



# Modern Slavery Statement 2020

 **First Sentier**  
Investors



# Modern Slavery Statement 2020

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# Our commitment to the cause

We might be tempted to think use of the term 'slavery' can only be found in history books, but the truth is, slavery is still very much alive today.

At First Sentier Investors, we understand we must do all we can to ensure that our investment decisions, operations and supply chains do not have direct or indirect ties to modern slavery.

Our team is committed to continually improving our systems and processes to combat slavery and human trafficking in the many forms in which it can occur such as forced labour, child labour, domestic servitude and workplace abuse. We also recognise that certain types of suppliers (e.g. those employing lower wage staff) may present a higher risk.

This statement takes a retrospective look at some of our major achievements in our fight against Modern Slavery in 2020.

Thank you for joining us on our journey to identify and fight against modern slavery.



**Mark Steinberg**  
CEO  
First Sentier Investors



# Starting with supply chains

**Our vision, purpose and values are integral to the way we operate our business. Our commitment to human rights is supported by policies. We are establishing supporting processes to identify, assess and mitigate risks of modern slavery and human trafficking.**

In considering the risks of modern slavery in our operations, we looked predominantly at the locations of our offices. Reviewing these against our high level risk assessment criteria, and noting our relevant HR policies, we felt that the risk of modern slavery was low. As such, we have focused our attention on the development of tools to monitor our investment strategies and supply chains.

First Sentier Investors has in place a variety of systems and processes that are designed to identify and assess potential risk areas in our supply chains, monitor and mitigate such risks, as well as to protect whistle-blowers who identify any non-compliance with such systems and processes. Our risk assessment framework considered each category of supplier that supports our business against a range of factors, for example, sector, geography and business complexity, and will be used to further develop and target our

modern slavery policies, procedures and practices. In addition to this we have conducted a high level supply chain risk assessment at a supplier category level. It considered the various suppliers represented within a category and the assessment is representative of the category as a whole. A qualitative risk assessment, this has been supplemented by publicly available reports and assessments and is based on subject matter representatives input from within the business. Specifically, in the information technology and corporate services sectors, residual risk was considered present in the geographical location of some of our investment processes support functions (including our order management platforms and data providers), and the locations from which some of our fund services are being supported.

Over the coming periods we will enhance this risk assessment and

build on the activities in place to gain greater insight into our higher risk supplier categories. As part of this work we will also review these assessments in light of the impact COVID-19 has had on the risks of modern slavery and incorporate this in our review.

We continue working to enhance the integration of the outcome of this assessment into our supplier on-boarding and management systems. One such step we have taken is to contract with a vendor to implement an electronic, standard, global on-boarding process. This will increase harmonisation and transparency on how we onboard suppliers across our business. Also, the platform introduces appropriate assessments to assist in the identification of modern slavery risk in our suppliers and their supply chains prior to contract execution.

# Mitigating modern slavery

Throughout 2020 First Sentier Investors has worked to build processes to fight against modern slavery risk. We have made progress through:



**Staff training:** Our investment teams received targeted training on monitoring, identifying and minimising the risk of modern slavery in our investment universe. Further, general staff awareness was raised through the deployment of our Financial Crimes Compliance training module. This included a modern slavery component to develop staff awareness and educate as to our company stance on and obligations in tackling modern slavery. Future developments will include developing targeted training for staff involved in the engagement of suppliers.



**Policy development:** Through engagement with our global teams we developed a Modern Slavery Policy which provides guidance to employees on how we can assist First Sentier Investors in preventing, detecting and reporting modern slavery.



**Supplier reviews:** We continue to undertake proportional supplier oversight and due diligence on proposed and existing key first tier suppliers and have put in place a Modern Slavery Task Force to extend this to a broader tier supplier review (on an ongoing basis or through the life cycle of the relationship). Over the reporting period, we have increased the existing UK business' practice of notifying our large third party administrators (who fall into our tier 1 supplier category) of our Values through the presentation to such of our Supplier Code of Conduct ("Code"). The Code has been broadened to incorporate Australian requirements and has been presented to the Australian holding company and those Australian subsidiary boards who execute contracts.



**Open and ongoing supplier communication:** As a global investment manager committed to operating with the highest standards of conduct to protect investors' interests and to behave ethically, we communicate with our suppliers on an ongoing basis with respect to our expectations of them.



