

Footsteps forward

**Investors Against
Slavery and Trafficking**
Asia Pacific

Annual Report 2021–2022

Contents

Foreword

Introduction

Snapshot:

Modern slavery in the Asia-Pacific region

Governance and membership

Workstream 1:

Policy advocacy

Workstream 2:

Company engagement

- FY21-22 Company engagement update
- Case study: JB Hi-Fi and the electronics sector

Knowledge events

Appendix 1:

IAST APAC membership

Appendix 2:

Investor statement

01

02

03

04

05

06

07

11

12

13

14



Foreword

On behalf of the Steering Group, I am pleased to share the inaugural Annual Report of the Investors Against Slavery and Trafficking Asia Pacific (IAST APAC) initiative.



Our first year of engagement has revealed that companies in the region are at various stages of tackling modern slavery. There are many companies still coming to grips with the scale of the problem and the ways to address it.

However, there are also several leaders, who have made significant strides in finding, fixing and preventing modern slavery in their operations and supply chains. Our aim is to help the leaders go further, modelling best practice for other industry participants as they make progress on the issue, and to support the companies that are early in their journey.

This inaugural Annual Report reflects the scope of work for our first year of operation. We have built the foundations for ongoing activity, set out a clear path for the future, and started building relationships with companies who have the potential to make a real difference.

Thank you to the many people who have contributed to this process. An investor coalition only succeeds when its members are committed to the vision and serious about taking action. This has certainly been the case for IAST APAC and we look forward to working with all of our stakeholders in the year ahead.

Kate Turner

Deputy Head of Responsible Investment, First Sentier Investors
Chair, IAST APAC





Introduction

Welcome to the first Annual Report for the Investors Against Slavery and Trafficking Asia Pacific (IAST APAC) initiative.

We are a group of investors working to help end modern slavery, which currently affects an estimated 40 million people globally, with 70% of that number estimated to be in the Asia-Pacific region¹. IAST APAC was established in 2020, based on the belief that investors can play a meaningful role in creating a better world, through collaboration and co-operation.

Our work is focused on engaging with companies in the Asia-Pacific region to promote effective action in finding, fixing and preventing modern slavery in operations and supply chains.

IAST APAC comprises 37 investors with AU\$7.8 trillion in Assets under Management (AUM), together with the Australian Council of Superannuation Investors (ACSI), Walk Free and the Finance Against Slavery and Trafficking (FAST) initiative. See *Appendix 1* for a full list of members.

By using our leverage as allocators of capital, and sharing the resources of our knowledge partners, *Walk Free* and *FAST*, we hope to build a sense of momentum among the companies we invest in, so that they can work with us on ending modern slavery.

There are, no doubt, challenges. Modern slavery legislation is just a few years old in Australia, and in other parts of the Asia-Pacific region, there is no equivalent regulation yet. Thus, we are, in many cases, relying on companies to engage with the issue of their own volition. Across many markets, there is relatively low awareness of the scope of the problem, and few dedicated resources within companies to address it. In these markets, we are taking the critical, first footsteps in advocating for change.

However, there is good news too. By expanding the reach of our investor statement, we were able to send a clear message to reporting companies in Australia about investor expectations to go above and beyond legal compliance. For many target companies, our inaugural year of engagement has started a conversation on the topic. Companies are on notice that investors are serious about modern slavery; and that this must be escalated to Senior Management and Boards.

During this first year, we put in place a framework for ongoing engagement. We have identified a focus list of companies for multi-year engagement, and received positive responses from many of them. We have built the scaffold for collaborative engagement on modern slavery and will continue to build upon it in the coming year.

1. Source: International Labor Organisation and Walk Free

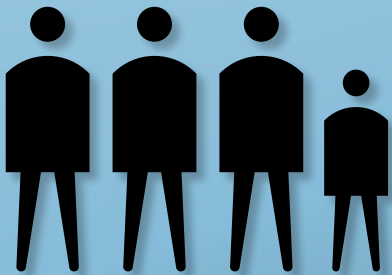
Snapshot: Modern slavery in the Asia-Pacific region



25 million
Estimated victims of modern
slavery in the Asia-Pacific region



71%
Proportion of modern slavery
victims who are women and girls



1 in 4
Proportion of modern
slavery victims who
are children



Labour
The majority of all
modern slavery cases
are forced labour

Governance and membership

IAST APAC is overseen by a Steering Committee made up of First Sentier Investors (the Convenor) and the following founding members: Aware Super, AustralianSuper, Fidelity International, Ausbil Investment Management, the Australian Council of Superannuation Investors (ACSI), Walk Free (as Knowledge Partner and Secretariat) and the FAST initiative (as Knowledge Partner).

