ESG in Credit – Labour-Related Issues

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> 'Labour issues can be credit relevant through direct financial, operational, regulatory or reputational impacts. They are strongly linked to wider social and economic trends; workers are also community members, union members, voters, customers and investors.'
>
> Nneka Chike-Obi, Director, Sustainable Fitch

The *ESG in Credit* series of reports provides insights on the credit relevance and materiality of sector-specific environmental, social and governance (ESG) credit issues and a review of investor approaches to evaluating ESG risk factors in investment analysis and decisions.

This report focuses on labour issues and their importance as credit risks. There are two labour-related general issues in Fitch Ratings' ESG Relevance Score (ESG.RS) framework and scoring templates: Labour Relations and Practices, and Employee Wellbeing.

Labour Issues Have Broad Social Linkages

Labour issues for entities are informed by a combination of internal and external factors. Macroeconomic, political and demographic trends interplay with the availability and cost of labour, and the satisfaction of a workforce. Labour is a key stakeholder in the operation of both private-sector activities and public services and infrastructure, such as healthcare, education and transportation. The wide-ranging impact of many labour issues, ranging from supply-chain disruptions to closure of schools, tend to give them a high public profile and can lead to reputational damage if prolonged.

Safety, Labour Relations and Diversity Are the Main Credit Issues

Within Fitch's rated universe, two topics feature most among issuers with elevated ESG.RS in labour-related issues: collective bargaining and labour negotiations; and health and safety incidents. Asset managers and owners consider human capital topics, such as health and safety, supply-chain management and diversity, as key parts of integrating ESG issues into the investment process. Investors are also increasing their engagement with portfolio companies on labour issues, particularly in diversity, equity and inclusion. There has also been a rise in sustainable bond issuances with workforce-focused proceeds or performance targets.

More Metrics-Based Reporting Needed

Despite there being several reporting frameworks for labour issues, many corporate disclosures lack numerical data and are more narrative than quantitative. Investors rank several labour topics as their ESG topics of greatest concern, but struggle to analyse it comprehensively due to the data gap. In response to investor demand, some financial regulators in major markets have human capital-focused reporting to provide more transparency.

Related Research

ESG in Credit – Water Issues (November 2020)

Modern Slavery and Labour Risk in Global Supply Chains (February 2021)

ESG in Credit – Biodiversity and Waste Issues (April 2021)

ESG in Credit White Paper 2021 (July 2021)

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Defining Labour-Related General Issues

Social general issues refer to the interactions between an issuer and its different stakeholder populations, both within the entity and in the market, community, and broader society. Compared with environmental risks, there is sometimes a perception that social issues are more difficult for relevant entities to identify or address as there no physical impacts. In reality, there is a long history of social science and public policy that relies on measurable data to assess social risks. As awareness of the importance of sustainability in the private sector grows, the incorporation of these metrics into risk management and ESG disclosures is also expanding.

Labour as a constituency has both internal and external elements, and includes direct employees, contractors, and outsourced workers in the supply chain. Labour relations consists of a complex network of relationships between management, workers, unions, suppliers, governments and international organisations. Risks in this area can have significant financial, operational, regulatory, and reputational impacts. Where those impacts transmit into loss of profitability and restricted access to capital, they can potentially become material to an issuer's credit rating.

There are several international frameworks that attempt to categorize the key drivers related to labour and employment for different types of entities. The UN Sustainable Development Goals (SDGs) are the 17 priority policy outcomes for the 2030 Agenda for Sustainable Development. While initially designed for national governments and supranational agencies, the SDGs are increasingly being adopted as a benchmark for private sector firms, including tying them to borrowing through ESG-labelled and sustainability-linked debt. Goal 8 is "Decent work and economic growth" with targets related to improving economic productivity, creating safe working environments, reducing youth unemployment, protection of women and migrant workers, and eradication of modern slavery. The Global Reporting Initiative (GRI), a commonly used corporate sustainability reporting standard, provides indicators for reporting progress against Goal 8 and the other SDGs.

The International Labour Organization (ILO) Decent Work Indicators are measurable indicators against which entities can track progress towards a more productive, fair, and secure working environment. These mainly focus on government entities, but their outputs can be useful to the private sector and investors in evaluating the overall labour environment and conditions of a particular region and the potential for additional labour-related risk factors.

ILO Decent Work Indicators

	Category	Selected Indicators
1	Employment opportunities	Employment-to-population ratio Unemployment rate Informal employment Youth not in education or employment
2	Adequate earnings and productive work	Working poverty rate Minimum wage as a percentage of median wage Average real wages
3	Decent working time	Excessive working time (more than 48 hours a week) Paid annual leave
4	Combining work, family and personal life	Maternity protection Parental leave
5	Work that should be abolished	Child labour Forced labour
6	Stability and security of work	Precarious employment rate Job tenure
7	Equal opportunity and treatment in employment	Occupational segregation by sex Female share of employment in senior & middle management Gender wage gap
8	Safe work environment	Occupational injury rate, fatal Occupational injury rate, non-fatal Time lost due to occupational injuries
9	Social security	Share of population 65+ benefitting from pension Public social security expenditure (% GDP)
10	Social dialogue, workers' and employers' representation	Union density rate Collective bargaining coverage rate Days not worked due to strikes and lockouts

Source: Fitch Ratings, ILO

Following its environmental work, the EU is developing a social taxonomy to identify and direct capital towards economic activities that generate positive social outcomes. In its July 2021 draft, it identifies employment-related activities as a priority. The first of three objectives in the horizontal dimension (i.e. process-related) is "ensuring decent work". Similar to the environmental taxonomy, the framework will also include "do no significant harm" alongside the primarily social objective. In the case of labour, this includes additional criteria addressing collective bargaining, no child/forced labour, decent employment conditions, health and safety, and impacts on workers in the entity's value chain.[1]

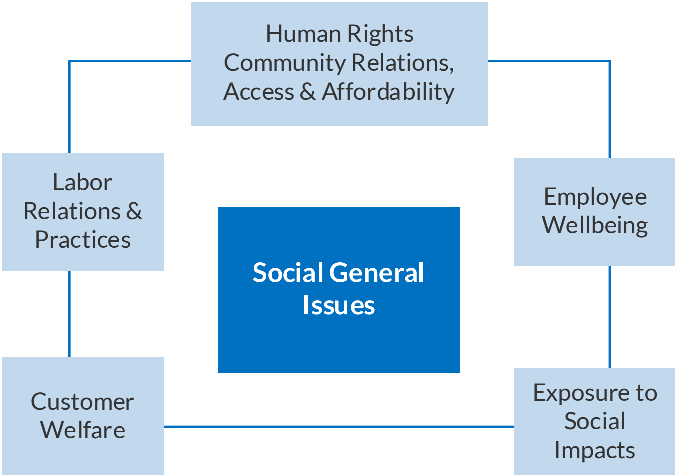
Within the debt market, there are several relevant frameworks for structuring socially oriented products, primarily the ICMA Social and Sustainability-Linked Bond Principles, and the LMA Social and Sustainability-Linked Loan Principles. Social bonds and loans raise capital for a specific use of proceeds (UOP) related to a positive social outcome that serves an identifiable target population. For example, a project that trains people from underserved communities to become employees provides benefits to the unemployed and those living below the poverty line. The ICMA identifies three eligible activities under the Social Bond Principles as aligned to SDG 8: Access to Essential Services, Employment Generation, and Socioeconomic Advancement and Empowerment.

[1] "Draft Report by Subgroup 4: Social Taxonomy," European Commission Platform on Sustainable Finance, July 2021

For sustainability-linked products, Fitch uses key performance indicators (KPIs) to measure progress against sustainability outcomes. These metrics are largely aligned with the SDG targets and Decent Work Indicators, focused on labour issues that can be measured and assessed. Borrowers that meet or exceed these targets can benefit from a reduced interest rate or coupon. Within this market there have been a number of deals with labour-related targets, with employee health and safety and gender diversity featuring prominently across loans and bonds.

