



Introduction

The overall purpose of PeaceNexus (PN) is to improve the effectiveness of peacebuilding. An investment aligned with this purpose does not fuel conflict and to the extent possible supports the stabilisation of “fragile states”¹.

This document guides PN’s finance committee and asset managers to make sure that the investments of PN’s endowment fund are in line with the purpose of the foundation. This means that investments are

- a) checked against inconsistencies with the PN mission; to reach this objective PN has defined exclusion and extreme caution criteria;
- b) supportive of the PN mission; to reach this objective PN has defined impact investing and engagement criteria.

The document includes: guiding principles; investment criteria and the investment framework related to financial expectations; a risk profile; asset allocation; and information on reporting/evaluation. The annexes contain more detailed criteria on what is considered company behaviour that reinforces the PeaceNexus mission.

Guiding Principles

PN’s investment policy supports the mission and values of the foundation by choosing assets that are not in contradiction with, at least neutral to, and to the extent possible supporting the purpose of the organisation.

PN’s investment policy favours investments that best comply with the following principles:

- Protection of the environment and human rights;
- Good governance standards;
- Business models and innovation addressing poverty and inequality;

¹ Fragile states in general terms are countries that emerge from crisis and/or are at risk of crisis including armed conflict. Symptoms of fragile states include: disparity, poverty, discrimination; continuous security problems; dysfunctional justice systems; high level of corruption; mistrust in state institutions and between different social groups; limited infrastructure; a challenging business framework with unclear rules and regulations; limited diversification of the economy; lack of capacities. An overview of current fragile states is given here: <http://ffp.statesindex.org/rankings-2014>. The website of self-proclaimed fragile states, the “g7+”, also include indicators of what they consider signs of fragility: <http://www.g7plus.org/>

- Promoting the real economy rather than pursuing speculative objectives;
- Transparency and disclosure of costs;
- Contribution to peacebuilding (see annex II).

PN prefers asset management institutions that have a proven track record in Socially Responsible Investment (SRI) and are guided by a SRI investment philosophy.

Investment criteria

1. Exclusion criteria

PN excludes investing in companies whose core business is related to²:

- Weapons
- Gambling
- Pornography
- Tobacco
- Genetically modified organisms
- Animal testing for cosmetic or other non-medical products or medical testing on endangered species

Investments in commodities and hedge funds are generally excluded.

In addition, PN excludes investing in companies that are found to be involved in:

- continuous controversies related to human rights, and governance issues;
- severe violations of human rights such as killing, forced labour and forced displacements;
- active support to the persistence of an oppressive regime;
- severe environmental damage; and
- gross corruption.

2. Extreme caution criteria

PeaceNexus invests in “best in class” companies that have good environmental, social and governance standards (ESG criteria). In case of sovereign bonds, government performance will be measured against criteria similar to those used in the MSCI ESG Government Rating Methodology.

Asset managers invest at least 80% of the portfolio in companies / government bonds from the top ESG quartile, maximum 20% in companies / government bonds from the second quartile and no investments in companies / government bonds from the two last quartiles.

² Tolerance levels: Exclusion from investment will arise where the turnover of a company’s activities associated with any of these areas exceeds five per cent.

In critical industries such as the extractive sector, investments are limited to the top 10% ESG-ranked companies.

3. Criteria for impact investing

Due to its work on peace and conflict, PeaceNexus is active in fragile states that suffer from war or post-war instability. International companies working in these contexts are mostly those who need access to scarce resources (e.g. oil, gas, mining) and those who look for new consumer segments (e.g. IT, telecommunication, construction, pharmaceuticals) and cheap labour (e.g. manufacturing).

Conflict-sensitive companies operating in these countries can promote stability and economic development if they uphold international standards and promote the respect for human rights principles internally as well as in their supply chain.

PeaceNexus has developed criteria (see annex II) and an instrument to measure the peacebuilding impact of companies. The “Peacebuilding Business Index” allows investors to pick peace-supporters within the corporate sector (for more information please contact anne.gloor@peacenexus.org).

