# Summary of Regnan's engagement on modern slavery

November 2020

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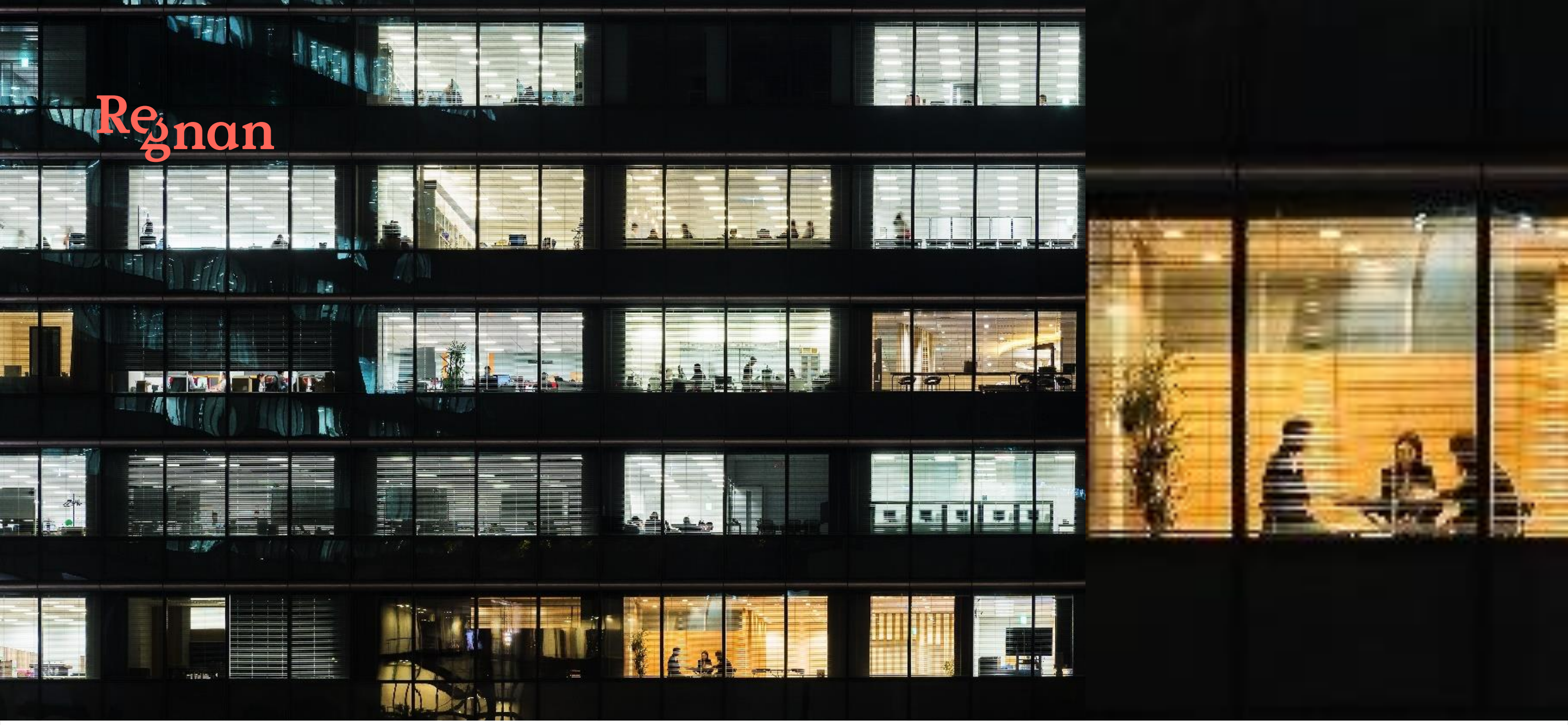


# Contents



Regnan was originally established to investigate and address environmental, social and corporate governance (ESG) related sources of risk and value for long term shareholders in Australian companies. Its research is used in the company engagement and advocacy it undertakes on behalf of long term investors invested in S&P/ASX200 companies. Regnan became wholly owned by Pendal Group in 2019.

# Purpose of this report

This report provides a summary of Regnan's engagement activities on modern slavery up to 30 September 2020. This engagement is undertaken on behalf of clients in support of their compliance with the Modern Slavery Act (2018).

It provides an overview of the engagement undertaken but also shares details of our approach. We have done this not only to be more transparent and to hold ourselves to account, but also to contribute our experiences to other organisations seeking to become more active in their own engagement on this issue.

This document does not, by itself, constitute a modern slavery statement under the Act, which will be issued by Regnan's parent company, Pendal Group Limited, in March 2021.