Fitch's ESG.RS framework includes two labour-related general issues: Labour Relations and Practices, which identifies how an issuer engages with employees with regard to pay, benefits, recruitment and retention; and Employee Wellbeing, which includes staff health and safety, engagement, and diversity and inclusion. These categories apply to issuers across a range of sectors and asset classes, including corporates, insurance, infrastructure and project finance, asset-backed securities and public finance.

Social General Issues for Corporates, FIs, IPF (Revenue), Infrastructure and Structured Finance



Source: Fitch Ratings

Fitch's ESG.RS Framework and Scoring Templates

Fitch's approach to sustainable finance and ESG integration is to provide transparency on ESG-related credit risks that influence credit ratings. In 2019, Fitch introduced ESG.RS, which have been fully integrated into Fitch's existing research process across asset classes.

ESG credit considerations are systematically evaluated by Fitch's analysts using the ESG.RS framework that extracts the issues from the relevant sector criteria. When assessing issuers and transactions, analysts refer to the asset-class and sector ESG scoring templates to allocate individual and overall E, S and G Relevance Scores (see table *Fitch's Airlines Scoring Template* for an example of an ESG scoring template).

ESG.RS articulate the level of influence an environmental, social or governance issue has had on a credit rating decision. Each entity or transaction receives 14 or 15 ESG.RS based on five environmental, five social and four or five governance issues. Scores range from '1' to '5' where an ESG.RS of '1' indicates no credit relevance at either a sector or entity level while an ESG.RS of '5' indicates a single identified environmental, social or governance risk that is unambiguously causing a change to the rating level.

In addition to the two explicitly labour-related areas, there are several other general issues that can have an impact on employment and labour matters (see box above).

Waste and Hazardous Materials Management; Ecological Impacts: Injury or illness resulting from employees working with poorly managed waste materials or in hazardous physical conditions created by an entity's operations can directly impact their health. This can expose employers to worker-related fines, criminal, or civil prosecution, and reduce their ability to recruit and retain staff due to reputational risk.

Human Rights, Community Relations, Access and Affordability: A company's operations can affect surrounding communities, such as negative impacts on local culture and livelihoods, or disputes over land rights. In sectors providing key services, such as education and healthcare, cost may prohibit local populations from accessing them and entities may not be able to increase rates. This can cause dissatisfaction among employees from these communities.

Exposure to Social Impacts: Changes in consumer preferences could affect employment requirements, staffing levels, and working conditions, such as a shift from bricks-and-mortar retail to online shopping, or screen-based ordering in restaurants. Social resistance to large projects in such sectors as natural resource extraction or infrastructure can cause development delays or cost increases. In some cases, the resistance is related to the operator's employment practices, e.g. if jobs offered to the local community as a substitute for traditional economic activities do not meet expectations.

Employment and Income Equality: This issue only applies to sovereigns and is considered a citizen-related social risk. It addresses the impact of unemployment and income inequality on GDP growth, and political and social stability. The impact of this risk on the issuer is not related to its direct engagement with workers, and can be the result of other economic or social factors. An elevated score in this category could indicate that entities that rely on workers in that region face additional risks e.g. if high unemployment contributes to people accepting poorer working conditions or illegal work to earn an income.

Human Development, Health and Education: The relationship between a jurisdiction's human capital and its GDP is a social general issue for sovereign and local/regional government issuers. Poorer performance on delivering health and educational outcomes could point to a less-skilled or underemployed labour force.

The general issues are further broken down into sector-specific issues that place these risks into the context of the issuer's main economic activity. The sector-specific issues represent the primary mode of transmission from the general issuer to a potential credit impact. In the airlines template, for example, "prescriptive working conditions" is a sector-specific issue under Employee Wellbeing. This refers to the strict health and safety rules for airline employees on the number of hours or shifts they work, to ensure fitness to fly and operate aircraft. For an issuer in a different sector, this factor is not relevant and would not be considered in the ratings process. Fitch has about 100 sector-specific templates, about half of which are for corporate issuers.

While labour issues are interrelated with other general issues in our scoring temples, we only consider them to be credit relevant, and therefore a labour-related credit issue, when the issuer's relationship with its workers are the central risk factor. For example, a hazardous materials incident that affects workers does not necessarily lead to an elevated score in Employee Wellbeing. It only becomes a labour-related credit issue when there is a material impact on the company's operations or financials as a result, e.g. employee protests or walkouts over safety concerns.

Fitch's Airlines Scoring Template

General issue	Sector-specific issue
GHG emissions and air quality	Emissions and noise pollution
Energy management	Fuel use in operations
Water and wastewater management	n.a.
Waste and hazardous materials management; ecological impacts	n.a.
Exposure to environmental impact	The effect of extreme weather conditions or environmental events on operations
Human rights, community relations, access and affordability	n.a.
Customer welfare – fair messaging, privacy and data security	Data security; safety regulations
Labour Relations and Practices	**Impact of labour negotiations and employee satisfaction; workforce diversity**
Employee Wellbeing	**Worker safety and accident prevention; prescriptive working conditions**
Exposure to social impacts	n.a.
Management strategy	Strategy development and implementation
Governance structure	Board independence and effectiveness; ownership concentration
Group structure	Complexity, transparency and related-party transactions
Financial transparency	Quality and timing of financial disclosure

Source: Fitch Ratings

Labor-related issues	Labor-related credit issues ESG Relevance Score = 2 (credit relevant to sector)	Credit Risks ESG Relevance Score = 3, 4, or 5 (credit material)
Strikes	Impact of labor negotiations and employee (dis)satisfaction	Business risk
Unionization	Employee recruitment and retention	Demand risk
Contract/third-party labor	Quality of contractors	Industry risk
Health and safety	Worker health, safety and accident prevention	Macro risk
Supply chain labor	Supply chain management	Operational risk
Staff turnover	Pension obligations and related litigation	Supply and resource management risk
Aging workforce	Workforce diversity	Technical risk
Senior executive pay/representation gap	Legal and regulatory compliance in operational geographies	
Discrimination		
Minimum wage and working conditions		

Source: Fitch Ratings

Sector-Specific Credit Issues

Fitch analysts evaluate whether a labour-related general issue is credit relevant and material for issuers and transactions. Using the ESG scoring templates, analysts allocate a score between '1' and '5' for the general issues:

- **Labour Relations and Practices:** This category addresses an issuer's ability to uphold commonly accepted labour standards in the workplace, including compliance with labour laws and internationally accepted norms and standards. Specific issues include:

  Labour practices:

  - Human rights related to child, forced, bonded or exploitative labour
  - Minimum wage policies, fair wages, overtime pay, and other basic workers' rights
  - Pension plans and provision of benefits
  - Issuer relationship with organised labour unions and other worker associations
  - Workforce recruitment and retention

  Supply-chain management (labour-related):

  - Human rights related to child, forced, bonded or exploitative labour
  - Labour practices, ethics and corruption

- **Employee Wellbeing**

  Employee health and safety:

  - Rate of injuries, illnesses, and fatalities in the workplace
  - Training provision for employees and contractors
  - Mental health and wellness

  Employee engagement, diversity and inclusion

  - Corporate culture, hiring and promotion practices
  - Discriminatory practices on the basis of race, gender, ethnicity, religion, sexual orientation or any other characteristics

Labour Relations and Practices

The sector-specific ESG credit issues for Labour Relations and Practices can be placed into four broad categories:

1. Labour negotiation and employee satisfaction: where an issuer's relationship with its workers involves dialogue about working conditions, wages, benefits, sometimes including third parties, such as unions, public agencies, and non-governmental organisations;
2. Workplace recruitment, retention, diversity and inclusion: where an issuer faces costs and reputational risk related to the ability to hire and maintain a productive and diverse workforce that represents the wider community, including board and senior management;

3. Labour practices in supply chain: where issuers source a significant amount of goods or services from Tier 1-3 suppliers, who are not under the employer's direct supervision and may be dependent on illegal sources of labour, or workers with few legal protections;
4. Labour practices with contractors: where issuers have large amounts of labour conducted by contract workers, who are not under the employer's direct supervision but may be subject to poorer working conditions or fewer legal protections.