# Our investment teams' take on modern slavery risks

We recognise that, as allocators of capital, stewards of our clients' assets and active shareholders in companies on their behalf, the individual and collective decisions we make as investors have far-reaching implications. The opportunity to influence positive change for the millions of victims of modern slavery while securing sustainable long term investment returns is central to our stewardship responsibilities.

As an organisation, First Sentier Investors has been assessing and managing human rights risks within our portfolios for a number of years. Our position on modern slavery risk in our investments is set out in our Global Responsible Investment and Stewardship Principles and Policy, and is further articulated in our Human Rights Toolkit and Modern Slavery Toolkit. Our Modern Slavery Toolkit was finalised in June 2020, and sets out the following steps to be taken by investment teams at both pre- and post-investment stages:

- 1. Identifying risks:** includes a series of data sources to use to identify risk and questions to consider (for example, whether there is a long and complex supply chain).
- 2. Addressing risks:** provides guidelines and sample questions for engaging with companies identified as having modern slavery risks and lists other forms of leverage in addition to engagement, such as policy advocacy and building partnerships.

- 3. Escalation:** includes a series of actions for escalating, remediation and ongoing monitoring of any instances of modern slavery identified.
- 4. Internal governance:** outlines the internal governance framework we have in place to monitor both modern slavery risks and the effectiveness of our approach.
- 5. Reporting:** provides a reporting template for investment teams to be completed each year.

Over the Reporting Period the Responsible Investment Team worked with our investment teams to implement our Modern Slavery Toolkit, including providing training to investment teams (outlined in section 5 above) and through individual engagement with investment teams.

We also revisited our risk mapping over the course of 2020 in light of the pandemic, noting the following indicators of increased risk:

- Industries experiencing high demand and tight production

timeframes as a result of the pandemic: e.g. the healthcare supplies industry.

- Due to ongoing lockdowns, many companies were restricted in their ability to conduct site visits and audits.
- Traffickers and criminals responsible for modern slavery prey on vulnerability, which is something that has increased as COVID-19 affects industries globally, such as the apparel industry.
- Victims of modern slavery work and live in conditions that place them at increased risk of contracting COVID-19 - and don't have access to appropriate medical care if they do. Often a fear of being detained or deported keeps victims of modern slavery from reaching out to authorities.

Below are risks we have identified for each asset class. Further information is included at team level:

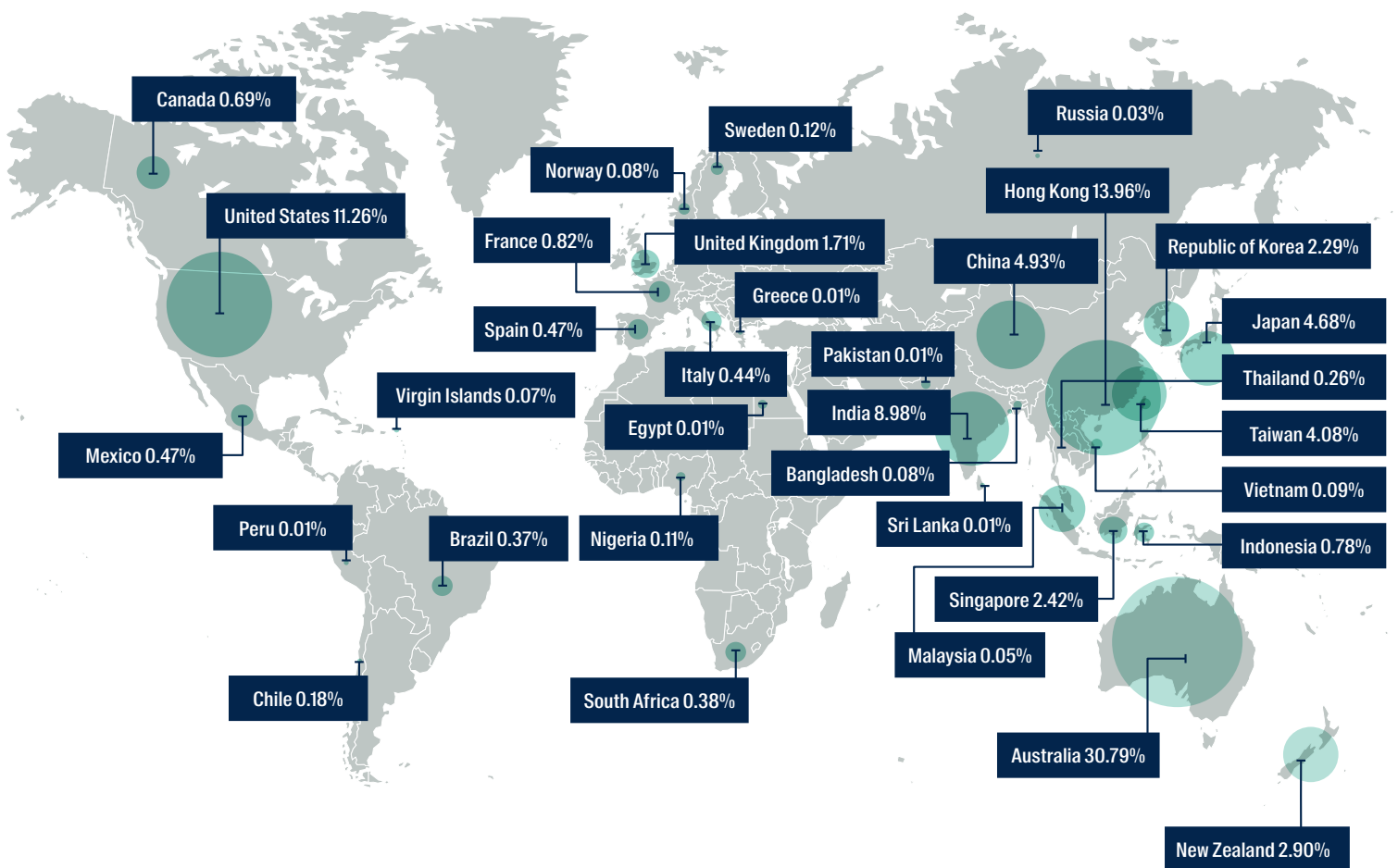
Asset Class	Key Risks
<b>Australian Equities</b>	Supermarket sourcing (specifically the domestic fruit picking industry), the apparel and electronics industry supply chain particularly where manufacturing is linked to Asia and mining companies with remote and foreign operations.
<b>Fixed Income and Credit</b>	Supermarket supply chain (particularly from agricultural and textiles suppliers), technology hardware production and raw materials supply chain, service companies (specifically those with high levels of minimum wage workers) and the oil sector (especially those with operations in the Middle East). Companies or supply chains that rely on output from labour intensive sectors or imported labour from developing Asian countries are also higher risk.
<b>Emerging Markets and Asia Pacific Equities</b>	Healthcare supplies and apparel industries in Asia (particularly following COVID-19), the supply chains of certain Asian consumer goods and Asia Pacific IT service companies, banks lending to companies in high risk countries and industries, mining companies and labour/manufacturing intensive companies, the sourcing of conflict minerals across tier 3 suppliers particularly in relation to companies we own in the semiconductor ecosystem.
<b>Systematic Global Equities</b>	Given our systematic investment process, we are exposed to a broad range of sectors and companies, some of which are considered to be at higher risk of modern slavery than others. Based on the nature of our holdings, we feel that the greatest risks lie in the Asia Pacific region and in the following sectors: metal and mining, technology hardware and energy.
<b>Global Listed Infrastructure</b>	Given the developed market focus of the strategy, key risks are found in the supply chain particularly where supply chains and operations are linked to developing markets, as well as the construction sector.
<b>Direct Infrastructure</b>	Companies that employ a small percentage of their workforce on a contractual (temporary) basis or are in the transport and warehousing sectors.
<b>Global Property</b>	Property developers with exposure to emerging markets, in the Asia Pacific region, and the companies within the supply chain of property developers particularly in relation to the procurement of building materials and service provision (for example, cleaning, repair, security or waste management services).
<b>Emerging Markets Debt</b>	Key risks are those countries with repressive regimes where economic growth and education are stifled, as well as those that rely heavily on migrant labour. Child labour is a structural issue in Sub-Saharan Africa and reliance on migrant labour is an issue in the United Arab Emirates and Qatar.