Alternatively to investments in listed companies (equity/bonds) and government bonds, PeaceNexus invests in specialised funds that have a peacebuilding effect as well as in local companies and other businesses with a peacebuilding impact because they:

- Provide access to finance for small and medium businesses in fragile states (e.g. through microfinance schemes);
- Provide direct financing resources and support to small and medium businesses in fragile states (e.g. through private equity funding);
- Promote income generation for vulnerable groups in in fragile states (e.g. employment generation for especially women and unemployed youth);
- Promote innovation to address challenging issues for fragile states (e.g. business models to address climate change, provide access to health care, power generation, communication etc.).

4. Engagement criteria

PeaceNexus seeks to establish dialogues, mostly through collaboration with other investors, with international companies that have business in fragile states. In these dialogues, PeaceNexus promotes responsible business practices in these complex contexts based on the PBBC (see annex II). Principles include

- Create long-term and shared value
- Engage and build relationships with key stakeholders
- Promote transparency, accountability and functioning public services
- Identify opportunities to support local growth and livelihood
- Adapt company governance to address context issues effectively

To influence company behaviour, PeaceNexus pools expertise and votes through collaboration with other investors that pursue ESG and peacebuilding principles.

Investment rules

Contractual arrangements

Asset managers are to invest in line with these guidelines and are expected to justify any investment upon request from PN, based on the criteria set herein. The investment guidelines are an integral part of the contract with asset managers. All asset management fees and other costs/benefits related to the investment vehicle have to be made transparent and be agreed upon.

Performance expectation

The target return for PN is 5% in CHF per year net of fees over a period of 10 years. Returns will be measured against the benchmark as outlined in annex I.

The implementation of the investment guidelines and the financial performance will be continuously monitored based on a benchmark reflecting the asset allocation. A full review of the financial performance will only be conducted after three years unless PN's financial committee decides otherwise.

Risk profile

The investments have a time frame of 10 years and a medium risk to high risk profile.

Asset allocation

The strategic asset allocation should be balanced as follows: 50% for equity and 25% for bonds with a 15% leeway each way; 20% for alternative investments with a 10% leeway each way; 5% is available cash.

Access

Asset managers will provide access to key fund managers and companies to discuss the PeaceNexus' investment criteria and the PBBC. They will also facilitate contact with their research and analysis experts and partners.

Reporting

Fund managers will report quarterly on the implementation of the investment guidelines. Financial transactions, costs and performance are reported on a monthly basis to meet the auditing needs of the foundation.

There will be a review of the investments every six months with individual fund managers and PeaceNexus' experts in a face-to-face meeting.

ANNEX I: Benchmarks

Asset allocation

	Weight		
	Min.	Benchmark	Max.
Cash	5%	5.0%	45%
Bonds	10%	25.0%	40%
<i>CHF Government</i>		12.50%	
<i>CHF Corporate</i>		12.50%	
Equities	35%	50.0%	65%
<i>SPI (Switzerland)</i>		16.67%	
<i>MSCI World AC (World)</i>		33.33%	
Alternative	10%	20.0%	30%
CHF	50%	66.67%	100%

Alternative in CHF

- Bonds 15% leeway
- Equities 15% leeway
- Alternative 10% leeway
- Cash min is 5% for 1 year of cost

Benchmark

	Weight (%)	Description	Currency
Cash	5.0%		
		5.00% IMON CIT CHF 3M L	CHF
Bonds	25.0%		
		12.50% IO SBI FOR AAA TR	CHF CHF Government bonds
		12.50% IO SBI FOR A-BBB TR	CHF CHF Aggregate bonds
Equities	50.0%		
		16.67% IX SPI	CHF 1/3 Switzerland
		33.33% MS ACF WORLD ND\$	USD 2/3 World All Countries
Alternative	20.0%		
		20.00% IMON CIT CHF 3M +2.5% DIV	CHF
TOTAL	100.0%		

