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Establishing An Exchange-Traded Fund (ETF) For Children

A Policy Analysis Exercise (PAE) for Creating An Innovative Financial Vehicle for UNICEF

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A Policy Analysis Exercise (PAE) for Creating An Innovative Financial Vehicle for UNICEF

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The views and opinions expressed in this paper are the author's personal views. The paper does not reflect the views of Harvard University, UNICEF or any other individuals or organizations.

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I Introduction

In recent years, asset managers and asset owners are increasingly integrating environmental, social & governance (ESG) information into financial analysis and investment decision making. Investors have started to realize that ESG information is critical to sustainable investment returns and long-term portfolio management. As stakeholders pay more attention to sustainable development goals (SDGs) and sustainable investment returns, more and more investors start to explore outcome-driven investments for certain social issues that can lead to achieving SDGs. Increasingly, investors take active ownership in engaging with investees on ESG issues and urging for better ESG management and disclosure. There are also growing interests in sustainable investment vehicles and financial products.

While there have been financial products, including exchange-traded funds (ETFs), focusing on ESG, most of the investment themes have been quite broad and most of the financial products have mainly focused on environmental issues. Out of environmental, social and governance factors, corporate governance has always been a fundamental issue in investment decision making. In recent years, listed companies have started to expand the disclosure and evaluation of their carbon footprints as investors start to shift towards low-carbon portfolios. Unfortunately, there has been limited focus on the social factor of ESG so far[1]. This is partly because social factors can be rather broad and their impacts are usually hard to measure.

Out of all the issues related to sustainable social development, one important issue is children's rights. Children hold the future of the world in their hands. In order to have a sustainable future, we need to ensure that we provide high-quality education, safety, food, health and opportunities for children. Business behaviors and commercial products are exerting profound impacts on children around the world. All aspects of children's wellbeing and opportunities are influenced by corporate behaviors. However, there is very limited disclosure or measurement on how companies affect children. There has been barely any disclosure about companies' impact on children's health and opportunities, not to mention some companies even have child labor in their supply chains.

UNICEF, the global leader for child protection and inclusion, promotes policies and expands access to services that protect all children globally through its partnerships and initiatives. UNICEF aims to use innovative partnership structures to unlock the potential for private sector participation in children's rights protection. Traditionally, UNICEF's partnerships with the private sector have been focused on philanthropic donations and services. UNICEF aims to create innovative financial instruments and partnerships to further expand its impact through the financial market and participants in the financial market.

This policy analysis exercise (PAE) aims to address UNICEF's problem of promoting children's rights among business and investors through launching a new financial instrument that links investments with corporate impact on children. UNICEF also wants to raise sustainable funds for its children's rights initiatives through the financial instrument. The PAE conducts an analysis on existing corporate impact on children as well as corporate disclosure on children's rights. It also establishes a partnership framework for UNICEF to unlock the financial and social value in

[1] Social factors may include human rights, human capital management, work conditions, diversity and equal opportunities, product safety and liability, etc.

the financial markets while creating a methodology for a financial instrument with a focus on corporate impact on children.

II Background and Problem Identification

2.1 Corporate Impact on Children

Children and young people have the same general human rights as adults as well as specific rights that recognize their special needs. Children's rights in this paper are defined in accordance to the Convention of the Rights of the Child[2]. Children, in addition to fundamental human rights, should be afforded the necessary protection and assistance, should grow up in a family environment, in an atmosphere of happiness, love and understanding, and should be fully prepared to live an individual life in society. A consolidation of children's rights outlined in the Convention of the Rights of the Child is shown in Appendix 1.

Corporate social responsibility towards children has been focused mainly on child labor. Indeed, child labor is a severe and serious problem in the global value chain. In the least developed countries, slightly more than one in four children (ages 5 to 17) are engaged in work that is considered detrimental to their health and development[3]. Working children are often unable to access formal education, which leaves them at a clear disadvantage for future economic, social and personal development. For example, two-thirds of the world's cobalt, an essential ingredient in smartphones and electric cars, comes from the Democratic Republic of the Congo (DRC). Amnesty International pointed out in a report that children as young as seven are mining cobalt in DRC. The report evaluated major electronics and electric vehicle companies on the child labor issue in the cobalt supply chain. Many of the global leading giants are not doing enough to stop human rights abuses from entering their cobalt supply chains (see detailed list in Appendix 2)[4].

Corporate impact on children extends beyond labor issues. Companies exert effects on children through overall business operations, products and services, marketing methods, relationship with local and national governments, investment in local communities, etc[5]. Commercial products are constantly affecting the health, education and development of children. The advertisements that businesses make for their products may be fine for adults but could be misleading or harmful to children. The environmental impact of business operations may affect children's health and development more in a severe way, as children's immune systems are less able to expel contaminants compared to adults. Children affected by business are often left unseen and uncounted. Companies rarely consult children's groups when they engage with stakeholders. Children don't have unions or voting rights to express their demands. Moreover, children who are not in school, and children who are discriminated against – such as ethnic minorities or girls and disabled children – are particularly likely to be overlooked.

At the same time, businesses can also have positive impact on children. They can provide products and services for children's education, health and entertainment. They can provide training and personal development programs for young workers and interns. They can create

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[2] United Nations Human Rights Office of the High Commissioner, Convention on the Rights of the Child. 2 September 1990.

[3] UNICEF, *Child Labour,* October 2019. https://data.unicef.org/topic/child-protection/child-labour/.

[4] Amnesty International, *Time to Recharge,* November 2017.

[5] UNICE, *Children Are Everyone's Business*, 2012.

jobs in low-income communities so the poor families can afford to send children to schools. Business can also promote children's rights through marketing campaigns and advertisements[6].

2.2 ESG Investment Vehicles

In recent years, there have been increasing discussions and interest in sustainable investing, along with various kinds of sustainable investment vehicles, including ESG funds, socially responsible investing and impact investing. Socially responsible investing (SRI) originally channels investments into ethical and value-based areas using exclusions or negative screening. SRI investors add a value-based screening to its investment portfolios to avoid funding companies that violates their ethical beliefs. ESG investors integrate environmental, social and governance factors into financial analysis and active ownership in order to create sustainable investment returns[7]. Impact investments, on the other hand, are investments made with the intention to generate positive, measurable environmental and social impact alongside financial returns[8]. Different investors may choose their preferred investment vehicles based on their investment objectives and value, whether it's to set standards for stock selection, to better integrate ESG information into investment decision making, or to target investments with specific social goals.

ESG integration can be applied to various asset classes, including actively managed equities, actively managed fixed income, passive assets, etc. Fixed income strategies provide investors with relatively more stable income and lower risk compared to equity strategies. However, fixed income investors do not have ownership in the investees and therefore could not play a direct role in guiding corporate management or strategies. Equity investors, on the other hand, are shareholders of companies and have the rights to advice, supervise and decide on corporate strategies through voting and active engagement. Most actively managed portfolios require higher costs and more efforts in tracking markets and managing portfolios. They may invest in a relatively small number of companies with concentrated market exposure. Passive funds, on the other hand, track specific indexes with periodical rebalances. Passive fund managers can invest in a large number of companies with lower management costs.

Integrating social issues in investment decision making allows investors to better identify responsible investees, better engage with companies and drive specific social objectives, such as protecting children's rights. Given that social issues are relevant to all parts of business operations, from production, distribution to marketing and after sales service, it is important to have a systematic approach to integrate social issues and highlight key social metrics in investment decision making. Ultimately and ideally, social factors should be integrated in all kinds of investments. But as an initial step, it is important to raise market awareness, set market standards and drive initial investment actions in integrating social factors in investment decision making. Therefore, it is most sensible and feasible to start with ESG integration and then expand the influence of social factors to other types of sustainable investments.

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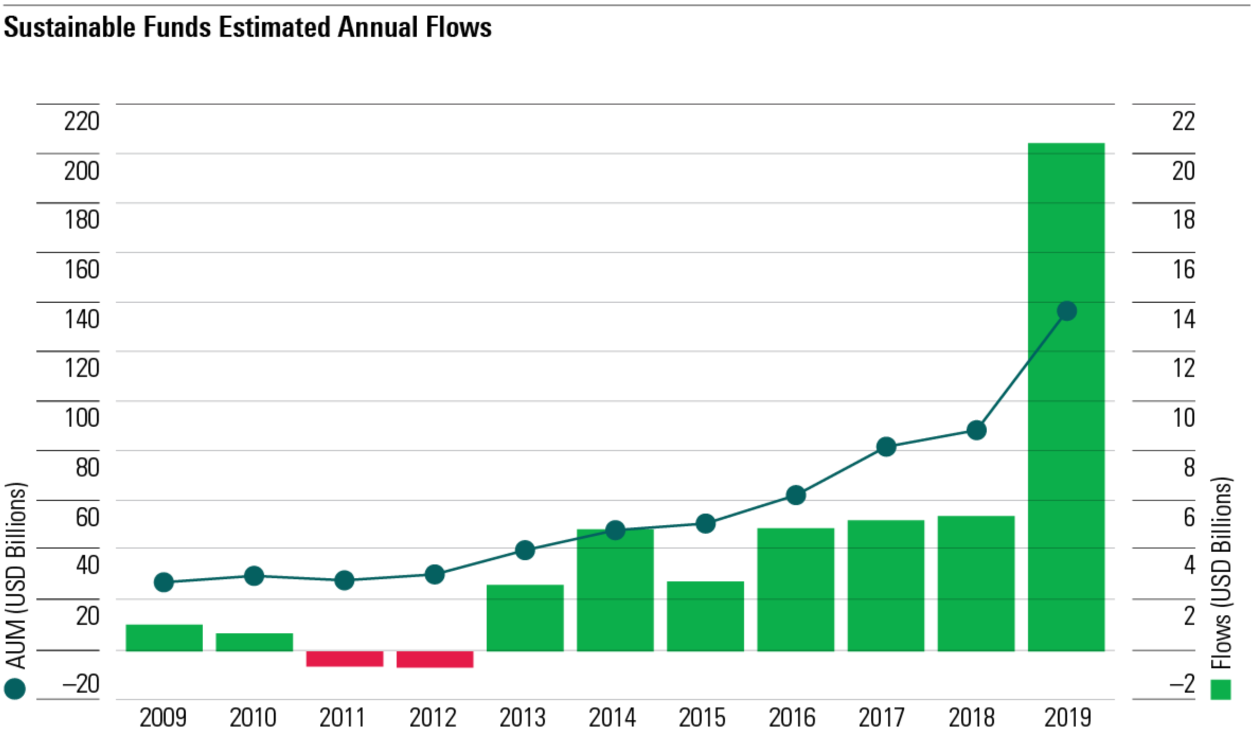
[6] UNICEF, The Global Compact and Save the Children. *How Business Affect Us,* 2012.
[7] Principle of Responsible Investors, *What is PRI?* https://www.unpri.org/pri.
[8] GIIN, *What Is Impact Investing?* https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing.

