outcome should be integrated into core investment processes. This includes portfolio reviews, risk ratings, valuation assumptions, and governance discussions. Human rights and conflict-related impacts should be treated as material factors influencing the risk-return profile of the investment.

2.6.7 WHAT TO AVOID

A common pitfall at this stage is to continue engagement without clear direction or consequences. Open-ended dialogue without defined milestones or escalation triggers risks delaying necessary decisions and undermining the credibility of the process. Another frequent issue is relying on company commitments without verifying implementation. Policy statements or action plans should not be treated as sufficient unless supported by evidence of operational change.

Investors also tend to underestimate their own contribution, particularly in capital-intensive or time-sensitive transactions. Where capital is essential to sustain or expand a high-risk activity, contribution risk should be reassessed carefully before deciding to continue exposure.

Premature disengagement driven solely by reputational concerns is another risk. Exit decisions should be structured and should consider potential impacts on affected stakeholders, including whether withdrawal could worsen conditions or undermine remediation efforts.

Finally, invoking limited leverage as a justification for inaction is inconsistent with expectations from UNGPs. Where individual influence is constrained, investors should consider collective engagement or alternative forms of leverage before concluding that no action is possible.

2.7 STEP 7 — TRACK EFFECTIVENESS

2.7.1 WHY THIS STEP

Once engagement actions and capital allocation decisions have been implemented, the investor must verify whether those interventions are producing meaningful change in practice.

Heightened human rights due diligence does not end with decision-making. It requires ongoing confirmation that mitigation measures are effective, that risks are being reduced, and that adverse impacts are not persisting or re-emerging in new forms. This is particularly critical in conflict-affected or fragile contexts, where conditions can shift rapidly and where interventions may have unintended consequences.

For investors, tracking serves a dual purpose. It assesses whether the company's response is functioning as intended, and whether the investor's own use of leverage is influencing outcomes. Without this feedback loop, engagement risks becoming procedural rather than effective, and capital allocation decisions risk becoming disconnected from real-world impacts.

2.7.2 WHAT TO DO

In practice, tracking should be structured, evidence-based, and integrated into existing investment processes.

The investor should first establish clear review points aligned with the timelines set during engagement or decision-making. These review points should not be purely calendar-based, but linked to expected milestones, such as implementation of corrective actions or completion of specific operational changes.

At each review point, the investor should request targeted updates focused on implementation rather than commitments. This includes reviewing documentation such as audit findings, operational updates, grievance data, or evidence of management or board oversight. Where possible, tracking should rely on a combination of quantitative indicators—such as the number of incidents reported or grievances resolved—and qualitative indicators, including stakeholder perceptions or independent assessments.

Beyond formal indicators, the investor should pay attention to whether mitigation is effective in practice. In conflict-affected contexts, this includes assessing whether tensions between communities are stabilising or increasing, whether different groups perceive the company's activities as fair or biased, and whether staff and stakeholders consider risks to be managed responsibly. These insights will often be indirect, obtained through company reporting, third-party sources, or independent assessments.

Tracking should also explicitly assess whether the investor's leverage is producing change. This includes evaluating whether engagement objectives are being met, whether escalation measures are influencing company behaviour, and whether additional actions are required.

Where implementation stalls, timelines are missed, or indicators deteriorate, the investor should not maintain passive monitoring. Instead, the process should trigger a reassessment of the exposure, including potential escalation or reconsideration of the capital allocation decision.

Operationally, this means that tracking is not a separate activity, but a continuation of the decision-making cycle. Where new information materially changes the understanding of the risk, the investor should return to earlier steps of the

process—either re-triaging the exposure if new risks emerge broadly, or revisiting the deep-dive analysis if the specific negative impact pathway evolves.

2.7.3 WHAT TO RELY ON

Tracking relies primarily on a combination of company-provided information, independent sources, and internal monitoring systems.

Company inputs include periodic updates, corrective action reports, grievance mechanism data, audit findings, and governance-level reporting. These provide insight into whether agreed measures are being implemented and how the company is managing identified risks.

Independent and public sources play a critical complementary role. NGO reports, media investigations, multilateral assessments, and stakeholder-informed analyses can help validate or challenge company narratives and provide insight into how impacts are experienced in practice.

Internal systems are equally important. Portfolio monitoring tools, risk dashboards, stewardship logs, and engagement tracking systems allow investors to consolidate information, identify trends, and ensure consistency across exposures.

Where available, investors may also draw on established frameworks—such as the UN Guiding Principles Reporting Framework or internal ESG and risk monitoring tools—to structure tracking. The objective is not to create parallel systems, but to integrate human rights performance into existing monitoring processes.

2.7.4 WHAT THIS STEP PRODUCES

The output of this step is a dynamic and updated view of whether the investment remains defensible in light of evolving conditions.

In practice, this takes the form of updated portfolio records, risk ratings, and monitoring notes that reflect the current status of mitigation measures, the trajectory of impacts, and the effectiveness of engagement efforts. Where relevant, this may also include escalation notes or revised decision memoranda.

Tracking outputs should feed directly into portfolio reviews, investment committee discussions, and risk management processes. They should inform whether conditions attached to the investment continue to be met, whether escalation is required, or whether the investment strategy should be adjusted.

REALITY CHECK

Leverage without willingness to use it is not leverage—it is exposure.

Over time, tracking also generates institutional learning. Patterns observed across investments—such as recurring implementation gaps or effective mitigation approaches—should be captured and used to refine future decision-making and due diligence processes.

2.7.5 WHAT TO AVOID

A common pitfall is to treat tracking as a passive or purely procedural exercise, relying on periodic updates without assessing whether real-world outcomes are changing. Calendar-based monitoring without clear triggers or indicators risks missing deteriorating

conditions.

Another frequent issue is focusing on policies and commitments rather than outcomes. The existence of mitigation measures or governance structures should not be equated with effectiveness unless supported by evidence.

Investors may also overlook qualitative signals, particularly in conflict-affected contexts where perception, trust, and social dynamics are critical indicators of risk. Ignoring these dimensions can lead to an incomplete understanding of whether impacts are improving or worsening.

Over-reliance on company-provided information is another limitation. Without triangulation through independent sources, tracking may reflect only partial or overly optimistic accounts.

Finally, failure to act on tracking results undermines the entire process. Where indicators worsen or commitments are not met, investors should move decisively to reassess, escalate, or adjust exposure. Tracking is only meaningful if it leads to timely and informed action.

2.8 STEP 8 — COMMUNICATE AND ACCOUNT

2.8.1 WHY THIS STEP

Heightened human rights due diligence requires investors not only to act, but also to demonstrate how they address adverse impacts in practice. Communication is therefore a core component of responsible investment, ensuring both transparency and accountability.