Employee Wellbeing

The sector-specific ESG credit issues for Employee Wellbeing can be placed into two broad categories:

1. Employee health and safety: where an issuer's management of risks including workplace accidents and injuries, exposure to dangerous materials, and provision of healthcare and medical services has a potential material financial impact;
2. Employee engagement, diversity and inclusion: where an issuer faces costs or reputational risk associated with the working experience of staff in areas such as corporate culture, discrimination, harassment, and training.

How Labour-Related Issues Relate to Credit Risks

Labour-related issues can affect any of the related credit issues and materialise as a single credit risk or a combination of credit risks (see flow chart of the transmission mechanism of labour-related issues into credit risks).

Part I focuses on the six core labour-related credit issues. This includes case studies on how these core issues affect issuers from several sectors This is followed by guidance on how labour issues and these labour-related credit issues appear as credit risks and can affect the creditworthiness of issuers.

Part II provides an overview on how investors analyse and integrate labour-related issues and examples of how issuers have incorporated labour targets into borrowing.

Part I: Relevance and Materiality of Sector-Specific Labour-Related Issues

Relevance of Core Labour-Related Credit Issues to Key Sectors

Labour issues are relevant to a wide range of sectors and issuer types, as found in the table *Labour-Related Credit Issues and their Associated Sectors* in Appendix B. These can be grouped into six labour-related credit issues:

- Labour negotiation and employee (dis)satisfaction;
- Workplace recruitment, retention, diversity and inclusion;
- Labour practices with contractors;
- Labour practices in supply chain;
- Employee health and safety; and
- Employee engagement, diversity and inclusion

Sectors that are highly labour-intensive or rely on labour-intensive goods in their supply chains are more directly impacted by risks in these areas. These include service sectors, such as restaurants, healthcare, education, retailers with global suppliers, infrastructure and real estate that requires manual labour related to construction or operation of assets, and some forms of manufacturing.

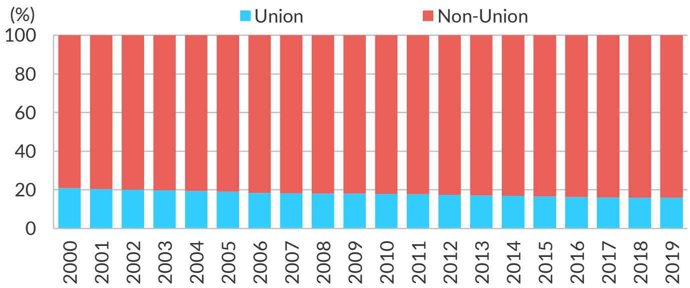
Some of these issues are primarily internal to an entity. Working conditions, corporate culture and discrimination are areas that employers have control over and can be used to differentiate peers in the same sector. Other labour-related issues are tied to external factors. Demographic shifts, particularly those that lead to political and regulatory changes, can contribute to recruitment or retention problems or expectations for increased board/management diversity.

Labour Negotiation and Employee Satisfaction

This is the most common labour-related issue in Fitch's ESG.RS framework, applying to more than 60 issuer sub-sectors. It refers to organised dialogue between an entity and its employees on working conditions, pay, benefits, or other elements of their contractual relationship. General staff satisfaction matters, on the other hand, fall under Employee Wellbeing.

Union membership has fallen as a percentage of the total workforce across OECD countries to 15.8% in 2019 from 20.9% in 2000. While there has been an overall downward trend, circumstances differ from country to country. US union participation has fallen to about 10% of workers, while in Italy it has been broadly steady at just over 30% for the past 20 years. Union membership also varies between the private and public sector, and is typically higher in the latter. In the US, about 35% of public-sector workers are members of a union, compared with about 6% in the private sector.

Trade Union Membership - Share of Workforce
OECD Average

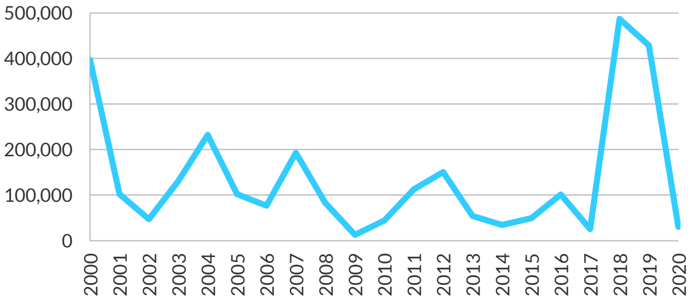


Source: Fitch Ratings, OECD

Industries dependent on skilled or unionised workers, such as manufacturing and logistics, often have larger financial obligations related to pensions, benefits and training. In many countries, public-sector workers have higher rates of unionisation than those in the private sector and have powerful collective bargaining tools. Public-sector strikes in key services, such as education, public safety and healthcare, can have significant knock-on effects. Workers in sectors with a mix of private- and public-sector employers like transportation and utilities also tend have higher union participation rates, with a high potential for disruption in the case of work stoppages.

Data from the US Bureau of Labor Statistics (BLS) show a substantial increase in the number of workers involved in stoppages in 2018 and 2019 – the highest numbers since 1991. In 2019, seven of the 10 largest work stoppages in the US were in the public sector – six school systems and one state-funded university and medical school. This dropped sharply in 2020 due to the pandemic, but there were more worker stoppages in the first eight months of 2021 than in the whole of the previous year.

Number of US Workers Involved in Work Stoppages



Source: Fitch Ratings, BLS

Impact on Credit Ratings

Stoppages in themselves only become credit relevant when they materially affect an issuer's financial profile. One of the largest strikes in 2019 was at General Motors Company (BBB-/Stable), with more than 46,000 workers involved in a six week walk out. At the time Fitch determined that GM's financial position was strong enough to withstand a strike due to the amount of liquid cash, securities, and short-term debt available. The eventual impact was substantial – falls of USD11 billion in net revenue and USD5.4 billion in automotive free cash flow – but not enough for a rating downgrade. As a result, we kept GM's score for Labour Relations and Practices at '3'.

Similarly, the French rail worker strike that spanned two months in 2019-2020 affected operations for national operator SNCF Reseau and urban rail operator Regie Autonome des Transports Parisiens (RATP) (both AA/Negative). The strike over pension reforms was the longest in France since the 1990s. Fitch considered that the action would not contribute to a change in rating or Outlook due to government financial support as public entities and because the strike straddled the Christmas period, thereby spreading the impact over two financial years.

Contract Negotiations Relevant for Seaport Issuers

There have been years-long disagreements between private port tenants and the International Longshore and Warehouse Union representing dock workers in southern California. The most recent conflict centres on automation plans. Fitch has assigned ESG.RS of '4' for Labour Relations and Practices to Los Angeles Harbor Department, Long Beach CA Port Facilities, and Alameda Corridor Transportation Authority as a result of the impacts of these tensions during contract negotiations, which have included work stoppages.

FA MGT Limited Partnership, a terminal operator at the Port of Montreal, has a score of '4' for Labour Relations and Practices due to negotiations with the Canadian Union of Public Employees. There have been several strikes since a collective bargaining agreement expired in 2018, most recently a five-day stoppage in May 2021.