With an estimated 40 million[1] people experiencing modern slavery it is important that the actions taken by investors, and the companies in which they are invested, are consequential. For us, this means that our engagement activities need to be focused on seeking to reduce the number of people subject to modern slavery.

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We have been doing this by promoting in our engagement: opportunities to reduce the chances of modern slavery occurring from the outset; improving practices right throughout the value chain; and, encouraging appropriate support to those subjected to modern slavery.

We have initially focused on encouraging leading practices from those companies we view as being well placed and/or committed to making a meaningful difference on this issue. We do this with the intent of raising the benchmark against which others will be assessed and supporting the adoption of these practices more broadly across other organisations as well.

This report provides details of the work undertaken to date as well as outlining our plans for the future. We welcome feedback, and opportunities and suggestions to collaborate with others as we continue to progress this work.

[1] Source: Anti-slavery https://www.antislavery.org/slavery-today/modern-slavery/

# What is the Modern Slavery Act?

The Modern Slavery Act came into effect on 1 January 2019. Under the Act, all entities based or operating in Australia with an annual revenue of more than $100 million are required to prepare an annual Modern Slavery Statement (due within six months of the end of the entity's financial reporting year). The statement must detail an entity's exposure and actions undertaken to address modern slavery risks within its operations. This includes an assessment of the effectiveness of the actions undertaken.

Importantly for the finance sector, the definition of operations includes lending and investment activities, both in Australia and overseas.

Notably, and consistent with good practice human rights approaches, the risk framing for due diligence should consider the risks to those individuals potentially harmed by modern slavery (the 'rights-holders').

## What is modern slavery?

It is widely understood (and noted in the Act) to refer to human trafficking and slavery-like practices such as **servitude, forced labour, the worst kinds of child labour, deceptive recruiting, forced marriage and debt bondage.**

## What are some of the conditions under which modern slavery risk may be elevated?

There are a number of situations where modern slavery risks are likely to be elevated. Some of these include:

- **Geographic regions and/or industries**, for instance construction in the Middle East or cotton growing in Uzbekistan. This is not to say that all operations in these regions involve modern slavery, nor that there are not problems in other regions.
- Regions and/or industries that are high in **migrant or transient labour**, for instance agricultural workers, cleaning contractors and hospitality workers.
- **Within non-controlled entities**, for instance within supply chains, including second and third tier suppliers and beyond, non-controlled joint ventures and franchise business models.
- Where **other risks known to correlate with modern slavery** are prevalent, for instance bribery and corruption or poor labour and/or safety practices.


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# Highlights of our work to date

Provided feedback on, and communicated support for, the introduction of the Modern Slavery Act

Developed support and training materials for clients wishing to engage directly on modern slavery

Procedures in place to monitor the effectiveness of engagements

## 38

engagements on **Modern Slavery** since May 2018

## 2.0

Co-authored the PRI's
**"Active Ownership 2.0: the evolution stewardship urgently needs"**

calling for increased collaboration on issues such as modern slavery

## 46%

of companies engaged multiple times to secure change

## 24

companies engaged since May 2018

# So what is engagement, and why is it important?

Engagement is a very specific form of interaction between investors and companies. The key identifying feature is that engagement seeks change from the company, as distinct from seeking information.

In the context of modern slavery, this means that while we may seek to understand what actions a company has undertaken to understand and address its modern slavery risks, we will also be seeking improved practices – both to the benefit of the business (and its investors), but more importantly to help those subjected to modern slavery.

Regnan engages with S&P/ASX200 listed companies on behalf of clients. Increasingly this means engaging with both those companies bearing the risks, but also the companies contributing to them. In the case of modern slavery this may mean engaging with companies on the risks to them, but also on the risks their actions may present to others, including other companies in their value chain and of course the individuals impacted.

We do this via both engagement with listed companies and advocacy with those shaping the enabling environment, for instance, regulators or policymakers.

In practice, whilst we discuss modern slavery with a range of companies, the nature of our discussions may be quite different. Our approach is guided by the nature of modern slavery risks as they pertain to the company's business model and context, the amount of progress already demonstrated, and an assessment of what a suitable response might look like – recognising that this may vary between companies, sometimes even within the same sector. For instance, differences may result from the extent to which they may participate in joint ventures, the relative risks in the categories and/or regions where they source their goods and services, as well as strategic decisions about the activities they choose to outsource.

