

Joseph Rowntree Charitable Trust

Statement of our expectations of our fund managers in relation to technology

Introduction

As the trustees of the Joseph Rowntree Charitable Trust we are aware of the rapid advancements in technology which are affecting not only those companies operating directly in the technology sector but, to a greater or lesser extent, virtually every other company.

Although we broadly support technological development, we are also aware that it is not without its challenges, particularly around accountability and power misuse, and that these are amplified by the newness and complexity of the issues which are arising. We are also reasonably confident that there are others to emerge of which we are not yet aware.

As a responsible investor we have to consider these challenges both from a financial and environmental, social and governance risk perspective. Failure by our investee companies to rise adequately to them has the potential to lead to loss of reputation, fines and restrictive regulation around how companies operate and their size.

Some of the challenges, such as identifying where the responsibility lies for retraining staff displaced by new technologies and supporting local communities which have suffered through these changes, will require interventions at government level. However, there are others which we can positively influence, and we feel that it is incumbent on us to ensure that our fund managers are engaging with our investee and potential investee companies on these. That said we recognise that some of these issues are being taken up by other concerned parties, including regulators, politicians and the media, and that our efforts are best directed at those which are being relatively neglected.

General expectations of our fund managers

We expect our fund managers themselves to:

- Be transparent about where they draw the red line over moral issues relating to the use of new technologies and what transgressions would trigger divestment.
- Be prepared, when red lines are crossed, to communicate in particular with the managements of companies operating in China or any other country where there is extreme government censorship or control as to why they are not investing in, or are divesting from, them.
- Be transparent about when they apply different standards to companies operating in China or any other country where there is extreme government censorship or control, and to give reasons as to why they view this as appropriate.
- Actively contribute to the development of global standards and policies relating to new technologies, liaising with regulatory bodies as necessary.

With regard to environmental, social and governance issues around technology, we expect our fund managers to:

- Engage with investee companies about their responsibilities to use new technologies is a way which is consistent with an environmentally sustainable future. Example engagement question: How do you ensure that any technological development of your product or service contributes towards a more environmentally sustainable future?
- Engage with investee companies on their approach to the challenges raised by new technologies, recognising that these are likely to manifest themselves in different ways in different sectors. Companies must be able to show that they have controls in place to ensure that that they only use new technologies in a way which is equitable and bias free. This includes embracing the fact that artificial intelligence cannot operate in a black box and demonstrating that they are able interrogate, control and account for the decision making processes behind it. Example engagement questions: How do you ensure that any artificial intelligence programmes used in decision making in your organisation are fair and equitable in their outcome? How do you ensure that any artificial intelligence programmes used by your organisation do not produce outcomes that are unintended and even possibly dangerous?
- Ensure that investee companies are publicly transparent about the kinds of information they are collecting on individuals and how they are using it, and that they check that the individuals affected agree to this. They should also monitor the extent to which investee companies are protecting this data and are thinking about the ways in which new technologies might be abused and systems hacked. Example engagement question: What measures are taken to ensure data is stored in a way that is secure, private and protects individual privacy rights?
- Encourage investee companies to adopt existing global standards, disclosing why they have chosen the ones they have, and to contribute to the development of new such standards and policies. Example engagement question: How are the company's management contributing to global standards regulating the impact of artificial intelligence on their sector?
- Ensure that investee companies have actively sought to vocalise and enshrine their values throughout their organisations so that they are able to deal with the new and unexpected moral dilemmas thrown up by new technologies. We expect our fund managers to develop a framework for measuring how effectively their investee companies are doing this. This framework likely to include measurements around the cognitive diversity of a board. Example engagement question: Is the Chief Technological Officer represented on the board? Does s/he and/or another Board level executive have ethical standards as a key part of their remit?

Specifically with regard to investee companies based in, or operating out of, China or any other country where there is extreme government censorship or control, we expect our fund managers to:

- Be especially vigilant around the potential for human rights abuse. Example engagement question: If operating in China or a country where there is extreme government censorship or control, (a) do you employ any "censors" to moderate or monitor user behaviour (b) how do you identify whether any of your technologies, products, services or data could be used to suppress individual human rights or liberties (c) what measures are taken to ensure that the company is not inadvertently taking part in suppressing individual rights and liberties (d) are any of your technologies being used to gather information for use in the Chinese Citizen Score?
- Be especially vigilant around issues of data storage. Example engagement question: If operating in China or a country where there is extreme government censorship or control, (a) what measures are taken to ensure data is stored in a way that is secure, private and protects the individual (b) do you cede control of any user data to the government or firms owned by them or acting on their behalf?
- Be clear about their general expectations of companies operating in China or any other country where there is extreme government censorship or control. Where international companies are prepared to deviate from the standards they apply to the rest of the world, they should able to provide a clear explanation of why an exception has been made and in what circumstances they would divest. Example engagement question: If operating in China or a country where there is extreme government censorship or control (a) what involvement do your management team have with the government either directly or indirectly (b) what aspects of your operations there do you feel would be societally unacceptable if they were to take place in Europe (c) under what circumstances would your company withdraw from operating in such a country?

Specific guidance on the nature of engagement by our fund managers

We believe that the best results will be achieved by, and would strongly advocate:

- Joint collaboration with other interested parties in addressing the above issues. We would particularly encourage our fund managers to work collaboratively with other investors to develop the following statements of investor expectations to be communicated to investee companies for response:
 - A statement of investor expectations on artificial intelligence
 - A statement of investor expectations with respect to the particular nexus of technology and individual rights and liberties in China.
- Liaison with other fund managers and institutions who are engaging independently with companies to ensure a unified line of questioning.
- Sharing learning with others working on the same issues.