During the course of this financial year, the IAST APAC Steering Committee (SteerCo) met on a monthly basis, with breaks for the New Year in January 2022 and Australian End of Financial Year in June 2022. The Secretariat oversaw the drafting and signing of a confidentiality deed for all existing members (and future members to sign) to provide confidentiality protection regarding initiative discussions, events and documents, including company engagements.

In the twelve months leading up to June 2022, seven new members joined the initiative: Australian Retirement Trust, Commonwealth Super Corporation, Duxton Capital (Australia) Pty Ltd, Mercer Investments, Spheria Asset Management, Stewart Investors and Triple Eight Capital Pty Ltd. SteerCo has also focused on developing new outreach to potential Asian investors, with an asset managers' roundtable planned for the next financial year.

The logo for First Sentier Investors, featuring a stylized green and blue icon to the left of the text "First Sentier Investors".The logo for aware SUPER, with the word "aware" in pink and "SUPER" in purple, accompanied by a colorful circular icon of stylized figures.The logo for AustralianSuper, featuring a stylized orange and yellow icon above the text "AustralianSuper".The logo for Fidelity INTERNATIONAL, with a red square icon containing a white "F" to the left of the text "Fidelity INTERNATIONAL".The logo for ausbil, featuring the word "ausbil" in a bold, black, lowercase sans-serif font.The logo for ACSI, featuring a stylized triangle icon composed of purple, teal, and orange segments to the left of the text "ACSI".The logo for WALK FREE, featuring a stylized sun or mountain icon above the text "WALK FREE".The logo for the LIECHTENSTEIN INITIATIVE, with the text "LIECHTENSTEIN INITIATIVE" in bold, uppercase letters, and a vertical line to the right of the text, followed by the text "FINANCE AGAINST SLAVERY & TRAFFICKING" in smaller, uppercase letters.

Workstream 1: Policy advocacy

The first activity of Workstream 1 of the IAST APAC initiative was to draft and distribute an investor statement signed by many of the members.

This investor statement (see Appendix 2) called for companies reporting under the Australian Modern Slavery Act (the Modern Slavery Act or Act) to go above and beyond the bare minimum of legal compliance set out in the Act. The investor statement outlined the investor interest in impacts of modern slavery and suggested a number of measures for companies to adopt as good practice to mitigate their modern slavery related risks.

The investor statement was sent to the top 100 companies on the Australian Securities Exchange (ASX100) in late 2020 and the remainder of the ASX200 in June 2021. The written responses from companies varied in nature and length. Of the responses received, almost half of the companies welcomed the IAST APAC initiative and having further engagement with it, at least 29% of these top 200 Australian companies committed to raise the investor statement with their Board and/or Senior Management. While many companies acknowledged the expectations of the investor statement, only one company directly addressed the specific points raised by it. The investor statement also resulted in a number of follow-up conversations with companies.

During the course of this financial year, Workstream 1 also started to explore facilitating policy advocacy opportunities for participants. The most immediate opportunity is the Modern Slavery Act review process, through which the IAST APAC initiative will have an opportunity to help shape the future version of the Act. In addition, the workstream serves as an information-sharing platform; for instance, sharing legal developments that are of interest to members such as new transparency in supply chain, human rights due diligence and forced labour import ban laws.

“These steps will help to combat modern slavery, human trafficking and labour exploitation in a meaningful way.”

– Investor Statement





Workstream 2: Company engagement

Workstream 2 was established in January 2021 to support the work of Workstream 1. Its purpose is to enable investors to work collaboratively towards a common goal of mitigating modern slavery risks in investee companies across the Asia-Pacific region.

Research has shown that companies operating or investing in the region – including Australia – are particularly exposed to the risk of modern slavery because of the region's prominent role in the global economy and its high levels of vulnerability for, and prevalence of, modern slavery.