Under the UNGPs, investors are expected to “know and show” how they manage human rights risks. This means that decisions, engagement efforts, and outcomes should not remain internal, but be communicated in a way that is appropriate to different audiences.

Communication serves two distinct but complementary purposes. First, it enables affected stakeholders to understand how risks and impacts are being addressed. Second, it allows investors to account publicly to beneficiaries, regulators, and wider stakeholders for how they manage severe human rights risks. These purposes require different forms, levels, and channels of disclosure.

In conflict-affected contexts, communication must also be handled with care. Poorly calibrated disclosure can create risks for affected individuals or undermine ongoing mitigation efforts. This step therefore requires balancing transparency with a “do no harm” approach.

2.8.2 WHAT TO DO

In practice, investors should structure communication along two main axes: communication toward affected stakeholders and public or institutional accountability.

Where communication concerns affected stakeholders, investors will most often act indirectly. Given their position in the value chain, direct communication with communities or workers is rare. Instead, investors should ensure that investee companies communicate appropriately, including through accessible grievance mechanisms, consultation processes, and disclosure of mitigation measures. Investors can reinforce this by setting clear expectations on stakeholder engagement and transparency during the engagement phase.

Where direct communication by the investor is appropriate—typically in high-severity situations, or where the investor has significant leverage—it should be carefully designed. This includes adapting communication to local languages, literacy levels, and cultural norms, and ensuring that engagement does not expose participants to retaliation. In such cases, investors may rely on trusted intermediaries, independent experts, or diaspora channels to facilitate safe and effective communication.

For broader accountability, investors should integrate human rights considerations into their regular reporting and disclosure practices. This includes clearly explaining how severe risks were identified, how leverage was exercised, and

how decisions—whether to continue, escalate, or exit—were made. Communication should go beyond general commitments and provide insight into processes, actions taken, and outcomes achieved.

In conflict-affected contexts, investors should apply a conflict-sensitive communication approach. Before disclosing information, they should assess whether publication could expose stakeholders to negative impact, undermine ongoing engagement with authorities or other actors, or create unintended consequences. Where risks exist, information may need to be anonymised, aggregated, or delayed. At the same time, sensitivity should not be used as a blanket justification for withholding material information. The objective is to strike a balance between transparency and protection.

Operationally, this means that communication should be planned, documented, and aligned with the overall due diligence process. Key messages, disclosure formats, and timing should be considered as part of investment governance, rather than as an afterthought.

2.8.3 WHAT TO RELY ON

Effective communication relies on the outputs of previous steps in the due diligence process. This includes negative impact pathway analysis, assessments of company and investor connection, records of engagement and escalation, and tracking data on mitigation effectiveness. These inputs provide the factual basis for credible and consistent disclosure.

Investors should also rely on existing reporting frameworks and internal processes. Stewardship reports, sustainability disclosures, annual reports, and regulatory filings provide established channels through which human rights information can be communicated. Where relevant, frameworks such as the UN Guiding Principles Reporting Framework can help structure disclosures.

2.8.4 WHAT THIS STEP PRODUCES

The output of this step is a set of clear, consistent, and defensible communications that reflect how the investor manages severe human rights risks.

In practice, this includes disclosures integrated into regular reporting cycles, such as stewardship reports or sustainability statements, as well as targeted communications related to specific high-risk exposures where appropriate.

For affected stakeholders, outputs may include improved company-level communication processes, clearer expectations on disclosure, and—where relevant—structured engagement supported by the investor.

For institutional audiences, outputs include documented explanations of how risks were identified, how leverage was used, and how decisions were made. These communications should demonstrate alignment with the UNGPs and show how human rights considerations are integrated into investment decision-making.

More broadly, communication outputs contribute to institutional accountability and credibility. They ensure that HHRDD processes are visible, reviewable, and subject to scrutiny, both internally and externally.

2.8.5 WHAT TO AVOID

A common pitfall is treating communication as a purely reputational or compliance exercise, focused on general statements rather than substantive disclosure. High-level commitments without evidence of action or outcomes undermine credibility.

Another risk is over-disclosure without sufficient attention to context. In conflict-affected environments, revealing sensitive information—such as the identity of complainants, details of local engagement, or interactions with authorities—can expose individuals to retaliation or disrupt mitigation efforts.

Conversely, excessive caution may lead to unnecessary opacity. Invoking “conflict sensitivity” as a blanket justification for withholding information can weaken accountability and erode trust with stakeholders.

Investors should also avoid fragmentation, where communication is inconsistent across different reporting channels or disconnected from internal decision-making. Disclosures should reflect actual processes and outcomes, not parallel narratives.

Finally, communication should not be disconnected from action. Transparency is meaningful only when it reflects real efforts to prevent, mitigate, and address negative impact. The credibility of communication ultimately depends on the quality and consistency of the underlying due diligence process.

In essence, tracking ensures that actions are effective, while communication ensures that responsibility is visible. Together, they complete the HHRDD cycle—linking analysis, action, and accountability into a coherent and defensible investment practice.

2.9 STEP 9 — MONITOR EXPOSURES AND TRIGGERS

2.9.1 WHY THIS STEP

Tracking (step 7) and monitoring are closely related but serve different functions in the HHRDD process.

Monitoring is about watching the external environment and key risk signals over time. It is forward-looking and event-driven. The objective is to detect changes that may affect the risk profile of an investment—such as conflict escalation, new allegations, sanctions, political instability, or ownership changes. Monitoring answers: “*Has anything changed that should trigger reassessment?*” Tracking, by contrast, is about assessing whether actions taken are working in practice. It is inward-looking and performance-oriented. The objective is to evaluate whether mitigation measures, engagement efforts, or corrective actions are being implemented and are effective in reducing negative impact. Tracking answers: “*Are our (and the company’s) responses delivering results?*”

INSIGHT FROM PRACTICE

Monitoring often becomes passive over time. Without clear triggers for action, it turns into risk acceptance by default.

This step ensures that investors remain continuously attentive to such changes and are able to respond in a structured and timely manner. The objective is not to re-run the full analysis at regular intervals, but to establish a disciplined process that detects material developments early and translates them into appropriate follow-up actions.

2.9.2 WHAT TO DO

Monitoring should be implemented as an event-driven and embedded process within portfolio management, rather than as a periodic or compliance-based exercise. Each exposure identified as presenting elevated risk should be formally placed under monitoring, with clear ownership assigned within the investment team. In practice, this means that the investor or analyst responsible for the exposure ensures that relevant information flows—both internal and external—are actively tracked and reviewed.

A central element of effective monitoring is the definition of trigger events. These are specific developments that signal a potential change in the risk profile and require further attention. Triggers may arise from the broader context, such as escalation of conflict, new sanctions, or political shifts; from the company itself, such as security incidents, allegations of

abuse, or expansion into higher-risk areas; or from the investor's own position, including changes in exposure, refinancing, or ownership structure.