Distribution of ESG Relevance Scores – Labour Relations & Practices

Scale	1	2	3	4	5
Corporates	1	228	1444	3	0
USPF/IPF	0	0	2259	8	0
Infrastructure	0	62	274	4	0
Structured finance	3023	1288	42	0	0

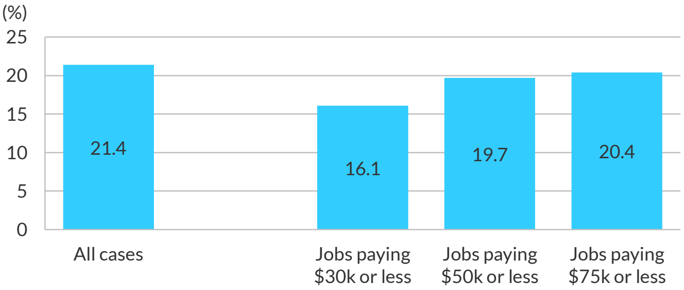
As of 30 September 2021
Source: Fitch Ratings

Workplace Recruitment, Retention, Diversity and Inclusion

Recruitment and retention are key issues for issuers reliant on workers with specialist skills. This includes several public finance entities like higher education, hospitals, health care, life plan communities, and government-related entities. Among corporate issuers, this issue is potentially credit-relevant for airlines, business services, healthcare, pharmaceuticals, and technology. An analysis by the Center for American Progress found that the median cost of replacing employees across a range of sectors (retail, healthcare, lodging, restaurants, education and manufacturing) was 21.4% of the job's salary, and that this cost increases for staff with higher seniority and salaries. In one study, the turnover cost for a physician was nearly three-times higher than that for a registered nurse.

Median Cost of Replacing an Employee as % of Salary

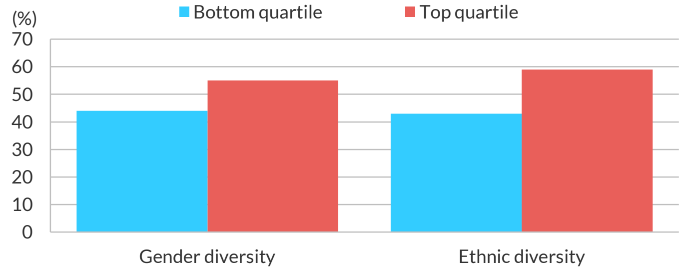
US Case Studies, 1992-2007



Source: Fitch Ratings, Center for American Progess

Diversity and inclusion is a growing area of focus for companies as workers, customers, and increasingly regulators are expecting corporate boards and senior management to more closely reflect societal demographics. By end-2022, corporates listed on major exchanges, including Nasdaq, Tokyo Stock Exchange, Euronext and the Stock Exchange of Hong Kong, will have to disclose their policies on diversity. In the case of Nasdaq, this includes a minimum level of diversity at board level. There is a growing body of research indicating there may be a financial advantages to increasing diversity among senior management. A 2019 McKinsey report found that among more than 1,000 large companies in North America, South America, Europe, sub-Saharan Africa and Asia-Pacific, those with more diverse executive teams ("top quartile") had a higher rate of financial outperformance than those with less diversity ("bottom quartile").

Likelihood of Financial Outperformance based on Executive Team Diversity



Source: Fitch Ratings, "Diversity Wins," McKinsey, 2019
Companies: 1,039; Countries: 15

There is an emerging trend of unionisation among private-sector white-collar workers – a population that has not traditionally participated in organised labour. This is concentrated in the media and technology sectors, and may indicate a shift in the type of companies that can be affected by employee collective bargaining. Demands from unions could raise the already high costs in recruiting and replacing staff in professional and skilled roles. In the past 18 months, workers at Google parent Alphabet Inc., Swedish streaming company Spotify SA and technology staff at The New York Times Company have established unions. Motivating factors for this extends beyond pay and working condition to diversity, inclusion, and concerns about the societal impact of corporate activity, such as social media and digital content.

New Tech Worker Unions (selected)

Company	Date	Union name	Sector
Kickstarter PBC	Feb 20	Kickstarter United	Technology
Glitch Inc.	Mar 20	Glitch Union	Technology
Wired (Conde Nast)	Apr 20	The Wired Union	Media
Alphabet Inc.	Jan 21	Alphabet Workers Union	Technology
National Public Radio Inc.	Apr 21	Digital Media United (tech workers)	Media/Technology
Spotify SA	Apr 21	Gimlet Union/Parcast Union/Ringer Union	Media
Insider Inc.	Apr 21	Insider Union	Media
Change.org PBC	Jun 21	Solidarity@Change	Technology
The Atlantic	Jun 21	The Atlantic Union	Media
The New York Times Company	Jul 21	New York Times Tech Guild (tech workers)	Media/Technology

Source: Fitch Ratings

Impact on Credit Ratings

Recurrent strikes at French public hospitals over the past two years led Fitch to assign ESG.RS of '4' for Labour Relations and Practices to two bonds issued by a consortium of hospitals – French Public Hospitals 3 and French Public Hospitals Joint Bond Issue CHU France Finance. A group called the Inter-Hôpitaux Collective led protests for months in 2019 and 2020 demanding improved pay and working conditions. As a result of the strikes and the pandemic, hospitals have increased salaries for medical and paramedical staff relative to the private sector, which had been able to attract staff from public hospitals. This has limited the flexibility for individual hospitals in managing costs and affected their Standalone Credit Profiles.

Fitch commented in August 2021 on a service sector labour shortage in the US following the reopening of in-person leisure businesses after extended lockdowns. The shortage increased the costs of hiring and retaining staff and many restaurants have been able to pass this on to customers through higher prices. To reduce costs during the downturn for dining out, many companies improved operational efficiency and increased the use of self-service technology. As a result, the sector's recruitment and retention problem has not yet led to any negative rating actions for US restaurant issuers.

Pilot Strikes Affect Airline Credit Rating

Colombian airline Avianca Holdings S.A. (D) has an ESG.RS of '4' for Labour Relations and Practices, reflecting significant pilot strikes. This has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors. Although the most recent widespread action was in 2017, when 1,300 pilots held a seven-week strike, Avianca and the pilots' union did not come to an agreement until 2020 – the first in 11 years. The current deal is for four years.

Labour Practices with Contractors

Contract labour is becoming increasingly widespread due to the flexibility it offers employers. Independent contractors can be engaged on a short-term basis and are not eligible for paid leave and employee benefits. There can also be savings in training and development by hiring experienced contractors for their existing skill set.

Regulatory risk is becoming a factor for companies that rely on a large proportion of contractors. The gig economy has grown in recent years with the development of internet- or app-based services, such as ride sharing, food and product delivery, and lodging. Workers are engaged as independent contractors and therefore receive limited financial support or benefits. The company acts as a middleman between the gig worker and the customer. As this type of work has become more prevalent, so has concern that there is an increasing pool of workers who lack the protections typically reserved for direct employees.

Governments are starting to notice. California's legislature introduced a law in 2020 that would have designated most gig workers as employees, although this was overturned by a judge a year later for being unconstitutional. In 2021, courts in the Netherlands and the UK ruled that drivers for Uber Technologies, Inc. (not rated) should be considered employees rather than contractors. The European Parliament adopted a resolution in September 2021 noting that "EU legal instruments are often not applied to many platform workers [...] and do not sufficiently address the new realities of the world of work [...] resulting in those workers enjoying fewer or more limited rights than should be guaranteed to all workers."[2]

Impact on Credit Ratings

In September 2021, Fitch downgraded Chinese e-commerce platform Meituan to 'BBB-' from 'BBB' as government regulations aimed at improving conditions for delivery drivers came into effect. The guidelines address minimum wage, safety and the provision of a decent working environment. Companies will have to change any performance algorithms that unduly pressure drivers to make too many deliveries within a short period of time. Meituan has been assigned a '4' for Employee Wellbeing as a result of its exposure to the new regulations from its large food delivery business segment.