Given what is known about the prevalence of modern slavery globally, IAST APAC believes there is likely to be some form of labour exploitation in the supply chain of almost every business, even if it is difficult to identify. IAST APAC is strongly focused on industry collaboration – in the spirit of the Modern Slavery Act – including shared knowledge and tools to address risk, taking inspiration from the 'Find It, Fix It, Prevent It' investor initiative being run by CCLA in the UK. This primarily involves direct investor engagement with companies on how companies can more effectively take action to identify labour exploitation risks within their operations and supply chain, address these issues and prevent them from occurring.

Workstream 2 invites investors to nominate as either a lead or support investor. Each investor group is allocated a focus company and all investors play an active role in engaging directly with the focus company. Due to the complexity of issues related to human rights in the supply chain, it is anticipated that this will be a multi-year initiative. During FY 21/22, we engaged with 24 focus companies across the consumer discretionary, consumer staples, technology and healthcare sectors as part of Workstream 2. Companies are listed on the following exchanges: Australia, Hong Kong, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Vietnam.

“Due to the complexity of issues related to human rights in the supply chain, it is anticipated that this will be a multi-year initiative.”

FY21-22 company engagement update

Engagement framework

Investor groups have developed engagement plans for focus companies including setting specific objectives and key milestones. Outlined below are the steps taken to develop the engagement framework.

1. Investor group develops focus company engagement plan under the 'Find It, Fix It, Prevent It' framework – lead investor drafts and support investors review it;
2. Investor group contacts focus company and requests first meeting;
3. Engagement commences with company – generally one to four direct engagements per year;
4. Investor group conducts risk assessment post engagement with company; and,
5. Investor group reports on engagement quarterly (half-yearly in the next financial year).

Key engagement questions

- **Find It:** 'Have you found modern slavery in your operations or supply chain?' and 'If not, can you demonstrate that you have rigorous processes in place to look for it?'
- **Fix It:** 'If so, can you demonstrate the steps you have taken to improve the lives of victims?'
- **Prevent It:** 'Have you effectively reported your actions and the steps taken to prevent a re-occurrence?'

“IAST APAC is a great opportunity for investors to work together to address systemic issues and manage modern slavery risk.”

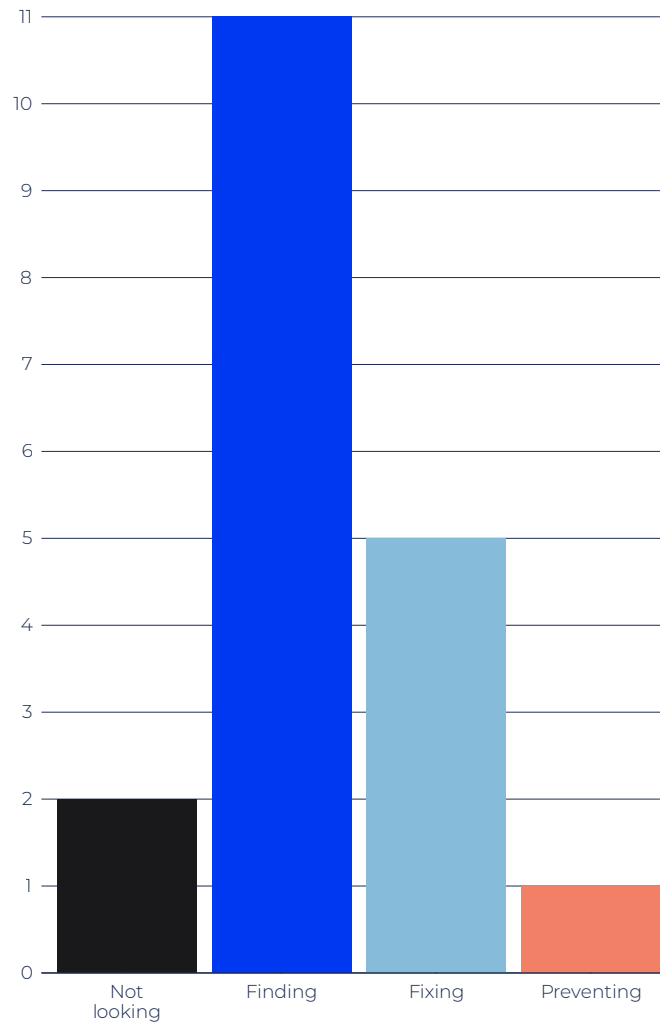
Louise Davidson
CEO, Australian Council of
Superannuation Investors (ACSI)