ANNEX II: The Peacebuilding Business Criteria – PBBC

Core issues

Introduction

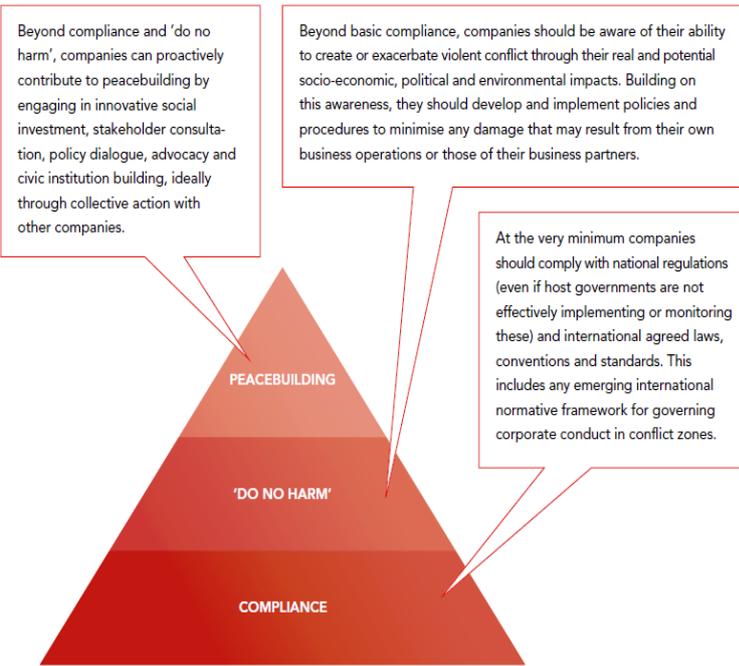
The Peacebuilding Business Criteria (PBBC) have been developed by PeaceNexus to clarify what companies can do to contribute to the stabilisation of fragile states. The goal was to simplify and harmonise the competing answers that different experts have for this question.

Scope

The Peacebuilding Business Criteria are intended to be applied solely to businesses that operate in fragile and conflict-affected states.

Relation to existing standards

There are already a range of standards and guidelines that apply to businesses operating in conflict-affected contexts. The Peacebuilding Business Criteria are not intended to replace or supersede these resources. The role of the PBBC is to synthesize the material available in these resources, and adapt them to serve as a complement to existing environmental, social,



and governance (ESG) as well as human rights standards applied in the financial sector. The PBBC are premised on the idea that companies have an interest in stability, and hence focus on behaviours that actively promote peaceful and resilient environments. In the diagram (van Dorp, 2014, p. 16) this means that the focus of the criteria is on the highest level – positive peacebuilding impact – with the assumption that all underlying criteria are already met.

Crosscutting activities: Analysis and Advocacy

Companies working in fragile and conflict contexts are advised to carefully analyse and continuously observe the context and stakeholders related to each issue area.

Key principles / keywords of context analysis and monitoring are:

- Stakeholder identification, analysis and engagement – *stakeholder engagement*
- Context issues identification and analysis (security situation, legal provisions, business framework and practice, conflict history, power relations etc.) – *context analysis*
- Corroboration of information through multiple sources – *multi-stakeholder consultation*

A peacebuilding company proactively advocates for improved conditions that incentivise business activities and help society as a whole. The following advocacy principles can be applied to most issue areas.