We primarily raise our concerns in meetings with directors and senior company leaders in order to constructively build the case for change. In the case of modern slavery, this has also often meant detailed conversations with line managers with specific accountabilities for relevant decision making, for instance purchasing, or lending and investment decisions, or the development or implementation of relevant policies and procedures.

Ultimately we want the companies in which our clients invest to do well. It is therefore not in our interest to make unnecessary demands, nor to trigger superficial or tokenistic responses, but rather to focus on the issues most relevant to their context. While we might offer examples of leading practices, or cite relevant case study examples, we do not typically prescribe how a company should set about managing modern slavery risks, although we may seek to ensure that it is attentive to, and managing for, potential limitations in its chosen response.

Our primary concern is that the underlying risks are managed in a way that best suits its operating context and achieves the desired outcome of addressing issues of modern slavery. More on our engagement process is outlined in figure 1.

**Figure 1:**
**Our engagement process:**

## Identify target companies

- Research-based assessment
- Consideration given to propensity for change and whether the issue is being addressed by others (‘additionality’)

## Set change objectives

- Objectives set at thematic and stock level
- Informed by deep knowledge of the company and ESG issues
- Objectives address material risks

## Constructive engagement

- Two-way dialogue at board and/or senior management level
- Not a ‘chat’ – targeted and outcomes-focused
- Recognition of unique value drivers for that business supports constructive engagement

## Track progress

- Monitor for evidence of change
- Focus on public evidence such as corporate disclosures

## Impact achieved

- **Risks mitigated**
- **Opportunities realised**
- **Ongoing monitoring that change is sustained**

# Focus of our modern slavery engagement

Engagement commenced in 2018

### Objectives of our engagement

With many of the first reports under the Modern Slavery Act still to be released, our engagement has focused on encouraging good practice examples early in, and even prior to, the compliance regime.

We have done this in order to support continued improvements in company responses to issues of modern slavery.

By focusing on achieving strong early responses we are seeking to increase expectations and create a useful benchmark by which to drive improved practices across reporting entities more broadly.

More specifically, our engagement has focused on:

- **Value chains:** Promoting considerations of issues of modern slavery right throughout the value chain, in particular highlighting areas beyond supply chains where these are likely to be more material. This includes, for instance, areas where the company is likely to have less operational control, such as non-controlled joint ventures, given the additional risks often apparent in these structures, as well as considering the potential actions of customers and suppliers beyond the first tier.
- **Materiality:** Ensuring that companies consider both the risks to rights-holders and to the company.
- **Preparedness:** Encouraging companies to think through in advance what they would do if they were to uncover instances of modern slavery. This can be a time of high risk for both the individual and the company, and requires access to appropriate expertise to minimise the risks of unintended consequences.
- **Detection:** The role of both formal and informal mechanisms in effective detection of modern slavery, acknowledging the reticence of those most vulnerable to use and even have access to more traditional grievance mechanisms such as whistleblower hotlines. Also, that materials are available in relevant languages and formats, including using alternate means where literacy may have been identified as a barrier.
- **Transparency:** The identification of instances of modern slavery should be seen as progress and treated as an opportunity to address the issue. It should be considered as a marker that due diligence processes are proving effective and can provide useful insights to others.
- **Effectiveness:** That effectiveness measures focus on the outcomes of activities, rather than outputs. For instance, examining whether training programs bring about the desired behavioural change in preference to simply monitoring the number of sessions held or the number of people completing mandatory training.
- **Efficiency:** The opportunity to consider broader risks and opportunities should be explored given that, for a number of companies, this may be the first time they have mapped many of these business relationships.
- **Beyond compliance:** Encourage a beyond compliance approach that emphasises impact over disclosure, explores additional uses for the information gathered, and creates stronger relationships.
- **Collaboration:** Encourage collaboration both across industry sectors and throughout value chains in order to maximise the potential for meaningful outcomes.

# Progress so far

## Examples of publicly-evidenced progress consistent with Regnan engagement

Given its early stages, a fuller assessment of progress will be made as companies release their next, and for many their first, disclosures. However, we have already seen:

- More formal recognition of the material risks associated with modern slavery. An example of this is the inclusion of labour arrangements as a material risk in the mainstream filings of a company with whom we have engaged. The introduction of enhanced oversight mechanisms provides further evidence that this issue is being more actively managed by the company and at the appropriate levels.
- We have observed some enhanced discussion of the role of companies in helping people become less vulnerable to modern slavery from the outset. This suggests that a number of the companies with whom we have engaged are considering ways they can more actively ensure their business practices do not inadvertently contribute to the issues that can see people end up as modern slaves.
- Improvements have been observed in a company's supplier screening processes to address the limitations of formal grievance mechanisms, recognising the need for alternate methods to gather the views of the employees of its suppliers. This was implemented after we raised concerns in our discussions with the company.