Exhibit 1. Estimated Sustainable Funds Annual Flows 2009-2019



Source: Morningstar Direct. Data as of 31 December 2019.

2.3 Existing Efforts in Managing Children's Rights Issues by Corporates and Investors

- **Corporate Sustainability Reporting Guidelines**

As the awareness and interests in responsible investing increase in recent years, more and more companies start to disclose their ESG information along with financial results. Unlike financial information disclosure that is required, guided and regulated by stock exchanges or capital markets regulators, the disclosure of ESG information in most markets are voluntary. For the voluntary disclosure, most companies follow one of the international sustainability reporting frameworks, including Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Integrated Reporting Framework (IRF), etc. While there are specific guidelines for environmental disclosure such as CDP and Task Force on Climate-related Financial Disclosures (TCFD), guidance on social information has been quite limited. The Workforce Disclosure Initiative focuses on two SDGs: decent work and economic growth (SDG 8) and reduced inequalities (SDG 10)[9]. The Human Development Index measures three key dimension of human development, including a long and healthy life, access to education and a decent standard of living[10]. While there are considerations of social issues from moral standards

[9] Workforce Disclosure Initiative, Shared Action, https://shareaction.org/wdi/.
[10] Max Roser, Human Development Index, *Our World in Data.* November 2019.

and guidance for disclosure, there is limited concrete measurements for integrating social issues in investment decision making, not to mention issues specific related to children's rights.

Looking at the three leading integrated sustainability disclosure frameworks, namely GRI, SASB and IRF, reporting guidelines for children-related issues have been largely undefined.

The principles for defining GRI report content are materiality, stakeholder inclusiveness, sustainability context and completeness[11]. Children-related standards are covered in GRI 400 series, out of which only one indicator-child labor-is directly linked to children's rights. Parental leave standards and codes for marketing communications could also be linked with children. Nevertheless, children's rights factors have not been systematically integrated in the GRI standards. They are not included in the impact assessment, due diligence, organizational responsibility or remediation.

SASB standards focus on financially material issues because SASB's mission is to help businesses around the world report on the sustainability topics that matter most to their investors[12]. SASB materiality map identifies 26 issues from environmental, social capital, human capital, business model & innovation and leadership & governance aspects. Children's rights are not explicitly covered in any of the issues. They could be indirectly reflected in human rights & community relations and labor practices. SASB fails to recognize the fact that business operations have different impact on adults and children and such impact could be material for long-term investors.

Similar to SASB, IRF's integrated reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates[13]. IRF does not provide specific reporting metrics but instead guide companies to identify material indicators, the value addition of the indicators and the communications through integrated reporting. In this way, how a company discloses its impact under IRF on children depends on how the company views the materiality and value of children in its business strategy.

- **Corporate Disclosure on Children's Rights**

We have seen increasing news and disclosure about companies' efforts in managing their impact on children in recent years. The increase in disclosure has been largely driven by public interests and advocacy on a case-by-case basis. There is still not a systematic improvement in corporate disclosure on children's rights.

Traditionally, children's rights issues are mainly exposed and discussed on child labor issues. Globalization and product outsourcing have allowed multinational corporations to manufacture products in markets with lower labor costs and more relaxed labor protection regulations. As consumers and advocates increasingly push for higher labor policies in global supply chains, companies have started to establish policies measures in child labor management. According to Bloomberg and UNICEF[14], out of those companies that have data available in 2015, only around 30% have a child labor policy, indicating that the majority of the market does not

[11] G4 Guidelines – Implementation Manual. GRI.
[12] SASB Materiality Map. https://materiality.sasb.org/.
[13] Integrated Reporting. https://integratedreporting.org/.
[14] Vendran Sekara et al., *Trends in the Adoption of Corporate Child Labor Policies: An Analysis with Bloomberg Terminal ESG Data*, Johns Hopkins University, 2018.

mention child labor whatsoever. However, the trend is positive: the percentage of companies has risen each year, and nearly doubled since 2010.

In recent years, market development, public interest shifts and advocacy campaigns have opened doors for more children's rights-related topics in corporate social responsibility. For example, the rapid development of the e-cigarette market has brought public attention to teen vaping problems. The expansion of technology and social media has brought discussion over the impact on technology on children. The MeToo movement has been driving corporate disclosure on managing women's rights, which also drives attention to children's rights in the areas of workplace childcare, parental leave and equal opportunities.

Although we have seen increasing awareness and concerns over corporate management and disclosure about their impact on children, they are largely event-driven. There is space for systematic integration of children into corporate stakeholder management and sustainability disclosure.

- **Investor Engagement**

Alongside other corporate stakeholders, investors are also paying more and more attention to corporate impact on children, driven by public interest, market development and investors awareness. For example, two investors, JANA and CALSTRS published a request to Apple in 2018, urging the company to offer parents more choices and tools to ensure that young consumers are using Apple products in an optimal manner[15]. Institutional investors are also actively engaging with leading technology companies including Apple, Dell, Microsoft and Tesla on the child labor issues in the companies' cobalt supply chains.

Gradually, shareholders and other stakeholders of companies are paying more attention to corporate impact on children, thanks to advocacy and engagement. The thematic engagement approach opens a door for further exploration on issues related to children's rights. There is great potential in expanding the scope and depth of investor engagement in children's rights.

- **Investment Vehicle**

As investors and stakeholders become more aware of SDGs in recent years, there have been increasing investment offerings with thematic focus on SDGs. Major asset managers are launching funds with the SDG label as well as funds with focus on certain SDG themes, such as water, gender equality and climate change.

As for responsible investments vehicles related to children, there has been only one public fund launched in September 2015 with a focus on Children-RobecoSAM Child Impact Equities Fund. Unfortunately, the fund was liquidated in October 2018 due to its failure to attract demand[16].

The methodology used by the fund was jointly developed by Global Child Forum and RobecoSAM. The fund methodology was built on bottom-up stock selection based on the Global Child Forum benchmark, a RobecoSAM Global Child Score, quantitative factors and

[15] CalSTRS Statement Regarding Shareholder Letter to Apple Inc. CalSTRS. January 8, 2018. https://www.calstrs.com/statement/calstrs-statement-regarding-shareholder-letter-apple-inc.
[16] Citywire, *RobecoSAM Merges Two Sustainable Funds And Axes Another,* November 26, 2018.

fundamental company valuation[17]. According to the fund's holdings at the end of 2016, the fund invested in around 70 companies in North America, Europe, Japan and Israel markets, with 49.9% of the portfolio companies from the US[18]. The detailed methodology and fund documents are no longer publicly disclosed since it was liquidated, and therefore it is hard to understand why the fund invested in companies like Exxon Mobil, Royal Dutch Shell and Snap. When the fund was liquidated in December 2018, it had only EUR14.58 million assets.

2.4 Problem Identification

Based on the background analysis, corporate strategies and operations are exerting profound impact on children globally, either directly or indirectly. Companies are increasingly taking efforts in corporate social responsibility programs and managing their environmental and social impact. However, few have fully addressed that corporate behavior could impact children in a different way compared to adults. And there is limited awareness, assessment, actions or disclosure for companies to manage their impact on children. So far most of the children-related initiatives are limited to child labor or philanthropic donation.

On the investment side, there is no existing investment vehicle that has a linkage to children, although we have seen growing interests and products in the responsible investment space. Investors are paying more attention to ESG factors, notably to issues related to climate change and energy transition. However, social factors are still relatively under-explored among the ESG issues. The existing ESG disclosure guidelines cover some aspect of children's rights, but they are more topic or thematic driven than systematic integration. ESG investment vehicles can be extended to further integrate children factor in reporting standards, especially where business operations exert different impact on children and adults.

As the leading international organization for children, UNICEF wants to improve business practice on managing corporate impact on children, drive investments into responsible businesses and have more funding to undertake humanitarian programs for children's rights protection.

The central question of client is: "**How to effectively design and launch a financial vehicle that can reflect and improve corporate impact on children while generating revenue for UNICEF?**"

The solution to this question should address the following aspects:

1) What kind of initiatives and partnerships should UNICEF establish in order to enter the financial innovation area?

2) What is the most suitable and practical methodology for the financial instrument?

3) How to effectively influence corporate behavior on managing their impact on children?

[17] Press Release: Global Child Forum Launches First Ethical Fund To Focus On Children's Rights. Global Child Forum, November 2015. https://www.globalchildforum.org/other/press-release-global-child-forum-launches-first-ethical-fund-to-focus-on-childrens-rights/.
[18] Semi-Annual Report, Robeco, December 2016. https://www.robeco.com/docm/semi-2016-robecosam-general.pdf.

III Solution: Launching An ETF for Children Through Public-Private Partnerships

UNICEF wants to utilize financial vehicles to promote children's rights while expanding its impact in global children's rights protection. In the responsible investing space, children's rights issues are part of the social arm of ESG issues and they apply to all companies. Looking at existing responsible investment products, the SRI investment approach typically excludes companies with the worst conduct in children's rights, but it may not encourage the majority of companies to improve their management. Impact investing could identify the top performers in managing children's rights, which could drive value for some impact investors and social enterprises. However, it may not affect most companies in the market. ESG integration, on the other hand, could organically integrate children's rights factors into existing ESG metrics and financial analysis, providing responsible investors with access to existing markets and investment universe. At the same time, having exclusion criteria could "penalize", in terms of reputational damage and/or market reactions, companies that directly hurt or violate children's rights and encourage higher business conduct in managing children's rights.

With the aim of integrating children's rights factors into investment decision making, actively engaging with companies and having broad market exposure, passively managed equity funds could be ideal for responsible investments that are linked with children's rights. Therefore, launching an exchange-traded fund (ETF) for children's rights would fit UNICEF's objectives of 1) encouraging investors to channel their funding into responsible companies, 2) engaging with companies to encourage better management of children's rights, and 3) creating a financial instrument at relatively low costs.

Traditionally, financial instruments such as ETFs are purely run by private sector players including asset managers and index providers. The private sector players are professional in structuring financial instruments, effective in managing financial products and efficient in distributing financial products. However, when it comes to impact investing or ESG analysis, private companies tend to have limited effort, incentives or expertise in creating and deepening social impact as they are mainly accountable to their shareholders. On the other hand, UNICEF, the leading international organizations for children's rights, is committed to save children's lives, defend children's rights and help children fulfill their potential globally. It has a global network of philanthropy projects and impacts. According to the UN, there is an estimated US$ 2.5 trillion annual gap in funding for the Sustainable Development Goals (SDGs), which will not be met through government or philanthropic sources alone. Therefore, there is an urgent need for the public sector to work with the financial services industry to help direct capital to socially responsible companies. Establishing partnerships between UNICEF and private sector partners can have strategic value for making the world a better, safer and more sustainable place for children, leveraging the both business value and public impact.