When such a trigger occurs, the investor should carry out a rapid, structured assessment to determine whether the new information affects the previously identified negative impact pathways or the severity of the impact. This assessment does not require a full re-analysis but should result in a short, decision-oriented note clarifying whether further action is required.

A critical discipline at this stage is deciding whether to return to earlier steps in the process:

- Where information remains preliminary, uncertain, or not yet clearly connected to a defined negative impact pathway, the appropriate response is to return to Step 2 (triage). The objective in such cases is to validate the signal and determine whether the exposure should be escalated for deeper analysis.
- By contrast, where credible allegations emerge, severity increases, or new negative impact pathways become apparent, the process should return to Step 3 (deep dive). This allows for a full reassessment of impacts, company conduct, and investor connection.

Monitoring should also lead to escalation where necessary. If new information indicates that negative impact is persisting, worsening, or not being addressed, the investor should not remain in a passive observation mode. Instead, the exposure should be flagged for intensified engagement or action, in line with the subsequent step of the process. For example, a project finance lender may pause disbursements in response to unresolved labour abuses; a private equity investor may elevate the issue to board level following repeated security incidents; and a public equity investor may intensify engagement or adjust voting positions following credible allegations of misconduct.

Finally, monitoring must be integrated into core investment processes. It should inform portfolio reviews, risk ratings, valuation assumptions, and internal governance discussions. All monitoring activities and resulting decisions should be documented in a manner that allows for internal accountability and external scrutiny.

2.9.3 WHAT TO RELY ON

Effective monitoring depends on the systematic use of accessible and credible information sources, combining both internal and external inputs. External sources typically include ESG controversy alerts, NGO and UN reporting, investigative media, and specialised human rights or conflict databases. These provide real-time or near real-time visibility on emerging issues and help identify developments that may not be captured through company disclosures.

Internal sources are equally important. These include engagement records, company reporting, incident logs, and governance-level documentation such as board updates or lender monitoring reports. In many cases, these internal channels provide early signals of operational challenges or emerging risks.

In addition, existing AML and KYC systems can play a valuable complementary role. Sanctions alerts, beneficial ownership changes, and suspicious transaction flags may indicate shifts in exposure that are directly relevant to conflict dynamics or human rights risks.

The objective is not to create new data systems, but to use existing information flows in a more structured and risk-oriented manner, ensuring that relevant signals are identified, interpreted, and acted upon.

2.9.4 WHAT THIS STEP PRODUCES

The outputs of monitoring should be concise, decision-relevant, and directly usable within investment processes. Rather than generating extensive reports, this step should produce clear and structured updates that inform decision-making.

In practice, this includes updated risk flags or watchlists, short trigger-based reassessment notes, and, where relevant, escalation or exit recommendations. Monitoring may also feed into dashboards that track high-risk exposures across the portfolio, allowing investment teams to maintain a clear overview of evolving risks.

These outputs should be systematically integrated into portfolio reviews, investment committee materials, and risk management systems. Monitoring is therefore not an isolated function, but a continuous input into capital allocation, engagement strategy, and overall portfolio oversight.

2.9.5 WHAT TO AVOID

A number of common pitfalls can undermine the effectiveness of monitoring if not addressed explicitly. One of the most frequent is reliance on periodic or calendar-based reviews, which often fail to capture fast-moving developments. This can be mitigated by adopting an event-driven approach anchored in clearly defined triggers.

Another risk is focusing on company policies or commitments rather than actual outcomes. Monitoring should prioritise real-world indicators—such as incidents, allegations, or stakeholder reports—over formal disclosures.

Delayed escalation is also a recurring challenge. Without predefined thresholds or response protocols, investors may remain in extended engagement without taking meaningful action. Establishing clear escalation triggers helps ensure that monitoring leads to timely decisions.

At the same time, investors should avoid overreacting to weak or unverified signals. Not all alerts justify a full reassessment, and the triage step plays a critical role in filtering information before escalation.

Finally, monitoring loses its value if it is not connected to investment decisions. Outputs must be actively used to inform risk assessments, engagement strategies, and capital allocation choices.

2.9.6 KEY POINT

Monitoring is not an end in itself. It is a mechanism to ensure that heightened human rights due diligence remains responsive, evidence-based, and aligned with evolving realities.

Signals must be identified, assessed, and translated into action. Where conditions change, the process must loop back—either to triage or to deep analysis. Where risks escalate and negative impact persists, continued exposure must be actively reconsidered.

In this way, monitoring ensures that investor decision-making remains grounded not only in initial assessments, but in the ongoing realities experienced by affected people.

2.10 GRIEVANCE MECHANISMS AS ACCESS TO REMEDY, EFFECTIVENESS, AND RISK GOVERNANCE

HHRDD requires more than identifying risks and designing mitigation measures. It requires evidence that impacts are being prevented, that negative impact is addressed where it occurs, and that affected stakeholders have meaningful access to remedy. In this context, grievance mechanisms are not peripheral features of responsible business conduct. They are structural components of credible due diligence systems. Their effectiveness should be assessed against the UNGP criteria of legitimacy, accessibility, predictability, equity, transparency, rights-compatibility, and continuous learning.

2.10.1 WHEN INVESTOR-LEVEL MECHANISMS MAY BE APPROPRIATE

Under the UNGPs, the primary responsibility to establish operational-level grievance mechanisms rests with enterprises whose activities may cause or contribute to adverse impacts. For most investors — particularly minority public equity investors — the central expectation is therefore to assess the adequacy of investee-level mechanisms and to use available leverage to strengthen their effectiveness.

In certain circumstances, however, it may be appropriate for an investor to consider a grievance mechanism at its own level. This may arise where:

- The investor exercises significant governance influence (e.g., through private equity ownership, board representation, controlling stakes, or structured project finance).
- The investment involves severe or conflict-related human rights risks.
- Investee-level grievance mechanisms appear inaccessible, lack independence, or do not provide credible protection against retaliation.
- There are persistent patterns of unresolved complaints or indications of systemic weakness.

In such situations, an investor-level grievance channel may serve as a complementary safeguard. Its purpose is not to replace company-level mechanisms, but to provide an additional pathway for serious concerns where leverage, exposure, and risk profile require enhanced oversight.

Even where an investor-level mechanism is not strictly required, investors should recognise that effective grievance systems is a core element of risk oversight, particularly with investments in conflict-affected contexts, and consider establishing one. A functioning grievance mechanism provides structured visibility into operational realities that may not be captured through reporting dashboards, ESG ratings, or management assurances.