Reporting on progress

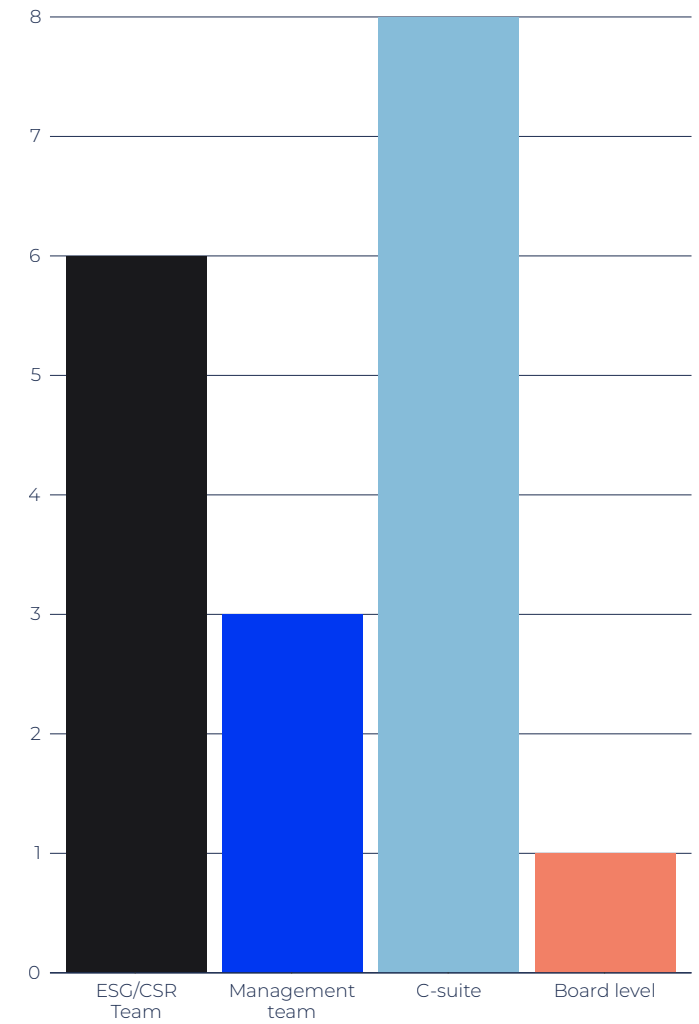
Given the variety of countries and sectors that we have engaged with, it is not surprising that our focus companies are at very different stages of their modern slavery journeys. We purposefully selected a range of companies, including a number of leaders so that we could push new and improved standards for best practice, and companies at the beginning of their journeys to raise awareness.

Company progress at the start of the engagement



Source: IAST APAC, as at 30/6/22

Seniority of company representative met



Source: IAST APAC, as at 30/6/22

Challenges

IAST APAC has made solid progress in the first year of its formation, including with the development of:

- a framework for identifying focus companies;
- detailed investor guidelines for engaging with companies; and,
- formal, and in some cases, effective engagement with focus companies.

The following section contains an overview of the key challenges encountered by the investor working groups and our focus companies during this foundational year of engagement.

Investor Group experience

Engaging with companies for initial meeting

Companies might be under pressure from competing interests and unable to dedicate resources. These delays can be further exacerbated by not having the right people in the room at the initial meeting. In some cases, it may take six months before genuine progress can be made.

Confidentiality concerns

Some companies were initially reluctant to participate as they had concerns about confidentiality. IAST APAC is a new initiative in the region and more time may be needed to build trust and rapport between the investors and companies. We understand it may take time for companies to build confidence in the IAST APAC initiative and develop a good working rapport with the investor groups.

Lack of Executive buy-in

In some cases, there was reluctance at the Board or Senior Management level to engage with IAST APAC due to reputational concerns or an uncertainty that modern slavery issues existed in their own supply chain. There was a senior-level perception that the companies either did not have any issues to worry about or that they were under control.

Company experience

At the company level, there were various levels of maturity and commitment to addressing modern slavery risk in supply chains. The following section provides an overview of these specific challenges.