Through establishing strategic partnerships between UNICEF and private sector players, UNICEF could provide technical advice on the metrics defining business impact on children. It can also lead global campaign and engagement for business and children's rights. At the same time, the private sector partners can leverage UNICEF's influence to attract more responsible investors and create more targeted social impact financial instruments. The creation and launch of an ETF for children could have below strategic impact:

- Provide responsible investors with a feasible investment vehicle.

- Integrate children factors into investment strategies that can generate sustainable investment returns and positive social value in the long term.

- Create clear methodologies to measure, evaluate and compare corporations' impact on children's rights.
- Promote public disclosure of corporate impact on children's rights.
- Increase the awareness of children's rights and advocate for responsible investment practices and regulations for children's rights.
- Create a sustainable revenue model for UNICEF's child protection programs.

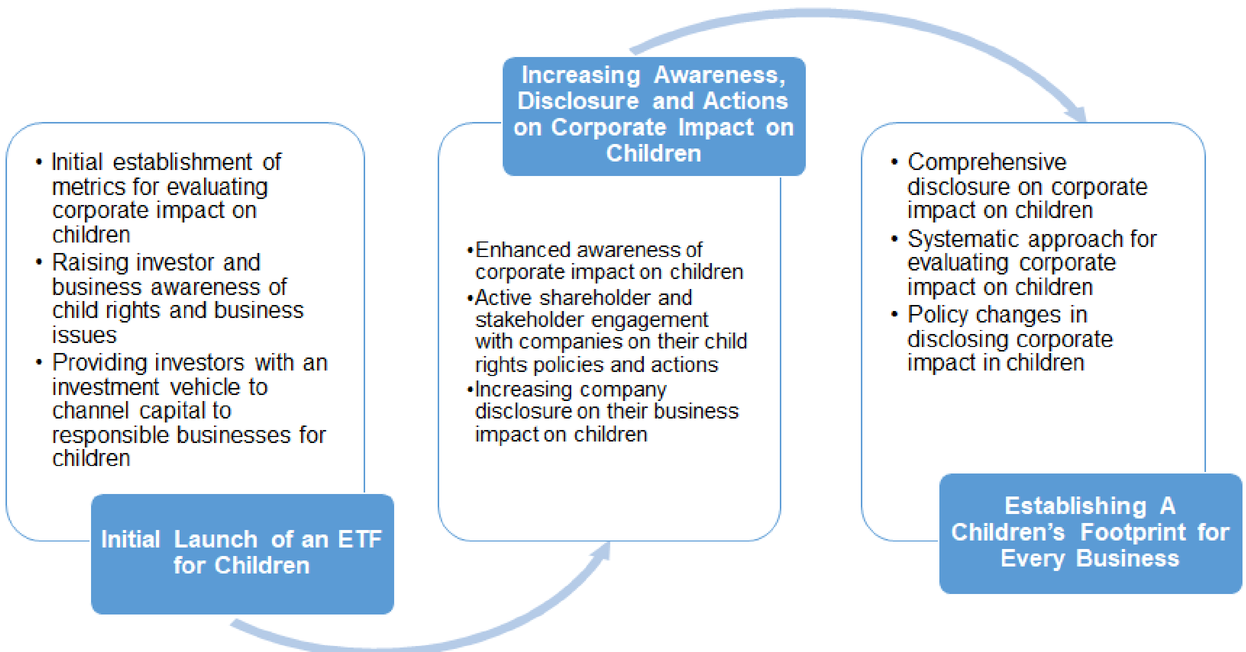
The impact of launching an ETF for children could be generated through an innovative partnership structure and a set of metrics that are targeted for children's rights. UNICEF has leading expertise on children's rights protection and inclusion, while it may lack the capacity to develop, launch and promote a new financial instrument in the financial markets. On the other hand, the private sector players have expertise in business strategies and financial market operations, while they may not be experts in evaluating business impact on children or promoting children's rights. Therefore, building a partnership between UNICEF and private sector stakeholders can leverage both sides' expertise to close the gaps in the creation of an ETF for children. UNICEF could provide technical advisory for creating children's rights metrics and use its global influence to promote business and children's rights. The private sector partners can leverage UNICEF's expertise and influence to develop and promote the children's rights ETF in the global markets and drive more actions from companies and investors for protecting children's rights.

Sure enough, one index or an ETF will not ultimately solve all the problems of corporate impact on children. However, it can provide a beginning for a systematic evaluation and measurement of corporate impact on children. In the past years, companies and investors are paying increasing attention to their emissions and carbon footprint. And there have been established measurements to evaluate corporations' carbon footprints. Now carbon footprint is no longer a new term to companies and the public. Similarly, there should be and could be tools to evaluate corporate impact on children. However, there are several challenges for establishing companies' children's footprint at the current stage:

- First, there is a lack of awareness and attention to how companies affect children differently than they interact with adults. Most companies ignore children as a distinct stakeholder group.
- Second, there is limited policies or regulation regarding the management and disclosure about corporate impact on children.
- Third, even for the companies that voluntarily disclose various aspect of their business impact on children, there are no established reporting standards and therefore it is difficult to verify and compare company performance on their impact on children.

Given these challenges, as this moment, we cannot have a systematic and clear approach to create children's footprint for each and every company. However, creating an index and an ETF for children could be a first step to raise the awareness of various stakeholders, create initial standards for evaluating corporate impact on children and provide a vehicle for investors to invest and engage with companies on children related issues. In the long term, with increased awareness and disclosure, the metrics for evaluating corporate impact on children could be further expanded and specified and eventually lead to the creation of children's footprint for every company.

Exhibit 2. Theory of Impact



IV Strategic Partnerships between UNICEF and the Private Sector

4.1 Partnership Structure

UNICEF has been pioneering in its fundraising and partnership initiatives among international organizations. The Division of Private Fundraising and Partnerships (PFP) at UNICEF aims to achieve positive results for children by maximizing UNICEF's private fundraising and advocacy around the world. Its two central pillars are private sector fundraising and private and public sector engagement[19]. UNICEF would like to influence the business conduct of companies to improve business responsibility and protect children's rights. UNICEF also aims to raise funds from the private sector to contribute to its global programs in child protection and inclusion. Through building strategic partnerships with private sector players, UNICEF could expand its expertise in children's rights and leverage value from the private sector to expand impact on children-related issues in businesses.

There are various private sector stakeholders involved in designing and launching an ETF for children, including:

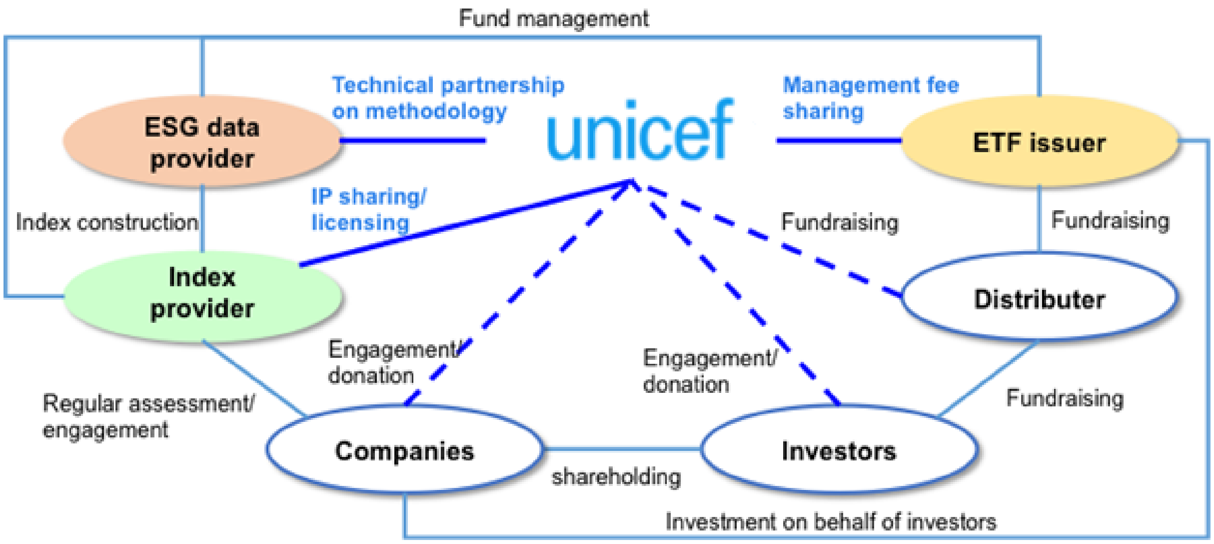
- ETF issuers: asset managers that help asset owners and investors to manage assets and make investment decisions. They are the issuers and managers of the ETF.
- ESG data providers: research and service providers that analyze company information based on ESG metrics. They provide ESG research and data analysis for the ETF's underlying index.
- Index providers: construct the index, design portfolio features and calculate fund constituents' weightings.
- Companies: potential investees of a fund. Companies receive funding from investors and their business operations can be influenced by investors' expectations.
- Investors: invest in companies. In particular, equity investors have ownership in companies through their shareholding. They can influence company decisions through voting on corporate actions and investor engagement. Common investors include retail investors, institutional investors, foundations, high net worth individuals etc.
- Distributors: sell and distribute ETFs to investors.
- Regulators: supervise financial market operations; review and approve the ETF launch, operations and management.
- Others stakeholders: stock exchanges, NGOs, advocacy groups, communities, etc.

The main incentives for private sector players to partner with UNICEF are branding and corporate social responsibility. UNICEF's branding has great market value for companies in their marketing and strategies. The partnerships between UNICEF and private companies could

[19] UNICEF, the Division of Private Fundraising and Partnerships. https://www.unicef.org/infobycountry/switzerland_96063.html.

generate shared value outcomes. However, there are risks involved in UNICEF's partnerships with businesses. Potential business misconduct or scandal of UNICEF's private partners may hurt UNICEF's reputation and children protection efforts. UNICEF does not endorse any product or companies and it is cautious in establishing partnerships with businesses. Therefore, it is critical for UNICEF to identify the most suitable private partners and partnership structures in order to maximum the value and minimize the risks involved in the partnerships. Below Exhibit 3 shows the relationships between various stakeholders in the ETF value chain.