Grievance trends offer an early-warning signal. Patterns of unresolved complaints, retaliation risks, or recurring allegations may reveal weaknesses in governance, controls, or organisational culture before they escalate into litigation, regulatory exposure, operational disruption, or reputational damage. Conversely, evidence of timely response, credible remedy, and institutional learning signals organisational robustness.

2.10.2 GRIEVANCE MECHANISMS AS RISK GOVERNANCE INFRASTRUCTURE

Beyond their remedial function, both company- and investor-level grievance mechanisms form part of investment governance architecture.

They provide structured access to stakeholder perspectives that may not otherwise surface through traditional risk management systems. When integrated into the HHRDD cycle, grievance data plays a critical role in refining risk assessments, informing leverage decisions, and tracking effectiveness.

First, grievance mechanisms help update risk assessments (Step 3) by revealing whether risks identified at the desk-based stage are materialising in practice. Complaint patterns may expose gaps in labour oversight, land acquisition processes, security arrangements, or supply-chain controls. They may also surface emerging risks not previously identified. Conversely, the absence of complaints in high-risk environments may indicate barriers to access rather than absence of negative impact. In this way, grievance data converts abstract risk mapping into operational intelligence and allows investors to reassess whether existing controls remain adequate.

Second, grievance trends inform leverage and escalation decisions (Step 6). Persistent unresolved complaints, allegations of retaliation, or recurring systemic issues may indicate governance weaknesses requiring intensified

engagement, board-level intervention, or reconsideration of exposure. Conversely, evidence of credible remedy and institutional learning may support continued engagement. Grievance data enables investors to calibrate leverage proportionately, grounding escalation decisions in evidence rather than perception.

Third, grievance mechanisms are central to effectiveness tracking (Step 7). They provide one of the most direct tests of whether mitigation measures are working in practice. Investors should assess not only whether complaints are processed, but whether outcomes address root causes and lead to tangible improvements for affected stakeholders. Declining recurrence, improved response quality, and demonstrable institutional learning signal that due diligence is functioning. Persistent negative impact despite formal controls suggests the opposite.

Properly interpreted, grievance mechanisms connect stakeholder experience to investment oversight. They reinforce governance discipline across the entire HHRDD cycle — from risk identification to escalation and continuous improvement.

However, the core normative purpose of grievance mechanisms remains the provision of effective remedy. Remedy is not synonymous with procedural closure or administrative resolution. It entails, where appropriate, acknowledgement of negative impact, corrective action addressing underlying causes, and outcomes that lead to meaningful improvement for affected stakeholders. Investors should therefore look beyond procedural indicators — such as the number of cases received or closed — and assess whether resolutions are fair, rights-compatible, and credible in the eyes of those affected.

2.10.3 FIVE RED FLAGS IN GRIEVANCE MECHANISMS FOR INVESTORS

Investors conducting heightened human rights due diligence should treat the following as warning indicators requiring closer scrutiny or escalation either for their own or an investee company's mechanism:

1. **Chronic Under-Reporting in High-Risk Contexts:** Very low complaint volumes in environments characterised by conflict, repression, or known labour or land risks may signal fear, lack of awareness, or structural barriers to access.
2. **Repeated Complaints on the Same Issue:** Recurring allegations relating to land acquisition, discrimination, security force conduct, or labour rights — without systemic corrective action — indicate governance failure rather than isolated incidents.
3. **Evidence of Retaliation or Intimidation:** Any credible indication of reprisals against complainants undermines the legitimacy of the mechanism and raises serious human rights and reputational risk.
4. **Management-Controlled Closure Without Oversight:** Serious allegations handled exclusively at local operational level, without escalation to senior management or board oversight, signal weak governance.
5. **Absence of Remedy or Meaningful Outcomes:** High case closure rates without evidence of corrective action or stakeholder satisfaction suggest procedural compliance rather than effective remedy.

When these indicators are present, investors should consider enhanced engagement, governance intervention, conditionality, or reassessment of continued exposure.

III Annexes

The annexes provide practical tools to support implementation of the HHRDD process set out in this Guide. They translate the analytical framework into operational instruments that can be embedded in investment workflows, committee materials, stewardship processes, and monitoring systems.

The annexes included in this Guide are:

1. HHRDD Dashboard — A structured tool for exposure mapping, prioritisation, and ongoing monitoring across portfolios and asset classes.
2. Engagement Scripts — Practical guidance to support proportionate, leverage-based dialogue with investees, aligned with severity and connection assessments.
3. Exit & Disengagement Cheat Sheet — A decision-support tool to structure Stage 5 escalation analysis and assess when restructuring, reduction, or exit becomes defensible.
4. Investment Committee (IC) Decision Sheet — A governance template to document severity, leverage, mitigation credibility, and final investment determinations in a consistent and defensible manner.
5. Defence Sector Investments — HHRDD Snapshot — Targeted guidance for assessing exposure in defence-related contexts, including situations where international humanitarian law (IHL) and heightened scrutiny are particularly relevant.
6. Measuring HHRDD Effectiveness: Indicators and KPIs — A framework to track implementation, monitor mitigation progress, and assess whether investor actions are producing measurable improvements over time.

Each annex is designed to support a specific component of the governance and escalation architecture while remaining adaptable to different portfolio structures and investment strategies.

These annexes are indicative tools intended to support consistent, well-documented, and defensible decision-making under the UNGPs) and the HHRDD framework. They are deliberately modular. Investors may adapt, scale, or refine them according to portfolio size, asset class, governance structure, and internal risk architecture. Smaller teams may use simplified formats; larger institutions may integrate them into dashboards, credit memoranda, or investment committee templates.

Importantly:

- The tools are decision-support instruments, not mechanistic checklists.
- They do not replace professional judgement.
- They do not substitute for context-specific analysis.
- They do not predetermine outcomes. Final decisions — including engagement, capital conditioning, restructuring, or exit — remain governance determinations taken in light of financial, legal, and human rights considerations.

1. HHRDD DASHBOARD

The Dashboard provides an example on how to translate the nine-step process into a live oversight tool, allowing investment teams to see—at a glance—where severe risk sits across portfolios and where escalation is required.

