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VOICES FOR HUMAN RIGHTS

# IN CONVERSATION WITH PHILIPPE BOLOPION, MANAGING DIRECTOR, TOBAM

January 23, 2024 Business & Human Rights**Charting the Course: Monthly Q&A Series**

We are excited to launch a new monthly series where we will interview partners and investors in our network discussing how they are charting their course to create impact, managing long-term risk, and striving for a more just and humane world.

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*Philippe Bolopion recently joined Paris-based asset manager TOBAM as its New York-based Managing Director, LBRTY product leader, and Co-Head of Long-Term Investing. In a conversation with Robert F. Kennedy Human Rights, he explains how LBRTY draws on academic work to highlight that investing in democracy is more profitable and that nations that respect democratic norms and human rights tend to economically outperform authoritarian countries. Investors' exposure to authoritarian countries, meanwhile, tends to occur not primarily through stocks they own in autocratic states but through their investments in companies that are listed in democratic countries but that are heavily reliant on authoritarian countries.*

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**You recently joined TOBAM, an asset manager, after spending 13+ years at Human Rights Watch. Tell us about your investment strategy at TOBAM and how you are using your work from Human Rights Watch to inform your investment decisions as a fund manager now and maintaining your commitments to human rights.**

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What drew me to TOBAM, beyond its longtime support for human rights organizations in its philanthropic donations, is a transformational new investment strategy called LBRTY®. It draws on academic work to assert that in the long run, countries that respect democratic norms and human rights tend to economically outperform authoritarian countries. I witnessed time and again at Human Rights Watch how the violation of human rights generates instability, conflict, and chaos of the kind that makes it difficult for businesses to thrive. As a result, rational investors who are looking to optimize the risk-reward of their portfolios should minimize their exposure to authoritarian countries. And yet, they rarely do. In fact, the world of finance is still often oblivious to the impact of human rights violations and authoritarianism. TOBAM applies a sophisticated methodology and considerable quantitative expertise to help correct that. Our most powerful argument is that in the long run, investing in democracy is more profitable. So far, institutional investors are responding with a lot of interest. If the idea catches on, countries that are looking to attract foreign investments will have to democratize and better respect rights to become more attractive. This is exactly the kind of impact I sought at Human Rights Watch.

**How does TOBAM collaborate with stakeholders, including clients, NGOs, and governmental bodies, to enhance the impact of its investments, both for managing long-term risk and for human rights and democracy? What role does human rights data play in your company's decision-making processes?**

TOBAM is part of an ecosystem of NGOs, foundations, multilateral organizations and academics who are deeply concerned about the global decline of democracy, which has been ongoing for close to two decades now. We share with them an attachment to democracy and they often see our work as innovative and impactful—in fact they want the business world to really see democracy and human rights as core tenets of long-term investing. As a quantitative firm, we are hungry for data. At TOBAM, we don't feel qualified to arbitrarily decide which countries should be considered democratic or autocratic. Thankfully, when it comes to measuring democracy, there is plenty of data to guide our work: Freedom House, the V-Dem institute, the Economist Intelligence Unit are organizations that do this important work. Unlike some of the providers of ESG data, democracy experts largely agree on the big trends and which countries are clearly undemocratic. We rely on these sources to decide which countries are investable within our LBRTY strategy, and which countries are not. For countries that fall in a gray zone between democracy and autocracy, we have set up a Civil and Democratic Rights Committee made up of experts, including several external thought leaders, who can take a closer look and help us make the more difficult decisions.

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## **How does TOBAM engage with companies to encourage better sustainable and human rights-aligned practices, and can you share any notable success stories or challenges encountered in this process?**

TOBAM formally implemented an engagement policy five years ago and has upgraded it gradually since then. We have also decided to work on a specific engagement strategy with the launch of LBRTY. The more assets we have under management with this strategy, the more impactful we'll be. Our approach is two-tiered. First, we want to reach out to companies that are heavily reliant on autocratic regimes to educate them on how we measure their exposure to authoritarianism and how this impacts our ability to invest in them. Simply said, we will not invest in companies that cater to dictators, and we want them to know. Secondly, we want to engage with the countries that fall in the gray zone and explain to their governments how their democracy ratings impact the willingness of our clients, which typically are large pension funds, to invest in their country. This is our path to impact. Countries that want to attract foreign funds will be incentivized to improve their respect for the basic rights of their citizens.