Regulatory Risk due to Contract Worker Status

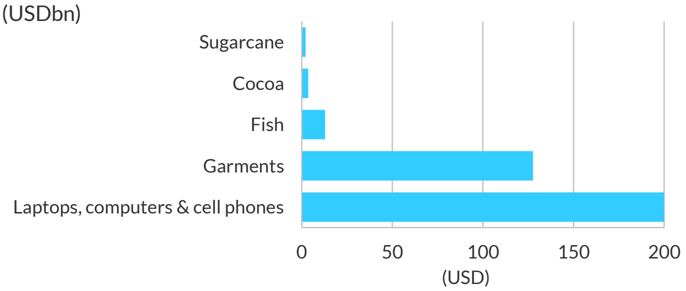
Rede D'Or Sao Luiz S.A. (BB/Negative), the largest private hospital operator in Brazil, has an ESG.RS of '4' for Labour Relations and Practices due to labour/tax litigation. The company registers its employees, mostly physicians, as service providers, not as Rede D'Or employees. This could expose the company to a sizable tax obligation of BRL1.1 billion (USD204 million) if tax authorities determine these should be considered employees, not contractors. This has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

Labour Practices in Supply Chain

Manufacturers use outsourced labour to benefit from cost and economy of scale when producing certain components. When this takes place in some of the lowest-cost emerging markets, the difference in labour standards between where the inputs are made and where they will be sold can be sizeable. Many less developed countries lack the resources to enforce labour laws and manufacturers often have limited visibility into the practices of their suppliers.

Top Products Imported into the G20 at Risk of Modern Slavery by Value

(USDbn)



Source: Fitch Ratings, Global Slavery Index 2018

The introduction of modern slavery laws in the UK (2015) and Australia (2018) aims to address this, placing requirements on companies to audit their suppliers' practices. It has also increased the number of large corporates that have to report and disclose on their labour-related supply-chain risks as both laws apply to companies of a certain size operating in their countries, regardless of their home jurisdiction. The European Commission has also proposed introducing a supply chain due diligence law focused on human and labour rights.

California-based e.l.f Cosmetics Inc. (not rated) received a USD40 million fine in 2019 for violating the US government's sanctions against North Korea. Some of its products were found to have been manufactured in North Korea and all products made there are identified as "forced-labour goods" under US sanction law. The penalty was reduced to USD1 million after the company offered additional disclosures and made operational changes. The Office of Foreign Assets Control, which enforces the sanctions, noted that the company's supply-chain compliance programme was "non-existent or inadequate".

Since 2020, the US has imposed import bans on several key agricultural exports from Malaysia over suspicions of forced labour. This includes palm oil from Sime Darby Plantation Berhad (BBB/Stable) and FGV Holdings Berhad, and rubber products from Top Glove Corporation Berhad and Supermax Corporation Berhad (all not rated). Top Glove's 14-month ban, which was lifted in September 2021, has had financial consequences for the company. It had to delay plans to list on the Hong Kong stock exchange and experienced a fall of nearly 50% in earnings in 2Q21.

[2] European Parliament resolution of 16 September 2021 on fair working conditions, rights and social protection for platform workers – new forms of employment linked to digital development. 2019/2186 (INI)

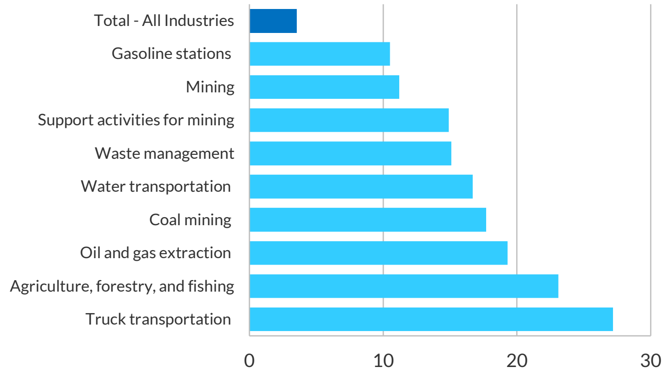
Employee Health and Safety

Health and safety is the most common general issue under Employee Wellbeing and is potentially material for issuers in such sectors as transportation, natural resources, healthcare and agriculture. Poor management of health and safety can have several financial impacts, including fines, revenue loss through reduced output, increased costs for to remedy safety failings, and increased costs for staff healthcare and insurance. In sectors where the health and safety risk to workers exposes customers to the same risk, reputational damage to the issuer can lead to a loss of market share.

One example of operational safety risks having wider impacts to issuers is the aftermath of the Fukushima Daichi nuclear disaster in Japan, which caused Fitch to revise Japan's sovereign Outlook to Negative. The German government announced a gradual phase-out of nuclear power in the same year in response to public pressure over the safety of nuclear power plants, affecting several companies with contracts to deliver nuclear power. In 2021, the German government paid out EUR2.4 billion in compensation to plant operators affected by this policy change – Vattenfall AB (not rated), RWE AG, Energie Baden Wuerttemberg AG (EnBW) and E.ON SE (all BBB+/Stable). Fitch considers this credit positive for these utilities and could limit their short-term external financing needs. However, we but did not revise any of their ratings pending additional information on how the proceeds are invested into new activities, such as renewable energy.

Fatal Injury Rate per 100,000 Employees

United States, Selected Sectors, 2019



Source: Fitch Ratings, US Bureau of Labor Statistics

In several jurisdictions, including parts of Australia, Canada, Hong Kong and the UK, "corporate manslaughter" is a recognised criminal offense that allows a corporation and its senior management to be held liable for causing a person's death. This exposes companies in industries with higher rates of workplace fatalities and injuries to both financial and key-person risks. In 2017, a UK-based construction company was fined GBP1.2 million and its director imprisoned for 14 months for the deaths of two workers deemed to be as a result of poor training and supervision.

Impact on Credit Ratings

In 2013, a large group of former players filed a lawsuit against the National Football League (NFL) over its treatment of concussions and head injuries sustained during a game. Several high-profile cases of players who had developed a serious condition called chronic traumatic encephalopathy garnered media attention. Current players negotiated an increase in healthcare and benefits for retirees, and donations to head injury-related medical research and charities. Fitch did not change the issuer's rating but noted that there was potential for a risk to the credit quality if it any pay-out sizeably exceeded the league's USD675 million injury compensation fund. In 2014, the case was settled for USD765 million and the rating was maintained.

During the pandemic, working conditions for employees in warehouses, transportation and logistics were affected both by the coronavirus itself and by increased demand as customers ordered products for delivery during lockdowns. This caused productivity declines for companies whose staff work closely together in indoor environments, such as meatpacking. Fitch viewed this to be a credit risk for the US protein sector in 2020 due to the reduction in capacity utilisation as a result of plant closures and employee absenteeism, was a key driver for the change in Outlook for Tyson Foods, Inc.'s Issuer Default Rating of 'BBB' to Negative in May 2020. The Outlook has since been returned to Stable.

Dam Collapse Lead to Human Toll, Regulatory Costs

Within days of the January 2019 dam collapse at an iron ore mine in Brumadinho, Brazil that killed 270 people, Fitch downgraded its owner Vale S.A. (BBB/Stable). Vale's ESG.RS for Employee Wellbeing was raised to '5' because the majority of those killed were mine staff. Following efforts to address risks that led to the dam failure and to compensate the surrounding communities, including a USD7 billion settlement, Fitch upgraded Vale in September 2020 and lowered the Employee Wellbeing score to '4,' meaning that this issue has a negative impact on the credit profile in conjunction with other factors.