The Dashboard should be used as a rolling management instrument. It should integrate outputs from triage (Step 2), deep dives (Step 3), connection and leverage analysis (Step 5), and monitoring (Step 9). The Dashboard is not a reporting tool for external audiences; it is a decision-support mechanism for internal portfolio oversight, investment committees, and stewardship teams. It should be updated when:

- new exposures are flagged,
- conflict dynamics shift,
- credible allegations emerge, or
- engagement milestones are missed.

a. *Conflict Context Snapshot*

Dimension	Rating	Action Implications
Conflict Presence	Low	Maintain periodic monitoring; reassess annually or upon material event.
	Medium	Increase monitoring frequency; initiate contextual review; update IC memo.
	High	Immediate deep-dive (Step 3); notify Risk/IC; suspend new exposure pending reassessment.
Conflict Drivers	Low	Note drivers; integrate into country risk file.
	Medium	Conduct structural risk mapping; test sector exposure sensitivity.
	High	Commission enhanced contextual analysis; evaluate long-term portfolio viability.
Actor Landscape Complexity	Low	Standard counterparty screening sufficient.
	Medium	Expand screening to beneficial ownership and political affiliations.
	High	Conduct enhanced sanctions/IHL linkage screening; map conflict actor exposure.
Conflict Trajectory	Stabilising	Maintain exposure with watchlist triggers.
	Volatile	Introduce event-driven monitoring; reassess downside scenarios.
	Escalating	Freeze new capital deployment; trigger escalation review; update exit preparedness.

b. Investment–Conflict Interaction

Pathway	Risk Level	Action Implications
Resource Allocation / Control	Low	Document limited conflict interaction; periodic reassessment.
	Medium	Conduct targeted negative impact pathway mapping; initiate routine engagement.
	High	Formal engagement required; test for contribution risk; escalate to IC.
Power Dynamics Shift	Low	No material governance distortion identified.
	Medium	Assess elite capture risk; monitor distribution of benefits.
	High	Evaluate risk of reinforcing conflict actors; consider conditionality or exposure reduction.
Security Interface	Low	Monitor security governance structures.
	Medium	Assess security oversight; require safeguards documentation.
	High	Immediate escalation; apply IHL scrutiny; evaluate liability exposure.
Distribution of Benefits	Low	No exclusionary patterns identified.
	Medium	Require inclusion measures; monitor grievance trends.
	High	Condition engagement on corrective plan; assess reputational and conflict relapse risk.

c. Conflict Impact Classification

Classification	Description	Action Implications
Neutral	No interaction with conflict	Continue monitoring; reassess annually.
Mitigating	Reduces tensions	Reinforce positive contribution; document stabilising factors.
Exacerbating	Increases tensions	Immediate escalation (Step 6); formal corrective action plan required.
Entrenching	Reinforces structural conflict drivers	Exposure likely indefensible absent structural change; initiate exit review.

d. Investor Leverage Assessment

Pathway	Assessment	Leverage Strength
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Governance leverage	Board seats, voting rights, management influence	<input type="checkbox"/> L <input type="checkbox"/> M <input type="checkbox"/> H
Contractual leverage	Covenants, conditions, disbursement control	<input type="checkbox"/> L <input type="checkbox"/> M <input type="checkbox"/> H
Financial leverage	Ability to provide, withhold, or restructure capital	<input type="checkbox"/> L <input type="checkbox"/> M <input type="checkbox"/> H
Market / reputational leverage	Public pressure, coalitions, voting, exit signal	<input type="checkbox"/> L <input type="checkbox"/> M <input type="checkbox"/> H
Collective leverage	Ability to act with other investors or stakeholders	<input type="checkbox"/> L <input type="checkbox"/> M <input type="checkbox"/> H

Leverage Strength	Action Implications
Strong	Active engagement mandatory; set time-bound corrective milestones.
Medium	Structured engagement required; explore coalition leverage; define viability window.
Weak	Assess defensibility of continued exposure; escalate internally.
Insufficient	Engagement unlikely to alter outcome; move to exit consideration.

e. *Leverage Effectiveness Classification*

Category	Description	Action Implications
Sufficient	Leverage is strong enough to influence outcomes within a defined timeframe	Formal engagement plan; track milestones; reassess quarterly.
Partial	Some leverage exists but impact is uncertain or indirect	Define clear “engagement viability window.” Prepare parallel exit analysis.
Limited	Leverage exists in theory but is difficult to exercise in practice	Assess coalition-building options.
Insufficient	No realistic ability to influence outcomes	Initiate structured exit or exposure reduction process.

f. *Decision Matrix*

Impact ↓ / Leverage →	Strong / Sufficient Leverage	Weak / Insufficient Leverage
Neutral / Mitigating Impact	PROCEED & SUPPORT Maintain exposure and reinforce positive practices. Use available leverage to consolidate mitigating effects and ensure stability.	MONITOR Maintain exposure with light-touch monitoring. No active intervention required unless conditions change.

Negative Impact
(Exacerbating /
Entrenching)

ENGAGE & CONDITION Active engagement
required. Set clear, time-bound conditions
and use available leverage to drive change.
Escalate if progress is insufficient.

EXIT / AVOID Exposure is not
defensible. Reduce, restructure, or
divest. Consider responsible exit and
potential remediation implications.

g. Key Red Flags / Triggers

Conflict escalation Allegations / incidents Sanctions / political shift Community tensions Security force involvement

h. Monitoring & Triggers

Trigger	Action
New allegations	Return to deep dive
Escalation of conflict	Reassess exposure
Failure of mitigation	Escalate decision

2. ENGAGEMENT SCRIPTS

Engagement is central to investor due diligence because it is the primary channel through which investors test company systems, exercise leverage, and influence corrective action without assuming operational control. In the context of HHRDD, investors need structured, severity-based dialogue that tests company awareness, due diligence quality, and mitigation credibility. This annex provides a template of practical engagement prompts aligned with the potential escalation stages of the process.

a. *Overall Engagement Results and Actions*

The table below links engagement outcomes to the staged escalation framework described in this annex. Engagement is progressive. As signals strengthen or deteriorate, investors should move systematically from early clarification to performance-linked engagement, formal escalation, and—where necessary—defensibility review and strategic withdrawal. Remaining in an earlier stage despite deteriorating signals creates both human rights and fiduciary risk.

Signal	Interpretation	Move to Stage	Required Action
Clear evidence and credible, operational systems	Risk appears manageable; mitigation functioning in practice	Remain in Stage 1 – Clarification & Information Gathering	Proceed with defined conditions; maintain structured monitoring
Partial responses or weak evidence	Execution risk; systems may exist but lack operational depth	Move to Stage 2 – Risk Testing & System Challenge	Require additional documentation; probe negative impact pathways; define follow-up timeline
No evidence, contradictions, or evasive responses	High probability of unmanaged or concealed negative impact	Move to Stage 3 – Performance-Linked Engagement	Establish time-bound corrective milestones tied to capital exposure
No measurable progress over agreed timeframe	Mitigation ineffective or non-credible	Move to Stage 4 – Formal Escalation & Governance Intervention	Escalate to board/senior level; consider capital restriction or voting action
Severe, ongoing, or irremediable negative impact	Exposure likely non-defensible under UNGP/HHRDD standards	Move to Stage 5 – Defensibility Review & Strategic Withdrawal	Initiate structured exit assessment; evaluate restructuring or withdrawal

b. *Stage 1 — Clarification & Information Gathering*

Objective	Routine engagement and test whether the company understands the identified risk pathways, recognises its role, and has credible systems in place.
When to Use	Immediately following Step 3 (Deep Dive) and Step 4 (Evidence Testing).
Core Message	“We have identified specific human rights and/or conflict-related risk pathways linked to your operations. We would like to understand how these risks are identified and managed in practice.”