Exhibit 3: Partnership Structure



As shown in Exhibit 3, multiple stakeholders are interconnected in the creation of the ETF. An ETF issuer would collaborate with an ESG data provider and an index provider to launch the ETF. The ETF issuer would act as the fund manager to invest in companies on behalf of investors. At the same time, the ESG data provider and the index provider are important for creating the index and selecting investee companies based on financial and ESG criteria. To enhance UNICEF's impact on business and children's rights, mobilize impact across the private sector value chains while avoiding unnecessary risks involved partnerships, it is most important and necessary for UNICEF to establish partnerships with the ETF issuer, the ESG data provider and the index provider.

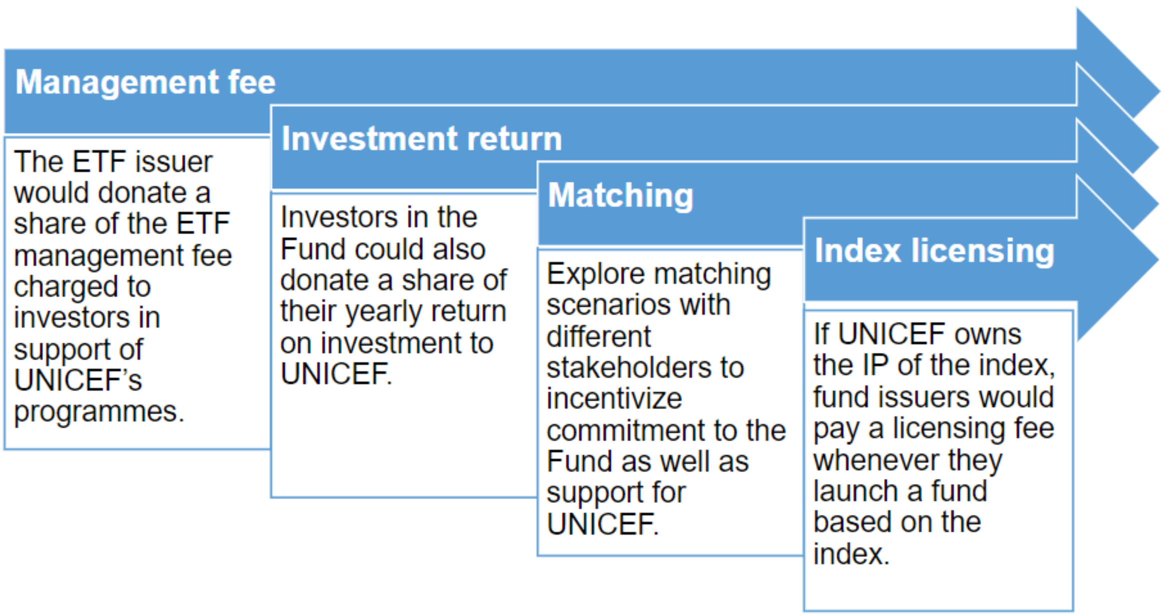
The partnership with the ETF issuer allows UNICEF to have access to investors as well as investee companies. UNICEF would play a role in the launching and managing of the ETF while receiving a share of management fee or investment fee donation from the issuer or investors. At the same time, the methodology and metrics for designing the ETF are key to the effectiveness of both financial value and social impact. Therefore, UNICEF should establish partnership with an ETF data provider and an index provider to provide technical advisory for the creation of the ESG metrics and the construction of the index.

After the ETF is created and launched, UNICEF could also leverage the partnerships to engage with portfolio companies in the index to advocate for higher business conduct on children's rights. UNICEF can also engage with existing and potential investors of the ETF to expand its impact and promote socially responsible investing. Such engagement can drive long-term strategic shifts in the private sector's perception and engagement in social issues such as children's rights.

4.2 Fundraising Through Public-Private Partnerships

To fulfill the objective of generating revenue for UNICEF's child projection programs, along with improving business conduct on children's rights, UNICEF could gain donation through partnerships in creating the ETF. The donation could come from various sources, including the donation of management fee, the donation of investment returns, corporate donation from investee companies, index intellectual property (IP) licensing, as shown in Exhibit 4.

Exhibit 4. Revenue Generation Channels



The revenue projection for UNICEF is shown in Exhibit 5.

Exhibit 5. Revenue Projection for UNICEF Through the ETF

	Inception-Year 1	Year 3-5	Year 5-7
Asset size	50,000,000	100,000,000	500,000,000
Management fee (Assuming 0.5%)	250,000	500,000	2,500,000
Donation of management fee (assuming 50%)	125,000	250,000	1,250,000

Annual investment return (assuming 8% return)	4,000,000	8,000,000	40,000,000
Donation of investment return (assuming 10%)	400,000	800,000	4,000,000
Index licensing fee (assuming 0.03%)	15,000	30,000	150,000
Annual Revenue to UNICEF	**540,000**	**1,080,000**	**5,400,000**

V Constructing An Index for Children's Rights

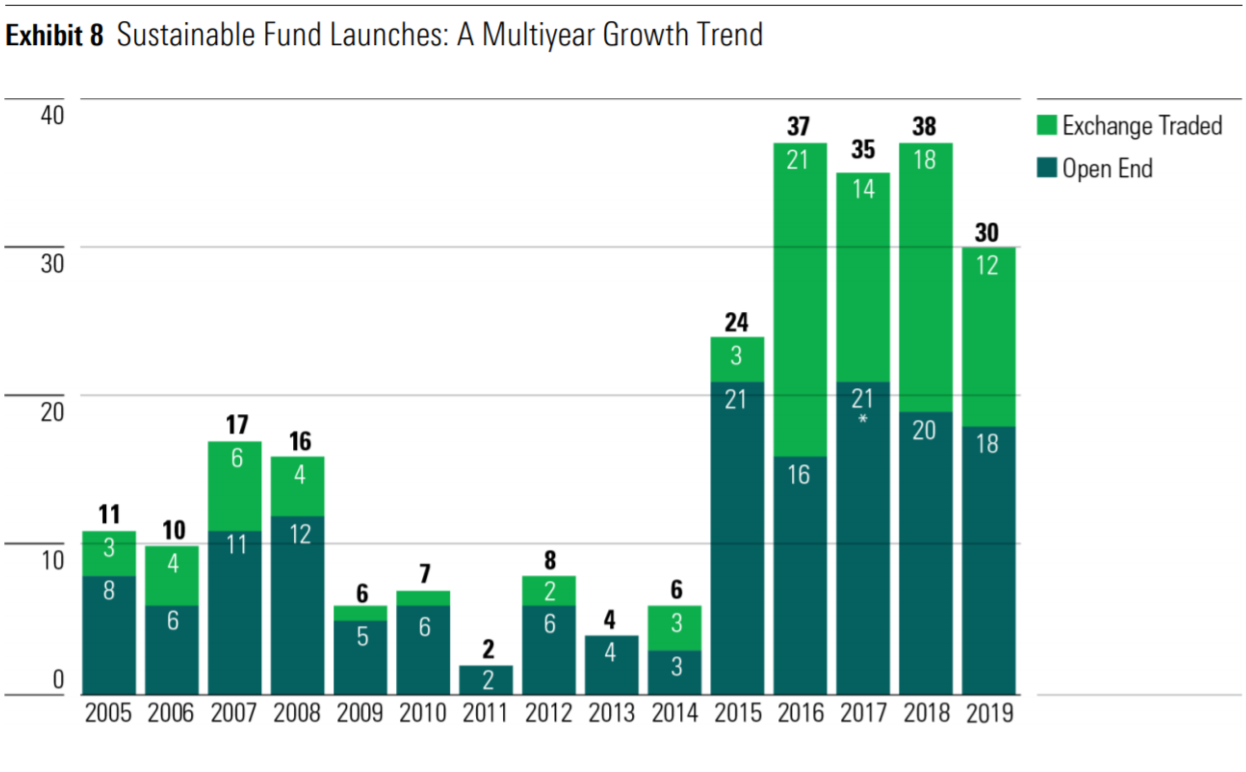
5.1 ESG ETF Market Analysis

Exchange-Traded Funds (ETFs) are funds that track indexes. The shares of an ETF are shares of a portfolio that tracks the yield and return of its native index. ETFs don't try to outperform their corresponding index, but simply seek to replicate the index's performance[20]. In terms of asset size, US-based ETFs have reached a record $4.42 trillion in assets under management as of December 2019, with 155 ETF providers offering 2,361 ETFs to investors, according to ETFGI[21], a London-based ETF research firm. ETFs have grown rapidly since their invention in the early 1990s, largely because of their low associated costs, exchange access, holdings transparency and range of asset classes available[22]. As ETFs track indexes, they do not bear the higher costs of discretionary, active portfolio management. ETFs are accessible to a broad range of investors with a diversified range of portfolios and asset classes. Most ETF providers disclose their entire portfolios on a daily basis, providing more transparency to investors.

There has been increasing investor interests in sustainability-liked ETFs. In February 2020, total assets invested in ESG ETFs and exchange-traded products (ETPs) listed globally reached a record of $67.99 billion[23]. A large number of the ESG ETFs track an ESG index, such as MSCI ESG indexes and FTSE ESG indexes. The increasing global awareness and concern about climate change have been driving the growth of environmentally responsible ETFs, with themes including green bonds, low carbon, low emissions, climate change, etc. On the social side, however, there has been limited push other than the recently rising gender inclusion ETFs.

[20] CFA Institute, *Exchange Traded Funds (ETF)*. https://www.cfainstitute.org/en/advocacy/issues/exchange-traded-funds.
[21] ETFGI, *ETFGI reports assets invested in ETFs and ETPs listed in United States reached a new record of US$4.42 trillion at the end of 2019*. https://etfgi.com/news/press-releases/2019/08/etfgi-reports-assets-invested-us-etfs-and-etps-industry-broke-through.
[22] CFA Institute, *Exchange Traded Funds: Mechanics and Applications*. https://www.cfainstitute.org/en/membership/professional-development/refresher-readings/2020/exchange-traded-funds-mechanics-applications.
[23] ETFGI, *ETFGI reports Environmental, Social, and Governance (ESG) ETFs and ETPs listed globally gathered 7.54 billion US dollars in net inflows during February 2020*. https://etfgi.com/news/press-releases/2020/03/etfgi-reports-environmental-social-and-governance-esg-etfs-and-etps.

Exhibit 6: Sustainable Fund Launches in the US Market



Source: Morningstar Direct. Data as of 31 December 2019.

5.2 Analysis of Existing ESG ETFs

This PAE analyzed 22 representative ESG ETFs, socially response indexes and sustainable funds across major global markets (see full list in Appendix 3). The key features of these indexes/funds are:

- **Fund size**: The sizes of the ESG-related funds vary vastly, from $1 million to over a billion. Even those ETFs that track the same indexes have very different sizes. This could be due to branding, marketing, market exposure, investor exposure, etc. For the funds that are invested by pension investors, they can receive stable monthly money inflows and thus keep growing larger.