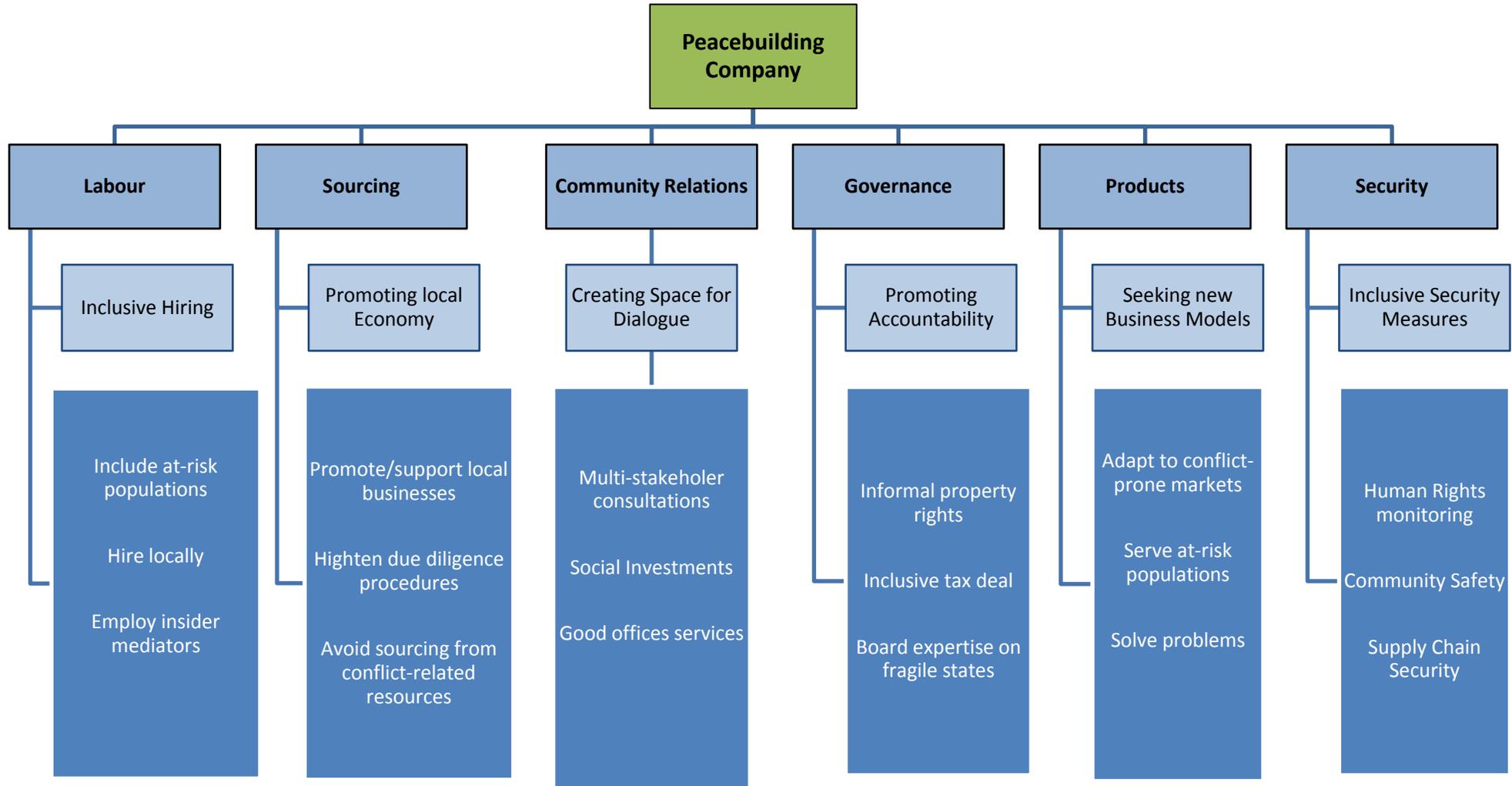
Key principles / keywords of advocacy are:

- Addressing divides between national and international standards – *promoting international business standards*
- Addressing needs of local populations – *promoting social and human rights*
- Building coalitions with private sector partners to improve the business framework (including anti-corruption efforts, promoting a functioning judiciary, fair labour conditions, transparency on contracting and taxes, fight red tapes, promote security and safety, promote the respect for human rights, environmental standards, land claims etc.) – *building business peace coalitions*
- Addressing needs of local businesses (source locally, create business opportunities, train partners on their peacebuilding role, possibly protect local partners from politically motivated discrimination) – *supporting local economic actors*

Structure

Given the intended financial application of these criteria, the following structure has been adopted:

- The criteria have been grouped under six overarching **issues**: Labour, Sourcing, Community Relations, Governance, Product and Security.
- Under each area there are **key objectives**, such as ‘Inclusive Hiring’ or ‘Creating Space for Dialogue’.
- Under each objective, there are a number of **indicators**, which elaborate on the activities that a peacebuilding business would pursue on that issue. These indicators are further explained on pages 4ff.