Investor Questions (Core Set)	<p>Risk Identification</p> <ul style="list-style-type: none"> • What are your most severe human rights and conflict-related risks, and how were they identified? • Which risks are considered salient, and on what basis? • What internal, external, or stakeholder inputs informed this assessment? <p>Company Role</p> <ul style="list-style-type: none"> • How do you assess whether you cause, contribute to, or are directly linked to these risks? • Have you modified, delayed, or exited activities as a result of these risks? <p>Systems and Controls</p> <ul style="list-style-type: none"> • What due diligence processes apply in high-risk or conflict-affected contexts? • How are contractors, partners, and security actors screened and managed? • How do grievance mechanisms function in practice, and who can access them?
Expected Outputs	Clear view of company understanding; initial assessment of system credibility; identification of gaps or inconsistencies.
Escalation Trigger	Failure to recognise material risks; generic or policy-level responses; absence of implementation detail.

c. *Stage 2 — Risk Testing & System Challenge*

Objective	Validate implementation and test operational reality against company claims.
When to Use	Where Stage 1 responses lack evidence, depth, or consistency with external sources.
Core Message	“We would like to understand how your mitigation measures are implemented in practice and how effectiveness is verified.”
Investor Questions (Evidence-Focused)	<p>Implementation Evidence</p> <ul style="list-style-type: none"> • What concrete operational changes have been implemented in the last 6–12 months? • What evidence demonstrates that these measures are functioning in practice? <p>Incident Management</p> <ul style="list-style-type: none"> • How are incidents identified, recorded, and escalated internally? • What actions are triggered when serious allegations arise? <p>Grievance and Remedy</p> <ul style="list-style-type: none"> • How many grievances have been filed and resolved in the last reporting period? • Can you provide recent, anonymised examples of outcomes? <p>Verification</p> <ul style="list-style-type: none"> • Have independent audits or third-party assessments been conducted? • How do you internally verify effectiveness beyond policy compliance?
Expected Outputs	Evidence-based validation; identification of implementation gaps; distinction between policy and practice.
Escalation Trigger	Absence of verifiable evidence; contradictions with external reporting; ineffective or non-functional systems.

d. *Stage 3 — Performance-Linked Engagement*

Objective	Translate findings into clear, time-bound corrective actions.
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When to Use	Where negative impact pathways are credible, material, and require corrective action (pre-Step 6).
Core Message	“Based on our assessment, specific corrective actions are required to address the identified risks.”
Investor Questions (Action-Oriented)	<p>Corrective Actions</p> <ul style="list-style-type: none"> • What specific actions will you take to address the identified risk pathway? • Who is accountable at management and board level for implementation? <p>Timeline and Milestones</p> <ul style="list-style-type: none"> • What is the implementation timeline? • What measurable milestones will demonstrate progress? <p>Evidence and Verification</p> <ul style="list-style-type: none"> • What evidence will confirm completion? • Will independent verification be conducted? <p>Remedy (if applicable)</p> <ul style="list-style-type: none"> • How will affected stakeholders access remedy? • What remediation has been or will be provided?
Expected Outputs	Agreed action plan; defined milestones; clear timelines; evidence requirements.
Escalation Trigger	Refusal to engage; absence of clear commitments; lack of accountability or timeline.

e. ***Stage 4 — Escalation***

Objective	Apply intensified leverage where mitigation is insufficient, delayed, or ineffective.
When to Use	Where milestones are missed, implementation stalls, or risk indicators deteriorate (Step 7 or 9 signals).
Core Message	“Given the lack of sufficient progress, escalation is required.”
Investor Questions (Pressure Testing)	<p>Progress Failure</p> <ul style="list-style-type: none"> • Why have agreed actions not been implemented? • What specific barriers are preventing progress? <p>Governance Accountability</p> <ul style="list-style-type: none"> • Has this issue been escalated to senior management or the board? • What decisions have been taken at that level? <p>Revised Plan</p> <ul style="list-style-type: none"> • What immediate corrective actions will now be implemented? • How does this differ from the previous plan? <p>Verification</p> <ul style="list-style-type: none"> • Will independent verification now be commissioned?
Expected Outputs	Formal escalation record; revised action plan; explicit consequences communicated.
Escalation Trigger	Continued absence of measurable progress within defined timeframe.

f. ***Stage 5 — Last Chance Review***

Objective	Signal that capital allocation consequences are imminent.
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When to Use	Immediately prior to Step 6 decision-making.
Core Message	“Continued exposure depends on demonstrable and verifiable progress.”
Investor Questions (Decision-Critical)	<ul style="list-style-type: none"> • What measurable changes have occurred since the last engagement? • What evidence demonstrates that risks are being reduced in practice? • What outcomes will be achieved within the next defined period? • On what basis should continued exposure remain defensible?
Expected Outputs	Final company response; decision-ready evidence base.
Escalation Trigger	Insufficient progress; absence of credible forward plan.

g. Documentation Requirements

What to Record	<ul style="list-style-type: none"> • Negative impact pathway addressed • Engagement stage • Questions asked • Company responses • Evidence provided • Gaps identified • Agreed actions and timeline • Escalation triggers
Purpose	Ensures consistency, auditability, and defensibility under internal and external scrutiny.

3. EXIT & DISENGAGEMENT CHEAT SHEET

When Escalation Ends and Withdrawal Begins

Divestment is often a difficult decision. It may entail financial loss, diminished influence, reputational consequences, political sensitivities, and concern about unintended impacts on affected stakeholders. In some contexts, remaining invested may appear to preserve leverage. Yet continued exposure in the face of severe and unmitigated negative impact can generate legal, regulatory, fiduciary, and reputational risk. The question is not whether risk exists — but whether continued exposure remains defensible.

Exit is neither automatic nor indefinitely deferrable. As outlined in Annex 2, investors progress from routine engagement to structured engagement, governance-level escalation, and capital restriction. Exit becomes relevant when these stages fail to deliver credible mitigation within a defined timeframe.

This annex supports Stage 5 — Exit or Restructuring and assists Investment Committees in determining:

- When exit should be considered,
- When further escalation remains proportionate,
- When reduction or restructuring is appropriate,
- When withdrawal becomes necessary.

The assessment rests on four variables: severity, mitigation credibility, leverage, and time-bound progress.