Our approach to addressing modern slavery risks within our investments focused on both individual and collaborative engagements. Much of the engagement during the Reporting Period centred around the impacts of COVID-19 on workers.

# Reporting on progress

The country map below taken from our Modern Slavery Portfolio Analytics tool shows the levels of modern slavery risk across various countries where we invest in listed equities and corporate fixed income. The size of the bubble relates to our exposure to companies across these asset classes (expressed as percentages in the labels), and the colour of the bubble relates to modern slavery risk (darker green = higher risk). This data is taken from the Global Slavery Index 2018. As you can see from the map, our greatest risks are concentrated in Asia, hence why we decided to focus on this region as part of the Investors Against Slavery & Trafficking APAC initiative outlined on page 9.



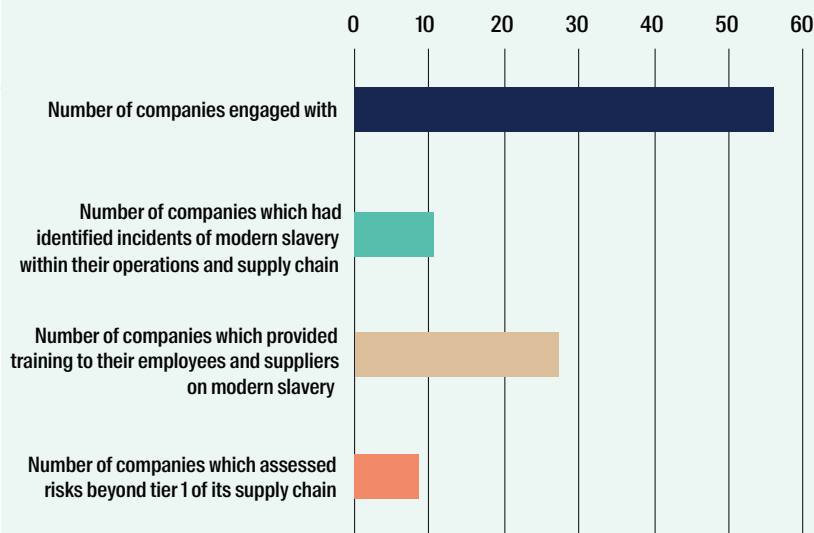
Source: First Sentier Investors, Walk Free Portfolio holdings data as at 31 December 2020

\* A snapshot of some of the key modern slavery risks for an individual investment team or portfolio.



# Tracking engagement

In terms of individual engagements, we have collected the following statistics for the period 1 July 2020 to 31 December 2020.<sup>1</sup> This was a pilot period for collecting this data, and over time as our data collection improves, we hope to use this to measure the progress that portfolio companies are making and the effectiveness of our approach.



We also participated in the following collaborative engagements in 2020:

Internal collaboration between First Sentier Investors investment teams regarding companies in the healthcare supplies and apparel industries on the increased risks of modern slavery due to COVID-19.

Collaboration coordinated by CCLA urged companies across the energy, construction and leisure sectors to identify and provide remedy (particularly the reimbursement of recruitment fees and costs) to migrant labourers who have been released from their roles due to COVID-19.

First Sentier Investors convened an investor-led initiative, Investors Against Slavery & Trafficking APAC (IAST APAC), to promote effective action among investee companies in the APAC region, and to find, fix and prevent modern slavery, labour exploitation and human trafficking in their value chains.

The first act of IAST APAC was to send an investor statement to ASX100 companies on investors' expectations for how reporting entities identify and address modern slavery risks. The statement was signed by over 20 investors with a collective USD\$4.27 trillion assets under management.

Throughout 2021 IAST APAC will launch a multi-year collaborative engagement with companies in the Asia-Pacific region, based on CCLA's Find It, Fix It, Prevent It initiative which is being run in the UK.

We also engaged with broader stakeholders through the Bali Process Government and Business Forum Financial Sector Consultation.

In addition to the metrics we are collecting to measure our progress, we also collect qualitative information in the form of case studies.

<sup>1</sup> We started to implement the Modern Slavery Toolkit from 1 July 2020. Not all teams were able to collect this data in the first year, so the data set is not complete.