- **Fee**: There is a clear trade-off between fee and fund size. The funds with largest net assets are usually the ones with lower fees (less than 0.5%). Low fee is definitely one of the main attractions for investors to invest in ETFs.

- **For profit vs. non-profit issuer:** Out of all the ESG ETFs, the ones issued by Impact Shares are probably the ones with greatest vision for impact. The ETFs launched by Impact Shares capture sustainability development goals, minority empowerment and women's rights. But they are also the smallest funds among major ESG ETFs. This could be due to: 1) the issuer is relative small and unknown to investors; 2) the ETFs launched by Impact Shares promote more "impact" as in "donation" rather than "investments"; 3) they have limited marketing channels to mainstream investors. Non-profit players may not be able to use market-based strategies to attract investors into their financial products.

- **Methodology**: Most of the ETFs are passively managed, which means that the fund managers simply track an index without actively changing portfolio positions. This is a simple and cheap way of managing assets. Most of the indexes use exclusionary criteria based on market exposure and market capitalization. In this way the funds could have a balanced exposure and risk profile while featuring ESG criteria.

- **ESG strategies by issuers:** The largest 5 issuers in both US and Europe markets all have ESG strategies and products, although their commitment and engagement in ESG vary based on company strategy and values.

- **Children's rights:** Currently there is no fund trading in the market with a lens on children.

Based on the analysis, the market has increasing appetite for ESG ETFs but most ESG ETFs track a few certain indices. There is a lack of focus on social factors among the ESG ETF issuers. Marketing and engagement are important to the expansion of asset size and social impact. The children's rights ETF proposed in this paper could meet the market appetite and investor interests in social impact. It is important to make sure that its methodology is financially and socially sound. And it has to be complemented by active corporate engagement in order to drive changes in corporate behaviors.

5.3 Limitations of Existing ESG Indexes

As investors increasingly integrate ESG factors into their investment research and portfolio management, third-party ESG data providers are playing an increasingly important role in helping ESG research and guiding ESG investments. The current ESG research market is dominated by a few ESG data providers, including MSCI, Sustainalytics, Thomson Reuters, Bloomberg, etc. Each ESG data provider has its own coverage, methodologies, rating scales and company engagement strategies. Generally, they conduct bottom-up analysis based on company disclosure and use their proprietary model to score a company's overall ESG scores. Unlike financial information that has clear definition and reporting standards, ESG information has less strict reporting framework or requirement. Different people may interpret the relevance and significance of different ESG data differently.

As different ESG providers use different methodologies to rate companies' ESG performance, the way that a company's raw ESG reporting turns into an ESG score is almost like a "black box". It is difficult for ESG data users to understand how to comprehend or compare the meaning behind different ESG scores. In fact, the cross-sectional correlations among the leading ESG data providers' ESG scores are quite low. The ESG ratings by MSCI and Sustainalytics only have 0.53 correlation. And the correlation between MSCI and Bloomberg's ESG scores is only 0.66[24].

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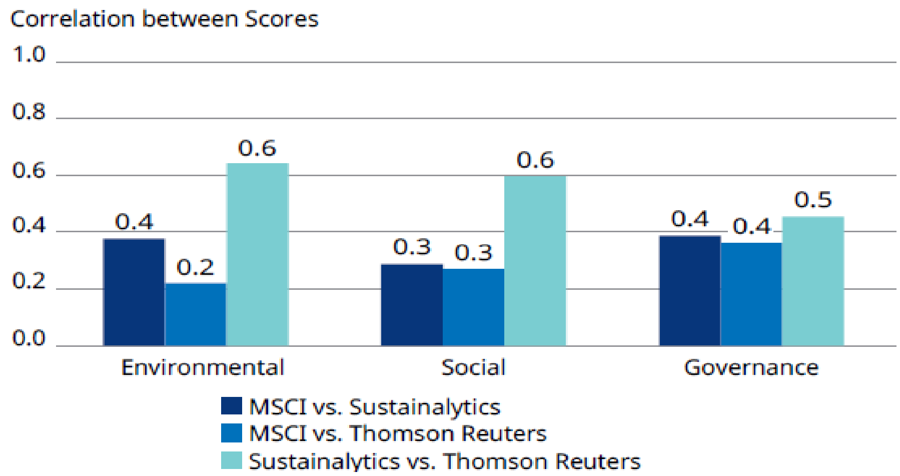
[24] State Street Global Advisors, *The ESG Data Challenge,* March 2019.

Exhibit 7: Correlation Between Different ESG Scores



Source: Schroders, March 2018.

Different ESG data providers follow different frameworks of sector breakdown and issue breakdown. For example, MSCI ESG Research looks at 37 ESG key issues, divided into three pillars (environmental, social and governance) and ten themes[25]. Sustainalytics covers nearly 40 industry-specific indicators and the indicators are split into two dimensions: disclosure and performance[26]. Thomson Reuters selects 178 of the most relevant ESG data points and group them into 10 thematic categories[27].

However, out of all these rating metrics, the ones that evaluate companies' impact on children only cover child labor, maternity leave and certain metrics that are only relevant companies that produce children products. The ESG ratings have not been able to comprehensively consider how companies in different industries affect children throughout their business operations and supply chains.

5.4 Children's Rights Metrics

To construct an ETF with a focus on children's rights, it is important to take into account all material factors that may affect a company's performance, including both financial information and ESG information. Currently there have already been many ESG indexes and ETFs available but there is no index or fund that integrate children factors. It makes sense to add children's factor into existing indexes that have integrated other ESG information. Here we focus on the development of children's rights-related metrics, on top of existing ESG metrics. The children's rights metrics are developed based on UNICEF's Children's Rights and Business Principle.

Corporate behaviors affect children through a range of ways, from the way they generate revenues, the way they treat labors to the way the engage stakeholders. Some of such impacts are more direct and severe while some others could be indirect and subtle. In order to factor in

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[25] MSCI ESG Research, *MSCI ESG Ratings Methodology*, January 2019.
[26] Sustainalytics, *The ESG Risk Ratings*, November 2019.
[27] Refinitiv, *Environmental, Social and Governance (ESG) Scores from Refinitiv*, June 2019.

all the impacts in an index, there should be both exclusionary screening and inclusionary screening for children-related business factors, on top of the existing ESG metrics.

Exclusionary criteria

Although not all business affects children in the same way, there are value-based factors that have direct and material risks to children. Companies involved in certain areas should be excluded from the children's rights index. These exclusionary factors include:

- Adult entertainment: companies that have an industry tie to adult entertainment, including producing, distributing, retailing or ownership.
- Gambling: companies that have an industry tie to gambling through operation, support, licensing or ownership.
- Weapons: companies that are involved in the production, distribution and sales of weapons.
- Alcohol: companies that are involved in the production and distribution of alcohol.
- Breast milk substitutes: companies that are involved in the production and distribution of milk substitutes.
- Child labor: companies that have been reported of using child labor in their business operations.
- Tobacco: companies that are involved in the production and distribution of tobacco products.

Inclusionary criteria

Other than these exclusionary criteria, there are a number of other factors that should be considered when evaluating companies' impact on children. Such factors may not affect children directly, but they impose material impact on children and business conduct. Analysts should evaluate how each company manages these factors and integrate that into the company's overall ESG score. UNICEF's Children's Rights and Business Principles set guidance on the full range of actions that companies should take in workplace, marketplace and community to respect and support children's rights[28]. The principles provide high-level guidance on corporate behavior. To make it more concrete and clearer, 20 detailed questions are identified to evaluate the way that all companies may affect children's health, education and development, including:

Principle 1: All business should meet their responsibility to respect children's rights and commit to supporting the human rights of children.

[28] UNICEF, the United Nations Global Compact, Save the Children, *Child Rights and Business Principles,* March 2012.

1) Has the company integrated children's rights considerations within its statements of business principles, codes of conduct, and other values-related corporate commitments and policies?

2) Does the company integrate children's rights considerations into human rights risk and impact assessments and, as relevant, other company risk and impact assessments?

3) Based on findings from risk and impact assessments, has the company identified specific actions to embed respect for children's rights across relevant internal functions and processes?

4) Does the company have a procedure to screen, select, evaluate and prioritize suppliers or other business relationships that integrates children's rights into the assessment scope and analysis?

5) Does the company have monitoring systems in place to track progress and performance in relation to impacts on children's rights?

6) Does the company have effective and accessible grievance mechanisms in place to address children's rights violations?

Principal 2: All businesses should contribute towards the elimination of child labor, including in all business activities and business relationships.

7) Does the company have a policy clearly stating the minimum age for employment in line with national law or international minimum standards, whichever is higher?

8) Does the company have a process in place for monitoring, reporting and managing cases where children below the minimum age are discovered?

Principle 3: All businesses should provide decent work for young workers, parents and caregivers.

9) Does the company have a defined approach to providing decent working conditions for young workers and student workers?

10) Does the company have family-friendly policies in place to accommodate, prohibit discrimination against, and ensure adequate standards of living for workers with family responsibilities?

Principle 4: All businesses should ensure the protection and safety of children in all business activities and facilities.

11) Does the company have a zero-tolerance policy on violence, exploitation and abuse of children, including but not limited to sexual exploitation?

Principle 5: All businesses should ensure that products and services are safe, and seek to support children's rights through them.

12) Does the company have policies in place outlining how it ensures the safety of children when using or exposed to its products and services, including in research and testing, as relevant?

13) Are procedures in place for the company to assess and monitor the use of its products and services in order to identify any dangers (mental, moral or physical) to children's health and safety?

Principle 6: All businesses should use marketing and advertising that respect and support children's rights.

14) Has the company established guidelines for the use of children in advertising and marketing?

Principle 7: All businesses should respect and support children's rights in relation to the environment and to land acquisition and use.

15) Does the company's environmental and resource-use policy and targets take into account its potential and actual impacts on children?

16) Is there a process in place to identify, assess and monitor environmental risks to and impacts on children and pregnant women?

Principle 8: All businesses should respect and support children's rights in security arrangements.

17) Does the company have a policy in place related to security arrangements that incorporates children's rights?

Principle 9: All businesses should help protect children affected by emergencies.

18) Does the company have a policy, standard or other document that addresses corruption, taxation and bribery?

Principle 10: All businesses should reinforce community and government efforts to protect and fulfill children's rights.

19) Does the company publicly describe its approach to protecting and supporting children's rights in its annual report, sustainability reports and/or on its website? Is this accompanied with practical examples and regular progress updates?