Exit becomes warranted when severe negative impact persists, mitigation lacks credibility, leverage is ineffective or exhausted, and continued engagement no longer alters outcomes.

Exit is not failure. It is the final escalation measure when exposure ceases to be defensible.

3.1 THRESHOLD GATE

- Is This an Exit-Relevant Situation?

Initiate exit analysis where one or more of the following apply:

- Confirmed severe or widespread negative impact
- Credible risk of irremediable or irreversible negative impact
- Persistent grievance escalation without effective remedy
- State violence involving investee participation or linkage
- Retaliation against complainants
- Refusal to engage or obstruction of due diligence

If none apply → remain within the current escalation stage.

If one or more apply → proceed to structured Exit Assessment.

3.2 STRUCTURED EXIT ASSESSMENT

Assessment Focus	Key Questions	Governance Signal
Severity	<ul style="list-style-type: none"> Is severe negative impact ongoing? Is there risk of irreparable or irremediable negative impact? Are grievances repeatedly unresolved? Is there systemic discrimination or forced displacement? 	One positive response indicates severity. Two or more affirmative responses indicate High Severity, materially elevating the defensibility threshold.
Mitigation Credibility	<ul style="list-style-type: none"> Is there a clear corrective plan with measurable targets? Is progress independently verified? Is there a defined remediation timeline? Is there evidence of operational change? Is the investee cooperating transparently and in good faith? 	<p>Mitigation is:</p> <ul style="list-style-type: none"> High where corrective plans are measurable, verified, and time-bound; Moderate where plans exist but lack consistency or verification; Low where mitigation is absent, non-credible, obstructed, or repeatedly delayed.
Leverage Capacity	<ul style="list-style-type: none"> Do we have board representation or governance influence? Do we exercise voting control? Are contractual or covenant tools available? Is the investee dependent on our capital? Is there co-investor alignment? 	<p>Leverage is:</p> <ul style="list-style-type: none"> Strong where meaningful influence exists; Moderate where influence is partial; Weak where influence is minimal or exhausted.
Time Discipline	<ul style="list-style-type: none"> Is credible improvement achievable within ≤ 6 months? If not, within 6–18 months? Is there no defined timeline? 	<p>Absence of a credible timeline downgrades mitigation credibility. Indefinite mitigation is not credible mitigation.</p>

3.3 DECISION SIGNAL

Exit becomes warranted when:

- Severity is high,

- Mitigation credibility is low,
- Leverage is ineffective or exhausted, and
- No time-bound progress is achievable.

Immediate withdrawal should be considered where severe negative impact is ongoing, mitigation is absent or obstructed, leverage is unavailable, or continued exposure creates material legal, sanctions, or complicity risk.

Mitigation ↓ / Leverage →	Strong Leverage	Moderate Leverage	Weak Leverage
HIGH MITIGATION	CONDITIONAL CONTINUATION Mitigation is credible and measurable; leverage is effective. Maintain exposure subject to defined milestones and review triggers.	TIGHT ESCALATION Mitigation progressing but influence constrained. Intensify engagement and formalise timeline for sustained improvement.	MONITOR WITH EXIT PREPARATION Operational response improving but influence limited. Monitor closely and prepare contingency reduction strategy.
MODERATE MITIGATION	GOVERNANCE-LEVEL ESCALATION Mitigation incomplete despite available leverage. Escalate to board-level engagement with binding corrective expectations.	ESCALATE WITH TIMELINE Mitigation credibility uncertain and influence partial. Impose defined milestones and formal escalation triggers.	STRUCTURED REDUCTION Mitigation uncertain and leverage limited. Evaluate exposure reduction while testing remaining influence options.
LOW MITIGATION	FINAL CONDITIONAL ATTEMPT Severe gap in mitigation despite strong influence. One defined corrective window before withdrawal planning.	WITHDRAWAL PLANNING Mitigation not credible and leverage constrained. Initiate structured capital reduction and exit scenario analysis.	EXIT Serious negative impact present, no credible mitigation, no effective leverage. Continued exposure not defensible.

3.4 PRE-EXIT IMPACT ASSESSMENT

Prior to divestment, the Investor will assess:

- Potential negative impact displacement to affected stakeholders.
- Consequences for workers and communities.

- Risk of asset transfer to a higher-risk operator.
- Whether structured reduction is preferable to abrupt exit.

The objective is to avoid worsening negative impact through withdrawal.

3.5 DEFENSIBILITY SELF-CHECK

Before deciding NOT to exit, ask:

- Could continued exposure reasonably be interpreted as contribution or facilitation?
- Is mitigation independently verified?
- Would affected stakeholders view continued investment as legitimate?
- Is there credible evidence that negative impact is decreasing?

If two or more responses are negative → escalation is required.

If three or more are negative → exit is likely required.

4. IC DECISION SHEET

1-page decision tool for investment committees

i. Investment Snapshot

Asset / Company:

Strategy: (PE / Credit / Public / Passive)

Geography / Sector:

Decision stage: (Screening / Approval / Monitoring / Escalation)

ii. Conflict Analysis

Does the investment... Increase conflict risk Be neutral Reduce risk

Conclusion: Conflict impact = [increasing / neutral / mitigating]

iii. Core Risk Signal

Key question: What are the most severe impacts on people?

Main negative impact pathways (max. 3): ...

Severity: High Medium Low (Scale / Scope / Irremediability)

Bottom line: "Exposure presents [level] severity risk requiring [action level]."

iv. Company Position (Ungp)

Company connection: Cause Contribute Directly linked

Company response: Credible Partial Weak

Conclusion: Company is [category] with [quality of response].

v. Investor Position

Investor connection: Cause Contribute Directly linked

Why: Capital dependence / governance / timing

Implication: Investor must [cease / mitigate / use leverage].

vi. Leverage Reality Check

Type: Governance Contractual Market Collective

Strength: Strong Moderate Weak

Core test: *Can we realistically change outcomes?* Yes → Engage No → Reassess exposure

vii. Decision

Core question: Is continued exposure defensible?

Situation	Action
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Risks mitigated	Proceed + monitor
Risks unclear	Escalate
Risks severe	Reduce / Exit

Selected decision: [Proceed / Condition / Escalate / Exit]

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5. DEFENCE SECTOR INVESTMENTS – HHRDD SNAPSHOT

This annex provides a concise, decision-oriented snapshot of investments in the defence sector, which present distinct and heightened human rights impacts as they are often directly connected to the use of force by state or non-state actors. As a snapshot, it does not replace the full HHRDD process set out in the main guidance but highlights the key decision points and analytical tests most relevant to defence-related exposures.

i. Assessing the threshold: abusive use of force

For investors, determining whether a use of force is abusive does not require a formal legal qualification nor to make definitive legal findings under international law. Instead, they should apply a structured, evidence-based assessment grounded in foreseeability and triangulated information.