Resource constraints

Responsibility for considering modern slavery risk issues often resides with procurement and human

resource teams. Management of modern slavery risk presents an additional responsibility for people already stretched to capacity in the operational delivery of their day jobs. Without a dedicated CSR, sustainability or similar role to lead the program, it may experience delays.

Complex supply chains

Most companies being engaged in the workstream by their nature have complex supply chains and multiple processes for assessing suppliers. This can pose a significant barrier to the 'Find It, Fix It, Prevent It' framework.

Lack of industry standards

There are minimal formal guidelines or industry standards for supplier assessments that all companies could be using. This may cause confusion and lack of control for some companies.

Inherent reliance on third-party suppliers

There can be a lack of control for some companies who have to rely on third-party suppliers to provide information about their supply chains.

Need for more training at the company and supplier level

Given this is a relatively new area of work, some companies and suppliers require more training to improve knowledge and expertise to address the issue.



Leverage

By means of group engagement, investor groups can exercise different forms of influence or leverage, such as setting investor expectations for going above and beyond legal compliance (investor statement), and sharing best practice examples of tools and systems for identifying and managing risk.

Making companies aware of the expectations being set not just by one investor, but a significant proportion of them, can ensure such issues are escalated to Senior Management and Board. Investors' discretion in how they allocate capital is at the heart of this leverage, and the greater the weight of capital, the more effective the engagement can be.

“The financial sector is a powerful ally in our mission to protect the most vulnerable – and ultimately to create fairer and more sustainable economies.”

Grace Forrest, Founding Director of Walk Free

Key success factors for company engagement

1. Resourcing: We believe that hiring dedicated resources for corporate sustainability, or greater engagement from procurement/human resources, will deliver more benefits;
2. Board/Senior Management buy-in or engagement;
3. For large operations, ensuring the cross-functional departments such as procurement, HR and CSR teams are working together;
4. Training for employees and supplier education;
5. Good systems to track and measure suppliers;
6. Industry collaboration with peak bodies addressing this issue; and,
7. Functional working relationship with unions.

Future work

Looking ahead, investors will be using the engagement plans for multi-year engagements with the selected companies and will continue to share knowledge and best practice. We envisage that the work under this workstream can also assist members (where they are reporting entities or reporting voluntarily) to address the mandatory criteria of measuring the effectiveness of actions taken, under the Act, by tracking progress against the engagement plan.

Case study: JB Hi-Fi and the electronics sector

Background

JB Hi-Fi Limited (JB Hi-Fi), which has publicly announced its involvement in IAST APAC, is an Australian listed retailer of consumer electronics, technology, telecommunications, home appliances and software, with operations in Australia and New Zealand. Its retail brands are JB Hi-Fi and The Good Guys.

The electronics sector supply chain is known to have pervasive modern slavery risks with several well-documented cases of forced labour revealed in the past. Structural challenges in eradicating forced labour from the sector include the use of temporary, part-time and sub-contacted labour recruited through labour brokers to meet seasonal demand for products and multi-tiered supply chains located in high-risk jurisdictions with limited labour rights and protection.

Approach

The investor group engaging with JB Hi-Fi set seven objectives in its engagement plan for the company, having considered best practice and the company's current initiatives on modern slavery. These objectives include setting up an independent and frequent audit framework covering private label manufacturers, the use of independent data sets maintained by Responsible Business Alliance to identify modern slavery risks in large third party manufacturers, introducing worker voice mechanisms at the private label supplier label, and providing greater disclosure on the instances of modern slavery detected in the chain.

We have encouraged JB Hi-Fi to focus its detection efforts on its private label range given the lack of leverage an Australian retailer has over large manufacturers. As the retailer's systems and processes around detection are largely in place, we have focused our engagement strategy to date on improving the quality of some of these processes, particularly audits and worker voice systems.

Outcome

Since the engagement commenced in 2021, the investor group has had four meetings with JB Hi-Fi's Chief Financial Officer and Head of Sustainability with a view to achieving some of these objectives. The company has been open to our discussions. It included its engagement with the IAST APAC initiative in its half-yearly results report in 2022: <https://www.listcorp.com/asx/jbh/jb-hi-fi-limited/news/results-presentation-2022-half-year-result-2669165.html>

The JB Hi-Fi engagement provides a case study of a focus company that has many of the systems and processes required to detect modern slavery in its private label business, and its Executive Team appears committed to detection in particular. It also recognizes the challenges of detecting instances of modern slavery in the chains of its third-party branded goods but is still seeking ways to address this.