20) Does the company include specific children's rights indicators in its sustainability reporting?

These 20 questions under the 10 principles evaluate companies' commitment, integration and actions in managing their impact on children. The evaluation and scoring are based on policy commitment & governance, impact management & integration and assessment & actions to implement. Policy commitment & governance reflects how the company value and consider certain aspects of children's rights. It is important to have policy framework and corporate governance to guide the business conduct and operations. However, merely having policy commitment is not enough. It is important to integrate such policy commitment into business strategy management so that the frameworks are applied in day-to day business operations. In addition, whenever there are risks or problems identified, companies should take timely and targeted actions to alleviate the risks and solve the problems.

Each company in the investable universe would be evaluated based on these 20 factors, with scores ranging from 0 (no action) to 10 (best practice). For binary questions, the scores will be 0 (none/not available) or 10 (have in place). The Child Rights and Business Principles outline the responsibilities that all business should undertake, and the factors should be the minimum requirement for business conduct. The total child rights score of a company should be an aggregation of the company's score in all principles, ranging from 0-200.

Companies in different countries and different industries may face different regulatory standards. For example, the UK government requires 39 weeks of paid maternity leave while there is no such regulation in the US[29]. In terms of minimum legal working age, in UK the youngest age a child can work part-time is 13 and children can only start full-time work when they reach 18[30]. The Fair Labor Standards Act (FLSA) in the US sets 14 as the minimum age for employment, and limits the number of hours worked by minors under the age of 16[31]. Due to such regulation differences, comparing companies from different markets or industries may not be reflective of the companies' real incentives or performances of managing their impact on children. Thus, companies' child rights scores should be compared to their peers in the same region and same industry. Companies that rank top 75% among peers would be included in the children's rights index. In this way, the index will be balanced across markets and industries. Such evaluation incentivizes and rewards companies to become industry leaders and market leaders in children's rights and enhance business conduct at an industry-/market- level. It also avoids having the portfolio largely tilt towards some countries with high minimum standards while having little exposure to companies in developing countries with limited regulation frameworks.

As mentioned earlier, the children's rights metrics are not a standalone screening, but it is an addition to companies' existing ESG information. With the additional layer of children's rights factors, the children's rights index will have a more refined and well-rounded ESG screening for companies.

5.5 Company Examples

This paper selected two companies with relatively high weightings from the RobecoSAM Child Impact Equities Fund, American Express and Microsoft, and evaluated their performance according to the children's right metrics. The detailed evaluation is shown in Appendix 4.

Based on the evaluation, both American Express and Microsoft have some policy commitment in some aspects of children's rights, but neither of the companies have comprehensive and systemic policies to protect children's rights at corporate governance level. Notably, American Express has not publicly disclosed a statement regarding their responsibility and commitment to support human rights including children's rights. Microsoft has published a Global Human Rights statement and has emphasized on its efforts in eliminating child labor in its supply chains. But this could be largely driven by the concerns from advocacy groups and shareholders over the

[29] OECD Family Data Base. http://www.oecd.org/els/family/database.htm.
[30] UK Government, Child Employment. https://www.gov.uk/child-employment.
[31] United States Department of Labor, Fair Labor Standards Act (FLSA).

child labor issues in the company's supply chain. We have seen very limited efforts, or at least disclosure, in both companies regarding integrating policy commitment into business operations and strategies.

In terms of assessment and actions, both companies have taken some actions in supporting children's rights, including parental care, product marketing, community engagement and emergency response. However, most of these actions are considered as voluntary or charitable actions, or as part of company marketing. Both companies have partnerships with NGOs or international organizations such as UNICEF to protect and promote children's rights.

In general, American Express and Microsoft recognize children as their stakeholders and have established policies and taken efforts in protecting children's rights in some aspects of their business operations. However, there are still disclosure gaps in company policies, integration, assessment and actions. Looking at the disclosed information, neither company has made comprehensive commitment in protecting children's rights. Neither of them has systematically integrated their policies into business operations. There are some actions taken to protect children's rights but those are driven by external pushes, partnerships or branding factors. But there lack systematic approaches to assess and respond to potential company impact on children, and the actions taken are not sustainably integrated into business strategy. To fill these gaps, investors can engage with companies on key children's rights-related areas to provide advice, guidance and expectations on how companies can better manage and disclose key metrics related to children's rights.

5.6 Portfolio Construction

After screening out the investable companies based on ESG and children's rights metrics, the next step is to build an index portfolio with selected companies. There are different ways to construct a stock index, including market cap-weighted, price-weighted and unweighted. Among these, market cap-weighted indexes are the most common stock indexes. In such indexes, a company's representation within the index is based on its size, and its performance contributes to the performance of the overall index proportionately, meaning the index constituents are weighted according to the total market cap or market value of their available outstanding shares. Market-cap weighted indexes can capture the changes in stock performance and market size over time[32]. In order to reflect the market size and stock movement of companies in the children's rights index, it makes sense to use market-cap weighting. Under this method, the index portfolio would weigh the portfolio companies according to their free float-adjusted market capitalization.

In practice, UNICEF won't have the capacity to analyze each company and build the index portfolio. Therefore, UNICEF should establish a partnership with an index provider and the index provider will provide expertise in market selection, portfolio calculation, index construction and rebalancing etc. The index provider can identify the suitable weighting and criteria for building a portfolio index that can maximize the expected return and impact of the index.

[32] FTSE Russel, *"How Are Indexes-Weighted."* https://www.ftserussell.com/education-center/how-are-indexes-weighted.

5.7 Competitive Advantages of the ETF for Children's Rights

There is no investible fund with a focus on children in the market at this moment. Therefore, the launching of the ETF for children can give investors the unique exposure to responsible children's rights management. However, given that previously RobecoSAM Child Impact Equities Fund failed to sustain after 3 years, this new children's rights ETF should have the following features in order to generate sustainable returns, highlight children's rights issues and attract investor interests:

- **Methodology**: The rationale and transparency of methodology are key to the effectiveness of an ETF. The methodology of the children's rights ETF would be based on the established existing ESG metrics. It adds an additional layer of children's rights metrics based on guidelines from UNICEF, which adds credibility to investors. It is important to disclose the methodology and publish transparency reports to let investors and stakeholders understand how companies are selected into and out of the fund.

- **Market exposure**: A global portfolio with balanced market exposure would give investors diversified market access and portfolio positioning. Around 50% of the Robeco fund invested in US equities and almost all the companies were in developed markets, while the fund was promoted as a global fund. If we are to provide investors with global exposure, it is important to balance country and sector allocations and identify outperformers in each market.

- **Fee structure**: One of the key advantages of an ETF is its low cost. Unlike the actively managed equity fund by Robeco, an index-linked ETF would have lower fee and be more attractive investors.

- **Branding and marketing**: From the analysis of existing ETFs, some ETFs tracking the same indexes have vastly different investor bases and fund sizes. Branding and marketing are clearly essential for attracting investors' interests. Leveraging the branding of UNICEF, the ETF issuer should reach out to various distribution channels, both institutional and retail investors, to promote the fund. It will be helpful if the ETF can attract pension investors as they would have monthly money injections into the fund.

- **Engagement and partnerships**: In order to maximize the fund's influence on corporate behavior, guidance on investor engagement can help investors better understand how business affect children and how to effectively and collectively engage with companies in order to drive sustainable investment returns.

- **Timing**: When Robeco launched its children impact fund in 2015, there was still limited attention to ESG issues among investors. Over the last a few years, there have been increasing discussions and attentions to sustainable investing. Apart from the increasing number of environment and climate change-related funds, social issues are gradually coming into investors' radar with increasing launches of gender-focused funds. The children's rights ETF could benefit from the rising trend in socially responsible investment vehicles, as an addition to the gender lens issues, to drive broader campaign and interests among investors and the public.

VI Active Engagement Based on the Children's Rights Index

Apart from evaluating companies, it is important to actively engage with companies to drive changes in corporate behavior. There are multiple ways to conduct active engagement with companies, including investor engagement, index provider annual review and advocacy.

Investor engagement is key for fulfilling investor stewardship and fiduciary duty to asset owners. Investors could and should engage with portfolio companies through actively voting in shareholder meetings and actively engaging with company board and management on policies and actions regarding children's rights.

Annual review allows the index to factor in the most updated information. Investors and the index provider of the children's rights index can also use this opportunity to advocate for better disclosure and management of business impact on children. UNICEF can leverage its leadership and influence in children's rights to host annual company review and investor engagement events to promote industry best practices, raise stakeholder awareness and advocate for further improvement in managing children's rights at company, industry, market and policy level.

In addition to engagement and annual review, advocacy can also play a role in enhancing the awareness of corporate influence on children, increasing the management and transparency of children's rights disclosure and driving higher regulations on corporate influence on children. It is not rare for investors to advocate for environmental and social issues. For example, State Street Global Advisors placed a Fearless Girl statue on Wall Street in March 2017 to raise awareness about the importance of gender diversity in corporate leadership. As of June 30, 2019, 43% or more than 580 of the 1,350 companies identified as part of the Fearless Girl campaign responded by either adding a female director or committing to do so[33]. Likewise, the children's rights index can also drive the attention of investors, companies, and even regulators through active engagement and advocacy for children's rights.

[33] State Street Global Advisors, *"Social Issues, Climate Change Lead State Street Global Advisors' Asset Stewardship Agenda,"* September 5, 2019.

VII Potential Challenges

7.1 Data and Disclosure

Data quality and disclosure are among the key problems of ESG indexes. There has been a lack of mandatory disclosure requirement for ESG data and companies have little incentive or awareness of ESG disclosure. Companies that do report ESG data tend to follow different disclosure standards, making it hard to for investors to compare different companies. It is also hard for investors and external stakeholders to verify the raw ESG information disclosure by companies and there is little requirement or incentive for companies to audit their ESG disclosure. In addition, unlike financial data that are easily quantifiable, many ESG metrics are based on qualitative information that are hard to evaluate or quantify.

Like other ESG metrics, the children's rights metrics also face the challenge of data quality and disclosure. Companies may only disclosure their labor conduct according to regulatory requirement. They may make commitment to protect children's rights but do not disclose their detailed measures or actions. The data gap will cause challenges in evaluating company performance and constructing an optimal index portfolio.

ESG data providers have been exploring ways to handle the disclosure issue. Some assume that not disclosing certain ESG metrics means no effort of managing certain ESG factors. Some data providers are using artificial intelligence and machine learning to capture unstructured data and identify alternative sources of data, such as company coverage in news and media. Machine learning has also been used to estimate the missing data based on companies' business operations, industry positioning, news, etc.