Distribution of ESG Relevance Scores – Employee Wellbeing

Scale	1	2	3	4	5
Corporates	667	687	310	2	0
USPF/IPF	0	865	264	0	0
Infrastructure	1	331	8	0	0
Structured finance	4350	0	3	0	0

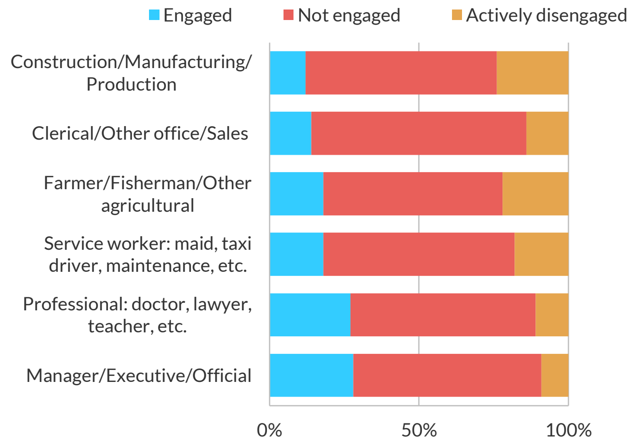
As of 30 September 2021
Notes: Detailed descriptions of the scores can be found on the first heatmap, *Distribution of ESG Relevance Scores – Manufacturing Process*, on page 8. A sector can appear under more than one core issue due to the categorisation of the water-related credit issues in the ESG scoring template
Source: Fitch Ratings

Employee Engagement, Diversity and Inclusion

This issue addresses the work environment that an employer cultivates and its impact on staff. In a 2019 report, Gallup defined engaged employees as being "highly involved in and enthusiastic about work and workplace. They are psychological 'owners,' drive performance and innovation, and move the organisation forward". Conversely, low employee engagement can reduce labour productivity. In its global survey, engagement is the lowest in roles where the work consists of rote or repetitive tasks, or the employee has less control over their working schedule.

Remote working, which saw a sharp increase during Covid-19, has become an area where employers can attract workers. A 2021 survey of 16,000 workers countries by EY found more than half said they would consider leaving a job if flexibility was not available.[3] While this can support employee engagement, there are potential knock-on effects in the commercial real estate sector. In a series of commentaries in 2021, Fitch evaluated the potential financial impacts of "longer-term, secular headwinds related to flexible work and demographics" on US CMBS and Office REIT issuers and considers them to be a source of downward pressure on ratings should employers offer three or more days of remote working a week.

Engagement Among Employed, Worldwide



Source: Fitch Ratings, Gallup

Corporate culture is an important element of both employee engagement and approaches to diversity and inclusion. This includes such issues as a clear framework for career progression, structured channels for employees to express feedback or complaints, frequency of discrimination or harassment claims, and workplace demographics that reflect the surrounding community. As well as affecting employee engagement, a non-inclusive working environment can expose an issuer to lawsuits or legal penalties.

Lawsuit, Reputational Risk over Discriminatory Practices

Signet Jewelers Ltd. (BB/Stable), the largest jewellery retailer in the US, faced widespread press coverage of accusations of gender pay discrimination and harassment of female employees. Fitch made several downgrades of Signet from 'BB' in January 2019 to 'B' in April 2020 "partly due to allegations of poor treatment of female employees, which has a negative impact on the credit profile". Signet paid a USD240 million settlement in 2020 to resolve a shareholder lawsuit claiming investors had been misled about the scope of the harassment claims. In 2021, Fitch upgraded Signet and lowered all ESG.RS to '3' or below.

[3] EY Work Reimagined Employee Survey 2021

Part II: Investor Practices and Labour-Related Financing

Investor Practices

Labour-related issues feature highly among investors' ESG concerns. In PwC's 2021 Global Investor ESG Survey, three of the top six ESG issues considered by respondents – more than 300 portfolio managers and analysts in asset management and investment firms – were labour-related, covering a broad range of issues including health and safety, diversity and the supply chain. Another investor survey in 2021 by RBC Global Asset Management identified six main labour themes: health and safety, supply-chain risks, board diversity, workplace diversity and employee engagement.

Top-Cited ESG Issues by Investors

Rank	Issue	% of respondents
1	Reducing Scope 1 and 2 greenhouse gas emissions	65
2	**Ensuring worker health and safety**	44
3	**Improving workforce and executive diversity, equity and inclusion**	37
4	**Addressing human rights in the supply chain**	34
5	Reducing Scope 3 greenhouse gas emissions	34
6	Data security and minimsing privacy risks	31

Source: Fitch Ratings, KPMG

Disclosure and performance on labour issues are increasingly part of not only the investment process, but also engagement and voting activity. In 2017 the California Public Employees' Retirement System (CalPERS), one of the world's largest pension funds, sent letters for more than 500 publicly-listed companies asking for improvements in the diversity of their boards. This type of engagement has now become widespread among institutional investors. In the past few years, asset managers, including AllianceBernstein (not rated), Goldman Sachs Asset Management (The Goldman Sachs Group, Inc.: A/Stable) and Fidelity Investments (not rated), have said they will use their voting rights to influence boards' diversity.

Diversity and inclusion metrics are also being applied to the investment management industry. In July 2021, the SEC's Asset Management Advisory Committee Subcommittee on Diversity and Inclusion recommended enhanced disclosures on gender and racial diversity of regulated companies' workforce, board, officer and owners. The UK Stewardship Code for asset managers was significantly revised in 2019 to incorporate ESG, including reporting efforts to improve gender, racial and ethnic diversity within their organisations. As of September 2021, 125 asset managers, owners, and service providers have signed up to the revised code, including seven of the largest 10 managers in the UK by assets under management (AUM).

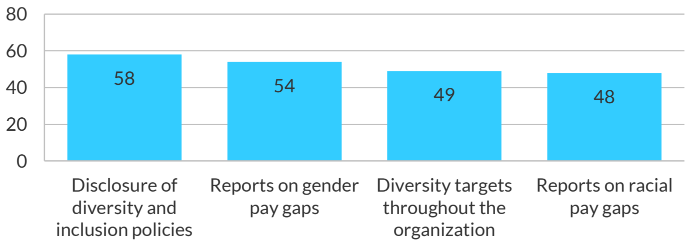
Engagement on Human Capital and Gender Diversity

Human Capital was the top ESG engagement theme for State Street Global Advisors (SSGA; State Street Corporation: AA-) in 2020, accounting for 244 engagements with portfolio companies on key topics: racial diversity, gender diversity, employee health and safety, employee compensation, recruitment and retention, and employee voice. The number of engagements on this theme represented a fivefold increase from 2018. Discussions with corporate management included management/worker pay gaps, flexible working post-pandemic and inclusion of human capital performance metrics into executive compensation.

On gender diversity, SSGA has since 2017 identified nearly 1,500 companies without a female board director in such major markets as Australia, Canada, Europe, Hong Kong, Japan, Singapore and the US. Through engagement more than half of those companies had added a woman to the board by February 2021. SSGA has also voted against more than 300 companies that have failed to respond to engagement on this topic, with more than 100 each in Japan and the US.

Importance of Diversity and Inclusion for Potential Investments

% "Very Important" or "Important"



Source: Fitch Ratings, BNP Paribas "The Global ESG Survey" 2021

Investor Borrowing Tied to Gender Performance

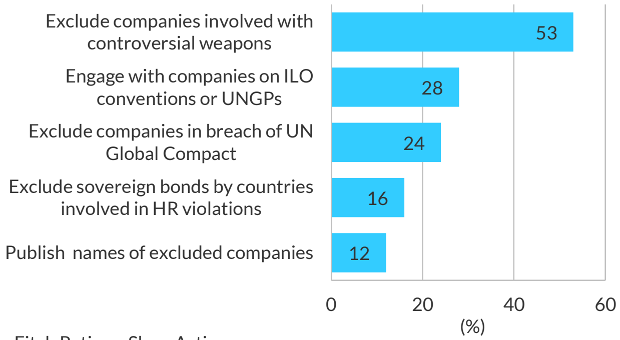
Swedish private equity investor EQT AB (A-/Stable) issued a EUR500 million 10-year sustainability-linked bond in May 2021. Two of its three sustainability performance targets relate to diversity: increase the share of female investment advisory staff to 28%; and increase the percentage of women it appoints to the boards of portfolio companies to 36%, both by 2026 from a 2020 benchmark of 21%.

Outside of diversity and inclusion, other social risks related to workers are less consistently addressed by investors. Most of the 75 asset managers in a 2020 survey by ShareAction reported that they had no policy to exclude companies or sovereign issuers on the basis of human and labour rights issues. [4] Only 14 of the firms surveyed take a proactive approach in considering supply-chain human rights violations for high-risk sectors, such as agriculture, apparel and minerals, or in high-risk regions.