Labour Practices

Set and implement **inclusive hiring policies** that acknowledge and as best possible address divisions within society

- Explore diversity standards or affirmative action programs to ensure to *include at-risk populations* (minorities, women, unemployed youth, ex-combatants) into your workforce and to avoid as best possible that hierarchies within the company reflect existing divides within society
- Incorporate a preference for *local recruitment* into hiring policies to provide jobs in your neighbourhood
- Hire *insider mediators* to deal with inter-group conflicts within the workforce

Sourcing and Distribution

Where appropriate, **strengthen the local economy**

- Explore opportunities to *promote/support local businesses* for your value chain
- *Adapt due diligence* procedures to your partners (including the assessment of their political affiliations, level of corruption, possible criminal connections, sectarian or ethnic affiliations, human rights history, and the extent to which they comply with international standards)
- Ensure your suppliers take measures to *avoid sourcing of conflict-related resources* (e.g. 'conflict minerals')

Community Relations

Create spaces for dialogue on issues affecting the company and neighbouring communities

- Organise *multi-stakeholder consultations* to identify and address community needs
- If meaningful for the business model and in line with government plans *make social investments* to address community needs
- Offer *good offices services* by providing safe and neutral spaces for mediation between armed groups, the government, and other relevant stakeholders

Security

Adopt an inclusive approach to **company and community security** that involves local community members, local police and, if meaningful, business partners

- *Record and report human rights abuses* in your neighbourhood to stakeholders that can take action (government, UN forces, company security)
- *Promote community safety* where your workers live
- Incorporate provisions for *supply chain security* to protect business partners

Governance

Promote high standards of **transparency and accountability** both within the company and in interaction with different partners

- *Clarify property rights through stakeholder consultation* to make sure there is consent for the use of land and natural resources; facilitate dialogue between government and communities if there is disagreement
- *Negotiate contractual agreements to share value*, i.e. make sure the local population benefits from your taxes; if possible, make the deal public
- Ensure there is a *representative on the board with knowledge of conflict sensitivity and experience with fragile contexts*

Product

Adapt your business model in favour of specific needs of consumers and producers in fragile and conflict-prone contexts

- Identify business opportunities based on a *conflict-sensitive market analysis*
- Especially *serve consumer needs of at risk populations* (e.g. women, youth, ex-combatants, minority groups etc.)
- *Develop products that serve problem-solving* in fragile societies

10 Key Questions

The following questions do not capture the full scope of the peacebuilding criteria, but rather provide a light introduction to the main themes as a means to start a conversation on the important issues.

1. Do you conduct a systematic process of conflict analysis and stakeholder mapping to inform your business decisions?
2. Do you conduct regular monitoring and stakeholder consultation to allow local actors to express concerns about your activities and provide effective grievance and remediation mechanisms?
3. Do your business' hiring practices aim to promote social inclusiveness and create jobs for the local population?
4. Does your business conduct high levels of due diligence to ensure that no business in your supply chain is contributing to violent conflict?
5. Do you target your social investment to address the needs of communities affected by your operations in a way that benefits all groups in those communities?
6. Do you take a consultative approach, premised on broad community acceptance, to acquiring or accessing land for your business?
7. Do you work with government, other businesses, and community stakeholders to promote international standards on human rights and accountability?
8. Do you incorporate performance standards related to conflict-sensitivity or peace promotion (such as maintaining good stakeholder relations, or conducting thorough due diligence) into contracts, at both the operational and executive level?
9. Do you adapt your business model in favour of specific needs of consumers and producers in fragile and conflict-prone contexts?
10. Do you engage with police and militia to develop a sustainable and inclusive security approach around your operations and neighbouring communities?