Other than finding ways to better process data, it is critical to for investors to engage with companies to request for better disclosure and higher business responsible conduct. Facing the expectations and pressure from investors, companies will be more incentivized to enhance their disclosure.

7.2 Market Appetite

As mentioned earlier, previously RobecoSAM Child Impact Equities Fund was closed due to limited investor interest. This children's rights ETF may also face the risk of limited market appetite. In order to prevent that, it is important to optimize two factors: financial rationale and marketing.

Essentially investors aim to increase their investment returns through the ETF, and children is one of the many factors that affect investment returns. Therefore, it is important to integrate this factor into the investment process instead of solely or overly focus on children in this index.

In addition, as we find that the fund size of an ETF does not have direct correlation with the theme of the indexes. Marketing and distribution play a vital role in launching and growing the ETF. Therefore, it is important to identify the right issuers and distribution channels to promote the ETF to mass market.

Besides, the new ETF will be launched in 2020 when there has already been increasing push and appetite in SDG-related investments. It will be easier to inform and educate investors about sustainable investments and engagement in 2020 compared to when RobecoSAM launched the children's fund five years ago.

7.3 Impact on Corporate Behavior

There has been criticism around the impact of ESG investing and ESG ETFs on companies. As the shares held by ETF investors are relatively small compared to major institutional investors, the inclusion and exclusion of a company in an ESG ETF may not affect its stock price and therefore may not push company management to drive better corporate responsibility. Some argue that passive ETF investors may not actively engage with companies and thus cannot drive active changes in business operations.

These arguments are valid but they are not absolute. It is true that ETF investors may not be able to affect the stock price of a company. But the establishment of socially responsible ETFs can send a market signal to companies, investors and fund managers. It may drive more interests in sustainable and responsible investing. In addition, it is true that many passive ETF investors do not engage with companies, and that engagement is important for driving changes in corporate behavior and business strategies. Therefore, it is essential to have solid engagement strategies around the children's rights ETF, as stated earlier.

VIII Summary

Companies are constantly affecting children through its business operations, product offerings, labor practice, marketing and community engagement. Children are important stakeholders of companies, but they are often neglected in company engagement and corporate social responsibility programs. There are increasing amount of assets flowing into responsible investment vehicles and ESG ETFs, most of which are linked to some certain ESG indexes while very few focus on social factors such as children's rights.

UNICEF, the global leader in children's rights protection and advocacy, aims to leverage its expertise and impact to improve corporate impact on children. It aims to move beyond its traditional grantmaking fundraising model to shift to an innovative finance approach to unlock the potential in the private sector, especially in the financial service industry. As investors increasingly take ESG factors into company analysis and investment decision making, an ETF linked to children's rights provides a tool for investors to conduct responsible investing while encouraging companies to better disclose and manage their impact on children. In order to achieve its goal of influencing the private sector while raise funds for UNICEF's child protection programs, UNICEF could establish a multi-layer strategy partnership with the private sector players to create metrics for evaluating corporate impact on children and launch a financial product, an ETF, that can promote better business conduct for children.

It is critical to create the suitable and practical methodology to construct an ETF with a focus on children's rights. In addition to existing ESG metrics and screening, there should be a set of exclusionary criteria and inclusionary criteria to evaluate business impact on children, based on Child Rights and Business Principles. Such criteria evaluate business impact on children in business operations, labor practice, advertisement, emergencies and community engagement. Companies are evaluated based on their policy commitment, strategies and actions in managing children's rights. In addition to investing in the children's rights ETF, investors should actively engage with companies on children's rights-related issues and advocate for better disclosure and actions for managing corporate impact on children. The ETF for children would act as the initial step for corporate disclosure and actions for managing business impact on children. In the long term, as regulation framework, public awareness and corporate behavior improve, the metrics defining business impact on children could be further expanded into a children's footprint for every business.

Appendix 1. Convention of the Rights of the Child

Definition of a child	A child is any person under the age of 18.
No discrimination	All children have all these rights, no matter who they are, where they live, what language they speak, what their religion is, what they think, what they look like, if they are a boy or girl, if they have a disability, if they are rich or poor, and no matter who their parents or families are or what their parents or families believe or do. No child should be treated unfairly for any reason.
Best interests of the child	When adults make decisions, they should think about how their decisions will affect children. All adults should do what is best for children. Governments should make sure children are protected and looked after by their parents, or by other people when this is needed. Governments should make sure that people and places responsible for looking after children are doing a good job.
Making rights real	Governments must do all they can to make sure that every child in their countries can enjoy all the rights in this Convention.
Family guidance as children develop	Governments should let families and communities guide their children so that, as they grow up, they learn to use their rights in the best way. The more children grow, the less guidance they will need.
Life survival and development	Every child has the right to be alive. Governments must make sure that children survive and develop in the best possible way.
Name and nationality	Children must be registered when they are born and given a name which is officially recognized by the government. Children must have a nationality (belong to a country). Whenever possible, children should know their parents and be looked after by them.
Identity	Children have the right to their own identity – an official record of who they are which includes their name, nationality and family relations. No one should take this away from them, but if this happens, governments must help children to quickly get their identity back.
Keeping families together	Children should not be separated from their parents unless they are not being properly looked after – for example, if a parent hurts or does not take care of a child. Children whose parents don’t live together should stay in contact with both parents unless this might harm the child.
Contact with parents across countries	If a child lives in a different country than their parents, governments must let the child and parents travel so that they can stay in contact and be together.
Protection from kidnapping	Governments must stop children being taken out of the country when this is against the law – for example, being kidnapped by someone or held abroad by a parent when the other parent does not agree.
Respect for children's views	Children have the right to give their opinions freely on issues that affect them. Adults should listen and take children seriously.
Sharing thoughts freely	Children have the right to share freely with others what they learn, think and feel, by talking, drawing, writing or in any other way unless it harms other people.

Freedom of thought and religion	Children can choose their own thoughts, opinions and religion, but this should not stop other people from enjoying their rights. Parents can guide children so that as they grow up, they learn to properly use this right.
Setting up or joining groups	Children can join or set up groups or organisations, and they can meet with others, as long as this does not harm other people.
Protection of privacy	Every child has the right to privacy. The law must protect children's privacy, family, home, communications and reputation (or good name) from any attack.
Access to information	Children have the right to get information from the Internet, radio, television, newspapers, books and other sources. Adults should make sure the information they are getting is not harmful. Governments should encourage the media to share information from lots of different sources, in languages that all children can understand.
Responsibility of parents	Parents are the main people responsible for bringing up a child. When the child does not have any parents, another adult will have this responsibility and they are called a "guardian". Parents and guardians should always consider what is best for that child. Governments should help them. Where a child has both parents, both of them should be responsible for bringing up the child.
Protection from violence	Governments must protect children from violence, abuse and being neglected by anyone who looks after them.
Children without families	Every child who cannot be looked after by their own family has the right to be looked after properly by people who respect the child's religion, culture, language and other aspects of their life.
Children who are adopted	When children are adopted, the most important thing is to do what is best for them. If a child cannot be properly looked after in their own country – for example by living with another family – then they might be adopted in another country.
Refugee children	Children who move from their home country to another country as refugees (because it was not safe for them to stay there) should get help and protection and have the same rights as children born in that country.
Children with disabilities	Every child with a disability should enjoy the best possible life in society. Governments should remove all obstacles for children with disabilities to become independent and to participate actively in the community.
Health, water, food, environment	Children have the right to the best health care possible, clean water to drink, healthy food and a clean and safe environment to live in. All adults and children should have information about how to stay safe and healthy.
Review of a child's placement	Every child who has been placed somewhere away from home - for their care, protection or health – should have their situation checked regularly to see if everything is going well and if this is still the best place for the child to be.
Social and economic help	Governments should provide money or other support to help children from poor families.

Food, clothing, a safe home	Children have the right to food, clothing and a safe place to live so they can develop in the best possible way. The government should help families and children who cannot afford this.
Access to education	Every child has the right to an education. Primary education should be free. Secondary and higher education should be available to every child. Children should be encouraged to go to school to the highest level possible. Discipline in schools should respect children's rights and never use violence.
Aims of education	Children's education should help them fully develop their personalities, talents and abilities. It should teach them to understand their own rights, and to respect other people's rights, cultures and differences. It should help them to live peacefully and protect the environment.
Minority culture, language and religion	Children have the right to use their own language, culture and religion - even if these are not shared by most people in the country where they live.
Rest, play, culture, arts	Every child has the right to rest, relax, play and to take part in cultural and creative activities.
Protection from harmful work	Children have the right to be protected from doing work that is dangerous or bad for their education, health or development. If children work, they have the right to be safe and paid fairly.
Protection from harmful drugs	Governments must protect children from taking, making, carrying or selling harmful drugs.
Protection from sexual abuse	The government should protect children from sexual exploitation (being taken advantage of) and sexual abuse, including by people forcing children to have sex for money, or making sexual pictures or films of them.
Prevention of sale and trafficking	Governments must make sure that children are not kidnapped or sold, or taken to other countries or places to be exploited (taken advantage of).
Protection from exploitation	Children have the right to be protected from all other kinds of exploitation (being taken advantage of), even if these are not specifically mentioned in this Convention.
Children in detention	Children who are accused of breaking the law should not be killed, tortured, treated cruelly, put in prison forever, or put in prison with adults. Prison should always be the last choice and only for the shortest possible time. Children in prison should have legal help and be able to stay in contact with their family.
Protection in war	Children have the right to be protected during war. No child under 15 can join the army or take part in war.
Recovery and reintegration	Children have the right to get help if they have been hurt, neglected, treated badly or affected by war, so they can get back their health and dignity.
Children who break the law	Children accused of breaking the law have the right to legal help and fair treatment. There should be lots of solutions to help these children become good members of their communities. Prison should only be the last choice.
Best law for children applies	If the laws of a country protect children's rights better than this Convention, then those laws should be used.

Everyone must know children's rights	Governments should actively tell children and adults about this Convention so that everyone knows about children's rights.