Details on how we track our progress is provided on pages 13 and 14.

## Looking ahead:

As more statements become available, we will increasingly prioritise our engagement on those issues and sectors where we have more specific concerns, drawing on better practice examples to encourage continued improvement.

## Supporting clients' own practice

As many of our clients will themselves be preparing modern slavery statements, we have also drawn their attention to better practice examples via our regular client reporting to help them in developing their own responses.

We have also created materials to support clients' own engagement activities.

# Features of better practices observed to date

A number of features of better practices already observed include:

**Multidisciplinary teams**: Drawing on a range of skills from across the business to set the foundation for a comprehensive and embedded response. This typically includes representatives from legal, human resources (including learning and development), legal & compliance, procurement and sustainability.

**Collaboration:** This can be within the value chain, via participation in industry initiatives, or collaboration with companies in other jurisdictions.

**Consolidation of suppliers:** This can facilitate deeper scrutiny of modern slavery and other risks and has the potential to create stronger supplier relationships more conducive to collaborative effort.

**Remediation:** A commitment to encourage and support improved practices amongst existing suppliers in preference to ending commercial relationships. This includes the development and completion of remedial action plans with exit used only as a tool of last resort given the potential implications this may have for the existing employees of the supplier.

**Upskilling:** This is typically done for employees who are the primary contact for suppliers or customers given the role they can play in early detection (this includes procurement category managers or relationship managers). Better practice sees these programs extended to suppliers as well.

**Internal validation:** Where external support has been sought, leading companies have been actively involved in the process to promote effective knowledge transfer on modern slavery but also offer their additional 'on the ground' insight on the suppliers assessed.

**Unannounced audits:** The contractual right to undertake surprise audits can reduce the chance that such events are stage managed.

**Use of local networks:** Acknowledging the limitations of formal grievance mechanisms, a number of companies utilise informal networks as an additional information source.

**Tailored:** Better responses reflect local and industry nuances and will vary between locations, for instance in the way training is delivered.

There are a number of areas that are still nascent. These include:

**Effectiveness:** Initial attempts to assess effectiveness have preferenced output measures over those more focused on impact.

**Preparedness:** While a number of companies engaged were aware of the heightened risks when instances of modern slavery are identified, this has not yet translated into the development of processes or procedures to support this.

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# How does modern slavery intersect with other ESG issues?

## Attention to potential leading indicators

Anti-money laundering breaches, wage fraud, and safety concerns, have all been recognised as potential indicators of more serious social risks, including modern slavery. Rather than dismissing these as minor issues requiring rectification, our engagement has encouraged companies to recognise that these may be signposts for deeper concerns, suggesting that additional, rather than less, scrutiny may be required.

## COVID-19 and the importance of being a 'good purchaser'

COVID-19 has served to further highlight known issues about the potential impacts of rapid increases or decreases in demand. Both of these scenarios can dramatically increase ESG risks.

Issues of modern slavery and poor working conditions, product quality and poor environmental practices can crystallise when suppliers are working under compressed timeframes. Companies may be forced to engage suppliers not fully vetted under sustainable or ethical sourcing regimes in order to meet demand. Similarly, tier one suppliers may be forced to engage sub-contractors with whom they may not have a strong working relationship, and indeed in some instances, may not have worked with before at all.

Conversely, where demand has significantly decreased, employees may be left vulnerable to unfair treatment by their current employer or predatory modern slavery activity where they have been unable to maintain employment. In addition to the obvious human rights impacts for individuals, companies may also find that when the economy improves, a number of its suppliers may no longer be viable, delaying the company's ability to resume operations. The pandemic has starkly revealed interdependencies in our economy and society, and the need for investors to actively consider these interlinkages is more acute.

## What can we learn from this experience?

There can be value in having spare capacity amongst screened suppliers in order to minimise the potential for modern slavery risks to occur. This is true for any spike in demand – from a global pandemic through to organic growth.

There is value in ensuring the health of extended value chains and to explore potential opportunities to work more collaboratively and innovatively with suppliers. This can include ensuring that companies:

- monitor the financial health of its suppliers
- pay invoices in a timely manner to help suppliers manage potential cashflow issues
- consider honouring the payment of contracted work even if the products are no longer needed in the short term
- collaborate on options for redeployment and/or new ways of working as companies seek out opportunities to pivot their businesses into new areas

## Spotlight on climate change

We know that many of the drivers of modern slavery will be exacerbated if we fail to limit the most damaging impacts of climate change – the potential for increases in mass migration, stresses on food security and increased geopolitical risks over the longer term, all leave people more vulnerable to modern slavery.