**First Sentier Investors convened an investor-led initiative, Investors Against Slavery & Trafficking APAC, to promote effective action among investee companies in the APAC region, and to find, fix and prevent modern slavery, labour exploitation and human trafficking in their value chains.**

## Case study

### Objectives

As noted previously, healthcare supplies companies for several of our teams were at increased risk of modern slavery during the COVID-19 pandemic. The FSSA investment team engaged with a number of companies and identified one particularly high-exposure holding in a rubber glove manufacturer. It was identified given surging demand for its rubber gloves, its extensive use of foreign workers and labour intensive manufacturing process. The objectives were to raise awareness of the heightened risks, identify exposure, encourage the company to take action and share examples of best practice.

### Process

The team first engaged with this company on modern slavery risk in late 2018 after a number of allegations in the British press around practices which could constitute modern slavery. The four key issues were 1) Debt bondage, 2) Workers exceeding overtime limits, 3) Retention of passports and 4) Unsafe factory conditions. Our conversations with the CFO at the time helped us make our own independent assessment and we were encouraged by notable changes the company was making with regard to its treatment of its workers. These included a mandatory rest day, workers no longer paying recruitment fees and passports being kept safe in worker's dormitories. We wrote to the company in June 2020 regarding heightened risk of modern slavery risk in their supply chain, the company provided answers but we

felt they were fairly limited and that the supplier engagement/labour sourcing policies could have been more robust. We also requested a sample audit and were disappointed by the extent of it. Following this, and ahead of our escalation, the US Customs and Border Protection (CBP) ordered a Withhold Release Order (WRO) on two of the company's largest subsidiaries. The WRO targeted recruitment fees (believed to facilitate debt bondage) that had not been remediated to workers hired before January 2019. This is significant as 80% of the company's work force were hired between 2015-2019 and hadn't yet been reimbursed. The country's employment ministry, as it had in response to the 2018 allegations, investigated the company's factories and declared that there were no instances of 'modern slavery', but it was clear to us that workers recruitment fees were still outstanding.

### Outcomes

Following the company's reply to our letter and the CBP action, we had a call with the company's CFO to hear further details first-hand and encourage better practice. The company disclosed that it had set aside specific funds for remediation and also shared a third-party audit with us. We did not view the funds as sufficient given the average fee paid and nor did we find the audit particularly comprehensive. While we felt the company wanted to do-right by its workers there was clearly a large discrepancy between the country's domestic foreign worker standards and international expectations. We shared with them

our experience with the Indian Generic Pharma industry where we had come across similar issues in the past, but which had since improved notably. We also encouraged more extensive and unannounced auditing and further remediation.

### Next steps

We continue to 'monitor' the company in the 6-12 months following the engagement. In accordance with the guidelines set out in our Modern Slavery Toolkit, we are escalating this issue directly with the company to ensure there are processes in place to ensure remedy for any victim(s) and to prevent further issues going forward. With both valuation and concerns over quality in mind, we sold the last of our shares. Nevertheless, we have since followed up with the company to ensure total remediation is carried out. We are pleased to hear that an independent report has been submitted to the CBP. More importantly, the remediation fees have been revised up to an amount which will be sufficient to cover all 11,000 workers. Finally the company has committed to working with the independent consultant to regularly assess the welfare of workers. We welcome the positive steps being implemented by the company to take care of its workers. Over the coming year we will work to improve our data collection, re-assess our risk exposure where necessary and continue to engage with companies in our portfolios and broader stakeholders. We will also report on progress to the Modern Slavery Investor Working Group and Global Investment Committee as part of our ongoing monitoring of the effectiveness of our approach.

# Benchmarking our effectiveness

We continue to monitor the effectiveness of our processes and procedures, to address the risks that our business causes, contributes to, or is directly linked to modern slavery through our operations and supply chains. We also continue to take appropriate steps to ensure our processes and procedures remain appropriate. Specifically in 2020, we tracked the completion rate of Financial Crimes Compliance training, which included Modern Slavery.