Knowledge events

As knowledge partners of the IAST APAC initiative, Walk Free and FAST lead on the implementation of knowledge events for investors.

These knowledge events are designed to support initiative collaboration in general, and policy advocacy and company engagement workstreams specifically, depending on the need and topic. Walk Free and FAST aim to deliver at least five knowledge events per year. Members can also suggest additional knowledge events to increase their awareness of key issues that will help them to work together, develop policy or engage companies, which Walk Free and FAST will then assist to design and run.

In the last financial year, Walk Free worked with FAST to deliver the following knowledge events:

- Supply chain management tools, October 2021: showcased a range of tools that might help investors engage more effectively with investee companies with recommendations for introducing new tools to deepen supply chain risk assessment, improve supplier audit management, increase product traceability insights, and increase worker engagement and worker voice;
- RIAA Human Rights Working Group 'Investor Toolkit: human rights with a focus on supply chains', February 2022: included presentations from the lead authors on the updated version of the Toolkit (Ausbil Investment Management and Mercer Investments) which incorporates best practice examples from the latest modern slavery statements;

- Modern Slavery Act review panel, March 2022: featured speakers from civil society, law and politics sharing their perspectives on the range of legal reforms and policy developments that investors could consider advocating for in the Act review process once commenced;
- Electronics industry in Asia, April 2022: provided a platform for civil society organisations from India, Indonesia and Thailand to present their experiences on modern slavery risk and cases in the electronics industries in their countries and make recommendations to the investors to strengthen their engagement with investee companies; and,
- Modern Slavery Act review process, June 2022: Professor John McMillan, the lead of the Act review process, presented the process to the investors and answered questions in relation to review procedure and substance.

In the next financial year, Walk Free and FAST are planning knowledge events on human rights due diligence for investors; cocoa and gold value chains in Ghana (drawing on a UNU research project); the new Global Slavery Index (which Walk Free will launch in late 2022); and worker-driven social responsibility.

Appendix 1: IAST APAC Membership

At 30 June 2022, IAST APAC comprised the following investors:

A

abrdn
Acadian
ACSI
AllianceBernstein
American Century Investments
Ausbil Investment Management
Australian Ethical Investment
Australian Retirement Trust
AustralianSuper
Aware Super

B

BT Financial Group

C

CBUS Super
Challenger Limited
Christian Super
Colonial First State
Commonwealth Superannuation Corporation

D

Duxton Capital (Australia) Pty Ltd

E

Ethical Partners Funds Management

F

Fidelity International
First Sentier Investors

G

GMO

H

HESTA

I

IFM Investors

M

Maple-Brown Abbot
Mercer Investments
MFS Investment Management
Mitsubishi UFJ Trust and Banking

P

Paradise Investment Management Pty Ltd
Perennial Value Management
Platypus Asset Management

R

Resona Asset Management
Retail Employees Superannuation Trust

S

Schroders
Spheria Asset Management
Stewart Investors

T

Triple Eight Capital Pty Ltd

U

U Ethical

V

VFMC

Appendix 2: Investor Statement

Investor statement on modern slavery, human trafficking and labour exploitation issues.²

We, a coalition of 34 investors³ with AU\$7.7 trillion in assets under management, are calling on companies to pursue real action to combat modern slavery, human trafficking and labour exploitation.

This is particularly important in the current Covid-19 environment where the risk of the vulnerability and potential for workers to be exploited is increasing. The International Labour Organization and Walk Free have estimated that there are over 40 million people⁴ living in conditions of modern slavery globally and the current pandemic is likely going to increase that number. As investors, we see modern slavery, human trafficking and labour exploitation as something that goes beyond ethics. Business models and value chains that rely on underpaid workers, weak regulation or illegal activities such as forced labour and other forms of modern slavery drive unsustainable earnings. Companies are exposed to significant compliance and brand risk, which can be costly and time-consuming to address.