Source: UNICEF, United Nations Human Rights Office of the High Commissioner

Appendix 2. Company Actions Regarding Child Labor Issue in Cobalt Sourcing

Rating	**Companies**
All possible actions taken	None
Adequate action taken	Apple - Samsung SDI
Moderate action taken	Dell - HP - BMW - Tesla - LG Chem
Minimal action taken	Sony -Samsung Electronics - General Motors - Volkswagen - Fiat-Chrysler - Daimler - Hunan Shanshan - Amperex Technology - Tianjin Lishen
No action taken	Microsoft - Lenovo - Renault - Vodafone - Huawei - L&F - Tianjin B&M - BYD - Coslight - Shenzhan BAK - ZTE

Source: Amnesty International

Appendix 3. Analysis of 22 ESG ETFs and Socially Responsible Funds

Name	Issuer	Investment approach	Inception	Number of Holdings	Index	Fund size	Methodology	Fee
RobecoSAM Child Impact Equities Fund	Robeco SAM	Active	Sep-15	Liquidated	MSCI World ND	EUR 15.54 mn	Bottom-up stock selection based on the Global Child Forum benchmark, a RobecoSAM Global Child Score, quantitative factors and fundamental company valuation.	5% issue surcharge, 3% redemption charge, 1.4% annual charge
Impact Shares Sustainable Development Goals Global Equity ETF	Impact Shares	Passive	Sep-18	145	Morningstar Societal Development Index Fund	USD1,035,245	Morningstar constructs the underlying Index using company level indicators, scores, and indicator relevance weightings from Sustainalytics, the Fund's ESG research provider, that include certain social criteria identified by UNCDF	0.75% management fee
Dow Jones Sustainability Index Series (DJSI)	NA	Index	1999	100-300	Index itself	no active ETF	Based on market cap, company's Total Sustainability Score calculated by Robeco	NA
FTSE4Good Series	NA	Index	2001	100-550	Index itself	no active ETF	Adding ESG criteria to existing FTSE indices	NA
Goldman Sachs JUST U.S. Large Cap Equity ETF	Goldman Sachs	Passive	Jun-18	430	JUST U.S. Large Cap Diversified Index	USD 133.5 mn	Market cap-weighted exposure to companies with above-average JUST scores based on the most recent rankings within each industry group;	0.2% management fee
Human Rights Campaign's Corporate Equality Index	NA	Index	2002	572	NA	no active ETF	Survey based; criteria including: non-discrimination policies across business entities, equitable benefits for LGBTQ workers and their families, supporting an inclusive	NA

							culture and corporate social responsibility,	
Bloomberg Gender Equality Index	NA	Index	Jan-18	230	NA	no active ETF	Based on Bloomberg ESG data	NA
Calvert Social Index	NA	Index	Jun-05	100-800	NA	no active ETF	Based on market cap and Calvert Principles for Responsible Investment	NA
It Now ISE Index Fund	Banco Itaú	Passive	Oct-11	up to 40	Sao Paulo Stock Exchange Corporate Sustainability Index	BRL 20.369 mn	BM&FBOVESPA-listed liquid stocks that fit sustainability attributes set by the ISE Governance Committee, survey-based.	0.4% management fee
iShares MSCI World ESG Screened UCITS ETF	Blackrock	Passive	Oct-18	1,533	MSCI World ESG Screened Index	USD 91.3 mn	Includes companies from MSCI World Index that are involved in business activities of Controversial Weapons, Nuclear Weapons, Civilian Firearms, Tobacco, Thermal Coal, Oil Sands. It also excludes companies that fail to comply with the United Nations Global Compact.	0.2% management fee
iShares MSCI KLD 400 Social ETF	Blackrock	Passive	Nov-06	404	MSCI KLD 400 Social Index	USD 1.51 bn	400 US securities with outstanding ESG ratings	0.5% management fee
SPDR SSGA Gender Diversity Index ETF	SSGA		Jul-16	165	SSGA Gender Diversity Index	USD 297.4 mn	Evaluates the 1000 largest US firms for the ratio of women on the board of directors and in executive positions	0.2% management fee
UBS MSCI Socially Responsible ETFs	UBS	Passive	Aug-11	59	MSCI EMU SRI 5% Issuer Capped Total Return Net	EUR 979 mn	Large and mid-cap stocks across 10 developed markets in Eurozone with best in class MSCI ESG ratings	0.28% management fee 0.28%

iShares ESG MSCI EAFE ETF	Blackrock	Passive	Jun-16	464	MSCI EAFE Extended ESG Focus Index	USD 885.41mn	Higher rated mid-and large-cap ESG stocks in Europe, Australia, Asia and the Far East, based on MSCI ESG score	0.2% management fee
Nuveen ESG International Developed Markets Equity ETF	TIAA	Passive	Jun-17	289	TIAA ESG International Developed Markets Equity Index	USD 56.7mn	Company in developed markets that adhere to predetermined ESG, controversial business involvement and low-carbon screen criteria, using MSCI as index provider	0.4% management fee
Lyxor MSCI USA ESG Trend Leaders (DR) UCITS ETF	TIAA	Passive	Mar-18	346	MSCI USA Select ESG Rating and Trend Leaders Net Return USD Index	EUR 30.1mn	Based on the MSCI USA Index, which covers US large and mid-cap stocks	0.25% total expense ratio
Impact Shares NAACP Minority Empowerment ETF	Impact Shares	Passive	Jul-18	221	Morningstar Minority Empowerment Index	USD 2,160,465	Mid-and large-cap companies in the US; screens board diversity, discrimination policy, scope of suppliers social programs, digital divide programs, freedom of association policy, diversity programs, supply chain monitoring, community development programs, minority-inclusive health and safety management system and conflict minerals programs	0.75% management fee; donates all net advisory profits to NAACP
Impact Shares YWCA Women's Empowerment ETF	Impact Shares	Passive	Aug-18	220	Morningstar Women's Empowerment Index	USD 6,178,565	Mid-and large-cap companies in the US; use Equileap data to include companies that align with the YWCA's vision of how corporations can advance women's empowerment and gender equality	0.75% management fee; donates all net advisory profits to YWCA
Vanguard Global ESG Select Stock	Vanguard	Active	Jun-19	39	FTSE All-World Index	USD 65.6 mn	Uses a proprietary bottom-up fundamental research approach; looks for companies with strong	0.44% management

Fund Investor Shares							long-term fundamentals that also meet the advisor's ESG criteria; does not utilize third-party ESG ratings as exclusionary criteria	fee; 0.55% expense ratio
Vanguard FTSE Social Index Fund	Vangua rd	Passive	May-00	492	FTSE Social Index	USD 620 m	Tracks a benchmark of large- and mid-capitalization stocks that have been screened for certain social, human rights, and environmental criteria	0.16% management fee
State Street Multi-Factor Global ESG Equity Fund	SSGA	Active	Sep-14	201	MSCI World Index	USD 599.3 mn	Screens out securities based on environmental protection, human rights, labor standards, anti-corruption and controversial weapons	0.35% management fee; 0.43% total expense ratio
TIAA-CREF Social Choice Equity Fund	TIAA	Active	Jul-99	758	Russell 3000	USD 4.6 bn	Aims to achieve the return of the U.S. stock market as represented by the Russell 3000® Index, while investing only in companies whose activities are consistent with the Fund's ESG criteria	0.15% management fee; 0.17% expense ratio
CSIF (CH) Equity World ex CH ESG Blue QB	Credit Suisse	Passive	Sep-18	784	MSCI World ex Switzerland ESG Leaders	CHF 86.77 m	Capitalization weighted index that provides exposure to companies with high ESG performance relative to their sector peers	0.15% management fee

Appendix 4. Examples of Company Evaluation Based on Children's Rights Metrics

Company example 1: American Express

Principles	Policy commitment & governance	Impact management & integration	Assessment & action
1. All businesses should meet their responsibility to respect children's rights and commit to supporting the human rights of children.	No disclosure	No disclosure	Some actions but not integrated in business strategy
2. All businesses should contribute towards the elimination of child labour, including in all business activities and business relationships.	No disclosure	No disclosure	Donation for stopping child labor
3. All businesses should provide decent work for young workers, parents and caregivers.	Gender-neutral parental leave, back-up childcare, parent concierge program, benefits for adoption or surrogacy	Gender-neutral parental leave, back-up childcare, parent concierge program, benefits for adoption or surrogacy	Gender-neutral parental leave (20 weeks), back-up childcare, parent concierge program, benefits for adoption or surrogacy
4. All businesses should ensure the protection and safety of children in all business activities and facilities.	No disclosure	No disclosure	Some actions but not integrated in business strategy
5. All businesses should ensure that products and services are safe, and seek to support children's rights through them.	Separate credit card application policies for young adults under 21	Financial education information	Tips for credit card options for young adults under 21
6. All businesses should use marketing and advertising that respect and support children's rights.	No disclosure	Partnership with NGOs for children	Cause-related marketing campaign
7. All businesses should respect and support children's rights in relation to the environment and to land acquisition and use.	No disclosure	No disclosure	No disclosure
8. All businesses should respect and support children's rights in security arrangements.	Donation and commitment	Partnership with UNICEF	Supported disaster response efforts
9. All businesses should reinforce community and government efforts to protect and fulfill children's rights.	No disclosure	Voluntary actions	Community engagement efforts
10. All companies should track and communicate performance to create accountability and demonstrate their commitment to children. Monitoring the effectiveness of the company's response to children's rights risks and impacts to verifying whether	No disclosure	No disclosure	Some disclosure in company website and reports

existing policies and management approaches are adequate.			

Company example 2: Microsoft

Principles	**Policy commitment & governance**	**Impact management & integration**	**Assessment & action**
1. All businesses should meet their responsibility to respect children's rights and commit to supporting the human rights of children.	Recognize children as vulnerable group in Microsoft's Global Human Rights Statement	No disclosure	Part of WePROTECT Global Alliance to End Child Exploitation Online
2. All businesses should contribute towards the elimination of child labour, including in all business activities and business relationships.	Policy commitment	Supply chain mapping, partnership with Pact	Are sued by activist groups for having child labor in supply chain
3. All businesses should provide decent work for young workers, parents and caregivers.	12 week paid parental leave for US employees	No disclosure	Require suppliers to have minimum 12 weeks of paid parental leave
4. All businesses should ensure the protection and safety of children in all business activities and facilities.	No disclosure	No disclosure	No disclosure
5. All businesses should ensure that products and services are safe, and seek to support children's rights through them.	No disclosure	No disclosure	Family safety features in Windows
6. All businesses should use marketing and advertising that respect and support children's rights.	No disclosure	No disclosure	Some cause-based marketing campaigns
7. All businesses should respect and support children's rights in relation to the environment and to land acquisition and use.	No disclosure	No disclosure	No disclosure
8. All businesses should respect and support children's rights in security arrangements.	No disclosure	No disclosure	Partnered with UNICEF to tackle the education crisis impacting children and young people affected by conflict and natural disasters
9. All businesses should reinforce community and government	No disclosure	No disclosure	Supported schools and communities through employee giving program

efforts to protect and fulfill children's rights.			
10. All companies should track and communicate performance to create accountability and demonstrate their commitment to children. Monitoring the effectiveness of the company's response to children's rights risks and impacts to verifying whether existing policies and management approaches are adequate.	No disclosure	No disclosure	No disclosure

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