As such, for investors, abusive use of force should refer to actual or potential use of force that results in, or creates a substantial impact of, serious violations of international human rights law or international humanitarian law.

This includes:

- unlawful, disproportionate, or indiscriminate use of force,
- targeting of civilians or protected persons,
- repression of peaceful dissent,
- systemic or widespread abuses linked to security operations.

In practice, abusive use of force can be identified through three reinforcing elements: context, conduct, and pattern.

5.1.2 CONTEXT

Impact is significantly higher in environments characterised by:

- armed conflict or occupation,
- systemic repression, or
- weak rule of law.

In such settings, even otherwise neutral products or services may become linked to abusive outcomes.

5.1.3 CONDUCT

The assessment must focus on how force is exercised in practice, not on the nature of the product or stated intent. Key indicators include:

- use of force against civilians or non-combatants,
- disproportionate or indiscriminate operations,
- repression of peaceful protest or dissent,
- detention or coercive practices linked to security operations.

5.1.4 PATTERN

Repeated allegations, documented practices, or consistent reporting from credible sources indicate a heightened likelihood of systemic negative impact. Isolated incidents may require verification; consistent patterns require escalation.

i. Sources and Triangulation

Investors should rely on a focused set of credible sources, including:

- UN and multilateral reporting,
- NGO and civil society documentation,
- investigative media,
- legal proceedings or sanctions measures,
- stakeholder or community-informed inputs where available.

ii. Practical Test

If a reasonable investor, based on available and credible information, would anticipate a substantial impact that the use of force results in serious negative impact, the threshold for abusive use of force is met.

iii. RED FLAGS (PRIORITY INDICATORS)

The presence of one or more of the following should trigger heightened scrutiny:

- documented patterns of abuse by end-users,
- lack of transparency on end-use,
- repeated allegations or incidents,
- weak or absent due diligence by the company.

6. MEASURING HHRDD EFFECTIVENESS: INDICATORS AND KPIs

This annex provides a structured set of indicators to assess the effectiveness of HHRDD across investment activities. Adapted from established integrity and anti-corruption measurement approaches, it is designed for both internal assessment—supporting decision-making, risk management and governance—and external use, including disclosure, benchmarking and stakeholder communication. By focusing on measurable indicators and clear supporting information, the framework enables investors to move beyond policy commitments and demonstrate how human rights risks are identified, prioritised and acted upon in practice.

i. Governance and Oversight

Indicators	Supporting Information	Assessment Guidance	Suggested KPI
Formal HHRDD framework with board reporting	Describe how HHRDD is integrated into governance structures, including reporting lines and frequency.	Internal: verify reporting; External: disclose structure	# of board-level discussions on human rights risks per year
% AUM covered by HHRDD	Define scope (asset classes, geographies) and explain exclusions.	Internal: identify gaps; External: disclose coverage	% of AUM covered by HHRDD
KPIs for HHRDD effectiveness	Describe KPIs (risk identification, engagement, decisions).	Internal: test impact; External: disclose KPIs	% of KPIs linked to investment decisions

ii. Risk Identification and Assessment

Indicators	Supporting Information	Assessment Guidance	Suggested KPI
Systematic identification of severe risks	Describe methodology (sector, geography, controversy, conflict analysis).	Internal: validate; External: disclose approach	% of risks classified by severity
% portfolio assessed	Define “assessment” and measurement approach.	Internal: identify gaps; External: disclose coverage	% of portfolio assessed for severe risks
Periodic or triggered updates	Describe review cycles and triggering events.	Internal: test responsiveness; External: disclose	Average time to identify emerging risks (days)

iii. Pre-Investment Due Diligence

Indicators	Supporting Information	Assessment Guidance	Suggested KPI
% high-risk deals with enhanced DD	Define “high-risk” and enhanced DD criteria.	Internal: check consistency; External: disclose	% of high-risk deals with enhanced HHRDD
Risks integrated into decisions	Explain how risks affect memos, pricing, or structuring.	Internal: review cases; External: provide examples	% of deals modified or declined due to human rights risks

iv. Portfolio Monitoring

Indicators	Supporting Information	Assessment Guidance	Suggested KPI
Monitoring systems in place	Describe tools and validation methods.	Internal: test reliability; External: disclose tools	% of portfolio under active monitoring
% incidents triggering escalation	Define “incident” and escalation process.	Internal: track response; External: disclose approach	Average time to escalate severe incidents (days)

v. Engagement and Leverage

Indicators	Supporting Information	Assessment Guidance	Suggested KPI
% high-risk companies engaged	Describe selection criteria and engagement scope.	Internal: align with risk; External: disclose coverage	% of high-risk companies under engagement
Escalation framework exists	Describe escalation steps and decision thresholds.	Internal: test use; External: disclose framework	% of engagements escalated beyond dialogue
Evidence of outcomes	Provide examples of company changes.	Internal: track outcomes; External: report cases	% of engagements leading to measurable company action

vi. Escalation and Exit

Indicators	Supporting Information	Assessment Guidance	Suggested KPI
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Defined exit thresholds	Explain criteria (severity, persistence, lack of mitigation).	Internal: test consistency; External: disclose approach	% of severe risks escalated vs tolerated
Cases of exit/reduction	Provide aggregated data and examples.	Internal: review decisions; External: disclose cases	# and % of exits linked to human rights risks

vii. Stakeholder Input

Indicators	Supporting Information	Assessment Guidance	Suggested KPI
External inputs integrated	Describe channels and validation methods.	Internal: verify use; External: disclose approach	% of risk assessments incorporating stakeholder input
Evidence of influence	Provide examples of impact on prioritisation or action.	Internal: track changes; External: report cases	% of decisions influenced by stakeholder input

viii. Remedy

Indicators	Supporting Information	Assessment Guidance	Suggested KPI
Support for remediation	Describe investor role in remediation processes.	Internal: assess effectiveness; External: disclose examples	# of cases where investor contributed to remediation
Collective initiatives	Describe involvement in multi-stakeholder initiatives.	Internal: evaluate impact; External: disclose participation	# of collective initiatives addressing systemic risks

ix. Communication

Indicators	Supporting Information	Assessment Guidance	Suggested KPI
Public disclosure of HHRDD	Include methodology, scope, limitations.	Internal: ensure alignment; External: publish clearly	% of high-risk exposures publicly disclosed
Reporting on engagement	Include data, trends, case examples.	Internal: verify accuracy; External: disclose trends	# of engagement case studies disclosed annually

Disclosure of effectiveness

Include KPIs, case studies, progress over time.

Internal: evaluate trends;
External: report performance

Year-on-year improvement in key HHRDD KPIs

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