Markets and regulators throughout the Asia Pacific are paying growing attention to these risks. Access has recently been denied in EU and US markets for goods thought to be manufactured with

forced labour. Some stock exchanges have increased their attention to reporting on social risks, including forced labour and human trafficking. In addition, anti-money laundering regulators have imposed fines for handling financial transactions related to forced labour and human trafficking, including in Australia. In Australia, the Modern Slavery Act 2018 requires large organisations to report on the risks of modern slavery in their operations and supply chains, and the actions they are taking to address those risks (as set out in the [Australian Government's Guidance for Reporting Entities](#)).

As investors we expect companies to meet their reporting and compliance obligations and in doing so encourage companies to examine broader risks of labour exploitation as a leading indicator of modern slavery.

We are particularly concerned about industries and supply chains where there is a significant use of vulnerable workers (e.g. migrant labour, base skilled labour), complex supply chains with many intermediaries, supply chains where oligopolistic buyers exert significant pricing power over suppliers and supply chains where there is significant pressure on lead times.

2. To read the full investor statement with signatories please visit <https://www.iastapac.org/approach-framework/>

3. Including an investor representative group

4. ILO and Walk Free, Global Estimates of Modern Slavery, 2017



“We encourage companies to examine broader risks of labour exploitation as a leading indicator of modern slavery.”

We believe a detailed risk-based mapping exercise of the supply chain is a useful way for companies to achieve better visibility of the supply chain. We encourage companies to progressively expand that exercise further down the supply chain, beyond first tier suppliers.

In addition, companies are encouraged to take a number of actions to mitigate the risk of modern slavery and other exploitative conditions in their value chains and business relationships, where applicable and practicable, by considering the following in the months and years ahead:

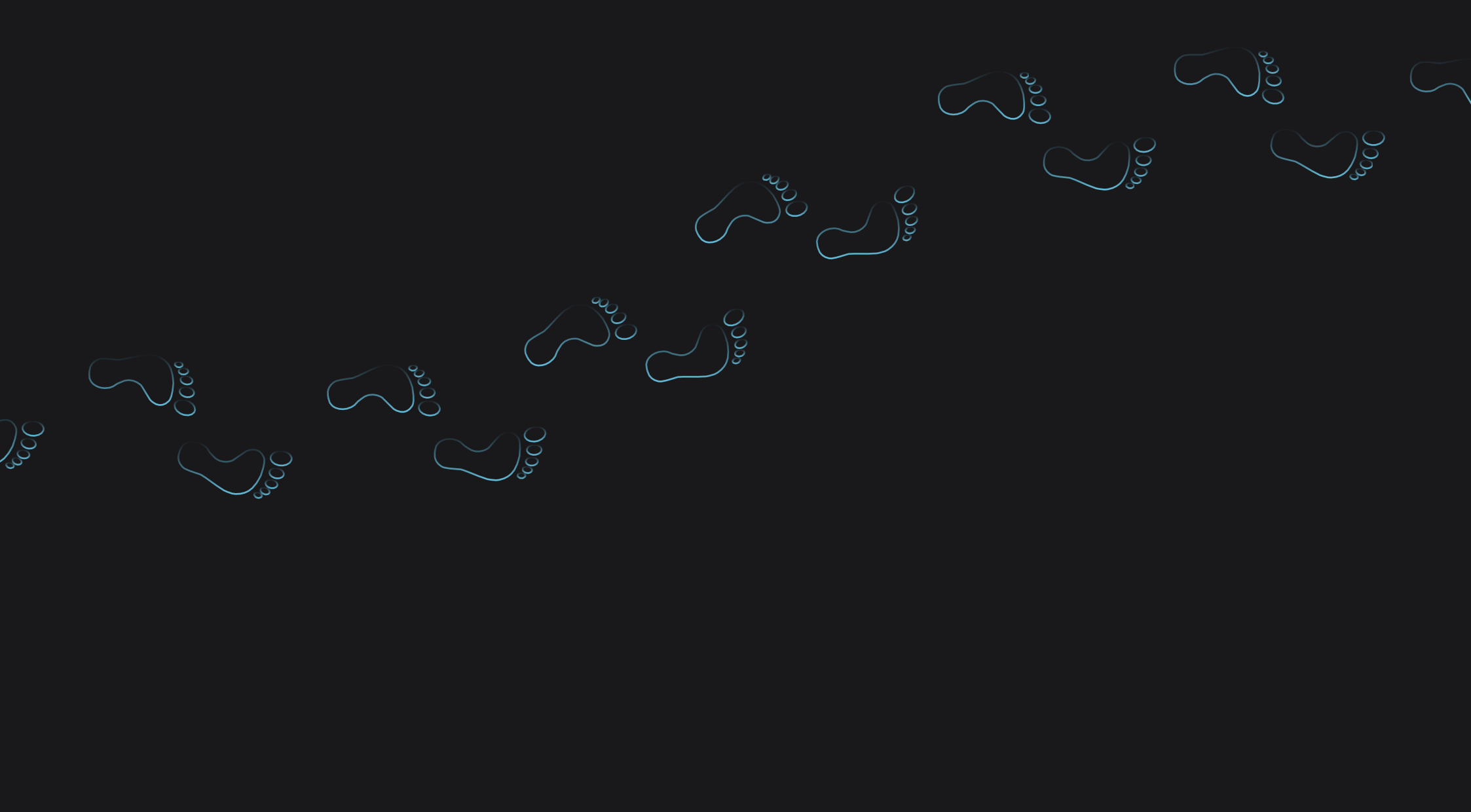
- Build strong relationships with suppliers through consolidation of supply chains, sourcing more from fewer suppliers in order to improve alignment and practices, increase visibility and reduce complexity of supply chains.
- Reward suppliers that comply with a company's responsible sourcing policy with more business and cultivate long-term relationships with suppliers. Overly transactional relationships can lead to subcontracting and suppliers cutting corners on labour standards to meet onerous pricing or lead time demands.