## **With Europe often at the forefront of regulatory developments in ESG and responsible investing, how does TOBAM navigate and respond to the evolving European regulatory landscape, and does TOBAM being headquartered in France bring any unique challenges or advantages in this context?**

Since its creation, TOBAM has decided to abide by two important guidelines. First, "abolish" the geographical dimension, i.e. consider that it is servicing a global client base. This "out of the box" approach has led TOBAM to have a truly international outlook. Our company is headquartered in Paris, but we have offices in New York and Dublin and the bulk of our business is in North America. Our diverse staff is a reflection of this unusual profile for a French company. Second, when it comes to sustainable investing, we consider that there is no distinction between "financial" and "extra-financial" dimensions. We simply aim to account for what contributes to value creation. Democracy, freedom of speech, rule of law are key to innovation and value creation.

In many ways, we believe that we are ahead of the curve, regardless of the geography, simply because our approach tackles an overlooked theme, and does it in a very innovative and relevant way. Now, to put that in the European regulatory landscape, our LBRTY strategy has obtained an "article 9," the highest level of classification within the Sustainable Finance Disclosure Regulation (SFDR) of the European Union. In addition to centering democracy, it also features ambitious environmental goals. Because of its history and long-time investment in human rights and the environment, TOBAM is well-placed to navigate the rapidly changing

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European landscape. Even in the US, where the term “ESG” has become politically toxic, our strategy resonates with a large swath of investors who intuitively understand the economic benefits of democracy and want to improve the risk-reward profile of their portfolio, whether they are in blue states or in red states.

**From your perspective, what challenges do you see in the industry regarding responsible investing? What emerging trends do you see in the intersection of investing and human rights, and how might these trends shape the future of long-term, responsible investing?**

I’m still relatively new to the field of responsible investing but I’m struck by two things. First, the lack of reliable data and common frameworks, especially when it comes to the environmental impact of companies. A single company will get wildly differing environmental ratings depending on the provider and their approach. This opens the door to doubt, confusion and all forms of greenwashing. Second, human rights have been grossly overlooked. Investors who care a great deal about the environment and good governance have poured money into autocratic countries, often unwittingly propping up their governments. China or Turkey are good examples. There is a fascinating book about to be published on this by economist Marcos Buscaglia: *Beyond the ESG Portfolio: How Wall Street Can Help Democracies Survive*. Today, there is widespread recognition in the market that autocratic countries like China and Russia are generating geopolitical risk and are not safe in the long term for investors. The market is ready to accept the idea that human rights violations and the absence of democracy are bad for business. It’s the perfect time to bring human rights and democracy in focus.

**For investors looking to align their portfolios with human rights and manage long-term risk, what advice would you give them, and what steps can they take to make more informed and responsible investment decisions?**

At its most basic, the message is that in the long term, countries and companies that disregard human rights will not be as successful. Data shows it. In my view, the most compelling element of the LBRTY strategy is that it demonstrates, through research, that companies that are heavily exposed to autocratic countries tend to underperform. TOBAM has been able to demonstrate the existence of an “authoritarian risk factor,” which can be evidenced, measured and mitigated and for which there is no reward. We can also show that most investors’ exposure to authoritarian countries occurs not through stocks they own in these countries but through their investment in companies listed in democratic countries but that are heavily reliant on authoritarian countries. Whether or not they believe in human rights and democracy, rational investors should pay attention and reduce their exposure. TOBAM offers an innovative way of doing this, but our hope is that many others in

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the field of sustainable finance will pay attention. In the end, thinking about democracy and human rights should become as mainstream as green investing.

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Philippe Bolopion is a Managing Director at TOBAM as the LBRTY product leader, and Co-Head of Long-Term Investing. He is a former journalist and human rights advocate with 25 years of experience in international affairs. He spent thirteen years at Human Rights Watch, advocating on behalf of victims of atrocities, traveling to conflict zones and representing the organization with diplomats, government officials and the press, before serving on the executive team. As a journalist, he covered the United Nations for various media, including the French daily newspaper le Monde. Mr. Bolopion has been featured extensively in leading news media and wrote a well-reviewed book about the US military prison at Guantanamo Bay. He graduated in 1996 from Sciences Po Bordeaux and from the Centre Universitaire d'Enseignement du Journalisme in 1999.

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## **ABOUT THE SERIES:**

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