[4] "Point of No Returns: Part II – Human Rights," ShareAction, 2020

Human Rights Policies that Apply to all Portfolios under Management

Survey of 75 asset managers, 2020



Source: Fitch Ratings, ShareAction

An analysis of disclosures in SEC filings by the Sustainability Accounting Standards Board (SASB) in 2017 showed that while most social topics had generic or descriptive reporting, human capital factors – health and safety, diversity and inclusion, engagement, and labour practices – actually had the highest percentage of metrics-based disclosures among all ESG categories. Disclosures that lack numerical support or are narrative-oriented are difficult for investors to assess or compare to industry peers and other portfolio companies. For example, a statement in a sustainability report on gender diversity saying "we have human resources policies that enable female employees to choose work that suits their life stages" is less useful to investors than a table with the percentage of women employed at different levels of seniority, which could indicate any issues with support for mothers or caregivers.

Quality of Sustainability Disclosures, SEC Filings (%, 2016)

Sustainability dimension	Metrics	Company-tailored narrative	Boilerplate
Human capital	41	12	47
Business model and innovation	33	24	43
Environment	32	20	48
Leadership and governance	28	22	51
Social capital	21	21	58
N = 731 filings			

Source: Fitch Ratings, SASB

Some elements of labour risks are still challenging to capture, particularly with relation to supply chains where data from third-party contractors is not readily available. For example, collection of employee gender, race, or ethnicity data is not common practice in all countries. This means that companies' disclosures on matters can be incomplete, especially for larger organisations with operations in multiple regions. The recent introduction of worker-related disclosure requirements in some jurisdictions, such as the EU, Hong Kong and Japan, should raise reporting standards for regulated entities. Several investor-oriented initiatives have also been launched to improve the quality of labour data, policy, and practices provided by portfolio companies, such as the Investor Alliance for Human Rights, the Good Work Coalition, the Workforce Disclosure Initiative and the World Benchmarking Alliance.

Coordinated Investor Response to Supply Chain Safety

In 2013, a large complex of clothing factories in Dhaka, Bangladesh called Rana Plaza collapsed, killing more than 1,000 workers and injuring more than 2,000. This was one of many cases of garment building safety incidents, including fires and collapses. The facility housed suppliers to major international retailers including J.C. Penney Company (not rated) and Walmart, Inc. (AA/Stable). About 250 asset owners and managers representing USD4.5 trillion in AUM formed the Bangladesh Investor Initiative to use their influence to improve worker safety conditions. They encouraged more than 200 retailers and brands to sign up to the Bangladesh Accord, which binds parties to certain standards on building safety, training and inspections.

There are very few labour-focused credit funds. In a 2020 commentary Fitch identified only two asset managers (Amundi and Columbia Threadneedle) offering social bond funds – that is, funds entirely comprising social bonds or sustainability-linked bonds with social targets. There is a larger number of thematic funds that target investments that contribute to social outcomes or to the SDGs, of which labour is one of several social factors. The Women Economic Empowerment Bond Fund, managed by Artesian with support from the UN Capital Development Fund, invests in corporate bonds issued by companies operating in the top decile for their sector on gender equality policies, female workforce participation, and female board and senior management representation.

Labour-Related Financing

Among social and sustainability bonds, public agencies, governments, and development banks make up the bulk of issuers with activities related to work and labour. Many of these are for inclusion, education, or training programmes to increase workforce participation of marginalised populations. The EU's Support to mitigate Unemployment Risks in an Emergency is the world's largest social bond programme and has raised EUR90 billion. Since its launch in 2020 the EU estimates that it has supported 25-30 million workers.

A small but growing number of corporates have issued labour-related UOP bonds, primarily related to diversity in both the workforce and supply chain. Utility Southern California Edison Company's (BBB-/Stable) June 2021 USD450 million sustainability bond has four green categories and one social: expenditures and investment to increase procurement from minority-, women-, veteran-, or LGBTQ-owned suppliers.

The development of the sustainability-linked bond since 2020 has significantly increased the number of bonds associated with labour issues, as corporate issuers can align their general borrowing needs to labour-related outcomes over the bond's tenor. Canadian oil and gas pipeline operator Enbridge Inc. (BBB+/Stable), Brazilian pulp and paper manufacturer Suzano S.A. (BBB-/Stable), and South African utility Rand Water (AA+(zaf)/Stable) are among the corporates to have issued sustainability-linked bonds with targets on workforce and senior management diversity.

UOP and KPI-Linked Borrowing for Diversity Goals

Technology manufacturer HP Inc. (BBB+/Stable) raised USD1 billion in a sustainability bond and USD5 billion in a sustainability-linked revolving credit facility in May and June 2021, respectively. Eligible social projects under its sustainability bond framework include investments in recruitment to improve diversity; and worker empowerment programmes. HP will benefit from a reduced interest rate on its sustainability-linked loan if it doubles the number of US-based black/African-American executives by 2025 and reduces its Scope 1 and 2 GHG emissions.

Appendix A: Labour-Related Issues and Their Impacts

Social, Financial and Economic Impacts

Labour issue	ESG credit issues	Social impact	Financial and economic impact
Strikes: breakdown in negotiations between workers and management, leading to stoppages	• Impact of labour negotiations and employee satisfaction • Workforce diversity	• Disruption to transport, other businesses, and public order/safety due to picket lines or protests • Reduced access to goods or services • Reduced access to essential public services e.g. healthcare, education • Productivity losses among users reliant on disrupted goods or services.	• Loss of revenue due to work stoppages • Decreased productivity • Increased costs to hire temporary workers to cover striking staff • Short-term loss of market share to competitors that could become permanent • Increased costs for legal services and arbitration
Unionisation: internal action by employees to form or join a union	• Impact of labour negotiations and employee satisfaction • Pension obligations and related litigation • Worker safety and accident prevention • Workforce diversity	• Increased attractiveness to potential job applicants • Health and safety improvements • Increased political influence for union members • Improved pay transparency •	• Increased costs for compensation and benefits • Increased costs for legal services and arbitration • Increased costs for promoting alternatives to unionisation
Large share of **contract, seasonal, and third-party labour** not covered under same standards and benefits	• Quality of contractors • Worker safety and accident prevention	• Political intervention and regulatory pressure. • Social tensions between employees and contractors. • Reduced upward mobility within companies. • Reputational damage.	• Lower costs for compensation and benefits. • Fines, civil or criminal penalties due to misclassification or breaches of labour laws. • Fines, civil or criminal penalties due to safety issues.
Health and safety: high or increasing incidence rates	• Worker safety and accident prevention • Employee recruitment and retention • Tenant safety and wellbeing • Pension obligations and related litigation	• Political intervention and regulatory pressure • Reputational damage. • Reduced interest and loyalty from fans (e.g. sports and entertainment).	• Fines, civil, or criminal penalties. • Increased costs for health or medical insurance premiums, and other medical costs. • Decreased productivity. • Increased costs for health and safety training. • Loss of revenue and market share in sectors where customer health and safety is simultaneously affected (e.g. transportation and healthcare).
Supply chain: evidence of poor and/or illegal labour standards in Tier 1, 2, and 3 suppliers	• Quality of contractors • Legal and regulatory compliance in operational geographies • Worker safety and accident prevention • Supply-chain management – labour	• Exploitation of minority or marginalised populations. • Violations of human rights. • Loss of right to an education for children. • Increase in violent and sexual crime. • Reputational damage. • Consumer shift towards more transparent competitors.	• Fines, civil, or criminal penalties. • Import restrictions due to violation of international trade laws. • Increased costs from switching to suppliers or regions with better labour practices.
Staff turnover: high or increasing rate, difficulty in recruiting and retaining workers	• Employee recruitment and retention • Workforce diversity	• Overworking of remaining employees. • Reduced engagement of remaining employees.	• Increased costs associated with recruitment, training and human resources. • Reduced productivity.
Ageing workforce: larger share of older adults in employee population	• Pension obligations and related litigation • Employee recruitment and retention	• Increased need for private childcare as older relatives remain in the workforce. • Increased demand for skills retraining.	• Increased costs for compensation and benefits. • Increased costs for health or medical insurance premiums, and other medical costs. • Reduced productivity.