- Incentivise suppliers to monitor conditions at the next tier in the supply chain.
- Price goods and services in a way that a living wage can possibly be achieved throughout the supply chain.
- Set up a systematic process to monitor modern slavery and labour rights in the supply chain. Increase direct physical presence at supplier level (to the extent that is relevant and possible, particularly in the current Covid-19 environment) as opposed to an over-reliance on social audit. Increased transparency will provide insights to investors regarding the robustness of the companies oversight.
- Align key performance indicators between the ethical sourcing team and the procurement team to avoid conflicts of interests for suppliers (where these teams are separate).
- To avoid the risk of debt bondage (the most common form of forced labour), adopt a “zero fees” or “employer pays” recruitment policy and work with suppliers and other business partners to ensure that no workers in the value chain are required to pay recruitment fees or other costs in order to secure work.
- Develop strategies for remedy and make grievance mechanisms accessible for workers at supplier level.

- Actively engage internal and external stakeholders when developing modern slavery, human trafficking and labour exploitation policies and due diligence processes, collaborate with peers and participate in industry-focused initiatives.
- Ensure there is board oversight of modern slavery policies and processes and clear responsibility for implementation within the company.

These actions will not guarantee an end to modern slavery. Nor do we expect companies to be able to implement these steps immediately. Nevertheless, we do believe these steps will help to combat modern slavery, human trafficking and labour exploitation in a meaningful way. We further encourage companies to demonstrate their ambition and commitment through transparency of the actions it is taking.

We recognise the immense challenges that industries are undergoing right now in light of the current pandemic and we look forward to working with you to re-build the economy to one that meets the needs of workers, customers, and stakeholders and to create shareholder value.



Important Information

Investors Against Slavery and Trafficking Asia Pacific (**IAST APAC**) is an investor led multi-stakeholder initiative convened to promote effective action among companies in the Asia-Pacific region to find, fix and prevent modern slavery, labour exploitation and human trafficking in their value chains. Membership to IAST APAC is open to any asset owner or asset manager with an office in the Asia Pacific region. This document has been prepared for general information purposes only. The views expressed in this document are the views of IAST APAC and do not necessarily reflect the views of individuals or members associated with IAST APAC. Such views are subject to change without notice and may substantially differ from the views of individuals or members associated with IAST APAC. To the extent permitted by law, no liability is accepted by IAST APAC nor any members of IAST APAC for any loss or damage as a result of any reliance on this material. This material contains, or is based upon, information that IAST APAC believes to be accurate and reliable, however neither IAST APAC nor any individuals or members associated with IAST APAC offer any warranty that it contains no factual errors.