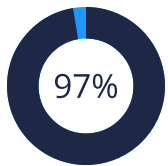
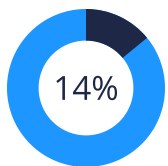


Investment, ESG & Modern Slavery

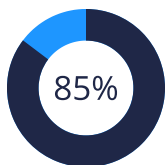
The 'S' in ESG overlooked



Environmental



Social



Governance

A NYU study found that out of 1,700 indicators across 12 frameworks, only 14% of 'S' ratings targeted investors as the primary audience, compared to 'E' and 'G' ratings.

Risk Areas

High- risk geographies



Companies operating in locations with a high risk of modern slavery due to conflict, poverty, displacement, weak rule of law, corruption, state enforced labour or political instability

Opaque and complex supply chains



Companies with complex multi-tiered supply chains that include contractors and sub-contractors, resulting in limited visibility of the modern slavery risks

Exploitive business models



Businesses that function with high-risk business models, including the prevalence of numerous short-term contracts structured on low margins and significant pressure on delivery times

Isolated and vulnerable workforce



Companies operating in rural or isolated areas with reliance on a base-skill workforce or high proportions of migrant labour



ESG & Modern Slavery

The wave of legal requirements has also been matched by the swell in normative expectations impacting financial markets with integration of ESG criteria becoming a mainstream process used to screen potential investments. ESG investment, a strategy that pursues both financial and social returns by assessing the environmental, social and governance activities and policies of a company, has grown exponentially over the past few years. As of this year, an estimated one-third of all assets contain sustainable investments, which totalled \$120 billion of sustainable investments made in 2021, more than double the \$51 billion of 2020.

This number is set to rise as consumer and investors continue to demand transparency and responsibility, with younger generations more environmentally and socially conscious than ever before. Institutions will need to adapt, grow and match to the changing market to stay relevant

ESG IN SUMMARY



Environmental

- Renewable Fuels
- Greenhouse gas emissions
- Energy efficiency
- Climate risk
- Water management
- Recycling processes
- Emergency preparedness



Social

- Health and safety
- Working conditions
- Employee Benefits
- Diversity and inclusion
- Human rights
- Impact on local communities



Governance

- Ethical standards
- Board diversity and governance
- Stakeholder engagement
- Shareholder rights
- Pay For performance

The 'S' in ESG

Modern Slavery is addressed within the 'Social' criterion in ESG frameworks, which also encompasses **child labour, diversity, employee relations, human rights, health & safety, and human capital management.** The complexity involved in assessing and addressing risk to people and subsequent lack of qualitative data, has meant that social indicators in ESG remain widely neglected and under-conceptualised. This empirical weakness is compounded by the lack of continuity with ESG ratings criteria, relegating human rights concerns as only relevant to active investment strategies, rather than integral to a wide-range of ESG-related concerns and all forms of investment

As a result, modern slavery remains one of the most disregarded social indicators, rendering current ESG frameworks inadequate at protecting investors from modern slavery risks.

Investors need a more robust framework aligned with international human rights standards to ensure that modern slavery risks are a calculated component of any responsible and financially sustainable.



The Criteria of the Modern Slavery Act

The Modern Slavery Act (2018) has brought a new area of compliance to the business community of Australia. It requires commercial entities with an annual revenue of A\$100 million to annually submit a modern slavery statement, assessing and addressing the risks of modern slavery practices in the operations and supply chains of the entity.

The Government Guidance outlines that investment activity should be included in reporting, with internally managed portfolios and assets considered part of the reporting entity's **'operations'** and that externally managed portfolios and assets considered part of a reporting entity's **'supply chain'**.

Advice for Investors

1 **Criterion One:** identify the reporting entity

2 **Criterion Two:** describe the reporting entity's structure, operations and supply chains

Investors should consider internally managed Funds as operations and externally managed Funds as their supply chains, as a way to organise their actions on assessing modern slavery risks

A **Provide thematic breakdown**

e.g. asset, class, sector, geography or industry

B **Outline investment arrangements**

e.g. passive versus active investments

C **Include size and nature of holdings**

e.g. majority/minority ownership and length of holdings





Advice for Investors

3 Criterion Three: Describe the risks of modern slavery practices in the operations and supply chain of the reporting entity and any entity it controls.

Investors' ability to take effective action on modern slavery – be it in the context of investment decisions or active ownership activities – depends on two kinds of insight.

- 1 How significant is the issue of modern slavery in the context of a given company?
- 2 How does the company perform in managing the issue of modern slavery?

Examples of that may be helpful to disclose in response to this requirement are: Process, Methodology and Outputs.

4 Criterion Four: Describe the risks of modern slavery practices in the operations and supply chain of the reporting entity and any entity it controls.

While investors, in most cases, are not responsible for directly addressing adverse impacts that portfolio companies are involved with, they are expected to consider risks throughout the investment lifecycle, including prior to investment decision-making, during investment decision-making, and throughout investment stewardship. They are also expected to use and maximize their leverage to facilitate and incentivise portfolio companies and other influential actors to prevent, mitigate, and where appropriate address.

Examples of that may be helpful to disclose in response to this requirement are: policies, Training & education, prioritisation of risks, stake-holder engagements, limitations and remediation.



Advice for Investors

5 **Criterion Five:** Describe how the reporting entity assesses the effectiveness of these actions

Investors should consider implementing comprehensive frameworks to monitoring effectiveness of measures to mitigate risk to allow for continuous improvement and optimisation of impact.

Entities might wish to consider disclosing how they assess:

- Description of processes to regularly review effectiveness of risk management frameworks.
- Detailed Key Performance Indicators outlining goals to mitigate MS risks.
- Outlining quantitative and qualitative metrics used to assess outcomes of actions taken, and the results.
- Relevant changes to portfolio risk.
- Progress on objectives set out in the ESG engagement plan and case studies on engagement.



6 **Criterion Six:** Describe the process of consultation with any entities the reporting entity owns or controls

A joint statement must also describe consultation with the entity giving the statement

7 **Criterion Seven:** provide any other relevant information

- Advocacy activity, including supporting the development of legislation, participation in external forums to improve awareness
- Partnerships with civil society
- Contribution to addressing the root causes or structural factors that contribute to modern slavery such as poverty, forced migration, poor education





Collaboration

- » Today, the UN-backed PRI is a thriving global initiative with over 1,600 members representing over \$70 trillion assets under management. PRI's role is to advance the integration of ESG into analysis and decision-making through leadership and the creation of tools, guidance and engagement.
- » Detailed information regarding the plan and activities of the AUPN's Modern Slavery Working Group which also covers areas of Continuous Improvement and Audit and Compliance.
- » A deep investigation of the high-risk suppliers and mitigation process.

Obligations under the Australian Modern Slavery Act

Further questions

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 READ MORE



Measuring the 'S' in ESG related to Modern Slavery
<https://themekongclub.org/wp-content/uploads/2019/05/The-Mekong-Club-ESG-Project-2019.pdf>

ESG Investing Continued to Soar
<https://www.fastcompany.com/90706552/esg-investing-continued-to-soar-in-2021-the-government-could-boost-it-even-more#:~:text=2021%20was%20a%20record%20year,all%20assets%20cont,ain%20sustainable%20investments>

Why the younger generations are more willing to change
<https://www.greenbiz.com/article/why-younger-generations-are-more-willing-change-name-sustainability>

Investor Toolkit on Human Rights,
<https://investorsforhumanrights.org/sites/default/files/attachments/2020-05/Full%20Report-%20Investor%20Toolkit%20on%20Human%20Rights%20May%202020c.pdf>