Therefore, effective engagement on climate change can also play a role in mitigating modern slavery risks over the longer term, and is important given its potential to negate any of the gains made.

This is a consideration we have begun to raise in discussion with relevant companies.

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# The role of advocacy

Where there are structural issues impeding a company's or sector's ability to address ESG risks, we may also undertake broader advocacy work. This may include: discussions with regulators; participation in government and other consultations; bespoke research; and other forms of public commentary, including in the media.

Where there are structural issues impeding a company or sector's ability to address ESG risks, we may also undertake broader advocacy work.

We do this to raise awareness of the potentially material nature of an issue amongst a wider audience, to challenge prevailing norms, and to draw attention to market failures.

Our advocacy is designed to support the achievement of our engagement objectives for modern slavery.

This has included participation in initiatives designed to look at the impacts of the financial system as a whole. For instance, via our appointment to a technical working group of the Australian Sustainable Finance Initiative, and support as a special adviser to the Co-Chair. We were also active participations in the policy process that led to the introduction of the Modern Slavery Act, as well as finance industry initiatives designed to support a more effective response from the sector.

# How do we know if our efforts are successful?

Engagement is a means for clients to affect change on modern slavery issues within their investment value chain. Ensuring that this is done in an effective and targeted manner requires a robust framework by which to measure the impact of our actions.

## Even when change has been secured, continued vigilance is required

We recognise that this is by no means a perfect science - we can't measure what companies would have done if we had not engaged. But by acknowledging these challenges, we can begin to consider how to best address them.

Our focus in assessing our engagement progress (effectiveness) on modern slavery is the extent to which the practices of investee companies have improved and are contributing to meaningful progress on issues of modern slavery, and of course the extent to which this can, in part, be attributed to our efforts.

Sometimes the company engaged will itself come back to us to provide an update on what it has done based on its discussion with us (and others), in which case the task of measurement is easier. In other cases, we need to monitor closely for evidence of change when judging the impact of our efforts.

In instances where an issue is more evolved or generally recognised by the market, or indeed, as is the case with modern slavery, where there is a regulatory imperative, numerous stakeholders may be approaching a company with whom we have engaged. Here we consider four key questions:

1. How robust is the evidence of change?
2. How substantive was our discussion?
3. Is there evidence of influence?
4. How aligned is the company response to our engagement?

Even when change has been secured, continued vigilance is required – a change in management, strategic priorities or resourcing, may see concerns resurface.

# How do we know if our efforts are successful? (cont.)

## Consideration 1:
## Robustness of the claim

First, we establish whether progress has been made, considering whether the change is something the company claims privately or whether it has been disclosed publicly. How formal is that claim? For instance, is it in a publicly available policy, or ideally within its own modern slavery statement that has been supported by internal approval processes or external verification?

## Consideration 2:
## Substantiveness of the discussion

We look at how substantively we have discussed an issue with the company and consider whether the engagement was significant enough to have had influence. Although referencing an issue may have added weight to the work of others, this is not typically enough for us to consider ourselves as a meaningful contributor to the change.

## Consideration 3:
## Evidence of influence

We consider the company's response to our engagement. Was it apparent that it was aware of the issue and was work already underway? If so, we consider whether our encouragement influenced the disclosure of these actions more broadly to the market and other stakeholders.

## Consideration 4:
## Evidence of alignment

We consider how aligned the company's response is to our engagement. Are the details reflective of our concerns/discussion? For example, did the company advance its response to modern slavery on the aspects we raised as material? Where there were activities already underway, have there been changes to its approach consistent with our discussion? For instance, to the type of indicators used, the way it measures effectiveness or changes within its supporting processes and governance frameworks.

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# Companies engaged on modern slavery

**We have engaged with 24 companies on modern slavery since the introduction of the Act**

BlueScope Steel
Coca-Cola Amatil
Coles Group
Costa Group
Evolution Mining
Fortescue Metals Group
GPT Group
Lendlease Group
Macquarie Group
Monadelphous
National Australia Bank
Oil Search
Qantas Airways
QBE Insurance Group
Ramsay Healthcare
Rio Tinto
Sandfire Resources
South32
Suncorp Group
Sydney Airport Holdings
Tabcorp Holdings
Wesfarmers
Westpac Banking Corporation
Woolworths Group

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