Through the implementation of our Modern Slavery Task Force we continue to progress those activities to help us improve and assess our effectiveness in combating modern slavery. These include the following actions we seek to achieve over the next reporting periods:



First Sentier Investors intends to develop targeted supplier-level risk assessments



Implementing a business structure that will deploy those risk assessments in our RFP and our initial and ongoing due diligence activities



Further implementation of contractual frameworks with suppliers to improve the flow of information regarding the risks of modern slavery and encourage compliance with appropriate standards



Initiate the development of a remediation process with regards to identified issues of modern slavery in our supply chain



Approve and communicate our Modern Slavery Policy to the First Sentier Investors global businesses, implementing Policy specific training on the risks of modern slavery with a view to further minimising the risks of modern slavery and human trafficking

# The fine print

"This Modern Slavery Statement ("Statement") is made by First Sentier Investor Holdings Pty Limited ACN 630 725 558 ("FSI HP") for the financial year ended 31 December 2020 ("Reporting Period").

In addition to FSI HP, this Statement covers the following FSI entities:

- First Sentier Investors Europe Holdings Limited
- First Sentier Investors (UK) Services Limited
- First Sentier Investors (UK) IM Limited
- First Sentier Investors International IM Limited
- First Sentier Investors (UK) Funds Limited
- First Sentier Investors (Australia) Services Pty Limited
- First Sentier Investors (Australia) IM Ltd
- First Sentier Investors (Australia) RE Ltd
- First Sentier Investors Realindex Pty Ltd
- First Sentier Investors Asia Holdings Ltd
- First Sentier Investors (Australia) Infrastructure Holdings Ltd
- First Sentier Investors (Hong Kong) Ltd
- First Sentier Investors (Singapore)
- First Sentier Investors (Australia) RE Ltd as trustee of the Global Diversified Infrastructure Fund (Australia) and Global Diversified Infrastructure Fund (Active)

This Statement has been prepared to comply with section 14 of the Modern Slavery Act 2018 (Cth) (Australian Act) and Section 54 of the United Kingdom Modern Slavery Act 2015 (the Modern Slavery Acts). This document was approved by the Board of directors

of FSI HP on 12 May 2021 on behalf of the FSI Group entities that are subject to the Modern Slavery Acts, and constitutes the FSI Modern Slavery Statement for the Reporting Period.

We are part of the broader Mitsubishi UFJ Financial Group, and our ultimate parent company is Mitsubishi UFJ Financial Group, Inc. (MUFG). FSI operates as a standalone global investment management business, with a Board including members of FSI and FSI HP's immediate holding company, Mitsubishi UFJ Trust and Banking Corporation (MUTB). We have over 800 employees working together across Asia, Australia, Europe and North America to invest responsibly over the long term for the benefit of its clients.

Our approach to investment is driven by a commitment to provide the best possible outcomes over the long term for our investors. Our underlying investment philosophy is to provide quality investment products to clients that deliver investment outperformance over the long term and through market cycles. We have a range of investment styles which vary across our investment teams. Each of our investment teams has the ability to make autonomous investment decisions. While the investment teams work independently of each other, all decisions are underpinned by a common commitment to the principles of Responsible Investment, stewardship and quality which are embedded across our business as a whole. We have 17 independent teams operating across equities, fixed income, listed and direct infrastructure and multi-asset. Our brands include FSSA Investment Managers, an Asian and global emerging markets equities investor; Stewart Investors, a pioneer in emerging market equities and sustainable investing; and Realindex Investments, a

systematic equities manager.

We are both an issuer and investment manager of certain collective investment vehicles and an investment manager of client appointed mandates. We acknowledge that modern slavery risks are not confined to an investment management business' supply chain and that our actions in accepting investments and on-boarding clients has the potential to contribute to modern slavery if we do not appropriately screen who we on-board as clients. When engaging with new clients and accepting new investments, we undertake client due diligence to ascertain the point of origin of the investment funds. This client due diligence includes but is not limited to undertaking relevant Anti-Money Laundering and Counter Terrorism and Know Your Client screenings. The measures are designed to mitigate the risk of us accepting money from entities and organisations who contribute to various social harms, including (without limitation) money laundering, terrorism financing, human rights abuses and modern slavery.

Our principal third party suppliers are professional services firms providing services to allow us to provide pooled and segregated investment management services to our clients. We also engage businesses that supply services related to the running of our operations, premises (e.g. cleaning and catering services), IT systems and other support services and suppliers.

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