Appendix A: Labour-Related Issues and Their Impacts (continued)

Social, Financial and Economic Impacts

Labour issue	ESG credit issues	Social impact	Financial and economic impact
Senior executive/ **worker pay and representation gap**	• Board/employee compensation and composition • Workforce diversity	• Political intervention and regulatory pressure. • Consumer shift towards competitors with more representative/egalitarian management.	• Reduced access to capital from banks with diversity requirements for lending. • Reduced access to stock exchanges with diversity requirements.
Discrimination: mistreatment of employees based on race, gender, orientation, religion, or other characteristic	• Employee recruitment and retention Workforce diversity	• Exploitation of minority or marginalised populations. • Political intervention and regulatory pressure. • Reputational damage.	• Fines, civil or criminal penalties. • Increased costs associated with recruitment, training and human resources. • Reduced productivity.
Minimum wage and working conditions – regulatory increases	• Board/employee compensation and composition • Legal and regulatory compliance in operational geographies • Worker safety and accident prevention Supply-chain management – labour	• Increased income and improved livelihoods for lowest-wage workers in society. • Reduced income inequality. • Reduced dependence on social welfare among wage earners. • Employer incentives to relocate jobs to lower-cost areas. • Employer incentives to increase automation, technological alternatives.	• Increased costs for compensation and benefits. • Reduced productivity if regulation limits hours worked. • Disproportionate impact on smaller companies less able to afford higher wages than larger corporations. • Reduced profitability.

Source: Fitch Ratings

Appendix B: Sector-Specific Labour-Related Credit Issues

Associated Sectors – Labour Relations and Practices

Labour negotiation and employee satisfaction	Labour negotiation and employee satisfaction (cont)	Workplace recruitment, retention, diversity and inclusion	Labour practices with contractors	Employee health and safety
Aerospace & Defence	Insurance – Life	ABS – Aircraft	GIG – Hydro	Airlines
Airlines	Insurance – Non Life	ABS – Auto	GIG – Oil & Gas Production	Asia Pacific Utilities
Alcoholic Beverages	IPF – GREs	ABS – Consumer Unsecured	GIG – Pipeline & Energy Midstream	APAC Regulated Network Utilities
APAC Property & Real Estate	IPF – LRGs	ABS – Equipment	GIG – Power Transmission	Australia Regulated Networks
APAC Regulated Network Utilities	LATAM Utilities	ABS – Secured	GIG – Social Infrastructure	Building Materials
Asia Pacific Utilities	Lodging	ABS – SME	GIG – Solar/Wind	Building Products
Australia Regulated Networks	Medical Products	ABS – SME CDO	GIG – Sports	Chemicals
Auto Suppliers	Mining	ABS – Future Flow Receivables	GIG – Thermal Power	Chinese Homebuilders
Automotive Manufacturers	NBFIs	ABS – Oil Vessel-Backed	GIG – Transportation	Commodity Processing & Trading
Banks	Non-Alcoholic Beverages	ABS – Sprint Spectrum	GIG – Water/Wastewater	EMEA Regulated Networks
Building Materials	Non-Food Retailing	ABS – Timeshare Loan		EMEA Utilities
Building Products	Oil & Gas Production	ABS – Utility Tariff Bonds		LATAM Utilities
Business Services	Oil Refining & Marketing	Airlines		Mining
Business Services DAP	Oilfield Services	Business Services		Oil & Gas Production
Chemicals	Packaged Food	Business Services DAP		Oilfield Services
Chinese Homebuilders	Pharmaceuticals	IPF – GREs		Oil Refining & Marketing
CMBS	Pipeline and Energy Midstream	Lodging		Pipeline and Energy Midstream
Commodity Processing & Trading	Protein	Pharmaceuticals		Protein
Consumer Products	Restaurants	Technology		Shipping Companies
Diversified Industrials & Capital Goods	Shipping Companies	US Healthcare Providers		Steel
Diversified Media	Steel	USPF – Acute Hospital and Health Systems		US Homebuilders
EMEA Real Estate & Property	Technology	USPF – Higher Education		US Utilities
EMEA Regulated Networks	Telecommunications	USPF – Life Plan Communities		GIG – Hydro
EMEA Utilities	Tobacco			GIG – Oil & Gas Production
Food Retailing	US Equity REITS & REOCs			GIG – Pipeline & Energy Midstream

Associated Sectors – Labour Relations and Practices

Labour negotiation and employee satisfaction	Labour negotiation and employee satisfaction (cont)	Workplace recruitment, retention, diversity and inclusion	Labour practices with contractors	Employee health and safety
Gaming	US Healthcare Providers			GIG – Power Transmission
GIG – Hydro	US Homebuilders			GIG – Social Infrastructure
GIG – Oil & Gas Production	US Utilities			GIG – Solar/Wind
GIG – Pipeline & Energy Midstream	USPF - Acute Hospital and Health Systems			GIG – Sports
GIG – Power Transmission	USPF – Higher Education			GIG – Thermal Power
GIG – Social Infrastructure	USPF – Not-for-Profit CCRC			GIG – Transportation
GIG – Solar/Wind	USPF – Public Power			GIG – Water/Wastewater
GIG – Sports	USPF – State and Local Government			IPF – GREs
GIG – Thermal Power	USPF – Water & Sewer			USPF – Acute Hospital and Health Systems
GIG – Transportation				USPF – Higher Education
GIG – Water/Wastewater				USPF – Not-for-Profit CCRC
				USPF – Public Power
				USPF – Water & Sewer

ABS: asset-backed securities; GIG: global infrastructure group; USPF: US public finance
Source: Fitch Ratings

Appendix C: Labour Data Sources and Tools

Examples of Labour Data Sources and Tools

Data/tool	Description	Source examples
Entity employment and labour relations disclosure	Disclosure of workforce demographics, employee relations, human resources policies, risk management.	Public disclosure in reports and financial filings, e.g. annual reports, sustainability reports, regulatory filings; GRI 401 – Employment; GRI 402 – Laboor/Management Relations; GRI 405 – Diversity & Equal Opportunity; GRI 407 – Freedom of Association and Collective Bargaining
Entity health and safety disclosure	Publicly available qualitative and quantitative information, metrics and targets on an entity's policies, initiatives, strategies, risk management, performance.	Public disclosure in reports and financial filings, e.g. annual reports, sustainability reports, regulatory filings; GRI 403 - Occupational Health and Safety
Entity modern slavery statement	Disclosure of policies, risk exposure, and incidents of modern slavery.	Statements under UK Modern Slavery Act, Australia Modern Slavery Act, California Transparency in Supply Chains Act; voluntary disclosures
ESG-integrated credit rating scores	Scores that articulate the level of influence a labor-related issue has on a credit rating decision.	Fitch ESG.RS
ESG ratings	Ratings of bond issuers on their ESG quality.	Fitch ESG ratings (Entity, Framework, Instrument); ESG rating providers
Sentiment-based data and ESG controversies	Scores that are based on either positive, news flow, negative news flow, or number of reported water-related controversial incidents such as pollution incidents or fines.	Bloomberg; Factset; RepRisk
Macroeconomic labour data	Data on employment rates, workforce participation, injury and accident rates, etc.	Regional or national statistics offices e.g. US BLS, Eurostat, UK Office for National Statistics; World Bank; ILO
Materiality frameworks	Sector-specific or regional frameworks that identify relevant labour-related risk factor.	Fitch ESG Dashboards; Fitch ESG Sector Discovery Tool; SASB Materiality Map
Labour-related indices	Thematic indices based on a labor-related theme e.g. diversity and inclusion, human rights.	Benchmark providers; index providers; ETF providers

Source: Fitch Ratings